JANUARY 1991

B - New Year Resolutions -- in Three Parts
F - May D & F v The State of Colorado --And It Loses (both front and back of Feature)
A - Is Consumers Union Less Ethical Than Department Stores?
Phony Patriotism (American flag)
Where Did The Trees Go?
Who Should You Thank?
'Bias' Is A Synonym for FASB
The Headline Read: 'Pic 'n' Save Back to Its Un~~di~~tidty Ways'
When A Report Says, 'Department Stores,' Do You Think Discount Stores?
The Banking Industry Is Late Again
W - Words -- from Proverbs to FDR (fear)

FEBRUARY 1991

B - A Thought to Clear Our Thinking
F - Did Wal-Mart 'Do In' Sears?
Condensed Utility Economic Forecast
A - Why Trade Associations Provide Little Leadership
Spiegel Is So Busy Selling Names -- It Is A Wonder It Has Time to Sell Merchandise
What Happened to the 'Class of 1971'?
Thoughts While Reading the Newspaper
Automated Payments
If One Executive Steals, Can Another Then Steal?
Consoldating Concepts
W - Words -- From Across the Pacific and Across the Years

MARCH 1991

B - Federal Trade Commission v Strawbridge & Clothiers
F - Advanced Ratio Analysis
A - Some Holes in the Consumer Price Index
How to Handle Unhappy Customers
Who Protects Your Privacy?
Seventy-eight Percent of U.S. Consumers Believe Retail Prices are Higher Because of Shoplifting
Another Way to Look at Retailers
W - Words - About Customers (Professor Levitt)

APRIL 1991

B - A Comparison of Employment Philosophies
F - Reading the Sunday Papers (tabloids and weather)
A - I Have Some Outstanding Proofreaders
Sometimes I Wonder Why Anyone Wants to be a Retailer
We Recognize the Need for Better Education, But We Don't Care
Be Thankful We Did Not Use Nuclear Weapons in the Desert War
Reports from RT Readers
Will Mail Order Take Over the World?
Does This Mean Better Service, or...?
Rush -- Before You Miss Your Chance in China
W - Words -- From Wall Street (Ed Weller)

MAY 1991

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F - Examples of Service in This Wonderful World

Does the Trade Press Help Our Thinking?

A - I Always Admired Andrew Jackson

Hyatt Knows How to Say, "We are Sorry"

Another Word on Corporate Culture

The World of Worthless Tests

What Provides Successful Leadership?

What is a Fact in Retailing?

More on Ratio Analysis

What Did John Wesley Really Say?

W - Words -- That Set Forth a Simple Truth

JUNE 1991

B - How Much Highway Have You Adopted?

F - A Cry to Department Stores - That Won't be Answered

All Bankcards Are Not Equal

A - Consumers Union Takes on Dishonest Advertising

Complaints to Suppliers Should be Properly Handled

Pay in The Retail Field

Not a Boy Scout or a Girl Scout Among Them

Kmart Adds Pizza - Should You?

When Does "Proof" Leave Lots of Questions?

The First Report on Discount Retailing

What's Happening to Retail Sales?

Retailed Monthly/YTD Sales Comparison

W - Words - About Pride

JULY 1991

B - It's A Shame This Discrimination Happened in Retailing - Today

F - Let's Talk About Sales Per Square Foot

What Kinds of Corporate Structure Will Work Best in The 1990s?

A - Fine Print After The Sale of Macy's Receivables

Why Does The Trade Press Recommend Devious Practices?

The Bottom of Integrity (Breuners)

How Much Paperwork Cost is There in Your Health Care Costs?

EDI, Spread The Word!

Why Stockholders Get Nothing and Creditors Get Little

You Can Show How Educated You Are by Not Smoking

The Durable Department Stores

Retailed Monthly/YTD Sales Comparison

W - Words - The Golden Mean

AUGUST 1991

B - Shad Picked the Wrong School (~~BHS~~ HBS)

F - F - Are `Same-Store' Sales the Same?
Elements of Retail Service

B - Does Advertising Help Profits?
A Look at Mail-Order Businesses

A - First, The 80-20 Rule; Now, The 85-15 Rule
With A Little Help From Your Friends...
FTC v Damark Int'l., Inc., and Officers
A Comment on Fashion (Jos Baker)
Retailers in Forbes 400 Largest Private Companies
The Other Side of Voice Mail

W - That Each of Us Can Consider (Thoreau)

SEPTEMBER 1991

B - Everybody Wants National Environmental Advertising Guidelines, But Will We Get Them?

F - F - Should Corporations Pay Cash Dividends?
Deming Was Right?

B - How Honest are Preseason Sales?

A - Lotus 1-2-3 Spreadsheets Make Precise Forecasters Out of All of Us
An Insurance `Must Buy' Book
Problems in Food Land
F.W. Woolworth had the First 5-and-10, But Jason Baily had the First 5-Cent Store
Are You Inundated by Nonbuyers?
Targeting New Homeowners

W - About Goals

OCTOBER 1991

B - Should You Tell Your Associates You Are Sorry?

B - (Special) An Apology to Stanford MBAs

F - F - Impact of POS Markdowns on the Cost of Living Index

B - The New Leadership Style

A - Can Retailers Learn from a Study of Drivers?
Retailers in the Forbes 500 Largest Foreign Companies
Any Old Books to Sell or Give?
In Every Country it Takes the Same Skills to be Successful
Productivity in Retailing and in a Few Other Industries
Some Numbers on Unemployment

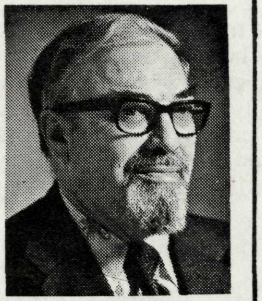
W - Words -- About the 'Ultimate' in Service

NOVEMBER 1991 B - A Few Thoughts on Sexual Harassment
F - How Many Television Shopping Channels Will the Public Support?
We Are Insulated from Reality
A - When Your Banker Comes to Help You, Run Away Fast!
Apples and Oranges are the Same According to Business Week
The Gap Completes the Cycle
Does Buying in Hong Kong Save You Money?
If a Company is Good in One Area, It is Probably Good in Several
W - Words - For Personal and Business Guidance (John D. Rockefeller Jr.)

DECEMBER 1991 B - The Disability 2000-CEO Council
C - Corrections (Bureau of Labor Statistics and 1941)
F - Let's Look at "Lowest Price" Guarantees
Wonderful Republican Logic for the Wealthy
A - Gouge!!! (Macy's)
A Trend That's Both Good and Bad
Changing Channels of Distribution
Service is Always a Problem
If You Rely on TRW for Credit Account Information, You Should Know...
Savings for the Asking -- But Few Ask
W - Words -- From Amos Parrish

JANUARY 1992 B - Ethics in Business - And in Business School
F - No Wonder Retailers Go Broke
A - Why Retailers Should Worry About Literacy
Should You Charge for Parking? (plus info on handicapped shoppers)
This Decision Makes "Cents"
When Looking at the Same Thing, Do We Each See Something Different?
W - Words - That Didn't Save the World

FEBRUARY 1992 B - Peace of Mind
F - Are There Any Merchants Among Retailers?
Do "MOR" and "FOR" Provide Usable Information?
A - What Goes Up Must Come Down
The National Retail Federation Convention, in Retrospect
Absurd Numbers
Who Lays Off the CEO?
It is Hard to Forecast Retailing
W - Words - That Should Bother Retailers



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ROUTE TO

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IS CONSUMERS UNION LESS ETHICAL THAN DEPARTMENT STORES?

There is no doubt that department stores, with their false "regular" and "original" prices, have destroyed customer confidence in their advertising. And yet they argue that customers no longer have any store "loyalty." Of course, loyalty *by* stores *to* customers disappeared a long time ago.

But Consumers Union (CU) was supposed to be a cat of a different breed. CU was supposed to be the home of integrity, the mother of ethics and an example to the world. I don't know whether it is the *pot* calling the kettle black or that the *kettle* is already black.

For several years, CU has published the *Consumer Reports Travel Letter.*

I might be less critical if CU were trying to rob the public, but the ones it tries to delude and deceive are its own "members" (technically, it is a cooperative).

When CU first sold subscriptions for the *Travel Letter,* it claimed that the $37 annual rate represented a 39% saving over the single-copy price. Since I had never seen the *Travel Letter* on a newsstand, I inquired about how many single copies had been sold. CU replied that every once in a while someone wrote for a single copy and was charged $5 (it's published 12 times a year). So much for its claimed "saving." It never sold a significant number at $5 a copy — a requirement in the unenforced Federal Trade Commission's guidelines.

I thought that $37 was more than the *Travel Letter* was worth. But when CU sent a mailing with a coupon for $10 that I could use against the $37 price, I figured $27 was OK and sent in my check. That was in November 1990.

In late December 1990, before I received my first issue, I got a chance for another great "saving" — I could extend my subscription for an additional year for just $20 — represented as a 66% savings over the cost of 12 single issues and 45% less than the regular renewal rate of $37.

The form clearly indicated that my subscription expires "December 1991" and thus had not yet started.

RThought: My family has been a "member" of Consumers Union of the U.S.A. since it split off from Consumers Research in 1935. I have been a "member" since 1946 (except for a period when Uncle Sam was implementing a previous U.N. resolution and needed 18 months of my time, mostly in French Morocco).

And now CU makes this kind of false claim to me!

When there is only one store in town, it can set prices that take advantage of its customers; when there is only one independent tester of consumer products, it can lie to its "members."

NEW YEAR RESOLUTIONS — IN THREE PARTS

All resolutions (like Gaul) are divided into three parts, so here are mine.

Rules for preserving the family:

Marriage is a 60-60 proposition. If you think it is a 50-50 proposition, you lose. Both parties must be willing to go more than half way — if they want an even chance of meeting in the middle.

Never go to bed mad. It is easier at night to say, "I'm sorry," than remember in the morning that you are still mad.

You do not live alone. If married, you must have time for your spouse, for your children, for your parents. Money is not everything. Bring home a present now and then just because you love someone — it takes just a little thought and very little time or money — a single flower is a great gift.

Rules for preserving your world:

Live by the Boy Scout Law (a Scout is trustworthy, loyal, helpful, friendly, courteous, kind, obedient, cheerful, thrifty, brave, clean and reverent) or by the Girl Scout Law. These laws are for life — not just for teen years.

Listen more than you talk. Praise more than you blame. Everyone else is like you — with proper treatment, you, too, can do better than you ever thought you could.

Forget hatred. It can destroy you, and the object of your hatred doesn't even know it exists.

Remember that every religion in the world, at some place, says, "Do unto others as you would have others do unto you."

Remember and support what is right. Have principles and stand up for them. Tom Paine said, "A long habit of not thinking a thing is wrong [like our massive use of dishonest price advertising] gives the superficial appearance of being right."

If an attempted solution fails, try again. It takes at least three different approaches before you can consider your idea wrong. Dr. Ehrlich found a cure for syphilis — on his 606th try!

Rules for developing your business:

Your future depends upon being a partner rather than an adversary of your vendors. If you work together, there is a chance you will both survive and prosper; if you treat each other as "the enemy," it is likely that both of you will fail.

The larger you are in business, the more your future depends upon computers and electronics. You will not find your future in the stars — it is in letters such as EDI, QR, EFT, POS, ATM, ACH and many more yet to come.

It is better to have one system too many than one extra store. When planning capital investment, plan for your systems first. What is left over can be spent on new stores.

You don't need to hire experienced people. With tender, loving care and interest, your present people can become better than any other retailer's people.

RThought: Cut this out along the dotted lines. Scotch tape it to your shaving or makeup mirror, and look at it every morning.

Have a wonderful 1991 — let the other guys have your share of the recession!

PHONY PATRIOTISM

"Phony" is defined as "not genuine or real, as intended to deceive or mislead...." I use this word when people break the law to make a few bucks, while proclaiming they are "patriots."

I don't have to repeat here the reaction of many to the burning of an American flag. The courts have since interpreted this act as protected by the First Amendment.

There is guidance on the use or display of the flag in the U.S. Code, Title 36, which says, under Section 176 (d), "The flag should never be used as wearing apparel, bedding or drapery."

But that did not stop Duke Habernickel, owner of Haband mail order; and I brought the matter to his attention when he sold T-shirts with the American flag across the chest.

Having made his money, Habernickel replied to my letter: "The reply I proudly make is that our product respectfully allows tens of thousands of our sincere customers a decent opportunity to express their support of the flag and their country. *No one* should be so stodgy as to object to that at a time like this. We are proud to honor the flag that I fought to protect!"

RThought: Anything to make a buck — that is Duke Habernickel of Haband. Representative Pat Schroeder (D-CO) draped the flag around her shoulders for political pictures. Anything to get elected — that is Pat Schroeder. Americans don't know how to show respect for the flag, when to remove their hat or when to place their right hand over their heart. But, by gosh, they can do anything they want to do — and the other guy cannot.

For a free copy of the Flag Code, write to Flag Code, P.O. Box 249, Lafayette, CA 94549, and enclose a self-addressed, stamped envelope.

WHERE DID THE TREES GO?

It is absolutely necessary to use recycled paper whenever possible.

Take "cents-off" coupons. In 1965, manufacturers distributed 10 billion "cents-off" coupons. At 8 square inches per coupon, or about 40 coupons per page of a standard size newspaper page, that equals 250 million newspaper pages. By 1980, 96 billion coupons were distributed, totalling 2.4 billion newspaper pages. By 1989, it reached 268 billion coupons, totalling 6.7 billion newspaper pages.

About 300 stacked newspaper pages equals an inch. In 1989, usage was more than 22 million inches or a pile of newspapers 352 miles high!

Someone, every year, cuts down a large forest just to print coupons, all the time knowing that under 1% will be used.

But it is not just coupons alone.

I don't know how many mail-order catalogs are distributed, but this growing industry also depends on a very small response — in the 2% to 3% range. Use your own judgment as to the number of miles of trees represented by catalogs.

Of course, dumping newspapers and catalogs into landfills wastes even more paper.

RThought: When you think about trees, think about carbon dioxide (CO_2), which is formed by burning anything containing carbon, such as charcoal, wood, coal and gasoline. If there is not enough air available, it will form carbon monoxide, which can be deadly. To prove the process, close the doors of your garage, start the motor in your car and wait. First, you will lose consciousness, then you will die. Please — take my word rather than experiment.

But there is a saviour: TREES.

Trees, through their pores, draw in carbon dioxide from the air and give off water vapor. The process is called "transpiration" (does that word bring back memories of your high school botany class?). This counterbalances the fact that all animals, including man, breathe oxygen and give off carbon dioxide.

Trees, as with all plants, have another continuous operation going. The sun, fortunately provided for us without charge, reacts on the chlorophyll (that green stuff) in leaves, causing the digestion of materials drawn from the soil plus the CO_2 from the air to produce starch, fat, protein, vitamins and other foods. The process is called "photosynthesis" (another word from your high school botany class).

When we have a serious imbalance in the air between oxygen and carbon dioxide, we have smog. With a very serious imbalance, we die.

RThought: We must escape from the leadership of that great American, Ronald Reagan, who, when speaking about trees, issued this dictum: "When you've seen one tree, you've seen them all."

WHO SHOULD YOU THANK?

We all have read the stories (including ones in *RT*) about how pleased customers of Nordstrom are when they receive a nice, personal note from the salesperson who waited on them. We all know it is good business — but for some reason or other we have figured out why it should not/cannot be applied to our own business.

Bob Keiningham's editor's column in the August issue of *The Furniture Forum* (8177 East 44th Street, Tulsa, OK 74145; $180/yr.) had the following box:

> **Do you agree with every consultant in the industry who proclaims you should send thank you cards to customers who purchase from you? Good! Now how about personal thank you letters to employees and their families at least a couple of times a year? And how about those birthday and anniversary cards, etc? Well, how about just setting aside a day to go to each and every employee you can with a handshake and "I just wanted to get around and thank each of you for doing the job you're doing...and to *ask if there's anything you'd like to see this company do.*" I know, most of us have our ego in check enough to think we're not that big an item to many employees...but what if we're wrong???**

RThought: Keiningham has a good idea — but don't spoil it with compliments for things that are not important. Know enough about the people you thank to be sincere.

Be sincere when you ask for ideas. Write them down. Check them out. And if you do put them into effect, be sure you thank (and perhaps reward) the originator of the idea. Do it before it is initiated so your employee does not feel his or her idea has been stolen. From talking to and reading about other companies, about one in four employees should have an idea that can and should be implemented.

MAY D&F v THE STATE OF COLORADO — AND IT LOSES

The Attorney General of Colorado brought action against The May Department Stores Company, dba May D&F ("D&F" once stood for Daniels & Fisher, another department store bought and merged into the May Department Stores Company in Denver), in the District Court, City and County of Denver, Case No. CV 9274. A copy of the 17-page decision can be obtained by calling 303-866-5168.

There was a stipulation by both sides as to the facts.

The Attorney General (AG) alleges violation of parts of the Consumer Protection Act (CPA) as follows:

> The CPA, C.R.S. ¶ 6-1-10 *et seq.*, provides in relevant part:
>
> 6-1-105 Deceptive Trade Practices: (1) A person engages in a deceptive trade practice when, in the course of his business, vocation, or occupation he:
>
> **(i) Advertises goods, services, or property with intent not to sell them as advertised;**
>
> **(l) Makes false or misleading statements of facts concerning the price of goods, services or property or the reasons for, existence of, or amounts of price reduction; and**
>
> **(u) Fails to disclose material information concerning goods, services, or property which information was known at the time of an advertisement or sale if such failure to disclose such information was intended to induce the consumer to enter into a transaction.**

May D&F denies that it engaged in any deceptive advertising or trade practices and raised the following among defenses: AG was unlawfully attempting to delegate its rule-making authority to the Court to create and enforce a rule of general application; AG's claims constitute an unconstitutional application of CPA in violation of May D&F's rights under the 1st, 5th and 14th Amendments of the United States Constitution and Article 2 §10 of the Colorado Constitution; and the CPA is inapplicable because May D&F's conduct complies with federal law, specifically 16 C.F.R. 233 (Federal Trade Commission Guides Against Deceptive Pricing).

CPA is inapplicable because May D&F's conduct complies with federal law, specifically 16 C.F.R. 233 (Federal Trade Commission Guides Against Deceptive Pricing).

The final decision rejected all these defenses but did recognize some mitigating circumstances which will be mentioned when I discuss the decision.

This case has been festering for some time. Among the stipulated facts were:

> **20. On October 18, 1982, May D&F entered into an "Assurance of Discontinuance...to [discontinue] certain comparative advertising standards for a period of five years."**
>
> **21. May D&F received..."The letter from [AG] dated February 6, 1984...."**

May D&F developed some unusual meanings for words. I quote from the decision:

> **From June 1986 until August 1989, May D&F used comparative price advertising pursuant to its 1986 policy. May D&F's prices were set by its buyers, at least six of whom testified at the trial. The buyers also had direct responsibility for advertising merchandise within their respective departments. *Buyers would actually set two prices at the time of ordering merchandise from the manufacturer or distributor. The first, variously referred to as the "ownership price," the "unit retail price" and the "inventory price."* The buyer determined the IMU using a formula that considered the cost of goods to May D&F, the cost of doing business, the May D&F's profit goals. *Simplistically, the IMU is May D&F's usual markup over its cost.***
>
> ***The second price set by the buyer at the time of ordering particular merchandise is referred to as the promotional markup (PMU).* The PMU is a significant *increase* above the IMU, and became May D&F's "original price" or the reference price for Buyers who testified, in setting the PMU, and who said they considered prices charged for the same merchandise by competitors, manufacturer's suggested retail price, the quality of the merchandise, the popularity of the merchandise, the brand name and other subjective factors.... All of the buyers testified that the "original price" was a price where they expected to sell merchandise. However, the buyers did not keep statistics on the quantity of merchandise sold at the "original price." *None of the buyers set the "original price" at a level where "substantial sales" of merchandise were expected, nor could a single buyer articulate a definition of "substantial sales"* with respect to the merchandise they priced. [Emphasis added.]**

An example was given where the PMU (or comparative) price was set at $700, but the IMU (or expected) price was set at $359. The former represented an initial markon of 72.9%; the latter was 49%, or 2 percentage points, above the goal or 47%.

Under the 1986 policy, the PMU price would be offered at least ten days at the beginning of each six-month selling period.

The 1989 policy called for selling at the reference price on 28 out of each 90 days, with the ten days at the start of each six-month selling period counting towards the 28 days. This reference price was termed the "regular price."

[**NOTE:** I am certain that May D&F had several brands of mattresses. With three brands of mattresses, at least two would be on sale at any given time and sometimes all three. The salesperson could always show the equivalent brand as being on sale so few sales would be made on the off-sale brand.]

Four customers testified.

Customer A had been watching ads for a Farberware rotisserie; and when it was "on sale" for "4 days only" at 40% off the "regular price" (stated as $119.99), she bought it at $71.99. She did no comparative shopping in advance. While shopping in a discount store, she saw the identical product in that store at $59.97 with a comparison price of $79.99 and a regular price of $64.97. She was angry. She checked a May D&F competitor and found a regular price of $74.99. She called the manufacturer in New York and found the suggested price was $109.99, $10 less than May D&F's "regular price."

Customer B purchased a Scanpan saucepan at 25% off $99.99, or $74.99, and then saw it in three competitor stores at a regular price of approximately $74. When she complained, May D&F gave her a full refund. [**RT NOTE:** A bribe to the customer who learns of your dishonesty.]

Customer C had been watching some glasses priced at $15 and

FEATURE REPORT *continued:*

a set of mugs at $10. When she received a coupon with those glasses and mugs, it claimed "25% Off Last Sold Price With Coupon Only." At the store, the $15 glasses were now $21.99; the set of mugs, $13. Twenty-five percent off the glasses would be $16.50 on sale versus $15 regular for the glasses and $9.75 versus $10 for the set of mugs.

Customer D had been watching Krups coffee machines. Each time they were at $79.99. When advertised at 30% off, she found that the 30%-off price was now $79.99.

The court set forth the following order for May D&F:

1. ...is hereby permanently enjoined from its practice of using a price for merchandise established as its promotional markup (PMU), as a reference price for the purpose of price comparison advertising, unless May D&F fully and completely discloses to consumers its method of determining such PMU coincident with said price comparison advertising.

2. ...is hereby permanently enjoined from using reference price terms which have meanings unique to understood meaning by reasonable persons is different than that used by May D&F, unless coincident with its price comparative advertisement, a glossary defining such reference term is communicated.

3. ...is hereby permanently enjoined from advertising sales of limited duration in such manner as to communicate to consumers a false sense of urgency to purchase. For example, consumers should be accurately informed that sales, such as "4 Day Only Sales" is one of the several such sales planned during the selling season during which the same or similar prices are offered, if that is in fact the case.

RThought: This may well prove to be the best thing that could happen to May D&F.

1. If competitors are using the same former practices of May D&F, a simple complaint to the AG will bring them under the same orders.

2. In the long run, honesty is the best policy. I am certain many of the people May D&F wants as repeat customers have discerned the dishonesty of its advertising and have become better customers of the competitors, including even discount stores (especially for items like those cited by Customers A through D), such as Kmart, Wal-Mart, Target, and even Brand Central at Sears.

3. The buyers will have to do a better job. They no longer have the crutch of putting out false comparisons and false discounts — they will have to learn to merchandise items, put some *"zip"* in the ads, make the reader *want* to buy, and teach the salespeople how to *sell.*

There is no difference between May D&F and the drug user who starts out casually and becomes addicted. Both are better off when they kick the habit.

Every department store CEO should read all of the 17 pages of this decision. Most will say, "There go I, but I have not been caught."

RThought: May Company is trying to continue this practice in California by putting an asterisk on comparative prices used by May Company and Robinson's (owned by The May Department Stores Company) to the effect that "regular or original price is an offering price and sales may not have been made at that price. This item may be offered in future sales at this sale price." It appears that nothing is going to get the May Department Stores Company to do honest advertising.

I think of this when I read reports of financial analysts, proclaiming the May Department Stores Company, Inc., to be one of the few retailers one should invest in (coupled with such firms as Home Depot, Merry-Go-Round Enterprises and Wal-Mart Stores, Inc.).

One analyst with a major investment banking firm wrote, "May Department Stores is improving its competitive position during ebb tide in American retailing. David Farrell of May is doing so through a combination of smart acquisitions, divestment of non-core businesses and consolidation of ongoing operations." I would add, "...and using dishonest comparative prices."

SHORT SHORTS

Single-minded "catalogers"! I am always amazed (and amused) by catalogs. For example, Gump's (founded 1861) in San Francisco had in its catalog, after each price, the cost to pack and ship it — shown in brackets. Someone must review the book to see that every price has it "brackets." A shipping charge makes sense with a "Hand-cut Lead Crystal Jigger Pitcher, #LD10E, $14. [3.00]" but does not make sense with "Introducing Loet Vanderveen's Greater African Kudu in bronze, a new limited edition, #LD2A $1,400. [15.00]." **RThought:** This brings to mind the story reported by a San Francisco columnist about the man who purchased a $2,500 wristwatch at Macy's in San Francisco. When being told it would cost $5 for a gift wrap, he returned the watch. **AND WE WONDER WHY OUR CUSTOMERS CRITICIZE US AND COMPLAIN ABOUT SERVICE!**

How to speed up checkouts—Thrifty Drug style: I was in a Thrifty Drug store recently and purchased some bulk candy. The store had four checkouts; I used No. 1. The checker had to leave her position, go to No. 2 to weigh the candy (the only scale for all four lanes), remember the price, return to her register and ring up the sale. Unbelievable! **RThought:** The store manager apparently was not smart enough to staff No. 2 all the time; that way, if two lanes were open, 50% of them would have a scale!

You may have heard about the "poll tax" in England and how unpopular it is. You may be thinking of the old American "poll tax," $5 or $10 payable in January so you could vote the next November. It is not the kind of tax used as a means of limiting voting by blacks. England's tax is based on Mrs. Thatcher's theory that a fair way to spread the cost of community services (police, fire, schools, roads, etc.) is an equal charge per adult. This can run up to 400 pounds ($750) per adult. An example cited in the *Manchester Guardian* is as follows: A divorced woman with two children got a job in the South of England and was living with her parents while she tried to sell her house in the North East. She was charge 400 pounds in the town in the South; and because she still owned a house *with furniture* in it in the town in the North East, she was charged two units, or 800 pounds. **RThought:** This was Mrs. Thatcher's way of blocking labour-controlled, local governments from levying taxes based on asset value, thus, making owners of valuable property pay more than those who owned less valuable property. This is sort of like President Bush's drive for a low-capital gains tax to benefit the 5% richest in the U.S.; Mrs. Thatcher at least benefitted the 40% to 50% richest in Great Britain.

'BIAS' IS A SYNONYM FOR FASB

FASB stands for the Financial Accounting Standards Board, but it really identifies a small group of deities who are imposing their biases on the accounting rules governing financial reporting to the owners of companies and to banks and others who use those statements to govern their relationship with a business.

The middlemen in this process are the Big 6 accounting firms who show little or no understanding of the businesses that pay them billions of dollars to perform audits in compliance with GAAP (Generally Accepted Accounting Principles) set forth by the FASB.

There is no sense having double-entry bookkeeping if the FASB is going to concentrate entirely on the liability side of the balance sheet as it has done, again, with its procedure for accruing amounts to cover post-retirement health benefits promised to employees.

This was adopted by a 4-to-3 vote of the Board, hardly the unanimity one would hope for.

The Board has never shown any wisdom in regard to exercising its powers. One would expect that approval of a new operating policy would require substantially unanimous agreement among the seven members before imposing draconian changes on American business. "Substantially unanimous agreement" might be defined as 6 to 1, certainly no less than 5 to 2.

Years ago, when the five-county United Way of the Bay Area was put together, I served during the first year as the head of the Alameda County delegation on the Allocations Committee. As the result of the first vote, an allocation favorable to San Francisco County passed by a single vote — perhaps 15 to 14. Fred Drexler, then head of Fireman's Fund Insurance, headquartered in San Francisco, led the San Francisco delegation. He refused to accept the decision. He said that we had a responsibility to bring to the Executive Committee a recommendation that had "substantially unanimous" support.

We caucused, discussed and voted again. It was unanimous. "Substantially unanimous," never defined, became the standard for any action to be taken.

We may have to accept 5-to-4 decisions on the Supreme Court but we do not have to accept 4-to-3 decisions on the FASB.

Are stockholders well served when the Sears Tower, which cost $200 million and is depreciated to about $100 million, can be used to support an $800 million mortgage? That single building represented a concealed $2 a share of sound value about which the FASB shows little interest.

I honestly believe that the FASB thinks there has not been inflation over the past four or five decades.

And there is the matter of concealing the value of retail leases, yet we know there is a regular market in retail leases. Only retailers have leases that have acquired location value. The FASB has established the absurd policy that a lease, in the hands of the originator, has no value — but in the hands of a purchaser, has whatever price the purchaser is willing to pay. This type of stupidity can be expected from a group that makes drastic changes in reportable liabilities on a majority of 4 to 3.

Unfortunately, there is no way that a successor FASB group will reverse the policy by a 4-to-3 vote.

THE HEADLINE READ: 'PIC 'N' SAVE BACK TO ITS UNTIDY WAYS'

After a period of declining performance under the leadership of ex-securities attorney, Lewis Merrifield III, the board of Pic 'N' Save has selected Len Williams to lead a comeback. And his first change was to full and untidy shelves!

When a *Los Angeles Times* reporter called me for information about this move, I told her two stories to illustrate why Williams was on the right track. She used one of them in her article.

In 1940, at Macy's in New York, Jack Straus (then President) had an ongoing battle with the men's buyer. First, he was against the faddish "Arrymore" collar on Arrow shirts and issued an order that Macy's would not sell any men's shirts with collar tabs more than 6-inches long. Straus carried a small plastic ruler in the handkerchief pocket of his suit. When in doubt, he measured; if over 6 inches, it was taken off the floor.

The other battle was over the neatness of the merchandise on the promotional tables in "Action Alley." Straus felt that *sale* slacks should be neatly stacked. Whenever there was a slack promotion, he would check the department just before store opening to be sure they were neatly stacked. As soon as he left, the buyer would go from table to table, put his hands under one of the stacks, and toss it in the air. He would walk away saying, "Now they will sell!"

The other story went back to when I worked for Swan's, a low-end department store. The merchandise manager wanted Swan's to look like J.C. Penney and Hale's, each a block or so away. To do this, he wanted to buy a Reynold's Print-A-Sign for about $1,600 (in 1954 dollars!). At the time, Swan's signs were written by department managers, who were supplied with sign holders, blank cards, and red and black wax marking pencils.

Being of an inquiring mind, I suggested that we test the nice, neatly printed signs against the "picturesque" handwritten ones. The Reynolds Company provided a set. We agreed on the bargain-table area — two tables with identical displays of sheets and pillow cases. The tables were the furthest from the cash register. The clerk was instructed not to approach anyone at the tables. On one table, we put the neat sign, and the department manager's handwritten sign was put on the other. At the end of the week, the table with the handwritten sign had outsold the printed sign by 3 to 1. The merchandise manager protested that this was not because of the sign but because the table with the handwritten sign was on a major aisle leading to the ramp to the second floor. The solution was simple: we reset the tables and switched the signs. At the end of the second week, the table with the handwritten sign had outsold the other table 2.5 to 1.

It was in the face of this knowledge that Mr. Swan approved purchasing the Print-A-Sign machine so that our signs would look neat like those in J.C. Penney and Hale's. I always thought we should have collected at least $400 from each of those stores toward the cost.

RThought: Neat does not sell merchandise. At store openings, I have seen entire fixtures of toothpastes without a single one removed. They almost look like they are painted on a plywood panel. No customer dares to break that mass display; but I am sure that if someone removed two or three boxes at several places, customers would immediately start buying.

I am willing to bet that Len Williams is on the right track.

WHEN A REPORT SAYS, 'DEPARTMENT STORE,' DO YOU THINK DISCOUNT STORE?

If you don't think of a discount store as a department store, then you probably are misled by the figures.

The Department of Commerce in the *Monthly Retail Trade Report* breaks department stores into three groups:
Conventional Department Stores
Discount Department Stores
National Department Stores (Sears, Montgomery Ward, J.C. Penney)

The table below shows what has happened over the past four years:

	9 months 1990	1989	1988	1987
Conventional Department Stores	$ 34,376	$ 52,012	$ 49,124	$ 47,356
Change from prior year	+2.90%	+5.88%	+3.73%	
Discount Department Store	$ 56,608	$ 79,772	$ 75,331	$ 68,175
Change from prior year	+8.61%	+5.90%	+10.50%	
National Department Store	$ 25,318	$ 36,169	$ 34,968	$ 36,148
Change from prior year	+0.44%	+3.43%	−3.26%	
TOTAL DEPARTMENT STORE SALES	$116,302	$167,953	$159,423	$151,679
Change from prior year	+5.03%	+5.35%	+5.11%	
DISCOUNT STORES AS A PERCENTAGE OF TOTAL	48.67%	47.50%	47.25%	44.85%

Notes:
1. Warehouse clubs are *not* included in department stores but are included under miscellaneous general merchandise stores.
2. For Kmart and Wal-Mart, only U.S. discount stroes are included. Excluded from Kmart are Pay Less Drug, Builder's Square, Sports Authority and Pace, as well as Canadian stores and all variety stores. Excluded from Wal-Mart are Sam's and Hypermarts (but not Supercenters).
3. Excluded from Sears are Canadian and Mexican department stores, Western Auto, finance charges and mail order.
4. Excluded from J.C. Penney are finance charge revenue and mail order.
5. Kmart, Wal-Mart and Target represent substantially more than 50% of the total discount department store sales.

RThought: By the end of calendar 1991, the total volume for discount department stores will exceed the combined volume of conventional and national department stores.

When figures are quoted for "department stores," YOU SHOULD THINK DISCOUNT DEPARTMENT STORES.

RThought: Although total department store sales may drop from the 5% rate of sales increase shown for the past four years, *discount* department stores will continue to do better than the *combined* department store figure, as customers continue to move to discount department stores from conventional and national chain department stores.

THE BANKING INDUSTRY IS LATE AGAIN

On December 15, 1990, I received an announcement that, under the leadership of the National Automated Clearing House Association (NACHA), the Bankers EDI Council worked up a strategic plan addressing EDI, the payment system risks and the future of financial EDI. The chairman of the Bankers EDI Council, Frank Cesario, was quoted as saying, "By agreeing to the key issues covered in the outline, the Council's steering committee is in a position to prepare the strategic plan [time required not indicated]. Once implemented, the Council's three-year plan will be integral to future successes [note the plural, 'successes'] in this arena."

The banks have observed (with their customary delay) that EDI allows corporations to eliminate stacks of paper by electronically exchanging invoice and other nonpayment information as well as electronic payments.

The banks expect to be an important factor three years from now. A recent study shows that 17% of companies currently use EDI and another 22% are considering implementing an EDI program. Three years from now, 60% to 75% will already be using some EDI service — and probably will not shift to a bank.

Sears and J.C. Penney are among those providing EDI/EFT (Electronic Funds Transfer) already, and others will be in the field long before three years pass.

RThought: I have listened to tapes of talks from the American Bankers Association's annual meetings going back two or three years, at which time outsiders, already involved in EDI and EFT, warned the bankers of what was coming. Apparently, bankers think the world should wait for them. I suspect that the bankers' three-year plan will take five years or more, as individual banks jockey for position. And eventually bankers will not be a factor, except for their own use and perhaps relying on the Sears or Penney network.

WORDS — FROM PROVERBS TO FDR

Later this year, we will celebrate the 50th anniversary of the phrase, "a day that will live in infamy." But this was not the first phrase many of us remember from FDR. In his first Inaugural Address (March 4, 1933), when we were in the midst of our worst depression, he reminded us:

"The only thing we have to fear is fear itself."

On September 7, 1851, Henry David Thoreau wrote in his journal:

"Nothing is so much to be feared as fear."

Michel de Montaigne, in Chapter 17 of his essays (1580), wrote:

"The thing of which I have most fear is fear."

Proverbs 3:25 is more positive:

"...be not afraid of sudden fear."

RThought: More and more often we read in the national or local press of well-known retail names going into Chapter 11 or liquidating. I guess we have trained ourselves not to think of the people involved, but many are confronted with fear. They can be individuals who are about 60 years old and who have been with a company for 30 years. With raising a family and putting them through college, there is little in the savings account. New jobs are scarce. The stock market is down. Houses in his or her neighborhood are moving slowly — and at lower prices. The engine in the car needs an overhaul. And perhaps the roof on the house leaks.

Solice can be taken from Proverbs, the collected sayings of Solomon eons ago. Fear of fear can be devasting. Yet, most of what we fear never comes to pass. Somewhere there is a silver lining or a bright light — and over a lifetime, most people make regular deposits, some small, in an account kept in the heavens, called "doing good." We never know what our balance is until we try to make a withdrawal.

We are headed into a recession. I hope everyone has a good balance in their "doing good" account and can draw on it if needed. But each of us should be putting in new deposits everyday. Our "doing good" will help those who may not have a balance left — or we may have to withdraw from our own account some day.

If we do what we know we should do and do it regularly, then we need not fear fear itself.

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ROUTE TO

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WHY TRADE ASSOCIATIONS PROVIDE LITTLE LEADERSHIP

Many trade associations publish figures that purport to show what like stores did during the past year (although the samples are small and not random). The theory is that these numbers will be of use to all members in operating their businesses better.

The associations even go further — they split the reporting firms in various manners so that one can see how the "high-profit" and "low-profit" firms did and thus suggest "high-profit" expense patterns one should emulate.

The National Retail Federation (nee NRMA) clearly sets forth how it splits the reports:

> An important feature of the FOR is the presentation of operating results for the high- versus low-profit companies. **Profit is defined as pretax earnings to total net sales.** [Emphasis added.] Based on this definition of profit, all responding companies/divisions were divided into two groups.

I presume that the person or persons who wrote the above procedure invests in banks based on the size of the bank rather than the interest rate paid.

I presume that the person or persons who wrote the above procedure is unfamiliar with ROA (Return On Assets) and ROE (Return On Equity).

I presume that the person or persons who wrote the above procedure thinks that shareholders and financial analysts are not interested in ROA or ROE.

RThought: What NRF should do — and I have suggested this several times over the years — is split the companies into two groups based on ROA. How much did the companies earn based on the assets entrusted to the management? Very often, well-managed assets produce a good ROA even though the pretax profit, as a percentage of sales, might be in a low range.

I would really like to see the split based on ROE but with the wide variations in leverage, a highly leveraged company would be rated higher than it should. This, however, can be adjusted. NRF could adjust the reported ROE to make the figures more comparable by:

1. Adding the long-term debt to the equity, producing a figure that might be called "capital."
2. Eliminating the interest paid on the long-term debt when computing the pretax profit to be related to the total capital figure.

RThought: The NRF published another book — *Merchandising & Operating Results* — or the MOR. In this book, it reports the following information by department:

1. Net sales percentage change over last year.
2. Net sales percentage of total store.
3. Cumulative markon.
4. Markdown percentage (including employee discount).
5. Stock shortage percentage.
6. Gross margin percentage (including workroom cost and cash discounts).
7. Selling salaries percentage.
8. Buying salaries percentage.
9. Advertising percentage.
10. Total direct expense percentage.

For each of these figures, it reports a "superior" figure, which is defined as "a performance level superior to that achieved by 75% of all companies in the sample."

The "superior" figure calls for:

1. Higher than 75% mark for cumulative markon.
2. Lower than 75% mark for markdowns.
3. Higher than 75% mark for gross margin.
4. Lower than 75% mark for selling salaries.
5. Lower than 75% mark for buying salaries.
6. Lower than 75% mark for advertising expenses.
7. Lower than 75% mark for total direct expenses.

What NRF is saying will produce the "superior" store is:

1. Take a longer markon, in the days when higher prices are hurting sales in department stores.
2. Don't take as many markdowns and run fewer sales (less advertising costs), perhaps to keep customers away.

A THOUGHT TO CLEAR OUR THINKING

This is a letter sent by Martin Keating of Tulsa, Oklahoma, to the magazine *Insight:*

> My friend, the coin dealer, stood at the gasoline pump and shook with fury. "How can they jack up the price simply because Iraq invaded Kuwait? They bought their supply at a lower price. Why, it's outrageous!" I signaled him from inside the car. "Hurry up," I encouraged, "I want to get down to your shop to buy some of that cheaper gold, at preinvasion prices." He leaned over and squinted at me. "Are you kidding?" He rolled his eyes in frustration and walked back to replace the nozzle. I think I heard him mumble, "Some people never understand the basics."

RThought: We retailers are like the coin dealer, but we resent it when it is being done to us. I think this is called a double standard. We should also keep in mind that the gasoline station turns its inventory far more often than four times a year and feels the impact of price changes much quicker.

3. Cut the number of salespeople to get lower-selling payroll, as fewer and fewer people come in because of high prices and no service.
4. Cut buyer payroll, by using less experienced buyers or combining departments.

This is the way to a more profitable store?

I doubt it.

RThought: What NRF should provide is a profile of companies that produce the highest return on capital.

Such a profile is likely to show:

1. Above median selling payroll.
2. Above median buying payroll.
3. Above median advertising.
4. Below median markdowns because (a) better buyers make fewer mistakes and (b) more and better trained salespeople will be able to move merchandise through leadership (show them how to sell it) or by use of PMs.
5. Lower occupancy and other fixed costs because of high sales per square foot.
6. Reduced operating costs because of better and more extensive computer assistance in all operations.

But perhaps I am wrong in thinking that (a) members would like assistance in operating more profitably and (b) associations are interested in providing that help rather than repeating the mistakes that have been made each year for 50 or 60 years. These mistakes contributed greatly to the decline in the number of members.

SPIEGEL IS SO BUSY SELLING NAMES — IT IS A WONDER IT HAS TIME TO SELL MERCHANDISE

A recent ad in *DM News* proclaimed Spiegel to be "the Direct Mail and List Marketing Leader."

The ad claims that lists of names from Spiegel continue "to be a primary source of prospects for publishers and fundraisers."

Perhaps its slogan should be, "Buy from Spiegal and be hassled by nondescript charities." Perhaps you can get away from causes that follow up by telephone at dinner time by saying, "I gave at the mail box"?

Spiegel says that it can select by exact age or it has "1,000,000+ male buyers annually." (If car buyers mean "people who buy cars," does male buyers mean "people who buy males"?) It says that it can select "70,000+ Change of Address buyers each and every month." (I will skip the question of people who buy changes of address; but those 70,000+ who are changing address "each and every month" really should settle down at one place for a while!)

Spiegel really feels it is helping buyers from its Christmas/Holiday catalog because such a purchase means they are "truly filled with the spirit of giving."

Spiegel has a 5,000,000+-name universe that can be split many ways. It even has a new segment — "Over 1,000,000 Catholic Buyers." That is discrimination — it doesn't mention having a list of Protestant, Jewish or Muslim buyers.

RThought: I am inclined to write "Deceased" across the next mailing that comes my way from Spiegel. Spiegel must have "100,000 dead buyers each and every month" (even if we were cats, we could only last nine months!). It must sell the names to morticians. There must be want-ad sections of papers that solicit ads on anniversaries — "Sign up now for 2 inches on the first, fifth, tenth and 35th anniversary at HALF PRICE" — and you won't even have to remember to place an ad.

WHAT HAPPENED TO THE 'CLASS OF 1971'?

I was looking through the Fairchild Manual of Retail Stores for 1971 and found the following 39 publicly traded companies that had discount operations:

Company	$ Millions
S. S. Kresge (now Kmart)*	$2,559
W. T. Grant	1,254
Vornado	838
Spartan Industries	837
Interstate Stores (now Toys "R" Us)*	685
Cook United	626
G. C. Murphy	401
Zayre (now Waban)*	400
National Industries	324
Arlans	344
SCOA Industries (now Hills in Chapter 11)*	281
Baza'r, Inc.	218
Kings Department Stores	217
Parkview Gem	168
FedMart	157
Rose's Stores*	149
Hartfield-Zody's	134
Neisner Bros. (Chapter 11)*	132
Scrivner-Bogaart (now Scrivner's)*	125
Mammoth Mart	106
Volume Merchandise	102
Caldor, Inc.*	99
Unexcelled	98
Howard Brothers Discount Stores	97
Weisfield's (back to jewelry stores)*	94
Pamida (public again)*	79
Gaylord National	77
M. H. Fishmans	66
Kuhn's-Big K	59
Howard Gibco	56
Heck's (Chapter 11 and now out)*	53
Giant Stores	49
Ames Department Stores (Chapter 11)*	48
Jefferson Stores	44
Jamesway*	44
Wal-Mart Stores, Inc.*	44
National Bellas Hess	22
Sage International	19
Valley Fair	19

* Still in business.

For reference, here is the size of some other retailers:

Company	$ Millions
Sears, Roebuck and Co.	$9,262
J. C. Penney Company, Inc.	4,151
Marcor, Inc. (Montgomery Ward)	2,805
Woolworth Corporation	2,528

I can identify 14 (indicated by an asterisk) that have survived in some form, although four of the 14 are in or have gone through Chapter 11.

RThought: When you hear a prediction that half the companies will not be here by the year 2000, look at it this way: half of 39 would be 19.5; half of that would be 8.75. Today, 11 survived and three are in Chapter 11. The 39 that made up the starting list were those that were large and profitable enough to go public. If the total industry was considered, the 50% per decade appears a reasonable projection of failure/liquidation/acquisition.

DID WAL-MART 'DO IN' SEARS?

Retail business writers have repeatedly stated that the problems at Sears, Roebuck and Co. are a result of competition from Wal-Mart Stores, Inc.

To me, that is a ''no-thought'' statement.

I write this as a director of and a consultant to Wal-Mart and a customer of Sears — going back to 1930 — who was eventually driven away from Sears by changes in its policies.

Let me start with Sears.

The Depression caught our family with a LaSalle — a 5,000-pound, four-door, seven-passenger (jump seats) sedan. For those who are much younger, a LaSalle was to Cadillac what a Bentley is to a Rolls Royce — a slightly different radiator design and less trim inside. With four drivers in our family, we went through tires fast enough that they would never last the warranty period — which, I recall, was three years (that would mean about 25,000 miles in those days).

At the end of two years, when the tread was gone, I would go to the only Sears store in San Francisco, pay two-thirds of the price of new tires and drive away happy. Between 1930 and about 1982 or 1983, I never purchased a tire other than from Sears, despite the pressure from my auto-knowledgable son, who wanted me to buy Michelins at Big O Tires.

At no time during 45 of those 50-plus years did I read the warranty. I *knew* what it said.

In 1982 or 1983, I picked up a nail at about half the life of a 50,000-mile tire. When I went in for a replacement, I was shown that Sears had removed ''road hazards'' from its warranty. That wasn't so terrible — I decided to buy two tires and asked if Sears could put them on while I waited. I was told, ''No.''

Then I asked who I should speak to about an appointment and was told that Sears did not make appointments any more and that I would have to come in and wait my turn. As a help to Sears (but not to me), service did open before the regular store hours.

That very same day I went to Big O in Lafayette for the first time, and I have been going there ever since. When I settled on the tires I was going to buy, I asked if I could make an appointment. The manager said, ''If you have 20 minutes, we can change them right now.'' I waited.

And when it came time to pay for the tires, I found them to be cheaper than at Sears — because Big O did not charge for balancing and weights.

I did buy some things through Sears' ''Big & Tall'' men's catalog, and I continued to buy hardware items and some office items. But every time I went into the Concord store, I was offended by the smell of butter from the popcorn machine. It permeated a third of the store. Someone must have felt that popcorn was the most important ''new'' product since tires were invented.

