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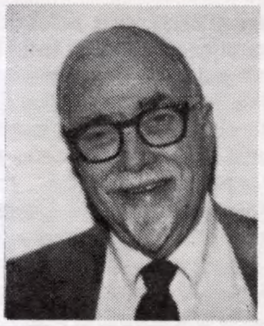

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ROUTE TO

JANUARY 1996

VOL. 31, NO. 1

WHAT PERCENTAGE OF YOUR ACCOUNTS ARE ACTIVE?

The Nilson Report (No. 607), November 1995, provided the first complete 1994 analysis of retail store credit cards, including both proprietary cards and private label accounts carried by third parties such as GE Capital. Because there was such a wide variation as to the percentage of the accounts classified as "active," I tabulated the following:

Percentage Active	Number of Companies	Percentage of Companies
Over 60%	2	3%
55-59	4	7
50-54	4	7
45-49	7	12
40-44	17	28
35-39	11	18
30-34	4	7
25-29	5	8
20-24	4	7
15-19	2	3
Total	60	100%

RThought: The reporting stores have classified 15% to over 60% of their accounts as active. There is either too little cultivation of inactive accounts (only 15% active), which means that sales have been lost, while those who have over 60% active probably are too fast in classifying accounts as inactive.

Fifty-eight percent of the companies came within an active range of 35% to 49%. Although the report did not address this information, the data available permitted me to draw such a conclusion.

RThought: *The Nilson Report,* in my opinion, is the most complete source of information on credit cards and their usage. A subscription for this publication may be entered at 300 Esplanade Drive, Suite 1790, Oxnard, CA 93030 (24 issues a year at $695; $745 outside the U.S.).

ONE MORE PLEA FOR RETAILERS TO JOIN THE EPA'S GREEN LIGHTS PROGRAM

Retailers operating more than 720 million square feet of store space are Green Lights Retail Partners. Would you like a few examples of how they have made wise selections in reducing their energy costs and usage?

A Target store in Fullerton, California, has reduced its energy usage by installing skylights and electronic ballasts on flourescent lamps. Mirrors are used to track the sun in order to provide maximum light. This store's annual energy savings is equal to a year's usage by 140 Fullerton homes!

Continued

NEW YEAR RESOLUTIONS – IN THREE PARTS

It's time to adopt resolutions for living a rewarding 1996. Like Julius Caesar, who said, "All Gaul is divided into three parts," I offer my resolutions in three parts:

Preserving our family:

Never go to bed angry. It is easier to say at night, "I'm sorry," than to face the next day remembering why we were angry when we went to bed.

Marriage is a 60-60 proposition. We have a tendency to dig in our heels at what we think is a 50-50 proposition, but each party must be willing to go more than half way.

We must make time for others, especially our spouse, children, parents, and friends. It takes only a little thought and a little planning to remember them with a small gift. A bouquet of flowers or a single rose sometimes expresses more than words.

Preserving the world:

I have found the Boy Scout Laws to be a good guide in almost every circumstance: "A Scout is trustworthy, loyal, helpful, friendly, courteous, kind, obedient, cheerful, thrifty, brave, clean, and reverent." The Girl Scout Laws are of equal merit: "A Girl Scout's honor is to be trusted. A Girl Scout is loyal. A Girl Scout's duty is to be useful and helpful to others. A Girl Scout is a friend to all and a sister to every other Girl Scout. A Girl Scout is courteous. A Girl Scout is a friend to animals. A Girl Scout obeys orders. A Girl Scout is cheerful. A Girl Scout is thrifty. A Girl Scout is clean in thought, word, and deed."

We must listen more than we talk, praise more than we blame, and treat others as we would like to be treated. Forget hatred: hatred destroys its host.

Every major religion in the world teaches, in one wording or another: Do unto others as you would have others do unto you.

Thomas Paine said, "A long habit of not thinking a thing is wrong gives the superficial appearance of being right." If at first you don't succeed, at least try again. Remember, Dr. Paul Ehrlich found a cure for syphilis on his 606th try. He named the medicine "606."

Developing one's business:

The future depends upon being a partner rather than an adversary with your vendors. Work together and both will flourish.

Be sure to employ all available technology. Those who postpone using it will soon not need it. Technology is useless when a business has failed.

Employees must be treated in the same manner as we would want them to treat our most valued asset: our customers. If either is abused or neglected, you will no longer have customers and your employees will no longer be necessary.

I WISH YOU A HAPPY AND PROSPEROUS 1996!

L.L. Bean's Freeport store has been upgraded from four-lamp T-12 lighting fixtures, with standard ballasts, to four-lamp T-8 fixtures, with electronic ballasts and reflectors. Its annual savings is 71,000 kilowatts, or over $6,800, a savings which will continue year after year. And this improvement is only for part of the store (the balance of which is also being refitted.)

All of the new Lowe's stores meet the minimum standards of the Green Lights Memorandum of Agreement. In addition to savings on lights, the new stores have building management systems based in North Wilkesboro, North Carolina, with additional savings on heating and air conditioning. Out of 21,000,000 square feet, 95% is fixtured with energy-efficient, metal-halide lighting.

After learning that customers thought its stores were closed when they could not see from the outside if lights were turned on inside, Longs Drug Stores upgraded more than 100 of its 300-plus stores. Longs' savings thus far equal 32-million kilowatts, or $1.5 million a year.

Service Merchandise is changing 50 of its stores a year from T-12s and incandescent lighting to T-8s and compact fluorescent lighting, thereby increasing the light and improving the color rendering.

J.C. Penney is saving 57-million kilowatts per year by using T-5 fluorescent lighting and metal halides. Doing so not only provides better lighting but better color rendition.

Safeway has upgraded 335 of its stores, about 12 million square feet, and has saved millions of kilowatts.

Home Depot is building its newer stores with efficient lighting and is re-lamping all of its older stores. It is certainly an appropriate move if it wants to lead in the contractor and do-it-yourself market. With merchandise stacked from floor to ceiling, Home Depot needs adequate lighting to properly present its merchandise.

RThought: It is with pride that I can say that four of the CEOs from the eight companies cited above read *RT.*

RThought: Recent retailers having joined Green Lights are the Department Store Division of Dayton Hudson Corporation (Target and Mervyn's were already members), Lands' End, and Venture Stores.

RThought: If you are interested, please write to Green Lights & Energy Star Program, 401 M Street, N.W. (6202J), Washington, D.C. 20460. Ask for a copy of the October 1995 issue of *Green Lights & Energy Star Update* as well as the forms needed to become a member.

THE SIDE OF WAL★MART THAT THE DAILY AND TRADE PRESS DOESN'T REPORT

The trade press (such as *Women's Wear Daily*) and the local press (too numerous to list on the six pages of *RT*) didn't cover the September opening of the first Wal★Mart store in Bennington, Vermont (the 50th state for Wal★Mart). If they had, their readers would have learned:

1. Wal★Mart took over a former Woolworth store which had been empty for some time. At 50,000 square feet, it was small for a Wal★Mart but the facilities were upgraded and the parking lot was improved. Ninety jobs were created for local people, a fact that Wal★Mart happened to mention during the time some citizens of Bennington were fighting its coming to town and during the time when it was already buying $26 million worth of goods from vendors/partners in Vermont.
2. Wal★Mart encourages associates in every store to take an interest in local nonprofit organizations and allows them to use store facilities and work time to raise money. Wal★Mart then matches what they raise, up to $2,000 for each project. At the opening, checks totaling approximately $13,000 were given by Wal★Mart and its associates to Bennington's local recycling program, D.A.R.E., the United Way, and the Humane Society. In addition, Wal★Mart made a payment of more than the minimum dues to the local Chamber of Commerce and presented the town with a gift of $10,000 to improve its *downtown* lighting.

RThought: Someday, the press will learn that this is typical at a Wal★Mart opening.

RThought: I'll try to keep you posted on any news releases about how the bulk of the Green Mountain State folk take to Wal★Mart. I believe they will get along well, since rural New Englanders are noted for their frugality!

U.S. FINANCES RETAILER IN SOUTH AMERICA BEFORE U.S. RETAILERS ARRIVE

In July, Santa Isabel S.A. sold $65 million of American Depository Receipts which are to be traded on the New York Stock Exchange. Its equity as of December 31, 1994, under U.S. GAAP accounting was approximately $45 million; market value of existing stock as of December 31, 1994, was about $66 million. By any measure, the $65 million exceeded book equity and will provide much expansion before supermarket chains from the U.S., the United Kingdom, or France arrive in Chile and Peru.

Santa Isabel currently operates 11 supermarkets in Peru, with a total space of 190,000 square feet. In Chile, it operates 27 supermarkets, with a total space of 340,000 square feet. Chile's market has been growing rapidly in recent years (there is only one supermarket per 27,000 people).

RThought: If the U.S. provides enough capital, there will be little need for U.S. retailers to go that far south. At present, Wal★Mart is planning Supercenters only in Argentina in a joint venture with Santa Isabel, saying that it is pleased with the performance of the Sam's stores already in that country.

WOMEN'S WEAR DAILY MISINTERPRETS GOVERNMENT RELEASES

Because *Women's Wear Daily's* writers do not understand the releases of the U.S. Department of Commerce, they often publish misleading information.

On November 15, 1995, in an article headlined "Specialty Stores Lead Way in October Sales Decline," *WWD* reported, "On a seasonally adjusted basis, specialty store sales dropped 2.4% in October against September and 2.8% against October 1994." The Commerce Department releases actually report only on *apparel and accessory stores* (not all types of specialty stores) which includes men's and boys', women's clothing, family clothing, and shoe stores (and not other specialty stores such as jewelers, sporting goods, books, etc.). Within that category, family clothing stores are doing much better than the other three apparel categories.

The article then went on to say, "Department store sales declined 0.8% for the month but rose 4.3% when compared to last October." It failed to mention that there are three types of department stores:

- Conventional department stores (May Co., Macy's, etc.)
- National chain department stores (Sears, J.C. Penney, and Montgomery Ward)
- Discount department stores (Wal★Mart, Kmart, and Target)

WHAT MOST PEOPLE DON'T KNOW ABOUT SOCIAL SECURITY: THE FACTS!

Most of the following information has been extracted from the 1995 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds.

There are six members on the board, four because of position (the Commissioner of Social Security and the secretaries of Labor, Treasury, and Health and Human Services) and two appointees of the president of the U.S., who must be confirmed by the Senate. They are assisted by a Technical Panel on Assumptions and Methods and a Technical Panel on Trends and Issues in Retirement Saving.

In order to do their job, the members have elected to make a 75-year forecast each year! Seventy-five years is based on assuming that a person first becomes covered at age 20 and retires at 65 (45 years). In addition, it allows for potential benefits for another 30 years.

Do you know of any *accurate, useful* 75-year forecast?

Consider the problems Congress and the president have projecting income and expenses for seven years!

Their assumptions are broken down into intermediate, low cost, and high cost. Here are the assumptions used. You make your own judgment as to the value of their wisdom. Remember, these are used as constants for 75 years — but can be changed every year!

Annual Percentage Change in:	Intermediate	Low	High
Average wage in covered employment (1)	5.0%	4.5%	5.5%
Consumer Price Index (2)	4.0	3.0	5.0
Real wage differential (increase in wages, less CPI)	1.0	1.5	0.5
Unemployment rate	6.0	5.0	7.0
Annual interest rate (percent)	6.3	6.0	6.5
Total fertility rate (children per woman) (3)	1.9	2.2	1.6
Life expectancy at birth to 2070: Average for men and women in years	80.7	77.9	84.4
Annual net immigration (in thousands)	900.0	1,150.0	750.0

(1) Average wage increase is greater than the increase in the CPI. (It has NOT been true, even for the low estimate during the last decade.)

(2) As I have previously reported, the 20% of the CPI that is represented by expenditures in retail stores is significantly overstated because prices are checked only Monday through Friday, whereas customers make 40% of their purchases on Saturdays, Sundays, and holidays, when prices are significantly lower. Even on weekdays, the CPI "shoppers" usually do not reflect prices that are marked down at the POS.

(3) The fertility rate has been dropping, as is shown by the following table, although the projection is that it will increase.

1960-64	3.45	1985-88	1.87
1965-69	2.62		
1970-74	2.09	Projected:	
1975-79	1.77	1993	2.07*
1980-84	1.82	2010	2.11

*Final 1993 rate is not yet published.

If the percentage of women who are in the work force continues to climb, it is unlikely that 1.90 or 2.20 will be reached.

On a projection of 75 years, a low birth rate means fewer contributing to the trust in relation to those born earlier. Thus, a low birth rate means a high cost to be paid either by raising tax rates or funding from sources other than by the tax levied on workers or employees.

Historical and projected life expectancy in years (National Center for Health Statistics) is as follows:

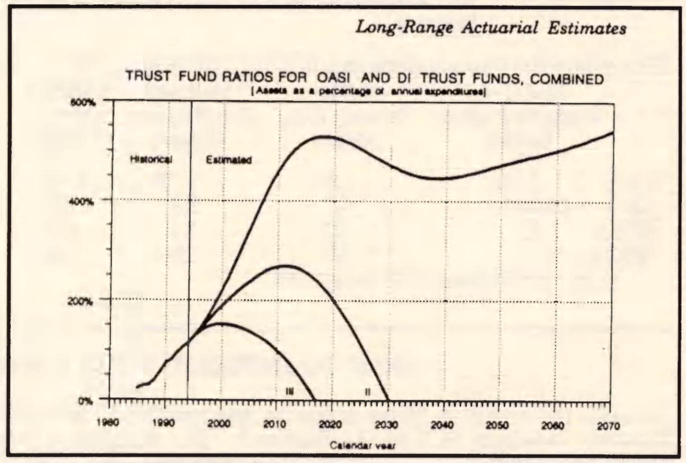
1970	70.8	Projected:	
1980	73.7	2000	76.7
1985	74.7	2010	77.9
1992	75.7*		

*Preliminary

If life expectancy does not reach these estimates, benefits will be paid for fewer years. Thus, the cost will be less than estimated.

The interest on long-term government bonds (30 years) has stayed above 6.5% (the highest figure used) for a number of years and is subject more to decisions made by the Federal Reserve Board in an effort to control inflation than to market forces.

There are many statements of a very positive nature citing the exact years in which the Trust Fund will go broke. The trustees have made an estimate based upon I, or the upper curve, which is low cost and never goes broke; II, which is intermediate and goes broke in 2030; and III, which is high cost and goes broke in 2018. Thus, one has a choice: Everything is OK or there are just 23 years before a complete collapse. Republicans are inclined to use "worst case" and Democrats "best case."



This chart assumes that:

1. The estimates are accurate for 75 years.
2. No changes will be made in the following:
   a. Taxes levied on employees and/or employers.
   b. The formula for determining the coverage of a spouse or widow/widower dependent remains at the present amount that would be paid to the covered employee.

The Social Security Act has been changed a number of times since originally enacted. When I was first covered in the 1930s, the employee deduction was 1% of the first $3,000 of covered wages and was matched by the employer. For 1995, the rate for an employee is 6.2% for the first $61,200 of covered wages and is matched by the employer. The basis for computation is adjusted annually for the change from year to year in the CPI (see notes above on CPI defects).

RThought: With the inability to accurately forecast for even 20 years any of the factors used in the 75-year forecast, much of the discussion regarding demise of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds is sheer demagoguery. The Republicans just want to use this argument to reduce payments so that taxes on business and capital gains can be reduced. And the Democrats know, as well as the Republicans, based on the dozens of changes which have been made in many facets of Social Security since it was enacted over 60 years ago, the law is not going to be unchanged for 75 years.

The Republicans, with their majority in the Congress (which might not last beyond 1996), can pass almost any Social Security bill they wish, but the president can veto it, in which case the present payments will continue until a bill can be passed and signed. Both parties recognize that Social Security will not go broke in 1996, 1997, 1998, 1999, or even 2000, which gives time for statesmen on both sides of the aisle to form a committee, such as the committee led by Senator Daniel Patrick Moynihan (D-NY) which produced the most recent Social Security modifications.

RThought: We need *statesmen:* out of 435 House members and 100 Senate members, there are so few!

With election time growing closer, both parties will be seeking the support of the 35 million AARP members who are or who will soon be receiving Social Security. (A person must be 55 years old to join AARP and at least 62 to receive benefits.)

— continued

Late Note: The problem of forecasting just five years was reported in *Forecast,* the magazine for demographics and business statistics, September/October 1995. It compared the forecasts of four organizations for the next five (not 75) years. The organizations:

• OMB	Office of Management and Budget (part of the president's office)
• CBO	Congressional Budget Office (part of Congress)
• HCFA	Health Care Financing Administration (part of Medicare/Medicaid)
• WEFA	An independent group which makes economic forecasts.

Here is how the four organizations forecast 1995 through 2000:

	Real Gross Domestic Product Growth	10-Year Treasury Note Interest	Medicare Spending Rate Increase	Deficit in 2005 ($ billion)
OMB	2.5%	7.0%	9.3%	$268
CBO	1.8/2.3*	6.7	9.9	471
HCFA	2.5	7.0	8.2	NA
WEFA	2.5	6.7	7.0	136

*1.8% in 1996; then, 2.3% through 2000.

Compare the CBO figures and the OMB figures.

The CBO projects a smaller real growth in the GDP; thus, tax income will be less. It also projects a lower interest on 10-year Treasury Notes; thus, funds in the trust for Social Security and Medicare will earn less. And the CBO projects a greater increase in the growth of the spending rate for Medicare than does the OMB.

As a result of the differences, the Republicans are accepting the CBO estimates in computing their budget, while the administration is using the OMB figures in computing its budget.

RThought: The list illustrates that forecasts cannot be proven to be accurate. Therefore, the Republicans and the president will remain at odds.

RThought: The WEFA group is independent, doing economic forecasts for businesses and governments. Its estimates appear to provide support for those made by the OMB and thus indicate that the deficit is likely to be smaller than the CBO forecasts. (Late in the year 2001 I should be able to tell you which forecast is best, but that is of no help today.)

HOW TO IMPROVE YOUR PROFIT AND FOOL YOUR STOCKHOLDERS

Actually, the article in *Stores* magazine was headlined "Retailers Consider Switching to Cost Accounting." The subheading was "Inventory system is more accurate but companies find it hard to give up traditional retail method." In the article, Sandra K. Vollman, director of accounting for Montgomery Ward, was quoted as saying, "The major advantage of cost accounting is that you truly know what the *cost* is. *You know exactly.*" [Emphasis added.]

But do you know what the *value* of the inventory is?

To support the subject of the article, Kris Spain, southwest regional director of retail industry services in Ernst & Young's Atlanta office, is quoted as having noted at a National Retail Federation conference that 55 percent of general merchandise retailers use the retail method while 45% use the cost system. The problem with the manner in which this "fact" was stated is that it was based on a count of retailers and has nothing *to do with the value of their inventory.*

Suppose the universe consisted of one Ben Franklin franchise doing $500,000 and 2,500 Wal★Mart stores doing over $90 billion a year. In this scenario, Ben Franklin uses a cost method and is 100% owned by the man who manages the store and sees his inventory everyday, while Wal★Mart has an inventory of $14 billion dollars in its 2,500 stores. Spain would probably say, "Fifty percent of general merchandise retailers use the cost system and 50% use the retail method"!

Nothing in the article gives information as to how the value of the nonmoving inventory is reduced to "market." (I am on the board of a manufacturing company and one of the important points of discussion in both the board and the audit committee, of which I am also a member, is what reserves will be set against the inventory so that the company does not give the bank a periodic statement that overstates the *value* of the inventory and thus the profit of the company.)

I will not list here the names of multibillion dollar retailers who have inventory in the back room which is not moving and has *not* been marked down (under the retail method) or reserved (under the cost method). Why? A store manager receives a bonus based on store profit and, as long as the inventory is valued at original cost, which, according to Vollman, "truly [lets you] know what the cost is," the manager's bonus will be larger than under the retail method which, if properly used, reflects current retail value of the inventory.

Do you really want to know the "cost" of dead merchandise? Do you want to fool your owners, public or private, by "proving exactly" the cost of the nonmoving inventory?

The article points to some "archaic" companies still using the retail method, such as PriceCostco and Dayton Hudson, although Dayton Hudson uses the cost method in its Target supercenter pharmacies and grocery departments. I gather this comment is to be taken as an indication that Dayton Hudson is moving toward cost accounting.

RThought: I am most distressed that such an article appeared in *Stores.* I suspect that the editor didn't understand the issue. After all, he is a journalist, not a retail CFO. If the editor had truly wanted to raise the issue of the cost method, equal space should have been given for the Financial Executives Division of the NRF to raise the issues that I am raising here.

Many retailers who read *Stores* are merchants, personnel people, logistics people, or operations people. They may know little about the need to properly value (I repeat, *value*) the inventory so as to correctly reflect the profit or loss of a company.

RThought: In trying to be the first to publish such an article (it wasn't, however), *Stores* was not helpful to its readers.

RThought: The article reported: "There is no such question [about which method to use] at Waban...the parent company of BJ's Wholesale Club and HomeBase home improvement chain. 'Both our divisions use cost accounting and they have been since we started,' noted Edward J. Weisberger, senior vice president, treasurer, and chief financial officer."

Waban's January 28, 1995, annual report was audited by Coopers & Lybrand. Its summary of accounting policies had this to say under "Merchandise Inventories":

> **Inventories are stated at the lower cost, determined by the average cost method, *or market.* The Company recognizes the *write-down of slow-moving or obsolete inventory* in cost of sales when such write-downs are *probable* and *estimable.* At January 29, 1994, merchandise inventories were stated net of a reserve of $9,653,000, established in connection with the Company's restructuring. The balance of this reserve was zero as of January 28, 1995.** [Emphasis added.]

Imagine! All inventory was worth its original cost!

RThought: I have been on the financial side of retailing about 55 years and this is the first time everything in the inventory of a multibillion-dollar retail company has, to my knowledge, been current either that or, for some reason, a year earlier the write-downs were "probable and estimable" but not so this year. Thus, a reserve was not used as of January 28, 1995. Perhaps the presentation was *not* consistent with the prior year.