When we bought appliances for our new house in 1955, we wanted a matching refrigerator and freezer. Sears did not have them in the Coldspot line, so we ended up with Gibson (which we still buy).

We did buy a furnace from Sears that has given us good service, as has a hot water heater that has lasted 30 years (the five-year guaranteed heater that came with the house lasted five and a half years).

Now, let's look at some figures from Sears' 1989 Annual Report for the Merchandise Group.

Sears reported ''total revenues'' of $31,599.2 million. For some reason, most business writers equate the words ''revenues'' and ''sales'' despite the following published figures:

	$ Millions
Merchandise sales and services	$28,824.6
Credit revenues	2,774.6
Total Revenues	$31,599.2

Obviously, Wal-Mart, Home Depot and Circuit City do not compete with Sears for ''credit revenues'' because none carry their own receivables.

Sears also discloses:

	$ Millions
Total sales and services	$28,824.6
U.S. sales and services	(25,001.9)
Canada and Mexico sales and services	$ 3,822.7

Wal-Mart does not compete for sales and services in Mexico or Canada.

But what is meant by ''sales and services''?

The Merchandise Group balance sheet shows the following liability:

	$ Million
Unearned maintenance agreement income	$1,021.0

Not only does Sears sell multiple-year maintenance contracts on major appliances, it will provide service on any Sears product whether or not the item is under a maintenance agreement.

But there is another major part of Sears' revenues that is not the ''sale of merchandise'' — home improvement activities. Here are some of the things Sears will do:

- Replace a roof.
- Design and remodel a kitchen.
- Design and remodel a bathroom.
- Install any kind of wood or chain-link fence.
- Install heating, air conditioning or a combination.
- Install new doors — entry, storm, garage or patio.
- Install metal exterior wall sheeting.
- Build custom wood storage sheds — any size.

This is all done by Sears' authorized contractors in the following states: California, Washington, Oregon, Nevada, Utah, New Mexico, Hawaii, Idaho, Florida, Virginia, Maryland and New York. The face amount of the contract appears as part of Sears' revenues. When Sears showed ''services'' separately, it represented about 10% of revenues. Assuming 12% today, this would be $3 billion.

FEATURE REPORT *continued:*

Sears is still the largest U.S. mail-order retailer — at least $2 billion. Wal-Mart has no mail order.

Having eliminated all of the major areas where Wal-Mart cannot (and thus does not) compete, we arrive at a figure of less than $20 billion.

Now, imagine walking through a Sears store and a Wal-Mart store.

Sears is probably the largest furniture retailer in the U.S. — and Wal-Mart carries a little knockdown furniture.

Sears is still the largest single seller of white goods — refrigerators, freezers, washing and drying machines and ranges — and Wal-mart does not carry white goods. The biggest competitors in white goods are Circuit Ctiy, Silo and Highland Stores. Sears has learned that it cannot use a single private label to compete effectively with the wide variety of features offered by the multiple makers of white goods (the same is true in consumer electronics), and thus it is now developing Brand Central to maintain (and hopefully improve) its position in the appliance and consumer electronic fields.

Sears carries a wide range of consumer electronics — and Wal-Mart carries a narrow range.

In going through a Wal-Mart store, you will note the pharmacy, the large garden supply area, the large section of candy bars, snacks and other food items, and a massive display of every brand of toothpaste — none of which are major departments in a Sears store.

Perhaps the two firms are most competitive in auto tires and batteries — but that is only a fraction of the business of each.

RThought: It is largely a coincidence that Wal-Mart is growing rapidly and profitably while Sears is stagnating and having profit problems. But Honda is also growing rapidly and profitably, and no business writer has attributed the decline of Sears to the success of Honda.

I suspect that Circuit City, Silo, Highland Stores and others in the appliance and consumer electronic fields have had more impact on Sears than has Wal-Mart. In the furniture field, the growth of Levitz, Ikea, STOR and other large-promotional furniture stores have had more impact on Sears than has Wal-Mart.

RThought: Sears has many problems — none of which can be attributed to Wal-Mart. Some parallel those of Montgomery Ward & Company, but Montgomery Ward has overcome them. Montgomery Ward no longer has mail order and the merchandise range in its stores has been greatly reduced. Some of its five "departments" are expanding in separate stores. After this restructuring, Montgomery Ward will show record sales and profits for its 1990-91 fiscal year. No one has attributed Montgomery Ward's success to competing with Wal-Mart.

If Wal-Mart is the cause of Sears' failure, then it must also be the cause of Montgomery Ward's success — both Sears and Montgomery Ward had the same symptoms, except Montgomery Ward tackled its problems and Sears did not.

CONDENSED UTILITY ECONOMIC FORECAST

The Retail and Wholesale Merchants Association of New Zealand had a meeting at Rotorua, a wonderful resort area. In that relaxed surrounding, Girol Karacaoglu, Chief Economist of the National Bank of New Zealand, gave a talk. Barry Purdy, the Executive Director of the Association, called it "one of the most lucid and straightforward talks on the economy that I have heard." That is high praise — because Barry has heard many!

The Association has a practice after such sessions of assigning a number of people (in this case, four) the task of summarizing the discussion into a useful and "constructive" resolution. It started as follows:

> **The meeting spent two-plus hours trying to avoid convincing itself that it must accept the fact that the old days of very buoyant sales for the industry were over. It failed.**

RThought: I offer this statement, courtesy of Barry, for use whenever someone asks you what you think will happen in the coming months. You can include the last two words as you see fit.

SHORT SHORTS

Where the growth is. The 1990 Survey of Buying Power — Part II, published by Sales & Marketing Management, listed the 25 cities expected to have the fastest growth from 1989 to 1994. The fastest of the 25 is expected to grow 17% in five years; and the slowest, 12%. The cities are located as follows:

State	Number of Cities
Florida	10
California	7
Texas	5
New Mexico	1
Nevada	1
Arizona	1

RThought: It follows that Texas, Florida and California, in that order, will have the greatest percentage of growth in state buying power. At the other end, New York, Pennsylvania and Ohio will have the greatest decline.

The grass is always greener on the other side of the fence. Melville Corporation, which was originally Melville Shoe, making and selling Thom McAn Shoes, was led by business consultant/professor Peter Drucker and Harvard Business School Marketing professor Theodore Levitt to understand that its business was not selling shoes but *specialty selling.* Today, all manufacturing has been discontinued, and Thom McAn is a small part of its stable of specialty retail chains — Marshalls, CVS, Wilson's House of Suede, Kay-Bee and Circus World toy stores, Accesory Lady, This End Up, Linens 'N Things, Freddy's discount drug stores and more. During the same years, Woolworth Corporation saw that its future was not in variety stores but in specialty stores. It saw something that Melville — with all of its experience in shoes — missed. Today, more than half of Woolworth's profits (but less than half its sales) come from shoes! **RThought:** One would have thought that Kinney was a natural acquisition for Melville and Marshalls a natural acquisition for Woolworth — but then the grass is always greener . . . .

THOUGHTS WHILE READING THE NEWSPAPER

When Rhode Island closed ten banks and 35 credit unions:

1. Edward Filene established the first credit union in the United States. He had to lobby the law through the Massachusetts legislature. For those too young to recall, Edward and his brother, Lincoln, built the present-day downtown Boston Filene's into the "World's Largest Specialty Store." Edward saw credit unions operating successfully in Bombay. Edward also created the Automatic Markdown Basement; he was a leading force in founding the U.S. Chamber of Commerce and the International C of C; and he later helped develop the Filene-Finlay system of simultaneous translation for the League of Nations (the principle is still used at the United Nations).

2. Many retailers have assisted in founding credit unions for their employees. But their responsibility goes beyond the founding of the credit union: the chief financial officer should be familiar with credit union accounting and regulations; and should difficulties arise, it would be appropriate for managment to bail out the credit union.

3. Among the closed credit unions, the following were obviously ones established for corporation employees: Journal Employees, Bostitch Employees, Cottrell Employees, Federal Products and Hindley Employees. The others are clearly government-employee groups or not clearly identified.

RThought: How sound is your credit union?

And when the headline reported that steelworkers won a $415 million pension settlement from Continental Can Company:

1. There were a number of cases against a division of Federated Department Stores (prior to the LBO) involving discriminatory discharge of executives just prior to being eligible for a pension. They were replaced by younger people who were being paid less.

2. This sentence from the article will remain in my memory for years: "During the trial, lawyers for the steelworkers presented evidence that top Continental Can officials secretly had a computer program written that helped them figure out how to lay off workers in such a way that would result in the minimum pension liability to the company."

3. Although half the laid-off workers left the union, the United Steelworkers of America spent $3 million to see that all the workers got their money back.

RThought: Most retail employees are not members of unions. Should something similar be done by a nonunion retailer, the sole defense would be a class action against the employer IF THEY CAN FIND an attorney who is willing to speculate on the final verdict.

AUTOMATED PAYMENTS

The December 1990 issue of *Automated Payments Update* issued by NACHA (National Automated Clearing House Association) reported on the success of nonprofit organizations soliciting direct-account debits rather than contributions by check or by pledge to be followed by a check.

Greenpeace reports nearly 25% of its 7,000 regular donors authorize monthly debits. The Dallas Opera is using this approach successfully as is The Friends of the Nature Conservancy — 550 out of its 6,600 monthly donors signed up. This approach is also being used by the World Wildlife Fund, the Sierra Club and the United Negro College Fund.

RThought: When will some retailer establish a $1,000-limit charge account supported by a $40 monthly debit to the customer's bank account? If the customer goes over the account limit, a polite note on the statement would give the customer two options: make an additional payment or reduce charges until under the limit. There should be no personal contact — telephone or letter — until three billing periods pass during which the customer does not bring the account under limit or asks for a limit increase with an appropriate debit-payment increase.

This would be offered only to well-established accounts. With a properly set limit/monthly debit on an account, the payment should be less than the payment called for in the regular schedule.

(**Note:** NACHA mentioned a consultant in the area of regular monthly debits: EFT Corporation in La Jolla, California; 619-454-9122.)

IF ONE EXECUTIVE STEALS, CAN ANOTHER THEN STEAL?

It isn't the first time such a story has been told nor will it be the last. In Chicago, stories are coming out about the seven-unit Treasure Island stores that cater to yuppies and food connoisseurs.

A suit filed by Frank and Christ Kamberos, brothers and majority owners, against William Allen (former vice president, secretary and treasurer) and Thomas Piwko (ex-controller), accuses them of embezzling $1.9 million to support a trendy nightspot. They are accused of doing this by making checks to fictitious vendors and putting the money in their own account. They are alleged to have had a secret interest in a supplier that purchased goods with Treasure Island's funds and then sold the goods to Treasure Island.

Piwko, in turn, charged that Frank Kamberos put $100,000 of wholesaler rebates in his own account and that his brother, Christ, had a stock boy cut coupons from the newspaper so he could illegally redeem them for more than $500,000. Allen and Piwko allege that the Kamberos brothers embezzled more than $7 million over ten years for personal use.

All of the above is extracted from the July 23, 1990, issue of *Supermarket News*.

RThought: I will let the courts decide who did what. But the point I want to make is that there are few dishonest things that top management does that remain totally unknown. And those who know often figure, "If the boss does it, why shouldn't I do it." And they do it.

There is no substitute for absolute integrity at the top. I can recall working for Sherwood Swan in an odd store — a combination supermarket, low-end (and I mean **low-end**) department store and public market. In the days before Sunday selling, Sherwood would stop at the store on Sunday morning to get some carrots for his horse. He would carefully weigh the carrots and leave a note with the watchman that he had taken them. When he came in on Monday morning, he went to the produce section and the carrots were rung up as the first sale of the day.

CONSOLIDATING CONCEPTS

Most of the original publicly traded discount stores are gone; only a few are gone as a result of acquisitions or mergers. This is not true of the newer forms of retailing.

In July 1990, *Discount Store News* published this list of the largest membership warehouse clubs:

Price Club
Sam's
Costco
Pace
BJ's Wholesale Club

Price Savers
The Wholesale Club
Makro
Warehouse Club
Club Wholesale (only $70 million in sales)
Wholesale Depot Ltd. Partners (only $6 million in sales)

Sam's is a division of Wal-Mart Stores, Inc., and BJ's Wholesale Club is a division of Waban, Inc. (the successor to the Zayre corporate body). Since that time, Kmart Corporation has acquired the balance of Makro, all of Pace and all of Price Savers. Wal-Mart is in the process of acquiring The Wholesale Club, and The Great Atlantic & Pacific Tea Company plans to acquire a controlling interest in Warehouse Club. [**Note:** The Great A & P has withdrawn offer.]

The list now becomes:

Sam's (division of Wal-Mart)
Price Club
Costco

Pace (division of Kmart)
BJ's Wholesale Club (division of Waban)
Warehouse Club

Club Wholesale and Wholesale Depot are too small to be significant.

The office supply superstores are both newer and do a smaller volume. Let's look at the list from the July issue of *Discount Store News* together with their 1989 sales volume:

Office Supply Stores	$ Millions
Office Depot	$314
Super City	231
Staples	182
BizMart	133
Office Club	126
Avery Paper and Office Products	100
OW Office Warehouse	95
WORKplace	41
HQ Office Supplies Warehouse	39
The Office Place	38
O. P. Club	30
Jaffe's	28
Office Shop Warehouse	25
Office Max	20
Office World	20
The Paper Cutter	18
National Office Warehouse	11
Office Square	10
Action	10
Office America	7
Office Shop	0

Notes:

In April 1990, the parent of Jaffe's started liquidating it.

Office Shop Warehouse was closed in 1989.

Office World and, later, Office Square were acquired by Office Max with Kmart making an investment and becoming the largest stockholder.

Office Depot and Office Club merged.

BizMart and Staples have acquired all stores operated by HQ Office Supplies Warehouse.

There will be more consolidations in the near future.

RThought: Many of the office supply superstores were backed by venture capitalists. The idea looked great until two or three companies started operating in the same market. Then venture money looked for a fast way to get out while there was still a profit to be made. There is no venture money available for new startups.

In three years, *Discount Store News* will have a hard time getting a list of six or seven companies doing over $20 million a year without including such companies as Viking and Quill, both of which, at the present time, are 100% mail/telephone-order firms.

RThought: This is the future for almost any new retail concept. Warehouse clubs lasted from 1983 to 1990 before there was consolidation (Price Club was alone from 1974 to 1983). Office supply superstores will last perhaps eight years from recognition to consolidation. The next concept stores may last only six or seven years.

SHORT SHORTS

A reader sent a Sears ad that was headlined

CRAFTSMAN YARD TOOLS
LAST 7 DAYS!

and asked, "Even at such bargain prices, yard tools should last more than 7 days!" **RThought:** Just like the question, "Have you quit beating your wife?"

WORDS — FROM ACROSS THE PACIFIC AND ACROSS THE YEARS

I hate to mention that what follows was sent to me by Milt Woll in 1978 — 13 years ago! Many of you will remember Milt when he was Director of Retail Consulting for Booz, Allen and Hamilton — and before that he was with NRMA. It was over 50 years ago that I first met Milt in the Research Division at Macy's.

Milt sent me a Letter to the Editor that quoted "Japanese Precepts on Business" from the July 1909 issue of *Systems Magazine,* the predecessor of *Business Week.*

- **Luck hovers around the house of smiles.**
- **A good speech is a short one, so is a letter.**
- **When asked for the chisel, give the hammer also.**
- **Of all enemies, your own negligence is the very worst.**
- **Wealth and happiness are the productions of effort.**
- **One's business ability can be measured by one's borrowing capacity.**
- **Great haste spoils achievement as in the case of the foolish farmer who pulled the rice stalk in order to hasten growth and killed the plant.**

RThought: No one can claim that this wisdom was given to them by Americans after World War II. Perhaps only Henry E. Littlejohn, the writer of the letter to *Business Week,* was smart enough to save the words for 80 years.

RETAILING TODAY

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SOME HOLES IN THE CONSUMER PRICE INDEX

Rosie - before mailing

Retailers using LIFO like the tax money they save — but hate the impact of LIFO on reported earnings. This often has its greatest impact in the fourth quarter: there is a sudden hit if you have underaccured during the year, and a pleasant increase in earnings if you have overaccured.

Yet, many of the same retailers are unnecessarily contributing to inflation of items, such as apparel and home furnishings, that are part of the Consumer Price Index (CPI) and are also used to construct the LIFO Index.

How? Very simply. Much of the merchandise retailers carry has an artificially high regular price — prices at which a store has no serious intention of selling. An excellent example was set forth for the May Company in the reported action of the Colorado Attorney General against May D&F in Denver (*RT*, January 1991).

The Bureau of Census, in collecting price information, shops about 25,000 establishments in 85 urban areas. The "shoppers" don't know or care about the wonderful use you make of POS markdowns. They don't look at your ad to see, as one local retailer advertised, that there was 20% off anything in the store colored red.

They look at the shelf price — and the higher you boost that price so that you can offer 50% off at the register (instead of 30%), thus, making the customer think he or she is saving more money, the higher the LIFO Index goes. Then the CPI goes up; the world worries about increasing inflation; and retailers react with 60% off everything in the store.

On the food portion of CPI, using the shelf price does not produce such a distortion (although Safeway is now advertising items as "Buy One, Get One Free"). Food retailers are much more honest about shelf prices than are department and specialty stores. But each year, there is an increase in the number of coupons redeemed per adult. The customers buy for less — but the saving is not reflected in the CPI — even though it lowers the cost of living for millions of families.

If dishonest retailers and coupons produce a figure showing a 5% increase when it was really only 4%, you will probably be giving 5% wage increases, instead of 4%. So, dishonest pricing and coupons will come right back to haunt you.

The amount of markdowns and the range of merchandise marked down has gotten so great that far more than half of the people now say that they only buy when goods are "on sale" (or they think they are "on sale"). So, stores have more sales, higher shelf prices and more dishonest markdowns — resulting in an even greater increase in reported "inflation."

RThought: There are two unfortunate results:

1. It hurts the honest retailers as well as the dishonest ones.

2. It makes liars out of more and more retailers, retailers who really think they are ethical, upstanding Americans, who proclaimed their support for our brave troops in Desert Storm — while taking advantage of the dependents left behind.

If this is the "free enterprise" that Milton Friedman, the famous economist, says we should work hard to develop, then I think he really wants businessmen to be liars. And he is such a nice guy — in the the talks I have heard him give, he has never used any profanity or told an off-color story. I guess it is easy to talk about free enterprise — but give Milton Friedman his own department store, he would probably end up with dishonest advertising, saying it was necessary in order to stay alive.

FEDERAL TRADE COMMISSION v STRAWBRIDGE & CLOTHIERS

File No. 902 3043 reported that Strawbridge & Clothiers (S&C), in its catalogs, failed to disclose whether the textile products were made in the United States, imported, or both. In addition, S&C failed to disclose the proper generic terms for fabrics, such as polyester, for the products it sold. Under a proposed consent order, S&C will correct both practices.

RThought: We have had both laws on the books for years. It is a shame that an advertising department in a major, reputable store can make such mistakes.

RThought: Could it happen in your store? Have someone familiar with the various textile acts check your ads over the past three months. You may be surprised at how many laws you are breaking.

HOW TO HANDLE UNHAPPY CUSTOMERS

This article was prompted by a talk given by Bruce R. Matza at the 1991 National Retail Federation Annual Convention. I didn't hear his talk at the convention but heard the tape recently while driving in my car. This leads to my first comment.

At conventions, such as those held by the National Retail Federation (NRF), the International Mass Retailing Association (IMRA) or at a session like the one put on by Alex. Brown & Sons for investors, it is not possible to attend all the sessions. I try to attend the sessions that I think are most pertinent, and then I buy most of the cassette tapes for the other sessions (as well as some that I attended but for which I did not, or could not, take notes).

I get a lot of tapes — but more important, I learn a lot.

Matza, who has been working for 20 years to improve service in stores (per his introduction) discovered some things I thought I had discovered 25 years earlier — and, probably, things that people were doing years before I "discovered" them!

We all get letters or phone calls with complaints. So what do we do?

From 1946 to 1951, I worked with Smith's of California, as controller and part of an informal management committee with the three owners. When a complaint letter was received, someone was asked to investigate the matter. Sometimes that resulted in a letter — many days too late — explaining why the customer was wrong. In a few cases, there was an apology.

I offered to take on that duty — and no one objected. I operated on the basis that anyone who was upset enough to write us a letter or make a "phone call to the president" was never going to accept being proven wrong. The challenge was to keep the customer.

With rare exception, one of my assistants would prepare a letter that roughly followed this form:

Dear (Mrs.) (Mr.) Customer:

When our President, Mr. Smith [he really was Mr. Smith!], received your letter, he asked me to investigate immediately.

I have — and I have found that you are absolutely right. We are particularly happy, however, that you wrote.

I have asked Cliff Dale, our personal shopper, to select a tie, which he will send (to you) (for your husband). I hope that whenever (you) (he) wear(s) it, instead of recalling the annoyance we caused, (you) (he) will remember that we're truly sorry.

Sincerely,

Robert Kahn
Controller

In the late 1950s, a venture capital group took over the Gray Reid Wright (GRW) department store in Reno, Nevada. One of the problems facing the store was the many ex-customers — driven away by the lack of concern about their complaints. Having received complaints from both men and women, my gifts would be either a tie or a small vial of perfume — either of which cost about $1.50 in those days.

We had been doing this for a month or two when our outside CPA called me to relate a story. His wife was part of a group of eight tables of female bridge players who met regularly. One of the women had been the recipient of a $1.50 gift from GRW and insisted that every one of the 31 women know about how she had been treated (about 5 cents a person for that positive exposure).

When the investors took over the store, I had to run it for three or four months until I could find a permanent general manager. I would fly to Reno every Friday afternoon, meet with the staff that evening and then spend Saturday in the store. When I first took over, I had a meeting of the employees. I started by explaining that nobody would be laid off, but some might be asked to learn new jobs. I was familiar with the attrition rate and was certain that the size of the staff would very soon come down to what I thought it should be.

The second point was that we would have an absolute "Satisfaction Guaranteed or Your Money Back" policy. I explained how I wanted it to operate: "If a customer is unhappy, the customer should be asked, 'What would you like us to do?' If it makes sense, you are to go ahead and do it. You may not say, 'No.' If such a situation arises, you must bring the customer to your department manager — who may say, 'Yes,' but may not say, 'No.' Only the store manager, or an assistant manager, may say, 'No.' Each Friday evening when we meet, the store manager will have to explain why he said 'No.'" I can report that, after two weeks, there were no more "Nos."

After explaining the no-discharge and the "satisfaction guaranteed" policy, one of the employees suggested that we have a "Change of Owner Sale." I rejected the idea, explaining that there was no magic. We had to win the customers back to GRW. Having a "Change of Owner Sale" might make some even less likely to shop with us.

About three months later, when I came in on a Saturday morning, one of the department managers was waiting for me. She wanted to tell me a story. During the past week, one of her longtime customers had come into the store. The customer chatted with her while, at the same time, she looked around the ground floor. She asked the department manager, "What has changed around here?" The department manager recalled my advice that we had to win our customers back. The manager replied, "What do you mean?" The customer answered, "Everyone is smiling."

Never underestimate the ability of customers to sense whether the people in a store are happy people who enjoy what they are doing.

RThought: A "satisfaction guaranteed" policy is easy to implement. It requires only the following instructions:

1. The person at the first point of contact must ask, "What would you like us to do?"

2. That person may say, "Yes," but may not say, "No." If in doubt, the person must go to his or her department manager.

3. The department manager may say, "Yes," but may not say, "No."

4. Only the store manager may say, "No," and then must report all such "Nos" in writing to the store manager's supervisor explaining **WHY** the customer was turned down.

RThought: You must realize that very few customers make a request that they do not believe is reasonable. I can recall a few unusual ones. A woman whose husband had died called and asked if she could return a box of three Arrow shirts he had never worn. I said to bring them in — without knowing he had been confined to his bed for 12 years! She had the original sales check, so we gave her a refund. I am sure it was helpful. Another request was from a man who became ill shortly after buying a suit. He had lost 35 pounds and could not wear the suit. We rebuilt the suit without charge. We wanted him to wear our suits — and look good while wearing them.

I recall just one exception. Before I joined Smith's, someone had a great idea. They sold a dozen men's socks with a "Lifetime Guarantee." There was one man who came in every six or eight months with a pair of socks to be replaced under the guarantee. When this had been going on for four or five years, I was called to the floor and, in front of him, was told the entire story. I said that we were going to refund his entire purchase price and suggested that he might find more satisfaction with our competitor down the block — Grodin's. He replied: "I'm not going to Grodin's. I got my first pair of long pants here when it was Moneyback Smith's. I just

ADVANCED RATIO ANALYSIS

Does the name Roy Foulke mean anything to you?

' thought not.

He died at least 15 years ago. But while alive, he was the man at Dun and Bradstreet (D&B) who developed ratio analysis to the fine art that gave D&B the edge in analyzing financial statements. Unfortunately, he laid it out so well that dozens — even hundreds and thousands of analysts and loan officers — are able to do ratio analysis without understanding the underlying significance of the ratios they use. And not understanding ratios, they abuse them.

Recently, I wrote to Robert Morris Associates (RMA), which publishes the biggest book of ratios available today — a book used by virtually all bank lending officers to analyze a balance sheet and an income statement of a retailer (or any other business) applying for a loan.

I pointed out to RMA that both conventional department stores and discount department stores fall under the same four-digit SIC Code — No. 5311. Unfortunately, for the ratios, retailers of conventional department stores tend to have receivables exceeding the value of their inventory while discount stores have only incidental receivables for things such as cooperative-advertising claims. But RMA mixes them all up and comes up with a single debt-to-equity ratio. And, when figuring a ratio of cost of sales to inventory to arrive at turnover, it makes no correction for firms reporting inventory on LIFO, although this can produce a significantly higher turnover than if the FIFO value is used.

RMA, as I found out long ago, is not interested in correcting junk figures — it tends to confuse itself with God.

However, there was one better response. Last fall, for the first time, I saw the First Chicago Bank statistical summary of retailers. It suffered from the same problem — but First Chicago Bank wrote back that it would like to have me work with it to improve the quality of its figures.

The table that follows shows the first step in improving the computation of a key ratio — total debt to equity. It includes food stores, catalog showrooms, warehouse clubs, department store chains, power retailers and more.

In this first study, I tried to compensate for three balance-sheet items:

1. Presence of accounts receivable.

2. Presence of LIFO reserve.

3. Presence of intangibles.

Properly administered receivables, on liquidation, will produce approximately 100% of book value (including finance-charge income in the period after the first 90 days of liquidation when the cost of administration is negligible) over a period of two to two-and-a-half years. Therefore, I have reduced liabilities by the amount of receivables (I could have used 95% just as easily). This is true only for consumer receivables, as uncollected advertising allowances are less likely to be collected.

Standardizing on FIFO is easier — with a 40% combined tax rate, add 40% of the LIFO reserve to liabilities and 60% to equity.

And intanglibles are equally simple — subtract from equity.

When finished with these adjustments, we end up with adjusted liabilities and adjusted equity.

The result produces numbers that most firms have never seen for their companies.

RThought: The next step I plan to take will be to standardize cash at an amount equal to three-day sales. And, finally, the toughest step will be taken: an attempt to introduce current value of capitalized leases and real estate, so the tremendous impact of inflation can be eliminated.

continued

SHORT SHORTS

This — the 150th birthday for Patek Philippe. And it reminds me of a story. During World War II, I was stationed in Abadan, Iran, for two years; and on my trips to Cairo, I would buy watches for people back on the base. I think I was the biggest buyer of Movado watches that little shop ever had! One day the owner said that he had just received three watches and that I could have one if I wished. I passed up the opportunity. When I returned home, I told Mother about the watches and said that the maker of them had a two-part name I could not recall. She asked, "Was it Patek Philippe?" I said, "Yes, how did you know?" She explained that it was the finest watch in the world. **RThought:** For the balance of the war, she sent me all the Patek Philippe ads from *The New Yorker* with the price *underlined.* I am not sure that the pearls I brought home from Japan made up for my ignorance of watches!

Customers do appreciate service. A friend who knows my interest in retailing sent me a copy of a letter he sent to the manager of the Emporium store in Walnut Creek. Some clothing he had already purchased was stolen while he was in the store. The store manager replaced the stolen items. His letter closed, "Thank you again for turning a dismal day into a happy one." **RThought:** However, the key sentence in his letter read, "I have told many of my friends about your kind gesture, and it always sparked a comment or recollection on their part testifying to the wonderful role Capwell's [now Emporium] has played for so long in our community."

Prepare for more solicitations. The Tax Court held against the Internal Revenue Service and for the Disabled American Veterans (DAV) in ruling that revenue from renting its donor list was not "unrelated business taxable income." The DAV generates $2 million a year from renting its list to both for-profit and tax-exempt organizations. The court agreed that this rental income is a royalty and that the law excludes royalties from "unrelated business" income. **RThought:** Now every organization to which you contribute will feel free to rent its list. The House of Representatives is considering excluding the royalty exemption. [This information came from the *Deloitte & Touche Review*, May 21, 1990.]

CORRECTED LIABILITY/EQUITY RATIOS — 1989 BALANCE SHEET
($ millions)

Company	Total Liabilities	Less Accounts Receivable	Plus 40% of LIFO Reserve	Adjusted Liabilities	Equity	Plus 60% LIFO Reserve	Minus Goodwill	Adjusted Equity	Corrected Ratio of Total Liabilities to Equity
Albertson's	$ 933	$ —	$ 55	$ 988	$ 929	$ 83	$ —	$ 1012	.98 : 1
American Stores	6195	—	98	6293	1202	146	(2044)	(696)	NA
Avon Products	1646	(255)	67	1458	228	101	(148)	181	8.10 : 1
Best Products	1367	—	3	1370	71	4	(152)	(67)	NA
Brown Group	374	(141)	38	271	339	56	—	395	.69 : 1
Bruno's	370	—	7	377	291	10	(53)	248	1.52 : 1
Carter Hawley Hale	2239	(746)	29	1522	(194)	43	—	(151)	NA
Circuit City Stores	355	—	—	355	359	—	—	359	.99 : 1
Costco Wholesale	381	—	2	383	243	3	—	246	1.56 : 1
Dillard Department Stores	1401	(749)	4	656	1095	5	—	1100	.60 : 1
Fingerhut	212	(182)	—	30	296	—	—	296	.10 : 1
Food Lion	744	—	16	760	538	24	—	562	1.35 : 1
The Gap	241	—	—	291	338	—	—	338	.71 : 1
Giant Foods	588	—	24	612	493	37	—	530	1.15 : 1
Great Atlantic & Pacific Tea	1740	—	—	1740	1092	—	—	1092	1.59 : 1
Grossman's	207	36	—	171	117	—	—	117	1.46 : 1
Hannaford Brothers	256	—	6	262	219	9	(11)	212	1.24 : 1
Hechinger	357	(77)	4	284	398	7	—	405	.70 : 1
Hills Department Stores	1044	(22)	4	1026	14	5	(148)	(149)	NA
Home Depot	606	—	—	605	512	—	(22)	490	1.24 : 1
Interco	2115	(296)	6	1825	(967)	9	—	(958)	NA
Kmart	2173	—	395	7778	4972	593	(244)*	5321	1.46 : 1
Kroger	7208	(280)	143	7071	(2966)	215	—	(2751)	NA
The Limited	1177	(596)	—	581	1241	—	—	1241	.47 : 1
Longs Drug Stores	231	—	32	263	336	48	—	384	.68 : 1
Lowe's	501	(122)	13	392	646	21	—	667	.59 : 1
May Department Stores	5483	(2274)	54	3263	2319	81	(567)	1833	1.78 : 1
Melville Corporation	1414	—	10	1424	1618	16	(300)	1334	1.07 : 1
Mercantile Stores	471	(607)	25	(111)	1077	37	—	1114	NA
Fred Meyer	545	—	14	559	252	20	(6754)	(6482)	NA
Nordstrom	974	(526)	—	448	733	—	—	733	.61 : 1
Penn Traffic	1202	—	3	1205	6	6	(338)	(326)	NA
J. C. Penney	8345	(4353)	142	4134	4353	214	—	4567	.91 : 1
Petrie Stores	253	—	—	253	694	—	(101)	593 **	.47 : 1
Price Co.	835	—	3	838	535	4	(10)	529	1.58 : 1
Publix	470	—	33	503	837	49	—	886	.57 : 1
Rite Aid	835	—	37	872	704	55	(43)	716	1.22 : 1
Rose's Stores	289	—	15	304	205	22	—	227	1.34 : 1
Safeway	4927	—	6	4933	(389)	9	(390)	(770)	NA
Sears Merchandise Group	19380	(15580)	295	4095	6137	442	—	6579	.62 : 1
Service Merchandise	1706	—	—	1706	(42)	—	—	(42)	NA
Sherwin Williams	707	(206)	28	529	668	41	—	709	.75 : 1
Spiegel	1016	(713)	—	803	412	—	(235)	177	4.54 : 2
Super Valu Stores	1559	(211)	52	1400	870	68	—	938	1.49 : 1
TJX	721	—	—	721	228	—	(101)	127	5.68 : 1
Tandy Corporation	1517	(820)	—	697	1723	—	(298)	1425	.49 : 1
Toys "R" Us	1370	—	—	1370	1705	—	—	1705	.80 : 1
U.S. Shoe	615	(125)	10	500	549	15	(21)	543	.92 : 1
Vons Companies	1465	—	***	1465	190	***	(534)	(344)	NA
Waban	272	—	—	272	265	—	—	265	1.03 : 1
Walgreen	799	(76)	84	807	713	125	—	838	.96 : 1
Wal-Mart Stores	4233	—	129	4362	3965	194	(37)	4122	1.06 : 1
Wetterau	823	(171)	17	669	207	27	(44)	190	3.52 : 1
Weis Markets	90	—	11	101	567	17	(9)	580	.17 : 1
Winn-Dixie Stores	920	—	83	1003	813	125	—	938	1.07 : 1
Woolworth	1831	—	61	1892	2076	92	—	2168	.87 : 1

*Only on Pace Membership.
**An unrealized gain on investment in Toys "R" Us equals $820 million.
***Not disclosed.

wondered how long you would do this.'' He left with a smile on his face and a friendly wave of his hand!

RThought: There is no way a ''satisfaction guaranteed'' policy can fail if you ask the customer what he or she wants done — and then do it.

There is no way a complaint can survive a sincere apology and a ''we're sorry'' gift.

Neither of these examples means that you should not make every effort to avoid the causes of complaints, or that you should not study the complaints so as to identify the causes.

WHO PROTECTS YOUR PRIVACY?

Equifax, Inc., which holds credit information on most of the families in the United States, and Lotus Development Corporation worked together on a CD-ROM (Compact Disk — Read Only Memory) that would list the names and addresses of 120 million U.S. consumers. From the CD-ROM, someone with an Apple computer could manipulate demographic characteristics and order special marketing lists in which Equifax would provide, by name, the income bracket and ''products-of-lifestyle categories'' from its files.

Two respondents to this plan were *Privacy Journal* and the Computer Professionals for Social Responsibility (CPSR).

Robert Ellis Smith, editor/publisher of *Privacy Journal,* wrote to the president of Equifax: ''It violates a century-old principle of American privacy law: that a person's name or likeness may not be used commercially without consent and without compensating the individual.''

CPSR voted opposition to this plan, and its members organized complaints to both firms. Lotus reported receiving 30,000 messages.

Advertising Age, which apparently has no regard for privacy, commented on the Lotus/Equifax undertaking: ''It must be good — the American Civil Liberties Union already says that it raises 'serious legal and ethical questions.''' I presume *Advertising Age* spends its afternoons stomping on the American flag and burning the Constitution.

RThought: Private enterprise — as exemplified by Equifax and Lotus — has little or no interest in protecting the privacy of the public. It takes the constant vigilance of people like my friend, Bob Smith, and organizations like CPSR and ACLU.

But responsible retailers can be aware of what is happening and should become sensitive to actions that may be an invasion of personal privacy by reading Bob Smith's *Privacy Journal,* P.O. Box 28577, Providence, RI 02908; $98/yr.

SEVENTY-EIGHT PERCENT OF U.S. CONSUMERS BELIEVE RETAIL PRICES ARE HIGHER BECAUSE OF SHOPLIFTING

The headline comes from a study done by *Management Horizons* for Checkpoint Systems. As you might guess, Checkpoint Systems makes an anti-shoplifting system. (Don't you suspect that *Management Horizons* knew what Checkpoint Systems does before it made the survey?)

Let's look at this piece of wisdom. The press release says that consumers were surveyed by mail (number not indicated) and in focus groups (number not indicated).

Where did the consumers get the idea that prices were higher because of shoplifting? From retailers. Retailers have been more successful in spreading this kind of message than they have been in giving the customer what he or she wants, when it is wanted, where it is wanted and with the service wanted (including being in stock).

Let's look at shrinkage — which includes shoplifting, internal theft and paperwork errors. Below is the ten-year history for department and specialty stores taken from the *1990 Financial and Operating Results for Department and Specialty Stores,* published by the National Retail Federation:

Stock Shrinkage (%)

	1989	1988	1987	1986	1985	1984	1983	1982	1981	1980
Department Stores	2.15	1.94	1.92	1.87	1.98	1.81	1.65	1.86	2.11	2.03
Specialty Stores	1.74	1.67	2.20	2.14	1.82	1.76	2.01	2.28	2.34	2.30

There is an advantage to having ten years to look at here. If one looks at department stores for 1985-89, it appears that the shrinkage is increasing. If one looks at ten years, it looks like five years down and five years up, ending at about the same place.

For specialty stores, it was down in 1984-85, up in 1986-87 and down again in 1988-89.

That, of course, does not make sense. Can you have different patterns for specialty stores and department stores? Shoplifters really don't know the difference between the two — they just shoplift stores. What accounts for the odd fluctuations in specialty stores is the different mix of stores reporting their figures each year. NRF (nee NRMA) firmly believes that a sample is a sample, and that all samples are valid and interchangeable.

The 1989 report (covering 1988) did not disclose the number of stores reporting. The 1990 report (covering 1989) was based on 73 department stores and 47 specialty stores. When NRMA did not disclose the size of its universe, it greatly reduced the value of the figures. One suspects that the sample was significantly smaller.

In addition, the stores in each year's sample may be significantly different.

But to return to the tremendous addition of retail knowledge reported by *Management Horizons,* ''78% [of U.S. consumers] believe retail prices are higher because of shoplifting.''

We know what our shortage is; we do not know how much is caused by shoplifting, internal theft or recordkeeping error.

Arthur Young, for years, codified gossip and reported that little of the shortage was due to error, some was due to shoplifting and most was due to internal theft.

The shortage for 1989 was 2.15%, up from 1.94% the previous year. How quickly we forget Christmas 1989, when Federated/Allied, prior to filing for Chapter 11, was taking deep markdowns in an attempt to raise cash. We all read that Macy's (Macy's broadcasted the fact) had to take more markdowns to meet the Federated/Allied markdowns. We all know that lots of markdowns mean lots of errors. The reports show that, in 1988, markdowns for reporting department stores doing over $100 million were 15.80%; in 1989, for reporting stores between $100 million and $500 million, markdowns were 19.91%, or a 25% higher rate. And this happened when many stores were cutting back on floor staff and using more part-timers, usually less well-trained employees.

This is the ideal situation for more errors — but no controller or chief financial officer that I have ever met would admit to more errors. Some won't admit to *any* errors.

RThought: Let's assume that a third of shrinkage, or .7 of 1%, was due to shoplifting and that prices could be reduced by .7 of 1%. **DO YOU REALLY THINK THE CUSTOMERS WOULD NOTICE THE LOWER PRICES?**

This assumes, of course, that management would pass on to its customers any reduction in shrinkage. If you know such a management, please let me know.

ANOTHER WAY TO LOOK AT RETAILERS

Each year-end, *Business Week* publishes the "Investment Outlook Scoreboard." Among the figures published is the consensus estimate of the 1991 earnings per share. It also includes a measure of the variation — a measure of the range of projections that include two-thirds of the projections. (*Note:* The number of projections made generally varies with the size of the company.)

For example, if the consensus is $1 per share and the variation is 5%, two-thirds of the projections were between $1.05 and 95 cents.

The table below shows all reported retail firms included in the "Scoreboard," arranged by the percentage range.

Company	Variation	Company	Variation
Fay's Drug Stores	0.7%	Merry-Go-Round Enterprises	8.2%
Walgreen	0.9	Burlington Coat Factory	8.4
Rite Aid	1.2	Service Merchandise	9.8
Winn-Dixie Stores	1.7	Nordstrom	10.0
Smith's Food & Drug	2.0	Dollar General	10.5
Fingerhut	2.2		
Bruno's	2.3	Ross Stores	10.7
Albertson's	2.7	Lowe's	10.8
Hannaford Brothers	2.7	J. C. Penney	11.0
Mercantile Stores	2.8	Brown Group	11.6
		Edison Bros. Stores	11.8
Schultz Sav 'O Stores	3.2		
Food Lion	3.4	Eagle Food Centers	12.1
Costco Wholesale	3.5	Riser Foods	12.1
Wal-Mart Stores	3.8	Casey's General Stores	12.5
Ingles Markets	3.9	Hechinger	13.0
		American Stores	13.3
Ruddick	3.9		
Family Dollar Stores	4.0	Fred Meyer	13.6
Price Co.	4.0	Sears, Roebuck and Co.	13.9
Giant Foods	4.0	Home Shopping Network	14.1
The Gap	4.6	Lands' End	14.5
		Rose's Stores	16.3
May Department Stores	4.6		
Melville	4.7	Kroger	16.9
Woolworth	4.8	Pier 1 Imports	17.4
Longs Drug Stores	4.8	Vons Companies	17.7
Weis Markets	4.9	Petrie Stores	18.9
		Consolidated Stores	19.9
Toys "R" Us	5.0		
TJX	5.0	Circuit City Stores	20.3
Charming Shoppes	5.0	U.S. Shoe	22.6
Great Atlantic & Pacific Tea	5.1	Best Buy	25.0
		Neiman Marcus Group	26.7
Dayton Hudson	5.5	Pic 'N' Save	27.7
Kmart	5.7	Jamesway	40.5
Wholesale Club	5.8	Perry Drug Stores	43.5
Spiegel	6.0	Nat'l Convenience Stores	51.4
The Limited	6.2	QVC Network	63.4
Home Depot	6.3	Hills Department Stores	69.3
		Carter Hawley Hale	149.8
Dillard Dept. Stores	6.5		
Pep Boys—Manny, Moe & Jack	6.8		
Safeway	7.4		
Strawbridge & Clothiers	7.4		
Waban	7.4		

For the 76 stores listed, the median variation is ±7.4%. In a way, that median is not unusual. With stocks, such as Dayton Hudson, Kmart, May Department Stores, Wal-Mart Stores and others, which are followed by dozens of analysts, they all look at what the other analysts are projecting; and if their forecast is too far from the median, they "review and revise" their projection until it comes in line with the other analysts.

No analyst has perfect insight into the traded companies. Even with all the "inside" information that is provided to analysts, especially those who follow a stock closely, I doubt that 30% of the stocks will fall within the mid-two-thirds range.

With the uncertainties of a recession, excessive caution of banks in lending money, the impact of the final outcome in Iraq, the history of death's-throe merchandising to raise cash on the part of a few large retailers and the impact on the gross margin of competing stores, I am even more certain that fewer than 30% of the final figures will end up in the published range.

Unfortunately, *Business Week* has been putting out this report for years with the representation that this will help readers in their individual investments. I have the feeling it has little more value than the recommendations Michael Milken made on junk-bond investments.

SHORT SHORTS

Should retailers do what they believe in? *National Home Center News* had an interesting story about KC's Hardware, a 12,000-square-foot store in Center, Texas (which isn't in the "center" of Texas!). It is owned by Fred Hudson and run by his son, Willie. Willie commented that he carries guns and that they represent about 2% of his business. Willie further commented that he was not pleased to be selling guns, but he reasoned that competitors would take the market if he didn't and concluded, "[Guns] are an evil thing that you need to be in." **RThought:** Don't ever stay in an "evil" business. Work and live at peace with yourself. The argument that if you don't sell it, someone else will, could have you selling liquor and cigarettes to minors or drugs to neighbors. The fact that guns are legal doesn't excuse Willie Hudson for not being at peace with himself. (**Note:** I have been a Life Member of NRA since I won big in a poker game on Leyte in early 1945. I disagree with its stand on many issues — semi-automatic rifles, for example. If semi-automatic rifles are so important to NRA members, why aren't they advertised in the *National Rifleman?)*

The American Express card — your discount card. The June 1990 *Members Only* enclosure said that Builders Square (part of Kmart) will give a 10% discount on purchases of $100 or more charged to an American Express card. But the Bombay Company (formerly part of Tandy Brands) offered a 15% discount on regular-price merchandise (not sale price) of $50 or more. And even steaks at a discount — 15% off any one-time purchase of $75 or more from the catalog of Omaha Steaks International. **RThought:** I find it difficult to keep up with all the special tie-in discounts. With the number that I see, I remain convinced that most "regular" prices are not even fair prices.

WORDS — ABOUT CUSTOMERS

**Customers don't buy things,
they buy tools to solve problems.**

Words from Professor Theodore Levitt, when he was editor of the *Harvard Business Review.*

ROUTE TO

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I HAVE SOME OUTSTANDING PROOFREADERS

From the chairman of a major do-it-yourself chain:

I was taken to task for discussing "hot water heaters." He pointed out that this was a redundant phrase. I checked one of its newspaper inserts in my file; sure enough, it speaks of "water heaters."

From a partner in a major venture capital fund:

I was taken to task for comments made when discussing office supply superstores. I commented that venture capitalists were in a hurry to get their funds out. He pointed out what I *would have known* had I stopped to think — that venture funds are used by insurance companies, pension funds and other investors of large amounts of money, to act as specialists in startup or second-round financing of new businesses. Once the startup becomes publicly held, the venture-fund partners no longer need the service of the venture fund. They can handle their own hold/sell decisions. When distributed to the partners, there is seldom any one partner with a large enough holding for disclosure to be required. Nondisclosure does not mean that the investment has been sold.

RThought: I deduced that I received two compliments from each of the above people:

1. They read *RT* carefully.

2. They took the time to write or phone.

SOMETIMES I WONDER WHY ANYONE WANTS TO BE A RETAILER

This is what Bob Keiningham, Editor/Publisher, *The Furniture Forum* (8177 East 44 Street, Tulsa, OK 74145; 24 issues, $180/yr.), saw when he was writing his March issue:

...consumer debt high
...trade deficit up
...factory orders down
...housing starts down
...residential remodeling down
...credit availability down
...home sales up in January, back down in February
...inflation still cropping up
...consumer confidence indicators down
...consumer spending following the same pattern
...unemployment up
...problems and challenges in the Middle East not over yet
...expect oil prices to peg at $20 a barrel
...a lot of folks see the glass as half empty
...I [Keiningham] want you to see it as half full!!!

A COMPARISON OF EMPLOYMENT PHILOSOPHIES

A friend who has spent some time working in a city-sponsored job service passed on some of his thoughts. A retired retailer, he is particularly sensitive to how his former competitors operate.

My peers in retailing are a cheap-and-chintzy bunch when it comes to wages and hours.

The worst of the lot is __________ [a nationally known chain of stores]: $3.35 an hour, 20 hours a week, a different schedule every week (which means that it cannot accommodate a college student's class schedule, nor is it possible for the worker to take a second part-time job to make a full-time equivalent) — and, of course, no benefits.

On the other hand, it was a pleasure to find delivery drivers for one of the local stationery stores: $4 an hour, 40 hour week, Monday to Friday, 8 a.m. to 5 p.m., and benefits. It turned out that I had to fill that delivery driver job every six weeks or so, because the store kept giving the kids raises and promoting them either to the office or to the selling floor.

RThought: Here is a simple test. Which employer, the nationally known chain or the local stationery store, is having economic problems? If you guessed the stationery store, please read the extract again.

Joe McNichols, who publishes *Furniture Merchandising Newsletter* (P.O. Box 584, Palos Heights, IL 60463; $49/yr.) and who also consults with furniture retailers, reported that most of the stores that complain about the "hard times" haven't done anything in the past five years to improve their stores, their systems or their salespeople.

RThought: Opportunity arises from constant attention to the customer, the customer's wants and efficiency of operation. For example, cars are much different from what they were ten years ago — driver-side airbags, four-wheel steering, improved brakes, better audio systems, better paint, better headlights. Had they remained unchanged for five or ten years, everyone would have said, "The company deserves to go broke." Why don't we say that about retailers who do not change for five or ten years?

THE FEDERAL TRADE COMMISSION (FTC) IN ACTION

FTC v The Wiz. Nobody Beats The Wiz, Inc. (one of the larger retailers of consumer electronic goods), failed to make consumer product warranties available prior to the sale of its merchandise. Now, it has entered into a consent order to comply with the law (FTC File 902-3147).

RThought: This law has been on the books for many years. At

continued

this date, what excuse is there for any retailer being cited for violation? On the other hand, you might have your professional shoppers make this an item to check regularly. Who knows? You could be on your way to a citation.

FTC v One-A-Day. Miles, Inc., maker of One-A-Day vitamins, has entered into a consent agreement that its advertising claims were unsubstantiated (Docket C-3323, February 14, 1991).

RThought: The world must be coming to an end because this means that One-A-Day won't cure all of our problems. People said I was cynical when I said that I didn't believe all of those ads for cures for poor health and pain (there's an average of three or four commercials in a row during the TV evening news, along with at least two hemorrhoid cures). Each proclaims it is the best. How is a person going to be able to find the right cure if the ads make "unsubstantiated" claims?

RThought: Two years after eight years of inaction under President Reagan, the Reagan sedative has worn off, and the FTC is back in action — as it should be!

RETAIL EMPLOYMENT TRENDS

The figures below show fourth-quarter employment as reported by the Bureau of Labor Statistics (all numbers in thousands):

Industry	1982	1986	1988	1989	1990	Eight-Year % Change
General Merchandise*	2,141	2,386	2,486	2,529	2,435	
% Change		+11.4%	+4.2%	+1.7%	(3.7%)	+13.7%
Food Stores	2,510	2,946	3,122	3,239	3,313	
% Change		+17.4	+6.0	+3.7	+2.3	+32.0
Automobile Dealers and Service Stations	1,634	1,966	2,100	2,115	2,125	
% Change		+20.3	+6.8	+0.7	+0.5	+30.0
Eating and Drinking Places	4,872	6,006	6,348	6,508	6,639	
% Change		+23.3	+5.7	+2.5	+2.0	+36.3
All others**	4,022	4,842	5,203	5,305	5,231	
% Change		+20.4	+7.5	+2.0	(1.4)	+30.1
TOTAL RETAIL	15,179	18,146	19,259	19,696	19,743	
% CHANGE		+19.5%	+6.1%	+2.3%	+0.2%	+30.1%

*Includes department, discount, variety and general stores.

**Includes apparel (men's, women's children's, family and shoes); furniture (furniture, appliances, radio and TV); building materials (lumber, home centers, hardware, paint, plumbing and electrical); and specialty stores (drug, jewelry, books, stationery, toys, sporting goods, gifts, photo, florists, farm implements, boats, airplanes, fuel and ice, mail order, etc.).

Be careful when you read these figures. There are *four years between* the first and second columns, *two years between* the second and third columns, and *one year each between* the third, fourth and fifth columns.

The general merchandise group is growing far less than the other four categories. And the conventional department stores are growing slower than the discount stores (variety and general stores are no longer significant).

The abnormal growth in the "Eating and Drinking Places" reflects the move to fast-food retailers and some change in eating habits (eating out more often), as the size of the average household continues to decline and the number of one-person households grows dramatically.

Food stores have increased their efficiency and would normally have shown a lower increase in employment, except for the dramatic growth of superstores incorporating ever increasing amounts of nonfoods.

RThought: I continue to read about the great future of department stores — but I really *discount* that view. And I *discount* it because the growth is in the discount department stores. As reported previously, discount stores will soon do more volume than conventional department stores plus national chain department stores (which, I presume, continue to be that old grouping of Sears, Montgomery Ward and J. C. Penney). For 1990, discount stores did 48.1% of the combined department store volume, up from 46.5% in 1989. By 1992, at the latest, the discount store figure will pass 50%.

Discount stores generally have fewer employees per billion dollars of sales than do either conventional or national chain department stores.

[Data from *Monthly Labor Review*, February 1991.]

WE RECOGNIZE THE NEED FOR BETTER EDUCATION, BUT WE DON'T CARE

Most philanthropic giving is done by better-educated people (either as individuals or through bequests), by corporations or foundations.

During the two decades from 1969 to 1989, total giving, in constant 1982 dollars, increased about $27 billion. The greatest part of that was done by individuals while alive. The overall increase, again in constant 1982 dollars, from bequests, corporations and foundations, was slight.

When we look at the money (in constant 1982 dollars), the increase looks like this:

Human services	$1.0 billion-plus
Public and social benefit	$1.0 billion-plus
Education	$1.5 billion-plus
Health services	$1.5 billion-plus
Arts, culture and humanities	$3.5 billion-plus
Religion	$18.5 billion-plus

Most of the giving for education goes to colleges, which benefits people who are well on their way, having succeeded in winnowing an education from the mediocre or even poorer offerings of public schools.

RThought: We assume that we do not have to make contributions to grammar and high schools because most are supported by taxes. But when many states copied California's Proposition 13 and Massachusett's Proposition 2½ by enacting laws limiting the amount of money that can be raised by property taxes, other than with a two-thirds or other super-majority vote of the people (at least of those people who voted), money for public schools was restricted.

When such limits are not imposed by initiative, incumbent legislators are defeated by those who promise, either out loud or by lip sync, not to increase taxes.

During the period 1970-1988, the average pay for teachers roughly kept up with the increase in the Consumer Price Index. This measure overlooks two things:

1. We agreed in 1970 that teachers were undercompensated when compared with other jobs requiring the equivalent education and training.

READING THE SUNDAY PAPERS

I just wish I could read faster, turn pages faster and clip articles faster! Every Sunday, I am faced with *The New York Times,* the *San Francisco Chronicle-Examiner,* the *Oakland Tribune,* and the *Contra Costa Times* (fortunately, there is no *Women's Wear Daily* or *Wall Street Journal*!). The stack approaches a half foot high and weighs about eight pounds. It demonstrates how much there is in the world — travel, real estate, business, food, entertainment, sports — each has its own section. Some sections go quickly. After reading the first sports section, the others have only to be scanned to catch what was omitted in the first one read.

The first papers to arrive are *The New York Times* and the *Oakland Tribune* — now delivered by the same person and to my carport. The other two are stuck in tubes up at the street, a hundred yards or so away. This particular morning — March 24 — it was raining. Patty and I play a game of waiting — to see who wants the *Chronicle* and/or *Times* enough to walk up and get them! She went this Sunday.

Not only are there the sections of the paper, there are the inserts: Montgomery Ward, Sears, Macy's, Emporium, Kmart, Circuit City, Target, Petco (imagine, a four-page tab on pet foods and supplies!), Best Products, Pay Less Drugs, and a few others I have overlooked.

And, of course, there are the ROP ads, the batches of coupons and the magazine sections.

Plus, there are the political cartoons and letters to the editor. In the latter case, USA Weekend was taken to task by someone in North Little Rock for moving Bill Clinton from Governor of Arkansas a bit south into Alabama!

Carter Hawley Hale may be in Chapter 11, but it gets first prize for its week-before-Easter tab with an "Easter in Wonderland," a two-page spread. Here is part of the copy:

Join Alice and Friends for an Adventure at the Zoo on the Roof

One fine day in spring, as Alice was strolling down Market Street, she spied a very nervous-looking White Rabbit, saying to itself, "Oh, dear! I shall be too late!" Before she could ask what he was too late for, the White Rabbit had tucked his watch back into his pocket and disappeared into the Emporium. "Curious..." Alice thought, and she followed him into the store. She followed him to the escalators and right on up to the fifth-floor rooftop. "Curiouser and curiouser!" she thought to herself when she got there, for the entire roof had been transformed into a *marvelous re-creation of Wonderland!* She saw her friends, the Red Queen and the Cheshire Cat, the Mad Hatter and the brothers Tweedledee and Tweedledum. "Oh, my!" exclaimed Alice, as she caught sight of the *Rooftop Petting Zoo,* for there were bunnies and chicks and quacking ducks, miniature goats and even a llama!

And I have only given you an eighth of the story!

It was followed by two pages of wonderful gifts: famous-name "faux pearls" — a necklace, earrings and a ring for $10 (take that, Toys "R" Us!), and a set of seven "fun" rings, one for each day of the week, in a real jewelry box for another $10; purses and bonnets and everything a well-dressed young lady needs for Easter.

Macy's was not far behind with its 45th Annual Flower Show, running for two weeks, with thousands of tulips from Holland, a re-creation of California's famous Muir Woods in Macy's East (Macy's has two buildings in downtown San Francisco, a la Marshall Field and, now, Bergdorf-Goodman) and formal settings of ficus trees and azaleas and rhododendrons in blossom and more in Macy's West. (To enhance the history, Macy's was once O'Connor-Moffat where, 45 years ago, the No. 2 man whom I had known in New York told me my re-employment rights in New York City did not apply to San Francisco.) Over 2,000 different flowers will be in and around Macy's.

I may have missed it before, but I pondered Macy's new price points for dresses: $168, $156, $212, $122, $146, and $142. I cannot believe it is mechanical pricing, rounded to the closest dollar. But then, what is it?

I wondered about how accurate $58-$85 wrist watches are when right in the center of the dial is the word "Guess"!

I had to read the *Chronicle-Examiner* business section to learn about Businessland — that miracle of computer retailers backed by venture capitalists, which, during the past year, dropped from $11 to $3 a share as it recorded quarter after quarter of losses. I was entranced with the statement, "One ironic reason for this disarray: a lack of good computer systems to track inventory and distribution."

Would you buy a computer system from a company that could not control its own inventory? I thought you would say, "No."

And then there is water — or the lack thereof.

I am certain that the recent lack of water in California (is this the fifth, sixth or seventh year of drought?) must have made the back pages of Eastern and Midwestern newspapers.

But, retailers, don't stop reading yet.

The *Contra Costa Times* had five or six major articles on the water problem, two of which started on page 1: "Hot east, cool west fight over water use"; and "Diversity of water districts brings both tears and dry eyes to users." The *Chronicle-Examiner,* in its special section, This World, devoted 10 of 16 pages to such subjects as "Living dry and liking it," "The underground way to water," "A deluge of water-saving devices," "Tips from Mr. Fixit," "Mind your drought manners," and more.

Much of this water information was planned weeks ago for a quiet Sunday morning — before the rains of the past few weeks. Perhaps, another video tape of a police department "in action" would have displaced the articles.

I read all of this just after reading our rain gauge at 1.6 inches, which puts us over 9 inches in one month, only the second time in 35 years (and, again, in the month of March — the end of the season). And there are seven days to go! Just before the last two snow storms (estimated at three to four feet), our area water supplier reported the snow pack at 72 inches and rising. For the state, the snow pack on March 1 was 14% of normal; and on March 25, it was 66% of normal! We get our water from the runoff of that snow. One area has even reported its reservoir as "overflowing."

Why do I belabor our water problem?

There is a story here. For the past five or six years, I have been trying to get retailers to use long-range weather forecasting as developed by Dr. Irving Krick, the forecaster Hap Arnold said the Army Air Corps needed during World War II. He was

FEATURE REPORT ***continued:***

later taken over by Ike and his forecast Ike accepted — that D-Day could take place on June 6. Conventional meteorologists were unanimous in forecasting doomsday.

At the end of last January, one of my assistants (those wonderful ladies who make me look good) reported that she had heard a radio report that Dr. Krick forecast that we would have "much above normal" rainfall at the end of February and during March. This came when we were in the middle of rock skiing, instead of snow skiing, in the Sierras. Lake Tahoe was going below the level of the natural rim for the first time in the memory of living man.

Most meteorologists were attributing this to the warming of the planet. Ring counters, using the rings of millenium-old redwood trees, reported that there had been dry spells of more than seven years in the past. No forecaster predicted the rain. Perhaps not a single one knew what he was doing — except trying to get his name in print.

I called Dr. Krick to see if the report was correct — because he is seldom quoted. A user of his service apparently could not keep a secret and had blabbered, citing the source.

Not a single California water supplier uses Dr. Krick's service. This, despite the fact that, during the drought in the 1970s, Dr. Krick, before any winter rain or snow fell, forecast a record low runoff for each of the nine major drainage basins. The following May, the state hydrologists made their estimate. Dr. Krick was off by 6%. The hydrologists were off by 3%. So, the state decided not to use Dr. Krick in the future. Of course, the Meteorological Society of America says that long-range forecasts cannot be made.

Let's take another case. Remember the explosion of the Challenger with the loss of our astronauts? NASA won't use forecasts by Dr. Krick — it prefers to risk the lives of people. In October 1985, Dr. Krick gave a forecast to a citrus grower about 70 miles south of Cape Kennedy in Florida. It said, in part, that during the period of January 27-30, 1986, "the temperature could drop briefly to 26-29 degrees." At 6:30 a.m. on January 28, the temperature hit 28 degrees, the O-rings froze, and the Challenger exploded.

Dr. Krick has stood ready for years to provide acceptable launch dates well in advance and, with more than 98% certainty, that NASA weather criteria will be met on those dates.

Why do I stress weather forecasts?

I think the only executives more obdurate (good word, look it up) than those in NASA are those in retailing. One would think that retailers prefer to explain poor profits and below-expected sales by saying, "We had a warm fall in most of our territory"; "We had no spring weather"; or "Rain and snow spoiled the Easter season." Take your pick.

Dr. Krick has sold his business. However, if there are any readers who want to consider using long-range weather forecasts and need to know the company providing forecasts, all it takes is a letter. **You know my address. It is on the masthead.**

SHORT SHORTS

I am going to have to change my ways. *Communication Briefings* (700 Black Horse Pike, Suite 110, Blackwood, New Jersey; $59/yr.) reported that 45% of people dislike being put on a speakerphone and that 2% won't talk to someone using one. The reasons? Fifty percent mention lack of privacy, 34% poor voice quality, 12% a feeling of being patronized, and 4% a concern that the other party is being distracted. I almost always use a speakerphone. Much of my business is information — much of it in 124 file drawers! I think many callers are surprised that so much is at my fingertips, but it is really a case of raising my voice as I walk across the room to pull a file. **RThought:** I am going to train myself to ask callers if they object to the speakerphone — perhaps most of my callers are (1) in the 53% who don't mind, and/or (2) not concerned about privacy and voice quality. (I don't think I know how to be patronizing.)

Perhaps you will change your ways. I find the job title of "Human Resources" degrading to our most valuable asset: the people who work for us. Some years ago, when there was a move to change Wal-Mart's Personnel Department to Human Resources, we decided, instead, to call it the People Department. There was an instantaneous, happy response. I later found out that a wonderful company, Herman Miller, has had a People Department for years. **RThought:** Since then, the Army and Air Force Exchange Service has changed its Personnel Department to a People Department. And more recently, Southwest Airlines established a Vice President *of* People and a Vice President *of* Customers. This was all approved by its Culture Committee. Do you have a Culture Committee? You should — that is, if you have a company culture worth protecting.

The ad read: "Upscale location . . . one of the fastest growing metropolitan areas . . . ranks first in Retail Sales per household in Florida . . . at primary exit from I-75 . . . adjacent to new . . . Country Club with over 6,000 upscale residents." **RThought:** All of this describes a 150,000 square-foot *factory outlet* named Naples Designer Outlet Shoppes! (Shoppes?)

Retailers play a leading role in major "high-yield securities" (aka "junk bonds"). During 1990, Fitch Investors Service, Inc., issued research reports on 25 companies with junk bonds. Twelve were retailers:

Carter Hawley Hale Stores, Inc.
The Circle K Corporation
Jack Eckerd Corporation
Federated Department Stores/Allied Stores Corporation

Interco, Inc.
The Kroger Company
R. H. Macy & Company
Ralphs Grocery Company

Southland Corporation
The Stop & Shop Companies, Inc.
Supermarkets General Holdings Corporation
The Vons Companies, Inc.

There are many other large retailers who are issuers of junk bonds. Some of which are:

Ames Department Stores
Best Products Company, Inc.
Hills Department Stores

RThought: Sometimes, I think, we retailers do a better job selling junk bonds than we do selling good-value merchandise at an everyday low price.

2. A higher percentage of their salary was taken by taxes (income, Social Security, unemployment) in 1988 than in 1970.

As a result of these two factors, after-tax income has not kept up with the Consumer Price Index.

At every meeting of retailers (and of many other groups), the complaint is made that people coming into the labor force, particularly the group from which retail employees are drawn, are not well educated. Many people, who are in or trying to get in the labor force, are weak in legible writing and arithmetic. Increasingly, businesses are having to assume the cost of training in these two areas.

We complain that the standards for a high school diploma have dropped — the schools just want to get rid of the poor performers. They do this by giving them an unmerited diploma and turning them loose for employers to pick and choose.

RThought: It would seem prudent for retailers, particularly those who employ a significant number, to be concerned about local education.

Interest could be shown in the form of executive time devoted to helping schools to operate effectively. Employees should be encouraged to serve on school boards or to be available for special study committees. Brain power, as well as dollars, is needed to help schools produce graduates who can satisfy both their own career ambitions and the needs of employers (of which retailers are an important part).

RThought: It doesn't do any good to identify a problem and do nothing to help solve it; when we follow that course, we become part of the problem.

BE THANKFUL WE DID NOT USE NUCLEAR WEAPONS IN THE DESERT WAR

An amazing number of macho guys who were not in the desert kept yelling, "Nuke the b-------!"

Let's look at the weapons the U.S. has used — and the ones the U.S. has not used. Then, we can be thankful.

Designation	Kiloton Yield	Application
MK 1 Little Boy	15	Hiroshima bomb
MK 3 Fat Man	21	Nagasaki bomb

Stop for a moment and think of the thousands we killed with one of each of the above.

Here is what we didn't use in the desert:

Designation	Kiloton Yield	Application
MK 33	5-10	Artillery shell
W 79	10	Artillery shell
MK 12A Minuteman III	335	ICBM warhead
W 47 Polaris	600	Sub-launched ballistic missile

RThought: As it turned out, the Iraqis had nothing that could intercept a Minuteman III or a Polaris. Both weapons were available; and if used, there might not have been Baghdad or Basra to talk about today.

We are the only nation that has ever used an atomic bomb against a civilian population. I went into Japan in October 1945 and drove the miles from Yokahama, via Tokyo, to Yokota Air Force Base (it still operates today). We drove through Japan's largest industrial area on a six-lane road, *and there was not a single building standing.* The remains of traffic lights hung from poles at intersections. The Japanese had dug up the concrete and had dug up the parking areas to grow food. At the time we bombed Hiroshima and Nagasaki, the Japanese were communicating through Russia, offering to surrender. The bombs accelerated the end. Some will say that they saved thousands of lives in a landing that did not have to be made. Who can tell whether we ever would have had to make the landing.

RThought: Please forgive me. Since I completed my education, I have spent more time working for Uncle Sam than I have spent working for civilian employers.

Now, I will go back to retail consulting.

REPORTS FROM *RT* READERS

Here are two reports from New York.

First, a reader enclosed an announced change in the terms of Macy's charge accounts now that it is in the "good hands" of General Electric Capital Corporation. The finance charge is being increased to 1.8% per month (APR 21.6%) except in Connecticut, Florida, Maryland, Pennsylvania and Texas (states that apparently make some effort to protect their residents from usury), where the rate will remain 1.65% per month (APR 19.8%). Virginia will remain at 1.5% (APR 18%) computed on the "average daily balance." All the remaining states, except those mentioned above, including Delaware, New Jersey, New York and Virginia, will be changed to the "average daily balance," apparently including the current month's purchases.

RThought: My reader (and, I am sure, thousands of others who charge at Macy's) observed that this was done when interest rates are declining — in fact, at a time when the President is demanding that banks cut their interest rates in order to stimulate the economy. I guess retailing doesn't need stimulating. If Macy's sold gasoline, I think President Bush would want to stimulate its business, too.

Secondly, I received a note from a reader about the following words appearing several times in a Lord & Taylor catalog: "Our regular and original prices are offering prices only and may or may not have resulted in sales. Advertised merchandise may be available at sale prices in upcoming sale events." My reader asked, "I wonder what the average customer thinks it means!"

RThought: This statement goes back to the Colorado Attorney General's action against May D&F, a division of May Department Stores, as previously reported in *RT.* I have seen the same wording in May Company and Robinson's ads (both owned by May Department Stores) in Los Angeles papers. Apparently, May Department Stores feels that this protects its method of using false price comparisons.

RThought: Why is it that so many retailers think their customers are stupid? After all, customers have learned not to buy from many stores at regular prices because the same items go "on sale" every other week.

WILL MAIL ORDER TAKE OVER THE WORLD?

To hear the mail-order advocates, you would think mail order will soon replace all retailing.

The Department of Commerce reported that mail order (including book and record clubs, specialty auto parts, craft supplies, etc.) increased from $28.4 billion to $32.4 billion, or by $4.0 billion (14%). The industry is now about the size of Wal-Mart or Kmart — but not growing as fast.

RThought: Mail order, as old as Montgomery Ward, has always been, and will continue to be, an interesting type of retailing.

But all of retailing? Not a chance. Four things continue to work against mail-order retailing:

1. The colors in print do not come out exactly the same as in the fabric.

2. Unlike garments in more advanced countries, sizes in the U.S. are not standardized — whether for men, women or children.

3. With a growing number of two-wage-earner families with no children, how can packages be delivered?

4. Quality cannot be determined from a picture.

RThought: Progress can be made on the four problems, but they are far from being solved.

DOES THIS MEAN BETTER SERVICE, OR...?

The table below shows employment in the retail trade as an increasing percentage of the total employment in private industry despite the relatively constant percentage of income spent in retail stores.

Year	Percentage
1940	17.43%
1950	17.21
1960	17.97
1970	18.92
1980	20.25
1990	21.50
1991	21.60

These percentages could indicate one of two things:

1. The retail trade is giving better service.
2. The retail-trade efficiency has not increased as fast as in other fields of employment.

Logic would seem to lead us to the latter.

But a better measure might be the employment in retailing as a percentage of the total population.

Year	Percentage
1940	3.73%
1950	4.47
1960	4.62
1970	5.43
1980	6.03
1989	7.89

The number of people working in retailing has more than doubled as a percentage of the total population in the half century from 1940 through 1989.

This fact seems to support the theory that retailing is inefficient.

We are all aware that there are too many stores and too many shopping centers. Some measure retail space in terms of square feet of retail space per million people. By this measure, retail space has continued to increase faster than population.

RThought: No wonder the power retailers — Toys "R" Us, Home Depot, Price Club, Office Depot and the better replicates — produce such high sales. They have brought efficiency into retailing. It is not just the corner toy store, the Ace Hardware store or the local stationer which has become inefficient — it is a vast part of the retail industry.

Only a few retailers concentrate on efficiency with EDI, QR, EFT, satellite communications and multi-gigabytes of memory. The others complain about the unfair advantage these retailers have. Virtually every one of the big chains started with a small store. As I recall, Frank Woolworth did under $20 his first day in business. And I know Mervyn's did under $90,000 the first year in San Lorenzo, California. At about the same time, Sam Walton did $80,000 in Newport, Arkansas.

RUSH — BEFORE YOU MISS YOUR CHANCE IN CHINA

The January 1991 *Retail News Letter* of the International Association of Department Stores reported the rapid growth of retail outlets in China as follows:

Year	Number of Retail Outlets	Number Employed	Persons Per Outlet
1980	1.4 million	6.4 million	672
1987	8.8 million	20.1 million	123

The sales, by type of ownership, were as follows:

Ownership	Share of Total Sales (%) 1978	1983	1987
State owned	92.3%	76.7%	43.3%
Collectively owned	7.5	17.0	40.2
Privately owned	.2	6.3	16.5

In a country of more than a billion people, there are fewer than 150 supermarkets. However, most towns have one or two department stores which fill a cultural function as well as a commercial one.

This information originally appeared in the *International Journal of Retail and Distribution Management.*

RThought: Don't pass up this opportunity to get in on the ground floor — particularly if you know something about supermarkets. The United States has about 1.4 million retail outlets for a country with a quarter of the population of China. Think what you could do in China with improved service!

But stay away from Tiananman Square.

WORDS — FROM WALL STREET

**Wall Street will love you more and more if...
your customers love you more and more.**

Ed Weller, Retail Analyst
Montgomery Securities
San Francisco, California

RThought: I picked up this bit of wisdom listening to a tape of his talk at the National Retail Federation convention (January 1991) in New York. It clearly explains something many retailers do not understand: people who own stock in Sears, Businessland, Hartmarx, Sharper Image, etc., must ask themselves, "Why don't more people love these companies?"

Just think where Sears would be today if as many people loved Sears as they did in the 1950s and 1960s when its stock was at an all-time high in the low $60 range (there has not been any split since that time, so the current price can be compared with $60 two decades ago)!

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I ALWAYS ADMIRED ANDREW JACKSON

For those of you who wrote (or intended to write) about the words ''underaccu*red*'' and ''overaccu*red*'' that appeared in this space in the March 1991 issue and you properly thought the words should have been ''underaccr*ued*'' and ''overaccr*ued*,'' let me remind you of what Andrew Jackson said: ''It is a damned poor mind, indeed, which can't think of at least two ways of spelling any word.''

In any case, one of my wonderful assistants spotted the typographical errors after the issue had been printed — but before it was mailed. Her name is on the permanent file copy, indicating she was the first to chide me.

HYATT KNOWS HOW TO SAY, 'WE ARE SORRY'

Things went wrong during the second week of Cotter & Company's Red Carpet Market last fall. A salmonella outbreak affected many of the attendees staying at the Hyatt Regency Chicago, the headquarters' hotel.

Darryl Hartley-Leonard, president of Hyatt Hotels Corporation, said, ''We want to do something to make sure that True Value and V&S members and their employees think well of Chicago and the Hyatt Regency Chicago.'' Those who were present at the time of the outbreak are to be offered hotel accommodations and air transportation to Chicago, as well as compensation for any medical or hospital expenses they incurred last year.

RThought: How long do you think the Cotter people will remember Hyatt's action? And do you think others will learn about it, such as readers of *RT*? Hyatt did not take advantage of the detection by Chicago and Illinois health officials that the salmonella bacteria was traced to eggs produced in southern Indiana. It did not plead, ''It was not our fault.'' Instead, it must have said, ''These are our customers, and we must make it up to them.''

It's strange about ''satisfaction guaranteed'' policies. In all of the material I have received from Hyatt over the years, I have never seen a ''satisfaction guaranteed'' policy. Sears has one which says, ''Since 1886, Satisfaction Guaranteed or Your Money Back.'' In the years when Sears was just starting to decline, I publicized the fact that Chicago had so little control over its Dallas division that it could not get that simple statement in the tab inserts in Dallas papers.

It is the *practice* of ''satisfaction guaranteed,'' not the *advertising* of it, that counts.

Late Note: I attended a management committee meeting after writing this article. A friend was bemoaning his stupidity in having locked his car with the keys inside — but he was happy to learn that he could get the number of the key to unlock his car.

I drove him to Stead Motors in Walnut Creek, California; and within minutes, Stead made a key for him. He was completely surprised when he found out there was no charge. He told four friends at lunch, and I will guess that he will tell more than 100 friends. Also, I would not be surprised if, as he says he will, he buys his next Cadillac at Stead Motors.

SHOULD WE RETAILERS BE SENSITIVE TO THE NEEDS OF BATTERED WOMEN?

I have watched with interest the growth of an organization in our town called Battered Women's Alternatives. I don't recall when it started; but it was in operation long before it started its newsletter, which is now in Volume 7. For 37 years, I was active in the Community Chest/United Crusade/United Way, and I think I know the problems which exist in our area/in all areas.

I am one of those sheltered and fortunate people. Among all the people I know, I have never seen a man strike a woman. Perhaps, you have been as fortunate and, at the same time, as unaware of the problem.

The statistics in the current issue of the Battered Women's Alternatives' newsletter, based on California, are startling:

Percentage of women using the hospital emergency room who are there because of a beating by their husband/partner	34%
Percentage of pregnant women using the hospital emergency room who are there from a beating by their husband/partner	67%
Percentage of marriages in which there is a regular pattern of violence	17%
Percentage of time police spend on domestic violence calls	30%
Percentage of children from violent homes who will become abusive or abused adults	75%
Percentage of San Quentin [California's maximum security prison] inmates who were abused or witnessed their mothers being abused	100%
Number of domestic violence calls California law enforcement agencies receive each day	500

RThought: As retailers, we are the largest employer of women. Do we hold out our hand to any of our employees who suffer from abuse? Do we have signs at appropriate places, indicating that we will assist battered women? Do we include guidance for battered women in our personnel handbooks? Or do we look the other way?

ANOTHER WORD ON CORPORATE CULTURE

I have written often about the importance of corporate culture. Let me add the following, condensed from *HR* magazine, November 1990, page 64, and included in the April 1991 *Executives' Digest.*

Corporate Cultures

In the 1990s, employing the best and the brightest workers and the latest and fastest technology no longer ensures a company's survival. What does? A corporate culture that can both bind its employees together and navigate the fierce winds of global competition.

If your company's struggling, it may be time to adopt a new culture. The key is to define and build one that best suits your company's needs and goals. Frank Petrock, president of General Systems Consulting Group, Inc., describes four types of cultures. He adds that you can blend two together.

The *Clan culture* places a premium on people and teamwork. Leaders are facilitators and mentors. A more creative type of culture, *Adhocracy,* encourages individuality. Leaders are innovative and take risks. The *Market culture,* where leaders are extremely goal oriented, emphasizes stability and control. The *Hierarchy culture* establishes top-down management. Leaders assume the roles of monitors and coordinators.

RThought: I don't think the four types outlined above are mutually exclusive. There are other types. I don't know what to name it, but some cultures emphasize making business "fun," instead of deadly serious. This is part of what Herb Kelleher has developed for the highly successful Southwest Airlines (SWA). SWA and American Airlines are the only airlines that reported a profit in 1990 (both are headquartered in Dallas — perhaps, it is the weather!).

If culture is as important as everyone says, why don't retailers have "culture committees"? I know of only one such committee and it's at SWA.

THE WORLD OF WORTHLESS TESTS

Many retailers are using tests that have not been properly validated. They do it because they believe the salesperson who tells them the test will determine if people are honest.

Most readers of *RT* are familiar with the SAT (Scholastic Achievement Test) for high school seniors. It is supposed to predict first-year college success. Many universities utilize formal or informal minimum SAT scores for admission. Many groups have objected for years to the bias and worthlessness of the SAT scores which, mainly, identify urban-white males rather than the grade performance for freshmen.

In 1984, Bates College in Maine started a five-year experiment. Submission of SAT scores was optional. Bates used other criteria for admission. Bates had those students who had been admitted without having submitted SAT scores take the test after admission. Those admitted without submitting test scores averaged 160 points lower than those who submitted scores; their freshman grade point average was .05 lower, an insignificant difference. In five years, of the 14 students dismissed for academic reasons, only one had been admitted without a SAT score.

RThought: The faculty voted 84 to 1 to permanently eliminate the SAT score as a factor to be considered. The college thought:

. . .that SATs were sometimes unhelpful, misleading, and unpredictive for students in whom Bates has always been interested: minority students, rural and Maine students, first-generation college students, and foreign born or bilingual students.

How many good people do you turn down because of worthless tests? What proof have you seen that the test you use measures what it purports to measure? Have you ever taken your test to the psychology department of your local state university and questioned: Is this test any good?

RThought: The College Board has announced "sweeping changes" in the SAT. However, the critics of the old test say that the changes are cosmetic — sort of like a store that announces it is now offering good service; Sears promising low, everyday prices; Montgomery Ward and others promising never to be undersold — or you, saying that the test you use actually measures what you think it should measure.

A test must have two characteristics to be useful:

1. Validity: it measures what it purports to measure.

2. Reliability: the same person keeps getting the same score.

RThought: Someone in your people/personnel/human resource department should be informed on testing. For $25 a year, your firm can be an Associate of The National Center for Fair & Open Testing and receive *FairTest Quarterly.* Write to 342 Broadway, Cambridge, MA 02139-1802.

WHAT PROVIDES SUCCESSFUL LEADERSHIP?

When one looks at the high-flying retail companies — The Limited, Home Depot, Price Company, Albertson's, Food Lion, Circuit City, Melville, Toys "R" Us, and others — one sees a continuity of management. Some have continued the same basic format (e.g., Food Lion); others have made major changes in format (e.g., Circuit City, in replacing smaller stores with superstores); and others have completely changed (e.g., Tiffany, under its present management).

Not all continuity of management is good. We see in a company, such as General Motors, a series of chief executive officers who have "waited their turn" to change things done by those who have gone before them. Roger Smith, with ten years as CEO, is an exception; most serve for fewer years. One almost gets the feeling that, as subordinates, they really were not part of a "team" led by the chief executive under whom they served.

My thinking was prompted by an article announcing that Donald A. Beaumont was appointed president and chief executive officer of Kmart Canada, Ltd. Beaumont spent 20 years with privately held T. Eaton Company, Ltd., Canada's largest department store group, starting as an assistant store manager and progressing to national manager of the merchandise office. In 1977, he joined Tower Department Stores, a major Canadian discount store chain, rising to executive vice president and chief operating officer. He replaced Keith R. Costine who had gone to Canada from Kmart Corporation four years ago as senior vice president and became president in 1988. Costine will now return to the U.S.

What caused me to go through this series of thoughts was the announcement by Kmart Corporation that it traditionally

EXAMPLES OF SERVICE IN THIS WONDERFUL WORLD

This little story started when a simple thing happened. After 17 years, my partner and I decided to split Kahn & Harris, Inc., so that each could pursue his primary interest. Bob Harris wanted to do merger and acquisition (M&A), and I wanted to do consulting. We are still close friends. He took over the M&A side, and I kept the corporate shell but changed the name to Robert Kahn and Associates (a corporation).

I sent a request to American Express to change the name on our corporate credit card to my new corporation name. Instead, I got a turndown with instructions to contact TRW. I ordered a report to see what it was putting out.

I then called American Express and asked if it knew about the four or five years that the very same corporation had been paying its corporate account promptly. The answer was no. Then, I asked if it knew that I, as an individual, have been a "Charter Member" of American Express and my card showed membership since 1958 — some 32 years. I, too, had been paying promptly. The answer again was no. So much for the "service" offered by that credit department.

But there is one "plus" for American Express that I cannot find in many other contacts — I was able, with some ease, to reach a human being. (And I should mention that, within a week or so, I did receive a Corporate Card.)

Now to the **updated CREDIT PROFILE from TRW.**

I was aghast! In just five pages, there were 15 errors!!

Once upon a time, Bullock's tried to invade Northern California. Guess what? TRW still reports my Bullock's account as of March 2, 1991, with the last payment on March 10, 1984! I have an unknown limit and a $0 balance!! I will, of course, close the account.

That was not the only "old" item. Chase Manhattan Financial Services is still reporting me with a revolving account and a $10,000 limit. The account was paid off, with some acrimony, December 1987. I don't even know where to write to close that one, as I had thought it was closed and, therefore, threw all the papers away.

TRW listed my 34-year-old married daughter at her correct address — on my rating. Fortunately, it was good — but why on my rating?

And finally, TRW tried to do something my parents never did: it said there was "File Variation: Mid init is P." Even with both parents dead, TRW is presuming to change my parents' choice of a middle initial (which I use only when required on government documents).

I tried to call TRW at both a Los Angeles and a Dallas number — at my expense. I could not get past the "Punch 1," "Punch 2," etc., sequence. I am always surprised at the companies which "think" this system of punching numbers is service. But I did get one recorded message which said that the booklet sent with the form provided all of the answers. I thought it related to the offer to send me my credit rating every three months for $18 a year.

I guess it is "simple," if 3,000 words in small type can be "simple."

There are some humorous parts to this story, such as "TRW maintains consumer assistance departments to help you understand the contents of your TRW credit report." I can just see that "department" — a dozen touch-tone phones talking to each other!

There was another joke. The question posed was: "Occasionally I receive mailings from credit grantors, saying that I'm pre-approved for credit. How do I get on the mailing lists for these offers?" After the next five words, I was laughing so hard that the tears were running down my face: ***"As a benefit to you,*** TRW may provide your name and address. . . ." — not a word about the "benefit to TRW" whose palm is crossed by substantial coin of the realm.

I was listed six times as having an account at Macy's — I missed the fact that only two 1-inch-long numbers were involved. Since I could not get through to TRW, I decided to call Macy's and inquire about the accounts. I called the number on the back of an old statement on ***my wife's account*** and was immediately in the "put your little finger; put your little finger" touch-tone dance. So, I looked in the San Francisco telephone directory and found another number. Guess what? The same dance. However, I did respond to one instruction to enter the account number. The electronic voice said, "You have not entered enough numbers. Please re-enter your account number." I re-entered the numbers — and it disconnected. What more can I do than enter at Macy's the number it said was my account number? So I started all over again and entered the other account number; since it had the same number of digits as the first one, I was not surprised by the results.

That was more than I could take! I decided to call Daniel Finkelstein, the CEO in San Francisco, to tell him what had happened and why I was going to use these incidents — with names — as a report in *RT.*

I guess I have been spoiled by the days when Fred Hirshler ran Emporium-Capwell Company. The standing instructions were that if a customer called and asked for the president, the customer was to be put through immediately — even if Fred Hirshler was in a meeting. And that is the way it worked. I know that more than once Fred's secretary had to pick out something special and take a cab to deliver it to a customer as an apology.

The disappearance of this attitude may be the reason why there are so many *consumers* today — and so few *customers.*

But there is a bright side to this story. The person in Daniel Finkelstein's office knew that, even with Mr. Finkelstein in the East, something had to be done. Shortly, I received a call from a Barbara Kelly. I went over the frustration and the problem with the accounts I don't have, and she gave me a telephone number I could call to reach a human being — hopefully her — if I have further problems. Within a day or so, Ms. Kelly called me to report that one account was nonexistent, yet reported every month; the other one was my daughter Roberta's account.

RThought: As I wrote this story, the words of Rudyard Kipling rang through my head:

O thirty million English who babble of England's might,
Behold there are twenty heroes who lack their food tonight;
Our children's children are lisping to "honour the charge they made —"
And we leave to the streets and the workhouse the charge of the Light Brigade!

I would paraphrase:

O thirty mighty retailers who babble of service they give,
Behold there are thousands of customers lacking any service tonight;
And the VPs and managers are lisping, "We beat Nordstrom with our service —"
Yet, we leave to the aisles of the discounter......

DOES THE TRADE PRESS HELP OUR THINKING?

In a recent *RT* issue, I addressed the question of whether Wal-Mart Stores was the cause of the decline of Sears, Roebuck and Company — and concluded that it was not. The reasons, briefly, were that Wal-Mart does not compete with Sears in Canada and Mexico in sales, finance charges, mail order, major appliances, furniture, and in a number of other areas. To that list can be added that Sam's Club does not compete with the appliance business or the home improvement business Sears does through contractors.

Let me address the following quotation from a trade-press editorial:

> **Sears is a perfect example. Attracted by the sexiness of an everyday, low-price strategy, Sears jumped into this strategy without considering its long-term impact. Remember how the chain lowered prices on 50,000 items, guaranteed low, everyday prices and promotions? ...now, Sears is being taunted by a strategy it fell in love with, and it cannot find a way to gracefully end this relationship. The net result is this: Customers are confused and embittered, and the chain is floundering.**

It is unfortunate that the writer did not attend a session on "Everyday, Low Prices" at the 1990 NRMA Convention, headed by Professor Walter Salmon of Harvard Business School. The panel members made three very strong points — which should have occurred to all of us had we thought about the matter.

First, "everyday, low price" only exists if the consumer has some way of determining that the price is low (i.e., comparison). That determination can be made with national brands — **but it cannot be made with private labels.** How does a consumer know that Kenmore, DieHard, or Craftsman is selling at an "everyday, low price" when only Sears carries those brands? If I ask the same question regarding General Electric refrigerators or Sony televisions or Stanley tools, the answer is simple: the consumer can check the prices in Circuit City, Home Depot, or a great number of other stores which carry the identical product.

Second, the consumer is likely to know the price charged in other stores on only two categories of merchandise: frequently purchased items and big-ticket items for which a special price-comparison shopping effort is made.

Most women have a pretty good knowledge of the many supermarket items they regularly buy (which may be only 1% of the SKUs carried in a typical supermarket). When they go through another supermarket, they quickly react to whether the prices **for the items they frequently buy** are the same, higher, lower, or mixed. The knowledge that prices are lower will not automatically cause the consumer to change food stores. There are many other factors to be considered. How close is the lower-price store? How good is the parking lot? What is the ambience of the store? Is it clean? Is it overly crowded with goods or people? Are the clerks young people who may change every week or so, or are they more mature people? How easy will it be to cash a check? There is a long list of factors. Very few food shoppers place the same weight on any one factor.

Big-ticket items are a different matter. Consider the most expensive purchase a person/family will make — a home. Here we find the greatest amount of shopping. Although there is no such thing as an identical name-brand home, people do make comparisons and try to find what they think is **the best buy for them.** The next most important purchase is likely to be an automobile. In some cases, they have predetermined the brand (BMW, Cadillac, Ford, Toyota, etc.); but, in many cases, even the brand is open. The sticker price on a car is seldom the selling price. A great deal of work must be done to determine the comparative price of **identical** cars, let alone the comparative price/value of different models/makes.

Third, there are hundreds of thousands of items that are either impractical to compare or the comparison doesn't mean anything. When you enter many Sears stores — perhaps, only by specific doors — the first thing you may smell is the odor of butter from the popcorn machine. Is it obvious that Sears has a "low, everyday price" on its popcorn? It shows samples of container sizes that may not indicate a weight or cubic measure. And if it does indicate the weight/size, do you know what weight/size others use and what they charge? If the smell of butter stimulates your desire for popcorn, you will buy. On the other hand, if you are shopping for a dress, the smell of butter may turn you off. Popcorn is not the only product which falls into this category.

Finally, most consumers accept different prices at different places. The identical candy bar costs progressively more in a supermarket, convenience store, hotel, or airport newsstand. The same is true of the cost of gasoline as you go from competitive stations, to the one just inside an airport, to what Hertz or Avis will charge.

RThought: Everyday, low pricing will not work on private-label merchandise. Thank you, Walter Salmon.

SHORT SHORTS

An indictment...in a letter from Clergy and Laity Concerned (Box 1987, Decatur, GA 30031). I found the following statement: "As the troops come home, equal opportunity must come home, too, so that people of color and women will never again find that only in the military service are they equal to white males." **RThought:** Is it an indictment of U.S. business that, in the military service, General Colin Powell, USA, is Chairman of the Joint Chiefs of Staff, commanding two million troops and about the same number of civilians — and yet, in our free enterprise system, he might never have reached "command" over as many as 10,000 people?

reassigns its Canadian chiefs after several years.

RThought: I am not sure that such a rotation process produces the best results from the Canadian subsidiary. When people are sent up to Canada and then back to the U.S. without developing successors who can continue the plans developed, performance is adversely affected. Top and middle management, most of whom are, I presume, Canadians, plan to remain in Canada. First, the subsidiary had a U.S. Kmart executive for three years, and now it has the Number 2 man from a major competitor. If the statement of policy is true, in three or four years, the present manager will be succeeded by someone who likely will not come from the ranks of the Canadian staff.

RThought: I have previously criticized the policy in companies, like Federated Department Stores, of moving top management from division to division. Federated is not (and never was) a chain operation: Bullock's on one coast and Bloomingdale's on the other coast are completely different stores. They serve different segments of the market with different types of merchandise. Movement of top people may advance the careers of the managers, but I question whether it permanently increases market share or customer loyalty toward a store — to say nothing of the adverse effect upon employees.

RThought: I have supported cross-career development (time spent within the same company in merchandising, operations, and financial control) to produce more rounded executives. I have supported openness of management so that development is not viewed as top-down instruction but as bottom-up participation. This concept leaves top management as a screen for many ideas and the enthusiastic supporter of the product of people who are closest to the customers.

WHAT IS A FACT IN RETAILING?

Our local paper ran an article about "Secret Shoppers" being used to check how good service is in a store. To "prove" the importance, the article quoted two surveys. First, *Fortune* magazine said that 86% of 500 senior executives named customer service as extremely important to their organization. Secondly, a 1989 survey by the Food Marketing Institute (FMI) said that 94% of consumers rated courteous, friendly employees as very important. [*Contra Costa Times,* February 25, 1991.]

Apparently, the FMI survey didn't ask if having unspoiled canned goods was important. Because spoiled canned goods are so rare, few consumers ever think about it. Bad service can spoil a shopper's day, but contaminated canned food can kill a shopper!

Can one conclude that consumers don't mind being sold contaminated food? Of course not. Our food standards are so high that few, if any, consumers are worried about whether a can of food, even from an unknown packer, is contaminated. Our entire food industry produces such high-quality food that few shoppers worry. If consumers did not have confidence in the quality of food sold in supermarkets, that fact would have come out at higher than 94% in the survey.

RThought: Surveys have to be studied in relation to known facts.

> **Fact:** There is so little probability of getting food poisoning from an undented can sold in any U.S. supermarket that no survey will detect high demand for pure food.

Fact: There is so little probability of finding courteous, friendly employees that a survey will detect a high demand for courteous, friendly service.

Fact: There is a distortion here. If I had to guess, more than half the people in supermarkets offer friendly, courteous service. So why is the demand for it so high? Old-fashioned, ordinary, friendly, courteous, and everyday employees are taken for granted. They are taken for granted so much so that many shoppers even forget to say two simple words, "Thank you." If, six weeks ago, a checker was talking to the manager while checking merchandise who complained bitterly about not getting a coffee break, that unfriendly, discourteous clerk will be remembered by the ordinary consumer, mentally multiplied, and then converted to a generalization. And the generalization comes to mind when, for the first time in a consumer's life, a pollster calls.

RThought: It is surveys like the one cited from FMI that drive CEOs to demand that everyone be courteous. CEOs demand courteous employees without ever establishing whether or not most of their employees are discourteous. CEOs seldom wander around the floors of their many stores. Who has time to go out to a lot of stores when there is important work, such as paper shuffling, to be done in the office at headquarters — I really mean **headquarters — where important decisions are made?**

Here are some examples of unfriendly, discourteous employees:

> Customer: "How come you don't have Brand "X" breakfast cereal in the 3-ounce size?"
>
> Unfriendly, discourteous clerk: "I don't think "X" comes in that size."
>
> * * *
>
> Customer: "Why do you close at 9 P.M. just because everyone else does?"
>
> Unfriendly, discourteous clerk: "So few people come in after 9 P.M. that I guess the company figures it costs too much."
>
> * * *
>
> Customer: "I forgot to bring my coupons. Please take off 75 cents on each of the packages, and I will bring the coupons in tomorrow."
>
> Unfriendly, discourteous clerk: "I'm sorry, ma'am [or sir]; our company does not permit me to give credit without the coupons."
>
> * * *
>
> Customer: "How come your prices are so much higher than the store across the street?"
>
> Unfriendly, discourteous clerk: "We try to meet prices. Have you tried the store across the street?"
>
> Customer: "It's always out of things I need."
>
> * * *

RThought: You never realize how smooth the road is until you come to a bump!