When the final report is released by the Commerce Department, it will, in all probability, show a decline, or a very small increase, against October 1994 for *conventional* and *national chain* department stores and a *significant* increase for *discount* department stores. Had this been said, a reader would have been better informed.

RThought: It is of no help to subscribers of *WWD* to publish such figures. A simple telephone call to the Service Division of the U.S. Bureau of Census at 301-457-1723 or 301-457-2666 is all it takes to obtain the correct information. Of course, if the assigned writer does not know that there are *three kinds* of department stores and that discount stores do 60% of the department store total sales while conventional and national chain department stores combined represent only about 40%, then *WWD* will continue to provide erroneous information to its readers.

IS J.C. PENNEY 'DOING IT RIGHT'?

The news from J. C. Penney Company that crosses my desk is always interesting, but the latest makes me wonder.

For a little background on one of the situations I am about to present, one of my associates was shopping four years ago with a Penney card in her husband's name. Because there was a contest under way at the time to enroll "new" accounts, an alert salesperson said, "Don't you have an account in your own name?" When my associates said that she didn't, the salesperson encouraged her to do so. Thus, the salesperson received credit for a "new" account.

This year, my associate received a "Happy Anniversary" card from Penney (in fact, she received two). Celebrating four years since the opening of her account, she was given a 15% savings on "regular price" merchandise (I assume some stores still have "regular price" merchandise) limited to stock on hand (however, the discount did not apply to a dozen brands nor to cosmetics). The second card she received was in her deceased husband's name, but it was in celebration of a 31-year account — with a *30% savings!* She, of course, used the 30% coupon.

And then there was the J.C. Penney *Quarterly News* report to stockholders. It reported that a "value" program has been launched and is intended to focus on consumers' increased interest in quality and fashionability at an exceptional price. The marketing program is labeled "*Value* Right, Right Fashion, Right Quality, Right Price."

After reading it several times, I thought it was a misprint: I would have selected "*Right* Value, Right Fashion, Right Quality, Right Price." To me, it sounds better.

RThought: Perhaps the overall program could be called "The Four Rights for Every J.C. Penney Customer" or "The J.C. Penney Bill of Rights." Penney's hang tags could read "The Four Rights" and list each.

FOUR PRINCIPLES AT A TIME — AGAIN!

In last month's *RT*, I commented on the fact that so many people seem to set forth only four principles for success. This magic number was endorsed by my friend, Joe Ellis of Goldman-Sachs, when he addressed his company's 2nd Annual International Retail Conference. After reviewing the international expansion of many retailers from many companies, he offered these rules:

1. A merchandising focus with clarity of offerings
2. Category dominance
3. Use of proprietary merchandise or brands
4. Delivery of value

Examples of companies meeting at least three of these four rules were Marks & Spencer and The Body Shop from the United Kingdom, Ikea from Sweden, and C & A from The Netherlands. Companies mentioned, but not depending much upon the third rule, were Toys "R" Us and Wal★Mart from the U.S. and Makro from The Netherlands.

RThought: If asked, "Which is the most important 'Ellis Rule'?" I would pick the first. With "clarity of offering," the offering can range from service (Nordstrom) to low everyday prices (Wal★Mart). "Clarity of purpose" must be conveyed within clarity. It is obvious that clarity is an important word and too often we do not execute with "clarity."

SHORT SHORTS

I know the smartest man in retailing! It is Dennis Carter, vice president of food at Super Kmart Centers. *Supermarket News* reported that at the Food Marketing Institute's AsiaMart '95 convention Carter said, "The market for supercenters in the United States is heading for saturation by the year 2003 [**Editor's note:** not 2002 or 2004], which means only those players who move rapidly and aggressively will end up with appreciable market share." To my knowledge no one has been able to predict the year in which department stores, supermarkets, off-price apparel stores, DIY outlets, video stores, or any other kind of retail outlet would reach saturation, assuming they ever have. **RThought:** Please join me in anointing Carter as "forecaster supreme" among retailers. **RThought:** Will Kmart have an appreciable share? Remember, Kmart (then S.S. Kresge & Co.) did $3.1 billion in 1971 when Wal★Mart did only $85 *million.*

The picture of Kmart showed an empty parking lot in a full-page ad for prime retail sites available nationwide. The middle of the ad stated, "Closed store liquidation of 200 prime retail facilities located in 35 states offered for immediate sale or sublease on an individual or packaged basis." **RThought:** If these locations are as "prime" as the ad states, why did Kmart close them?

It was satisfying to see the retail support for the United Negro College Fund (UNCF), especially Campaign 2000, which started in 1990 with a $50 million challenge contribution from former Ambassador Walter H. Annenberg, today the largest nongovernmental financial backer of education. With a goal of $250 million, among the 36 donors who gave $1 million or more were J. C. Penney, Sears, and Wal★Mart. Among the other significant donors were Avon Products, Federated Department Stores, The Gap, The Great Atlantic & Pacific Tea Company, Hook-SupeRx, Mary Kay Corporation, May Department Stores, Mercantile Stores, Nordstrom, Payless Cashways, and Walgreen. **RThought:** The UNCF is a good cause, but it needs more support. Remember the UNCF slogan: "A mind is a terrible thing to waste." Even if its goal of $250 million is reached, with cutbacks of government support, good programs such as this one will need our support. The UNCF meets all of the standards of the National Charities Information Bureau.

The American Institute of Certified Public Accountants (AICPA) has taken a position on flat income tax. Senators Sam Nunn (D-GA) and Pete V. Domenici (R-NM) introduced the flat-tax plan, called the "USA Tax." The goal is to tax what is spent, with savings or investments being a deduction. In addition, there would be a deduction of $2,000 per person per year for higher education tuition plus deductions for home mortgage interest, charitable contributions, and alimony. (Isn't Gingrich divorced from his first wife?) AICPA's position is: "We believe that the flat tax is regressive and could disproportionately benefit the wealthy." It also questions some of the plans which eliminate the deduction of charitable contributions, mortgage interest, and real estate taxes. **RThought:** The AICPA supports greater equity in and simplification of the tax system (even though it might cut some of its members net income). The simplifications would do well to address those provisions which are so carefully worded and apply to only one or two people who just happen to be those who gave large campaign contributions (and who are occasionally caught and reported on by the public press).

Eighty-one-year-old Booz Allen & Hamilton, management consultants, recently ran an advertisement welcoming 40 new partners/vice presidents. In reading the list of names, four are women and one name could be a woman's. In any case, 10% are women. **RThought:** Retailing employs a higher percentage of women than does management consulting, but I never see women comprising 10% of officers in retail companies. Someday, we may recover from the phobia that bars promotion of so many well-qualified women.

Retailing in Prague turns from bad to worse. The Czech Republic passed a law, effective January 1, 1995 (but not enforced until July 1, 1995), requiring merchants, with few exceptions, to issue a cash register receipt. A spokesman for the Slovak Ministry of Economy said, "The law is necessary because it is natural for the state to have some control over retailers." **RThought:** The only ones making money are the sellers of cash registers and cash register tapes, because most customers throw their receipts away.

Now that there is a Republican revolt against affirmative action, you may not be aware of what has happened, partially as a result of affirmative action, in education. *Black Enterprise*, November 1995, reported that in 1960 (just 35 years ago) whites had completed an average of 12.3 years of education and blacks only 10.8 years. By 1993 (most recent figures), whites had completed 13.0 years and blacks 12.9. **RThought:** What happens if blacks pass whites? Who will be the winner? Our society. The better educated the people of the U.S., the stronger our society will be in competing in the world economy. **RThought:** We forget that one of the factors, as our economy led the world in the 1945-80 period, was the G.I. Bill. This bill provided a good college education for millions of World War II vets. In fact, at the University of California in 1946-48, the vets on the G.I. Bill had such a strong incentive to learn that the non-vet students referred to them as "The D.A.R.," for "The Damned Average Raisers."

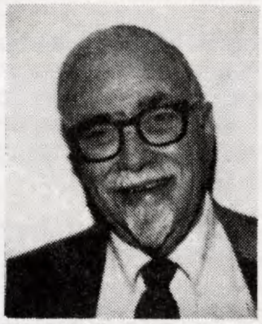
Magazine ethics: Perhaps Mr. Forbes should abandon his campaign for president of the United States and devote some time to ethics at *Forbes* magazine. Once again, *Forbes* has attempted to trap me into renewing my subscription for "one year — 27 issues" *when the form itself shows that my subscription does not expire until June 1997.* **RThought:** This tactic is a favorite trick of magazines (less likely by newspapers) which like to get their hands on our money as many years in advance as possible. For this reason, our office keeps a 3-by-5 card for each of the more than 70 periodicals to which we subscribe. Some of these periodicals regularly bill for renewal six months after a year's subscription has been paid!

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

SIC Code	Category	SEPTEMBER 1995	SEPTEMBER 1994	Percentage Change	Year-to-Date Nine Months 1995	Year-to-Date Nine Months 1994	Percentage Change
52	*Bldg Matl Group	$ 10,796	$ 11,124	- 3.0%	$ 93,595	$ 91,829	+ 1.9%
57	*Furniture Group	10,791	9,897	+ 9.0	90,920	82,636	+10.0
571	Furniture Stores	5,442	5,120	+ 6.3	45,346	42,905	+ 5.7
572	Appl, TV, Radio Stores	4,436	4,142	+ 7.1	38,095	32,791	+16.2
5941	*Sporting Goods Stores	1,674	1,504	+11.3	14,833	13,692	+ 8.3
5942	*Book Stores	928	957	- 3.0	7,095	6,882	+ 3.1
5944	*Jewelry Stores	1,259	1,166	+ 8.0	10,890	10,108	+ 7.7
531Pt	Conventional Dept Stores	4,347	4,244	+ 2.4	35,250	34,354	+ 2.6
531Pt	Natl Chain Dept Stores	3,034	3,029	+ 0.2	26,936	26,504	+ 1.6
	Subtotal	7,381	7,273	+ 1.5	62,186	60,858	+ 2.2
531Pt	Discount Stores	10,805	9,841	+ 9.8	94,466	86,025	+ 9.8
531	*Department Stores	18,186	17,114	+ 6.3	156,652	146,883	+ 6.7
539	*Misc General Mdse Stores	4,516	4,388	+ 2.8	40,568	38,761	+ 4.7
541	*Grocery Stores	31,836	31,255	+ 1.9	286,937	279,170	+ 2.8
56	*Apparel Stores	9,141	8,819	+ 3.7	74,983	74,323	+ 0.1
561	Men's & Boys' Stores	905	931	- 2.8	7,827	7,990	- 2.0
562,3,8	Women's Stores	2,748	2,738	+ 0.4	23,325	23,896	- 2.4
565	Family Clothing Stores	3,374	3,213	+ 5.0	25,256	29,165	+ 4.5
566	Shoe Stores	1,564	1,566	- 0.1	13,331	13,258	+ 0.6
591	*Drug Stores	6,838	6,526	+ 4.8	61,746	59,413	+ 3.9
596	*Nonstore Retail	5,742	5,253	+ 9.3	47,296	43,420	+ 8.9
5961	Mail Order	4,029	3,713	+ 8.5	32,790	30,489	+ 7.5
	**Retailing Today* Total Store Retailing†	101,707	98,603	+ 3.8	885,515	847,117	+ 4.5
	**GAF TOTAL	49,393	46,674	+ 5.8	420,612	397,015	+ 5.9

†Excludes car dealers, auto supply stores, eating and drinking places, service stations, and some specialty stores.
*Included in *Retailing Today* Total Store Retailing.
**General, Apparel, and Furniture.

For further information on these figures, contact Irving True at the Business Division, Bureau of Census, Washington, D.C. 20233, or call 301-457-2706/2708. (Irving has been very helpful to me over the years.)



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ROUTE TO

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NRF ANNOUNCES THE END OF APPAREL BUSINESS

After my annual registration for the National Retail Federation convention, I received the following:

> **Dear Attendees:**
>
> **Sunday, January 14, 1996, will be Casual Dress Day. Please dress casually to best enjoy the Sports Bar Reception. Monday to Wednesday we suggest Business Attire.**

Note the capitalization and the fact that no one was brave enough to sign this "order."

RThought: This message took me back to my days at Macy's in 1940-41. No employee could pass the uniformed guard at the 34th Street employees' entrance without a hat, so the women would often sew a strip of elastic onto their hats so that they could carry them, purselike, over their arm and the men would have their "Teddy Roosevelt campaign hats," a Stetson, which always had a rolled brim from carrying it!

RThought: How are the men's hat department and the women's millinery department doing today at Macy's?

RThought: In less than a century, we have forgotten what Marshall Field taught us: "Give the lady what she wants."

Editor's Note: It was not as an act of disagreement with these instructions, as registered but a nonattendee, that I spent the convention's "Business Attire" days in hospital garb recovering from a laminectomy (back surgery). I understand that we have a lifetime allotment of one such surgery — and I am pleased mine is out of the way!

HOW TWO COMPANIES HANDLED DIFFICULT SITUATIONS

The Gap

The Gap has its goods manufactured in many countries. However, it has no control over the conduct of these manufacturers. In fact, The Gap may not know where its goods are being made because it has many subcontractors for cutting, sewing, etc. Such a situation was uncovered in Southern California where a plant owned and staffed by Thais operated with total disregard of state and federal laws.

Coincidentally, another incident occurred recently at a Gap store in New York. After it was disclosed that goods for The Gap were being manufactured in El Salvador under conditions that met neither The Gap's standard, as required in its purchase orders, nor local law, the Herald Square store was picketed for about two hours at lunchtime on a Friday. The picket was organized by the National Labor Committee, which had brought to light allegations of abuse by The Gap at an El Salvador factory six months earlier and which has also been putting pressure on such retailers as J.C. Penney, Eddie Bauer, and J. Crew. In this case, when The Gap became aware of the problem in El Salvador, it canceled the order, which threw 350 people out of work, and moved the order to factories in Honduras, where workers are paid even less.

Continued

SERVICE

In the August 1995 bulletin from the Illinois Retail Merchants Association, under the heading "Service Fundamentals," a simple statement sets forth a truth we too often overlook:

> **Service is a mind-set and not a program.**
> **A program has an end, service has no end.**

RThought: Those who believe that a company's training department can *teach service* to its employees are in the wrong business and are helping to destroy the company which employs them.

As employees enter your store for their workday, each should have a mind-set of "I am going to meet a lot of people today, and I will do my best to help them so that they will come back to me again, because I look forward to it." Any employee with a mind-set of "At last, only two hours to quitting time!" is in the wrong business.

RThought: Great-grandfather Bernard Baum preferred pack peddling, even when it was raining. Great-grandfather Israel Kahn took joy in starting with a small store on Broadway in Oakland, California, and then moving about nine blocks to the northeast corner of 12th and Washington streets (which soon became the "always busy corner"). Grandfather Sol Kahn took joy in planning one of the largest department stores in California before World War I, which, unfortunately, had to be completed by his brother, Fred, and my father.

Why did they and *their employees* enjoy serving customers? Because they wanted to be sure that their customers would come back again and again — and they did!

Eddie Bauer

When a part-time security guard at a warehouse store in Prince George's County, Washington, D.C., spotted an African-American teenager entering the store wearing an Eddie Bauer shirt, he reportedly told the teenager to remove the shirt. By the time the youth returned with his receipt and was given back the shirt, which he had purchased the day before, he had consulted not only an attorney but the National Association for the Advancement of Colored People (NAACP).

Such conduct is contrary to Eddie Bauer's policy. However, company training apparently had not reached the security guard, who may have had experience as a guard elsewhere with a different policy.

Rick French, president of Eddie Bauer, believed that the situation was of sufficient importance to handle personally, so he sent a letter of apology to the youth and traveled from Redmond, Washington, to Washington, D.C., in order to have a letter signed by all full- and part-time employees explaining that their employment would be terminated if they failed to show respect for customers or acted in a discriminatory manner.

French then sat down with the NAACP, African-American community leaders, and local Eddie Bauer executives and said, "We'll do whatever we can for a fair resolution." One of the ideas which came out of the NAACP meeting was for Eddie Bauer to lead a national publicity campaign against racism.

RThought: We forget how many ways retailing discriminates against African-Americans, Hispanics, Asian, and other ethnic groups within our customer base.

My thought goes back to a client 40 years ago, in the days when accounts receivable were handled on NCR or Burroughs bookkeeping machines. In going through trays of accounts, I noticed that some cards had the letters "lcc" in the upper right-hand corner. The credit manager indicated that the notation meant that the account was for a black person — and that his goal was to eliminate all accounts of black customers! The credit manager may never have understood why HE was eliminated three months later!

Another act of discrimination which comes to mind is asking a person for three or four forms of identification in order to cash a check. Not so long ago, in one major local case, African-Americans and Hispanics were identified by a notation on all checks. The chain's spokesperson stated that in case the check was returned it would help the cashier recall the person!

***RT* Question:** Which response would you want followed: that of The Gap (with sales of $4 billion) or that of Eddie Bauer (with sales of $1 billion)?

ARE CANADIAN RETAILERS MORE ETHICAL THAN THOSE IN THE U.S.?

The Direct Marketing Association of Canada has asked Canada's federal privacy commissioner to enact a set of privacy principles in legislation. The association is aghast that a person should not have the right to know when data is being accumulated or when a holder of a person's name and address is selling such information to private businesses. It is proof, however, that there are some businesses within at least one country which have an ethical sense.

The Direct Marketing Association of the United States is worried that some U.S. legislators may want to follow in Canada's footsteps, which would damage the millions of dollars that some retailers make by selling my name and yours, without our consent. Many U.S. direct-mail companies don't observe the wishes of those who have opted out by listing with the association or who even give their customers an opportunity to opt out.

Most retail associations do not have a detailed code of ethics. None that I know of would expel a dues-paying member for unethical conduct. I won't name, however, the major retailers who have been found guilty, in one form or another, for unethical conduct nor will I list the dozens of major retailers who would fall within that category. I am referring to INTERNAL UNETHICAL CONDUCT.

RThought: As catalogs proliferate, more and more names are being sold for the benefit of the holder of such names and not for the benefit of the customer. To keep posted on such matters, I again recommend that you subscribe to and read *Privacy Journal* (Box 28577, Providence, RI 02908; $109/yr.; $135/yr. overseas). Say, "Bob Kahn referred me."

IS THE REPUBLICAN CONGRESS IN LINE WITH CHIEF EXECUTIVE OFFICERS?

Chief Executive magazine conducts a monthly poll of its readers. The December 1995 issue carried the following results of a poll which asked its readers what U.S. government expenditures they would like to see modified or eliminated:

Program	Deep Cuts	Cut Somewhat	Maintain Present Level	Increase Spending
Medicare (1)	17%	71%	12%	0%
Medicaid (2)	22	63	15	0
Defense (3)	16	48	28	8
Welfare	59	40	1	0
Foreign aid	49	37	12	2
Agricultural subsidies (4)	72	25	3	0
Mass transit subsidies	39	31	25	5
Student loans (5)	37	44	16	3
Public TV and radio	51	37	9	3
VA hospitals (6)	30	25	39	6
SBA loan guarantees	35	37	22	6
Sematech (7)	56	27	15	2
Advanced Technology Program	46	31	16	7
Technology Reinvestment Project	51	31	13	5
Subsidies to electric utility co-ops (8)	82	18	0	0
Clean Car Initiative	70	23	4	3

(1) Most respondents will never have to rely on Medicare, although the majority of our nation's people over 65 will.

(2) Most CEOs are ineligible for Medicaid.

(3) Congress is insisting that the Defense Department spend more than it wants because certain districts and/or states will benefit from the increased, though wasteful, expenditures (e.g., billions of dollars for the B-2 bomber which the Air Force does not want and which has not performed up to specifications).

(4) Subsidy cuts are impossible as long as a tobacco-state senator heads the Agricultural Committee.

(5) Children of respondents are, more than likely, ineligible for SBA loans, although some CEOs may have such benefits from the G.I. Bill or student loans.

(6) Few, if any, CEOs have conditions for which the Veterans Administration fulfills the U.S. government's promise to the veterans of World War II, Korea, Vietnam, Persian Gulf, and, perhaps, Bosnia.

(7) Inasmuch as Sematech (government-financed research) was designed to assist the electronics industry, CEOs from this industry were probably a small number of the respondents. Many people in the electronics industry believe that Sematech has not accomplished its goal.

PROCEDURE FOR PRICE VERIFICATION

I don't know of any major retailer, particularly among food and discount chains, who does not want to have accurate prices. Retailers want the price on an item (if required), on the shelf, in the price lookup (PLU), and in advertisements (if advertised) to all be the same.

On the other hand, I know of no major retailer in a food or discount chain who has developed a statistically sound means of testing the uniformity of the four possible prices which may exist in his or her stores.

No longer do you have to devise such a procedure: the National Conference on Weights and Measures (NCWM), at its 80th Annual Meeting in 1995, adopted an "Examination Procedure for Price Verification." Here is the background.

In 1993, the NCWM established a Price Verification Working Group to respond to the growing public concern about the accuracy of prices when items did not carry price tags and prices were available only on the shelf edge and in the PLU. The group included, in addition to government agencies responsible for the accuracy of weights and measures (which includes the accuracy of prices), representatives from the Food Marketing Institute, the National Retail Hardware Association, the Pennsylvania Food Merchants Association, plus several supermarket companies.

Conspicuous by their absence were the National Retail Federation, the International Mass Retailers Association, and the National Association of Chain Drug Stores.

If you want to learn about the NCWM's price-verification procedure, the first step you should take is to order a copy of the National Conference on Weights and Measures Publication 19, dated August 1995, by contacting Weights and Measures Coordinator Kenneth S. Butcher, Office of Weights and Measures, National Institute of Standards and Technology, Building 221, Room A357, Gaithersburg, Maryland 20899. (Note that there is no street address at this ZIP Code — just a complex of buildings.) You may also place an order by telephone at 301-975-3991; by fax at 301-926-0647; or by e-mail at Stanley@micf.nist.gov.