RThought: Perhaps, I see so few unfriendly, discourteous clerks because I am inclined to smile at clerks, perhaps crack a joke, and I always have time to say, "Thank you." Over a period of ten years, if I added up all the extra time it takes to say to clerks, "Thank you," it might add up to 14 minutes!

MORE ON RATIO ANALYSIS

In the March 1991 issue of *RT*, I discussed "Advanced Ratio Analysis."

The problem of *unadjusted* ratio analysis can be understood by looking at the fiscal 1991 and 1990 second-quarter balance sheets for Price Company:

ASSETS

	March 1991	March 1990
CURRENT ASSETS		
Short-term investments	$ 292,524	$ 74,315
Merchandise inventories	311,370	256,745
Other	76,235	41,302
Total Current Assets	680,129	372,362
Net property, plant and equipment	562,718	424,425
Net property held for development or lease to others	258,183	218,948
Investment in and advances to joint ventures	23,499	51,282
Other	126,623	87,705
TOTAL ASSETS	$1,651,152	$1,154,722

LIABILITIES AND SHAREHOLDERS' EQUITY

	March 1991	March 1990
CURRENT LIABILITIES		
Accounts payable	$ 316,904	$ 227,468
Other	147,483	120,857
Total Current Liabilities	464,387	348,325
Long-term debt	486,571	214,500
Deferred taxes	8,212	7,769
Other long-term liabilities	6,841	-0-
Total Liabilities	966,011	570,594
Shareholders' equity	685,141	584,128
TOTAL LIABILITIES AND EQUITY	$1,651,152	$1,154,722

If we compute the total debt to equity, we get the following figures:

March 1990 $\dfrac{\$570,594}{\$584,128} = .98:1$

March 1991 $\dfrac{\$966,011}{\$685,141} = 1.41:1$

The figures show a major increase in total liabilities in relation to equity.

On the other hand, Price Company had a major increase in cash, as a result of selling $285 million of 6.75% convertible subordinated debentures. Most of that sale was still in cash, which increased to $218 million.

Cash on hand in March of 1990 was equal to 5.01 days' sales. The same 5.01 days' sales in March of 1991 would be $90,080, leaving $202,444 excess cash.

If we reduce total liabilities of $966,011 by the excess cash, we get $763,567. We can then compute the adjusted total debt to equity as follows:

$\dfrac{\$763,567}{\$685,141} = 1.11:1$ (much better than 1.41:1)

RThought: Many, if not most, financial analysts would compute the ratio of total liabilities to equity without an adjustment. The same could be done in computing long-term debt as a percentage of total capital. The fact that the debt is still in cash is overlooked.

By the time the $200 million extra cash is spent, the equity probably will have increased by $200 million; and the total debt-to-equity ratio will remain about 1.11:1, a very sound ratio.

WHAT DID JOHN WESLEY REALLY SAY?

Hillsdale College in Hillsdale, Michigan, offers a series of lectures, most often by advocates of "free enterprise." The text is distributed through its publication, *Imprimis*.

The March 1991 issue contained the text of a talk entitled "A New 'Liberation Theology' for the World: Faith and the Free Market," given by K.E. Grubbs, Jr., editorial and commentary director of the *Orange County Register*. For those who do not know California, Orange County is the center of conservatism.

Grubbs criticized the "politicization of the faith" and gave, as an example, a sermon on why we need gun-control laws. He said that he had felt better when he was in Poland and Skychannel TV brought him the Reverend Robert Schuller preaching "possibility thinking." The article continued: "As I remember, he [Reverend Schuller] was quoting John Wesley: 'Make as much money as you can. Save as much money as you can. Give away as much money as you can.'"

I had read John Wesley's "Rules" long ago, but I didn't recall that was the way they went. Thanks to Bartlett's Familiar Quotations, the "Rules" were handy — and what John Wesley said was:

Do all the good you can,
By all the means you can,
In all the ways you can,
In all the places you can,
At all the times you can,
To all the people you can,
As long as ever you can.

I am not sure that John Wesley *ever* said anything like what Mr. Grubbs set off in quotation marks.

RThought: Certainly, having money can help to do good; but a lot of good is done by people without a lot of money.

RThought: Certainly, John Wesley would approve of much of what our government does

. . . for many people,
. . . in many ways,
. . . in many places,
. . . at many times.

WORDS — THAT SET FORTH A SIMPLE TRUTH

Henry David Thoreau (1817-62) expressed many thoughts which have lasted through the years. Some of them, such as "When a man dies, he kicks the dust," we use without ever thinking of the origin.

And there is this one, a perpetual truth:

There is never an instant's truce between virtue and vice. Goodness is the only investment that never fails.

RThought: Goodness is also the guide that makes it unnecessary to look for unintended loopholes in the law, or to plead you did not know it was against the law.

We can alibi to ourselves, but we really don't believe what we are saying.

RETAILING TODAY

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ROUTE TO

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CONSUMERS UNION TAKES ON DISHONEST ADVERTISING

Consumers Union (CU) does more than test products, report on laws favorable or unfavorable to consumers, and deal with health and other consumer subjects.

It alerts members to the increasing dishonesty of advertised retail prices.

For example, CU now gives the manufacturer's suggested retail price and the price CU paid. Here are examples from a recent test of steam irons:

	List/Price Paid
Black & Decker F640S	$71/$52
Norelco 760SE	60/ 50
Sanyo ACM 1000	80/ 60
Proctor-Silex 12747	56/ 40

The lowest rated of 17 full-featured irons was:

Hamilton Beach 780	$54/$55

Imagine, the lowest-rated iron sells for above the manufacturer's suggested retail price!

RThought: With a little urging, CU could probably increase its membership by 50% and revenues by even more, by publishing entire books of manufacturers' suggested retail prices, together with the prices at which the products are available.

Retail advertising represents the largest unchallenged mass of dishonesty in our free-enterprise system, despite the legal responsibility assumed — but not exercised — by the Federal Trade Commission and multiple-state agencies in the same field.

Some of the most respected retailers are the worst of liars when it comes to their advertising of comparative prices.

HOW MUCH HIGHWAY HAVE YOU ADOPTED?

Adopt-A-Highway was started in Texas by Garry Mauro, Land Commissioner. Roy Spence of the GSD&M Advertising Agency in Texas came up with the slogan, "Don't mess with Texas." In its first year, more than 10,000 miles of highway were adopted — two miles at a time.

Adopt-A-Highway has spread to other states. In Arkansas, Wal-Mart has adopted many miles of highway near its headquarters. In California, The Customer Company, operators of mini-mass merchandiser Food & Liquor stores, has adopted the two miles of Interstate 680 that go past its headquarters.

California's arrangement is typical. Individuals, businesses, or private organizations may sign up. They can either pick up trash (four times a year) or plant wild flowers (is that an oxymoron?). The state supplies safety gear and trash bags and also collects the trash after it has been bagged.

Texas reported a 65% drop in highway garbage during the first year of Adopt-A-Highway. And then Garry Mauro went even further. He called for volunteers to clean up the beaches in Texas — and 15,000 people showed up! Much of the plastic collected is now back on the beaches in the form of plastic benches made from the litter.

RThought: If your state has an Adopt-A-Highway program, sign up. If it doesn't, write to the governor of Texas, Arkansas, or California (to name a few) and ask for details. Then get your legislators to pass a similar law for your state.

You can have clean highways and people can derive satisfaction from a few days of organized effort toward a good end.

COMPLAINTS TO SUPPLIERS SHOULD BE PROPERLY HANDLED

A longtime reader of *RT* has shared with me a response from a supplier that not only turned him off but prompted him to give more prominent display to a competitive product.

My reader buys about $10 million a year from Anheuser-Busch Companies. When his stores started receiving quantities of beer with a short "pull" date, he was put in the position of being short at times because he would not sell beer with a short expiration date. He felt Anheuser-Busch was doing this to him intentionally because he is an aggressive price promoter.

He sent full details directly to Mr. August A. Busch III, receiving a reply dated nine days later (not an unreasonable response time) from the vice president of sales. But the short reply did not respond to the complaint, and it closed with a "bedbug"-type of ending. For those who don't know about a "bedbug" letter, it originated with Pullman Corporation. A passenger wrote to Pullman, complaining about bedbugs. By mistake, the complainant's letter was returned to him with the annotation, "Send this guy the bedbug letter"!

Now, judge for yourself if the vice president of sales sent a bedbug letter to my reader: "We thank you for bringing this situation to our attention, and we want to thank you for all your efforts to help promote Anheuser-Busch products." The letter also indicated copies to Mr. Busch and four others, including the division manager.

continued

RThought: I agree with the thinking of Herb Kelleher, CEO of Southwest Airlines. He now has a *vice president of customers,* and *"customers"* include both internal and external customers. The pilots are the customers of the mechanics, as they are of the ground crews, and on and on. If August A. Busch III were as smart as Herb Kelleher, I think (1) action would have been taken about the complaint, and (2) my reader would not be stepping up his efforts to promote Miller beer. Mr. Busch may never note that a $10 million account has dropped to $8 million. However, enough "bedbug" letters from his vice president of sales may lead to $100 million in accounts declining to $80 million — or even $1 billion in accounts declining to $800 million! By the time Mr. Busch does take note, it may be too late — the retailers' customers will have switched to Miller.

RThought: No matter what level of business is involved, it never, never pays *not* to respond fully to anyone who is good enough to lay out a complaint in detail. My reader might have switched his beer promotion to Miller *without ever having given Mr. Busch a chance* to correct the situation.

PAY IN THE RETAIL FIELD

The 1990 10K for Hills Department Stores makes interesting reading.

When Hills went into Chapter 11, it was no surprise that the management was changed. Stephen A. Goldberger resigned as president and CEO in November 1990. For the year through November, he received cash compensation of $449,852.

Goldberger had a restated employment agreement dated January 26, 1986, calling for a salary of $525,000 a year. As further modified, he was to be paid the full $525,000 through January 1991, $525,000 for 1992, and $300,000 for the next twelve months.

As a result of the modified agreement, restrictions lapsed on his restricted shares, and the gain became taxable. Therefore, the company reimbursed him for the taxes — $883,060. The gain on repurchase of the restricted shares was $1,852,227.

For Goldberger to depart, the company paid him:

Salary for two and one-sixth years	$ 900,148
Gain on repurchase of stock	1,852,227
Tax on gain	883,060
TOTAL	$3,635,435

RThought: David Glass was paid $700,000 as president and CEO of Wal-Mart Stores, which reported a profit after taxes of $1.29 billion — more than half of Hills' $2.14 billion in sales!

NOT A BOY SCOUT OR A GIRL SCOUT AMONG THEM

The *San Jose Mercury News* (May 12, 1991) reported the following 1990 losses on credit:

Carter Hawley Hale Stores	$32 million
May Company of California	26 million
Macy's California	14 million
Mervyn's	13 million

No wonder retailers are reporting such bad profits. One would think, with this kind of loss, that stores would eliminate their credit operations. But management would immediately explain that, were they to eliminate their in-house credit operations, they would reduce profits (or increase losses).

If stores would make less money without credit, then how can they say that they have a loss? Simple. You find an accountant who knows what you want to show — and let him make a study.

Nobody has pointed out that if these four companies eliminated their in-house credit and every dollar came to them through a bankcard, the discount on the bankcard and other related expenses would exceed the loss reported on the same volume.

RThought: In my first statistics class at Harvard Business School, the professor wrote on the blackboard what he said were two immutable laws of statistics:

> There are three great prevaricators: liars, damned liars, and statisticians.
>
> Figures don't lie, but liars figure.

KMART ADDS PIZZA — SHOULD YOU?

The joint press release from Kmart and Little Caesars stated: "Kmart Corporation and Little Caesars Pizza today announced an unprecedented arrangement for the two retail giants. Kmart plans to open Little Caesars Pizza restaurants in 400 of its retail outlets in the first 12 months of the agreement."

It proceeds to say that the units will go into "new, refurbished and expanded Kmarts." Those three categories represent two different situations. If the restaurant is put in a refurbished store, the implication is that the unit is too large and there is space to spare. In the case of new or expanded stores, the addition of a restaurant means that money is being spent to provide the space.

Since no one-floor retailer that I know of ever walled off part of the selling area to make the store more compact (although there are many cases where this would improve profit and service), we might look at discount stores arrayed by their sales per square foot.

The figures below were taken from the 1990 Directory of Discount Stores, published by *Chain Store Age,* and include all discounters reporting sales of $1 billion or more in the year ending January 1989.

Company	$ Sales/Square Foot
Meijer	$375
Wal-Mart	225
Fred Meyer	218
Bradlees	210
Target	185
Kmart	177
Venture	167
Caldor	154
Shopko	145
Rose's	108
Hills	103
Ames	76

Keep in mind that the figures above are an arithmetic average obtained by dividing retail sales by retail space. Each chain has many stores with sales per square foot below the average.

If a retailer feels certain that he or she could do the same general merchandise volume in fewer square feet, then there may be room to add another department. A pizza restaurant

A CRY TO DEPARTMENT STORES — THAT WON'T BE ANSWERED

At the 1991 National Retail Federation Convention, there was a panel presentation on "Partnership." The choice of the noun "Partnership" in the title of the program, instead of the more accurate, gerund form "Partnering," indicates that the objective was to talk about the basic problem existing between stores and their vendors rather than to do something.

Vendors were represented — brilliantly represented — by Laura Pomerantz, senior vice president of The Leslie Fay Companies. She spoke from a background of retailing (at Burdine's), as well as manufacturing. Her talk was a plea for *decency* on the part of department stores.

I have written often about the "king-of-the-mountain" attitude maintained by department stores: When, for example, the prime interest rate was 15% and higher, most of the Federated Department Store units took 30 to 60 days extra to pay their bills — and then, took the cash discount! I have reported the organized arbitrary action of units of Associated Dry Goods in having unilaterally imposed arbitrary penalties for purported noncompliance with purchase-order terms. When vendors (particularly small firms) object, they are told that if they don't like it, the store will not buy from them. Federated used the threat of asking for proof of delivery (even when receiving documents were already attached to the invoices), which would delay payment an additional 30 days or more. There was even a Federal Grand Jury investigation of Federated's conduct.

Here is Ms. Pomerantz' talk. Read it as though she were talking to you, one-on-one.

Switching from retailing to manufacturing, as I did in 1977, was a relatively easy transition. After all, we both aspire to the same things: maximizing market share, becoming master merchants, being consumer oriented, and wanting a good deal.

Having lived in each house, I am very sensitive to the fact that a good deal occurs when it represents a win-win situation for both partners. That is when you get something much more valuable — a trusting, long-term relationship.

Those great musical partners, Rogers and Hammerstein, expressed it so well in their song from "The King and I" — "Getting to Know You."

We must get to know each other, know about each other's special needs and aspirations, so that we can achieve TRUST, an ingredient that is vital to any relationship.

We know that the 90s will be the information, marketing, and, most importantly, execution decade where those "in the know" will prevail. Did you ever see the Abbott and Costello "Who's on First?" comedy? The genius of that immortal classic was the way in which each partner anticipated the other's actions and the ease with which they worked together.

I can't imagine any of these partners selfishly deducting unauthorized expenses without talking to each other. Our accountants tell us the correlation between recession and unreasonable and arbitrary charges to manufacturers by retailers is high. How can you trust a business partner who penalizes you because your invoice was placed on the left side of the carton instead of the right?

How can there be any relationship when your shipment is refused because it is *one day late*?

Is it not the height of insult when you are penalized $50 per carton because it was two inches larger than that store's specifications?

How can you trust a company that stops payment on a check pending a buyer/seller discussion on profitability?

I certainly am not insinuating that we are without blame. There is no doubt that there are many of us on the manufacturing side who are guilty of things that do not enhance our relationship with each other.

All of this is a destructful tug of war with each side pulling until the relationship snaps.

In *our* supplier relation, there is no tug of war. The Leslie Fay Companies want their suppliers and contractors to be healthy. We do not return piece goods unless they are damaged. We try to always pay on time. We keep our contractual agreements whether or not the goods introduced are sold. When the contractor needs the extra dollar or the extra day, we gladly give it. We do all of this because it is the only way to ensure quality and consistency in the products we deliver.

We, at Leslie Fay, want our retail partners to make money and be profitable. But we want partners that feel the same way about us and do not want to make money at our expense. When I think about the dynamics, the supplier-contractor relationship, it brings to mind a sort of "Ten Commandments" that are applicable to vendor-store relations and can be expressed as follows:

1. **Thou shalt trust thy partner.**
2. **Thou shalt know thy partner.**
3. **Thou shalt celebrate the customer.**
4. **Thou shalt develop an honest pricing policy at both the wholesale and the retail level. Perhaps it is time to banish the POSs.**
5. **Thou shalt plan together, and that includes investment planning, assortment planning, and marketing.**
6. **Thou shalt be reasonable toward each other. (In 1990, one store wanted assistance because we dropped one gross margin point. They simply ignored the fact that our volume doubled and that they took much more money in gross margin dollars to the bank.)**
7. **Thou shalt be consistent and not drop a relationship at the first sign of trouble.**
8. **Thou shalt place product excellence above all other merchandising considerations.**
9. **Thou shalt try to improve the ethical standards of excellence every day.**
10. **Finally, thou shalt love thy partner in sickness and in health.**

My greatest partner, my husband, John, is speaking to this group on the subject of bankruptcy. He will tell you that when Campeau decided to proceed with bankruptcy, Jim Zimmerman advised us to keep shipping to the stores. Without hesitation, we did just that. You see, in our Leslie Fay, the First Commandment is TRUST.

I transcribed her talk from a tape recording of her session. At the end of the talk, I heard someone at the head table say, "I hope *Women's Wear* prints that." *Women's Wear Daily* didn't, so *Retailing Today* has!

RThought: Once upon a time, department stores were "king of the mountain." Today, they are disappearing. Elsewhere in this issue, you will find the retail sales figures for the first two months of 1991. Figures are reported for three kinds of department stores: conventional, national chain, and discount. Discount department stores now transact 6% more sales than the TOTAL for conventional and national chain department stores. For the first two months of 1990, discount department stores did 4% less than the total for conventional and national chain department stores.

I am not ready to attribute the gain of department stores to the fact that the three largest discounters (over 75% of discount store volume) — Wal-Mart, Kmart, and Target — take a different attitude toward suppliers than do conventional department stores (2.2% decline in sales for the first two months of 1991). But their attitude certainly has not hurt them.

ALL BANKCARDS ARE NOT EQUAL

First, there was BankAmericard, orginally tested in Fresno, California. Seaboard Finance Company hired away a couple of retail credit people — if I recall correctly, they came from Rhodes Western (a chain of department stores). BankAmericard announced it would franchise its card, but many banks were uncomfortable about putting another bank's name on their card. (Bank of America was the largest bank in the United States.) The Seaboard card was acquired by a group of banks and became Master Charge and now MasterCard. BankAmericard soon became the less objectionable Visa. Relying solely on my memory, MasterCard, at one time, was about as large as Visa.

With the arrival of duplicate franchising of banks and almost universal merchant recognition of both cards, the aggressiveness of Visa is reflected in its much larger volume.

The May 1991 issue of *The Nilson Report* (Box 49936, Barrington Station, Los Angeles, CA 90049; $695/yr. for 24 issues) reported gross volume by these two worldwide cards as follows:

Area	Visa ($ billions)	MasterCard ($ billions)
United States	$158.1	$ 93.1
Europe	121.9	58.6
Asia Pacific	28.4	25.0
Canada	24.9	12.4
Latin America	8.3	8.2
Middle East/Africa	4.0	2.8
TOTAL	$345.6	$200.1

The figures for 1991 could include Antarctica — as soon as the stores and hotels open! — and it is not true that the Middle East/Africa figures reflect the impact of troops in Operation Desert Storm, using their bankcards in the bazaars.

RThought: The Visa card lead is based on more cards and more transactions. The overall difference in spending per card is small: $1,346 a year for Visa versus $1,226 a year for MasterCard.

RETAILERS IN THE FORBES 500

To save you the trouble of scanning page after page of numbers, I have extracted the 37 retailers who made The Forbes 500 list this year.

The following are not pure retailers:

Sears, Roebuck includes substantial activity in the insurance, financial, and real estate areas.

Tandy does substantial manufacturing but predominantly for its own account.

Super Valu Stores is primarily a wholesaler but operates retail stores for its own account and provides substantial services and financial assistance to its retail customers.

Fleming Companies is similar to Super Valu but somewhat less invloved in operating retail stores.

Avon Products is not a store retailer.

RETAIL MARKET VALUE
The Forbes 500

Rank 1990	Rank 1989	Company	Market Value ($ million)	Percentage Change from 1989
5	10	Wal-Mart Stores	$42,413	+61.1%
45	38	Sears, Roebuck	11,195	−14.9
57	68	The Limited	9,276	+25.4
72	78	Kmart	7,994	+16.9
76	66	Toys "R" Us	7,454	− 3.9
98	91	May Dept. Stores	6,065	+ 0.5
99	57	J. C. Penney	6,018	−27.0
101	172	Home Depot	5,967	+69.9
109	165	Albertson's	5,606	+54.2
118	170	Food Lion	5,317	+50.1
126	127	Melville	5,147	+ 8.0
138	126	Dayton Hudson	4,799	+ 0.1
155	231	Walgreen	4,139	+59.2
158	144	Woolworth	3,956	− 2.7
168	240	Dillard Dept. Stores	3,739	+48.5
185	263	The Gap	3,390	+48.4
212	279	American Stores	2,932	+37.2
220	253	Winn-Dixie Stores	2,835	+18.9
228	246	Nordstrom	2,738	+12.8
258	217	Tandy	2,420	−10.7
262	310	Avon Products	2,391	+21.2
263	437	Costco Wholesale	2,389	+93.0
288	305	Price Co.	2,173	+ 8.7
302	316	Super Valu Stores	2,068	+ 8.5
308	302	Great A&P Tea	2,025	+ 0.7
321	368	Sherwin-Williams	1,891	+21.2
329	440	Blockbuster	1,846	+51.2
339	417	Rite Aid	1,805	+36.5
345	485	Kroger	1,771	+64.2
355	367	Giant Food	1,710	+ 9.5
386	467	Bruno's	1,490	+31.6
398	*	Safeway	1,447	**
403	399	Mercantile Stores	1,409	+ 2.0
426	409	Weis Markets	1,331	− 2.1
470	*	Fleming Cos.	1,184	+22.2
475	*	Vons Cos.	1,172	+47.6
488	468	TJX Cos.	1,117	− 0.8

*Not on 500 list in 1989. **Not available.

SHORT SHORTS

Another problem with statistics. All the newspapers carried a report that started: "One in three Americans seriously thought about quitting their jobs last year because of workplace stress." **RThought:** Don't believe the numbers. I asked my three wonderful assistants, Annabelle, Jean, and Rosie, and not one thought about quitting because of stress!

I understand why service is so poor. The Customer Service Institute is promoting "Customer Service *Week.*" I guess it is OK to forget customer service the other 51 weeks! **RThought:** This is the third annual WEEK sponsored by the International Customer Service Association. Perhaps dues are too low to do it for a YEAR — a false economy.

Can we catch up with Kmart of Australia? Instead of throwing out inexpensive coat hangers, Kmart now sends all used hangers to Hanger Recycling Company where they are sorted and checked for breakage. Kmart then arranges to have the hangers sent to its suppliers when new orders are placed. Damaged hangers are granulated and used to make heavy plastic sheeting.

might be an appropriate addition if the store already has all of the conventional discount store departments.

If a store wants to add a pharmacy or an optical department, the space required is not very large. A pizza restaurant (size was not mentioned in the press release) requires more space, plus plumbing and electrical work.

Looking at the chart, a pizza restaurant is more likely to be a good move for stores with lower sales per square foot than Kmart but less likely to be a good move for those with higher sales per square foot.

Forgetting the limitations of a Chapter 11 proceeding and the projectability of the future, a pizza restaurant could be a great addition for Ames (providing that Ames had enough traffic).

RThought: In this analysis, I have not considered three points.

First, the correct measure of alternate use of space should be gross margin or department contribution to overhead.

Second, I have not considered the question of "natural business hours." Most discounters are open to 9 or 9:30 P.M. weekdays, sometimes that late on Saturday, and seldom, if ever, that late on Sunday. The peak hours for a pizza restaurant are Friday and Saturday evenings, usually until midnight, and sometimes later. This problem might be met by designing the pizza restaurant with a separate entrance to permit it to remain open after the discount store closes.

Third, I have disregarded the question of who pays for equipping the restaurant. A pizza restaurant takes less equipment than a conventional restaurant. Much of it can be removed and used elsewhere if the arrangement does not work out.

(Note: The joint press release indicated pizza restaurants had been tested in Kmarts at eight locations: four in Michigan and four in Georgia. Apparently, Kmart and Little Caesars Pizza have answers to some of these questions.)

WHEN DOES 'PROOF' LEAVE LOTS OF QUESTIONS?

Lucky Stores was the original "everyday low-price" operator in the supermarket field — starting 15 to 20 years ago. It changed the name of its stores to Lucky Discount Centers. Lucky did this when it dropped Blue Chip Stamps and, thus, eliminated about 2% in expenses.

For those who don't recall, Blue Chip Stamps were the food industry's response to S&H (Sperry & Hutchinson) Green Stamps. S&H did not allow competing stores to offer Green Stamps.

Stamps did give a store a marketing edge. Blue Chip was organized to let everyone have stamps with the understanding that if the local S&H store dropped Green Stamps, all of the competitors would drop Blue Chip Stamps. S&H stores seldom dropped their stamps, so Blue Chip Stamps continued for many years.

As the years passed and the novelty of low, everyday prices wore off, Lucky had to develop specials or sale prices in order to compete. The first was "Key Buys," followed soon by regular "Weekend Specials." Lucky still claims to have the lowest prices (it says that Fry's is 6.6% higher, Safeway is 6.1% higher, Albertson's is 5.8% higher, Nob Hill is 4.9% higher, and Raley's is 4.1% higher).

Lucky uses 500 items by brand and size (selected by a computer from 8,000 items). But in its weekly tabloid, Lucky shows prices for only 211 items. Only 44 items show one or more stores at the same price as Lucky. In just seven cases does Lucky report any other store at a lower price. A great job was done by Lucky in selecting items which show Lucky at its best!

Apparently, there are 289 items where Lucky looks terrible.

Lucky does offer price comparison details to those who write for them. Once I wrote for the details, and two of the five tapes I received had 500 items listed like this:

Groc	1.89
Groc	.89
Deli	1.99
Prod	.33

RThought: Safeway is taking on Lucky. On radio, Safeway's ads say that *any store* can show lower prices if *it* gets to pick the 500 items and particularly if the items are ones few shoppers use. On TV, a shopper says that she always feels she is trading down [not the exact wording] when she shops Lucky.

I think Lucky did have the lowest overall prices for many years, but competition is tightening up.

RThought: Not too many years ago, Albertson's, Nob Hill, and Raley's would not have been on the list of competitors; but stores like Alpha Beta and Purity are long gone.

RThought: It is interesting that Lucky does not recognize the Pak 'N Save superstores operated by Safeway. I guess the people I see shopping there come from Mars or someplace outside the area! But, then, the price comparisons made in the Los Angeles area never included the large supermarkets in the Gemco discount stores (owned by Lucky). And today, nobody is checking food prices at Price Club or Costco, both of which are carrying more consumer-oriented, as opposed to restaurant-oriented, food. Food Marketing Institute, at its recent convention, pointed to warehouse clubs as major competition for supermarkets in the 1990s.

LATE REPORT: Safeway responded on radio and TV claiming that its prices were the same as Lucky's. Two weeks later, Lucky rechecked Safeway prices and found that most of them had been increased since the Safeway report. Keep tuned for later reports.

THE FIRST REPORT ON DISCOUNT RETAILING

Readers who have followed *Home Furnishings Daily* know the name Earl Lifshey. For those who do not, Earl wrote his column, "If You Ask Me," for more than 50 years.

Earl has been a model for me. I am in my 26th year of writing my newsletter, so I need another 24 to match "more than 50 years"!

Recently, Earl was going through his papers and came across a reprint in *HFD* of a column that ran December 20, 1937, in which he visited many of the "I can get it for you wholesale" outlets, some of which had been in business since before 1900! He was kind enough to send the article to me.

If you would like a copy of the article, please send a postage-paid (29-cent stamped), self-addressed No. 10 envelope to Earl Lifshey, c/o *Retailing Today,* P.O. Box 249, Lafayette, CA 94549, and read a bit of discount retailing history.

WHAT'S HAPPENING TO RETAIL SALES?

We often hear of or read about the change in retail sales. A single figure is reported. But that figure is not a useful one for a retailer. Too often, the figure is impacted by the auto industry, running special rebates — or not repeating the rebate offer of the prior year; it also reflects gasoline sales — sometimes down in gallons and up in dollars because of problems in the Middle East; and it also includes restaurants — which neither you nor I think of as retail.

Even if the figure for total department stores' sales is reported separately, most people misunderstand it. They probably think of conventional department stores, like Macy's or May Company. Most don't consider discount stores as department stores; however, the Department of Commerce reports on three categories of department stores:

Conventional department stores, such as Macy's and May Company.

National chain department stores, such as Sears, Montgomery Ward, and J.C. Penney.

Discount department stores, such as Wal-Mart, Kmart, and Target.

Even if people understand that there are three categories of department stores, it is doubtful they realize that discount store volume now exceeds the combined volume of conventional and national chain department stores. But it does — by 6%! (See the figures below.)

Because so few retailers see the Monthly Retail Trade Report by the Department of Commerce, *RT* will regularly report monthly and year-to-date sales for the major classifications of retailers.

Retailed Monthly/Year-To-Date Sales Comparison ($ million; unadjusted)

SIC Code	Category	February 1991	February 1990	Percentage Change	Year to Date Two Months 1991	Year to Date Two Months 1990	Percentage Change
52	Bldg Matl Group	$ 5,705	$ 5,907	3.4%	$11,331	$11,986	−5.5%
57	Furniture Group	6,533	6,862	− 4.8	13,238	14,182	−6.7
571	Furniture Stores	3,631	3,860	− 5.9	7,298	7,996	−8.7
572	Appl, TV, Radio Stores	2,287	2,369	− 3.5	4,709	4,916	−4.2
5941	Sporting Goods Stores	925	998	− 7.3	1,832	1,947	−5.9
5942	Book Stores	495	474	+ 4.4	1,239	1,155	+7.3
5944	Jewelry Stores	939	979	− 4.1	1,708	1,787	−4.4
531	Department Stores	10,857	10,523	+ 3.2	21,167	20,586	+2.8
531 Pt	Conventional	3,134	3,182	− 1.5	5,850	5,983	−2.2
531 Pt	Natl Chains	2,173	2,253	− 3.5	4,404	4,531	−2.8
	Subtotal	5,307	5,435	− 2.4	10,254	10,514	−2.5
531 Pt	Discount	5,550	5,088	+ 9.1	10,913	10,072	+8.3
541	Grocery Stores	25,518	25,119	+ 1.6	53,194	51,421	+3.4
56	Apparel Stores	5,790	5,684	+ 1.9	11,431	11,498	−0.6
561	Men's & Boys' Stores	558	568	− 1.8	1,169	1,232	−5.1
562,3,8	Women's Stores	1,978	2,044	− 3.2	3,944	4,180	−5.6
565	Family Clothing Stores	1,716	1,575	+ 9.0	3,247	3,066	+5.9
566	Shoes Stores	1,138	1,089	+ 4.5	2,258	2,226	+1.4
591	Drug Stores	5,633	5,043	+11.7	11,404	10,448	+9.2
596	Nonstore Retail	3,820	3,702	+ 3.2	8,089	7,708	+4.9
5961 Pt	Mail Order (Dept Strs)	289	297	− 3.0	601	602	−0.2
5961 Pt	Mail Order (Other)	2,098	2,007	+ 4.5	4,601	4,371	+5.3
	GAF* TOTAL	$29,680	$29,933	− 0.8%	$58,806	$59,873	−1.8%

*General, Apparel, and Furniture

SHORT SHORTS

Is this what we can expect from 7-Eleven with Ito Yokado in control? 7-Eleven Japan, controlled by Ito Yokado, will start carrying a catalog of Tiffany items at 30% less than is charged at Mitsukoshi, currently the only Japanese retailer to carry Tiffany products. **RThought:** *Business Tokyo* (104 Fifth Avenue, New York, NY 10011; $48/yr.), in its May 1991 issue, questioned whether women will purchase Tiffany products at 7-Eleven. It reported that young women said, "The wrapping, the attitude of the salespeople, all of that atmosphere, is what goes into true brand-name products. If it's not from Mitsukoshi, we don't want it." We shall watch and see. I think women can conjure up Mitsukoshi while saving 30%.

WORDS — ABOUT PRIDE

Some years ago, Maya Angelou wrote an essay for Sara Lee Corporation about Toni Morrison, a novelist and one of four recipients of Sara Lee's Frontrunner Award:

> **On certain childhood days, Toni Morrison's father would tell her matter-of-factly, "Today I welded the straightest seam on any ship about to sail on any sea anywhere. Before a slab of metal was welded over, I signed my name on the seam." Each time Toni reminded him that no one would ever see his signature, her father answered, "But I saw it."**

RThought: Pride is knowing what you did and knowing it was right. No one else has to know. It is enough that you know.

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ROUTE TO

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FINE PRINT AFTER THE SALE OF MACY'S RECEIVABLES

I received a few thousand well-chosen words in small print from Monogram Bank in Ohio as a result of the sale of Macy's receivables.

There was some good news — the APR remains at 19.8% (1.65% per month). The returned-check charge remains at $5 — EXCEPT in Louisiana, where it is the lesser of either $5 or 5% of the amount of the check — and EXCEPT for the 16 states that watch out for consumers (Delaware, Illinois, Kansas, Maine, Maryland, Michigan, Minnesota, North Carolina, Nebraska, New Jersey, Pennsylvania, South Carolina, Texas, Vermont, West Virginia, and Wyoming) by banning a returned-check fee.

The minimum payment on the ''All Purpose (revolving) Account'' will be one-tenth of the balance, rounded to the closest dollar. Of course, this may make Visa and MasterCard more attractive. While bankcards require smaller minimum payments, their finance charges are often higher than Macy's and almost all charge an annual fee.

The ''Key Difference'' paragraph in the few thousand words mentions only the identity of the new creditor, the governing law, and the returned-check charge policy. Nothing is mentioned about any change in minimum payments, basis of computation for the finance charge, or the fact that a security interest is retained in the goods sold until such time as the goods are paid for in full. Perhaps these terms were in the contract I received years ago.

RThought: I shall watch carefully to see how soon the APR is increased.

WHY DOES THE TRADE PRESS RECOMMEND DEVIOUS PRACTICES?

Sales and Marketing Management (SMM) recently headlined an article, ''Your Credit Record Could Cost You Your Job,'' and it practically urged employers to draw credit reports — not for credit purposes, but out of curiosity. A credit report, to quote the article, ''will reveal how an applicant handles bills and loans as well as other financial obligations. And that's not all they disclose. . . .such reports may note a person's age, his marital status, and the number of dependents — information that is discriminatory to solicit during the interview or application process because of current equal employment laws.''

The article reported that Equifax claims to have sold 350,000 reports to 15,000 employers in 1989.

The article also raised the question of legality and cited a qualified attorney who said, ''It [using credit reports] is permissible *only* when the information would be applicable to the position.''

SMM continued its article by warning: ''If you deny a candidate a position based on information in his credit report, then you must tell him why you've rejected him and you must give him the name of the [credit] agency you used.'' But this statement is then followed by ''. . .if an employer doesn't voluntarily own up. . .there's little chance a candidate would ever find out why he was rejected — an ethical matter of no small consequence.''

RThought: I shall send a copy of this article to the Federal Trade Commission, which supervises the Fair Credit Act, and to the Fair Employment Opportunities Commission.

There is no place in business for trade publications running articles like this one in *SMM*.

IT'S A SHAME THIS DISCRIMINATION HAPPENED IN RETAILING — TODAY

The article was short. It reported that one of the best retailers of the past decade had allowed a despicable practice to be followed by one of its chain of stores.

Cignal is part of Merry-Go-Round Enterprises (MGRE). Whether measured by same-store sales increase or total-company sales increase or total-company profit increase, MGRE is hard to top. Just the other day, I was listening to a cassette tape of the presentation at the 1991 National Retail Federation Convention about MGRE's new distribution center. I was impressed.

But now I have to wonder about the dedication of MGRE to the principles set forth in the Declaration of Independence and the U.S. Constitution.

Cignal had been coding the back of customers' checks to record the race of the customer: ''W'' for white, ''H'' for Hispanic, and ''07'' for black. The management must have known or felt that this practice was wrong; otherwise, the use of ''W'' and ''H'' would, logically, lead to the use of ''B'' for black.

It was Cignal President Ken Rodriquez (whose name indicates that he may be Hispanic) who announced the discontinuance of the practice in his 70 stores. I was disappointed that no mention was made of the view of MGRE CEO Michael D. Sullivan. He must assume responsibility for having permitted such a practice to exist.

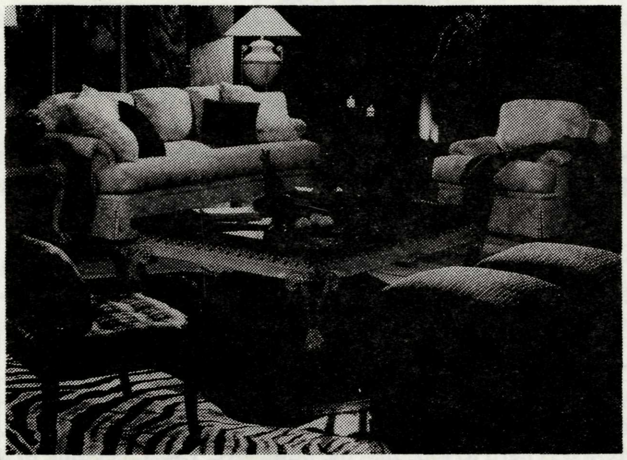
THE BOTTOM OF INTEGRITY

The 6-inch by 9-inch card reads:

Brueners
Pre-4th of July

PRIVATE SALE

The additional 10% "Only for You" Savings are
Friday through Monday, June 21-24



BREUNERS
Home Furnishings Since 1856

The back of the card reads:

Breuners will be holding its Annual Fourth of July Sale on Thursday, July 4, but we're inviting you to a Sneak Preview of this event Friday, Saturday, Sunday and Monday, June 21-24.

As a special Double Bonus, we are offering you an extra 10% Discount on any purchase and Deferred Payments until December 1991*

This Sneak Preview and Double Bonus will not be advertised to the public.

So here's your chance to beat the crowds, shop at your leisure, and save 20%-50% on the best brand names in furniture.

*Deferred payment Plan subject to credit approval. Requires 25% deposit and a $500 minimum purchase.

RThought: How can this be a "Private Sale" when I received the invitation in my mailbox without any name or address on the card — just a bulk delivery to everyone in town? Would anyone believe that this "sale" would be a chance to "beat the crowds" and "shop at your leisure"?

And what about "Deferred Payments Until December 1991"? Isn't the 25% down payment mentioned in the footnote a payment? And isn't it due when you make your purchase?

RThought: Breuners was founded in Sacramento in 1856 by John Breuner, a cabinetmaker. His skill is proven by the chairs and tables he made for the California Senate and Assembly. They are used to this day.

The company expanded. Its headquarters was moved to Oakland, and this move was followed by the opening of branches in towns circling Oakland. In the period from 1900 to 1926, when the Kahn family sold its 375,000 square-foot department store business (but not the building), the Breuners and the Kahns (as well as others) worked for the development of Oakland. My father continued this effort, even after the sale of the family business, by remaining active in Oakland and representing our real estate interest.

By the end of World War II, the property interests of the Kahns and the Breuners differed. The question: where to direct the Foothill Boulevard traffic that was separated from downtown by Lake Merritt? Dick Breuner (then head of the Breuner family) and the uptown group wanted a bridge across Lake Merritt, running into 20th Street, near the Breuner property. Dad and the downtown group wanted it across a widened 12th Street, near our property.

The downtown group won. At a large public dinner shortly thereafter, Dick Breuner called Dad a "son of a b----." I recall no cooperation between them after that time.

Bill Breuner, a generation younger than Dick, took over the family business. In the late 1960s, Breuners went public. By doing so, it offered liquidity to what was now a very large family. However, the market for the stock was thin and the performance was not outstanding. In 1978, Breuners was acquired by Marshall Field, during an era when many retailers felt they could run any kind of retail business.

BATUS (British American Tobacco-U.S.) acquired Marshall Field in 1982, and Breuners became a direct subsidiary of BATUS. Ethical standards declined. In 1987, Breuners paid a $160,000 civil penalty to settle a charge by the district attorney of Sacramento County that Breuners engaged in false advertising by running a "continuous sale." In 1990, BATUS sold the Breuner stores to Prism Capital Corporation, a small merchant-banking firm that, in 1989, had purchased Barker Brothers, a major Southern California furniture store chain.

I think John and, perhaps, Dick Breuner — as well as other Breuners over four or five generations — are twirling in their graves as they watch the abuse of their good name.

HOW MUCH PAPERWORK COST IS THERE IN YOUR HEALTH CARE COSTS?

Drs. Woolhandler and Himmelstein reported in the May 2, 1991 issue of the *New England Journal of Medicine* that between 1983 and 1987 the administrative overhead costs of U.S. health care increased to 24% of health care revenues. Even worse, they projected that overhead costs will reach one-third by the year 2000 and 50% by 2020. [Editor's note: Such projections are often correct in direction, but seldom in amount.]

Meanwhile, our neighbor to the north, Canada, has seen its administrative overhead drop to 11% during the same period. (Remember, the 11% is measured against a lower cost for physicians, surgeons, and medical specialists.)

With those numbers, the authors concluded that if we had been as efficient as the Canadians, we would have saved $83 billion in 1987 — and even more today.

Canada has a single health plan in each province, while the United States has more than 1,500 plans. Each plan has its own marketing department, claims processing department, unique regulations on coverage, individual forms (unlike any other forms), and many other differences.

RThought: All retailers are trying to simplify their own organizations, reduce their own overhead, enter into cooperative buying agreements, implement EDI/QR/EFT, and many other changes, in order to improve their companies — but there is no authority which can force the simplification of a 1,500-company, health-insurance structure!

LET'S TALK ABOUT SALES PER SQUARE FOOT

The National Retail Federation reported that "all department stores" increased sales per square foot of **selling space** from $122 in 1980 to $169 in 1989, or 39%. During that period, the LIFO total store index increased by 33%. Sales per square foot improved only 4% in constant dollars.

In terms of gross space, sales per square foot increased from roughly $85 to $135, or 59% per square foot of total space in current dollars; but only 19% in constant dollars. This is almost entirely due to reducing the percentage of non-selling space.

The Cornell University/International Mass Retailing Association series of reports for discount stores showed that sales per square foot of selling area increased during the same period — from $97 to $220, or 127% in current dollars, or 71% in constant dollars.

The above is one of the reasons why discount stores have experienced greater growth than department stores. The increased sales per square foot have worked to reduce the fixed costs per square foot as a percentage of sales.

I have just finished a four-year term as one of the four consultants to the Commander of the Army and Air Force Exchange Service (AAFES). When I first took on this assignment, it took some time to comprehend its sales per square foot figures based on total store area. AAFES talks only in terms of "sales per square foot *per month*" and reports figures running as high as $60 to $70!

Base and post exchanges carry merchandise similar to that carried by department stores except for high-cubage items such as house and patio furniture, which are usually in a separate building. But AFFES, proportionately, carries more items in drug sundries and HBA than do department stores; in these departments, AAFES is more like a discount store.

The AAFES stores operate at a discomfort level many days a year — not just a few days before Christmas. In order to yield $700 to $850 per square foot of total store space, normal Saturdays find lines at the checkout registers extending into the merchandise area. The one message I tried to drive home to AAFES was "Build your stores larger!"

RThought: I thought sales of $60 to $70 per square foot **per month** were high until I found out about an AAFES exchange on a cruise ship.

To provide an area for R&R (Rest and Recreation) during Desert Storm, the services and AAFES got together and chartered a cruise ship. This was the fastest way to get a lot of rooms, nice surroundings, and lots of showers for R&R, near Desert Storm. Troops were given seven days aboard ship — but the ship never left dockside!

AAFES operated the exchange, which was small — 400 square feet. That didn't hold down sales. Through April, AAFES averaged **$25,000 a day — about $62 per square foot per day!** The peak day of $33,000 represented more than $80 per square foot!

RThought: Retailers don't collect and analyze sales per square foot to the extent they should. Almost every company should have some idea of the OPTIMUM sales per square foot for its size store and merchandise mix. A business can suffer as much having attained too high sales per square foot (the stores become uncomfortable to shop, resulting in many customers not shopping in such an environment) as from having too low a figure (fixed costs are too high, resulting in an unprofitable operation).

I am always fascinated by articles reporting steps taken to increase sales per square foot. Let's look at some moves.

Idea No. 1: Cut the width of the aisles. The favorite width is less than the width of two shopping carts. After that "improvement," many shoppers will not go down an aisle if someone with a cart is already in it.

Idea No. 2: Cut the depth of the gondolas. This means that the items are out of stock more often. Backroom stock has to be established. Extra labor cost is incurred to bring stock forward, if it is done at all, and extra inventory results when reordering is done without checking the backroom.

Idea No. 3: Replace 54-inch gondolas with 72-inch gondolas. The higher gondolas must surely be designed for customers over 6 feet 6 inches tall who can read the labels on the top shelf. Combined with narrower aisles, this practice will ensure that people suffering from claustrophobia won't shop that store again.

SHORT SHORTS

Can you improve service by eliminating longtime employees? That thought was secondary to Safeway in Arizona. Safeway offered 1,800 senior unionized employees a "buy out" of their employment — $7,500 to a full-time employee and $5,000 to a part-time employee — and 207 accepted. The idea was to replace them with new, lower-paid, inexperienced employees. A senior checker gets $11.72 an hour; the replacement, $5 an hour. Safeway would recover $7,500 over 1,116 hours. **RThought:** Do customers really like new, inexperienced checkers? Can inexperienced checkers drive customers away? How much slower is a new $5-an-hour checker than a senior $11.72-an-hour checker? You are certain that the senior checker knows all the different kinds of produce; but will an inexperienced one sell Granny Smith apples at 35 cents a pound, instead of 49 cents — or do the reverse and make a customer think Safeway is trying to overcharge? This looks like a CFO's approach rather than an operator's approach. If Safeway gets big savings through inexperienced workers, they may one day find that many of its customers are gone.

How to conduct a meeting. I agree that many meetings fail to accomplish the purpose for which they were called. Or if the purpose is accomplished, the time required is excessive. Thus, I read with interest a "Bonus Item" in *Communication Briefings* (700 Black Horse Pike, Suite 110, Blackwood, NJ 08012; $59/yr.). The steps are keyed to the seven letters that make up the word "Pegasus." The comments on the problems of conducting committees were clearly stated. **RThought:** Alas, I had to abandon the idea when I found that "a" in the word Pegasus stood for "activate sensory acuity." I felt more than one meeting would be necessary for everyone to understand what that phrase meant!

WHAT KINDS OF CORPORATE STRUCTURE WILL WORK BEST IN THE 1990s?