The publication is a retailer friendly publication, even though it may often be used by offices believed to be otherwise: state attorneys general, district attorneys, etc.

One pertinent section is:

Section 5. Pre-Inspection Tasks

Prior to conducting an inspection, it is recommended that you contact the store management, identify yourself, and explain the purpose of your visit. Determine if there are any health, sanitation, or safety rules. If requested, provide information on the law or the inspection procedure.

Note: When verifying manual-price entries or conducting test purchases, store management is not typically notified of the test until the items and the transaction are completed.

(a) Notify store representatives that they are invited to participate in the inspection.

(b) If the store makes a hand-held scanning device available for use, request instructions on how to operate it properly. It is acceptable for the "pricing coordinator" to operate the scanning device and participate in the inspection.

(c) If you use the manual inspection procedure, advise the store representative that you will return the merchandise to its display location unless the store representative wants to restock the items, which is acceptable. Determine which checkout location to use. Arrange to have the register set so that the items you verify are not included in sales records.

(d) Conduct inspections in a manner that does not disrupt normal business activities.

The manual then proceeds:

Section 6. Inspection
Section 7. Test Procedure

[This section is most important: it sets a rigid procedure for selecting a sample. Note: Following the procedure will preclude the possibility, as has been reported to me, that a shopper may find a dozen or so items that are mispriced and then lead an enforcement officer around to the selected errors — out of 20,000 to 80,000 items — just to seek publicity that the store is crooked.]

The object of the procedure is to obtain a truly random sample of 100 items.

Section 8. Documentation of Findings
Section 9. Evaluation of Inspection Results
Section 10. Accuracy Requirements
Section 11. Enforcement Levels
Section 12. Post Inspection Tasks
Section 13. Supervisory Activities

RThought: I would like to make the following suggestions:

1. As suggested above, obtain a copy of the publication.
2. Summarize the manual in a form that can be provided to every store manager.
3. Include the information in any store manager or assistant store manager training programs.
4. Have your internal audit department review the procedure, particularly the process for selecting a random sample, and report to your audit committee whether or not it is satisfied with the procedure for selecting a random sample. (If not, or if you have a suggestion to improve the procedure or any part of the manual, share it with the Office of Weights and Measures at the address shown above.)
5. Have your *internal audit department* test some of your own stores following the procedure as set forth in the publication.

RThought: I do not know of a single reader of *RT* who has any intention of abusing his or her customer by undercharging or overcharging. Therefore, you must be interested in a "fair" procedure to determine whether or not errors are occurring between the intended price and the PLU price that will be used in computing all transactions at the register.

RThought: All of retailing will benefit if we have a procedure which permits the auditing of price accuracy. If we have complaints, but have the ability to conduct a true, random price checking by use of a procedure established by the Office of Weights and Measures, we should satisfy customers that there is no intent to post an incorrect price at any point — on an item, on a shelf, in an advertisement, or in a PLU.

ARE WE TRYINO TO SABOTAGE OUR ALLY, RUSSIA?

The July 25, 1994, issue of *Business Week*, under the heading "Summer School for Would-Be Capitalists," reported on a group of 23 Russian financiers who came to the U.S. for a 12-week crash course in the basics of American business and government. Among the plants visited was that of JoS. A. Bank Clothiers, where the visitors were exposed to suits being sewn from pieces of fabric which are precision cut by the use of a computer. On their visit, they were also introduced to piece-rate compensation rather than hourly compensation. One of the "students," an economics professor, observed, "The U.S. economy is focused on pleasing customers. In Russia, customers exist only for industry — it should be the other way around."

RThought: We, in retailing, regularly tell each other that we want to please the customer. I read dozens upon dozens of publications from The *College Journal* to *Stores* to *MMR* to *Business Week* to *Inside Retailing* (both the U.S. and the Australian publications) where there is much written about "pleasing the customer." And I also listen to customers (many of whom are friends and colleagues). It is apparent that we, as an industry, are failing.

Popular Science, August 1994, reported on the Mazda RX-7. The article contained information on a survey which was based on a selected sample of 223 owners (customers) who spent $25,000 to $30,000 on this 1994 model. The owners were asked such questions as:

> Why did you choose the RX-7?
> What is your average mileage per year?
> How would you rate the handling of the car?
> How would you rate the braking?

They were also asked to give their...

> specific likes and dislikes,
> suggested changes,
> opinions on workmanship, and
> opinions of dealer service.

On the same basis, when will a publication such as *Stores, Chain Store Age,* or *MMR* start to report on specific retailers?

A survey should be conducted, starting with the top 100 largest retailers. The sample should be larger than 223 customers, as was done by *Popular Mechanics,* and should be spread over the territory served by the chain. Using the list of the 100 largest retailers, the survey would cover discount stores, supermarkets, warehouse clubs, home centers, drug chains, apparel chains, and even pet-store chains.

It is time for us to begin to accumulate an accurate picture of what our customers think of us.

RThought: *Popular Mechanics* does it for cars; *Consumers Report* does it for individual items; the Book Review in *The New York Times* does it for books; and newspaper writers do it for television programs. But who will do it for retailing? Perhaps it will be one of the Big 6 accounting (and consulting) firms, Management Horizon, Willard Bishop, or Leo J. Shapiro. Who?

SHORT SHORTS

Attention readers who sell STP motor-oil additives: As part of the "get tough" attitude which is apparent at the Federal Trade Commission, the FTC has imposed an $888,000 civil penalty on STP Corporation because it violated a 1976 FTC order under which STP was prohibited from making false and unsubstantiated claims for its oil additives. **RThought:** Here's hoping that this suit doesn't inspire suits against retailers because something went wrong with a car using an STP product. As this settlement is publicized, you may find your stores overstocked.

Sometimes, even an FTC order expires. The *FTC News Notes* of September 11, 1995, contained the following:

> **The FTC has set aside a 1964 order against Giant Food, Inc., because the order is more than 20 years old. The order prohibited Giant from inducing its suppliers to offer, or receiving from its suppliers, compensation for promotional services or facilities on terms that Giant knew were not proportionately equal to the terms those suppliers offered other retailers. [FTC Docket No. 6459, September 12, 1995]**

RThought: Does this mean that Giant Food can now do all of these dastardly deeds? It appears appropriate that Giant be allowed to operate on a level playing field, a field where everyone gets slotting allowances or sells end displays without regard to whether or not its competitors received exactly the same amount of allowance.

In case you use Deloitte & Touche to help make decisions, the following statements appeared in the *same* newspaper on the *same* day in answer to a reporter's question about what is happening to Christmas retail business: "From my perspective, it's looking really slow, compared to what I've seen the last few weekends. That must be disappointing news to retailers, given the fact that this is supposed to be the busiest shopping day," said Tony Cherback of the Costa Mesa office of Deloitte & Touche. Richard Giss of the Los Angeles office said, "It was a very solid turnout in Southern California despite concerns that the region's increasingly debt-laden customers might pare their holiday spending and impede the area's recovery. There was more buying than expected." **RThought:** If you want a pickup, ask for Giss; if you want to be discouraged, ask for Cherbak! Perhaps Deloitte & Touche's motto should be "We support all moods." **RThought:** Anyway, I always have a problem with conclusions drawn from a nonscientific sample.

Nordstrom is not alone. One of my associates, while shopping at Strouds Linen Warehouse in Walnut Creek, California, found that the store did not have a rug in the color she wanted, but the salesperson located one in the correct color in the Serramonte Mall store about 35 miles away and requested that it be shipped to her home. The following day, she received a note from the unknown, until then, salesperson at the Serramonte store who handled the transaction. It read: "I am aware of how difficult it is to sometimes locate a particular item. I am happy to have been able to help you by having your rug at our store. Any time you're in our Daly City area, please drop in and see us." Note the phrases "our store" and "see us." The note was handwritten on Strouds' personal note-size stationery which provided a holder for the sales associate's card. Also enclosed was a printed card which read, "It has been a pleasure serving you, and we want you to know we appreciate your business. Enclosed is my card. Please call on me whenever I can be of further service." All of this — and in a matching envelope! **RThought:** How many people do you believe my associate told about this treatment. And Strouds, which recently went public, is an *off-price* chain! It paid more attention to service than many full-service stores. And although this personal touch was added by the Serramonte store, it also works towards the credit of the Walnut Creek store. **RThought:** The first that Bill Stroud, founder and CEO of Strouds, may know that his training has been effective may be when he reads his copy of *RT*.

(8) Co-ops have been a questionable investment ever since electricity (and telephone) service reached most isolated, rural areas.

RThought: In general, the CEOs who responded to this poll have taken a more moderate position than some of Gingrich's group. I don't have the details of President Clinton's position, but some of the moves supported by the CEOs who responded are likely to be in keeping with the president's.

THE PROBLEM WITH SELLING CIGARETTES

Regular readers must, by now, know my view on cigarettes. I accept the evidence that cigarettes, as now manufactured, can be addictive and that cigarette addiction can lead to numerous life-shortening affects on a smoker's body.

Cigarettes are extremely profitable to a group of approximately seven manufacturers. These companies are, of course, interested in increasing their sales by whatever means they can and evidence offered appears conclusive that some of the advertising appeals to young people, many of whom are below an age where they can legally buy cigarettes in various states.

The trend appears to be growing to:

1. Classify nicotine as an addictive drug. If accomplished, the Food and Drug Administration (FDA) would be responsible in some manner for controlling the purchase of cigarettes. FDA control would seriously impact cigarette-manufacturing profits and, to a greater or lesser degree, profits for certain retailers.

2. The major retail categories affected would, in order of seriousness, be:
   a. Convenience stores, where cigarette sales often account for one-third of their "inside sales" (excluding gasoline sales)
   b. Supermarkets
   c. Warehouse clubs
   d. Discount stores
   e. Drug stores

There is little, if any, impact on mail-order companies, department, apparel, specialty, DIY, hardware, furniture, appliance, consumer electronic, sporting goods, and book stores.

To protect company sales/profits, short of FDA control, several steps are being taken:

1. Philip Morris is calling for "reasonable" licensing of sellers.
2. Philip Morris is attempting to reduce the profit from cigarette sales of retailers fined or convicted of selling to underage customers by denying benefits and incentive programs.
3. Manufacturers are offering assistance in store training programs on the importance of verifying age and how to do it properly.
4. Suits have been filed by the manufacturers, as well as one by the National Association of Convenience Stores (a trade association), against the action being sought by the FDA.
5. Many convenience stores have stopped using in-store banners promoting particular brands.
6. Various forms of fixtures have been developed to assist store personnel in controlling cigarette sales.
7. More stores are using undercover shoppers to be certain that stores, particularly convenience stores, are following a prescribed procedure for verifying the age of cigarette purchasers.
8. Many states are issuing, through their motor vehicle licensing department, an ID card with a photo for those who have no driver's license but are above the legal age to purchase cigarettes.

RThought: As noted, there are steps being taken which will help to control the situation, but compliance in many stores may vary, especially stores where store profit is directly tied to cigarette sales. How many department stores, warehouse clubs, discount stores, and drug chains will undercover shoppers visit to confirm that company policy is being followed?

RThought: Public pressure against cigarettes, particularly with many of its advertising programs, is having some effect. However, it is unlikely that a major stand will be taken by our U.S. government for several years.

RThought: I stress again that major executives, such as those who read *RT*, must make their own decision as to their responsibility when they offer cigarettes for sale.

CHAPTER 11 ATTORNEYS WILL HAVE A FUTURE

Shopping Center World (December 1995), in publishing its 15th Annual Retailers Expansion Plans Survey, covered only 157 companies, many of which were fast-food operations. Some companies gave growth-expansion estimates for only one or two years, but most covered four years: 1996 through 1999. Their plans total 30,796! Just what we need: more stores!

The following companies are planning 1,000 or more stores in the near future:

Company	Current	Planned
Dunkin' Donuts	4,500	2,025
French Quarter Coffee	-0-	2,000
Great Clips (hair salon)	640	1,260
Subway	11,000	4,000
Walgreens	2,125	1,050

The survey did not report on Blockbuster, 7-Eleven, Circle K, RiteAide, Family Dollar, Wal★Mart, and other retailers who now have more than a thousand stores.

RThought: Hopefully, many of these expanding retailers will occupy stores in malls or strip centers now being vacated by Edison Bros., Merry-Go-Round, Petrie, etc., as part of reorganizing in Chapter 11.

IS SOMEONE IN DANGER OF BEING SUED?

From mail-order companies mentioned in the December 4, 1995, issue of *DM News*, I have compiled the following names of buyers, mainly direct-mail firms, in the last 12 months, along with the price per thousand to "rent names":

Brookstone Hard-to-Find Tools	249,341	$ 95/M
Carol Reed	102,779	95/M
Chadwick's of Boston	4,537,926	95/M
J. Jill	118,650	90/M
Nicole Summers	179,058	90/M
Talbots	853,223	100/M
Yield House	157,70	90/M

The same issue published the following article:

List Name Rental Suit is Rescheduled to February 6

A Virginia small claims court judge last week rescheduled the trial of a lawsuit against *U.S. News & World Report* for allegedly renting a man's name without permission.

Arlington County General District Court Judge Karen Hanenberg set the Feb. 6 trial date pending a ruling by a yet-to-be-named Arlington County Circuit Court judge on a motion by the magazine's lawyers to dismiss the suit.

Ram Avrahami, Arlington, VA, is seeking $1,100 in damages from U.S. News for including his name without permission in a subscriber's list it rented to the Smithsonian Institution earlier in the year.

Avrahami, a marketing manager for a Washington, D.C., telecommunications firm, alleges that within two months after subscribing to *U.S. News & World Report,* he received an unwanted and unsolicited subscription offer for the Smithsonian Institution's magazine.

He's basing his suit on a Virginia state law that prohibits the use of a person's name or likeness for advertising purposes without permission.

RThought: I reported the filing of this case previously. Should Avrahami win his suit, there are likely to be suits filed in most of the 50 states because virtually each state, perhaps every state, has a similar law. It is also likely that people will file class-action suits in order to receive a large enough settlement offer to make it worthwhile for attorneys to take the case on a contingency basis.

HOW BLOCKBUSTER DOMINATES THE VIDEO STORE INDUSTRY

Video Store Magazine (December 1995) reported the sales of the 15 largest video chains as shown in the table below.

Rank	Company	Number of Stores	Revenue ($ Million)
1	Blockbuster Video	3,350	$2,639
2	West Coast Video	508	195
3	Hollywood Video	280	165
4	Movie Gallery	600	125
5	Tower Records/Video	101	85
6	Video Update	250	83
7	Moovies, Inc.	107	49
8	The Video Connection	110	44
9	Palmer Video Corporation	65	31
10	Home Video Entertainment	53	26
11	Family Video	65	24
12	Roadrunner Video	53	22
13	Mr. Movies, Inc.	73	22
14	Video Factory	35	22
15	Pic-a-Flick	62	21

RThought: Blockbuster does about 2.9 times the revenue of the other 14 chains and has about 40% more outlets than the other 14 combined. On the other hand, I am certain that operations like Kmart, Target, and Wal★Mart do more than $21 million in video sales -- and would rate them high on the list.

SHORT SHORTS

Convenience stores are now spread around the world — and so is the idea of gas station/c-store combinations: Japan has 5,000 c-stores and 55,000 gasoline stations which are expected to be replaced by 15,000 to 20,000 gas station/c-store combinations. Taiwan is expected by the end of 1996 to have 3,000 c-stores and 1,000 gas station/c-store combinations. Thailand is expected to add 7,000 gas stations in the next three years, while a 7-Eleven franchisee is adding a store every day and a half, planning 2,000 by the year 2000. The Hong Kong 7-Eleven franchisees operate 300 stores in Hong Kong, 150 in Malaysia, and 80 in Singapore. Australia is building gas station/c-store combinations, as well as New Zealand. Fast growth is expected in the Philippines. Several different franchisees are building stores in Mexico, and there are now a few c-stores in Argentina, Brazil, and Chile. **RThought:** This expansion is a long way from the open-front roadside stand started early this century by the Thompson family in Texas, where all of the products carried were listed on a sign under the roof overhang, and where service was by an attendant with a streetcar conductor's change maker who would take your order and bring your purchase to your car. Many times, the stands were located adjacent to an ice plant which also stored milk to purchase. *All* were on the right-hand side of a homeward-bound commute street (there were no freeways). The conventional wisdom of the day was that c-stores would never work outside the South — another poor forecast.

The silliness of same-store sales as a measure of anything. In a recent report on PriceCostco, there were the following statements made by an analyst: 1) California has positive comparable-store sales for the quarter; 2) Canadian sales, while still positive, declined three-tenths of a percent from previous periods due to self-cannibalization. **RThought:** Someone pulled the wool over the eyes of the analyst. PriceCostco closed a number of duplicating stores in California. In my area, as an example, one of two stores about 10 miles apart was closed. If PriceCostco had given the accurate information on California stores affected by closing, as well as cannibalization, same-store sales in California would not have been ahead. **RThought:** Abraham Lincoln (to a caller at the White House) said, "It is true that you may fool some of the people all of the time; you can fool all of the people some of the time; but you can't fool all of the people all of the time."

If your store prohibits smoking, how well do you police it? A customer of MyerGrace Bros., the largest department store group in Australia, claims to have suffered six asthma attacks while shopping at its Melbourne store. As the store is represented to be "smoke free," she has now sued MyerGrace, charging that the claim of "smoke free" is made to entice customers like herself but that the store has failed to police the nonsmoking rule. **RThought:** It makes common sense to police such a rule if you have one (or to post a sign on each entrance door indicating "no smoking"). Damages have not yet been specified.

WORDS — THAT APPEAR TO LAST FOREVER

It is a gloomy moment in history. Not for many years...has there been so much grave and deep apprehension; never has the future seemed so incalculable as at this time. In our own country, there is universal prostration and panic, and thousands of our poorest fellow citizens are turned out against the winter, without employment and without the prospect of it. In France, the political caldron seethes and bubbles with uncertainty; Russia hangs, as usual, like a cloud...upon the horizon of Europe; while all the energies and resources of the British Empire are sorely tried, and are yet to be tried more sorely in coping with the...Colonial insurrection, and with the...disturbed relations in China.

Perhaps you accept the above as pertinent comment on the world's present situation, but I would like to draw to your attention the date of the quotation: It appeared in *Harper's Weekly,* October 10, 1857 (before the Civil War, when the U.S. was struggling with the forces that led to that war)!

The quotation was once again widely circulated by a leading retailer, Frederick Loeser and Co., Inc., on Brooklyn, New York, letterhead during the Great Depression.

I received it in January 1959, with the note: "This seems just as appropriate now as it was then, in 1932, or when in was written in 1857."

Almost 40 years have passed since I first read it, but it's now time to repeat it. We ultimately solve problems. The sun, moon, and earth continue on their course — and we on ours.

Retales with Eric Craig

3 copies to me

David Jones insists it is not moving downmarket, but it is certainly widening its merchandise mix cleverly. Its page in the Australian Financial Review's colour magazine was the most sensible, acceptable approach we have seen for businessmen's more casual, "dressing down" attire. The only accessory we found hard to accept was the Italian leather belt at $99.95. Even the cords it held up cost only $69.95.

Chocolate sales for Valentine's Day brought Darrell Lea's chocolate shops their best result for six years. **George Paul**, the Sydney-based company's general manager retail, said each of the last six years had shown a marked increase. This year, city shops, unaided by advertising, had lifted sales by 28%. But country shops, assisted by regional television, increased sales by 48%. Best sellers were boxed chocolates with red hearts. An interesting development this year, Mr Paul said, was the increased number of women buying gifts for men. A Darrell Lea agent who also sells greetings cards sold out of "husband" cards before "wife" cards.

The Commonwealth Bank's televised launch of an Aussie Shares portfolio gave its opening plug to the inclusion of Woolworths. But it also did Woolies a bad turn by having its deliriously happy shareholder abandon her shopping trolley outback after hitching a ride with Western Mining's truckie.

An unusual three-company promotion caught our eye in the March issue of the Australian Women's Weekly. Take a Coca-Cola Icebox voucher into a Brashs Music store, and you'll get $10 off the price of a Sony compact disc. All three companies contribute to the discount, and the offer lasts until the end of April. **Emma Triggs**, Sony Music's manager of advertising and special products, said the tie-up with Coke followed a similar three-way promotion last year with Smith's Crisps. A brilliant example of novel, co-ordinated advertising!

FORM

2/96

We were surprised to read the report of a customer claim against Myer Melbourne in February's issue of Retailing Today, published in the USA by **Bob Kahn**. It said the customer had blamed six asthma attacks on the failure of Myer to police its non-smoking rule. **Cheryl Johnson**, the department store company's public affairs spokesperson, said the incident occurred last year, and had yet to come before the courts.

In the same issue, we were also surprised to note the massive dominance of Blockbuster Video in its particular retailing category. Number one of the 15 biggest US video chains, Blockbuster had 3350 stores, and 1995 sales revenue of $US2639 million ($A3472 million). West Coast Video, the number two, had 508 stores and revenue of $US195 million $A256.6 million).

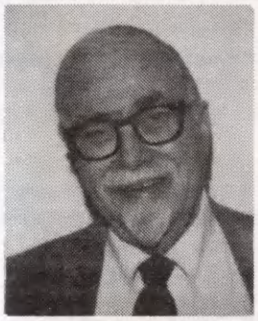
Retailing is littered with proof of how sales will improve dramatically when commonsense thinking is applied to allied merchandising, which is something BBC Hardware at Warringah Mall could think about. A colleague wanting a No Junk Mail sign found the store's letterboxes after some difficulty. But the wanted sign was 30m distant, across several aisles. He also needed some fresh batteries for a torch. He found combined torch-and-battery packs, logically enough, near light globes. But replacement battery packs were tucked away behind a distant checkout. He had to seek staff help in each instance.

Our pages have several times complimented Reece Hardware on its trading performance, and on its steady expansion from Victoria into NSW and Queensland. Recently, we were pleased to note its upmarket advertising in a weekend magazine for "the very latest in bathroom, kitchen and laundry products". We phoned for the free colour catalogue offered, and it took three weeks to arrive. The 48 high-gloss pages were superbly illustrated. Impressive stuff! But, because it had no prices, it gave no idea of affordability.

Bruce Atkinson, our Melbourne editor, was taken aback by a new customer approach recommended to boost sales. **Brad Sugar**, a Brisbane-based marketing consultant, told a seminar that retailers were increasing sales by at least 16% by first saying to customers: "Hi! Have you been in here before?" Maybe it beats "Hello! Can I help you?", but it could alienate many customers who thought their previous patronage might have been noticed.

The formula for a sensible retail advertising budget can be based on the ABC. This stands for **Action** advertising, which is the kind which pulls customers into the store today or tomorrow; **Building** advertising, which concentrates on one category or allied categories of merchandise, to building reputation for value in that area; and **Corporate** advertising, which communicates company policies. Percentages of the ABC advertising allocations can vary greatly, for different kinds of retailing. The average discount department store chain, for example, might allocate 85% for A, 10% for B, and 5% for C, and review those proportions at year-end. Target Stores, on the other hand, may be devoting a higher percentage to C advertising, with good effect.

Balarinji, the Adelaide fashion designer, got lots of free publicity when Qantas announced its half-year profit. In all the full-colour press pictures, there on the background wall was a photograph of the Nalanjo Dreaming Boeing 747, its fuselage resplendent in the distinctive Aboriginal design of blues and greens, representing the tropics and rainforest. Even the vivid bow tie of Qantas managing director **James Strong**, for once, could not compete. ◆



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WILL A PANTRY DEPARTMENT HELP KMART?

Floyd Hall, chairman, president, and chief executive officer of Kmart Corporation, has announced the testing of 8,000-to-9,000-square-foot departments called "The Pantry" which are filled with the type of merchandise found in convenience stores and are located close to the checkouts. Because it is common knowledge that Kmart must obtain a higher gross margin in order to survive, reporters and stock analysts, many of whom know that food markups are lower than general merchandise markups in discount stores, made some interesting comments in the December 4, 1995, issue of *Business Week.*

One reporter said:

> **...Hall is testing a "pantry" section — a miniconvenience store selling soft drinks, toiletries, snacks, and other high-volume goods. Hall insists that stocking convenience items could generate five times the traffic in existing stores. But adding low-margin sections is hardly going to be enough.**

Thus, *Business Week* then went to expert Kurt Barnard, who said:

> **This potato-chip strategy just ain't going to work. People aren't going to come to Kmart for potato chips and then decide they need to buy a blouse, a computer, or a television.**

In other publications, some of the better (reportedly) retail analysts said that a low gross-margin problem can't be solved by adding low gross-margin departments. But the February issue of *Stores* magazine, published for the members of the National Retail Federation, gave some very interesting figures, probably provided by Kmart, for its four department groupings in stores which have added a pantry:

Home:	A 12% increase in sales and a 2% increase in sales per square foot.
Fashion:	A 19% increase in sales and a 30% increase in sales per square foot.
Hardlines:	A 1% increase in sales and an 11% increase in sales per square foot.
Consumables:	A 65% increase in sales, by increasing the area by 39%, and a 19% increase in sales per square foot.

Barnard was wrong on one choice: customers did buy blouses (fashion) but not computers and televisions (hardlines).

How did the "experts" get so far off in their opinions?

First, Wal★Mart, almost from its inception, has had the equivalent of a convenience store located just where Kmart put its pantry departments.

Secondly, these "experts" believe that gross-margin dollars are derived only from increasing prices which, unfortunately, tends to put retailers, especially discounters, out of business.

Hall apparently recognized that if he is able to hold the gross-margin percentage where it is and improve sales per square foot his gross-margin dollars per square foot will also go up.

If we assume the gross-margin percentage as a constant, then the...

> Home Division had a 12% increase in gross-margin *dollars,* the
>
> Fashion Division had a 19% increase in gross-margin *dollars,*
>
> Hardlines had a 1% increase in gross-margin *dollars,* and
>
> Consumables had a 65% increase in gross-margin *dollars.*

That being a considerable "increase" in gross-margin dollars, Hall must have been very happy!

In a self-service store, such as a discount store, the gross-margin increase is reduced only by an increase in expense: rent, utilities, janitorial service, back office, warehouse, and other expenses would remain about the same. There would be a less than proportionate increase in floor personnel. The only significant increase for Kmart would be in advertising The Pantry. The net increase in gross-margin dollars after deducting extra expenses would go to the *operating-profit line* and, probably, to the contribution to overhead from the store — the "four-wall contribution."

Continued

IF YOU OPERATE YOUR OWN BAKERY...

...you will want your tax department to review the Tax Court case of Lucky Stores, Inc. (1995), 105 TC, No. 28.

Although Lucky follows the practice of pulling its bread inventory after four days and contributing it to food banks (qualified charitable organizations), it was found that Lucky often continued to sell four-day-old bread on Sundays and, occasionally, on other days at regular price and that such sales were in meaningful quantities. The contributions represented about 6% of Lucky's production and were deducted on its tax return at full market value. The Internal Revenue Service claimed that only 50% of the full retail price was allowable.

The Tax Court found that Lucky overproduced for its estimated sales to avoid its private-label bread from being out of stock. It also found that four-day-old bread had not materially deteriorated and that Lucky did not, at any time, sell its "old" bread at a discount. The court differentiated bread from pharmaceuticals which cannot legally be sold after their expiration dates.

RThought: The opinion referred only to bread but would most likely apply to all bakery goods.

In Econ 1 at Stanford 60 years ago, Professor Elmer Fagan drilled into his students, including me, that if extra gross margin exceeded extra expenses profit would increase. It's as simple as Econ 1!

Most retailers don't understand why the expense rate at Wal★Mart is so much lower than that at Kmart and Target. The answer is simple: Wal★Mart has sales of about $300 per square foot, Kmart of about $190 per square foot, and Target of about $230 per square foot.

The same retailers may also wonder how supermarkets make a profit on a 25% gross margin. Simple. They sell about $300-$450 per square foot. A 20% gross margin in that range produces a gross margin of $60-$90 per square foot.

RThought: Why do you think Sam Walton paid so much attention to sales per square foot as a key figure. In setting a goal of $100 billion in sales by the year ending January 2000 (which may very well be reached three years early), he targeted $300 per square foot when the stores were doing about $160.

RThought: It took a test, at great expense, to prove that stores with wider aisles produce higher sales per square foot than stores with aisles so narrow that shoppers would not go down them if there were other shoppers in them. So many shoppers stayed so much longer in the wider-aisle stores that parking ratios were increased about one car per 1,000 square feet! But that story is for a different day.

RThought: Since space allocations have changed, Kmart may have done some remodeling at the same time. In that case, remodeling, as well as the pantry department, may have contributed to the increase in gross-margin dollars.

SELECTIVE DISCLOSURE OF CORPORATE INFORMATION

RT readers surely have noted that I object to companies slipping information to selected analysts before there is a general announcement of the information. The analysts' clients are then at an advantage to sell, if it is bad news, or buy, if it is good news — before the market knows.

Selective disclosure is now being addressed in a number of publications. As an example, an article from the December 27, 1995, issue of the *Fort Worth Star-Telegram* sent to me by a reader had such a release by the Dow Jones News Service.

The article cited that the chief executive officer of U.S. Healthcare, while attending a conference arranged by Merrill Lynch & Co., told investors that the company intended to cut prices in order to build market share. Subsequently, his comment raised fears of a price war and immediately decreased the price of other HMO stocks.

The article also referred to the case of UAL Corporation, the parent of United Airlines. Early in the morning on December 21, 1995, UAL announced to a selected group of analysts that the earnings forecasts were too high. However, it was not until midafternoon that a news release was issued to the public.

I must agree with Lewis M. Thompson, Jr., president of the National Investor Relations Institute (NIRI), who stated, "Nobody [at the Securities and Exchange Commission] is watching the store."

A survey made by the NIRI found that a large percentage of people in companies who have responsibility for investor relations will discuss such subjects as profit margins, new products, etc., with analysts, while only 40 percent will discuss such subjects with reporters. Two-thirds will talk about internal financial forecasts with analysts while only 23 percent will do so in media interviews.

RThought: Think of this situation in view of a recent law passed by Congress restricting the ability of stockholders to bring suits against companies that release such confidential information but fail to release it to the market generally.

NASDAQ, upon which U.S. Healthcare is traded, never did investigate the disclosure. In fact, U.S. Healthcare *never told the public* what it told clients attending the Merrill Lynch conference.

Another company, Fisher Scientific International, which is listed on the NYSE, called selected analysts the night before it released the news that its quarterly earnings were below market expectation. Again, the SEC didn't take any action to protect the individual stockholder.

A NYSE rule reads: "If, during the course of a discussion with analysts, substantive material not previously published is disclosed, that material should be *simultaneously* released to the public." [Emphasis added.]

RThought: One might just as well line a garbage can with NYSE rules as feel protected by them.

RThought: Remember this practice of selective disclosure when you hear or see an ad for the NYSE or NASDAQ: neither enforces its own rules, which indicates that neither has a desire to protect investors.

TOO MUCH RETAIL SPACE?

Ted Kraus, editor, publisher, etc., of *The Dealmakers,* on the editorial page January 19, 1996, began his "My Way" column: "A friend of mine sent me a copy of a 'newsletter' from Merrill Lynch which starts out with:

> 'If the U.S. is overstored, as virtually everyone claims, then how come retailers and developers added a record breaking 260 million square feet of new floor space in 1995?'"

Ted's reply: "Who said all retailers and developers are bright!"

Ted then gave an example of what has happened locally in a case involving new space. Near his home, Home Depot opened a new 110,000-square-foot store. Five months later, Grossman's closed an 80,000-square-foot store and Ted expects that a 30,000-square-foot Fickels (now in Chapter 11) will close its doors soon. If so, he says it means that there is a constant 110,000 square feet of DIY retailing space available but that there is also at least 110,000 square feet (possibly three parcels) which will have to be changed from DIY retailing to another use, possibly nonretailing.

RThought: I agree. I still see ads for dozens, even hundreds, of empty Kmart stores, described as "excellent retail locations." If "excellent," why hasn't Kmart kept them?

WHAT A FRIEND IN THE BUSINESS OVERHEARD

I, like my friend, am under the impression that even those who believe they are "experts" at getting a bargain from a resource don't really know what a low price is, as evidenced by an off-price retailing chain which did not know that the deal maker it was dealing with was receiving a top commission.

As the example, let's assume that a deal maker "guided" an expert retailer to a vendor who sold 5,000 units to the retailer at $10 each. The deal maker received $1 a unit in commission. After finding that the merchandise "checked out," the retailer asked, "Can you get some more? But I won't pay over $8!!!" The vendor was willing to

THOUGHTS WHILE READING

In an attempt to catch up on a lot of reading following my recuperation from back surgery in January, I had a some thoughts relating to a few articles.

First, from the International Association of Department Stores' *News Letter*, I noted the 1994 sales numbers of leading wholesale clubs, so I added the column showing the sales per outlet and came up with the following:

Club	Sales ($ Mil.)	Number of Outlets	Sales per Outlet ($ Mil.)
Sam's Club	$ 19,035	428	$ 44.5
PriceCostco	16,161	221	73.1
BJ's	2,300	62	37.1
Warehouse Club	215	10	21.5
Wholesale Depot	90	9	10.0
Max Club	15	4	6.2

RThought: Wholesale Depot and Max Club have both closed. I wonder, however, about the difference in sales per outlet: the greater the company sales, the larger the sales per outlet, *except* Sam's.

I was with Sam Walton at an International Mass Retailing Association convention in San Diego some years ago when we joined a group and toured Sol Price's original Price Club. Many, including Sam Walton, went home saying to themselves, "I can do that." Shortly thereafter, Costco was founded by people who had worked for Price Club.

As I looked at the figures above, I pondered why Sam's did not have higher sales than PriceCostco. I know that one of the reasons for the successes of Wal★Mart discount stores is that they have higher sales per square foot than either Kmart or Target and that the higher sales per square foot mean lower fixed costs. I also know that Sam's and PriceCostco's stores are about the same size, 100,000 to 140,000 square feet, except for the smaller, 90-plus Pace Membership stores acquired by Sam's from Kmart. But that cannot account for unit sales at Sam's being 40% smaller.

My conclusion was that the consistency of management through Jim Sinegal, president and chief executive officer of PriceCostco, was responsible versus the several changes of CEOs at Sam's, none of whom came up from ground-zero in the warehouse club industry when they were brought in to head Sam's.

Note: The IADS *News Letter* always includes interesting reports on retailing. Its English language version costs $190 per year and may be ordered by sending a U.S. bank check made out to A.I.G.M.I.A.D.S., 72 boulevard Haussmann, 75008, Paris, France.

The next reading matter I found of interest was Mona Doyle's wonderful publication, *The Shopper Report.* (For subscription information, phone 215-561-2921 or fax 215-557-7692; say, "Bob Kahn sent me.")

Every January, Mona asks a panel from her group of 5,000 "experienced" shoppers to nominate their choice for best/worst stores. In January 1996, she printed the percentage of votes cast for each "best" store. In January 1995, she published an alphabetical list of those stores which received 50% or more of the votes. I have combined both the 1996 and 1995 lists. The "percentage" is taken from her 1996 report and those not on that list are listed alphabetically in the second list for 1995, which was compiled by a panel almost twice as large as that used this year. Mona's definition: "The best stores can be counted on to have in stock what the customers want and need — especially when it's advertised. They are also the brightest, nicest, friendliest. Many make it easy for shoppers to save money."

Mona's 1996 list of "best" stores consisted of the following:

Nordstrom	100%*
Publix	100*
Giant Food	98*
Wegman's	92*
Shop Rite	86
Target	84
Stop & Shop	80*
Fresh Fields	80*
HEB	80*
Hy-Vee	80
Costco	80
Wal★Mart	75*
Kroger	75
Tops	75
Kohl's	75
Boston Market	70
Home Depot	66*
Lucky Stores	65
Meijer	50
Safeway	50
Albertson	50*
J. C. Penney	38
Kmart	37
Acme	35
Sears	21
Winn-Dixie	17

*A store which was rated 50%-plus in the 1995 report.

The stores that appeared alphabetically in 1995 but did not appear this year were:

Bergdorf Goodman	Piggly Wiggly
Bullocks	Ralph's
Fred Meyer	Shaw's
King's	Staples
L. L. Bean	Strawbridge & Clothier
Lowe's	SuperValu
Lands' End	T. J. Maxx
Mervyn's	Tops
Office Max	Waldbaum

A word about the above statistics: I am the first to criticize statistics, as most of you know; thus, a warning that I am sure Mona would want me to make: her list is based upon the opinions from her panel of 5,000 *experienced* shoppers; therefore, it must be taken into consideration that *everyone who shops* might not necessarily agree with Mona's shoppers.

The 1995 panel was comprised of 1,425 of her shoppers and the 1996 panel was comprised of 858. It is my assumption that the panels are not distributed geographically on a scientific basis.

Fifty percent could represent one out of two replies, or 10 out of 20. The odd percentages, such as 98%, indicate a larger number of nominations than do percentages ending in zero. If the shoppers are not distributed according to population, some very fine stores of all types may not be reported.

RThought: I had the following thoughts as I studied the numbers:

1. Since Sears was rated "best" by only 21% and still showed the improvement it did in 1995, competitors should be aware of Sears in 1996.
2. It is surprising to find J. C. Penney was rated barely ahead of Kmart.
3. Many supermarkets are doing a good job of satisfying their customers: the best defense against supercenters.

HOW SCIENTIFIC IS THE ALLOCATION OF ADVERTISING DOLLARS?

One of my favorite publications is *Advertising Age*. In its September 23, 1996, issue, it ranked a number of products by showing the dollars spent in measured advertising and the product share of market. In the three categories below, I have arranged the stores, or products, by the dollars of measured advertising spent per dollar of market share.

Top 10 Retailers of Consumer Electronics

Store	$ million per 1% share of market
All other stores	$ 52.4
Circuit City	34.6*
Sears, Roebuck	23.6
Office Depot	14.5
Radio Shack	13.4
CompUSA	9.9
Target	6.0
Service Merchandise	5.7
Best Buy	5.4
Kmart	3.9
Wal★Mart	1.3*

*Wal★Mart spent $1.3 million for each 1% of market share, while Circuit City spent $34.6 million.

Top 10 Cigarette Brands

Brand	$ million per 1% share of market
Benson & Hedges	$17.0*
Kool	9.2
Camel	8.1
All other cigarette brands	5.2
Basic	5.1
Newport	4.6
Marlboro	3.4
Winston	2.1
Doral	1.2
GPC	1.2
Salem	1.1*

*Salem spent $1.1 million for 1% of market share, while Benson & Hedges spent $17 million.

Top 10 Beer Brands

Brand	$ million per 1% share of market
Miller Genuine Draft	$20.0*
All other brands of beer	10.0
Coors Lite	9.3
Bud Light	7.4
Miller Lite	7.4
Budweiser	4.7
Busch	4.7
Miller High Life	1.0
Natural Lite	0.3*
Milwaukee's Best	0.0
Busch Lite	0.0

*Natural Lite spent $300,000 for 1% of market share, while Miller Genuine Draft spent $20 million.

The brands which have the largest market share in each category are Circuit City, Marlboro, and Budweiser, respectively. In no case does the brand with the highest market share have the highest or lowest cost per 1% of market share.

One might have expected that the brand with the highest market share would have the lowest cost, since we are always talking about "economy of scale," but there doesn't appear to be any economy of scale in advertising.

Among the sellers of consumer electronics equipment, the next-to-lowest-market-share retailer, Kmart, has an advertising cost three times that of Wal*Mart's. Wal*Mart's three basic policies for keeping its costs low follow:

1. Low everyday prices: Wal★Mart makes "frequent shoppers" out of its customers. Its customers accept the fact that even if Wal*Mart is not the lowest price in town it always has low prices and that they can save time by not having to price-shop.

2. Wal★Mart's success at being in stock, which is better than most of its competitors, means that it is likely to have the merchandise the customer expects.

3. With 2,500-plus stores, it is not possible to ensure that every associate give good service. However, on balance, Wal*Mart has better service than most of its competitors, although recent reports from shoppers indicate that Wal★Mart's service is declining in some stores.

As a result of these three basic policies, it is not necessary to have constant "sales," as do most of the other stores listed; the savings in advertising cost, by creating customers who consider Wal★Mart as their source for merchandise, are tremendous.

SHORT SHORTS

No wonder some companies have trouble with auditors. Have you ever noticed that an accounting firm's name is always the same (Price Waterhouse, Ernst & Young, etc.), but the signature above the firm's name varies? **RThought:** You wouldn't accept a credit card if the signature didn't match. Why should you accept an accountant's report when the signature reading "Price Waterhouse," "Ernst & Young," etc., does not match the signature on the prior year's report?

Old-fashioned success: Robert F. Smith joined Vons in 1961 as a box boy. He was recently named vice president of the meat division of that $5 billion-plus supermarket chain, the largest in Southern California and one of the ten largest in the U.S.!

cut his price to 50 cents, or even $1, if the deal maker would accept a 50-cent commission. With that, the deal maker refused to take less than $1!

RThought: Who was stupid?

- The vendor, who would give up $1 only if the deal maker gave up part of his $1, which would get the deal within negotiating range?
- The deal maker, who would not cut his commission and, thus, received nothing after providing the retailer with the item which had checked out?
- The retailer, who had found the item at $10 and who had sold 5,000 units and now knows that his customers and his store managers want more?

I believe it was the retailer, who not only was greedy but probably would sell the item at $20 and who would probably have ended the month with same-store sales running behind instead of ahead. (It is this type of retailer who always has a reason why somebody else is responsible for his or her decline in same-store sales.)

RThought: When God passed out brains, a lot of retailers must have been out to lunch!

THE RATIO OF OORPORATE TO PERSONAL INCOME TAX

Over the years there has been a dramatic change in the ratio between income tax paid by corporations and income tax paid by individuals.

The figures below are extracted from various annual issues of the *Statistical Abstract of the United States.* Unfortunately, by using this method, what may be presented as the amount collected in one year may be different from the amount reported for the same year in one of the previous or later annual issues. For this reason, I have presented the figures, in billions of dollars, to the nearest $100 million and the percentages as whole percentage points.

Year	Personal Income Tax	Corporate Income Tax	Corporate as a Percentage of Individuals
1960	$ 42.5	$ 22.3	52%
1965	52.4	27.1	53
1970	93.6	33.0	35
1975	127.5	41.8	33
1977	166.4	58.8	35
1978	185.4	67.2	36
1979	223.1	75.8	34
1980	249.7	70.6	28
1981	332.9	73.7	22
1982	352.6	66.0	19
1983	349.6	61.8	18
1984	362.9	74.2	20
1985	334.5	61.3	18
1986	349.0	63.1	18
1987	392.6	83.9	21
1988	401.2	94.5	21
1989	445.7	106.3	24
1990	466.9	93.5	20
1991	467.8	98.1	21
1992	476.5	100.3	21

RThought: Many of the trade associations, economists, etc., protest any increase in corporate taxes as an invitation to a modern-day Armageddon, the final battle between the forces of Good and Evil, the "good" guys being the corporations, their defeat ensured only by a higher corporate income-tax rate.

There are those who believe that corporate taxes as low as 1-2% of the amount paid by individuals would be an appropriate amount.

It's my personal belief that the ratio of corporate to personal income tax should not fall outside the 18-24% range that has prevailed since 1980.

MEXICAN WAGES ARE NOT AS LOW AS SOME BELIEVE

In spending a day in Miami on my way from Cape Town, South Africa, to San Francisco, I ran across an article bearing the above title. It was included in a publication, *Across the Border: Compensation and Benefit Practices in Mexico,* from Hewitt Associates, 100 Half Day Road (what a wonderful street name!), Lincolnshire, IL 60069; telephone 708-295-500; fax 708-295-7634; $100/yr. (no credit cards but will bill larger corporations).