An issue arose at the Western Association of Food Chains annual convention when a panel was asked the question: "Which retailers will have the brighter future — independents, regional chains, or megachains?"

American Stores, Kroger, Safeway, A&P, and Albertson's were given as examples of "megachains." Bruno's, Publix, Stater Bros., Vons, Price Chopper, and Schnuck were given as examples of "regionals." "Independents" were not hard to define.

The audience voted 67% for regionals, 21% for independents, and 12% for megachains. Tim Simmons, the editor and publisher of *Supermarket News,* covered the question in his column of April 29, 1991. He observed that the vote may have been influenced by the mix of the audience.

Here are some of the comments reported by Simmons.

John Phipps, Principal, Deloitte & Touche: "The megachains have not figured out how to manage their huge operations."

John Carley, President of Albertson's, observed that Albertson's must "operate with the same flexibility as smaller regional competitors."

Some regionals and independents felt that megachains used their buying power to get special deals.

On one hand, A&P is centralizing buying; on the other hand, Safeway and Kroger are giving more buying authority to their regional divisions.

And Simmons said, "A megachain called Wal-Mart has racked up some pretty impressive numbers during the past few years."

RThought: It seems strange to read that senior executives are arguing about which size company is going to be the most successful when size has little to do with success in retailing. **Management**, however, has **a lot** to do with success in retailing. Most of the audience may have confused "managing" with giving orders from headquarters, which is not "managing" — it is "commanding." "Commanding" has a limited place outside the military. Consensus leadership, however, seldom gets individuals to undertake the necessary action; they expect that another person should take the agreed upon action.

The panel members forgot two important facts:

1. Many megachains were regionals not long ago. Albertson's and Food Lion fall into this category.

2. There are wide differences in the management methods used by failing megachains, just as there are differences in the management methods practiced by successful megachains. The same methods can be found in both failing and successful chains.

There are fast-growing, successful megachains outside of the supermarket industry. A few companies to be studied are Toys "R" Us (20% of the U.S. toy business); The Gap and Circuit City (both operating centrally); Home Depot, Costco, The Limited, and others.

There are some characteristics which are common to many successful megachains:

1. Everyone is on the same wavelength.

2. There is continuity of management.

3. There is agreement within management, brought about by open discussion and, most important, listening to people who disagree with how things are being done.

RThought: If the discussion at the food chain convention related only to the sales size of a company, time was wasted.

SHORT SHORTS

When will Phillips-Van Heusen (PVH) complete the change? I see Van Heusen and Bass (a subsidiary) stores listed first in many factory outlet centers. I wonder when the situation will change and PVH will be manufacturing for outlet stores and selling its surplus production to men's stores and department stores? **RThought:** I can recall a talk by Larry Phillips in which he said that he had stores in outlet centers because he had a responsibility to protect the livelihood of his 9,000 employees. But what happens when PVH becomes merely a vertically integrated retailer and the rate of opening up in good factory outlet centers slows or the cost of space approaches that of shopping centers?

Driving on crushed thrones??? Santa Barbara, California, has a serious water shortage, so the city offered residents a deal — turn in your old, high-water usage toilet in exchange for a new, low-usage one. It worked. But then the city was stuck with 5,000 old porcelain thrones! Its solution: crush the toilets and mix them with asphalt to use for road paving. **RThought:** Could you say the officials were flush with success?

The National Retail Federation continues to set a bad example. In the June 1991 issue of *Stores,* there were three pages of publications available for purchase. In no case is the year of publication indicated. **RThought:** During the past several years, I have checked the publications offered for sale during the January NRF Annual Convention. A substantial number of books are, for practical purposes, out of date. The NRF should lead the industry in honest advertising.

The wonderful (?) logic of Levi Strauss. I suppose logic in 501 jeans is like sitting next to a raging fire and getting burned from the heated copper rivets! Levi Strauss sells Sears, J. C. Penney, Miller's Outpost, and other major chains that glory in POS markdowns from dishonest "regular" prices. Now, Levi is opening "jeans shops" in Bucharest. In addition, Levi sells discounters in Canada while, at the same time, it is closing plants in the United States for lack of work. **RThought:** But Levi Strauss has concluded that the greatest thing it can do for the people of the U.S. is not sell discounters who have an honest policy of maintaining low, everyday prices. I think its founder, Levi Strauss, is saying, "I should have had sons instead of nieces and nephews!"

EDI, SPREAD THE WORD!

EDI, spread the word! (that's really its name!) publishes the EDI Yellow Pages (P.O. Box 811366, Dallas, TX 75381-1366; telephone 314-243-3456; $19.95). Just how fast it is growing is shown by the listings in its past directories:

Date		Numbers Listed
July	1987	1,465
March	1988	3,600
November	1988	5,000
June	1989	6,500
January	1990	8,800
August	1990	12,000

If I had to guess, the next issue will be past 15,000!

Most of us first heard the letters "EDI" within the above time frame. It was just last year that I wrote that any retailer doing over $50 million and who was not into "partnering" probably would not be here at the end of the decade. And I pointed out that EDI, QR, and EFT are key components of partnering.

EDI, spread the word! listed winners in various categories. Here are some of those winners.

Fastest implementation rate for a country	Singapore
Greatest number of trading partners*	Burlington Northern
Fastest implementation rate	Wal-Mart Stores
Greatest number of trading partners	Wal-Mart Stores

*EDI started with the handling of freight bills, particularly with firms such as oil companies, major manufacturers (i.e., du Pont), etc.

The leaders in industries with which retailers work are:

Apparel	Levi Strauss
Drug (tie)	Bergen-Brunswig
	McKesson
Grocery	Super Valu
Office products	3M

RThought: Where do you stand?

Is top management holding up progress in EDI because it would rather build or remodel more stores?

Is your company held up because top management consists of merchants who still think that "merchandising" is what makes a successful store — and that "merchandising" is an art?

Do you have financial/control management that is resisting change?

If you are under 55 years of age (and not independently wealthy) and the answer is yes to any of the above questions, you should be circulating your résumé if you expect to continue supporting your family. Few top-management people are grabbed up from Chapter 11 retailers.

If you are an outside director on a retail board, suggest a committee of outside directors to study the progress your company is making in EDI.

WHY STOCKHOLDERS GET NOTHING AND CREDITORS GET LITTLE

Busy Beaver Building Centers, Inc., of Pittsburgh, Pennsylvania, is in Chapter 11. The 1990 Home Center Operators and Hardware Chains Directory estimates the company's sales as $75 million in 1989. In December 1990, when its bank restricted seasonal credit, it filed in bankruptcy court.

Here is where the first $1 million of the creditors' money went. These obligations had priority over everyone else.

	Fees	Expenses
Counsel to the company	$163,556	$ 35,613
Accountants to the company	332,023	8,030
Financial and management advisors and consultants to the company	234,200	26,635
Counsel to the official committee of unsecured creditors of the company	80,671	7,293
Accountants to the official committee of unsecured creditors of the company	119,349	1,077
Chairman of the official committee of unsecured creditors	none	3,235
TOTAL	$929,799	$ 81,883

RThought: The total comes to $1,011,682 and represents **only the period from December 12, 1990, to April 30, 1991.** Chapter 11 proceedings can go on for two or three years — or, perhaps, only one or two years for a $75 million business.

RThought: **Many companies end up in Chapter 11 because their income does not exceed their expenditures. Even these companies have some idea of what their gross margin and expenses should be in relation to sales. I wonder if the measure of fees and expenses in Chapter 11 is related to how many dollars the debtor company is generating? I also wonder why there is not a better guide for a judge when approving fees and expenses than the word "reasonable"? "Reasonable" is usually related to the professionals' regular hourly rate, rather than the value of the service.**

YOU CAN SHOW HOW EDUCATED YOU ARE BY NOT SMOKING

The more education one has and the older one gets, the less likely a person smokes cigarettes. And, at all levels, women prove themselves smarter than men — fewer smoke cigarettes.

Level of Education Achieved

Age	Less than High School	High School	More than High School
18-34	41%	33%	19%
35-54	42	32	23
55-plus	20	19	16

Smokers by Age and Sex

	18-24	25-44	45-64	65-74	75-plus	Total
Men	28%	36%	33%	20%	12%	32%
Women	26	31	28	18	7	27

RThought: There may be a number of reasons why the older people get, the less they smoke.

1. As people grow older, they see more of their friends suffering/dying from cancer, emphysema, and other illnesses caused by smoking.

2. As they retire on fixed incomes but find the cost of cigarettes increasing (to cover the higher cost per carton for advertising and taxes), they figure out how much they can save by not smoking.

RThought: The more education a person has, the less likely he or she is to smoke. This would indicate that the more employers educate associates about the results of smoking, the more associates will stop smoking. Why don't we try it? After all, we are already making up for lack of education in other areas, such as arithmetic!

THE DURABLE DEPARTMENT STORE

I believe the department store is disappearing. But I was reminded of its durability when I purchased a batch of books related to retailing. The batch included a copy of the 1930 MOR (Merchandising and Operating Results for Department Stores and Specialty Stores), published in 1931 by the Controllers' Congress of the National Retail Dry Goods Association.

The officers and directors of the Controllers' Congress listed in the MOR show officers from the following stores that are still in existence today:

Best & Co. (perhaps questionable)
Bloomingdale Bros.
The Bon Marche
Burdine's, Inc.
Carson, Pirie, Scott & Co.

The Hecht Company
The Higbee Co.
J. L. Hudson Co.
Hudson's Bay Co.
Jordan Marsh

R. H. Macy & Co., Inc.
The May Company (Los Angeles)
E. M. Scarborough & Sons
Strawbridge & Clothier
Thalhimer Bros.

The non-survivor list is much shorter:

Conrad & Co. (Boston)
Gilchrist & Co. (Boston)
The George Innes Co. (Wichita, Kansas)
Strouss-Hirshberg (Youngstown, Ohio)
Walker's (Los Angeles)

RThought: Only Hudson's Bay, Macy's, Scarborough, and Strawbridge & Clothier continue as independent companies, with the two latter companies still under family direction.

WORDS — THE GOLDEN MEAN

Confucius remarked:

> **The life of the moral man is an exemplification of the universal moral order. The life of the vulgar person, on the other hand, is a contradiction of the universal moral order.**

RThought: Too often, moral persons tolerate the vulgar person in their own business; and too often, the person who would be moral is compromised by working for the vulgar person. Living the moral life is a matter of a single decision — to live a moral life.

I was touched by a note from a fellow consultant telling me how he remembered a comment I made in talks to management consultants on ethical conduct. I observed that ethical behavior is a simple matter. You make the decision to be ethical. Then, all future decisions are easily made.

Retailed Monthly/Year-To-Date Sales Comparison ($ million; unadjusted)

SIC Code	Category	March 1991	March 1990	Percentage Change	Year to Date Three Months 1991	Year to Date Three Months 1990	Percentage Change
52	Bldg Matl Group	$ 6,925	$ 7,427	− 6.8%	$18,234	$19,413	− 6.1%
57	Furniture Group	7,324	7,727	− 5.2	20,524	21,909	− 6.3
571	Furniture Stores	4,037	4,401	− 8.3	11,316	12,397	− 8.7
572	Appl, TV, Radio Stores	2,561	2,652	− 3.4	7,256	7,568	− 4.3
5941	Sporting Goods Stores	1,116	1,177	− 5.2	2,977	3,124	− 4.7
5942	Book Stores	513	480	+ 6.9	1,756	1,635	+ 7.4
5944	Jewelry Stores	921	937	− 1.7	2,624	2,724	− 3.7
531 Pt	Conventional Dept Stores	4,199	4,178	+ 0.5	10,058	10,161	− 1.0
531 Pt	Natl Chain Dept Stores	2,914	3,019	− 3.5	7,319	7,550	− 3.1
	Subtotal	7,113	7,197	− 1.2	17,377	17,711	− 1.9
531 Pt	Discount Stores	7,083	6,543	+ 8.3	17,992	16,615	+ 8.3
531	Department Stores	14,196	13,740	+ 3.3	35,369	34,326	+ 3.0
541	Grocery Stores	29,231	28,523	+ 2.5	82,565	79,944	+ 3.3
56	Apparel Stores	7,906	7,587	+ 4.2	19,331	19,085	+ 1.3
561	Men's & Boys' Stores	707	718	− 1.5	1,872	1,950	− 4.0
562,3,8	Women's Stores	2,690	2,710	− 0.7	6,656	6,890	− 3.4
565	Family Clothing Stores	2,308	2,112	+ 9.3	5,532	5,178	+ 6.8
566	Shoe Stores	1,617	1,518	+ 6.5	3,877	3,744	+ 3.6
591	Drug Stores	6,240	5,429	+14.9	17,697	15,877	+11.5
596	Nonstore Retail	4,183	4,108	+ 1.8	12,263	11,816	+ 3.8
5961 Pt	Mail Order (Dept Stores)	370	388	− 4.6	971	990	− 1.9
5961 Pt	Mail Order (Other)	2,335	2,271	+ 2.8	6,954	6,642	+ 4.7
	GAF* TOTAL	36,761	36,540	+ 0.6	95,587	96,413	− 0.9

*General, Apparel, and Furniture

Note: These are unadjusted figures. Easter was April 15 in 1990 and March 31 in 1991; thus, March 1991 is reflected as increases in the above year-to-date SIC codes 5944, 56, 562,3,8, 565, 566, and 591. April will reverse these gains.

Inside Retailing...

A BI-WEEKLY REPORT ON REGROWTH STRATEGIES IN RETAILING . . . BY LEBHAR-FRIEDMAN INC.

July 29, 1991 Volume XVI, Number 20

INNOVATION, EXECUTION KEY EXIT FROM SALES DOLDRUMS

The town criers tell us the recession is over, but there aren't too many in the retail community who believe it.

One month the news is that automobile sales -- a key indicator -- are up. Hosannah!

But then the next we're told that these were primarily fleet sales, and, yes, General Motors is laying off an additional 6,000 workers, that credit-card delinquencies are on the rise and that jobless claims in early July were up.

Have things improved at retail? The latest sales figures of many retail leaders don't reflect any elation. Rather, the opposite is true. Chains such as Toys "R" Us, Circuit City and Woolworth, all in the vanguard of sales advances just a year ago, show lagging same store sales, although overall sales forged ahead because of aggressive growth programs.

As *Inside Retailing* wrote some months ago, recovery from this recession will be slow in coming and the up-tick will be eminently less dramatic than those that followed the recessions of the last decade. Corporate downsizing and the increasing application of technology will continue to put a stress on the labor market. This is a different kind of recession, not like those of the 80s where we had sharp drops and then even steeper gains. It will take a massive resurgence of our manufacturing capabilities to get us out of the doldrums. It will be more painful and take much longer if we depend on the service sector of our economy for salvation.

Consumers are worried about their job futures and their financial security. This comes out in every survey of consumer attitudes. Their hands are buried deeply in their pockets and it will take a lot more than jawboning about the recovery to get them out.

This is not a doomsday forecast, but the reality is that for many retailers judgement day is at hand. Those operating on the edge -- Carter Hawley Hale, Hills, Ames, Highland -- will find fiscal health more elusive than ever.

But there will be the thrivers who through innovation and exacting execution will continue to build their customer bases. And it won't be by new stores alone. Rather it will be by extracting more sales from existing customers through merchandise and promotional innovations. Supermarkets are doing it through the addition of higher-gross service departments such as delis, bakeries and fresh fish. They are taking advantage of electronic marketing programs such as frequent shopper, Video-Carts and targeted couponing.

Kmart is rapidly getting back into the fast lane as it keeps refining its merchandise and presentations in its prototype units, and at the same time explores advanced technology to enhance operational efficiencies.

Sears is using fresh approaches to counter heightened competition. Recently it announced an innovative warrantee program whereby it will replace garments which wear out before children outgrow them.

But innovation isn't an exclusive property of the majors. Florida-based N. Landau Hyman Jewels is making a mark in costume jewelry by producing and selling reproductions of designer collections. Its 6 stores in upscale malls, use only 400 to 800 sq. ft. of space, but generate an average annual sales in excess of $1,200 a square foot.

It will take more than business-as-usual to pry consumer dollars loose. Innovation will be the key.

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JOB RELATED ADS KEY TO "MADE IN USA" CAMPAIGN

It's understandable why the Crafted with Pride in the U.S.A Council is pleased with its latest "Made in the U.S.A." ad campaign.

Build around job-related issues, it seems to have struck a sensitive, but memorable chord. In a telephone survey of over a 1,000 (2/3 women, 1/3 men) it found:

- 53% of women and 50% of men felt that consumers who bought foreign made products were putting Americans out of work. That's up 10% from last year, as far as the women were concerned.
- More women (38%) and more men (19%) felt that country of origin was more important than the product's brand.
- Overall, among those surveyed, an increasing number (86%) said they bought U.S.A. made goods and that they consider quality, sizing and styling of American made goods the best.

CE CATEGORY KILLERS SEE SALES TUNED OUT

Probably nowhere in retailing is the frustration level as high as among CE chains -- yesterday's fabled category killers.

Right now growth is coming from new stores and by chewing into other outlets share of market. The closing of 30 stores by the troubled Highland group aided chains such as Best Buys and Circuit City.

For almost all chains same store sales are lagging. Circuit City, the category leader, reported same store sales off 4% in the first quarter.

The 56-store Newmark & Lewis reported heavy 1st quarter loses and recently announced that it will close 11 New Jersey stores, acquired last year from Brick Church Appliances.

PERGAMENT LEADS WITH ITS STRENGTH

For Pergament Stores, the 35-unit Long Island-based home center retailer, the choice was simple -- fight or fade. The Home Depot was invading the turf where it's been a power for close to a half century, first with paint and decor outlets and then with full-fledged home centers. It chose to fight.

Other chains had choices. Channel retreated to a safer position in New Jersey where it had a concentration of stores. Rickels, with a handful of stores on the Island, is marking time, and Hechinger, which had plans to locate stores there, decided greener pastures lie elsewhere.

The $350 million Pergament, which owns most of the real estate on which its stores are located, closed a number of the smaller ones and will reopen some as part of a new home decor specialty chain. But to stay in the competitive home center arena, Pergament has taken the big store, warehouse route. It averages $10 million a unit with some of its newer stores generating sales of $25 million to $30 million , according to *Inside Retailing*'s sister publication, *National Home Center News*. It will open its largest unit , a 115,000 square footer, in Valley Stream on Labor Day and incorporate into it the features of a just opened prototype in Islandia.

It has beefed up its inventory levels (the Islandia store carries a $5 million inventory) and emphasizes "power pricing" of 1,500 SKUs, which it claims are the lowest prices of these items in the market.

But even more important, it's leveraging its strengths in the paint and home decor areas by focusing on customer service, something never considered one of its stronger points. It will put more employees in its stores (the new store has 100 employees, 15% more than in other stores) and concentrate them in these key niche areas. In addition, customers seeking help can use any of the 15 service phone located throughout the store.

Though the emphasis is on the retail consumer, Pergament is also trying to broaden its appeal and build its contractor sales by opening at 7 a.m., lowering delivery costs and offering a 10% discount on all items.

BRAND PCs MOVE INTO OPS CHANNEL

It didn't take Intelligent Electronics long to break the distribution mold and get the major computer brands into the office product superstore (OPS) channel. It's not even two months since IE, operator of more than 1,000 computer specialty retailers, expanded into consumer retailing with the purchase the Dallas-based BizMart OPS and has opened four new BizMart supercenters in the Minneapolis/St. Paul market featuring IBM, Apple, Compaq, Hewlett-Packard, Advanced Logic Research, Nec and Toshiba.

The supercenters will serve as pilot sites for the company's new 27,000 sq. ft. "Megacenter" and 20,000 to 24,000 sq. ft. "Enhanced" store formats.

The advent of the big desktop and laptop computer names into the OPS channel is recognition of the changing nature of the business. Jim Forebush, vp marketing of Staples, feels the channel will crack by the fall and will be fully open by 1992. Industry leader Office Depot has expressed confidence that major brands will be on its shelves before too long. The big question will be pricing. Will the OPS extend their 40% to 70% of manufacturers suggested retail to these lines?

GALERIES LAFAYETTE SEEKS FRENCH USP

Viva la difference!

That's what executives of Galeries Lafayette hope visitors to their new store will say when it opens next month in Manhattan at 57th and 5th Ave. in part of the old Bonwit Teller space in the Trump Tower. The difference, of course, will be its concentration on French merchandise, French assortments and French presentation. This is what they hope will give it the uniqueness that it strives for.

Trade observers feel that Galeries Lafayette will have to bring something new and exciting to the table as it launches itself in the midst of some of the city's headiest high-fashion competitors such as Bergdorf Goodman, Henri Bendel, Saks Fifth Avenueand Barneys, to be opened next year.

But both French and American executives of the firm believe they will be able to achieve a recognizable difference. Unlike its stores in Europe and Singapore, the New York store will confine itself to women's lines. Emphasized will be a full line of designer blouses and skirts, and lots of accessories, boutiqued and displayed in the open, French fashion, says Eugenia Ulasewicz, president of the American operation and a former Bloomingdale's executive. The store will not offer haute couture clothes, feeling that there wouldn't be enough volume for them in the U.S. market.

PRICE/VALUE PUTS 50-OFF ON A ROLL

Any operator who can increase yearly sales by 35% (if its name isn't spelled Wal-Mart) and double its profit in these retail dog days, and then follow it up with a quarterly sales increase of 72% for all stores -- 25% for identical ones -- deserves some attention. The 50-store San Antonio-based 50-OFF Stores, with $78 million in sales last year, is getting it.

In the third week of July its stock value jumped by over onethird to $27+ and a new offering of 600,000 shares was grabbed up and should net the company $13 million which will be used to accelerate its growth.

Charles Siegel, ceo, attributes the chain's dramatic sales growth to two factors: the down economy and the growing reputation of the chain's value-pricing policies for moderate to low price fashion goods in the four-state area (Texas, Oklahoma, New Mexico and Louisiana) in which it operates.

Its strategy is different, but simple enough: it offers merchandise at prices it claims are 50% of "the approximate non-discounted prices charged by traditional department stores." Items are marked at full price with a sticker statement that reads, "You pay one-half of this amount." The cashier rings up the full price of each item purchased. After it is totaled, the discount key is pushed and the purchase price is cut in half. And as Siegel claims: "This simple process provides dramatic and immediate evidence of the value being offered to the customer."

50-OFF stores average 22,000 sq. ft. to 25,000 sq. ft. and carry a mix of apparel (70% of the business) housewares, giftware, domestics, stationery, health and beauty aids and toys. It features an inventory of overruns and flexibility in buying large or small quantities for immediate delivery.

The company which started in 1975 as Shopper World Stores -- a traditional discounter -- developed the 50-OFF concept in 1986. This year the company will open 20 stores, and plans to open 40 to 50 more in the following two years.

BARNEYS NEEDS SPACE FOR FULL LINE EXPOSURE

It's been a long time since Barneys called all men to its store at 17th Street and 7th Ave. Now an upscale chain of designer wear for men and women, it finds that space in its satellite units is inadequate.

It is looking to increase store size to 25,000 sq. ft. and will double-deck existing stores or take adjacent space where available. Units that will be enlarged are in the 6,000 sq. ft. to 8,000 sq. ft. range.

The sales plan, according to Robert Pressman, exec vp of operations and finance and a member of the founding family, is for all stores to produce $600 a square foot. He said stores are making plan.

As it expands its space, it will change its mix from 70% to 65% women and 35% to men.

Barneys, which operates 10 U.S. units and one in Japan, will enter Chicago next year with a 40,000 square footer and in 1993 will open a 230,000 sq. ft. showcase in Manhattan within the shadow of Bergdorf Goodman's, Bloomingdale's and Bendel. A 120,000 sq. ft. unit is set for Beverly Hills.

WILLIAMS-SONOMA OPENS FIRST OUTLET UNIT IN NYC

Williams-Sonoma, the multi-concept retailer of kitchenware and home decor products opened its first outlet store.

The new unit, located in the original Pottery Barn at 24th Street and 10th Avenue in New York City, will stock closeout, end-of-season and overstocks from its 5 catalog and 3 retail concepts. These include: Chambers, Gardener's Eden, Hold Everything, Pottery Barn and Williams-Sonoma.

The 15,000 sq. ft. closeout unit will carry $2 million in inventory to be sold at discounts of 30% to 70%. This is the only outlet store planned by W-S at this time.

HOW THE LEADING COMPANIES MEASURE UP

Return on Net Operating Assets

	1990%
1 The Gap	44.95
2 C.M.L. Group	36.45
3 Hancock Fabrics	34.78
4 Melville	33.95
5 Claire's Stores	33.88
6 Blair Corp.	32.32
7 Merry-Go-Round	31.09
8 The Limited	30.28
9 Tiffany	29.34
10 Fredrick's of Hollywood	28.81

Return on Total Equity

	1990%
1 The Gap	31.03
2 Hancock Fabrics	30.07
3 Blair Corp.	29.03
4 Claire's Stores	27.78
5 The TJX Cos.	27.40
6 The Limited	25.54
7 Merry-Go-Round	24.06
8 Wal-Mart	24.06
9 Home Depot	23.91
10 Blockbuster	21.81

Gross Margin Return on Inventory

	1990%
1 Blockbuster	13.87
2 Blair Corp.	4.87
3 Clothestime	4.44
4 Horn & Hardart Co.	3.69
5 C.M.L. Group	3.68
6 Frederick's of Hollywood	3.59
7 Merry-Go-Round	3.52
8 Claire's Stores	3.50
9 Crowley Milner & Co.	3.39
10 Land's End	3.34

Compiled by Kurt Solomon Associates

WHAT'S IN A NAME? ASK THE CHAIN THAT CHANGES IT

It's easier to hang a sign than to decide what name it should carry. And that's the dilemma that American Stores and others have when they try for reasons of simplification and economy to change the name of established units.

American Stores should know after the fiasco of renaming the popular Sav-on Drug chain in California to the name of its dominant Osco Drug. This might have made operational sense, but Osco was not a name popular with the large Hispanic community in its marketing area, and sales dropped. After two years, the Sav-on name was restored.

Now American Stores is contemplating a name change for its 75-store, Richardson, Tex. based Skaggs-Alpha Beta which not too many years ago was Skaggs-Albertson.

Most likely they'll be renamed Jewel/Osco, American Stores dominant division with units throughout the midwest and in Florida. The name change comes about because American stores sold its California Alpha Beta units as a condition for its acquisition of the Lucky chain. Also it's suggested that under a different name the stores could project a more competitive image.

SAMS, PRICE TO OPEN MEXICAN CLUBS

With the creation of free trade likely and changes in ownership laws a possibility, within days of each other Wal-Mart and the Price Clubs announced plans to enter Mexico with their wholesale club operations. Each will focus on the Mexico City market, where the country's major retail activity is concentrated.

Wal-Mart is teaming up with Cifra S.A., the largest Mexican retailer, and will operate Sam-styled warehouse clubs under the Club Aurrera name. Plans call for 5 units before the year is out. Cifra S.A. is a fitting partner for the Bentonville Behemoth, operating as sit does in both the food and general merchandise areas. It operates 35 Almacenes Aurrera combo stores, 22 Bodeguarrera discount stores, 34 Superama supermarkets, 27 Suberbia department stores and 74 Vips restaurants.

Price Club will partner with Comercial Mexicana, another dominant Mexican retailer, to form Price Club de Mexico, but the name under which the venture will operate has not been disclosed. The hope is to get a store opened by the end of the year or early in 1992.

Both Wal-Mart and Price look to the eventual breakdown of trade barriers between the United States, Canada and Mexico. Price already operates 10 units in Canada and industry observers feel that there is good possibility that Wal-Mart will enter the Canadian market sometime in the near future.

Bob Price, president, of the Price Company, looks upon the Mexican venture as a promising project, "but the development of a free trade community would further increase our excitement." Growing interest in a North American free-trade zone was also expressed most recently by Joe Hagger, Jr., chairman of Hagger Apparel, who, speaking before a Deloitte & Touche meeting, stated that by the year 2,000 "Canada, the United States and Mexico will have a population of 360 million and we must economically tie together this group of people so we can compete ....The U.S. has two choices. We can isolate ourselves and protect markets with duties and tariffs...or we can link up with Canada and Mexico in a free trade agreement."

This is a view readily shared by a number of retailers including Sears and Woolworth, both of whom operate both north and south of the U.S. border.

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ROUTE TO

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FIRST, THE 80-20 RULE; NOW, THE 85-15 RULE

Retailers have long talked about the 80-20 rule. By that rule, they mean that you do 80% of your business on 20% of your items. This has always bothered me. I have wondered what would happen if 80% of the items were eliminated.

Let us assume that we have a retailer who has:

$1,000,000 sales
8,000 items

If he can do $800,000 on 1,600 items, he probably could cut his space by at least 50% and have a very profitable store. But consider what he could do next. According to this myth in retailing, the 80%-20% rule would still apply. He should be able to do $640,000 on just 360 items. With those few items, he might get by with a 400-square-foot store with sales of $1,600 a square foot.

Have I made a mistake in my logic? What about $512,000 on 72 items? or $410,000 on 15 items? Something is wrong.

The 85%-15% rule is different. This comes from W. Edward Deming, according to Mary Walton in her book, *Deming Management at Work.* Deming concluded that when there are problems in quality control, 85% are from the systems, and people are at fault in only 15% of the cases. These percentages work differently. If we cured all the system faults, people would then be responsible for 100% of the problems.

Assume we have 1,000 defects. Eight hundred and fifty are traceable to the systems and 150 to people. If we make the system perfect, we still have to cure 150 faults caused by people.

RThought: I have two conclusions.

First, if you were to keep eliminating 80% of your items, you would soon be out of business. Your assortment would have little appeal.

Secondly, you can cure many of the 85% defects, which are caused by systems, and still be in business — and be much more profitable than you are now.

[Comment prompted by *Boardroom Reports,* 330 West 42 Street, New York, NY 10036; $49/yr.]

WITH A LITTLE HELP FROM YOUR FRIENDS . . .

MacArthur Fellowships are major, surprise awards from the John D. and Catherine T. MacArthur Foundation. You don't apply for them; someone else nominates you without your knowledge.

SHAD PICKED THE WRONG SCHOOL

In 1987, John Shad, then-SEC chairman, was "reported" to have given $20 million to Harvard Business School (HBS) to finance the study of ethics and leadership in business. What was not so publicly announced was that the gift for ethics and leadership was only $15 million. Dean John McArthur talked Shad into giving an additional $5 million in "unrestricted funds" by promising that Shad's name would go on a building.

HBS built Shad Hall — it happens to be the gym. The joke making the rounds has Shad discovering his name on the gym and saying, "I said *ethics,* not *athletics.*"

RThought: It is with sadness that I note again that the money was poorly spent. Shad would have done much better if he had given $1 million to each of 15 other business schools such as Columbia, Chicago, Michigan, Wharton (University of Pennsylvania), Northwestern, Indiana, Haas (University of California at Berkeley), Sloan (MIT), Amos Tuck (Dartmouth), Anderson (UCLA), Darden (Virginia), Carnegie Mellon, and Fuqua (Duke). At least half of the 15 other business schools would have done more to inculcate ethical standards and would have done it more wholeheartedly than did/will HBS.

My contacts with Dean McArthur leave me in doubt about the sincerity of his belief that ethics can be taught. I say this with the full knowledge that it is gospel at HBS that *anything* can be taught by the case method.

A different dean (Wallace Brett Donham) 51 years ago wrote this as part of his message in my 1940 HBS yearbook:

> As societies have matured, and generated within themselves forces tending toward disintegration, the need for men with a professional attitude towards their work has become more pressing. **The services of men whose energies are directed beyond the lure of immediate material gain has prolonged and enriched the life of the groups of which they are part.** You are living in a society whose life blood is drawn from its industrial and commercial resources and **it is among business men that the high standards of a professional class are particularly important.** [Emphasis added.]

Dean Donham spoke to us often about our responsibilities. He told us that the future of our society was in our hands. We understood what our responsibility was and how we should act.

There was no need for $1 million, let alone $15 million (adjusted down to 1940 dollars), to get the 1940 HBS faculty to help us understand our responsibility.

I know many of my classmates. I saw almost 100 at our 50th reunion last year. I am proud of what many of them have accomplished and the benefits they have brought to many people and communities. But I am even more proud of the way in which they have conducted themselves throughout their business careers (and their military careers which, in many cases, preceded their business career).

continued

This year, one of the recipients was Monsignor William J. Linder, who created and runs the New Community Corporation in the Central Ward of Newark, New Jersey. Empowered by nothing but the driving need to solve the problems highlighted by race riots in 1967 and the inspriation from the march through Newark after the death of Martin Luther King Jr., Monsignor Linder literally created a "new community," much of it accomplished by the people now living there.

Today, New Community Corporation has a budget of $86 million. They have built 10 housing developments, totaling 2,400 units and housing 6,000 residents. It operates donut shops, print shops, restaurants, a food court, a health club, five-day-a-week care centers (including one for 30 infants), an employment center, and, most recently, a strip shopping center anchored by a Pathmark supermarket. Supermarkets General owns only one-third of the supermarket; the other two-thirds is owned by New Community Corporation. The store is operating profitably. Before the Pathmark store, the residents of the Central Ward had to walk or take taxis to distant supermarkets or pay high prices at small and inefficient shops.

RThought: Many of my readers will offer me "proof" as to why their companies should not operate a store in the middle of a devastated and largely abandoned area. Probably, they will claim a greater responsibility to their stockholders. But with a little effort, they might find leaders like Monsignor Linder. Many communities have their own "Linders" who just need support to accomplish some of what has taken place in Newark.

The MacArthur Foundation Board of Directors asks 100 informed persons from around the country to nominate people worthy of a MacArthur Fellowship. A 12-member selection committee reviews the nominees, and the Foundation board makes the final determination. It is reported that the selection of Monsignor Linder was easy and unanimous. The grant was $355,000, to be paid over five years and to be spent any way Monsignor Linder wishes.

Monsignor Linder showed what a good supermarket could do for a depressed community. Perhaps, some day, the Food Marketing Institute will establish an award for the supermarket firm that repeats, in another community, this effort by Supermarkets General, parent of Pathmark.

FTC v DAMARK INTERNATIONAL, INC., AND OFFICERS

Action was brought by the Federal Trade Commission for failure to comply with Section 226.12(e) of Regulation Z; that is, for failing to transmit credit statements to the buyers' credit card issuer within seven (7) business days if accepting return of merchandise.

Damark agreed to pay a civil penalty of $150,000. The order is binding on Damark, Mark A. Cohn, David A. Russ, their successors and assigns, who shall not be liable in future cases if they can show by preponderance of evidence that (1) failure to comply was not intentional and resulted from bona fide error; (2) they took immediate action to stop; (3) they took measures to avoid future violation; and (4) they remedied any consumer injury.

Records have to be kept for three years. Within 30 days, a copy of the order was to be given to all officers of the corporation, each manager responsible for supervising the acts of employees in the sale and fulfillment of orders and, within 10 days of complying with the order, they must file with the court and the FTC an affidavit listing the persons to whom a copy of the decree has been provided.

RThought: The FTC added this unusual statement of reason for settlement:

> **On the basis of the allegations contained in the attached Complaint, the Commission believes that the payment of $150,000 in civil penalties by the defendants constitutes an appropriate compliance with the Mail Order Rule by the defendants and serves as a deterrent to others who engage in practices covered by the Mail Order Rule. Further, the injunction that is included in the Consent Decree also constitutes an effective means of assurance of future compliance with pertinent provisions of the Truth in Lending Act and its implementing Regulation Z. Additionally, with the entry of this Consent Decree, the time and expense of litigation will be avoided.**

RThought: I also learned the origin of the name "Damark": "Da" from David A. Russ and "mark" from Mark A. Cohn, both of whom are bound by the order.

A COMMENT ON FASHION

My favorite retail editorial column on fashion is the one written by Jos Baker in *The Buyer,* published in South Africa. In the March 1991 issue, after visiting the spring shows in Paris and London, she had these observations.

> **As we intimated last month, *haute couture* is regarded as increasingly irrelevant. The couturier is now viewed as a "dressmaker" to a moneyed elite: a role that is seen as permeating down the economic scale to "the little woman round the corner," who will be pressed into service to make dresses for cash-strapped consumers rebelling against current prices.**
>
> **In an attempt to win customers by demonstrating their political and environmental concern, designers have emblazoned their garments with slogans: Valentino's recent couture creation pleading for peace (in several languages) was one of the most photographed this season.**
>
> **The global awareness could well be construed as a means of exploiting sales...Jane Mulvagh of the (London) *Daily Telegraph* points out that slogans like "Save the Rainforest" are hypocritical from an industry based on built-in obsolescence and rampant consumerism.**
>
> **...the spate of pure white clothes...implies litres of bleach in production and packets of washing powder in an effort to keep clean.**
>
> **But to suggest, as Mulvagh does, that "to address the environment issue with any gravity and effect," biannual [in the U.S., we would say "semiannual"] change and commercially fueled change for change sake should be made redundant, and to expect a labour-intensive industry to adopt an attitude that clothes should be made to last, is over-simplistic, though it raises questions about future buying patterns and fashion fairs.**
>
> **Although three-quarters of the men questioned in a survey conducted by Imbex admitted to owning predominantly blue or black clothes and favoured conservative stripes, 60% said that they would be more adventurous were their wives not to choose their clothing.**

Jos closed with a quote from a letter from a nurse in a surgical hospital behind the lines in the Gulf War: "Have you, by any chance, got any glossy mags around? Fashion-wise, we've lost total track."

RThought: Jos's editorial is only one page, but a subscription can be sent to *The Buyer,* Box 180, Howard Place 7450, South Africa. Telephone 531-1391 or fax 531-3333. Cost of surface mail outside South Africa: 114 Rands, or about $40. See the fashions a season ahead (or behind) in the southern hemisphere.

Late Note: A Paris dispatch by Reuters, appearing July 20, 1991 starts: "Rumors of the imminent demise of *haute couture* are buzzing through Paris fitting rooms.... The president of the Chambre Syndicale, French fashions' governing body, acknowledged that "custom clothing was facing hard times" but insisted "it would survive." **RThought:** All we can do is watch.

IT

to

ARE 'SAME-STORE' SALES THE SAME?

In recent years, financial analysts have paid close attention to "same-store" sales. Because of fixed costs in individual stores, a decline in same-store sales is likely to result in a greater decline in same-store profit or contribution to overhead. For example, a 5% decline in same-store sales may mean a 15% decline in profitability.

What does "same store" mean?

How do companies handle a store which has been remodeled, expanded, or relocated?

My first thought was what Rudyard Kipling learned in India about tribal laws (or "lays," as they are called):

> *They are nine-and-sixty ways*
> *of writing tribal lays,*
> *And-every-single-one-of-them*
> *is right.*

Before reading further, answer three questions:

When a store is remodeled, should it continue to be included?	Yes____	No____
When a store is enlarged, should it continue to be included?	Yes____	No____
When a store is relocated, should it continue to be included?	Yes____	No____

When a store is remodeled or enlarged, there is likely to be some drop in sales during the construction period and an immediate increase in sales after the completion of the work.

There appear to be two different theories about what "same-store" sales means.

The first theory is that once a store passes 13 months in operation, it becomes part of the "same-store" group, regardless of whether it is remodeled, enlarged, or relocated. Accepting this definition are: Kmart (which has a major remodel/enlarge/relocate program), Dayton Hudson, Melville, Mercantile Stores, Waban, Sears, TJX, and Woolworth.

The second theory is that remodeled, enlarged, and/or relocated stores should be taken out of the comparison until the store re-qualifies after 13 months of operation in the modified form. The following companies generally use this policy: The Gap, The Limited (only major remodels), and Wal-Mart.

RThought: A 5% same-store increase in the latter group means a better performance than when 5% is reported by the first group.

It is hard for me to understand the logic of including a relocated store in the "same-store" category. Obviously, it is NOT the "same store."

[**Note:** The policy of the different companies listed is taken from a paper prepared by Marie Drum-Beninati of the National Retail Federation.]

ELEMENTS OF RETAIL SERVICE

Parallel construction

Too many retailers think that better service in a so-called "service store" means putting salespeople on a commission. This may result in so few people on the floor that customers cannot find someone to write up their purchases. In many cases, commissioned apparel salespeople "push" expensive items even when a less expensive garment looks better on the customer.

In "self-service" stores, too many people think only in terms of how fast people are moved through the checkouts.

Here is my list of elements of service, but not in order of importance. And if you have ones to add, please drop me a note.

- Being in stock in the size and color of the item the customer came to your store to buy.
- Competitive pricing — the price your customer *expects* in relation to prices of all competing firms through a full range of service levels.
- Having current styles/models/titles/etc.
- Having a clean and well-lighted store.
- Having the price clearly marked for all merchandise.
- Merchandise logically and neatly arranged.
- Aisles are clear and wide enough for shopping carts to pass.
- Clean and attractive restrooms conveniently located.
- Enough chairs and/or benches for tired customers.
- Advertised merchandise in stock and clearly marked at the advertised price.
- Listen ing to customer complaints and suggestions.
- Knowledgeable employees who cheerfully answer or find the ans~~wer to~~ questions.
- Parking lot laid out well with wide aisles and spaces and swept regularly to eliminate glass, litter, etc.
- Easy access to the parking lot.
- Efficiently designed checkouts or clerk/wraps operated by friendly, well-trained employees.
- Comfortable heating or cooling, as required.
- Easy returns.
- Effective "Satisfaction Guaranteed" policy.
- Short checkout lines.
- Carry-out assistance when needed.
- Hot coffee, free or at a low price.
- Current ads available at the door.
- Depending on the size of the store, appropriate eating place(s).
- Directory of department locations at doors and at appropriate places within the store.
- Free or reasonably priced gift wrapping.
- Arrangements to ship or deliver purchases. having
- If charge ~~accounts~~ are offered, ~~have ability~~ to activate a new account immediately or provide a temporary account.

RThought: to These are 27 facets of store service, not one of which involves ~~a~~ salesperson "selling" merchandise.

DOES ADVERTISING HELP PROFITS?

I have always felt that the theory behind advertising was to increase sales and that the increase in sales would increase profit.

Yet, with the present recession, many businesses have cut their advertising with the explanation that they have to save money!

I was introduced to advertising theory at Macy's in 1940. There were three types of advertising: X, Y, and Z.

X was store institutional — the Thanksgiving Day Parade; newspaper ads proclaiming that 137,000 people a day visited Macy's; or Macy's great pre-credit slogans, "Pay Cash, Pay Less" and "Save 6% by Buying for Cash." A fixed budget was set for this kind of advertising. Immediate response was not expected.

Y was department or product institutional. Money budgeted for Y was used to develop such brands as SupreMacy cosmetics or Herald Square men's suits. Sales were expected to increase over a period of time.

Z was unlimited direct response. Anything that would produce "plus department business," exceeding five times the cost of the ad (which meant the ad would cost 20% of sales or less). "Plus department business" meant the response to the advertised items reduced by the volume drop on like items, so only the net sales increase was considered.

I was stopped by the headline "Promotion Outlay Drains Gains from A&P's Year-End Results" (*Supermarket News,* March 25, 1991).

The article started: "Increased promotional advertising in several recession-strapped markets **led to weak sales and soft earnings** at A&P for its 1990 fiscal year and fourth quarter."

What kind of retailing is this? If "increased promotional advertising leads to weak sales," then A&P could have eliminated advertising; and the lead sentence could have read: "Elimination of promotional advertising leads to strong sales and higher earnings."

I doubt the reporter, Richard Turcsik, wrote the lead sentence; it must have been stimulated by something A&P said to explain "weak sales and soft earnings." What A&P CEO James Wood apparently said was "The added [advertising and promotional spending by competitors] had an adverse impact on A&P's fourth-quarter earnings, **but we improved our sales trend**."

RThought: Retailers are not the only ones who cut ads during recessions. Newspaper and magazine ad volume is down. Magazines are folding. Ad agencies are in trouble.

Perhaps advertising produces so little because so little advertising is good. Is a full page of liners, ranging from "25% off" to "40% off" at the end of each line, really advertising? As a transitive verb, "advertise" means "to tell people about or praise, as through newspapers, radio, etc., usually so as to get them to buy." I think what is often omitted is a reason **WHY** a customer should buy.

A LOOK AT MAIL-ORDER BUSINESSES

It looks as if the pendulum has swung the other way for the mail-order business.

I look forward to the fortnightly *NSM* [Non-Store Marketing] *Report* from Maxwell Sroge (Maxwell Sroge Publishing, Inc., 228 North Cascade Avenue, Suite 307, Colorado Springs, CO 80903; $225/yr.).

The March 11 issue reported the following:

1. The increase in postal and UPS rates has forced L. L. Bean to eliminate "delivery included in the price" (now $3.50 extra per order), and to drop 16 million addresses from its list of 116 million.

2. Yield House (furniture marketer) and Sporting Life (women's apparel) are in Chapter 11 but will continue to operate.

3. Diamandis Communications, Inc., has acquired Donnelley Marketing from Dun & Bradstreet. Donnelley Marketing has information on 85 million households and claims it can target mailing by age, income, or other demographics.

4. With the reduced use of mail in reaction to the increased rates, rumors have it that the U.S. Postal Service will be back for another increase in mid-1992 instead of the previously estimated 1994.

5. Lands' End mini-catalog draws criticism as losing its way.

6. Tupperware is happy to ship directly to customers — giving Tupperware a start on a list of names for mail order.

7. There is a mixed report on renting mailing lists, but more see rentals decreasing rather than increasing.

8. Mail-order companies can go overseas. Viking, which competes with office superstores in the U.S., is well ahead of plan in the United Kingdom.

9. Joan Cook has to increase prices to cover the $1.4 million postal rate increase.

RThought: It is no longer greener on the other side of the mail box! If larger mail-order retailers ever have to collect sales taxes for all the states, then the "no sales tax" savings will disappear.

The U.S. Supreme Court just rejected a Connecticut attempt to collect sales tax on mail-order sales from outside the state. A new case from North Dakota is headed towards the Supreme Court. In North Dakota v Quill, North Dakota argued successfully that Quill had a connection with North Dakota, even though it had no office or business in North Dakota, because it shipped 25 tons of catalogs a year into the state and the state had the expense of disposing of the waste.

RETAILERS IN FORBES 400 LARGEST PRIVATE COMPANIES

Rank	Name	Sales ($ millions)
6	Southland Corp.	$8,352
9	R. H. Macy & Co.	7,270
10	Supermarkets General	6,299
12	Publix Super Markets	5,396
14	Montgomery Ward & Co.	5,323
23	Stop & Shop Cos.	4,280
32	Jack Eckerd	3,000
37	Grand Union	2,916
39	HEB Grocery	2,850
45	Ricklis Family	2,508
49	Revco Drug Stores	2,490
52	Meijer	2,275
56	Belk Bros.	2,200
61	Best Products	2,090
64	Payless Cashways	2,004
65	Dominick's Finer Foods	2,000
66	Hy-Vee Food Stores	2,000
67	Red Apple Group	2,000
68	Yucaipa Cos.*	2,000
75	Hook-SupeRx	1,870
77	Giant Eagle	1,850
78	Amway	1,842
81	Phar-Mor	1,652
102	Wegman's Food Markets	1,357
108	Cumberland Farms	1,330
113	CNC Holdings	1,282
120	Raley's	1,225
123	Furr's	1,200
131	Top's Markets	1,125
137	Cullum Cos.	1,100
138	DeMoulas Super Markets	1,100
142	Thrifty Oil	1,100
144	Service America	1,085
154	Kash n' Karry Food Stores	1,038
156	Pueblo International	1,028
158	Schnuck Markets	1,025
163	Save Mart Supermarkets	1,010
165	Wickes Lumber	1,002
172	Hughes Markets	1,000
183	Golub	950
186	Randall's Food Markets	950
190	Brookshire Grocery	928
191	Levitz Furniture	925
193	Woodward Lothrop/John Wanamaker	913
205	Super Rite Foods	876
208	Shottenstein Stores	850
213	Apple Tree Markets	823
220	Crown American	788
230	84 Lumber	757
231	Kohl's Department Stores	753
233	Homeland Stores	750
238	Jitney Jungle Stores of America	740
251	Farm Fresh	710
252	ABCO Markets	708
264	Musicland Group	695
265	Big V Supermarkets	690
272	King Kullen Grocery	675
277	B. Green & Co.	665
284	AutoZone**	650
289	Mayfair Supermarkets	650
292	Minyard Food Stores	650
298	Lechmere	639
313	L. L. Bean	600
318	Racetrac Petroleum	594
367	Ruffin Cos.	503
371	Elder-Beerman Stores	500
390	QuikTrip	489

*Before acquiring Alpha Beta.
**Now public.