For starters, forget payment by the hour in Mexico: pay is for 365 days a year. However, on top of what you may believe is a person's pay, there are the following:

1. a Christmas bonus of a minimum of 15 days; however, most employers pay for 30 days;
2. a vacation bonus at a minimum of 25% of annual pay; however, most employers in the interior of Mexico pay 80%;
3. a punctuality or attendance bonus (alarm clocks are scarce, particularly where electricity is scarce) paid by about one-third of the employers of 15-20 days pay for perfect attendance, thus assuring there will be someone to open the business;
4. savings funds and social welfare benefits paid voluntarily by most employers and equal to about 20-25% of base pay; and
5. a severance payment required by law for discharge without just cause, with poor performance not being a "just cause."

RThought: Mexico reminds me of the pay in Hong Kong, where the total annual extras *required by law* can exceed an employee's base pay. All is scheduled, however, to provide money at a time when employees need it.

It also explains why so many Mexicans own so many cars!

NONRETAIL READING THAT 'TURNS ME ON'

Each month I have the satisfaction of receiving the *100th/442nd Newsletter*, the official publication of the 100th/442nd Veterans Association, which I joined when it was still called *Go For Broke,* the battle cry of the Japanese-Americans who, during World War II, became the most decorated unit in the history of the U.S. Army — while their parents were prisoners in sorry U.S. concentration camps. As it has been 50 years since this association was formed, the January 1996 issue had several reunion reports.

One such reunion began in New Orleans, but on the third day, everyone headed for Camp Shelby. As they left Hattisburg, about 55 miles from Camp Shelby, they were surrounded by both police cars and motorcycles and were escorted to Camp Shelby, where they attended a dinner for 500 people. Senator Inouye (D-HI) attended and spoke of the many times he had gone into Hattisburg to get his hair cut without a problem. However, on another occasion, after having lost an arm in battle, but wearing a row of campaign ribbons, when he went into a barbershop in Oakland, California, the barber snarled, "We don't cut Jap hair."

Monsieur Pierre Moulin, from the town of Bruyeres, France (liberated by the 442nd), was also in attendance. His purpose for attending was to lay a wreath on the 442nd's monument. His action was followed by a 21-gun salute, the playing of taps, and a flyover by the Warbirds.

In Little Tokyo (Los Angeles), over 400 witnessed the ground dedication of a site for a monument to the 442nd. It is to be built by the 100th/442nd/MIS World War II Memorial Foundation.

In Las Vegas, over 250 attended a reunion of I Company.

And A Battery, 522nd Field Artillery, in conjunction with Jewish organizations throughout the Los Angeles area, celebrated the liberation of Jewish prisoners by the 522nd at the end of the war.

RThought: Let us be vigilant that never again shall American citizens be placed in concentration camps because of such actions as those taken by the commanding general of the 6th Army, with headquarters at the Presidio of San Francisco, who conjured up acts of disloyalty and swayed the judgment of responsible superiors. No Japanese-American was ever found guilty of disloyalty at any time, either before, during, or after World War II.

RThought: I hope you understand why I am honored to be a member of the 100th/442nd Veterans Association, an organization composed of men whom I admire.

WORDS — ACCORDING TO EMERSON

The following is attributed to Ralph Waldo Emerson as having been said in a lecture:

> **If a man can write a better book, preach a better sermon, or make a better mousetrap than his neighbor, though he builds his house in the woods, the world will make a beaten path to his door.**

RThought: Emerson may have had retailers in mind!

We have watched many retailers create a more satisfying combination of merchandise, presentation, and service; the customers have beaten a path to their doors. We have all watched this happen with Nordstrom, Home Depot, Gymboree, Crate and Barrel, Staples, PriceCostco, Office Depot, Barnes & Noble, Blockbuster, Albertson's, Publix, and many more.

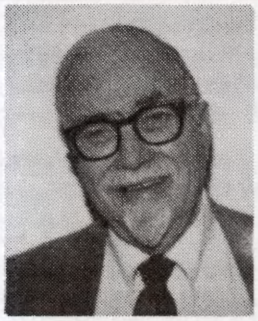
At the same time, we have watched many retailers who *did not* create a more satisfying combination of merchandise, presentation, and service: they have fallen by the wayside, many ending in either Chapter 7 or 11 bankruptcy, the way it should be in a free-enterprise society.

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

SIC Code	Category	NOVEMBER 1995	NOVEMBER 1994	Percentage Change	Year-to-Date Eleven Months 1995	Year-to-Date Eleven Months 1994	Percentage Change
52	*Bldg Matl Group	$ 10,143	$ 10,188	- 0.4%	$ 114,767	$ 112,855	+ 1.7%
57	*Furniture Group	12,512	11,578	+ 8.1	114,275	104,431	+ 9.4
571	Furniture Stores	6,174	5,730	+ 7.7	56,957	53,884	+ 5.7
572	Appl, TV, Radio Stores	5,345	4,889	+ 9.3	48,024	41,822	+14.8
5941	*Sporting Goods Stores	1,656	1,509	+ 9.7	17,950	16,558	+ 8.4
5942	*Book Stores	712	708	+ 0.6	8,466	8,266	+ 2.4
5944	*Jewelry Stores	1,774	1,620	+ 9.5	13,978	12,967	+ 7.8
531Pt	Conventional Dept Stores	5,778	5,719	+ 1.0	45,343	44,531	+ 1.8
531Pt	Natl Chain Dept Stores	4,220	4,167	+ 1.3	34,348	34,010	+ 0.8
	Subtotal	9,998	9,886	+ 1.1	79,691	78,601	+ 1.4
531Pt	Discount Stores	13,858	12,745	+ 8.7	119,653	109,601	+ 9.2
531	*Department Stores	23,856	22,631	+ 5.4	199,344	188,202	+ 5.9
539	*Misc General Mdse Stores	5,523	5,445	+ 1.4	50,848	48,959	+ 3.9
541	*Grocery Stores	32,147	31,281	+ 2.8	350,748	341,706	+ 2.6
56	*Apparel Stores	10,551	10,453	+ 0.9	94,365	94,044	+ 0.3
561	Men's & Boys' Stores	1,138	1,167	- 2.5	9,924	10,195	- 2.7
562,3,8	Women's Stores	3,009	3,231	- 6.9	29,011	30,059	- 3.5
565	Family Clothing Stores	4,135	3,854	+ 7.3	32,593	31,233	+ 4.4
566	Shoe Stores	1,563	1,552	+ 0.7	16,276	16,271	+ 0.0
591	*Drug Stores	7,053	6,744	+ 4.6	75,628	72,884	+ 3.8
596	*Nonstore Retail	7,548	6,874	+ 9.8	61,375	56,216	+ 9.2
5961	Mail Order	5,625	5,241	+ 7.3	43,084	39,956	+ 7.8
	**Retailing Today* Total Store Retailing†	113,475	109,031	+ 4.1	1,101,744	1,057,088	+ 4.2
	**GAF TOTAL	61,007	58,032	+ 5.1	531,551	504,608	+ 5.3

†Excludes car dealers, auto supply stores, eating and drinking places, service stations, and some specialty stores.
*Included in *Retailing Today* Total Store Retailing.
**General, Apparel, and Furniture.

For further information on these figures, contact Irving True at the Business Division, Bureau of Census, Washington, D.C. 20233, or call 301-457-2706/2708. (Irving has been very helpful to me over the years.)



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ROUTE TO

APRIL 1996 **VOL. 31, NO. 4**

Dear Readers:

I'm sorry the March issue of RT arrived late. We changed printers at the end of February and didn't take into consideration (due to poor executive planning!) the time it would take to make the transition.

Robert Kahn
Executive in Charge

MOST ADMIRED COMPANIES

Fortune, in its March 4, 1996, issue, published the results of a survey it made of 417 "most admired companies." The following retailers, along with their ranking, made this year's list:

Ranking	Company
18	Home Depot
23	Albertson's
32	Publix Super Markets
51	Wal★Mart Stores
55	CUC International
74	Nordstrom
90	Walgreen
109	Safeway
121	Office Depot *
121	J.C. Penney*
132	Circuit City Stores
139	May Department Stores
151	Toys "R" Us*
151	Winn-Dixie Stores*
157	Kroger
163	Avon Products
170	Lowe's
174	SuperValu
193	Dayton Hudson
217	Sears, Roebuck
224	Dell Computer
242	Tandy
260	Federated Department Stores
265	The Limited
275	Dillard Department Stores
278	American Stores
323	PriceCostco
361	Food Lion
381	Melville
399	Southland
409	Woolworth
413	A&P
415	Kmart

*A tie

HOW REDUCED GOVERNMENT COULD AFFECT YOU

"Less government intrusion in business!" is a cry spreading throughout the country, but less government intrusion in some businesses may cost you your life.

In 1979, the National Highway Traffic Safety Administration began crash testing new cars into fixed barriers at 45 mph. Instruments recorded what happened to a dummy's head, chest, and upper legs in both the driver and the passenger seats. The results were then made available to the public and cars began to be rated accordingly.

The government has now taken itself out of the test business, to the joy of the automakers, who have, as a result of these tests over the past 17 years, been making safer and safer cars at moderate extra expense.

The most dangerous car ever tested was a 1979 Peugeot 504, the same model I drove for several years without an accident. In a 45-mph crash into a barrier, the driver had virtually a 100% likelihood of being killed. That detailed information is no longer available; the crash test speed has been cut from 45 mph to 30 mph, and each model is rated from one to five "stars." Thus, the 1979 Peugeot 504 would receive one star!

Over 80% of the cars tested today receive a four-star rating! If not that rating, they generally receive either a three- or a five-star rating. Do you believe all cars are that good?

RThought: Now what say ye to getting government out of business? My advice to you is that if you plan to buy a 1995 or earlier model make sure it is in good condition and that you can still obtain information as to its safety. And keep it a long time.

RThought: Do you really want the government to get out of the business of protecting you and your front-seat passenger (most often, a loved one)? If not, be a participating citizen and let your congressman and senator know that this is not an economy that you support.

P.S. We just purchased our eighth Volvo, which I drive, while my most precious asset, my wife of 50 years, drives a Volvo station wagon. Under the previous scoring system, which has now been abandoned by the government, Volvos, particularly the wagons, were rated the safest.

RThought: I hope your company is on the list. *RT* is proud that one of the three top executives, usually the CEO, in 15 of these 33 companies reads this publication.

THE LUCK OF WAL★MART IN CONWAY, ARKANSAS

As reported in *RT* last year, Wal★Mart was sued by three independent druggists in Conway, Arkansas, who claimed that Wal*Mart was selling below cost in order to force other druggists out of business. The druggists won in the local court (perhaps a decision by a judge who may have been one of their customers) but lost in the Arkansas Supreme Court. The local judge admitted in his decision that there was no proof of intent to drive competition out of business. Ironically, the three independents continued to make even more money and their sales increased, despite Wal*Mart and Fred's entering the market!

Business Week, October 9, 1995, carried a report that explained why the unexpected happened. The article, "The Boonies Are Booming," dealt with growth in "Smalltown, USA." It covered six of the "fastest growing places you *never* heard of," one being Conway, Arkansas. Since 1990, Conway's income has grown 31% and its population has grown 14%, all as a result of "plant relocations to the county."

RThought: If one intends litigation claiming that a retailer is attempting to force some little company out of business it is best *not* to choose a community where growth can absorb the new retailers — and still have enough business left over for the small, less efficient retailers to show an increase in sales and profits. Select a community where retailers are already moving out, although efficient retailers are too smart to put new stores in an area of decline.

NONSCIENTIFIC STATISTICS

While reading material from Loss Prevention Specialists (LPS), one of the largest of such companies in the field, I had trouble with the LPS statistics on shrinkage — essentially, inventory which isn't present, according to the books, when the physical inventory is taken.

The cover of a recent LPS brochure stated, "U.S. businesses lose $17.6 billion to shoplifting and employee theft each year." LPS meant "retail" business.

First, let's look at the figure of $17.6 billion. By using $17.6 billion, LPS implies that the correct figure is between $17.55 billion and $17.65 billion. In other words, the maximum error is plus or minus $50 million, or not more than plus or minus .28 of 1%, a figure arrived at by dividing the variation of $50 million by $17.6 billion. I am not sure if our physical inventories are accurate to that standard, especially when the sample upon which it is based is well under 1% of the retail companies in the U.S.

Included in the brochure was a pie chart which broke down the causes of shrinkage as follows:

Employee theft	42.1%
Shoplifting	32.4
Administrative error	19.2
Vendor fraud	6.3

It is certainly of interest how much administrative error and vendor fraud have increased. Thirty years ago, the only causes for shortages were shoplifting and employee theft, which implies that none of the shortages in those days was due to administrative error or vendor fraud. Today, however, administrative error and vendor fraud represent one quarter of that $17.6 billion. I guess I have to conclude that all of the computers now in use are much less reliable than the old handwritten journals kept by someone with a green eye shade and garters on his shirt sleeves! Should we, perhaps, abandon our computers?

It has only been in the past 10 years that I have seen reports on vendor fraud. If it grows at the rate at which errors have grown, soon 20% of the shortage will be due to vendor fraud.

If my logic hasn't failed me in some way, I suggest that the simplest way to reduce shortage is to revert to our methods of operation of some 30 years ago.

Also contained within the brochure was the statement, "Retailers report losing 1.95% of their hard-earned revenues to theft and error. These same companies invest .45% of their annual revenues in loss-control efforts." It further stated that LPS could help us and that the "return on invested dollars should meet the company's R.O.I. 'hurdle.'" The latter statement bothered me in that R.O.I. is usually applied to capital investments in either fixed assets (e.g., a new distribution center) or a constantly self-replacing asset (e.g., accounts receivable or inventory).

Suppose we spent .55% instead of .45% on loss-control efforts, and suppose our company's R.O.I. "hurdle" rate is 20%. If we spent an additional .10 of 1% of revenues, would we expect a .02 of 1% return, or a reduction in shortages from 1.95% of sales to 1.93%?

I had a problem with this conclusion. If the expense for loss control increased from .45% to .55%, the shrinkage would have dropped only from 1.95% to 1.93%. In other words, I met the company's R.O.I., but somehow, the combined shrinkage and loss-prevention expenditure increased from 2.40% to 2.48%.

Expense	Before	After
Shrinkage	1.95%	1.93%
Loss-prevention cost	.45	.55
Total	2.40%	2.48%

RThought: I would rather have the combined total go down than up. Where is the loss specialist who would promise me that if I were to spend more on loss prevention I would save more than cost in inventory shortage? In theory, if I spent 1.95% more on loss prevention, I should be able to reduce the shortage to zero. Or am I wrong?

Note: Please let me know if I have made a mistake at some point in my logic.

A BIT OF FAMILY HISTORY

In 1926, when I was 8 years old, Uncle Fred was in ill health and Dad was wearing a patch over one eye and had 20/400 vision in the other. The only other adult family male at the time, Fred, Jr., was happily running the Sather Gate Book Shop in Berkeley just outside the entrance to what was then the one and only University of California. (What is now UCLA was then known as the University of California, Southern Branch. Its own campus was almost a decade away.)

The family made a decision to sell the Kahn Bros. store located in Oakland but to keep the real estate. The buyer was B. F. (Ben) Schlesinger, the former general merchandise manager of The Emporium in San Francisco and then the general manager of the City of Paris department store, which was also located in San Francisco. In fact, he bought three stores, one for each of his sons: Olds, Worthman and King in Portland, Oregon; Rhodes in Tacoma, Washington; and Kahn Bros. (which he changed to Schlesinger's).

In 1931, Schlesinger's went into receivership. For the first year, it was run by Sherwood Swan (for whom I worked in 1952-56 at another Oakland location) and then by John Reilly, Sr., who came from Los Angeles. (John, who played golf into his 90's, died a few years

HOW'S YOUR BUSINESS ON GUAM AND SAIPAN?

You don't *have* any business on Guam or on Saipan?

You thought they were destroyed by John Wayne in all of those war movies he made?

Didn't the Navy sink most of those islands during World War II?

Let me bring you up to date: Guam and Saipan are part of the Mariana Islands, the largest of which are formed from 15, sometimes active, volcanoes. They were discovered by Magellan — just in time — because he was almost out of food and he was out of water.

Guam, an island 30 miles long, became part of the U.S. at the end of the Spanish-American War (1898, when the late George Burns was still in rompers). The balance of the Mariana Islands became a U.S. Trust Territory after World War II. Guam is a major Navy and Air Force base. Residents of Guam are U.S. citizens. But most important for a newsletter called *The Pacific Retailer* is the fact that Guam is located about 1,000 miles from Tokyo (much closer to it than to Hawaii), so the Japanese, being great shoppers, vacation and shop on Guam for American goods and fashion. In 1996, retail sales are expected to increase by 25%, with as many Japanese vacationing on Guam as in Hawaii (two million). Retailers are arriving constantly to set up shop and hotels are being built to accommodate the two million Japanese visitors a year.

Duty Free Stores has four boutiques on Guam: one each for Burberry, Calvin Klein, Coach, and a golf shop. (Speaking of golf, a higher percentage of Japanese play golf than any other people. If you travel through Japan by train, every few miles you will see a wire-enclosed driving range.)

Kmart is now the largest store on Guam but sources have observed that it is having trouble keeping its shelves filled. PriceCostco is doing well on Guam, as well as Pacific Office Depot (not part of Office Depot). Foot Locker, and Loco Boutique from Honolulu. In addition, there is talk of Liberty House, the Honolulu department store chain, heading to Guam.

On Saipan, the story is much the same but it is the Koreans who are vacationing and spending money there. Saipan is expected to have 1,000 hotel rooms, including a Hyatt, in the near future to accommodate its many visitors.

RThought: How do I keep track of what is happening? *The Pacific Retailer* is published by an old friend and retailer, Doug Smoyer, out of Honolulu. When his publication arrives each month, I read every word. If you're interested, you can write to Retail Strategies, Inc., 1210 Auahi Street, Suite 212, Honolulu, HI 96814; $60 U.S.; $90 international.

HOW ACCURATE IS A 30-YEAR FORECAST?

In the January 1996 *RT,* I summarized the 1995 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds. I poked fun at its 75-year forecast and its claim to predict the precise year in which funds will run out.

Recently, I looked at a Corps of Engineers report on the San Francisco Bay Area: 1960-2020. It contained a population forecast at the end of each five years for the nine counties surrounding the San Francisco Bay. I then compared the projected 1990 population with the 1990 census.

Judge for yourself about the worth of this 30-year forecast.

Counties	1960 Projected (000)	1990 Census (000)	Percentage Variance of Projected to Actual
BAY AREA	7,425	6,021	+23%
South Bay	6,037	4,953	+22
Alameda	1,673	1,277	+31
Contra Costa	961	864	+11
San Francisco	938	724	+30
San Mateo	933	650	+44
Santa Clara	1,531	1,498	+2
North Bay	1,388	1,068	+30%
Marin	347	236	+47
Napa	193	111	+74
Solano	362	339	+79
Sonoma	486	388	+25

If the forecasts were of any merit, the actual figures would have been *higher* in some cases and *lower* in others. The closest this forecast came was 2% (Santa Clara). In 1960 no one had any idea as to how Silicon Valley, with its numerous electronic companies, would develop. The other eight counties were high by 7% to 74%.

I won't go into projections of land use, except that hundreds of acres in the Dublin-San Ramon area were projected to still be used for agriculture. More than 10 years ago, virtually all of the agricultural land in that area had been converted into office parks and commercial development.

RThought: So much for that 30-year forecast. Wouldn't a 75-year forecast be even less useful? The 1960-2020 forecast, which cost millions of dollars, cost more, I suspect, than the Social Security 75-year forecast.

If you can forecast the teams which will play in next year's Super Bowl and total points scored, you will receive *RT* FREE for one year. Send your projections to me by April 30.

FAOTS YOU SHOULO BE AWARE OF IF YOU SELL OIGARETTES

The Synar Regulation (named for the late Congressman Mike Synar) is formally titled "Substance Abuse Prevention and Treatment Block Grants: Sale or Distribution of Tobacco Products to Individuals under 18 Years of Age." The regulation requires states and territories to enforce their youth access laws through such methods as random spot checks of retail establishments -- which could be yours.

The 1995 Monitoring the Future Survey reported a continuing large increase in smoking among 8th, 10th, and 12th graders.

Among 10th graders: *27.9%* had smoked within 30 days of the survey, up from 25.4% a year earlier; and 16.3% smoked every day, up from 14.6% a year earlier.

Among 12th graders: *33.5%* smoked within 30 days of the survey, up from 31.2% a year earlier; and 21.6% smoked every day, up from 19.4% a year earlier.

And in case you don't believe younger children are getting addicted, for 8th graders, who may be as young as 13, the number who had smoked within 30 days of the survey was up from *14.3%* in 1991 to 19.1% in 1994; and the number who smoked every day was up from 7.2% to 9.3%.

It is estimated that 3,000 young people in the U.S. start smoking every day and that *1,000 of each day's 3,000 will die of tobacco-related illnesses.*

RThought: For more information, contact the U.S. Department of Health and Human Services' Public Information Officer, Victor Zonana, at 202-690-6343.

RThought: I hope that this information will take cigarettes out of the category of "just another SKU with a good markup." How many of your children, or your nieces and nephews, have the habit? Did you believe the statements by the heads of the seven cigarette companies when they said, under oath, that it was their belief that nicotine was not addictive? Will you now take charge of making sure that your salespeople challenge customers who may be below the legal age in your state to buy cigarettes?

STOP THE WRITEOFFS

An *RT* reader sent me an article from the *Investors Business Daily* for March 11. The subtitle is equally important as the title above, "More responsible accounting might lead to fewer layoffs." The article pointed out that for the past seven years such writeoffs among the S&P 500 companies have totaled about 20% of their reported earnings. The S&P 500 are not the only ones to take such writeoffs. These writeoffs are proof that proper amortization has not been taken on balance-sheet assets, something that certified public accountants are supposed to watch.

In case you have not read an accountant's report recently, I keep at hand the annual reports of almost all retailers with sales of more than $1 billion. In preparing this article, I grabbed one which, as might be expected, was audited by a Big 6 accounting firm. It states:

> We have audited the accompanying consolidated balance sheets of XYZ Company as of January 31, 1995, and 1994, and the related consolidated statements of income, shareholders' equity, and cash flow for each of the three years for the period ended January 31, 1995. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.
>
> We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. *An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.* [Emphasis added.] We believe that our audits provide a reasonable basis for our opinion.
>
> *In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of XYZ Company at January 31, 1995, and 1994, and the consolidated results of their operations and their cash flow for each of the three years in the period ending January 31, 1995, in conformity with generally accepted principles.* [Emphasis added.]

The report was "signed" with the forged signatures of the partners of that Big 6 firm. And just to protect the firm, "LLP" (Limited Liability Partnership) followed. In other words, if the LLP made a mistake, the partners could claim limited liability, even if the mistake resulted from an obvious error in applying a GAAP.

The audit does not mean that everything is charged to the correct year. In many cases, goodwill related to a purchase is known to have no value. However, it does not mean the auditor is required to take a writeoff.

Wall Street looks at unusual and nonrecurring charges as a godsend to the stock price for two reasons:

1. By reducing the book value of the equity, the same earnings will represent a higher percentage return on the reduced equity.
2. The reported earnings will likely be higher next year because the company will not be amortizing goodwill or other assets that have lost their value.

In other words, a big writeoff means (a) a larger profit next year than would otherwise be reported, and (b) a higher return on equity because the starting equity figure is smaller.

Recently, when chatting with the CEO of a multibillion dollar company, he was explaining this same point: why a large nonrecurring, noncash writeoff is a great sign for Wall Street. It happens that his company has extremely conservative accounting policies. It is my impression that this company has never made a chargeoff in all the years it has been publicly traded.

The individual who sent me the article is the chairman of a board on which I serve. He recalled the argument within our board on how to handle "goodwill" (the price paid, less the amount that could be assigned to specific assets) which management wanted to amortize over 40 years, the longest period permitted by GAAP. I wanted to write it off in five years because I was not familiar with any purchases that, after five years, could be sold for the assets plus the goodwill. The management could foresee its bonuses being materially reduced over the next five years in lieu of its plan of 40 years at 2.5% per year. I wanted 20% per year. (Who says outside directors do not act responsibly, even in small companies?) The period to amoritze goodwill was compromised at 10 years.

Note: Five years have passed and we would not be able to sell the company for the current value of tangible assets plus half of the goodwill that we paid.

RThought: Retailers have highly creative reasons for one-time charges. Try these:

1. Fixtures may be obsolete in less than the 40-year life being taken on the books: thus, charge half the value to last year so you can have lower depreciation this year.
2. A favorite one, a reserve for markdowns to be taken next year but charged to *last year.*
3. Do the same thing with anticipated closing costs for 100 stores, or whatever number, you intend to close.

ago at the age of 100. In addition, Jack Kilmartin worked for John Reilly, Jr., before joining Merv Morris at Mervyn's, where Jack retired as chairman and chief executive officer.)

When John, Sr., took over receivership of Schlesinger's in 1933, he immediately became aware of the poor reputation the store had acquired. Thus, he began a huge campaign to improve its image — "There's a Kahn's in Oakland Again!" — and sales took a quantum leap, even though H. C. Capwell Company had a larger store nearby (450,000 square feet versus 375,000 square feet) which was newer (1924 versus 1914) and had escalators! The Kahn store operated profitably for many years through name changes to Rhodes and then Liberty House.

I still enjoy meeting people from Oakland who remember Kahn's and ask me if I am related. They never fail to tell me a story of shopping at Kahn's as a child.

RThought: Images of service are associated with a name: Nordstrom, Saks Fifth Avenue, Neiman-Marcus, Bergdorf Goodman (my wife, upon visiting the store for the first time, said, "That's a neat store!") or even lowly Wal*Mart. It takes a lot of loving care to build a reputation. Once lost, it is seldom regained. It may be easier to change the name and start anew than to regain a reputation lost.

HOW SAFE IS AIR TRAVEL?

We often avoid airlines which have had a series of accidents, but we all find ourselves traveling by air. As for myself, I have been traveling by air with substantial frequency ever since I temporarily managed a department store in Reno, Nevada, in the 1950's for a venture capital group which had bought the store upon my recommendation. I would fly up to Reno on Friday night and return on Saturday night every week for three or four months.

Thus, you may find of interest, as I did, some numbers from the Air Transport Association: the number of deaths, in five-year periods, per one million scheduled aircraft departures.

Five-Year Period	Deaths
1950-54	1.18
1955-59	.94
1960-64	.94
1965-69	.80
1970-74	.57
1975-79	.32
1980-84	.23
1985-89	.28
1990-94	.27

RThought: I can sleep well on a plane with those odds! I was younger in 1955-59, but even then, I didn't worry because planes were safer than cars.

WHO ARE THESE PEOPLE?

Do you own a personal computer?	
Yes	85%
No	15%
How often do you use it?	
Every day	75%
Few times a week	19
Few times a month	6
What do you use it for?	
Word processing	71%
Household budgets and spreadsheets	53
Professional and home-based business	32%
Personal files and games	29
Business work done at home	9
Do you use an online service?	
Yes	65%
No	35%
How often?	
Every day	66%
Few times a week	28
Few times a month	5
Few times a year	1
Online, what are your primary activities?	
Researeh and download information	61%
Discussion groups and chatrooms	22
E-mail	22
Lurking	13
Games	3

Who are these people? See answer on Page 4.

ARE FREQUENT FLIER MILES, IF USEO BY AN EMPLOYEE, A FORM OF OOMPENSATION THAT MUST BE REPORTED?

In a technical advice memorandum (TAM), the Internal Revenue Service ruled in one case that frequent-flier miles, if used by the employee who did the traveling and who was reimbursed, must be reported because they are taxable (but the TAM did not indicate how the use should be valued). The ruling stated, essentially, that "miles" do not qualify as an "accountable" plan. The nasty part of this provision is that all company reimbursements to which the TAM applies would have to be counted as gross income subject to withholding tax, etc. The employee would then have to take the reimbursement as a miscellaneous deduction on his or her own tax return, a deduction *limited to 2% of adjusted gross income.*

Note two important points:

1. The case applied to a company which *reimbursed* its employees for tickets; it does not apply to a company which *purchases* tickets for its employees.

2. The IRS further emphasized that it will not start an audit program on the disposal of frequent-flier miles. (Nor did it say, at this stage, that the use of the miles was tax free.)

RThought: I suggest that you have your CPA obtain a copy of TAM 9547001 and review it with you.

SHORT SHORT

A hint via *Boardroom Reports* (55 Railroad Avenue, Greenwich, CT 06830; $49/yr. for 24 issues), from the book, *You Can't Lose If The Customer Wins,* by Robert A. Nykiel (Berkeley Publishing Group, 200 Madison Avenue, New York, NY 10016; $9): "Survey new employees after they have worked two weeks and ask them what else they should have been taught. Survey seasoned employees in those same positions and ask what training they think they need." **RThought:** Again, I will tell the story of when I followed a group of people, obviously employees, around the lobby of the Anatole Hotel in Dallas. I was standing behind them when the woman conducting the tour asked if she could help me. I said that I was wondering about the nature of the group. She replied, "These are employees who have worked only a month, so I am taking them through indoctrination again." Do you do that? Should we all do that?

WORDS — FROM AN EXPERT, AS TO WHY WEB SHOPPING IS NOT ALL IT'S WRAPPED UP TO BE

Maxwell Sroge, in his *NSM (Non-Store Marketing) Report* of March 4, 1996, offered the following as to why Web shopping has been such a disappointment:

> **With all the attention the World Wide Web's been getting, one might wonder why it hasn't been more successful as a shopping forum. The reason is simple: *The Internet is not designed for shopping.* The software engineers who are creating most Web stores know little or nothing about retailing. They approach things logically on an orderly, proscribed basis. But as retailers and catalogers know, *shopping is an emotional experience.* Customers like to browse through catalogs, selecting a product here and there. They like the element of surprise — it keeps them turning pages. And often the products they settle on are not at all what they set out to look for.**
>
> ***Current Web sites make shopping a chore:* First, click on shoes, then click on type of shoe, then click on color, then click on order. That's not merchandising.**
>
> ***Add showmanship, entertainment, and personalities,* and let the customer choose what she wants to stop, browse and buy. Surprise her occasionally, and make it easy for her to change her mind.**

RThought: If you want more of this wisdom from the guru of nonstore merchandising, subscribe to *NSM Report,* Maxwell Sroge Publishing, Inc., 522 Forest Avenue, Evanston, IL 60202; telephone 847-866-1890; fax 847-866-1899; 24 issues per year; $275 U.S.; $320 overseas.

Answer: These people are members of the American Associaton of Retired People (AARP) who recently answered a fax poll.

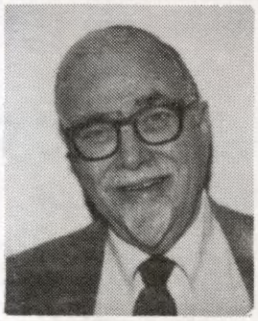
Warning: Many AARP members without computers (perhaps the majority) had no reason to answer, but the figures *do* show that for some folks physical age is not a barrier to the computer age!

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

SIC Code	Category	DECEMBER 1995	DECEMBER 1994	Percentage Change	Year-to-Date Twelve Months 1995	Year-to-Date Twelve Months 1994	Percentage Change
52	*Bldg Matl Group	$ 9,543	$ 10,181	- 6.3%	$ 124,350	$ 129,500	- 4.1%
57	*Furniture Group	15,883	16,279	- 2.4	130,114	129,313	+ 0.6
571	Furniture Stores	6,482	6,462	+ 0.3	63,378	62,491	+ 1.4
572	Appl, TV, Radio Stores	7,586	7,606	- 0.3	55,604	53,928	+ 3.1
5941	*Sporting Goods Stores	2,955	3,087	+ 4.3	20,892	20,726	+ 0.8
5942	*Book Stores	1,225	1,261	- 2.9	9,708	9,404	+ 3.2
5944	*Jewelry Stores	4,351	3,827	+ 11.1	18,239	16,588	+ 10.0
531Pt	Conventional Dept Stores	9,027	9,281	- 2.7	54,378	54,463	- 0.2
531Pt	Natl Chain Dept Stores	6,183	6,446	- 4.1	40,559	40,888	- 0.8
	Subtotal	15,210	15,727	- 3.3	94,937	95,351	- 0.4
531Pt	Discount Stores	19,157	18,580	+ 3.1	138,809	129,131	+ 7.5
531	*Department Stores	34,367	34,307	+ 0.2	233,746	224,482	+ 4.1
539	*Misc General Mdse Stores	7,612	8,115	- 6.2	58,449	60,258	- 3.0
541	*Grocery Stores	35,217	35,114	+ 0.3	386,052	381,941	+ 1.1
56	*Apparel Stores	15,173	15,295	- 0.8	109,572	107,832	+ 1.6
561	Men's & Boys' Stores	1,841	1,600	+ 15.1	11,783	9,898	+ 19.0
562,3,8	Women's Stores	4,365	5,207	- 16.2	33,364	37,426	- 10.9
565	Family Clothing Stores	6,099	5,467	+ 11.6	38,372	34,707	+ 10.6
566	Shoe Stores	1,987	2,011	- 1.2	18,278	17,715	+ 3.2
591	*Drug Stores	8,845	8,827	+ 0.2	84,474	82,995	+ 1.7
596	*Nonstore Retail	8,234	6,035	+ 36.4	69,667	53,128	+ 31.1
5961	Mail Order	6,501	4,244	+ 53.2	49,710	32,948	+ 50.9
	**Retailing Today* Total Store Retailing†	135,715	142,328	- 4.6	1,245,203	1,217,391	+ 2.3
	**GAF TOTAL	89,410	88,434	+ 1.0	620,970	602,289	+ 3.1

†Excludes car dealers, auto supply stores, eating and drinking places, service stations, and some specialty stores.
*Included in *Retailing Today* Total Store Retailing.
**General, Apparel, and Furniture.

For further information on these figures, contact Irving True at the Business Division, Bureau of Census, Washington, D.C. 20233, or call 301-457-2706/2708. (Irving has been very helpful to me over the years.)



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NUMBERS TO PONDER

We often see economic figures and use them in making decisions for our business. But what about decisions regarding our society?

The following figures were taken from an article in *Ethics and Policy*, Fall 1995, published by the Center for Ethics and Social Policy of the Graduate Theological Union in Berkeley, California.

- PTA membership has dramatically declined since the 1970's.
- The League of Women Voters membership shows a similar decline.
- Lions Club membership has dropped 18% since 1979.
- Elks Club membership has dropped 17% since 1979.
- Shriner membership has dropped 27% since 1979.
- Mason membership is off 39% since 1959.
- Jaycee membership has declined 44% since 1979.
- Union membership is off about half since the 1950's.
- The number of eligible voters who actually go to the polls continues to drop. (Note: Newspapers did not inform us as to the percentage of registered Republican voters who actually voted in the recent primaries.)
- The number of Americans who say they have attended a city, town, or school meeting has dropped a third since 1973.

With a major drop in membership in community organizations and participation in community affairs, a lack of confidence in our government has increased. The percentage of people who distrust Washington has increased from 30% in 1966 to 75% in 1992. And in 1996, it may be even higher!

RThought: Think back to the business environment when you first became involved in retailing, whether it was 20 or even 50 years ago. Back then, retailers, even some chain retailers, found time for senior managers and others to participate in volunteer organizations. Today, most chain retailers have forgotten about such organizations as the Jaycees, Lions, and Rotary. With fewer — and older — members, these organizations have done less for their communities, resulting in still fewer people wishing to join. And so the wheel turns.

There was a time when senior managers saw these community organizations as part of their career development program and community outreach. It was also a time when store employees belonging to their local PTA would, perhaps, "hit up their boss" for support in sending a high school band to a state competition or to put an unabridged dictionary in every classroom. Often, employees belonging to the League of Women Voters would ask for support in having a candidates' night for a local election to be carried on public radio and/or cable TV.

HOW TO BOOST YOUR STOCK PRICE

In the April 1996 issue of *RT,* I reported on why Wall Street loves the stocks that take noncash writeoffs, particularly reserves covering expenses that would normally impact a future year, or years. As an example, the article below appeared on the front page of the March 28, 1996, *San Francisco Chronicle.* As a means of posting a $700 million loss, it is known that Apple Computer, Inc., wrote down its inventory and transferred the loss back into its second quarter with the expectation of showing better profits in its third quarter. Also, Apple most likely set up a "reserve" for the cost involved in the anticipated laying off of 2,000 employees. If so, a future cost was transferred back so that when the cost is actually incurred it will be charged against the reserve, even though actually incurred in the third or some other future quarter.

Apple To Post Huge Loss In Quarter

$700 million blow — but stock closes up

By Jon Swartz
Chronicle Staff Writer

In a bold move to reverse Apple Computer Inc.'s flagging fortunes, new chief executive Gil Amelio said yesterday that the company will post a shocking loss of about $700 million in its second quarter.

Apple said most of the record loss will come from writing off the company's bulging inventory and about a quarter will come from restructuring charges. According to a report in MacWeek Online, Apple is also planning up to 2,000 additional layoffs. The Cupertino company laid off 1,300 employees earlier this year after it lost $69 million in its first quarter.

What is most troubling to industry observers, however, is the estimated $200 million that Apple is expected to lose from operations in its second quarter, which ends tomorrow. Sales are "substantially below" the $2.65 billion that Apple racked up in the same quarter a year ago, and unit shipments are dramatically down, according to the company.

"I expected bad news, but nothing close to this," said Ken Lim, editor of the CyberMedia Group, a Cupertino-based market research company.

The loss — which shocked some observers — nevertheless played well on Wall Street, which actually bid up Apple shares. The stock jumped in heavy Nasdaq trading yesterday, gaining 1⅜ to 25¼.

IN BUSINESS
■ Apple's new CEO appears to have the right prescription for the company's ills
PAGE B1

RThought: If you thought good accounting matches income and expenses, think again. Wall Street has its own concept of acceptable accounting. Concisely put, Wall Street's standard is: When in a bad position, make the past look worse so that the future will look better.

Continued

RThought: Why the change? One reason is that fewer stores are headed by local people. At one time, local businesses were largely run by a family: it was not unusual for the same family to run the business for a century or more. Today, local businesses are usually headed by branch managers who believe they have no authority or community responsibility because their parent companies have *never informed them that they may or should act as an "owner" on local matters.*

If we buy competitors, merge with competitors, or seek to reorganize in Chapter 11, our communities change -- for the worse.

RThought: The majority of you who read *RT* are corporate executives, usually CEOs, of retail businesses. I periodically tabulate your volume. The last time I checked, it came to about 40% of the retail volume in the U.S., if one excludes car dealers, service stations, and restaurants.

Each of you should redefine your branch managers' duties to have them act in your stead, doing what needs to be done to make each of their communities a better one, so that you will have a better store. Give an award to the manager who does the best job of representing you in the community, making it only second in importance to running the store appropriately. If all *RT* readers did this, perhaps organizations like the Lions, Elks, PTA, Jaycees, and others would once again be in a position to do more of the good work that they performed for so long.

The opportunity is in your hands.

RETAILERS ON THE BUSINESS WEEK '1,000 MOST VALUABLE'

Rank	Company	Value ($ million)
13	Wal★Mart Stores	$ 48,705
52	Home Depot	20,621
60	Sears, Roebuck	17,718
104	May Department Stores	11,619
112	J. C. Penney	10,624
131	Albertson's	9,355
154	Walgreen	8,123
162	The Gap	7,679
192	Toys "R" Us	6,520
200	Safeway	6,383
206	The Limited	6,268
210	Federated Department Stores	6,129
224	CUC International	5,923
239	Avon Products	5,435
242	Dayton Hudson	5,348
249	Winn-Dixie	5,229
259	Lowe's	4,985
284	Kroger	4,587
306	American Stores	4,263
332	AutoZone	3,795
340	Nordstrom	3,670
343	Sherwin-Williams	3,621
347	Dillard Department Stores	3,533
363	PriceCostco	3,368
367	Melville	3,349
376	Office Depot	$ 3,252
380	Kmart	3,216
385	Harcourt General	3,153
425	Circuit City Stores	2,883
446	Staples	2,732
450	Tandy	2,701
461	Food Lion	2,643
464	Rite Aid	2,638
504	Viking Office Products	2,342
519	Kohl's	2,277
540	SuperValu	2,187
552	Gateway 200	2,141
584	General Nutrition	1,969
592	Giant Food	1,953
597	Mercantile Stores	1,930
610	Revco D.S.	1,867
617	Paccar	1,836
629	Pep Boys	1,794
640	OfficeMax	1,769
642	PetsMart	1,767
677	TJX	1,611
684	Woolworth	1,597
686	Dollar General	1,592
693	Eckerd Drugs	1,568
709	Southland	1,537
720	Bed, Bath & Beyond	1,517
725	Sunglass Hut International	1,485
742	Micro Warehouse	1,412
755	Nine West Group	1,378
782	Electronic Arts	1,312
801	Weis Markets	1,275
809	Cracker Barrel Old Country Stores	1,265
817	Vons	1,252
823	Consolidated Stores	1,238
865	Hannaford Bros.	1,163
869	Stop & Shop	1,153
929	Global Direct Mail	1,032
935	Talbots	1,026
986	Home Shopping Network	952
987	Barnes & Noble	952

RThought: Although the list includes only publicly held companies, after such a poor retail year, it is reassuring to see that 65 retailers were listed!

WHAT'S NEW IN REVERSE LOGISTICS?

The hardest reverse-logistics problem is one of returning goods to a manufacturer. The goods may have to be returned because they were returned by a customer, were found to be defective by you or by an intermediate handler, or because they did not sell. This function does not lend itself to automated handling: it needs systems.

However, all of that could soon change for large retailers.

GENCO Reclamation Services (10 Papercraft Park, Pittsburgh, PA 15328; telephone 412-820-3823; fax 412-826-0856) now provides an out-sourcing service, claiming in a press release, "Our traditional, stand-alone centralized returns processing concept makes very sound financial sense for retailers and manufacturers." GENCO now has regional return facility sites, with warehouses of 40,000 to 100,000 square feet. A warehouse is established when one or two

IN 1977, I TRIED TO TELL THE INDUSTRY...

The following article appeared in the February 1977 *RT*, more than 19 years ago. However, only a few paid attention.

RETAILERS LOVE TO GAMBLE

In recent years there has been a great improvement in the accuracy of long-range weather forecasts. By long range, I mean three months to two years.

The technique was developed by Irving P. Krick — while a professor at the California Institute of Technology in the 1920's. The U.S. Weather Bureau still says it cannot be done. You will recall that this is the same kind of reaction that Galileo got for proving that the earth moved around the sun. (The Catholic Church is still trying to cancel Galileo's excommunication!)

As stores make commitments further and further in advance, one would think they would want to know something about the weather. Would California or Colorado stores have been better off in the spring of 1976 ordering ski apparel for fall 1976 if they knew that there might not be any snow? Would midwestern and eastern stores have stocked more long underwear? Would Miami stores have stocked snow shovels?

Long-range weather forecasters knew, with a high degree of confidence, what was coming — but retailers never ask. *The Los Angeles Times* threw this in the face of retailers with a story about one of the West Coast's favorite forecasters — Harry Geise, a student of Irving P. Krick. A number of people who are less inclined to reckless gambling than major retailers pay Geise over $300,000 a year for long-range forecasts. (They pay Krick much more.) One major food company has him working on 1979 and 1980 weather in 11 states!