RThought: Retailers have an unusual presence of 67 out of 400, or 17%. Thirty-three are food retailers who can produce relatively high annual sales (the basis of listing) in relation to equity capital. By "centiles" (groups of 100 companies), retailers showed up as follows:

Centile	Retailers
First	23
Second	21
Third	19
Fourth	5
TOTAL	67

THE AD COUNCIL SAID 'THANKS ARE IN ORDER'

Using a full page in *The New York Times* on Thursday, June 27, 1991, the Ad Council thanked the hundreds of companies whose support helped it to "send an important public message literally every minute of every hour."

The total free space in 1990 devoted to public announcements was valued at over a billion dollars!

I was happy to find the following retailers participating:

Carter Hawley Hale Stores	Sears, Roebuck and Co.
Kmart Corp.	Tandy Corp.
Lucky Stores	Wal-Mart Stores, Inc.
R. H. Macy & Co., Inc.	Wetterau, Inc.
The May Department Stores Co.	Woolworth Corp.
J. C. Penney Co., Inc.	

RThought: If your name is not one of those above and it was not an oversight, find out what you can do to help further public messages by contacting Ruth Wooden, President, Ad Council, at 212-922-1500. Two hundred million American adults will be grateful.

THE OTHER SIDE OF VOICE MAIL

I believe that voice mail is the greatest regression in modern communications. Yet, it receives massive corporate support. A retail business which installs voice mail openly shows an insensitivity to the needs of its customers.

This is my view and, I think, the view of any person who has gone through "If you want this, punch 1; if you want that, punch 2, etc.,. . . wait for the tone."

Accountemps made a survey of the receiving side of the attempted communications and reported voice mail "gets a vote of approval from almost two-thirds of the executives surveyed," according to *Boardroom Reports* (333 West 42 Street, New York, NY 10036; $49/yr.). The claimed advantage is the ability to deliver a message to someone with confidence that it will be received accurately, without having to wait to actually speak to the individual personally." My experience with call-back messages left for people with whom I am working is that only half respond within a reasonable time.

Let's look at the supposed advantages. I can agree that the message will be "recorded" accurately and replayed "accurately." But there is no guarantee that the addressee will (1) actually receive it; (2) understand it; or (3) if the message is long, that it will be accurately transcribed from the tape. The more detailed the message, the less likely the transcription will be accurate.

My usual purpose in calling someone is to have a two-way conversation, not to leave a message. Some people never answer the phone; they just screen messages later (some even listen while it is being recorded). Some reply at their leisure, not understanding my urgency. When they respond, I may be out trying to earn my living. We start a game of ping-pong calls. When I am not in the office, I have an old-fashioned, human-being (computer-enhanced) answering service. If I expect a call from someone, the service will transmit my message to that person if the call comes in. It may be an answer to an anticipated question; it may be instructions about where to call me, with further instructions to tell the person where I will be to interrupt me in the meeting that I expect to be in. Try that one on a voice mail!

Finally, I object to what it costs me to return a long-distance call. I pay a toll by the minute to hear a commercial, followed by detailed instructions.

If I want to or am willing to settle for leaving a message, I would rather send a fax message. This ensures that a piece of paper with an accurate permanent statement gets into the hands of the person I want to reach and not an inaccurate or abbreviated transcription of a detailed message left on voice mail.

RThought: If I were a retailer using voice mail with my general public, I would be inclined to add to the instructions: "If you leave your name and address as part of your message, we will send you a $1 coupon good on any purchase of more than $10. This is our way of apologizing for the delay, annoyance, and, perhaps, extra cost you have incurred."

SHORT SHORTS

As you read about the rape of Kuwait City, did you think about the inventory shortage in the Toys "R" Us store there — a shortage of 10%, 25%, 50%, 90%, or maybe 100%? It was such a nice store. However, Kuwait City is not the only place in the world where there are wars and riots that do damage to stores — and looting follows the rioting. **RThought:** Do you really want to be an international retailer — other than in a few countries like Canada, England, France, and Australia? Charles Lazarus is to be commended for the steps he has taken, even though the Kuwait City store may operate at a loss this year. I think Toys "R" Us operates under the same name in more countries (this is different from buying retailers in many countries) than any other retailer. Be careful in tallying this one. Woolworths in Australia, New Zealand, and South Africa do not have and never have had any connection with Woolworth in the U.S. The same is true of Target and Venture discount stores in Australia. The list of "unrelated" names of stores is long.

WORDS — THAT EACH OF US CAN CONSIDER

Great God, I ask thee for no meaner pelf
Than that I may not disappoint myself
That in my action I may soar as high
As I can discern with this clear eye.

This prayer was offered in 1842 by Henry David Thoreau when he was only 25 years old. We might offer it today, regardless of our age. And if we do as the prayer asks, we will help create a better world for everyone.

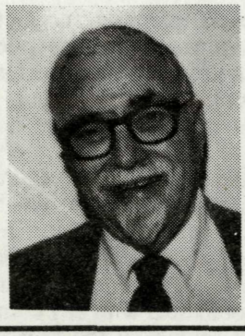
Retailed Monthly/Year-To-Date Sales Comparison ($ million; unadjusted)

SIC Code	Category	April 1991	April 1990	Percentage Change	Year to Date Four Months 1991	Year to Date Four Months 1990	Percentage Change
52	Bldg Matl Group	$ 8,611	$ 7,997	+7.7%	$ 26,796	$ 27,410	− 2.2%
57	Furniture Group	7,159	7,317	−2.2	27,593	29,226	− 5.6
571	Furniture Stores	4,009	4,190	−4.3	15,290	16,587	− 7.8
572	Appl, TV, Radio Stores	2,529	2,495	+1.4	9,778	10,063	− 2.8
5941	Sporting Goods Stores	1,153	1,122	+2.8	4,123	4,246	− 2.9
5942	Book Stores	490	475	+3.2	2,256	2,110	+ 6.9
5944	Jewelry Stores	940	956	−1.7	3,548	3,680	− 3.6
531 Pt	Conventional Dept Stores	3,951	4,029	−1.9	13,999	14,190	− 1.3
531 Pt	Natl Chain Dept Stores	2,883	2,872	+0.4	10,202	10,422	− 2.1
	Subtotal	6,834	6,901	−1.0	24,201	24,612	− 1.7
531 Pt	Discount Stores	6,995	6,574	+6.4	24,990	23,189	+ 7.8
531	Department Stores	13,829	13,475	+2.6	49,191	47,801	+ 2.9
541	Grocery Stores	27,690	27,058	+2.3	110,291	107,002	+ 3.1
56	Apparel Stores	7,494	7,660	−2.2	26,809	26,745	+ 0.2
561	Men's & Boys' Stores	730	751	−2.8	2,599	2,701	− 3.8
562,3,8	Women's Stores	2,597	2,752	−5.6	9,237	9,642	− 4.2
565	Family Clothing Stores	2,176	2,052	+6.0	7,704	7,230	+ 6.6
566	Shoe Stores	1,477	1,568	−5.8	5,366	5,312	+ 1.0
591	Drug Stores	5,988	5,489	+9.1	23,743	21,366	+11.1
596	Nonstore Retail	4,017	3,837	+4.7	16,208	15,653	+ 3.5
5961 Pt	Mail Order (Dept Stores)	361	370	−2.4	1,332	1,360	− 2.1
5961 Pt	Mail Order (Other)	2,209	2,077	+6.4	9,082	8,719	+ 4.2
	GAF* TOTAL	$35,596	$35,165	−0.5%	$131,148	$132,178	− 0.8%

*General, Apparel, and Furniture.

the

more in 1991 than 1990



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ROUTE TO

SEPTEMBER 1991

VOL. 26, NO. 9

LOTUS 1-2-3™ SPREADSHEETS MAKE PRECISE FORECASTERS OUT OF ALL OF US

I remember when we made financial projections without a computer. We recognized that we were working with estimates and guesses. We made the best estimates and guesses that we could — but we did not hesitate to round them off.

The Lotus 1-2-3™ package makes rounding both difficult and time consuming. In fact, Lotus 1-2-3™ spreadsheets tempt the user to print out numbers to eight or ten significant (?) figures, implying an accuracy of better than 1/1,000ths of 1%. Some users have the integrity to round off to the closest $1,000, but few to $10,000 or $100,000, even when working with figures in billions of dollars.

RThought: All of the above comments were prompted by the projections for Ames Department Stores released by Chairman and CEO Stephen Pistner. Earlier this year, Pistner announced that Ames would report a profit before interest and taxes of $50.8 million. The "$.8 million" fascinated me. A year in advance, Pistner was implying that the results would be somewhere between $50.750 and $50.849 million (plus or minus one-half the least significant number reported). In other words, the number announced implies an accuracy of ±2/10ths of 1%. I wish my clients could forcast gross sales that accurately for the coming week!

Now, we know $50.8 million wasn't that accurate. A new, revised forecast has changed the figure to $21.6 million. The year is half over, and the figure has been revised by close to 60% (note that this number is rounded; I could have said "57.48%").

The forecast of $21.6 million indicates that the final figure will fall someplace between $21.550 million and $21.649 million. Because the first two digits are smaller and the accuracy is implied within the same ±$100,000, the implied accuracy is now ±5/10ths of 1%. I will give you any odds up to 100 to 1 that the final result will not be within the implied range.

There is a simple solution. The first announcement could have been $50 million with an implied accuracy of ±$10 million (or within the range of $40 million to $60 million); and the second announcement could have been $20 million (again, with an implied accuracy of ±$10 million, or between $10 million and $30 million). Then, I wouldn't have given you any odds (although the passage of time has shown I'd have won on the $50 million projection!).

Everybody would have been most happy if Mr. Pistner had just said that he felt highly confident that Ames would report a profit before interest and taxes [what taxes?] for the current year. Considering what Ames reported for the past two fiscal years, finishing this year at, or close to, break-even, would represent one of the outstanding turnarounds in recent retail history!

EVERYBODY WANTS NATIONAL ENVIRONMENTAL ADVERTISING GUIDELINES, BUT WILL WE GET THEM?

Federal Trade Commission (FTC):
"The overall view of the hearings is that there exists a remarkably broad consensus that the [Federal Trade] Commission should issue guidelines."

American Advertising Federation (AAF):
"An FTC-issued industry guide based upon the industry-supported guidelines will greatly increase consumer access to valuable information on the environmental characteristics of products...will stimulate competition...and will bring about more widespread compliance with FTC law."

American Newspaper Association (ANA):
"We believe that environmental claims guidelines by the FTC can serve to convince tens of thousands of state and local governments that there is a 'chief umpire' who will bring order to the current 'chaos' in this field."

Association of American Advertising Agencies (AAAA):
"The FTC guidance must be so pervasive, persuasive, and clear that the FTC totally inhabits the area of environmental claims throughout the nation."

Council of Better Business Bureaus (CBBB):
"Uniform national guidelines for environmental advertising are needed from the FTC and should be based on the self-regulatory casework of the CBBB's National Advertising Division."

Environmental Defense Fund (EDF):
"The FTC should increase enforcement against those who make deceptive environmental claims, while Congress should adopt legislation directing the EPA to develop and enforce measurable standards and definitions for the use of environmental terms."

National Food Processors Association (NFPA):
"We believe the guides approach would provide a consensus for the communication of helpful environmental product information at the national, state, and local levels."

RThought: Absolutely everybody wants it. Most say the FTC is the only body that can do it. But nothing is happening. The current philosophy of the FTC is that government should not interfere with business. Our customers will be abused by misstatements of environmental friendliness, recyclability, degradation, etc., because retailers alone cannot control what the vendor puts on the packages.

AN INSURANCE 'MUST BUY' BOOK

I believe Joe Belth, Professor of Insurance at the University of Indiana at Bloomington and editor of *The Insurance Forum,* is America's most knowledgeable writer on the subject of insurance companies. He disclosed what was happening within First Executive Corporation and its insurance subsidiaries at a time when state insurance commissioners were unwilling to take any action.

State insurance commissioners have a long history of failing to enforce state laws. This is true even when competent people bring factual information to their attention.

For years, A. M. Best was the principal organization rating life insurance companies. I suspect it made most of its money printing little cards saying "how outstanding XYZ Company is."

The Best ratings proved not to be the "best," so Standard & Poor's (S&P), Moody's, and Duff & Phelps (D&P) entered the field. Each used more comprehensive factors. S&P and D&P adopted the same letter ratings. Different letter ratings are used by Best and Moody's.

Belth published the following chart in his April 1991 issue:

TABLE 1

16 RATINGS USED BY A. M. BEST, STANDARD & POOR'S, MOODY'S, AND DUFF & PHELPS

	Ratings		
Rank	**A. M. Best**	**S&P/D&P***	**Moody's**
1	A+	AAA	Aaa
2	Contingent A+	AA+	Aa1
3	A and Contingent A	AA	Aa2
4	A−	AA−	Aa3
5	Contingent A−	A+	A1
6	B+	A	A2
7	Contingent B+	A−	A3
8	B	BBB+	Baa1
9	Contingent B	BBB	Baa2
10	B−	BBB−	Baa3
11	Contingent B−	BB+	Ba1
12	C+	BB	Ba2
13	Contingent C+	BB−	Ba3
14	C	B+	B1
15	Contingent C	B	B2
16	C−	B−	B3

*Standard & Poor's (S&P) and Duff & Phelps (D&P) use the same letter ratings.

Let's forget the letters and use the numbers from 1 to 16. Here is how ratings varied, as reported in the April 1991 *Insurance Forum:*

	Ratings			
	Best	**S&P**	**Moody's**	**D&P**
Executive Life of California	7	12	14	10
Constitution Life	2	5	NR	4
General American Life	1	3	4	3
Home Life, New York	1	5	5	NR
Northwestern National Life, Minnesota	1	2	5	2
Penn Mutual	1	4	5	4
Southwestern Life, Texas	2	7	9	5
United Pacific Life, Washington	1	8	9	5
Western National Life, Texas	1	7	7	5

I hope that I have not upset you by listing a company that you or your company use. If you use one of the six rated No. 1 by Best, I am sure you were told about the A+ rating. It is unlikely that you were told that the other rating firms may have rated the company much lower.

RThought: Belth has combined his September and October 1991 issues and listed over 900 insurance companies — every company rated by at least one of the four rating agencies. To get this combined issue, send $10 to *Insurance Forum,* P.O. Box 235, Ellettsville, IN 47429. Say, "Bob sent me."

Your CFO and your Personnel/Human Resources/People Department (I prefer the latter title) should both have their own copies. Remember, when you get involved in life and health insurance, you may be acting in a fiduciary relationship to your employees. Check with your legal counsel about any exposure. It would seem prudent not to deal with any company ranked out of the top three ratings by any of the four rating agencies; preferably, your choice should be rated better than 3 by at least two of the four agencies. From a list far shorter than 900, the April 1991 *Insurance Forum* listed 66 companies which passed that test.

PROBLEMS IN FOOD LAND

Safeway, Inc., and Meat Labeling: In 1988, a Safeway butcher told the United States Department of Agriculture investigators that he was forced to label cheaper meat cuts as "choice." This admission was followed by a consumer suit charging fraud. In 1991, Safeway settled the fraud suit for $150,000, without admitting any wrong. The case disclosed that in 1988 Safeway's records would not have permitted the company to have detected small substitutions. The two stores involved happen to be near each other. The explanation given was that switching would be done when one of the stores was out of choice cuts and the butchers "did not want an empty spot in the display." This certainly shows an unbalanced set of values at store level.

A United States attorney investigated and did not find enough evidence to warrant filing charges. The district attorney said, "There was no evidence found to indicate that Safeway's management personnel, outside the [two] stores, had knowledge of any improper conduct." Resolving the possibility of a civil charge left the fraud suit to be settled. A deputy district attorney did say that their probe found mislabeling occurred "routinely over a period of time in the chain's [two stores]" but found only "occasional" mislabeling at some of the chain's other stores in the area.

RThought: I am bothered by what happened. Safeway had not imbued all of its employees with the first rule of merchandising: "absolute honesty." Had Safeway succeeded in inculcating that rule, (1) the butchers would have left empty spaces in the display, and (2) the department manager would have applied pressure to have enough "choice" meat.

The Attorney General of Arizona, Comparative Price Advertising, and Smith's Food & Drug Centers: Increasing numbers of food chains are trying to prove that they are the low-cost food retailer in their area. In Arizona, it was Smith's versus Fry's, Albertson's, ABCO, Smitty's, Basha's, and Safeway. The ad format showed the prices of 500 items, reported to be picked at random. The attorney general's agreement was distributed to all of Smith's competitors. All were advised to comply with the same rules. (Smith's paid only $10,000 to cover the estimated cost of the investigation.)

The Smith's agreement required the following:

A. If respondent advertises the results of any price surveys:
(1) Respondent will disclose all major categories of items *excluded* from the survey, including, but not limited to, generic and private label brands, produce, bakery items, meats, vendor-delivered items, and roller items;

SHOULD CORPORATIONS PAY CASH DIVIDENDS?

Too many corporations get into trouble because they pay cash dividends with money that should be kept in the business. Corporations compound the problem when they "fall in love" with their own history of dividend payments. Think of a corporation that has increased dividends every year for 25 or 30 or 50 years, and then, suddenly, has a bad year. It proceeds to pay out a larger dividend, even if larger by only one cent. It may be more than the company made for the year. The money should be retained in the business; it could be needed for the business to survive.

Rapidly growing companies should not pay cash dividends (stock dividends are an alternative that I deal with below). I am particularly proud of the record of Mervyn's as a public company. I served Mervyn's primarily as a consultant but, variously, as an officer and director. It went public in 1971 and merged with Dayton Hudson in 1977 — and never paid a dividend.

Mervyn's earned about 30% after taxes on equity and grew about 30% a year. If we paid a dividend, the shareholders would have to pay taxes. With the 60% left after taxes, the shareholder would have to earn 50% to equal the 30% we earned on his or her share of equity in Mervyn's. As long as we controlled our business (particularly inventory), we could grow at 30% and maintain constant ratios (current, quick, debt to equity, etc.) within our balance sheet. It doesn't do any good to earn 15% on equity, pay out 50%, and try to grow at 20% a year. That means taking on more debt; and more debt means weakening the company. Some shareholders and institutions did urge Mervyn's to pay dividends. I am proud that we never did — for both their benefit and Mervyn's.

There are a few situations where high dividends are paid: the most common case is where regulated public utilities may pay out more than 80% of current earnings. When additional capital is needed, additional shares of common stock are sold.

Paying a stock dividend solves the problem of preserving cash, and it may be acceptable to an owner who is holding for a long-term gain. But it seldom helps the small investor who is looking for current income. One might say "Sell the stock dividend." However, the 100-share investor, faced with a 4% stock dividend, has a problem: a broker's fee would consume much of the proceeds of selling four shares.

There is a way corporations can use the market to provide the cash for the shareholders. The dividend certificates should be marked "stock dividend." Shareholders receiving fewer than 100 shares as a dividend would be permitted to tender "stock dividend" certificates to the issuing company. The company would then sell each day the number of shares received the prior day and pay the full price of the share(s) to the owner. The company would absorb the brokerage fee. Owners could hold "stock dividend" certificates until such time as they wanted to convert them to cash.

If the company wanted to continue with stock dividends but not handle redemption and sale, it would simply issue regular certificates as stock dividends.

RThought: I first looked at this possibility some 20 years ago when I became concerned about the ratio of equity to assets at the Bank of America. Over a period of 25 years, the ratio of equity to assets had dropped from about 6% to the middle 2% range. Had the Bank of America issued stock dividends, the equity-to-asset ratio would have remained in the ±6% range and the bank would not have gone through one of its serious problem periods.

It was many years later that fellow Certified Management Consultant C. Todd Conover, serving as Comptroller of the Currency, set 6% as the required minimum ratio of equity to assets.

DEMING WAS RIGHT!

RT (August 1991) quoted W. Edward Deming's 85%-15% rule: problems in quality control come 85% from system failures and 15% from human failures.

A Bonus Item in the August 1991 *Communications Briefings* (700 Black Horse Pike, Suite 110, Blackwood, NJ 08012; $69/yr.) reported on a survey made of 3,800 readers of *Modern Maturity* by the Document Design Center. About half were college graduates — well above the typical education level.

Here is what Document Design Center found:

- **58% reported they gave up trying to fill out forms and stopped using the product or service.**
- **50%-plus complained about forms that failed to tell them what to do if they had a problem.**
- **41% said that complex forms forced them to get help, or even to pay someone to help them fill out forms.**
- **31% said perplexing documents meant that they didn't get the service or help they sought.**
- **21% said that just getting the right form proved difficult.**
- **17% said that some forms and notices failed to make clear where to send the completed form.**

The respondents made the following observations on forms:

- **31% said that forms were too long.**
- **28% complained about type size.**
- **26% said that they couldn't fit the information asked for in the space provided. [Note: Why is as much space left for the ZIP Code as for the name of the city?]**
- **20% said that the forms had too many words on a page.**
- **15% said that colors made forms hard to read.**

RThought: These observations were made by people who wanted something. They had to fill out a form to get it. They gave up.

Your employees may have problems with your internal forms. They probably fill in just enough so that they can pass the form on to someone else, without regard for the impact on your operations.

RThought: No business I know of pretests forms before they are printed. If a form is properly designed, it is easy to complete. It is so simple to photocopy the draft **before it is printed** and ask three or four people to fill it out.

RThought: For years, I was annoyed by the designers of work orders at garages and service stations and the charge ticket at gasoline stations. Some crazy form designers felt that because a contract was signed at the bottom the work order or charge ticket had to be signed at the bottom. I guess they felt a signature located anyplace else would void the agreement. Then they provided the service station or garage with an aluminum clipboard just the size of the form. The attendant handed you the clipboard to sign the form. Your hand rested on air as you tried to make a signature. I believe that both forms originated about 1921. It took three quarters of a century to put the signature box in a position likely to produce a reasonably accurate signature. I always felt that if I wanted to argue about a form signed on the bottom line I could challenge the writing as not being my signature!

HOW HONEST ARE PRESEASON SALES?

Recently, three major stores in the San Francisco area — Macy's, Emporium, and Nordstrom — announced preseason sales. Macy's and Emporium ran ads in the newspapers; Nordstorm elected to mail a special booklet (perhaps only to customers).

The theory of a preseason sale is that merchandise for the next season is brought in early and offered at a special price. With each item, there is a statement to the effect that "After XYZ date, the price will be $99.95."

I have given some thought to that representation. It seems to me that by the end of the preseason sale, the merchandise items can be broken down into two categories:

Category 1: Sales were good.

Category 2: Sales were not good.

Let us look at Category 1 items. Many of the items advertised are of patterns and colors that cannot be reordered. By the end of the preseason sale, the assortment of Category 1 items will consist of broken sizes and colors. Does anyone believe that these items can then be marked up to the higher price shown in the ad? If you know of such a person, please tell him or her that I have a bridge for sale!

Now, let us look at Category 2 items. These are the items that did not sell well. Perhaps sales were so low that complete size and color assortments are still in stock. Does anyone believe that if the items did not sell at preseason sale prices they will sell better when marked up to the in-season price shown in the ad? If you know of such a person, please tell him or her that I have two "choice" bridges for sale. (There is a buyer's market in bridges!)

My first recollection of a preseason sale was for men's topcoats at Macy's San Francisco, perhaps 30 years ago. It was a gabardine topcoat, a model that Macy's would carry the year-round. A customer could reasonably expect that the price between midwinter sales would be the price to which Macy's said the coat would be marked after the end of the preseason sale.

RThought: One wonders what else department stores can do to destroy the confidence of their customers. For the first five months of 1991, conventional department stores (Foley's, Macy's, Rich's, Filene's, Marshall Field, etc.) have watched their sales drop by 0.7%. National chains (Sears, J. C. Penney, and Montgomery Ward) have watched their sales drop by 2.0%. It isn't because these stores have not run sales; I believe *it is because they have run sales and sales and sales.* They have run so many sales that they have educated their customers not to shop in their store unless there is a sale.

Discount stores, which often advertise items at reduced prices but frequently advertise items at their regular low prices, have shown an increase of 8.9%. I think customers are more likely to believe the advertising of a discount store (especially Wal-Mart, Kmart, and Target — the three largest discounters).

Apparel stores are up 0.9%, primarily due to family clothing stores (Nordstrom, Filene's, Mervyn's, Miller's Outpost, Merry-Go-Round, Barney's, etc.), which had a 6.9% increase. Men's stores were down 3.3% and women's apparel was down 2.5%. Shoe stores, which do little sale advertising, were up 1.0%.

There are a number of categories in retailing that have shown consistent increases: drug stores, up 11.6%; book stores, up 6.4%*; nonstore retailers, up 3.6%; and grocery stores, up 3.4%. Not a single one of the "up" stores run preseason sales.

**The New York Times* (August 5, 1991) reported that the increase in book sales is due to the development of "superstores" stocking as many as 100,000 titles. Barnes & Noble has opened two such stores and plans 20; Waldenbooks has 25; Crown Books and Tower Records are opening such stores; Borders (Ann Arbor, Michigan) has 7 stores with more than 80,000 titles; R. R. Bowker is making the 1,000,000 titles in "Books in Print" available to computers in 1,200 Waldenbook stores, enabling Waldenbook to special order more often and more quickly. Once again, offering more choice produces more sales (q.v., Home Depot; the increased average size of new Wal-mart and Kmart stores; Tower Records; Albertson's, and Smith's Food & Drug).

RThought: I am absolutely certain that it was just a coincidence that Macy's, Emporium, and Nordstrom broke their preseason sales the same day. Such fine stores would not collude to reduce competition.

SHORT SHORTS

The Textile Fiber Products Identification Act is alive and well. Kmart and its supplier, Wishbone Trading Company of Hong Kong, were fined $130,000 for presenting 35% cotton men's shirts as 60% cotton. Kmart did not know of the mislabeling by the manufacturers but, as the importing distributor, was responsible for verifying the percentage. **RThought:** For more information, ask for FTC File No. 8872-3226.

Is the Postal Service pricing itself out of the market? *NSM* [Non-Store Marketing] *Report* (233 East Wacker Drive, Chicago, IL 60601; $225/yr.) in its August 12, 1991, issue, reported that Lillian Vernon will experiment with Alternate Postal Delivery (APD) of Grand Rapids to deliver three fall catalogs into 85 ZIP Codes in five markets. APD is already delivering 29 magazines (such as *Better Homes & Gardens, Field & Stream,* and *McCall's*), as well as catalogs for 16 companies (including Sears and J. C. Penney). **RThought:** There comes a point where a higher price results in a smaller total return. The Postal Service may be reaching that point. Economists call it "inelastic demand."

We are told by Milton Friedman, George Bush, and others that the free-enterprise system will bring us the best products at the lowest prices, with the highest profit to the most efficient provider. If that is true, how come Nintendo agreed to pay $25 million in rebates to buyers (and $4.75 million in other costs) to settle federal and state allegations of price fixing? Nintendo's sales reps kept track of prices charged by dealers. Those who didn't comply with the "suggested prices" had shipments delayed or the size of their orders reduced. The rebate will be $5 per game purchased. **RThought:** I repeat: Free enterprise works as represented only after all efforts at a monopoly or price fixing fail.

Red-face department: Stanford University, home of the first, second, or third highest rated graduate business school, is moving to "re-establish Stanford's reputation for integrity and sound management." President Donald Kennedy said, "Stanford staff, an independent accounting firm, and a special outside advisory panel all labored a number of months to develop this reform program." **RThought:** Should you hire an MBA from Stanford who majored in accounting?

(2) Respondent will disclose that the items appearing in the advertisement were not randomly selected if that is, in fact, true; and
(3) Respondent will refrain from summarizing the total dollar amount of all the items appearing in the advertisement without disclosing that the advertised savings are only valid if every item is purchased.

B. Respondent will refrain from using the term "certified low-price leader" in connection with any advertising displaying the results of Respondent's own surveys; however, nothing herein shall prohibit Respondent from using its logo and trademark, "certified low-price leader - Smith's" ***elsewhere*** **in the same advertisement, provided that statement is true and verified and not adjacent to any price summary;**

C. Respondent will not use any graphic illustrations depicting items not actually listed in the advertisement;

D. Respondent will refrain from using the term "permanent discount prices";

E. In the event surveys conducted by Respondent or by an independent public accounting firm reveal that the price differential from an accounting viewpoint between Respondent's and surveyed grocery store is ***statistically insignificant,*** **Respondent shall disclose this in its advertisements;**

F. For purposes of this assurance, all required disclosures made in print advertisements shall be 10-point type size or larger.

Smith's agreed that a violation of this agreement within six years would constitute *prima facie* evidence of a violation of the law.

RThought: These restrictions are not new. They are essentially the same as those set down in *The Matter of the Kroger Company,* 100 FTC 573 (1982). Food chains should be familiar with the Federal Trade Commission's rules and cases and should plan their advertising accordingly (assuming they want to be law-abiding retailers). They may not violate federal and state laws because they are trying to "compete" with other stores.

Advertising and merchandising departments will be as dishonest as top management (the board of directors and the CEO) permits. (Note: The great collapse of Salomon Brothers follows the failure of the CEO to act when he first knew his company had seriously violated the law.)

The board may not read the ads; but the CEO should. Thus, the CEO should be held responsible for digressions such as happened at Smith's. The CEO has a responsibility to be familiar with laws/rulings on such fundamental concepts as advertising, honest weights and measures, equal employment opportunity, safety of work areas, and a number of other "ground rules for a retail business."

F.W. WOOLWORTH HAD THE FIRST 5-AND-10, BUT JASON BAILY HAD THE FIRST 5-CENT STORE

My good friend, Earl Lifshey, sent me a copy of his column, "If You Ask Me," for March 24, 1960. Attached to it was an editorial from the Watertown, New York, *Daily News.*

The chronology of developing the 5-and-10 seems to be a bit different from what is normally reported.

In the spring of 1878, Edward Butler (who was one of the Butler Brothers), then 26 years old, suggested to the buyer in a Boston department store that he gather on one counter a selection of items from many departments with a card reading "Your Choice — 5¢." It was a success.

Shortly after, Butler sold Jason Baily $300 worth of goods that could each be sold for 5 cents. Baily then opened a 5-cent store. At that time, Woolworth was working for Moore & Smith in Watertown (just west of Boston). A Mr. Goulding had opened a 99-cent store in Port Huron, Michigan, with a former Moore & Smith employee, E. W. Barrett. When he stopped by to visit with Mr. Moore, Goulding reported the successful 5-cent sales that others had held and that Barrett & Goulding had installed a 5-cent counter. Woolworth overheard the conversation.

On a trip to New York in August 1878, Moore bought $100 worth of 5-cent items. (Note: At a 50% markup, that would be 4,000 items.) Moore & Smith put Woolworth in charge of a 5-cent counter at the Jefferson County Fair. Immediately, Woolworth had to reorder.

It was at that time that Woolworth conceived the idea of a 5-and-10. Moore agreed to back Woolworth to the extent of $300. Woolworth opened in Utica, New York, on February 22, 1879 — and failed, closing on May 28, 1879.

A successful store was opened by Woolworth in Lancaster, Pennsylvania, on June 21, 1879, more than one year after the "Your Choice — 5¢" counter in the Boston department store. The Lancaster store was the starting point of the Woolworth Corporation we know today.

RThought: It isn't really a matter of who does it *first* (except for patents); it is a matter of who does it *right.* I have asked around and nobody remembers what happened to Jason Baily, but many people remember what happened to F.W. Woolworth.

A note about Frank Winfield Woolworth: When the F. W. Woolworth Company was formed on February 14, 1912, it brought together Woolworth (319 stores); Seymour H. Knox, a dissatisfied former schoolmaster and cousin of Woolworth (98 stores); Charles (Sum) Sumner Woolworth, Woolworth's younger brother (15 stores); Earle Charlton, a former traveling housewares salesman (53 stores); Fred Kirby (96 stores); and William Moore, Woolworth's former employer at Moore & Smith (2 stores).

A note about the Woolworth Corporation of today: F. M. Kirby, a descendant of Fred Kirby, and Seymour H. Knox III, the grandson of Seymour Knox, serve on the board of directors.

ARE YOU INUNDATED BY NONBUYERS?

My friend and fellow consultant, Marvin J. Rothenberg (P.O. Box 2566, Fair Lawn, NJ 07410) has produced some fascinating figures. Recently, he studied what happened in four companies operating a total of 68 stores and found that 2.4 million shoppers who averaged 1.9 shopping visits per month going into 2.4 departments per trip (2.4 million times 1.9 times 12 times 2.4 equals 131,328,000 opportunities a year), produced only 38 million transactions!

If each shopper had bought something each time he or she were in a department, there would have been an additional 93 million transactions.

Rothenberg went further. He found out what happened to the customers.

- **49 million of the shoppers didn't even contact a salesperson or a cashier.**
- **44 million shoppers had one or more contacts but did not buy anything.**
- **28 million shoppers intended to make a specific purchase, but the store was out of stock in the desired item.**

RThought: I can hear you saying "That doesn't happen in OUR store." Would you like to make a bet? How many stores do you have? Did I hear you answer 15? Do you get into each one at least once a month? You say you have more important things to do? Probably, your stores have done worse than the stores Rothenberg studied. Your batting average may be 24%, instead of 29%. Because you don't know what is happening in your stores, you have no opportunity to solve your service problem.

You argue that you *do* have good service — after all, you spent a full day at a convention session on how to provide service — but you forgot half of what you were told to do because you forgot to bring a notebook.

TARGETING NEW HOMEOWNERS

In the Greater Los Angeles Basin, approximately 17,000 new homes are purchased each month. Eleven California firms, in conjunction with Home Service Association (HSA), a weekly co-op discount-coupon mailing service reaching new homeowners, will distribute store-visit incentive coupons within a week of the close of escrow!

The 11 firms cover a wide range: Lamps Plus, Nurseryland, Public Storage, Wherehouse Entertainment, Lucky Stores, the *Los Angeles Times,* Westec Security, Current Check Printers, Artistic Greetings, Arrowhead [bottled] Water, and Sears.

The firms can establish varying expiration dates. Coupons are bar coded, permitting analysis of response by area and providing demographics on the respondee.

When tested in other areas, response as high as 17% has been reported. It costs each firm a total of 15 cents for the coupon and delivery.

Depending upon the success in the Greater Los Angeles Basin, HSA will initiate tests in Northern California, Arizona, Nevada, Texas, and Florida.

RThought: Market Logic, an Orange County direct-marketing agency, created HSA and provides the demographic analysis. Xerox developed the variable laser printer, permitting greater flexibility in the design of coupons.

WORDS — ABOUT GOALS

Each month, I read a wonderful little booklet called *Leadership,* formerly *Bits & Pieces* (12 Daniel Road, Fairfield, NJ 07004; $21 for a single subscription). In the August 6, 1991, issue, there was the following — which might be a guide for retailers as well as manufacturers:

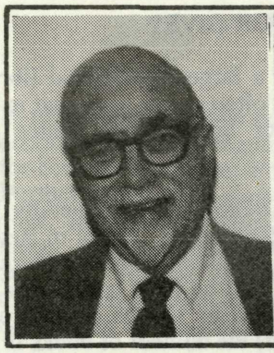
> A manufacturer once required all executives to put three objectives in writing at the beginning of each year.
>
> Each executive had to list one general goal for his operation, one specific goal, and one personal objective. At the end of the year, progress in achieving the three objectives was reviewed, and executives were accordingly awarded extra financial compensation.

RThought: Is it not logical that if you develop your executives the executives will do a better job? Does it not follow that if your executives do a better job they will do it by developing employees below them? Will not better developed executives and employees benefit the company?

Retailed Monthly/Year-To-Date Sales Comparison ($ million; unadjusted)

SIC Code	Category	May 1991	May 1990	Percentage Change	Year to Date Five Months 1991	Year to Date Five Months 1990	Percentage Change
52	Bldg Matl Group	$ 9,265	$ 9,171	+ 1.0%	$ 36,008	$ 36,581	− 1.6%
57	Furniture Group	7,611	7,793	− 2.3	35,195	37,019	− 4.9
571	Furniture Stores	4,273	4,422	− 3.4	19,573	21.009	− 6.8
572	Appl, TV, Radio Stores	2,662	2,762	− 3.6	12,402	12,825	− 3.3
5941	Sporting Goods Stores	1,230	1,233	− 0.2	5,351	5,479	− 2.3
5942	Book Stores	526	515	+ 2.1	2,793	2,625	+ 6.4
5944	Jewelry Stores	1,224	1,201	+ 1.9	4,779	4,881	− 2.1
531 Pt	Conventional Dept Stores	4,330	4,267	+ 1.5	18,326	18,457	− 0.7
531 Pt	Natl Chain Dept Stores	2,912	2,955	− 1.4	13,111	13,377	− 2.0
	Subtotal	7,242	7,222	+ 0.3	31,437	31,834	− 1.2
531 Pt	Discount Stores	7,765	6,880	+12.9	32,756	30,069	+ 8.9
531	Department Stores	15,007	14,102	+ 6.4	64,193	61,903	+ 3.7
541	Grocery Stores	30,302	28,910	+ 4.8	140,528	135,912	+ 3.4
56	Apparel Stores	8,000	7,789	+ 2.7	34,848	34,534	+ 0.9
561	Men's & Boys' Stores	773	794	− 2.6	3,378	3,495	− 3.3
562,3,8	Women's Stores	2,862	2,816	+ 1.6	12,152	12,458	− 2.5
565	Family Clothing Stores	2,354	2,173	+ 8.3	10,050	9,403	+ 6.9
566	Shoe Stores	1,506	1,485	+ 1.4	6,866	6,797	+ 1.0
591	Drug Stores	6,336	5,653	+12.1	30,140	27,019	+11.6
596	Nonstore Retail	4,140	4,040	+ 2.5	20,410	19,693	+ 3.6
5961 Pt	Mail Order (Dept Stores)	371	381	− 2.6	1,703	1,741	− 2.2
5961 Pt	Mail Order (Other)	783	860	− 9.0	11,283	10,858	+ 3.9
	GAF* TOTAL	38,835	37,966	+ 2.3	170,008	170,144	− 0.1

*General, Apparel, and Furniture.



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ROUTE TO

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AN APOLOGY TO STANFORD MBAs

In the September issue of *Retailing Today,* in the **RThought** in the Short Short regarding the deplorable accounting situation at Stanford University (my alma mater), I took a cheap shot at Stanford MBAs. Stanford's thousands of MBA graduates had nothing to do with the failure of the university's management. My comment was not warranted, and I apologize to all who, properly, were offended.

CAN RETAILERS LEARN FROM A STUDY OF DRIVERS?

The Safety Research and Education Project at Columbia University reported that the youngest drivers (16 to 24 years old) and the oldest (65 years and older) had the rank highest in fatalities and accidents and, thus, represented the highest cost to insurance companies per mile driven.

To help reduce these accident rates, the Project suggested:

1. Better-lit roads.
2. Wider stripes on the shoulders.
3. Easier-to-read signs.

RThought: We retailers have a parallel problem with our older customers. The changes we should be making are:

1. Better-lit stores, particularly over the aisles.
2. Wider aisles.
3. Easier-to-read signs.

Think for a moment about customers who want to know the price of what they are putting in their shopping carts before the item is rung up at the scanning checkout. Today we put a price ticket on fewer and fewer items. When we have a mass display of a single item, as we do in the action alley or on an end display, we put up a prominent price sign (at least, policy calls for such signs, but policy is not always followed).

In dimly lit side aisles, determining the price is another matter. This problem is particularly true for the 65 and older crowd. Many of the shelf-edge price signs are in 10-point type or smaller. Many people will pass up an item on the bottom shelf, or next to bottom shelf, due to the effort and indignity of getting down on one's knees to see the price. Upper shelves are just as difficult for customers 65 and older because many wear bifocals. They are not able to bend their heads back far enough to read the numbers.

What we need is some kind of lens over the shelf-edge price sign that will magnify the numbers. I know such devices exist but few stores use them.

RThought: This item was prompted by an article entitled "Who's Too Old to Drive?" in *American Demographics,* September 1991. Maybe I should change the title of my item to "Who's Too Old to See the Price Sign?"

SHOULD YOU TELL YOUR ASSOCIATES YOU ARE SORRY?

Some years ago Arthur Young (AY) surveyed the (then) National Mass Retailing Institute (NMRI) members about their inventory shortages. In 1987 the report was jointly signed off by AY and NMRI and contained the following sentence:

> **Employee theft continues to remain the dominant challenge (estimated to be, on average, 42% of total shrinkage), followed by shoplifting (31%), poor paperwork (23%), and vendor theft (4%).**

These figures represented a composite of the estimates from reporting stores. The figures remained relatively constant over the years because the respondent at each store, when providing an estimate of the causes of shortages, looks at what was reported the prior year. He or she then enters a current estimate with a small change from the prior year. Whatever is entered completely lacks supporting evidence.

Peter Berlin, in his *Report on Shrinkage Control, Executive Edition* for June 1991, told of the success experienced when retailers used fluid security tags which were recently introduced by ColorTag, Inc. and which are sometimes used in combination with electronic article surveillance (EAS) systems. These stores, according to Berlin, are "reporting reductions in overall shrinkage of 70% to 90% or more."

RThought: Berlin observed: "With such large reductions in shrinkage from shoplifting alone, the results place in question the impact of employee theft compared to shoplifting and tend to challenge the theory held by many department store and specialty store retailers that theft by employees is commonly the larger cause of shrinkage."

I have cussed (silently), criticized, and condemned the belief that internal theft was greater than shoplifting. I have consistently criticized AY for putting its imprimatur on such figures. By use of careful wording, AY attempted to distance itself from the figures. Yet the general press, upon receiving the report, wrote, "Arthur Young, one of the Big Eight accounting firms, says...." A typical newspaper article stated that employees are the major cause of inventory shortage which results in increased prices for consumers.

Even more unfortunate is the fact that many retail managers were taken in by the figures and let the figures influence their opinion of their own employees.

Whoever it is upstairs who keeps score on our conduct has managed to get even with those employers. Their mistaken belief about and failure to attack the true cause of shortage has resulted in continued, unnecessarily high shortage figures. Completely overlooked is the adverse impact on employee morale resulting from this prevasive mistrust and suspicion.

RETAILERS IN THE FORBES 500 LARGEST FOREIGN COMPANIES

Rank	Company	Country	Sales ($ millions)	Net Income ($ millions)
79	Daiei	Japan	$16,016	$ 67
86	J. Sainsbury	UK	15,154	656
95	Carrefour Group	France	13,929	248
104	Ito-Yokado Co Ltd	Japan	12,836	485
118	Tesco Plc	UK	11,618	554
121	Coles Myer Ltd	Australia	11,375	282
128	Promodes Group	France	10,739	70
131	Marks & Spencer Plc	UK	10,662	737
153	Jusco Co Ltd	Japan	9,586	109
159	Karstadt Group	Germany	9,304	141
160	Ahold	Netherlands	9,292	134
168	Kaufhof	Germany	9,036	74
169	Seiyo Ltd	Japan	9,011	78
177	Argyll Group Plc	UK	8,796	386
188	Nichii Co Ltd	Japan	8,349	81
193	Casino Groupe	France	8,240	71
210	Delhaize	Belgium	7,965	113
227	Takishimaya	Japan	7,308	116
236	Mitsukoshi	Japan	7,081	51
268	GIB Group	Belgium	6,215	90
290	Diamaru	Japan	5,759	29
292	Asda Group Plc	UK	5,722	198
298	Kingfisher Plc	UK	5,636	342
303	Provigo	Canada	5,599	56
312	Boots Co Plc	UK	5,467	396
315	Hanwa Co Ltd	Japan	5,405	154
319	Groupe Printemps	France	5,362	58
338	Asko	Germany	4,973	67
349	Docks de France	France	4,648	57
364	Euromarche SA	France	4,648	1
379	Uny Co Ltd	Japan	4,477	64
386	Great Universal Stores	UK	4,355	441
393	Hudson's Bay Co	Canada	4,264	136
402	Marui	Japan	4,174	239
414	Oshawa Group Ltd	Canada	3,946	52
419	Sears Plc	UK	3,906	207
425	Matsuzakaya	Japan	3,876	113
446	Comptoirs Modernes Group	France	3,665	53
471	Smith (W.H.) Group Plc	UK	3,443	99
474	Isetan	Japan	3,394	59
490	Nagasakiya	Japan	3,250	32
493	Tokyu Department Stores	Japan	3,213	42

RThought: The list of the ten largest retailers by net income is somewhat different. They are as follows:

Rank	Company	Country	Sales ($ millions)	Net Income ($ millions)
131	Marks & Spencer Plc	UK	$10,662	$737
86	J. Sainsbury	UK	15,154	656
118	Tesco Plc	UK	11,618	554
105	Ito-Yokado Co Ltd	Japan	12,836	485
386	Great Universal Stores	UK	4,355	441
312	Boots Co Plc	UK	5,467	396
177	Argyll Group Plc	UK	8,796	386
298	Kingfisher Plc	UK	5,636	342
95	Carrefour Group	France	13,929	298
121	Coles Myer Ltd	Australia	11,375	282

It is obvious that the British run more profitable stores. I don't know whether this situation is the result of greater skill or less price competition. They have six out of the top ten most profitable companies, although only three of the ten largest. This is an outstanding performance.

As to company size, Wal-Mart, Kmart, Sears, and J.C. Penney, among general merchandise stores, and American Stores and Kroger, among food/drug chains, outrank the largest foreign companies in sales. Marks & Spencer would rank third in profits in the U.S. on about one-third the volume of Wal-Mart, with J. Sainsbury ranking fourth.

ANY OLD BOOKS TO SELL OR GIVE?

Over the years I have collected a large, specialized library about stores and retailers. I use it often in my work and in my writing. It is in the process of becoming a source for academics.

Professor Boris W. Becker of Oregon State University has been working for several years developing "Lives in Retailing: A Bibliography of American Retail Merchants." Through mutual friends, it was suggested that he have me review his list. Becker was somewhat surprised by (1) the books I own which were NOT on his list and (2) the number of books in his bibliography which are in my library.

It occurred to me that you, my readers, might have the odd book or two (or even more) about which you sometimes wonder "What am I going to do with these?" There now may be a home for them — with me! Perhaps, for example, you have a copy of *David Lubin* by Olivia R. Agresti, published by Little, Brown & Co. in 1922. Who was David Lubin? He was the Lubin of Weinstock-Lubin, a Sacramento department store. It was later acquired by Hale Brothers which, in turn, merged with Broadway Stores to become Broadway-Hale and, subsequently, became Carter Hawley Hale. In the midst of all of these name changes, Lubin's name was dropped from the store name; today, we have Weinstock stores throughout the California Central Valley and in Reno, Nevada.