RThought: Top retail executives are prone to consider retailing an art rather than a science. Retailing as an industry was late in utilizing what computers and electronics could bring to their business (the major installations originally involved labor-saving rather than knowledge-enhancement). Because of bad weather, many annual reports for 1976 will report that earnings were adversely impacted by excessive markdowns resulting from "unseasonable weather" — where that could have been forecast with sufficient accuracy to avoid or reduce such markdowns. The top retail executives won't tell that to their stockholders — they just go on passing off their lack of knowledge as an unavoidable — rather than an avoidable— risk of retailing.

Today, the Krick system is the basis of the work performed at Strategic Weather Service.

Here are some of the retailers who utilize long-range (i.e., one year in advance) weather forecasts.

Builders Square
Canadian Tire
Carson, Pirie Scott
Catherine's
Charming Shoppes

Circle K
Clover Discount
Consumers Distribution (Canada)
Eastern Mountain Sports
Ernst Home Centers

J.C. Penney (including mail order)
Kmart
L.L. Bean
Leslie's Poolmart
Maurice's
Meldisco
Payless Cashways
Pep Boys
Revelstoke Home Centres (Canada)
Sears, Roebuck
Wal★Mart

Strategic Weather Services' year-in-advance forecasts have had an accuracy rating of 75.4% as audited by Arthur Anderson & Company.

How does one determine accuracy? Arthur Anderson follows this procedure:

Accuracy scores are based on weekly forecasts for 50 of the 318 U.S. Metropolitan Areas. Year-ahead forecasts are compared to the actual weather and to last year's weather to determine which was the better predictor of future weather. This is an important measure of a forecast's value because when most companies plan for the following year, they simply assume that weather patterns will repeat from year to year.

For the fourth quarter in 1995, the audited results showed that for 75.4% of the days the Strategic Weather Service forecast was better or equal to last year's weather as a guide.

- 62.9% of the forecasts were closer to actual than was last year's weather.
- 8.6% of the forecast days and last year's weather were of equal distance to 1995 actual.
- 3.9% of the days both were within 2 degrees of last year's weather.

Some cities were 80% or higher in accuracy:

Jacksonville, FL	84%
Chicago, IL	83
Boise, ID	81
Tampa, FL	81
Roanoke, VA	80

RThought: Perhaps other retailers should consider this service. For example, if Builder's Square, Ernst Home Center, Payless Cashways and Revelstoke Home Centres are benefiting from long-range weather forecasts, what about Home Depot, Lowe's, Hechinger's, Menard, etc.?

RThought: Perhaps they forecast as did Nordstrom in Walnut Creek, California. In anticipation of going to New York in January several years ago, my wife visited Nordstrom to buy some plastic boots to wear over her shoes in case of snow. Nordstrom didn't have any. When she asked why, she was told that boots hadn't sold well the year before so they were not ordered for that year!

RThought: If you would like to schedule a Strategic Weather Services free workshop *in your own offices,* just call Dianna Mauer at 610-640-9485 and mention that "Bob Kahn sent me." My pleasure is derived from knowing that I was right in plugging this service a generation ago. Consider the profits you have lost because your advertising was scheduled inappropriately or markdowns were abnormal because you didn't have a more accurate picture of whether or not you would have the type of weather you need to move your purchases.

Certainly, with Wal★Mart, Kmart, Sears, and Penney using this service, you cannot use the alibi: "Let the big boys waste their money; I am saving mine."

FEATURE REPORT

WHY DO MAJOR NEWSPAPERS PUBLISH JUNK MAIL?

The New York Times published the following statement after most of the major retailers had announced their February results:

> **The most confounding news came from Kmart Corporation. One of the most heavily traded stocks on the New York Stock Exchange yesterday, Kmart's same-store sales rose 6%, up from a 3.4% rise last year, and the company said its margin [presumably, its gross margin] went from 20.3% to 20.4%.**

There are a few factors which may have had a significant bearing on the results.

1. Joe Antonini had been relieved as chief executive officer and a different management was running the company, including a new CEO who arrived in the fall of 1995.

2. Kmart, during the previous year, closed approximately 8% of its stores, presumably the poorest performing ones, which should automatically benefit the same-store comparison.

3. Kmart has long talked about remodeling its stores. Presumably, remodeling improves sales; at least, the purpose of overhauling stores is to improve sales by making old, run-down stores into clean, well-lighted modern ones. Kmart's April 1995 annual report contained this statement: "In 1987, only 10% of Kmart stores were 5 years old or newer. Today, about 70% of the stores are less than 5 years old or have been refurbished."

4. Several years ago, the National Retail Federation issued a release showing how various retailers defined "same-store sales." Kmart considered "refurbished stores" as "same stores." Wal★Mart and a few others take refurbished stores out of the comparison until one year has passed. During that first year after remodeling, when the largest sales increase does not affect the year-over-year sales comparison, they report a smaller increase than Kmart does under its method.

5. For the year ending January 1995, Kmart's annual report outlined the following steps to be taken in order to *increase* sales:
   a. Reduce out of stocks (customers and the trade have long recognized this serious problem, one which puts Kmart at a disadvantage)
   b. Improve customer service
   c. Advertise more effectively
   d. Motivate associates

Progress has been made but there is still much room for improvement.

Kmart announced that its sales per square foot for the year ending January 1996 would set a record. However, it did not indicate by how much. Figures used by analysts in reports that I have seen during the past year estimate Kmart at $190, Target at $220, and Wal★Mart at $295 per square foot. Improving sales per square foot is bound to be reflected in better same-store sales, particularly if remodeled stores are included in the definition of "same store" for the year following the remodeling.

RThought: *The New York Times* slogan is "All the news that's fit to print." The omission of this material does not meet its own standard — and what was printed may have misled its readers.

RThought: Unfortunately, many analysts who follow retailing don't understand what goes on behind the figures quoted; even more unfortunate, some of the experts from whom reporters ask opinions also don't understand, or perhaps don't recall, the factors set forth above.

SHORT SHORTS

A tougher FTC. Warning: A $100,000 settlement with a soft-drink vending machine business which failed to provide key information to potential customers; a $100,000 settlement with a direct-mail organization which shipped products late and failed to notify purchasers of the delay; a $140,000 settlement with a collection agency which threatened legal action in violation of the Fair Debt Collection Practices Act; and a settlement (with no fine) with an exercise-equipment manufacturer for false and unsubstantiated claims on weight loss. **RThought:** Retailers could soon be a target for FTC revenue if they are not more careful in their advertising claims.

Is government unnecessarily interfering with business? California recently passed a law limiting the amount a city could charge a store for recovering a shopping cart. The limit: $5. Prior to the bill, recovery fees ranged from $4 in Indio to $25 in Inglewood. However, the brouhaha started when Costa Mesa considered a law charging $250 per cart but backed down. Guess who introduced the $5 bill? Two Republicans. The Democrats spoke against the bill, saying that it was a local matter which should be resolved by cities and counties. Aren't the Republicans and Democrats mixed up in Sacramento? But we have to look past the obvious. One of the big financial supporters of one assemblyman who introduced the bill was Ron Burkle, chairman of Ralphs and majority owner of Yucaipa Cos., the parent of Ralphs, one of the largest supermarket chains in Southern California. **RThought:** Please, please don't ask your Republican in Congress to pass a law for uniformity through the 50 states so that those "poor" retailers won't be picked on by cities such as Indio, Gilroy, or Cupertino.

More...on nice letters. In the December 1995 *RT*, I reported on a friend with 13 stores who passed on to me a letter in which a customer raved about the service at one of his stores. You may recall that on a cold day of a big sale, the retailer opened the doors for those who arrived early, *provided coffee and donuts*, and distributed cards with numbers to the customers who were waiting so they didn't have to worry about keeping their position in line. While waiting, someone explained the value of the major items on sale, etc., etc. After this item appeared in *RT*, I promptly received a letter from an old friend, John Shields, chairman and CEO of Trader Joe's (now expanding East; and in a limited survey here in Lafayette, California, was the "most wanted store"), in which he said: "Like your friend with 13 stores, I receive a lot of complimentary letters each week. I answer them the day that I receive them." He enclosed a letter received the day before. I then called him and asked, "What do you do with letters of complaint?" He replied that his store managers are authorized to do whatever will satisfy the customer — without limit. And they do make almost all the customers happy. Complaint letters to "The President" are few and far between. **RThought:** Too many retailers think the goal of retailing is to sell a lot of merchandise. The real goal is the creation of customers who will keep coming back and who will immediately think of your store — *and only your store* — when they want the merchandise that you carry. **A side comment:** I got to know John when he was with Mervyn's, at the time when Merv Morris had developed a unique operation. Many companies have tried to copy the original Mervyn's; none are copying the present Mervyn's which, from trade reports and Dayton Hudson's annual report, has fallen on sad times.

clients have sufficient volume for the facility to approach a break-even. Additional clients (which GENCO calls "teammates") will be sought until each warehouse is fully operational.

RThought: Take a look at the return sections of your distribution centers or warehouses. Do you consider them to be efficient? Is the value of refunds being eaten up by the freight costs of small shipments? Are the people in your returns section well trained and efficient? Do they like their job? Do you really have a system? Are many of your shipments rejected by your vendors because you have not complied with their instructions?

RThought: I included the phone and fax numbers above because you may want to get in touch with GENCO -- quickly!

THE INCREASEO HIGHWAY-SPEED LIMIT MEANS MORE DEATHS

PriceCostco Connection, March 1996, devoted its "Members Speak On..." section to members' views on eliminating the 55 mph speed limit.

Three approving views were:

> "Big wide highways and long distances between cities justify greater speeds."
> "Everyone is driving that fast anyway."
> "Many highways are designed for higher speeds."

Three opposing views were:

> "The higher speed limit will result in more fatalities. Those who speed now will go even faster."
> "I am a retired police officer. 'Speed kills' is not a joke."
> "We worked to reduce the speed limit. The number of deaths caused by speed has dropped."

RThought: Unaware of the facts, I checked the *1994 Statistical Abstract* and found that the 55 mph law was passed in 1974. The abstract did not list fatalities for every year, but here are the years it did report, starting with 1970 (four years before the change to 55 mph):

Year	Deaths* (000)	Deaths per 100,000 Population	Deaths per 100 Million Miles Traveled	Deaths per 100,000 Licensed Drivers
1970	54.6	26.9		
1980	53.2	23.5	3.3	35.2
1985	45.9	19.3	2.5	27.9
1987	48.3	19.9	2.4	28.7
1988	49.1	20.0	2.3	28.9
1989	47.6	19.2	2.2	27.5
1990	46.8	18.8	2.1	26.7
1991	43.5	17.9	1.9	24.6
1992	40.3	16.4	1.8	22.7

*The number of deaths which occurred within one year of an accident.

One must keep in mind that since 1974 there have been significant changes in cars: better brakes, air bags, reinforced doors, stronger car frames, etc. In addition, highway markings are clearer and more uniform in most of the states. On the other hand, more cars are being driven more miles. Probably the best measure is the one-third decline of deaths based on the "per 100 million passenger-car miles driven" -- from 3.3 to 1.8 — 45%.

RThought: As to the foibles of humans, setting the speed limit at 55 mph was the only way highway speeds were cut to 65. But with the new speed limit of 65 mph, 75 will be the common speed, since most drivers believe they won't be ticketed at 10 miles or less over the limit. Most often, they will be right!

GUESSWORK + FOLKLORE = MISINFORMATION

The Los Angeles office of Deloitte & Touche LLP distributed before Christmas 1995 what it called a "Mood Survey: Retail Holiday Outlook" for Southern California. Retailers were questioned as to their expectations for the 1995 Christmas season (length never defined) and consumers were questioned as to how much they planned to spend during the holidays. There was no mention in the report as to the size of the sample for either group nor how the sample was developed. Therefore, the results may *not* be representative of the universe being measured.

The names of three Deloitte & Touche senior executives appeared in the report: Alan Frank, Partner-in-Charge, Trade Retail & Distribution Group; Jacqueline Fernandez, Director of Retail Services, Trade Retail & Distribution Group; and Richard Giss, Managing Partner, Trade Retail & Distribution Group.

The following statement in the report was attributed to Frank: "Holiday spending is vitally important to retailers, for whom it OFTEN accounts for as much as 30% of annual sales volume." [Emphasis added.] Frank gave no source for his 30% figure.

RThought: I was surprised at his statement, although I have seen figures as high as 50%. Many of the reporters, print and electronic, who call me often ask me to confirm their figure, which usually falls between 30% and 50%.

I don't know when the Christmas season starts or finishes. Does it include all rather than part of November? just after Thanksgiving? or the clearance sales in January?

The U.S. Department of Commerce, Bureau of Census, publishes what I believe to be the best *available* monthly sales figures for many types of retail stores.

Below are the combined November and December 1994 reported sales as a percentage of total 1994 sales for the various types of stores as reported by the Bureau of Census.

Type of Store	November plus December Percentage of 1994 Sales
Hardware stores	17.8%
Furniture group stores	21.6
Furniture and home furnishing stores	19.8
Household appliances, radio, TV and computer stores	23.8
Sporting goods and bicycle stores	23.1
Book stores	21.5
Jewelry stores	32.4
Conventional department stores	28.0
Discount department stores	24.4
National chain department stores	26.2
Grocery stores	17.4
Apparel and accessory stores	23.3
Men's and boys' stores	26.0
Women's clothing specialty stores	22.1
Family clothing stores	26.2
Shoe stores	19.6
Drug stores	19.0
Mail order	26.3

RThought: Only jewelry stores fall in the 30% category, and then only barely. The next highest category is conventional department stores at 28%. Since it is a total national figure, there may be a few conventional department stores which consistently do over 30%. Certainly, there appears to be no basis for Deloitte & Touche's generalization.

RThought: It's my recommendation that you pay no attention to nonaccounting figures produced by CPAs unless they fully document the universe, the size of the sample, and the method of selecting their "random" sample. If this information is not provided, you may conclude that the report is not of value to you as a manager.

DEBIT-CARD GROWTH

The Nilson Report (300 Esplanade Drive, Suite 1790, Oxnard, CA 90303; fax 805-983-0792; 24 issues a year at $695, or $745 international) is, to me, the finest report on consumer-payment systems throughout the world. In Issue 615, March 1996, it was reported that 11.3% of the transactions in the U.S. made in 1995 with general-purpose plastic cards were debit transactions, up from 8.6% in 1994.

RThought: Retailers who resist debit cards (assuming that they can tell one from a credit card), because they were not charged for processing checks but *are charged* for debit transactions, are, as usual, closing their eyes and minds to what their customers want. The same is true of retailers who won't accept *all* credit cards, including American Express.

Many a former retailer (read that as *retired involuntarily* or by *Chapter 11*) thought that the company would make more money if it were selective and did not take note of how many "old" customers no longer shopped where their preferred credit card, which may give the customer points, mileage, or some other fringe benefit, was accepted. A case at point is Sam's Club, where one of my associates had such an experience. Sam's offered her a one-day pass with the hope that she would become a member. However, Sam's does not accept a major credit card other than Discover and accepts checks only from members. I wonder what Marshall Field would say, as his motto was, "Give the lady what she wants." In Field's day, his store was close to being a "Wal*Mart of retailing."

PROCTER & GAMBLE'S EXPERIMENT

Mona Doyle, publisher of *The Shopper Report,* recently queried her "experienced" shoppers in Western New York about their reaction to Procter & Gamble Company's experiment with eliminating coupons in their section of the country. Mona listed the advantages to customers of eliminating coupons.

1. Less homework involved in preparing for shopping.
2. Easier and faster shopping.
3. Freedom to shop for smaller orders whenever it is convenient to do so — without thinking about or stopping at home for coupons.
4. Freedom to take advantage of in-store specials without checking for a coupon match.
5. More control at the checkout, where attention can be focused on the agreement of the scanned price with the advertised or shelf price.
6. Recognition of the value of shoppers' time.
7. Focus on other ways to save on grocery bills: club sizes, club stores, store brands, or really good sales.
8. Reduced misuse and fraud that consumers wind up paying for.

Mona's conclusion: Like old soldiers, coupons won't die but they will continue to fade in importance.

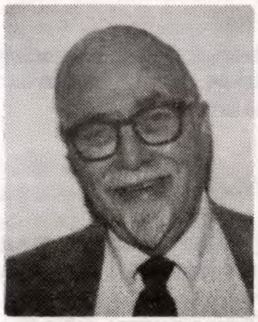
For subscription information, write Ms. Mona Doyle, *The Shopper Report,* 3624 Market Street, Philadelphia, PA 19104. Tell her that "Bob Kahn sent me."

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

SIC Code	Category	FEBRUARY 1995	FEBRUARY 1994	Percentage Change	Year-to-Date Two Months 1995	Year-to-Date Two Months 1994	Percentage Change
52	*Bldg Matl Group	$ 8,106	$ 7,800	+ 3.9%	$ 16,091	$ 15,841	+ 1.6%
57	*Furniture Group	9,241	9,006	+ 2 6	19 394	18 692	+ 3.8
571	Furniture Stores	4,851	4,466	+ 8 6	9 677	9,193	+ 5.3
572	Appl, TV, Radio Stores	4,192	3,804	+10 2	8,723	7,971	+ 9.4
5941	*Sporting Goods Stores	1,431	1,303	+ 9 8	2,872	2,578	+11.4
5942	*Book Stores	870	870	0.0	1,913	1,919	- 0.3
5944	*Jewelry Stores	1,474	1,230	+19 8	2 549	2,151	+18.5
531Pt	Conventional Dept Stores	3,635	3,301	+10.1	6,438	6,174	+ 4.3
531Pt	Natl Chain Dept Stores	2,496	2,611	- 4.4	4,675	5,125	- 8.8
	Subtotal	6,131	5,912	+ 3.7	11,113	11,299	- 1.6
531Pt	Discount Stores	9,907	8,643	+ 14.6	19,138	17,245	+ 11.0
531	*Department Stores	16,038	14,456	+10.9	30,451	28,547	+ 6.7
539	*Misc General Mdse Stores	4,138	3,796	+ 9.0	8,050	7,757	+ 3.8
541	*Grocery Stores	31,002	29,103	+ 6.5	63,056	60,207	+ 4.7
56	*Apparel Stores	7,329	6,627	+10.6	13,801	13,112	+ 5.3
561	Men's & Boys' Stores	687	659	+ 4 2	1,382	1,375	+ 0.5
562,3,8	Women's Stores	2,230	2,200	+ 1.4	4,122	4,289	- 3.9
565	Family Clothing Stores	2,593	2,182	+ 18.8	4,865	4,317	+12.7
566	Shoe Stores	1,273	1,104	+ 15.3	2,402	2 201	+ 9.1
591	*Drug Stores	6,997	6,526	+ 7.2	13,992	13,270	+ 5.4
596	*Nonstore Retail	5,207	4 801	+ 8 5	10,483	10,025	+ 4.6
5961	Mail Order	3,316	2,980	+ 11.3	7,032	6,504	+ 8.1
	**Retailing Today* Total Store Retailing†	91,833	85,518	+ 7.4	182,652	174,099	+ 4 9
	**GAF TOTAL	43,574	39,452	+ 10.4	84,745	79,349	+ 6 8

†Excludes car dealers, auto supply stores, eating and drinking places, service stations, and some specialty stores.
*Included in *Retailing Today* Total Store Retailing.
**General, Apparel, and Furniture.

For further information on these figures, contact Irving True at the Business Division, Bureau of Census, Washington, D.C. 20233, or call 301-457-2706/2708. (Irving has been very helpful to me over the years.)



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ROUTE TO

JUNE 1996 VOL. 31, NO. 6

APRIL 9 WAS A SAD DAY FOR RETAILING

On April 10, 1996, there were two major obituaries in *The New York Times.*

Jim Rouse

I first met Jim Rouse at an International Council of Shopping Centers meeting. He didn't ask me to call him Jim; he just said, "I'm Jim Rouse," as we shook hands the first time. I was honored to have him as a reader of *RT* for about a decade, even though his interest then was mainly in quality, low-cost housing.

Jim may best be remembered for developing 14,000 acres between Baltimore and Washington, D.C., into the town of Columbia, Maryland. In it, he had planned seven communities in which, from the beginning, land was reserved for the neighborhood shopping centers, elementary and high schools, churches, playgrounds, and even fire stations. Time has proven that entire communities can be planned and then built as planned. They can bring a quality to life that is often missing in the random growth of "go-to-the-highest-bidder" planning that has prevailed in most U.S. communities.

His direct impact on retailing began when he converted two old, abandoned buildings which had not been torn down because they were part of the early history of our country into the Faneuil Hall Shopping Center in Boston. (I remember the area from 1938-40 when it was a public market, with produce sold off horse-drawn carts on Saturday night.) He did the same with Harbor Place in Baltimore, with South Street Seaport in lower Manhattan, and with Grand Avenue in Milwaukee.

Jim was 81 when he died. He had retired from "making money" at 65 and had devoted the balance of his life to the Enterprise Foundation, a foundation he and his wife created in order to provide adequate and affordable housing. Jack also had served in the Navy in World War II in the Pacific. Last year, President Clinton awarded him the Medal of Freedom, our country's highest civilian award.

Jim's heritage related to retailing. His father was a canned-food broker, and at a young age, Jim acted as a broker for himself: he sold the produce from his family's vegetable garden to a local grocer!

George Jenkins

The 1980 annual report for Publix Supermarkets, Inc., was addressed to "Employee Shareholders" and celebrated the 50th anniversary of its founding. This was the year during which sales passed $2 billion (now, sales are more than $9 billion!).

Here are some quotations from that report.

> **In June of 1925, George Jenkins arrived in Tampa. His total assets were $9 in cash and confidence in his ability to become a real estate tycoon.**
>
> **He went to work as a clerk in a Tampa chain grocery store, at a salary of $15 a week. Within a month, he was made manager of the chain's store in St. Petersburg, and in less than a year, he tripled the store's volume. His reward was promotion to manager of the Winter**

Continued

JUSTICE

It was back on March 18, 1982, that the *San Francisco Chronicle* carried the article, "Big Chain Sues Tiny Shop," describing Jack Gimbel & Son Country Store, a family-owned business selling fudge, saltwater taffy and, most important, thimbles. (Its catalog features 700 or more thimbles and thimble accessories!)