Or perhaps you have *Faneuil Hall and Faneuil Hall Market* (subtitled *Peter Faneuil and His Life*) by Abram E. Brown and published by Lee and Shepard in 1900. Faneuil Hall was made famous by Jim Rouse (and vice versa) as the first of a completely new type of shopping center.

RThought: If you have any book(s) seeking a warm, safe, and secure home, please write or call me at 1-510-254-4434. PLEASE don't ship me two tons of books! If you write, please indicate your price if payment is requested. I will reply promptly. Your name, if not already inscribed in the book(s), will be added before the book is placed in my library.

IN EVERY COUNTRY IT TAKES THE SAME SKILLS TO BE SUCCESSFUL

The June 1991 issue of *The Merchant,* the monthly publication of the Retail and Wholesale Association of New Zealand, had the following sidebar:

Those Who Succeed . . .

Successful New Zealand businesses have a number of characteristics in common, according to *The Opportunities Report,* newsletter of the *New Zealand Post's* Direct Marketing Centre.

- They plan.
- They constantly set higher and more challenging goals.
- They avoid "comfort zones" and are prepared to innovate.
- Their primary drives are accomplishments, not money or profit (these follow automatically, if you get it right).
- They solve problems rather than place blame.
- They look at and plan for the worst scenarios.
- They anticipate change and opportunities and prepare for the future as they see it.

RThought: I don't think these rules apply only to those who succeed in New Zealand. Perhaps these words can be used internally by substituting "We. . ." for "They. . . ."

IMPACT OF POS MARKDOWNS ON THE COST OF LIVING INDEX

In recent issues I have pointed out that the Bureau of Census normally considers regular or shelf price when collecting data for both the Consumer Price Index (CPI) and the LIFO Index. Further, the Bureau does not check prices on Saturdays, Sundays, and holidays when point of sale (POS) markdowns are heavy. You could mark everything in the store at 50% off on a Saturday, Sunday, or holiday using a POS markdown, and those prices will not be reflected in either index. Yet these are our largest volume days.

How widespread is the impact? Table I below shows the portion of the CPI based on prices of merchandise sold in specialty and general merchandise stores. I have used boldface type for merchandise where POS markdowns may or usually do conceal the true current prices from the Bureau of Census shopper. The concealment is greater each year as more and more people shop only at sales.

As the column headed "December 1990 Relative Importance Percentage" shows, 13.467% of the total CPI and virtually all of the LIFO Index are affected.

Table I

December 1990 Relative Importance Percentage	Category
1.443%	Men's and boys' apparel
	Men's
	Suits, Sport coats, coats and jackets
	Furnishings and special clothing
	Shirts
	Dungarees, jeans and trousers
	Boys'
2.437	**Women's and girls' apparel**
	Women's
	Coats and **jackets**
	Dresses
	Separates and **sportswear**
	Underwear, nightwear, hosiery and **accessories**
	Suits
	Girls'
.282	**Infants'** and **toddlers' apparel**
.501	Other apparel commodities
	Sewing materials, notions and **luggage**
	Watches and **jewelry**
.884	Footwear
	Men's
	Boys' and girls'
	Women's
3.686	Housefurnishings
	Textile housefurnishings
	Furniture and **bedding**
	Bedroom furniture
	Sofas
	Living room chairs and **tables**
	Other furniture
	Appliances, including **electronic equipment**
	Video and **audio products**
	Television
	Video products, other than television
	Audio products
	Major appliances
	Refrigerators and **freezers**
	Laundry equipment
	Stoves, ovens, dishwashers and **air conditioners**
	Information processing equipment
	Other housefurnishings
	Floor and **window coverings,** infants', laundry, cleaning and outdoor equipment
	Clocks, lamps and **decor items**

Table I, *continued*

December 1990 Relative Importance Percentage	Category
	Tableware, serving pieces and **nonelectric kitchenware**
	Lawn equipment, power tools and other hardware
	Sewing, floor cleaning, small kitchen and **portable heating appliances**
1.147	Personal care
	Toilet goods and personal care appliances
	Cosmetics, bath and **nail preparations, manicure and eye makeup implements**
	Other toilet goods and **small personal care appliances,** including hair and dental products
2.097	Entertainment commodities
	Reading materials
	Books
	Sporting goods and **equipment**
	Sporting vehicles, including **bicycles**
	Other sporting goods
	Toys, hobbies and other entertainment
	Toys, hobbies and **music equipment**
	Photographic supplies and **equipment**
	Pet supplies and **equipment**
.990	Medical care
	Nonprescription medical equipment and supplies
13.467%	TOTAL

The third paragraph (of 26 paragraphs) in the letter to the shareholders in J.C. Penney's annual report for the year ending January 1991 reads:

> **Gross profit dollars for both stores and catalog declined for the year coincident with the fall-off in sales and *the increase in the LIFO reserve resulting from higher merchandise inflation, especially in women's apparel and fine jewelry.* [Emphasis added.]**

Table II below shows the change in the LIFO Index from January 1990 to January 1991, arranged according to the percentage change for the year.

Table II

Bureau of Labor Statistics
Department Store Inventory Price Indexes
by Department Groups
(January 1991 = 100, unless otherwise noted)

Groups	January 1990	January 1991	Percent Change from January 1990 to January 1991*
Infants' Wear	549.8	595.2	8.3%
Women's Outerwear and Girls' Wear	364.9	394.5	8.1
Jewelry	819.7	880.1	7.4
Floor Coverings	508.2	545.1	7.3
Women's and Children's Shoes	570.1	598.3	4.9
Toilet Articles and Drugs	747.7	779.8	4.3
Women's Underwear	470.7	490.6	4.2
Men's Clothing	534.9	555.8	3.9
Women's and Girls' Accessories	520.7	540.7	3.8
Piece Goods	452.0	467.6	3.5
Boys' Clothing and Furnishings	445.8	460.8	3.4
Men's Furnishings	525.5	542.9	3.3
Women's Hosiery	250.9	258.3	2.9
Men's Shoes	841.4	864.7	2.8
Recreation and Education**	109.4	112.2	2.6

Table II, *continued*

Groups	January 1990	January 1991	Percent Change from January 1990 to January 1991*
Notions	540.7	554.0	2.5
Home Improvements**	112.0	114.4	2.1
Auto Accessories**	105.4	107.5	2.0
Domestics and Draperies	594.8	606.9	2.0
Housewares	735.4	747.5	1.6
Major Appliances	243.9	246.8	1.2
Furniture and Bedding	584.7	589.7	0.9
Radio and Television	92.5	89.6	−3.1

*Absence of a minus sign before percentage change in this column signifies price increase.
**Indexes on a January 1986 = 100 base.

J.C. Penney's letter to the shareholders placed emphasis on "women's apparel and fine jewelry." Note that they are Nos. 2 and 3 in Table II.

Knowing how the Bureau of Census collects its data, do you believe the LIFO Index is a true measure of inflation? I do not. *I believe the retail industry is shooting itself in the foot.*

I see more and more use of "50% off" pricing on 14-carat gold. Just a year or so ago stores were happy with a 40% off sale. I suspect that the entire retail industry, which last year might have marked an item at $100 intending to sell it at 40% off, is now marking it at $120 to sell at 50% off! Both result in a $60 price, but the Bureau could report a 20% increase in price.

Jewelry is particularly suspect.

The January 1990 price of gold was $415.96 and dropped to $383.64 in January 1991 (a drop of 7.7%). Silver dropped from $5.533 per troy ounce to $4.208 (a drop of 23.2%).

RThought: There is one happy side to this distortion of the LIFO Index. If a company showed a profit by using the published LIFO figures, there would be a greater tax savings than the IRS intended. But then I doubt that the IRS knows how these indices are constructed. And I doubt that the Bureau of Census really cares that it is turning out consistent — but inaccurate — numbers, nor does it care that it is reducing revenue from federal corporate taxes.

RThought: As for retailers, I think their tax savings are exceeded by the payroll increases and base rent increases that are tied to the CPI. But if retailers don't take the time to understand the figures they write into contracts, they deserve to be punished by the use of those figures.

RThought: Kmart tried for and got the best of both worlds. For 1990 Kmart computed its own LIFO Index. At the end of its fourth quarter last year, Kmart made a retroactive adjustment to its LIFO reserve of $80 million. Since Kmart's index was not approved by the IRS, it could not use it for tax purposes. Kmart used the published LIFO Index for tax purposes and reported an $80 million lower pretax income.

THE NEW LEADERSHIP STYLE

It seems that IBM, long credited with being one of the best-managed industrial companies in the U.S., seems to be telling the world that it is fair that the blame for a less than brillant financial performance can be, and should be, passed on to the rank and file.

Business Week (June 17, 1991) quotes from remarks made by John F. Akers, chairman and CEO of IBM, at an internal IBM management class: "The fact that we're losing [market] share makes me goddamn mad. . . . Everyone is too comfortable at a time when the business is in crisis." Imagine making that statement to your management. How do you think they would respond? Isn't it fair for your middle management to assume that the CEO gets special instructions from above and that the reason your company is losing market share has nothing to do with decisions made by you? Are you not, and is not Akers, denying all responsibility for the loss of market share?

Edward A. Brennan at Sears is making the same kind of statement, demanding that employees be more responsive to customers. But how can a Sears employee be responsive to a customer who purchased an apartment-size Kenmore washing machine for which Sears does not carry the connecting hoses? Inform the customer that he or she can try to find them at an Ace hardware store? Who decided not to carry the hoses? Anybody should be able to figure that one out. The employee, in this actual situation, was trying to be responsive to the customer by suggesting Ace. (Unfortunately, Ace does not carry the unique fitting Sears designed into its private-label product.)

Some CEOs feel comfortable when surrounded by "yes" men and uncomfortable with those who are likely to say "Boss, I don't think that will work and this is why."

Some CEOs are so "in love" with their own intelligence and know-how that they are unwilling to sit down with a group of salespeople or receiving clerks or people from the accounting or credit office and talk about problems. Most employees know that the fastest way to be fired, or at least bypassed for promotion, is to send a suggestion to the CEO, particularly if it is to suggest correction of something the CEO himself set up. The fact that the CEO hasn't done any selling or receiving for a third of a century doesn't, in the CEO's mind, preclude the CEO from having a monopoly on the right answers.

Of the dozens of CEOs in retail companies who proudly announce that they are going to concentrate on improving customer service, I have never heard one say how he or she is going to personally check to see if service does, indeed, improve. I believe most are afraid to talk to the "grunts" in their frontline, the people who are in daily contact with the customers.

It is interesting to study large retail companies. For example, Federated is reported to have made an unsatisfactory return on Ralph's supermarkets. The acquisition of Ralph's, however, must have been made by two salesclerks, a receiving clerk, and an adjustment clerk; certainly, it was not championed by a CEO! Or was it?

RThought: Let me close with a word of advice to the directors, particularly the outside directors. Don't ever appoint a CEO who is not absolutely comfortable when meeting with all levels of employees. He or she must be comfortable when asking people at every level "What could we do better? What are we doing wrong?" — and then sitting back and listening while taking notes. But what is most important, the CEO should implement the good ideas with full credit to the originator of the idea.

PRODUCTIVITY IN RETAILING AND IN A FEW OTHER INDUSTRIES

The Office of Productivity and Technology, Bureau of Labor Statistics, has updated industry productivity figures through 1989.

Here are the productivity figures of key retail segments and some selected high-growth industries.

Retail Industry	Average Annual Percentage Change From	To 1989	Average Annual Percentage Change 1984-89	Percentage Change 1987-89	Percentage Change 1988-89
Hardware stores	1972	1.6%	2.8%	8.8%	−0.1%
Department stores*	1967	3.1	2.0	0.8	−1.7
Variety stores	1967	−1.2	−6.4	−1.5	7.8
Grocery stores (supermarkets)	1972	−0.6	−2.2	−1.0	−3.1
Auto and home supply stores	1972	2.9	3.4	4.4	0.5
All apparel and accessory stores	1967	3.3	0.4	1.1	2.0
Men's and boys' clothing	1967	2.4	0.9	−4.2	NA
Women's ready-to-wear	1967	4.2	−0.5	−2.2	−0.2
Family clothing stores	1967	3.5	−0.7	1.6	2.0
Shoe stores	1967	1.5	2.2	2.4	1.5
Furniture, furnishings & equipment	1967	3.1	2.4	3.6	−0.8
Furniture and home furnishings	1967	2.0	0.3	−0.9	−1.9
Appliance, radio, TV and music	1967	4.9	5.6	10.7	0.4
Drug & proprietary stores	1958	3.0	−0.7	0.8	−1.8
Liquor stores	1972	−0.2	−2.3	−2.1	3.2
Selected High-Growth Industries					
Rice milling	1963	2.1	7.6	1.4	21.7
All tobacco products	1947	2.5	6.7	6.2	19.0
Petroleum refining	1947	4.0	5.7	4.8	3.5
Household cooking equipment	1958	4.2	6.6	1.0	6.0
Electric lamps	1954	2.2	4.2	1.4	8.1
Semiconductors & related devices	1972	12.6	12.4	8.0	16.2

*Department stores include discount stores, which account for most of the increased productivity.

Source: *Monthly Labor Review,* May 1991.

RThought: Productivity measures are rough measures because there are varying rates of increased productivity within segments and between companies in an industry.

The rapid increase in productivity in hardware stores reflects the growth of Home Depot, Home Club, Builders Square, and other warehouse-type hardware operations.

The increase in appliance, radio, TV, and music reflects the growth of superstores, such as Circuit City, Silo, Highland Superstores, and others (including several firms now in Chapter 11).

Grocery stores, for many years, increased their productivity. Today, however, their operations increasingly include many labor-intensive departments, such as on-site "scratch" bakeries, service delis, take-out foods, cut flowers, etc.

Variety stores have shown a decline in productivity for years. The 7.8% improvement in one year — from 1988 to 1989 — does not make sense. Unfortunately, the producers of these figures do not have the background to reject or question inaccurate figures, so no explanation is offered. (I have heard that warehouse clubs are classified as variety stores.)

In the "selected" group of high-growth industries, the outstanding increase in productivity of semiconductors and related devices has not been enough to keep the Japanese from taking much of the market formerly served by U.S. companies.

SOME NUMBERS ON UNEMPLOYMENT

Based on the last job held, the number of unemployed people from the retail industry increased from 1,245,000 in July 1990 to 1,628,000 in July 1991. The total increase was 383,000, or 3%.

During the same period the total employment in retailing dropped from 19,809,000 to 19,455,000, a decline of 354,000, or 1.8%.

By major retail groups, the employment change was:

Industry Group	Change in Employment
General merchandise stores	−169,700
Food stores	+ 6,600
Auto dealers and service stations	− 54,800
Eating and drinking places	+ 19,600

Based on June 1991 versus June 1990 for smaller retail groups, the change was:

Industry Group	Change in Employment
Lumber and building materials	− 23,000
Hardware stores	+ 1,900
Department stores (including discount)	−147,400
Variety stores	− 7,100
Miscellaneous general merchandise stores	− 12,300
Auto and home supply stores	− 2,600
Service stations	− 17,000
Apparel and accessory stores	− 53,300
Men's and boys' stores	− 8,500
Women's clothing stores	− 18,500
Family apparel stores	− 5,600
Shoe stores	− 14,300
Furniture and home furnishing stores	− 12,000
Household appliance stores	− 8,200
Radio, TV and computer stores	− 5,200
Drug and proprietary stores	+ 8,300
Liquor stores	+ 500
Sporting goods stores	− 2,800
Book stores	− 1,000
Stationery stores	− 3,100
Jewelry stores	− 5,100
Gift and novelty stores	− 5,200
Sewing and piece goods stores	+ 1,700
Nonstore retailers	− 42,100
Catalog and mail-order houses	− 30,500
Merchandise machine operators	− 4,700
Retail stores (NEC)	+ 15,600

RThought: These figures draw a dim picture. Retailers are shrinking in size. If you exclude the fastest growing companies (Wal-Mart, Home Depot, Costco, The Gap, and a few others), the drop in employment by all other retailers is probably close to 700,000.

Retailers won't be out of the recession until they start to show an increase in employment over the prior year on the order of 700,000 people.

SHORT SHORTS

Merchandising theories destroy our confidence in prices. I have never seen a "Pre-Grand Opening Clearance Sale" with 50% off all merchandise (except for those items which will be 70% off!). Will this be followed by a "Pre-Labor Day Clearance Sale" with 50% off? and a "Pre-Thanksgiving Clearance Sale" at 60% off?

RThought: This ad is along the same line as the Christmas catalog an *RT* reader received on July 11 and the one I received on July 18 (different firms). Are retailers copying car dealers who brought out 1992 models in August? I suggest retailers review the recent success of U.S. carmakers. **RThought:** Advertising by the May Company, Macy's, and Carter Hawley Hale is looking more and more conservative!

Service is the key to success in all businesses. *Entrepreneurial Woman* (2392 Morse Avenue, Irvine, CA 92714; $16.95/yr.), September 1991, interviewed astrology consultant Del O'Connor and asked, "What is your key to success?" The answer: "Customer service. I'm very accessible to my customers — whether they need consultation at my home or by phone." **RThought:** My respect for astrologers rose! Ms. O'Connor found the right answer to service by looking at the stars.

WORDS — ABOUT THE 'ULTIMATE' IN SERVICE

I never know why slips of paper get buried in my office for several years and then turn up! The following story ran in the *San Francisco Examiner*, March 26, 1989, in Rob Morse's column:

The last, final, ultimate Nordstrom service story for now. My friend Debra Hall had been told by her husband that she could not buy any more clothes for a while. But while happening to wander through the downtown [San Francisco] Nordstrom, she saw a jacket she *had* to save from The Rack. She bought it, and the saleswoman said she could bring it back for a refund anytime within three weeks. Two weeks later Debra got a call from the saleswoman, who said the jacket had been marked down 30%, and my friend could have it for that price. Naturally, my friend was thrilled. Then the saleswoman said, "I called you last night at home to tell you about it, but your husbad answered. I figured you probably didn't tell him about it, so I hung up." That's service. If your phone rings in the evening and nobody's there, it may be Nordstrom.

RThought: I am certain that there is at least a battalion of Nordstrom shoppers concentrating on preventing merchandise from moving to the local Nordstrom Rack.

Retailed Monthly/Year-To-Date Sales Comparison ($ million; unadjusted)

SIC Code	Category	June 1991	June 1990	Percentage Change	Year to Date Six Months 1991	Year to Date Six Months 1990	Percentage Change
52	Bldg Matl Group	$ 8,775	$ 9,052	−3.1%	$ 44,800	$ 45,633	− 1.8%
57	Furniture Group	7,325	7,731	−5.3	42,427	44,750	− 5.2
571	Furniture Stores	4,013	4,348	−7.7	23,532	25,357	− 7.2
572	Appl, TV, Radio Stores	2,615	2,765	−5.4	14,981	15,590	− 3.9
5941	Sporting Goods Stores	1,320	1,255	+5.2	6,698	6,734	− 0.7
5942	Book Stores	531	515	+3.1	3,327	3,140	+ 6.0
5944	Jewelry Stores	1,050	1,076	−2.4	5,835	5,957	− 2.0
531 Pt	Conventional Dept Stores	3,868	4,075	−5.1	22,195	22,532	− 1.5
531 Pt	Natl Chain Dept Stores	2,863	3,028	−5.4	15,974	16,405	− 2.6
	Subtotal	6,731	7,103	−5.2	38,169	38,937	− 2.0
531 Pt	Discount Stores	7,382	6,945	+6.3	40,139	37,014	+ 8.4
531	Department Stores	17,015	16,913	+0.6	78,308	75,951	+ 3.1
541	Grocery Stores	29,544	29,214	+1.1	170,282	165,126	+ 3.1
56	Apparel Stores	7,538	7,675	−1.8	42,390	42,209	+ 0.4
561	Men's & Boys' Stores	742	805	−7.8	4,117	4,300	− 4.3
562,3,8	Women's Stores	2,564	2,710	−5.4	14,707	15,168	− 3.0
565	Family Clothing Stores	2,305	2,254	+2.3	12,376	11,657	+ 6.2
566	Shoe Stores	1,410	1,463	−4.6	8,272	8,260	+ 0.1
591	Drug Stores	6,043	5,549	+8.9	36,143	32,568	+11.0
596	Nonstore Retail	3,677	3,809	−3.5	24,058	23,502	+ 2.4
5961 Pt	Mail Order (Dept Stores)	351	385	−8.8	2,054	2,126	− 3.4
5961 Pt	Mail Order (Other)	969	2,049	−3.9	13,248	12,907	− 2.6
	GAF* TOTAL	36,936	37,456	−1.4	206,944	207,600	− 0.3

*General, Apparel, and Furniture.

International - More details on packaging and the environment

Leading retailers in Germany including Karstadt, Hertie and Kaufhof (RNL 385), spurred by national legislation, are active on the environment front.

Bijenkorf stores in the Netherlands, where increasing concern for the environment has taken the form of a voluntary agreement between government and businesses, have also created a post with responsibility for environmental issues within the stores. They predict that the amount of packaging will be drastically reduced over the next ten years.

In France, variety stores are leading the way. Monoprix has created a post with responsibility for environmental issues, a range of "green" products and has started a recycling programme. The same applies to Carrefour and Prisunic, the latter being the first in France to join ERRA (European Recovery and Recycling Association). The French environment minister is introducing laws similar to those in Germany on packaging, 75% of which should be recycled by the year 2000. However, there will be several differences: the first is that waste collection will be a public responsibility; the second is that incineration will be considered an acceptable disposal method; the third is that the measures concerning packaging will include mainly packaging ending up as domestic waste.

In these and other countries, food retailers are most active starting with Migros in Switzerland, Tengelmann in Germany and Asda and Safeway in the UK, the latter to sponsor a new degree course in Environmental Policy and Management.

International - Sales and profitability of retailers

Bob Kahn in his monthly bulletin Retailing Today (Box 249, Lafayette, California 94549) analyses data from Forbes list of the largest companies outside of the US and the performances of retail companies in 1990.

AB
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w/ Rt

In terms of sales, the largest 20 companies are as follows:

Company	Country	Sales ($ mn)
Daiei	Japan	16,016
J. Sainsbury	UK	15,154
Carrefour Group	France	13,929
Ito-Yokado Co Ltd	Japan	12,836
Tesco Plc	UK	11,618
Coles Myer Ltd	Australia	11,365
Promodès Group	France	10,739
Marks & Spencer Plc	UK	10,662

Company	Country	Sales ($ mn)
Jusco Co Ltd	Japan	9,586
Karstadt Group	Germany	9,304
Ahold	Netherlands	9,292
Kaufhof	Germany	9,036
Seiyo Ltd	Japan	9,011
Argyll Group Plc	UK	8,796
Nichii Co Ltd	Japan	8,349
Casino Europe	France	8,240
Delhaize	Belgium	7,965
Takashimaya	Japan	7,308
Mitsukoshi	Japan	7,081
GIB Group	Belgium	6,215

The list is fairly familiar, although there are some firms missing as they are not public companies. However, the article in Retailing Today then gives a table of the ten largest retailers in order of net income rather than sales. The list is as follows:

Company	Country	Sales ($ mn)	Net income ($ mn)
Marks & Spencer	UK	10,662	737
J. Sainsbury	UK	15,154	656
Tesco	UK	11,618	554
Ito-Yokado	Japan	12,836	485
Great Universal Stores	UK	4,355	441
Boots Co.	UK	5,467	396
Argyll Group	UK	8,796	386
Kingfisher	UK	5,636	342
Carrefour Group	France	13,929	298
Coles Myer	Australia	11,375	282

The ranking by profits is somewhat different than the ranking by sales. And Bob Kahn adds: "It is obvious that the British run more profitable stores. I don't know whether this situation is the result of greater skill or less price competition. They (the British) have seven out of the top ten most profitable companies, although only three of the top largest. This is an outstanding performance".

RETAIL NEWS LETTER

INTERNATIONAL ASSOCIATION OF DEPARTMENT STORES
ASSOCIATION INTERNATIONALE DE GRANDS MAGASINS

No. 386 December 1991

Contents

72, BOULEVARD HAUSSMANN, 75008 PARIS - TELEPHONE : (33) 1 43 87 25 80 - FAX : (33) 1 43 87 66 84 - TELEGRAMS : STORESEARCH

TRADER JOE'S COMPANY

POST OFFICE BOX 3270
SOUTH PASADENA, CALIFORNIA 91030-6270
TELEX 182151

Oct. 30, 1991

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

Dear Bob:

Thanks for the apology to Stanford MBAs. You're a classy guy.

Best regards,,

John

John Shields
President & CEO

AB Put as/ Oct 91 issue

IMPACT OF POS MARKDOWNS ON THE COST OF LIVING INDEX

In recent issues I have pointed out that the Bureau of Census normally considers regular or shelf price when collecting data for both the Consumer Price Index (CPI) and the LIFO Index. Further, the Bureau does not check prices on Saturdays, Sundays, and holidays when point of sale (POS) markdowns are heavy. You could mark everything in the store at 50% off on a Saturday, Sunday, or holiday using a POS markdown, and those prices will not be reflected in either index. Yet these are our largest volume days.

How widespread is the impact? Table I below shows the portion of the CPI based on prices of merchandise sold in specialty and general merchandise stores. I have used boldface type for merchandise where POS markdowns may or usually do conceal the true current prices from the Bureau of Census shopper. The concealment is greater each year as more and more people shop only at sales.

As the column headed "December 1990 Relative Importance Percentage" shows, 13.467% of the total CPI and virtually all of the LIFO Index are affected.

Table I

December 1990 Relative Importance Percentage	Category
1.443%	Men's and boys' apparel
	Men's
	Suits, Sport coats, coats and jackets
	Furnishings and special clothing
	Shirts
	Dungarees, jeans and trousers
	Boys'
2.437	**Women's and girls' apparel**
	Women's
	Coats and **jackets**
	Dresses
	Separates and **sportswear**
	Underwear, nightwear, hosiery and **accessories**
	Suits
	Girls'
.282	**Infants'** and **toddlers' apparel**
.501	Other apparel commodities
	Sewing materials, notions and **luggage**
	Watches and **jewelry**
.884	Footwear
	Men's
	Boys' and girls'
	Women's
3.686	Housefurnishings
	Textile housefurnishings
	Furniture and **bedding**
	Bedroom furniture
	Sofas
	Living room chairs and **tables**
	Other furniture
	Appliances, including **electronic equipment**
	Video and **audio products**
	Television
	Video products, other than television
	Audio products
	Major appliances
	Refrigerators and **freezers**
	Laundry equipment
	Stoves, ovens, dishwashers and **air conditioners**
	Information processing equipment
	Other housefurnishings
	Floor and **window coverings,** infants', laundry, cleaning and outdoor equipment
	Clocks, lamps and **decor items**
	Tableware, serving pieces and **nonelectric kitchenware**
	Lawn equipment, power tools and other hardware
	Sewing, floor cleaning, small kitchen and **portable heating appliances**
1.147	Personal care
	Toilet goods and personal care appliances
	Cosmetics, bath and **nail preparations, manicure and eye makeup implements**
	Other toilet goods and **small personal care appliances,** including hair and dental products
2.097	Entertainment commodities
	Reading materials
	Books
	Sporting goods and **equipment**
	Sporting vehicles, including **bicycles**
	Other sporting goods
	Toys, hobbies and **other entertainment**
	Toys, hobbies and **music equipment**
	Photographic supplies and **equipment**
	Pet supplies and **equipment**
.990	Medical care
	Nonprescription medical equipment and supplies
13.467%	TOTAL

Matt Wall

The third paragraph (of 26 paragraphs) in the letter to the shareholders in J.C. Penney's annual report for the year ending January 1991 reads:

> **Gross profit dollars for both stores and catalog declined for the year coincident with the fall-off in sales and *the increase in the LIFO reserve resulting from higher merchandise inflation, especially in women's apparel and fine jewelry.* [Emphasis added.]**

Table II below shows the change in the LIFO Index from January 1990 to January 1991, arranged according to the percentage change for the year.

Rob Shouldn't this be 1941 Milt

Table II

Bureau of Labor Statistics
Department Store Inventory Price Indexes
by Department Groups
(January 1991 = 100, unless otherwise noted)

Groups	January 1990	January 1991	Percent Change from January 1990 to January 1991*
Infants' Wear	549.8	595.2	8.3%
Women's Outerwear and Girls' Wear	364.9	394.5	8.1
Jewelry	819.7	880.1	7.4
Floor Coverings	508.2	545.1	7.3
Women's and Children's Shoes	570.1	598.3	4.9
Toilet Articles and Drugs	747.7	779.8	4.3
Women's Underwear	470.7	490.6	4.2
Men's Clothing	534.9	555.8	3.9
Women's and Girls' Accessories	520.7	540.7	3.8
Piece Goods	452.0	467.6	3.5
Boys' Clothing and Furnishings	445.8	460.8	3.4
Men's Furnishings	525.5	542.9	3.3
Women's Hosiery	250.9	258.3	2.9
Men's Shoes	841.4	864.7	2.8
Recreation and Education**	109.4	112.2	2.6

Happy Holidays

Table II, *continued*

Groups	January 1990	January 1991	Percent Change from January 1990 to January 1991*
Notions	540.7	554.0	2.5
Home Improvements**	112.0	114.4	2.1
Auto Accessories**	105.4	107.5	2.0
Domestics and Draperies	594.8	606.9	2.0
Housewares	735.4	747.5	1.6
Major Appliances	243.9	246.8	1.2
Furniture and Bedding	584.7	589.7	0.9
Radio and Television	92.5	89.6	−3.1

*Absence of a minus sign before percentage change in this column signifies price increase.
**Indexes on a January 1986 = 100 base.

J.C. Penney's letter to the shareholders placed emphasis on "women's apparel and fine jewelry." Note that they are Nos. 2 and 3 in Table II.

Knowing how the Bureau of Census collects its data, do you believe the LIFO Index is a true measure of inflation? I do not. *I believe the retail industry is shooting itself in the foot.*

I see more and more use of "50% off" pricing on 14-carat gold. Just a year or so ago stores were happy with a 40% off sale. I suspect that the entire retail industry, which last year might have marked an item at $100 intending to sell it at 40% off, is now marking it at $120 to sell at 50% off! Both result in a $60 price, but the Bureau could report a 20% increase in price.

Jewelry is particularly suspect.

The January 1990 price of gold was $415.96 and dropped to $383.64 in January 1991 (a drop of 7.7%). Silver dropped from $5.533 per troy ounce to $4.208 (a drop of 23.2%).

RThought: There is one happy side to this distortion of the LIFO Index. If a company showed a profit by using the published LIFO figures, there would be a greater tax savings than the IRS intended. But then I doubt that the IRS knows how these indices are constructed. And I doubt that the Bureau of Census really cares that it is turning out consistent — but inaccurate — numbers, nor does it care that it is reducing revenue from federal corporate taxes.

RThought: As for retailers, I think their tax savings are exceeded by the payroll increases and base rent increases that are tied to the CPI. But if retailers don't take the time to understand the figures they write into contracts, they deserve to be punished by the use of those figures.

RThought: Kmart tried for and got the best of both worlds. For 1990 Kmart computed its own LIFO Index. At the end of its fourth quarter last year, Kmart made a retroactive adjustment to its LIFO reserve of $80 million. Since Kmart's index was not approved by the IRS, it could not use it for tax purposes. Kmart used the published LIFO Index for tax purposes and reported an $80 million lower pretax income.

THE NEW LEADERSHIP STYLE

It seems that IBM, long credited with being one of the best-managed industrial companies in the U.S., seems to be telling the world that it is fair that the blame for a less than brillant financial performance can be, and should be, passed on to the rank and file.

Business Week (June 17, 1991) quotes from remarks made by John F. Akers, chairman and CEO of IBM, at an internal IBM management class: "The fact that we're losing [market] share makes me goddamn mad. . . . Everyone is too comfortable at a time when the business is in crisis." Imagine making that statement to your management. How do you think they would respond? Isn't it fair for your middle management to assume that the CEO gets special instructions from above and that the reason your company is losing market share has nothing to do with decisions made by you? Are you not, and is not Akers, denying all responsibility for the loss of market share?

Edward A. Brennan at Sears is making the same kind of statement, demanding that employees be more responsive to customers. But how can a Sears employee be responsive to a customer who purchased an apartment-size Kenmore washing machine for which Sears does not carry the connecting hoses? Inform the customer that he or she can try to find them at an Ace hardware store? Who decided not to carry the hoses? Anybody should be able to figure that one out. The employee, in this actual situation, was trying to be responsive to the customer by suggesting Ace. (Unfortunately, Ace does not carry the unique fitting Sears designed into its private-label product.)

Some CEOs feel comfortable when surrounded by "yes" men and uncomfortable with those who are likely to say "Boss, I don't think that will work and this is why."

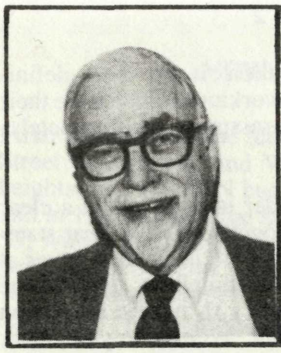
Some CEOs are so "in love" with their own intelligence and know-how that they are unwilling to sit down with a group of salespeople or receiving clerks or people from the accounting or credit office and talk about problems. Most employees know that the fastest way to be fired, or at least bypassed for promotion, is to send a suggestion to the CEO, particularly if it is to suggest correction of something the CEO himself set up. The fact that the CEO hasn't done any selling or receiving for a third of a century doesn't, in the CEO's mind, preclude the CEO from having a monopoly on the right answers.

Of the dozens of CEOs in retail companies who proudly announce that they are going to concentrate on improving customer service, I have never heard one say how he or she is going to personally check to see if service does, indeed, improve. I believe most are afraid to talk to the "grunts" in their frontline, the people who are in daily contact with the customers.

It is interesting to study large retail companies. For example, Federated is reported to have made an unsatisfactory return on Ralph's supermarkets. The acquisition of Ralph's, however, must have been made by two salesclerks, a receiving clerk, and an adjustment clerk; certainly, it was not championed by a CEO! Or was it?

RThought: Let me close with a word of advice to the directors, particularly the outside directors. Don't ever appoint a CEO who is not absolutely comfortable when meeting with all levels of employees. He or she must be comfortable when asking people at every level "What could we do better? What are we doing wrong?" — and then sitting back and listening while taking notes. But what is most important, the CEO should implement the good ideas with full credit to the originator of the idea.

ROUTE TO



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WHEN YOUR BANKER COMES TO HELP YOU, RUN AWAY FAST!

Robert Morris Associates (RMA) publishes *The Journal of Commercial Bank Lending.* As you might guess from the title of the publication, *The Journal* is for bank lending officers. In the August 1991 issue RMA got a bit outside its field with an article entitled "The Credit Department — A Source of Noninterest Income."

The Journal suggests that with proper marketing effort the bank can sell the skills of its loan department. A charge can be made based on the time spent. *The Journal's* idea of what can be sold led me to believe that I have found another reason for the S&L mess and the large number of bank failures.

For example, the author suggests that for $50 the bank could make a comparison of a customer's income and balance sheet figures and ratios with those published in RMA's Annual Statement Studies.

Let me tell you about the RMA Annual Statement Studies in case a bank officer tries to offer this to you.

In the preface, RMA has a six-point statement with a preamble and summary. It begins by saying that the data should be regarded *only as general guidelines* and concludes by saying that *RMA does not recommend that Statement Study figures be considered as absolute norms for a given industry.* Too many loan officers do not read the preamble. They should.

The magazine lets the author take a contrary opinion by suggesting that banks can generate revenue by comparing the published figures with those of the bank's customers.

There are some points that should not be overlooked.

1. The statements used in the study are not selected by any random or statistically reliable method. Member banks submit the raw data with only two restraints: fiscal years may not end between April 1 and June 30 and total assets do not exceed $100 million.

2. Companies are categorized by the *primary SIC* (which may represent less than 50% of a company's total business).

3. In some cases the sample is so small that it may not be representative of the industry.

4. All RMA does is add up the statements, divide by the number of statements, and reduce the average figures to percentages.

5. Companies within the same industry may do accounting

continued page 2, column 1

A FEW THOUGHTS ON SEXUAL HARASSMENT

I have a television set in my office because I spend a great many hours working there. I watched C-SPAN and CNN during the confirmation hearings for Judge Clarence Thomas, including the consideration of the allegations made by Professor Anita Hill.

It brought back memories of 60 years ago.

I entered the retail industry in 1932 as a young boy in high school. I worked vacations in Kahn's Department Store in Oakland, the store founded by my great-grandfather, Israel Kahn, and expanded by Grandfather Solomon, Granduncle Fred, and my father, Irving.

It was against this background that my father had one of his chats with me. The message was: "Bob, you may date any girl you wish as long as she doesn't work at Kahn's."

For quite a while, I thought it was because my name was Kahn. But as years passed, I realized that Dad had been more concerned with the problem of personal relationships interfering with work relationships.

When fresh out of business school, I went to work at Macy's (New York) in the fall of 1940. I was on the "training squad." Macy's had screened many college and business school graduates to form our class. Here, for the only time in my retail career, I dated women from the store where I worked. There were some fine women; several became good friends. But I never went out with one without recalling what Dad had told me.

It seemed somewhat odd to me when the carpet buyer married a clerk in one of the departments in which I had worked. She was most attractive. I believe she had won the title of "Subway Queen of the Month," and I recall that her picture had been posted in all of the cars!

As years went by, I realized that there was a difference between department and specialty stores on one hand and national chains (Sears, Roebuck and Co., Montgomery Ward, and J. C. Penney Co.) on the other. The former had male top executives and women buyers and department managers while the latter tended to hire men as buyers.

One could not spend a career in retailing, spanning 60 years, without knowing or hearing of stories of married male executives expecting sexual "favors" from young women working in their departments or divisions. There were also situations where the women were the aggressors in seeking to use sex to advance their careers. Neither situation is good. In those days there were no laws against

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differently (such as LIFO versus FIFO, leasing fixtures versus owning, using different asset lives for depreciation, etc.). RMA throws them all together and assumes the truth will come out.

6. There may be variations in labor costs, etc., between various areas of the country.

Let me explain some of my correspondence with RMA. RMA offers figures based on 130 department stores under SIC 5311. I noted that the trade accounts receivable ran from 20% to 50% of inventory. Yet, most department stores, especially those with assets in the $50 million to $100 million range, offer revolving accounts; and their receivables are usually equal to or more than inventory.

The explanation of the unusually low ratio of receivables to inventories is that both conventional department stores and discount department stores fall into the SIC 5311 classification. When I wrote to RMA, its reply confirmed my suspicions. I wrote once more, pointing out that few discount stores have their own charge accounts while most department stores do. I asked whether RMA thought it would be a good idea to split SIC 5311 between conventional and discount department stores so that there would be two good sets of figures instead of one useless set. RMA's reply was prompt, stating that it has been doing it this way for years and that nobody has ever complained! RMA further said that to change now would destroy the five-year historical tables which would destroy the usefulness of the report. RMA does not understand that today the sales volume of discount department stores exceeds the combined volume of conventional and national chain department stores.

RThought: Even at the cost of $50 for the comparison mentioned in the article, a comparison of your department store financials with the standards in the RMA Annual Statement Studies is most likely worthless. If you happen to be a discount store, the bank may well become frightened and cut off your line of credit because your working capital, current ratio, fixed assets to sales, etc., are out of line. Loan officers do things like that!

APPLES AND ORANGES ARE THE SAME ACCORDING TO *BUSINESS WEEK*

I don't like inaccurate news stories about retailing.

There are perhaps 30 to 40 newspaper and magazine writers regularly covering retailing who use me as a source. This includes writers with *Business Week* and *The Wall Street Journal* (even its European edition), down to some local dailies with a circulation of less than 50,000.

I provide reporters with copies of *RT* **after** they have signed an agreement not to quote *RT* because I often write articles critical of identified firms in the retail family which are not for the general press. In return I agree to help them with retail stories.

Let me give an example of a bad story about retailing. It was written by Laura Zinn and David Woodruff and appeared in the October 7, 1991, issue of *Business Week.* The title: "Attention, Shoppers: Kmart is Fighting Back."

My first concern was with a chart headed "Kmart: Gaining Ground," which purported to compare the trend in same-store sales for Kmart and Wal-Mart. It showed Wal-Mart declining from 13% in 1986 to 8% (estimate) in 1991. Kmart was shown as declining from 5% in 1986 to 2% in 1990, but climbing smartly back to 5% (estimate) in 1991.

continued from page 1, column 2

sexual harassment; even today there is no clear definition — despite the fact that most working women have their own clear definition of sexual harassment. Unfortunately, the definitions may vary widely.

RThought: I hope every *RT* reader is working on a clear definition of sexual harassment, together with a clear statement that management will not tolerate it. It must cover at least three points: (1) how to file a complaint; (2) how the complaint will be investigated; and (3) that no retaliation will be taken against a complainant. Women in your work force must be involved in developing the policy. The CEO must clearly indicate support. I suggest an accompanying letter from the CEO be given to each employee along with a copy of the statement.

Here is an apple-and-orange situation. According to a study by the National Retail Federation, if Kmart enlarges or relocates a store (today Kmart has many of both), it continues to include all enlarged or relocated stores in its comparative or same-store figures. You and I know how much higher sales are in an enlarged or relocated store. I have seen reports by analysts that show Kmart is getting a 15% sales increase following a 30% enlargement. Wal-Mart, on the other hand, excludes relocated and enlarged stores from its comparison or same-store figures for 12 months so that comparison is always made for truly comparable stores. However, to *Business Week,* "same-store sales" are "same-store sales," even if each company's measure is different.

Then the writers said: "In one of the industry's most woeful years, Kmart's earnings for the first six months rose 9%. . . ." (Wal-Mart's increased by 24%.) Once again, we have a case of apples versus oranges. During the first half of the prior year, Kmart used the government LIFO figures to adjust its income for estimated inflation. At the end of the year, Kmart came up with a surprise. It had developed its own LIFO index, which showed much less inflation and, thus, added $80 million to its profit! Kmart is again using its own LIFO index for this year. The improvement in earnings during the first half is less than the difference between Kmart's LIFO index and the government's LIFO index. Kmart confirmed to me that if it had used the same LIFO index for both years, its profit would have shown a decrease. This has not been mentioned in any of Kmart's releases. To *Business Week,* "profit" is "profit" and always directly comparable.

Kmart may have a problem with its fourth-quarter earnings. I doubt that it can come up with another "pencil" adjustment of $80 million!

RThought: Right now Kmart is doing many good things under the leadership of Joseph Antonini. It is unfortunate that a decision has not been made to be completely open about the comparative profit and comparative same-store sales. The reports that I read and hear about Kmart's new stores are very complimentary — even the reports that come from competitors.

Kmart has made major improvements in the control of its inventory and related ordering. It is improving the efficiency of its distribution. It has accelerated the growth of its Pace Membership Warehouse Club subsidiary since Pace was acquired. The same is true of Sports Authority. A major expansion program has been developed for Pay Less Drug NW, including the acquisition of a large group of stores from American Stores.

Today Kmart has a good story to tell. *Business Week* could

HOW MANY TELEVISION SHOPPING CHANNELS WILL THE PUBLIC SUPPORT?

First, there was Home Shopping Network (HSN). It took Wall Street by surprise, and Wall Street bid the stock to ungodly heights. In 1986 HSN had a high of $23 5/16 and a low of $3; and in 1987 the all-time high of $47 was reached with a low of $5, with a year-end figure of $5 3/8. Based on 1987 earnings per share of 33 cents, $47 means a P/E ratio of 142! For the 52 weeks ending October 24, 1991, the range was from $7 5/8 to $2 7/8; it closed at $5 1/2 with a P/E ratio of 20.

As usual, many major retailers were certain they could do a better job than HSN — and they tried. Soon we had CVN, QVC, and JCPTV (the J. C. Penney Company's television shopping channel). QVC swallowed CVN, which was larger, and ended up with a lot of debt and a $17 million loss for 1990 (year ending January 1991). Then QVC tried to buy JCPTV. QVC failed, but it ended up with an agreement to do the programming for JCPTV.

RThought: Now there are two companies. Nobody is rushing to buy either stock. Daily trading in HSN is about .1 of 1 percent of the shares outstanding; and the rate is about the same for CVN. It is not inconceivable that this five-year-old industry may soon be down to just one company.

It was only five years ago that article writers were telling us that soon 10% to 20% of retailing would be done by television; some did say "as soon as we have interactive TV" (forgetting that years ago we had a failed Qube experiment with interactive TV in Columbus, Ohio).

Harvard Business Review (*HBR*) is always ready to publish an article about how video selling will take over the world. The September-October 1978 issue carried an article by my old professor, the late Malcolm P. McNair, and my good friend, Eleanor G. May, entitled "The Next Revolution of the Retailing Wheel."

The first paragraph of the article contained this thought:

> **As one aspect of such change, some authorities expect that by early in the twenty-first century, almost all food and other basic household needs will be acquired through the use of in-home television computer systems, and shopping choices will be made after viewing assortments, selections, prices, and brands on the television screen together with programming of the household's customary wants, needs, customs, and habits.**

McNair and May did not mention that in 1887 Edward Bellamy had foreseen such a system in his famous book, *Looking Backward,* which included a forecast of what we would be doing in the year 2000.

McNair and May did give credit to Alton F. Doody and William R. Davidson, then professors at Ohio State and later two of the three founders of *Management Horizons,* whose article, "Next Revolution in Retailing," appeared in the May-June 1967 *HBR.* They reported a dialogue between Susan and Jim Brown on "a Thursday night in the 1970s" as Susan used her Direct-Shop console.

McNair and May did quote a writer who may have been more accurate in his forecasts, Isaac Asimov, who wrote an article entitled "The Super Market 2077 A.D.," which appeared in the June 1977 *Progressive Grocer.*

The July-August 1980 *HBR* had an article by Professors Larry J. Rosenberg and Elizabeth C. Hirschman, entitled "Retailing Without Stores." They wrote of the increasing volume of telephone and mail orders at Bloomingdale's, J. C. Penney, and Sears, Roebuck and Co.; the Qube interactive TV experiment by Warner Communications in Columbus, Ohio; the increased use of bankcards; and the increasing amount of in-flight shopping catalogs used by airlines.

The authors' concluding paragraph began:

> ***We see as a virtual certainty* that the era of widespread telecommunication shopping is approaching. We predict that this era will witness significant alterations in the concept of retailing and the nature of retail competition. Like all predictions of great change, this forecast is subject to uncertainties. However, it is worth stressing that our picture of the post-revolution retailing scene is based partly on evidence available today, *as well as our reasoned opinion on probable outcome.* [Emphasis added.]**

The October 1981 issue of *Chain Store Age Executive* ran an article entitled "Electronic Retailing: Force for the Future?" in which Michael McLaughlin of Booz-Allen & Hamilton predicted, "By the end of the decade [which we just passed] 40,000 existing stores and 20% of the current retail sales force could be impacted by electronic retailing." *Management Horizons* had forecast that "20% of United States retail sales will be transacted over videotex systems [remember them?] by 1990."

In 1991 Sears completed its pilot test of a videodisc catalog and said it received overwhelmingly favorable reviews from the shoppers in nine stores. However, the tests were discontinued and Sears has no plans for a successor.

National Home Center News on May 10, 1982, quoted the director of retail sales at Lowe's Cos. as believing regular teleshopping and electronic merchandising were not far off. Tom Roskelley of Scott's said that its firm would have to take a serious look at teleshopping.

Discount Store News on February 7, 1983, announced that Consumers Distribution (Canada) had put a 500-page "electronic catalog" into use.

DSN on November 14, 1983, editorialized after the Touche Ross & Co. seminar on "The Promise and Pitfalls of Electronic Shopping." Richard Adler of the Institute of the Future said — and the audience agreed — that by 1990 there would be 20,000 interactive terminals. (Where are they?)

Venture reported in its December 1983 issue unnamed market researchers who predicted that by 1990 a "two-way electronic communications medium that enables consumers to shop, conduct banking, and read the morning news on their computer terminals would be a fixture in over 12 million U.S. homes" and that "videotex will be capturing as much as 10% of the nation's retail sales and generating $10 billion in annual advertising revenues."

Chain Store Age General Merchandise Edition in April 1984 headlined an article entitled "Electronic Retailing: On the Threshold." In April 1984 my friends at Touche Ross, Bob Bartlett and Tom Rauh, in a letter to a friend of mine, said, "Touche Ross & Co. has taken a leadership position in evaluating and implementing new business ventures in the emerging field of electronic marketing" and then plugged their 1984 three-day conference at the Waldorf Astoria Hotel.

In November 1984 Electricstore Services, a division of R. R. Donnelley Co., had the "first interactive electronic shopping system designed specifically to meet the needs of retailers." (I

FEATURE REPORT ***continued:***

wonder whose needs the others met?) *Retail Technology,* October 1985, announced that "in-store retailing goes video." *Venture,* January 1986, quoted Touche Ross as predicting that 100,000 interactive machines will be in use by 1990. *DM News,* March 15, 1986, repeated the Touche Ross forecast. **AND THEN MY FILE GOES SILENT.**

RThought: Despite all the famous names quoted herein, don't count on massive interactive electronic selling by the end of this century. Many people still like to touch, feel, scrutinize and try on items before they buy. Many people have bought items by mail or TV which were not satisfactory and then had the nuisance of returning the item and worrying about whether they would get their refund or credit.

WE ARE INSULATED FROM REALITY

We are not conscious of what is happening in the world.

Periodically, we see something on the TV news about famine in a part of the world remote from us, such as Africa. We may not be able to locate on a map the country being mentioned. The spot on TV may be only seconds, so we do not turn to another channel. When we see a report on starvation and famine in a magazine, some of us quickly turn to the next article.

Here in the United States our birthrate is coming under control. Although we are temporarily experiencing a larger *number* of births because baby-boomer mothers are at their peak child-bearing age, the *rate* of births is far below the 1946-1970 rate.

The United Nations Population Fund has made some projections on the expected growth of various areas of the world. It observed that "racing to provide services to fast-growing populations is like running up the down escalator."

Here are a few changes we can expect:

	Percentage of World Population	
	1950	2025
Europe and North America	22%	9%
Africa	9	20

India will surpass China by the year 2030.

Nigeria could have 500 million people (twice the present U.S. population).

Bangladesh could have 325 million people.

When we look at land on which to grow food, we find a serious problem.

Most of the world uses the metric system (in the late 1700s, Thomas Jefferson tried to get the U.S. to adopt the metric system, when conversion would have been easy). The metric measure of an area is a hectare, roughly 2.5 acres.

The fund made some comparisons of population per hectare. If Nigeria reaches 500 million, it will have ten people per hectare; modern France, with better land, will have three people per hectare. Bangladesh will have even more people per hectare — but only if its land has *not* washed away.

RThought: Just as water seeks its own level, people who can will seek the lands of greatest opportunity. That means a flow from the highest density population areas and the low income and low food supply areas to those with better food and better opportunities. That means Europe, the U.S., and Canada. In the U.S. we have fewer than four-tenths of a person per hectare. If we figure that only 40% of our land is or can be cultivated, that still means 1 hectare per person. But our best flat farmland is disappearing quickly because developers find it to be the cheapest land to build on.

I cannot believe that when hundreds of millions people are starving we will be untouched.

The problem with population is that it grows two ways. First, we improve medical care, enabling existing people to live longer. Second, the birthrate comes down very slowly. In the U.S. our birthrate for a number of years has been at or below 2.05, or the level needed for zero-population growth (if each woman bears two children who survive to be adults — the .05 allows for those who die before reproducing themselves — she will be replacing her parents).

SHORT SHORTS

The Army and Air Force Exchange Service (AAFES) looks more and more like a conventional retailer. For the past four years, I have had the pleasure of serving as one of four consultants to the commander of AFFES. Recently, David Miller, retired vice chairman and chief operating officer of J. C. Penney Company, has joined the group, replacing one of the four consultants; and I have been replaced by Walter Loeb, formerly the senior retail analyst at Morgan Stanley, who is now an independent consultant. AAFES has just moved the four continental U.S. regional offices to Dallas (its headquarters), which will (1) assure the same service to the regions; (2) improve the coordination with headquarters; and (3) reduce costs during fiscal year 1992 by $16 million. AAFES has scanning in all major exchanges. Distribution centers are increasingly automated. MIS and merchandise control have been greatly increased. And now, its titles have become "civilianized": the former deputy commander, a civilian, is now the chief operating officer; the former comptroller is now the chief financial officer; and the personnel department is now the people department. **RThought:** AAFES is a $7 billion retailer (including the largest number of Burger King franchises and what was a $200 million exchange service in Saudi Arabia based on toothpaste and snack foods). The only thing left is something it shares with other retailers — to properly size its stores. It has too many units doing $60 per square foot — per month! When two people are in line, they block the main aisle across the front of the store.

Selling names without permission. In this day, when sales are slow and any buck is OK as long as it isn't covered with blood, selling names becomes a natural. Damark (catalog and direct-response retailer) is offering more than 80,000 names of customers who bought recently — average sale $125 and 80% by credit card. Bullock's (owned by Macy's), the Los Angeles department store, offers 158,000 petite buyers, 246,000 lingerie buyers, and 173,000 fragrance buyers. "Corporate Directors of the Board" is offering 200,000 names. American Federation of Police is offering names of 21,000 directors of security and of 60,000 Floridians licensed to carry a concealed weapon. **RThought:** A buck is a buck. Some say this type of buck is honest — but is it ethical?

have written that story without being inaccurate. I can assure you that reporters who come to me for information for their retail stories have been given all of the facts and, thus, will not have to include such apple-and-orange comparisons.

THE GAP COMPLETES THE CYCLE

Many years ago, when The Gap, Inc. was very small, I did some work with Don Fisher. However, I cannot vouch for the folklore I picked up at that time.

Fisher was a successful real estate investor who had two children who constantly wanted money for just two things: Levi's and records.

One day, when Fisher was in Sacramento on business, he happened past a room on the balcony of the old Senator Hotel. He said to his friend, "When did they open a men's store here?" His friend explained that what Fisher saw was not a men's store; it was the Levi salesman showing his line to local retailers.

This prompted Fisher to open a store. He chose a location on Ocean Avenue in San Francisco which was convenient to both San Francisco City College (now the largest community college in the U.S.) and San Francisco State University. He carried only two products: Levi's and records! He found the former easy to merchandise and the latter difficult. After opening a second store with the same merchandise mix, he discontinued records and carried only Levi merchandise.

The stores were immediately successful. Buying was simple; each week the buyer went to the Levi Strauss headquarters to review all new items. She bought some of them — but not all of them.

Today's Gap is a much different store; it does not depend upon someone else's styling and merchandise; it provides its own merchandise under its own label: The Gap. Until the announcement of July 29, 1991, that it was discontinuing Levis, it still carried a few items, which accounted for about 1% of its sales ($36 million out of $3.6 billion). But, today, no more.

RThought: The Gap is one of the small group of successful retailers who figured out for itself the right thing to do for its customers. In this group you can also put The Limited, Home Depot, Dillard's, Phar-Mor, Wal-Mart, Office Depot, Price Co., Tiffany, Mary Kay, Merry-Go-Round, Costco, The Body Shop, Benetton, Target, Ikea, Carrefour, and just a few others.

Some smaller and, perhaps, less well-known stores are REI (Recreational Equipment, Inc., a cooperative selling what its name implies), Cheaper (a "miniture mass merchandiser" that you might mistake for a convenience store), 4day auto tires, and Dell Computers.

DOES BUYING IN HONG KONG SAVE YOU MONEY?

Dealing with Wishbone Trading Company (which is located at Silvercord, Tower II, 14th Floor, 30 Canton Road, Tsimshatsui, Kowloon, Hong Kong) cost Kmart $130,000 in civil penalties as part of a consent decree with the Federal Trade Commission for violating the Textile Fiber Products Identification Act.

Kmart believed Wishbone when it said that the fabric in its men's shirts was 60% cotton/40% polyester. Kmart did not test the fabric. Had the company done so, it would have found that the fabric was 35% cotton/65% polyester. Whoops!

The complaint sets out the obligation of a United States importer in the following clear statement:

It is an unfair and deceptive act or practice to import and distribute in the United States mislabeled textile fiber products even though the products were mislabeled by a foreign exporter and the importer did not intend to violate the law. An importing distributor has the obligation either to label its products properly or to make certain by testing or other means that the labeling furnished by its foreign supplier is truthful and otherwise in compliance.

RThought: Sometimes we get too enthusiastic about the bargains that can be purchased offshore. When they seem to be too good to be true, perhaps they are. The FTC has no authority over Wishbone Trading Company; perhaps Wishbone is even laughing about the result — and looking for the next U.S. sucker. Kmart, not Wishbone, had to pay the $130,000.

I suggest that all of my readers who import textile products make arrangements with a competent lab to test the fiber content on any imported items.

IF A COMPANY IS GOOD IN ONE AREA, IT IS PROBABLY GOOD IN SEVERAL

Sales & Marketing Management (September 1991) reported its Seventh Annual Survey of America's Best Sales Forces. It looked at six categories of businesses and evaluated them on the following factors:

- Recruiting top salespeople
- Ability to keep top salespeople
- Quality of training
- Opening new accounts
- Holding accounts
- Product/technical knowledge
- Reputation among customers

The results showed that in each industry one firm tended to lead or tie for the lead in most of the factors evaluated:

Category of Business	No. 1 Company	Ranked No. 1
Chemicals	Dow Chemical	5 of 7
Computer & Office Equipment	IBM	4 of 7
Forest Products	Scott Paper	5 of 7
Hotels	Hyatt	6 of 7
Pharmaceuticals	Eli Lilly	5 of 7
Property & Casualty Insurance	Progressive Insurance	4 of 7

RThought: What does this survey have to do with retailing?

It has been my observation that no retailer excels in just one of the following:

- Friendly salespeople
- High in-stock percentage
- Clean restrooms
- Neat store
- Clearly marked merchandise
- Knowledgeable salespeople on the floor
- Well-marked parking lot
- Effective return policy

If the same type of evaluation were to be made of department stores, women's stores, men's stores, hardware stores, discount stores, warehouse clubs, supermarkets, etc., I would expect the winning store in each category to be rated No. 1 in the majority of the categories listed.

SHORT SHORTS

Another fine name pawned off for a few bucks. I was stunned when I received a catalog named *Palette — Spring II* from Gump's. GUMP'S, the famous importer of Oriental art goods and seller of top-quality china, glassware, silverware and linen? I could not believe it. A light dawned when I saw the Dallas address for mail orders. **RThought:** My supposition is that someone in the mail-order business approached Gump's and explained that it was missing money by not taking advantage (and I mean "taking advantage") of its list of loyal customers. I further assume that Gump's got a percentage of the sales done under its name — sales of women's dresses, casual wear, and some jewelry that Gump's probably would not allow in its stores.

WORDS — FOR PERSONAL AND BUSINESS GUIDANCE

Not everyone abides by the standards he or she sets for himself or herself. And sometimes leaders, such as Senator Edward Kennedy, make a public apology for their failure to live by the standards others rightfully expect of them. The World Book says of John Davison Rockefeller (1839-1937):

> He developed his first giant industrial combination by using questionable business practices. Yet his later contributions to the welfare of mankind are an equally important part of his total record.

John D. Rockefeller Jr. (1874-1960) devoted most of his adult life to extending the philanthropic work started by his father. From this devotion, he drew the following beliefs:

I BELIEVE

I believe in the supreme worth of the individual and in his right to life, liberty, and the pursuit of happiness.

I believe that every right implies a responsibility; every opportunity, an obligation; every possession, a duty.

I believe that the law was made for man and not man for the law; that government is the servant of the people and not their master.

I believe in the dignity of labor, whether with head or hand; that the world owes no man a living but that it owes every man an opportunity to make a living.

I believe that thrift is essential to well-ordered living and that economy is a prime requisite of a sound financial structure, whether in government, business, or personal affairs.

I believe that truth and justice are fundamental to an enduring social order.

I believe in the sacredness of a promise, that a man's word should be as good as his bond; that character — not wealth or power or position — is of supreme worth.

I believe that the rendering of useful service is the common duty of mankind and that only in the purifying fire of sacrifice is the dross of selfishness consumed and the greatness of the human soul set free.

I believe in an all-wise and all-loving God, named by whatever name, and that the individual's highest fulfillment, greatest happiness, and widest usefulness are to be found in living in harmony with His will.

I believe that love is the greatest thing in the world; that it alone can overcome hate; that right can and will triumph over might.

RThought: I recall that John D. Rockefeller Jr. was a staunch Republican, although some of the more recent generations of Rockefellers have been Democrats. But wouldn't life and political decisions be easier if we all agreed in these beliefs?

Retail Monthly/Year-To-Date Sales Comparison ($ million; unadjusted)

SIC Code	Category	August 1991	August 1990	Percentage Change	Year to Date Eight Months 1991	Year to Date Eight Months 1990	Percentage Change
52	Bldg Matl Group	$ 8,556	$ 8,543	+ 0.2%	$ 62,069	$ 62,734	− 1.1%
57	Furniture Group	7,688	7,750	− 0.8	57,694	59,994	− 3.8
571	Furniture Stores	4,221	4,380	− 3.6	31,810	33,920	− 6.2
572	Appl, TV, Radio Stores	2,701	2,689	+ 0.4	20,514	20,989	− 2.3
5941	Sporting Goods Stores	1,381	1,275	+ 8.3	9,316	9,160	+ 1.7
5942	Book Stores	813	708	+14.8	4,699	4,365	+ 7.7
5944	Jewelry Stores	989	1,072	− 7.7	7,761	8,049	− 3.6
531 Pt	Conventional Dept Stores	4,586	4,464	+ 2.7	30,505	30,662	0.5
531 Pt	Natl Chain Dept Stores	3,233	3,242	− 0.3	21,979	22,491	− 2.3
	Subtotal	7,819	7,706	+ 1.5	52,484	53,153	− 1.3
531 Pt	Discount Stores	7,865	7,096	+10.8	54,986	50,452	+ 9.0
531	Department Stores	15,684	14,802	+ 6.0	107,470	103,605	+ 3.7
541	Grocery Stores	30,363	29,557	+ 2.7	230,514	223,508	+ 3.1
56	Apparel Stores	8,932	8,542	+ 4.6	58,626	57,901	+ 1.3
561	Men's & Boys' Stores	619	708	−12.6	5,447	5,665	− 3.8
562,3,8	Women's Stores	2,844	2,782	+ 2.2	20,110	20,500	− 1.9
565	Family Clothing Stores	2,954	2,661	+11.0	17,663	16,446	+ 7.4
566	Shoe Stores	1,818	1,773	+ 2.5	11,430	11,388	+ 0.4
591	Drug Stores	6,263	5,770	+ 8.5	48,417	43,819	+10.5
596	Nonstore Retail	4,061	4,000	+ 1.5	32,093	31,337	+ 2.4
5961 Pt	Mail Order (Dept Stores)	354	399	−11.3	2,749	2,864	− 4.0
5961 Pt	Mail Order (Other)	2,242	2,160	+ 3.8	17,692	17,126	+ 3.3
	GAF* TOTAL	40,654	39,381	+ 3.2	283,510	282,004	+ 0.5

*General, Apparel, and Furniture.

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The stores were immediately successful. Buying was simple; each week the buyer went to the Levi Strauss headquarters to review all new items. She bought some of them — but not all of them.

Today's Gap is a much different store; it does not depend upon someone else's styling and merchandise; it provides its own merchandise under its own label: The Gap. Until the announcement of July 29, 1991, that it was discontinuing Levis, it still carried a few items, which accounted for about 1% of its sales ($36 million out of $3.6 billion). But, today, no more.

RThought: The Gap is one of the small group of successful retailers who figured out for itself the right thing to do for its customers. In this group you can also put The Limited, Home Depot, Dillard's, Phar-Mor, Wal-Mart, Office Depot, Price Co., Tiffany, Mary Kay, Merry-Go-Round, Costco, The Body Shop, Benetton, Target, Ikea, Carrefour, and just a few others.

Some smaller and, perhaps, less well-known stores are REI (Recreational Equipment, Inc., a cooperative selling what its name implies), Cheaper (a "miniture mass merchandiser" that you might mistake for a convenience store), 4day auto tires, and Dell Computers.

typo?

DOES BUYING IN HONG KONG SAVE YOU MONEY?

Dealing with Wishbone Trading Company (which is located at Silvercord, Tower II, 14th Floor, 30 Canton Road, Tsimshatsui, Kowloon, Hong Kong) cost Kmart $130,000 in civil penalties as part of a consent decree with the Federal Trade Commission for violating the Textile Fiber Products Identification Act.

Kmart believed Wishbone when it said that the fabric in its men's shirts was 60% cotton/40% polyester. Kmart did not test the fabric. Had the company done so, it would have found that the fabric was 35% cotton/65% polyester. Whoops!

The complaint sets out the obligation of a United States importer in the following clear statement:

> **It is an unfair and deceptive act or practice to import and distribute in the United States mislabeled textile fiber products even though the products were mislabeled by a foreign exporter and the importer did not intend to violate the law. An importing distributor has the obligation either to label its products properly or to make certain by testing or other means that the labeling furnished by its foreign supplier is truthful and otherwise in compliance.**

RThought: Sometimes we get too enthusiastic about the bargains that can be purchased offshore. When they seem to be too good to be true, perhaps they are. The FTC has no authority over Wishbone Trading Company; perhaps Wishbone is even laughing about the result — and looking for the next U.S. sucker. Kmart, not Wishbone, had to pay the $130,000.

I suggest that all of my readers who import textile products make arrangements with a competent lab to test the fiber content on any imported items.

IF A COMPANY IS GOOD IN ONE AREA, IT IS PROBABLY GOOD IN SEVERAL

Sales & Marketing Management (September 1991) reported a Seventh Annual Survey of America's Best Sales Forces. It looked at six categories of businesses and evaluated them on the following factors:

Bob- I didn't think that you had mentioned Nordstrom. BS.

- Recruiting top salespeople
- Ability to keep top salespeople
- Quality of training
- Opening new accounts
- Holding accounts
- Product/technical knowledge
- Reputation among customers

BETSY SANDERS

The results showed that in each industry one firm tended to lead or tie for the lead in most of the factors evaluated:

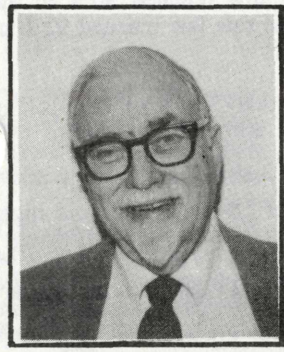
Category of Business	No. 1 Company	Ranked No. 1
Chemicals	Dow Chemical	5 of 7
Computer & Office Equipment	IBM	4 of 7
Forest Products	Scott Paper	5 of 7
Hotels	Hyatt	6 of 7
Pharmaceuticals	Eli Lilly	5 of 7
Property & Casualty Insurance	Progressive Insurance	4 of 7

RThought: What does this survey have to do with retailing?

It has been my observation that no retailer excels in just one of the following:

- Friendly salespeople
- High in-stock percentage
- Clean restrooms
- Neat store
- Clearly marked merchandise
- Knowledgeable salespeople on the floor
- Well-marked parking lot
- Effective return policy

If the same type of evaluation were to be made of department stores, women's stores, men's stores, hardware stores, discount stores, warehouse clubs, supermarkets, etc., I would expect the winning store in each category to be rated No. 1 in the majority of the categories listed.



RETAILING TODAY

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CORRECTIONS

I made two errors in the Feature Report, "Impact of POS Markdowns on the Cost of Living Index," in the October 1991 *RT.*

The first sentence read: "In recent issues I have pointed out that the **Bureau of Census** normally considers regular or shelf price when collecting data for both the Consumer Price Index (CPI) and the LIFO Index." I proofread this paragraph four times and did not catch my own error. It should have read: "**Bureau of Labor Statistics.**"

And to make things worse, I did not catch the error in the heading of Table II. "January **1991**" in parentheses is obviously wrong. It should have read "January **1941** = 100, unless otherwise noted."

GOUGE !!!

Webster's Ninth New Collegiate Dictionary defines the word gouge as: verb transitive, first used 1570. 1: to scoop out with or as if with a gouge (noun, a chisel with a concavo-convex cross section) 2: to thrust the thumb into the eye of 3: to subject to extortion or undue extraction.

"Gouge" was the first word that come to mind when I read 12 folds of small print headed:

**IMPORTANT NOTICE
REGARDING CHANGES IN THE MACY'S CALIFORNIA CREDIT CARD PROGRAM**

First, I noticed that the information would not apply to me if I lived in CO, IA, ME, NC, or WI. Apparently, those states protect their residents.

We are making several changes in the terms of the current Macy's California ("Macy's") Credit Card Agreement with Monogram Bank USA (the "Current Agreement").

It was interesting that no mention was made of the ownership of Monogram Bank. The bank is part of General Electric Company, a major investor in Macy's. General Electric Credit Corporation (GECC) recently purchased Macy's accounts receivable.

On page 1, I was informed of what will happen to me if I make a purchase after the "Purchase Trigger Date" (PTD), but PTD was not defined until page 4.

Then I was told that the monthly periodic rate will be 1.8% or an **ANNUAL PERCENTAGE RATE (APR) OF 21.6%.** The old APR was 19.8%. On November 14, 1991, the prime rate was 7.5%. GECC was paying from 4.70% to 4.85% on commercial paper issued to finance, among other things, Macy's receivables. If GECC can borrow at 4.9%, it is getting a spread of 16.7% (21.6% - 4.9% = 16.7%).

I read this notice the day after the Dow Jones Industrial Average dropped 120 points because President Bush had called for a voluntary limit on the APR on bank credit cards. Congress seemed in the mood to pass such a bill. Then the organized bank lobby claimed that (a) this would threaten the solvency of our entire banking system, and (b) millions of citizens would find their charge accounts closed/bank credit cards cancelled, which would push us further into a recession. The idea of a limit was immediately dropped.

I had already gathered that the 21.6% did not apply to CO, IA, ME, NC, or WI. NV is charged 21%. In any other than those identified states, the APR remains only 19.8%.

Another new feature of Macy's revised plan is that my finance charge will be computed on the "Average Daily Balance Method, including new purchases." But, again, there are protected states: OK and WY.

Up until now I have not been held liable for unauthorized purchases; now I am to be held liable up to $50.

THE DISABILITY 2000-CEO COUNCIL

The Disability 2000-CEO Council is an adjunct of the National Organization on Disability and has the goal of doubling by the year 2000 the number of employed people who have disabilities. This would mean an additional 4 million gainfully employed people with disabilities.

Of the 250 CEOs, as of October 1991, the following represented the retail industry:

Amway Corporation	**Richard M. DeVos**
Jack Eckerd Corporation	**Stewart Turley**
Fleming Companies	**E. Dean Werries**
Hook-SupeRx, Inc.	**Philip E. Beekman**
The Kroger Company	**Joseph H. Pichler**
McLane Company, Inc.	**Drayton McLane Jr.**
Oshman's Sporting Goods, Inc.	**Alvin N. Lubetkin**
J. C. Penney Company, Inc.	**William R. Howell**
QVC Network	**Joseph M. Segel**
United Retail Group, Inc.	**Raphael Benaroya**
Wal-Mart Stores, Inc.	**David D. Glass**
Woolworth Corporation	**Harold E. Sells**

RThought: If you feel you should be part of this group, contact the National Organization on Disability, 910 16th Street, N.W., Suite 600, Washington, D.C. 20006, or telephone 202-293-5960.

continued

There will be a late payment fee of $5 in 21 states, the lesser of 5% or $5 in 7 states (including CA) and no late payment fee in 22 states (plus DC and PR).

My rights in a case of dispute on the quality of purchased property or services were then set forth. First, I would have had to have purchased the item within CA or within 100 miles of my mailing address. (This means I have no warranty if I make a purchase at Macy's in NYC.) Secondly, the purchase must be for more than $50. (Does Macy's plan to sell junk under $50? Does the $50 exclude sales tax?)

Next came a fascinating provision:

> **These limitations do not apply if we own or operate Macy's, or if we mailed you [what if I did not keep the envelope?] the advertisement for the property or service.**

Just when can we expect GECC to foreclose on Macy's? And why does anyone think that GECC will offer better quality merchandise or services than Macy's now offers?

Then there are special provisions for NY, VA, and NJ residents who have accounts with Macy's California.

The return check charge is $10, except in CA, DC, or VA, where it is the lesser of $5 or 5%; in LA, it is the lesser of 5% or $15; and $15 in GA, IN, MO, or NY. There will be no return check charge in DE, IL, KS, MD, MA, MI, MN, NE, NJ, PA, SC, TX, VT, WV, and WY. By deduction, the $10 fee continues to apply to AL, AK, AZ, AR, CO, CT, FL, HI, ID, IA, KY, ME, MT, NV, NH, NM, NC, ND, OH, OK, OR, PR, RI, SD, TN, UT, VI, WA, and WI, a total of 29 states or entities!

RThought: Several questions ran through my mind.

First, why did GECC, as an equity-and-debt holder in Macy's, not suggest that Macy's do this to help improve the income for all creditors of Macy's? Second, with this increase in the APR and other charges, how many months will it take for GECC to recover the premium it paid for Macy's accounts? Third, why does GECC, which owns Monogram Bank, not establish uniform rates and terms as The Limited and Nordstrom have done through the acquisition of their own limited service bank? Fourth, and most important, if Macy's is having a hard time now generating same-store sales increases, how much harder will it be to generate same-store sales increases as Macy's cardholders become annoyed by all of these new terms and cease shopping at Macy's? Could that be part of GECC's plan?

A TREND THAT'S BOTH GOOD AND BAD

We read and watch many reports about the failure of our educational system. The figures below are facts (as best facts can be determined by the Bureau of Census) and as reported in Current Population Report, Series P-20, No. 448, August 1991.

Educational Status of Population 18 to 24 Years Old (percentage of those who completed high school)

Year	White Male	Black Male	White Female	Black Female
1988	79.7%	71.9%	84.8%	77.9%
1980	80.6	66.0	84.4	72.6
1970	80.9	54.8	81.8	63.6

RThought: Somehow our other information is wrong. We have all been given the impression that the dropout rate is increasing, yet the only group showing a decline in graduation rate is White Male (although White Female did not increase by much). The Black Male rate has now reached 90% of the White Male rate. The Black Female rate has reached 92% of the White Female rate.

There are many experts who say that "40% of high-school graduates cannot read, do simple arithmetic, or write well enough to fill out a job application."

When we look at the percentage of 18- to 24-year-old high-school graduates enrolled in college, we find the following:

Year	White Male	Black Male	White Female	Black Female
1988	31.4%	18.0%	31.2%	23.8%
1980	27.3	17.3	25.2	20.8
1970	34.2*	15.7	20.9	15.3

*Vietnam war and subsequent draft encouraged White Males to go to college.

The enrollment of White Male high-school graduates in college is down from the Vietnam-induced high in 1970 but up from 1980 when we were not drafting men. The other three groups show a continued trend toward higher enrollment in college.

Unless colleges are relaxing standards, the increasing percentage of high-school graduates advancing to college must indicate some high schools are doing a better job in either education or motivation.

One of my assistants, who proofreads *RT*, spent two years in New Zealand. She gave me the following note:

"Say something about retailers helping kids go to college and to assume roles in educating kids. They could establish a work/study program, for example, or they could establish teaching programs with hands-on experience.

"New Zealand teens are generally far more mature than ours [she has reared several], and I believe it is directly related to the fact that New Zealand retailers allow them, at the age of 14, to work before and after school. The retailers carefully train the teens and exhibit respect for and confidence in them. They teach them to assume responsibility.

"We treat our teens like pets. New Zealanders treat their teens as valued members of the team, and it shows."

CHANGING CHANNELS OF DISTRIBUTION

Do-It-Yourself Retailing (October 1991) reported that in 1963 the National Wholesale Hardware Association listed 460 full-line wholesalers as members. Today, it has fewer than 150 as members.

As there are more and more billion-dollar DIY retailers, there is more and more direct buying. It is easy to classify hardware wholesaling as a "mature" industry. But it takes a little effort to classify it as a "declining" industry.

RThought: Ace Hardware and Cotter & Company have become very large. Yet, there will always be a place for other wholesalers. The hardware store segment of retailing is like the drug store segment. Many people do not want to travel far when they need just a gadget, a bottle of shampoo, a can of paint, or a faucet washer. When well run, as many hardware stores have become through the assistance from wholesalers, the Home Depot/Home Club/Builders Square/Hechinger/Lowe's/Grossman group of billion-dollar retailers can impact them but will not force them all out of business.

LET'S LOOK AT 'LOWEST PRICE' GUARANTEES

The National Advertising Division (NAD) of the Council of Better Business Bureaus provides a means for responsible advertisers to have their ads reviewed by qualified experts when a complaint is filed.

The NAD Case Reports for October 21, 1991, covered the advertising of Toys "R" Us, which was brought to the attention of the NAD by the Better Business Bureau of South Central Louisiana. The complaint challenged three claims made by Toys "R" Us in a newspaper supplement:

- The world's biggest toy store.
- Lowest prices guaranteed.
- We guarantee the best price. Bring us any current toy ad and we will gladly match the price. Competitor must have advertised item in stock and ad must show specific item and price. Does not apply to %-off ads.

Toys "R" Us advised the NAD that, prior to the inquiry, it had changed the "low price" wording to read:

- Our Price Guarantee Can't Be Beat.
- We guarantee our low prices. Just bring us any current toy ad and we'll gladly match the price. Competitor must have advertised item in stock and ad must show specific item and price.

As part of the presentation, Toys "R" Us described its "everyday low price" philosophy and the steps taken to monitor competitive prices in individual markets. It also provided its annual report to support its claim to be "The world's biggest toy store."

The NAD reached the following decisions:

1. It agreed that the claim to be "The world's biggest toy store" was substantiated.

2. "Lowest prices guaranteed" was not included in the revised advertising, so this complaint was not part of its decision. However, the NAD reserved the right to request substantiation if the claim is used in the future.

3. "Our price guarantee can't be beat" was supported with the withdrawal of the "%-off" exclusion in the revised statement.

RThought: Comsumers must be as confused as I am with the many "low price" guarantees.

Here is what I found in the local papers during Thanksgiving Week:

BEST PRODUCTS

"LOW PRICE GUARANTEE. Find a lower price in 30 days and we'll refund the difference!" This announcement appeared in a prominent box. But the fine print on page 15 read: "LOW PRICE GUARANTEE: If you can find a lower price within 30 days on an identical item, just bring us the proof and we'll match the price! And if we advertise it for less within 30 days, we'll refund the difference. The BEST Low Price Guarantee cannot apply to clearance prices, manufacturers' rebates, going-out-of-business sales, floor samples, one-of-a-kind items or limited quantities, nor can it apply if the item is only available through Mail Order or if the local retailer does not have the merchandise on the premises and for sale at the advertised price. We will match the competitor's price for up to 30 days after you purchase the item from BEST. Simply bring us your receipt. Because quality and workmanship vary so greatly in jewelry, no two items are ever truly identical and our standard guarantee cannot apply."

CIRCUIT CITY

"'Plus 10' Low Price Guarantee. We'll beat any legitimate price found in a local store stocking the same item. Even after your purchase, if you find a lower price within 30 days, including our own sale prices, we'll refund the difference — plus 10% of the difference. *With Circuit City's volume buying advantage, comparisons of some exclusive Circuit City brands and models may not be possible.*" [Emphasis added.] [**Note:** Compare Circuit City's statement regarding private labels with that of Montgomery Ward's policy statement below.]

MONTGOMERY WARD

MONTGOMERY WARD PRICING PLEDGE: "We'll match any store's current advertising price at time of purchase ...*plus,* if you find a lower advertised price *at any store,* including Montgomery Ward, within 30 days after purchase, we'll cheerfully refund the difference. Simply bring in the ad and/or your receipt. *This pledge is not limited to identical items and model numbers like some of our competitors. We will match the same name brand item even if the model numbers are different, if shown on our comparable model charts. And on many items we will also match our price label item with our competitor's comparable name brand or private label items. Our sales associates...have comparable model charts of matchable items.*" [Emphasis added.] Price Matching does not apply to sales of floor samples, one-of-a-kind, damaged or clearance goods, closeouts, limited quantities, special order tires, manufacturers' rebates, sales by other than local stocking retailers, or merchandise sold in mail-order catalogs. [**Note:** Did you catch the difference between this statement and that of Circuit City above?]

RThought: Note that all of the "low price" policies are couched in terms of giving a refund to the *individual* customer who makes the effort of bringing in an ad together with a proof of purchase. At the very minute one customer is getting a refund by proving the store's price is high, the store may be selling an identical item to another customer knowing that the price is not low. Such stores are saying, "We will be competitive **IF** we are caught."

Building #19, a chain of closeout stores (seven in Massachusetts, plus one each in New Hampshire and Rhode Island), used to advertise: "Find the same item selling elsewhere for less and you've earned a FREE bottle of CHAMPAGNE." I asked Jerry Ellis if he just gave the bottle of champagne away and left the price the same. He replied, "If I did that I would destroy my integrity with all of my associates. Of course, I lower the price." Today, he has added five important words to the end of his policy: "...and we'll drop our price."

If other retailers are prepared to lower their prices, I have not read it in their policy statements.

RThought: Note the requirement that the item must be advertised before the "great guarantors" will pay attention. This, to me, is just a way to avoid meeting the prices for those many branded items carried by the warehouse clubs — Costco, Pace, Price, and Sam's (arranged alphabetically to avoid problems of implied favoritism!).

WONDERFUL REPUBLICAN LOGIC FOR THE WEALTHY

A "fringe benefit" that qualifies as a "working condition fringe benefit" is excluded from an employee's gross income. For example, a company provides officers liability insurance for its president. The many thousands of dollars the insurance might cost is not considered part of the president's gross income because a like amount would be deductible as "a trade or business expense."

However, to take that deduction, the president would have to show that he or she was out to make money and, thus, had a profit motive.

But suppose that same president serves as a volunteer director of the local Girl Scout Council, and the Council provides liability insurance? Since the president is then serving as a volunteer and not to make money, the prorata cost of the liability insurance becomes taxable income to her or him and is not deductible because, presumably, she or he is not out to make money as a volunteer.

Right? No, wrong!

Most of these fine public citizens who serve as officers and directors of United Way, Red Cross, etc., are smart enough to want liability insurance. (Liability insurance is something that never enters the mind of a volunteer officer or director of an organizaiton set up to bring hot meals to people dying of AIDS, driving the elderly, working as a classroom aid in a poor neighborhood, etc.)

RThought: We might find a majority of the people concerned about liability insurance to be wealthy and those with moderate income who volunteer to bring meals to people dying of AIDS are less likely to be concerned about liability insurance.

Here comes the IRS with an obvious solution in Proposed Reg ¶1.132-5(r)(1). It says, "A bona fide volunteer who performs services for a tax-exempt organization is deemed to have a profit motive." There it is — black is now white, white is now black, and the problem is solved!

But the regulation has a catch. It says that "you are a bona fide volunteer only if the value of your service as a volunteer is substantially more than the value of the fringe benefits."

I worked my first Community Chest campaign in 1930 and my last United Way campaign in 1981. Starting about 1947, I was on the board of directors and, usually, the Executive Committee. At various times I was a vice president or the treasurer, or I chaired the By-Laws, Finance, Personnel, Policy, Admission, or Budget committees, as well as others.

I must observe that there were many otherwise fine citizens who were "volunteers" (merely wanting a title to put on their resume) who would have had a hard time avoiding being taxed on their prorata share of any officers and directors liability insurance. They attended no or few meetings; there was no "value" to their service.

SHORT SHORTS

Who is doing something about education besides complaining? The constant complaint of retailers is that new employees (being offered pay that is marginally above the minimum wage) cannot do simple arithmetic, spell, speak or dress properly. This is all blamed on the educational system. However, a few corporations are doing something about this problem. *Fortune* (October 21, 1991) showed "Where the Money is Going" from 136 major companies. Only six retailers were on the list:

Federated Department Stores
May Department Stores
Melville
Sears, Roebuck
Super Valu Stores
Tandy

RThought: Were you omitted? If so, write a "Letter to the Editor," *Fortune*, Time & Life Building, Rockefeller Center, New York, NY 10020-1393. If you are not doing anything or, perhaps, not doing enough, buy the October 21, 1991, issue of *Fortune* and get some ideas. Then, do something!

Laws which stores have to follow on billing their customers do not apply to suppliers of stores. I recently received a statement from Fairchild Books that cited only a "reference number" and a date but had no indication of what the item was that cost $72.50. The 1 1/2-inch column headed "Remarks" was, as usual, left empty. A phone call would have to be made. **RThought:** What's good for the goose is not necessarily good for the gander! [**Late Note:** The $72.50 book arrived one week later.]

If you have long-term, such as 20-year, leases, you should be concerned about environmental changes which have a habit of accelerating at a an exponential rate. While our government is arguing about whether acid rain destroys forests, Australia, with about one-twentieth of our population, has approved and funded a plan to plant 1 billion (1,000 million!) trees before the year 2000. Why? To slow soil degradation and absorb greenhouse emissions. The Australian state of Victoria (Melbourne) will plant an additional 100 million trees on its own. **RThought:** This will restore some 50% of the tree cover removed during the 200 years that Australia has been settled by white men. The aborigines were too smart to destroy the trees.

It didn't make sense when Hechinger did it. I used to read with interest the press releases from Hechinger, " The world's most unusual lumber yards," as it announced the opening of new Hechinger stores outside of the District of Columbia area. I felt that if Hechinger was "targeting" potential markets its front sight was loose. And now it has announced the closing of stores in Greenville, South Carolina; Charlotte and Durham, North Carolina; Harrisonburg, Virginia; and Newington, Connecticut. The reason given: "We will further advance our strategy. . . become more efficient and economical to operate by focusing on our key markets." **RThought:** Hechinger's expansion brought to mind the days when discounters like Zayre would brag about how many states they were in after opening two stores in Colorado, one in Utah, two in Georgia, etc. It was impossible to be efficient. Have you heard much about Zayre lately?

SERVICE IS ALWAYS A PROBLEM

The New York Times Sunday edition runs the "Metropolitan Diary," consisting of timely letters from readers. Among the letters appearing on November 24, 1991, there were these three:

Overheard by Stan Friedman at Barnes and Noble, Broadway and 45th Street, where a frustrated young fellow is adrift in the aisles, speaking to no one in particular: "Will someone please help me find the self-help books?"

* * *

Overheard by Elkan R. Gamzu in the first-class cabin of a three-hour-plus flight on a major American airline:

Passenger: What kind of wine do you have?

Attendant: White or red.

Passenger: Is the white chardonnay?

Attendant: Just red or white — that's it, basically.

Passenger, sarcastically: Well, is it a screw-top or does it have a cork?

Attendant, indignantly: A cork, of course. The screw-tops are for the passengers in the back.

Passenger, resignedly: I'll have a glass of the white.

* * *

Gary M. Simko saw a giant-sized sale sign in the window of an upscale shoe store on Columbus Avenue. He enters and proceeds to look at several pairs. "Those shoes are excluded from the sale," a fashionably dressed clerk advises. Mr. Simko points out some others. "They are excluded, too," the clerk says.

"Well, what shoes *are* on sale?" Mr. Simko wants to know.

The clerk's voice becomes confidential. "If you have good taste, nothing is on sale."

RThought: Stores with poor service can always make the "Metropolitan Diary." I believe the publisher tries to keep them down to two or three a week!

IF YOU RELY ON TRW FOR CREDIT ACCOUNT INFORMATION, YOU SHOULD KNOW . . .

TRW was greatly embarrassed in hearings before the House and Senate committees reviewing the Fair Credit Reporting Act.

The Wall Street Journal reported that TRW had reported that 1,400 people in Norwich, Vermont, were delinquent on their taxes! TRW claimed that only two consumers in Vermont were adversely affected.

TRW had contracted with National Data Retrieval, Inc. (NDR) to collect the names of tax delinquents. NDR submitted the names of **all taxpayers instead of just those who were delinquent.** TRW, claiming it to be a precautionary measure, deleted the claims that NDR collected from other towns in Vermont, plus all of Rhode Island, Maine, and New Hampshire until TRW could ensure the accuracy of the data, according to a letter sent to *Privacy Journal* (November 1991). TRW takes the position that inaccuracies are the fault of the source (NDR in this case) and that *erroneous information ought not to be considered if there is no adverse consequence.* [Emphasis added.]

My experience with TRW has not been good. It attributed a bad account to me even though the middle initial and address on the questionable account were not mine (I have had the same street address since 1956 and the same post office box since the early 1980s when the post office renumbered all of the boxes). TRW also attributed to me two accounts belonging to my daughter, Roberta. When I checked Macy's about two other account numbers, I was told no such accounts existed!

RThought: Many of our full-service stores brag about improving service. Charge accounts are one of those services. Why do they buy junk information from TRW — and, as a result, turn down good credit risks? If applicants object, they are treated as though they are crooks trying to steal the store's bank account.

If a store really wants to give good service, it should run statistically sound tests on the accuracy of the credit reports it uses to make credit decisions.

Pull a random sample of credit reports requested, mail a copy to your customer, review the report with the customer, and determine the number of errors per report.

You may be using all three credit sources, so compare the accuracy of one against the other.

[This item was stimulated by an article in *Privacy Journal*, P.O. Box 28577, Providence, RI 02908; $109/yr. Every significant retail firm should have a senior executive read it each month.]

SAVINGS FOR THE ASKING — BUT FEW ASK

I think everyone reading *RT* has read about successful turnaround specialists. They make a practice of going to the lowest level in a sick business and asking those people, "What should we do?"

I think every *RT* reader understands the necessity of a well-operated suggestion system — but most readers do not have one in their business.

I think every *RT* reader knows how important suggestion systems are to Japanese companies. That continuous flow of ideas is an important factor in creating and maintaining the efficiency of those companies.

Many major industrial and service companies do have suggestion systems which contribute significantly to their profits. There is an organization that helps companies establish suggestion programs and which serves as an exchange for information about the operation and success of different approaches and promotions. The name and address is:

National Association of Suggestion Systems (NASS)
One Illinois Center, Suite 200
One East Wacker Drive
Chicago, IL 60601-4298

Telephone: 312-616-1100
Fax: 312-616-0226

Last year, NASS reported the largest award made by a member firm was $177,197, granted by Eli Lilly. The suggestion outlined how to recover and reuse an expensive chemical. Eli Lilly calculated the first-year savings at $708,787 and the award was 25%. The maximum award (I don't understand why there are maximums) at IBM is $150,000, and one such award was paid last year. The Bank of America paid 10% of $363,520 savings to a loan officer who showed that the bank did not have to pay $50 per home loan for property tax information, because the information was available free!

RThought: I have always felt that there are two reasons why so few retailers have really good suggestion systems:

1. Top management believes that the reason it has reached top management is because it knows more than all of the people below it.

2. Top management believes it would be embarrassed if someone from below suggested something obvious (such as the suggestion of the female loan officer in the example above).

RThought: Retailers, if they finally decide to install a suggestion system, should do the following:

1. Join the National Association of Suggestion Systems.

2. Search for and study the printed material on suggestion systems in use by Japanese companies.

3. Put emphasis on ideas which will improve customer service, merchandise presentation, clarity of ads, or employee working conditions, and not just on ideas to save money.

RThought: The retailers with low or no profit need the suggestions from their frontline employees more than do the profitable retailers. But then, there is that matter of embarrassment.

WORDS — FROM AMOS PARRISH

Do any readers remember Amos Parrish? In the period 1945-1960, Parrish stimulated the thinking of retailers. He developed ideas that would make people want to buy a store's offerings. He utilized displays, windows, and attractive ads. In the early fall of each year, he put on a seminar on "How to Sell." He sent the attendees home with a 2-inch thick book of *new* ideas. As controller of a men's store, I remember checking every page for ideas we could use. Not once did he suggest "30% off on everything in a department."

I was pleased to see that Parrish has been remembered by the editors of *Bits & Pieces* (12 Daniel Road, Fairfield, NJ 07004; $17.55/yr.) who recalled one of his statements:

The most precious thing anyone can have is the goodwill of others. It is something as fragile as an orchid and as beautiful. As precious as a gold nugget and as hard to find. As powerful as a turbine and as hard to build. As wonderful as youth and as hard to keep.

RThought: Many retailers talk about "improving service." Many seminars are held on "improving service." Many training departments are "working on service." But none is concentrating on **goodwill.**

I don't know of a single **outstanding** retailer who hasn't earned a lot of goodwill. That goodwill is the product of a myriad of little things which pleased a customer. What retailers really need is more open-ended sessions with the people who are in contact with their customers.

Talk about what they can do to build goodwill. When your people decide what should be done to build goodwill, empower them to go out and do those things.

Retail Monthly/Year-To-Date Sales Comparison ($ million; unadjusted)

SIC Code	Category	September 1991	September 1990	Percentage Change	Year to Date Nine Months 1991	Year to Date Nine Months 1990	Percentage Change
52	Bldg Matl Group	$ 8,055	$ 7,707	+ 4.5%	$ 70,124	$ 70,441	− 0.5%
57	Furniture Group	7,124	7,377	− 3.4	64,806	67,371	− 3.8
571	Furniture Stores	3,919	4,131	− 5.1	35,727	38,051	− 6.1
572	Appl, TV, Radio Stores	2,485	2,580	− 3.7	23,013	23,569	− 2.4
5941	Sporting Goods Stores	1,243	1,122	+10.8	10,583	10,282	+ 2.9
5942	Book Stores	799	738	+ 8.3	5,511	5,103	+ 8.0
5944	Jewelry Stores	923	943	− 2.1	8,687	8,992	− 3.4
531 Pt	Conventional Dept Stores	4,043	4,073	− 0.7	34,542	34,735	− 0.6
531 Pt	Natl Chain Dept Stores	2,752	2,842	− 3.2	24,734	25,333	− 2.4
	Subtotal	6,795	6,915	− 1.7	59,276	60,068	− 1.3
531 Pt	Discount Stores	6,788	6,387	+ 6.3	61,775	56,839	+ 8.7
531	Department Stores	13,583	13,302	+ 2.1	121,051	116,907	+ 3.5
541	Grocery Stores	27,960	28,124	− 0.6	258,529	251,632	+ 2.7
56	Apparel Stores	7,578	7,599	− 0.3	66,190	65,500	+ 1.1
561	Men's & Boys' Stores	691	718	− 3.8	6,139	6,383	− 3.8
562,3,8	Women's Stores	2,626	2,625	0.0	22,732	23,125	− 1.7
565	Family Clothing Stores	2,303	2,204	+ 4.5	19,958	18,650	+ 7.0
566	Shoe Stores	1,435	1,500	− 4.3	12,856	12,888	− 0.2
591	Drug Stores	5,866	5,454	+ 7.6	54,251	49,273	+10.1
596	Nonstore Retail	4,024	3,922	+ 2.6	36,105	35,259	+ 2.4
5961 Pt	Mail Order (Dept Stores)	327	368	−11.1	3,076	3,232	− 4.8
5961 Pt	Mail Order (Other)	2,296	2,166	+ 6.0	19,978	19,292	+ 3.6
	GAF* TOTAL	35,979	35,986	0.0	319,539	317,990	+ 0.5

*General, Apparel, and Furniture.