Miles to the south of Jack's store, in New York City, Philadelphia, and Pittsburgh, and to the west in Milwaukee, there were Gimbel Brothers, Inc., department stores, owned by British American Tobacco Industries Ltd., or BAT, which is based in London. Gimbels' 1980 revenues were $439 million. Profit, however, was another matter: some years, there was a profit; other years, none. Supposedly, Gimbels competed with Macy's, but it appeared that Macy's always won.

Although Gimbels did not have any stores in or near Maine in 1982, it sued Jack Gimbel & Son Country Store for infringement of its copyright. Jack resisted. All he was doing was *using his own name* to run a business with his son.

With Jack the underdog, we soon became friends. I never met him, but there were telephone calls, letters, and a report in *RT* on the stupidity of Gimbels and BAT.

Since then, Adam Gimbel, the remaining retail member of the Gimbel Brothers clan, has died, and the stores have gone broke. Although the name of Gimbel Brothers has disappeared from retailing, the name of Jack Gimbel & Son Country Store continues to this day.

When Adam Gimbel passed away and when Gimbels went out of business, our San Francisco newspaper carried nothing; but when Jack Gimbel died in early November 1995, the paper not only ran his obituary but the story of the "little guy" who stood up for his rights.

I had written to Jack as recently as October 13, 1995. A few days after the obituary appeared, I received a note from Jack's son saying that when Jack died he had my letter on his desk, intending to reply, and how much the family had appreciated my support. I then wrote Jack's widow to let her know that her husband's fame continued long after people stopped saying, "Adam, who?"

RThought: Jack, rest in peace. You won. And you were remembered 3,000 miles away!

Haven store, then the chain's biggest outlet. But the chain's new management was mostly absentee and Jenkins felt it was time to strike out on his own." [George was 19 at the time.]

[He] opened his own food market — Publix — *right next door to the store where he had formerly worked.* [Emphasis added.]

[He] learned, more and more, that pleasing the housewife was the key to success.

[His] first Publix Market grossed $120,000.

In 1935...sugar dropped to 4 cents a pound, potatoes to 2 cents. Eggs were 15 cents a dozen. At times, he wondered how he was going to meet the payrolls of two stores.

There was a special meaning in addressing the annual report to "Employee Stockholders." All of the shareholders were (and are to this day) employees! As of the end of 1980, 6,200 out of 28,155 employees owned all of the stock. Most stock transactions, whether directly with employees or with the Profit-Sharing Retirement Fund and Employee Stock Ownership Trust, are made with Melbourne Shopping Centers, Inc., an associated company, which appraises the value of the stock each year. Internally, it is referred to as the "market price," and in 1980, it was $60 a share. The $55 market share for 1979 lasted until the fourth quarter of 1980, when the $60 price went into effect. No worrying about the market every day: changes in the stock price were after a period of months, not hours.

Publix is one of the largest employee-owned companies in the U.S.

I have had two contacts with Publix and George Jenkins. During World War II, I was stationed for several months at Lakeland Army Air Force Base, preparing a unit to be sent to the Far East to serve on Leyte and in the Japanese occupation. I recall the very favorable feeling of the people of Lakeland toward Publix which, even then, dominated the town. And, for a number of years, Mr. Jenkins was a reader of this publication.

RThought: Thousands shall miss these two fine men.

HOW TO STEAL $500 MILLION

"How to Steal $500 Million" is the name of a one-hour program recently shown on PBS television's "Frontline." It told the story of Michael Manus, chief executive officer of Pharmor, a chain of deep-discount drug stores which ultimately ended up in bankruptcy because of fraud and "cooked books" (which, incidentally, got past audit by one of the Big 6).

The program can be obtained from PBS by calling 1-800-344-3337 between 9:00 A.M. and 6:00 P.M. (ET), Monday through Friday. Ask for FROL-304. The price is $69.95.

I would recommend it to any academic or executive involved in training because it presents the fraud in detail. More important, it presents the key people who succumbed to Manus and committed fraud on a massive basis. It also has them tell the story of how they got involved and how, as the amount grew larger and larger, they were unable to extricate themselves. The actual participants speak to others who may, one day, be in their position.

Manus spent some of the stolen money on himself and his interests (a new basketball league). Most of the participants face a life of prison and shame, all told in a touching manner.

RThought: This video is worth one hour of time at the meeting of an audit committee of any public company. But be sure to let the internal audit team watch it at the same time.

THE ADDED COST OF SMOKING

A flier recently dropped out of my newspaper offering noncancelable insurance (except for nonpayment of premium). It listed rates for men and for women and for smokers and for nonsmokers. I wondered how much the premiums differed because of the increased risk of death due to cigarette smoking.

The table below is based on monthly premiums for a $500,000 policy.

	Women			Men		
Age	Smoker	Nonsmoker	Higher Percentage if Smoker	Smoker	Nonsmoker	Higher Percentage if Smoker
20	$ 60.42	$ 35.00	+71%	$ 66.67	$ 35.42	+ 88%
25	60.42	35.00	+71	66.67	35.42	+ 88
30	60.42	35.00	+71	66.67	35.42	+ 88
35	60.42	35.00	+71	72.50	35.42	+105
40	77.50	44.17	+82	97.92	45.84	+114
45	99.17	54.17	+83	142.09	60.00	+137
50	118.75	65.84	+80	187.92	83.75	+124
55	167.09	95.42	+75	261.25	121.67	+115
60	252.50	145.00	+74	365.00	193.34	+ 89
65	420.84	241.67	+74	619.59	334.17	+ 85
70	600.84	338.75	+77	1,047.92	582.92	+ 80
75	1,085.84	603.75	+80	1,972.09	1,096.25	+ 80

Average premium: +76% higher Average premium: +91% higher

The higher rate indicates the greater chance of death from smoking. We can talk all we want to about "Mother smoking until she was 85 and living to 95," as was the case with my mother. But one statistic does not have any value to an actuary. The actuary looks at figures in the hundreds of thousands and shows the correlation between smoking and death. The actuary then sets a higher rate for the smoker's insurance policy because smokers die younger. The insurance company has to, on average, collect the amount of premium which, together with earnings on the premiums, will pay the benefit (in this case, $500,000) between the start of the policy and the death of the insured.

Look at the columns headed "Higher Percentage if Smoker." They show that the premium for women is generally 70% to 80% (average 76%) higher for the smoker than the nonsmoker and that the premium for men runs 80% to 137% (average 91%) higher.

The fact that the premium for men who smoke is relatively higher than the premium for women who smoke reflects that a higher percentage of men are "heavy smokers" (more than one pack a day) than are women. It also accounts for the decline of the premium for men and women starting at age 75: a smoker's premium is 80% less for both men and women, most likely because the heavy smokers among men are no longer alive to buy a policy.

RThought: Those who don't smoke have:

1. an accrued savings from the cigarettes they did *not* buy;

2. a savings on their life insurance policy;

3. a lower cost for their wardrobe, which does not reek from cigarettes or have burn holes; and

4. a savings on insurance costs because they are likely to live to see their children grown and off on their own; thus, their

I AM ALWAYS SURPRISED AT HOW LITTLE INFORMATION IS IN AN ANNUAL REPORT

As an example, let's take Woolworth Corporation's 1994 annual report (the 1995 report has not been received, but it will not be much different).

The inside of the front cover states, "[Woolworth] is a large global retailer with stores and related support facilities in 23 countries and on four continents.... As of the close of [its] 1994 financial year, the company operated 8,629 stores in the United States, Canada, Mexico, Germany, England, Belgium, Luxembourg, the Netherlands, Spain, Italy, Australia, and Hong Kong." Note: Only 13 of the 23 countries were identified. What about the other 10 countries?

The following quotations are from the chairman's report to the shareholders and cover Woolworth's international operations:

> The company's results reflect improvements in its margins over those in 1993, when high fourth-quarter markdowns in most North American divisions left margins in that year unusually depressed.
>
> In the United States, there were operating improvements as well as in several of our specialty formats, particularly in a number of our athletic formats.
>
> On the international front, our restructured Canadian businesses reported improvements in both the general merchandise and specialty segments, with a strong performance turned in by the Northern Group of apparel stores.
>
> Unfortunately, many of the gains we achieved were offset by significant disappointments in other international operations. This was the case particularly in Germany, where continuing weak economic conditions in the department-store retail sector discouraged consumer spending, as well as in Mexico, where a problematic economy also depressed our results.

In the body of the report, there was a breakdown of dollar sales as follows:

Specialty Store Sales		General Merchandise Stores	
United States	$3,977	United States	$1,467
Canada	584	Germany	1,527
Other international	456	Canada	188
		Mexico	94

There was a further breakdown of operating results (U.S. $ millions) as follows:

Specialty United States	$ 249
Specialty Canada	9
General merchandise U.S.	13
General merchandise Germany	(16)
General merchandise Canada	5
General merchandise Mexico	3
Net gain real estate	41
Loss on sale of Woolco stores	(30)
Total	$ 274

There are few other factors identified in narrative form; thus, it is difficult, if not impossible, to know what kinds of stores are owned in 23 countries and the benefit or loss to the company.

The following is the full report of retail operations, stretching west from New Zealand to Spain and the United Kingdom, as reported by one of my favorite international companies, Dairy Farm International Holdings, Ltd., on the 13 countries in which it operates. Dairy Farm's headquarters is in Hong Kong (although it has re-incorporated in Bermuda should China limit free-enterprise, commercial activity in Hong Kong when it becomes part of China).

ASIA

HONG KONG The market remained very competitive and retail sales were sluggish.

Wellcome improved sales and profit during the year, however, market share declined. Pressure on rental costs continued and, although increases were not as high as in previous years, rental costs have doubled as a percentage of sales since 1989. In 1995, nine new supermarkets were opened, bringing the total to 199 standard supermarkets and five Wellcome Xtra stores which provide an extended fresh food range. Wellcome also commenced planning for a new production facility of 180,000 sq. ft. in the New Territories. This will enable the chain to offer a wider range of fresh foods and provides an excellent opportunity for continued growth.

7-Eleven, our 300-strong convenience store chain, performed satisfactorily in a difficult trading environment. Cost pressures continue, but we are making a significant investment in new support systems, which will provide savings.

Mannings, our drugstore chain, had an excellent year with good growth in sales and profit. These were driven during the year by a number of marketing programs. We opened 13 stores in 1995, and at year end we had 90 units, making this the largest chain of its type in Hong Kong.

Oliver's, our delicatessen and sandwich bar chain, had another good year with strong growth in both sales and profit. At the end of 1995, we had five delicatessens and 20 sandwich bars. Seven new outlets are planned in 1996.

Cups 'n Cones, our ice-cream chain, had a disappointing year, primarily due to the loss of the franchise in a large entertainment venue. At the end of the year there were 18 outlets.

CHINA **7-Eleven.** In Shenzhen, the business remains loss making, but the progress is satisfactory and in 1995 we obtained permission to develop 7-Eleven in Guangdong and we hope to open 10 stores during 1996.

INDIA During the year we signed a Technical Assistance Agreement with the RPG group of Madras, for which we will provide assistance in setting up a supermarket chain in India.

INDONESIA In October 1995, we signed a Technical Assistance Agreement with the Mitra group to provide assistance in running its discount grocery stores. We see this as an exciting opportunity to participate in the rapidly growing Indonesian market.

JAPAN **Wellsave**, our 60%-owned joint venture with the Seiyu group, commenced operations in the year and opened four stores, with 12 more planned for 1996. We see Japan as presenting a good opportunity to expand in a country where traditional methods of doing business are changing. This is a long-term project, however, and will require a significant investment over the next few years.

MALAYSIA **Cold Storage**, our 50-50 joint venture, had a satisfactory year although no new stores were opened. Sales have improved, and the process of repositioning the business has commenced with the introduction of our first Wellsave discount offer.

SINGAPORE **Cold Storage** opened three new supermarkets, bringing the total to 18, while one 7-Eleven convenience store and seven Guardian pharmacies were opened, bringing their totals to 77 and 57 respectively. The Oliver's Super Sandwich bars had a good start and we ended the year with five stores. Overall, Singapore had a good year with strong growth in sales and profit but opportunities for expansion are limited because of the difficulty in locating suitable sites.

TAIWAN **Wellcome Taiwan** continued to increase sales, but profit was down as the market became more competitive with the growth of both independent and foreign retailers. One major competitor has now closed most of its stores and we are repositioning our offer. We continue to open new outlets and expect to be operating 110 stores by 1996 year end.

Mannings had an encouraging year, with strong sales growth in all 53 units, including 30 new outlets. Critical mass has now been achieved, and profit began to be generated in the last quarter.

AUSTRALIA

Franklins achieved an 8% growth in sales, a steady improvement on the previous year's growth, although there was a slight fall in market share. Margins in the first half of the year were affected by a particularly high level of competition, but we saw an encouraging trend in the second half of the year with improving margins. The overall results were, however, dominated by the exceptional charge taken to offset an inventory overstatement identified during the year.

The "No Frills" grocery business is being re-engineered to improve operating efficiencies, and our systems are being progressively upgraded. Franklins has always relied on fresh foods to be supplied by small local traders operating from adjacent premises, but consumer demand for extended trading hours has put many of these under pressure. In many areas we have, therefore, decided to offer customers the benefit of a one-stop shopping experience, and our new Big Fresh and Franklins Fresh formats are receiving good consumer acceptance. During the year we opened 16 Franklins Fresh, eight Big Fresh outlets and two No Frills stores. Franklins now operates a total of 255 stores with five million sq. ft. of selling space in four states, and we believe the considerable investment in the new formats will provide excellent returns in the long run.

NEW ZEALAND **Woolworths**, our New Zealand supermarket operation, had a good year, with sales up 10% and profit increased by 9%. These results were combined with a satisfactory gain in market share. During the year our three fascias were repositioned to widen consumer appeal, and there was a major relaunch of the Big Fresh format, incorporating the Franklins "No Frills" grocery offer from Australia. As a result there has been a significant improvement in sales and a reinforcement that Big Fresh is the leading discounter in New Zealand. The new "Woolworths Marketplace" format has been launched successfully in two stores with an enhanced fresh food offer. In total we now have 73 outlets in New Zealand, including 16 of the Price Chopper discount format.

EUROPE

SPAIN **Simago** had an improved year, and sales benefited from a more aggressive pricing structure in all 107 stores and a much improved fresh food and grocery offer. Overall sales increased by 13% over the previous year. Underlying results showed an improvement before the cost of store refurbishments and the charge in relation to the US$8 million revaluation deficit of the property portfolio. During the year, 11 new Super Descuentos and one new Simago were opened and, in 1996, it is planned to open another 21 stores. While losses continued, a more competitive pricing structure and revitalized ranges and store standards have resulted in a considerable improvement in the way the business is operating and we expect that margins will continue to improve in 1996.

UNITED KINGDOM Sales in **Kwik Save** (29% owned) for the 52-week financial period ended 26th August 1995 were up 7% to some L3 billion, but profit before tax declined 7% to L125.5 million. Earnings per share decreased 10% to 51.68 pence.

The market in the United Kingdom remained intensely competitive, as all participants focused on the pricing of basic grocery items. Kwik Save's response has been to look for cost savings to enable further price reductions and to improve its range of products. The intensity of the competition resulted in a number of competitors abandoning the discount sector of the market and other potential entrants canceling their plans.

The Shoprite group's stores were acquired at the end of 1994 and have now been integrated into the Kwik Save chain. In addition, a major small store refurbishment program has commenced and a new 250,000 sq. ft. warehouse is now operating. This was in addition to the normal store opening schedule, which added 66 new outlets, bringing the total to 979.

Pressure on margins continues unabated, and there is no sign of a result to historic margin levels in the near future. Kwik Save remains cash generative, however, and this, combined with a strong balance sheet and low-cost operating structure, means that the company is well placed to meet the continuing challenges of the market.

At the front of Dairy Farm's report, there are colored bar charts showing, for each region, the turnover (sales), capital expenditures and investments, trading (operating) profit and profit after tax, and minority interests.

Dairy Farm is a company doing approximately the same volume as Woolworth Corporation, about U.S.$8 billion. It has about 1,460 stores, totaling 13 million square feet, and employs about 52, 000 associates. (Sam Walton's term, "associates," has been adopted around the world!)

RThought: As a shareholder, which report would you prefer to receive?

widow or widower needs less insurance to cover living expenses or, perhaps, the cost of sending the children to college.

Of course, if the newspaper reports are correct in that cigarette manufacturers knew that nicotine is addictive and that they knew how to manipulate the nicotine so as to make the addiction stronger or weaker, the very nature of addiction eliminates the possibility of breaking the habit, no matter what logic tells the smoker that he or she should quit.

WHERE IS RETAILINO IN ASIA?

Retail Asia, published in Singapore, reaches into and reports on retailing in Brunei, Hong Kong, Indonesia, Japan, Malaysia, the Philippines, Singapore, Taiwan, and Thailand.

In just one issue, the following subjects were covered — offering sounder advice than is found in many U.S. publications:

Editorial: "Retailing in Cyberspace: Proceed with Caution." Besides a fair evaluation of the present market (many hits on ads but few orders), security of credit card transactions, etc., there was a good judgment statement: "Moreover, shoppers all over the world still like to touch and feel the products before buying them."

Article: "Smart Card, making dollars and sense for retailers."

Article: "Sunway Pyramid" was the story of a seven-million-square-foot, mixed-use development (650,000 square feet of retailing) being built in Malaysia. About 1.5 million people reside within 2 miles, and 3 million reside within 12 miles! This development comes complete with hotels, a 21-floor office tower, an ice-skating rink, etc., etc.

Article: "What's the Quintessence of a Successful Ad Campaign?"

Article: "Pacific Plaza in Hong Kong" described 1.4 million square feet of retailing, plus three 5-star hotels and 800,000 square feet of office space. Since opening in 1989, the retail portion has shown a sales increase of more than 20% each year.

Article: "Retailing in Cyberspace" was written by Gary Robins, who is well known in the U.S. for his consulting and writing.

Article: "Discount Stores: Design and Display" described the London Fog factory outlet store in The Outlets in Gilroy, California (just south of Silicon Valley).

Article: "Malaysian 'Shopportunity'" provided information on shopping centers in addition to the Sunway Pyramid mentioned above. Centers vary from 300,000 square feet to 1.5 million square feet of retail space. Makro and Carrefour are present. Kmart is to announce a location soon. The article reported that "several U.S. and Australian discounters prefer to be anonymous at this stage."

Article: "Grocery Retailing Experiencing Revolutionary Change" was the story of FMI AsiaMart '95, sponsored by the Food Marketing Institute of the U.S. and led by Tim Hammonds, FMI's president and chief executive officer.

Article: "Shopping Center Professional at ICSC for Asia Pacific '95 meeting." (ICSC is the International Council of Shopping Centers from the U.S.)

Plus, there were many shorter retail articles!

Even the ads were familiar: Sensormatic, Genuardi's, IBM, Fujitsu, Spectra-Physics, Philips, and finally, Pepsi and Coca-Cola.

RThought: If you are looking toward Asia, you need Retail Asia. Specify English version and send a $100 bank draft for one year (six issues per year) to Publisher/Editor Andrew Yeo, Retail Asia Publishing Pty. Ltd., 60 Martin Road, No. 07-33, TradeMart, Singapore 239065. Say that 'Bob Kahn sent me."

DON'T ALLOW USE OF YOUR NAME AND SOCIAL SECURITY NUMBER AS I.D. OR ON LISTS

Privacy Journal (February 1996) reported on an English instructor at Modesto Junior College in California who took names and Social Security numbers off of student rolls and faculty pay stubs (which had been thrown away) to open accounts with false addresses at department stores such as Nordstrom and for Visa/MasterCard credit cards. In each case, credit was issued even though the address was incorrect.

Not only did the use of the Social Security number permit the fraud to take place but the owners of the Social Security numbers had a difficult time convincing three credit bureaus and several department stores that their names and Social Security numbers had been fraudulently used.

RThought: I have long recommended *Privacy Journal* to my readers. To subscribe, write to *Privacy Journal*, P. O. Box 28577, Providence, RI 02908; $118/yr., $145 overseas.

FORGET ABOUT SOCIAL SECURITY GOING BROKE IN 2031, TRY 2028!

In the January 1996 *RT,* I summarized the 1995 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds. I pointed out the foolishness of the trustees' 75-year forecast, showing the difference between their high-cost estimate, which would run out of funds by 2017; a low-cost estimate, which *would never run out of funds*; and a medium-cost estimate, which would run out about 2031. The trustees "assumed" no changes in the law.

You may not have noticed but when Congress passed and the President signed a bill to increase the national debt limit to $5.5 trillion *it contained a change in Social Security benefits!*

Under the old law, persons receiving benefits between the ages of 65 and 69 and who have "outside earnings" of more than $11,520 forfeit $1 of benefits for every $3 earned above $11,520. There are about 900,000 beneficiaries in this group. The new law provides for this "point of forfeiture" to be increased beyond the old law. By 2002, forfeiture will not start until outside earnings pass $30 000! Most of the 900,000 will no longer have forfeitures and the outlays from the trust funds will increase.

RThought: Watch for the 1996 Report of Trustees. Funds may be forecast to run out even earlier than 2028, even though the low-cost assumption may never run out.

WHERE CAN YOU GET GOOD SALESPEOPLE?

Many retailers are hurt by employees who don't understand that their primary job is to *serve* customers so that they will want to come back to the store again and again and again. People may even want to become a regular customer of a particular salesperson, which is especially beneficial to both a salesperson who's on commission and the store.

The most important skill of a salesperson is to be sensitive to the wishes of the customer. Unfortunately, it cannot be taught.

Some skills needed by a salesperson are easy to teach: store procedures, merchandise, follow-up on such matters as thank-you notes, developing a PT list, etc.

Where can you find such sensitive people? One source, to my knowledge, has always been overlooked, particularly if you frequent the better restaurants. How many times have you been impressed by the attention of your waiter or waitress. At just the right moment, after you have been given the menu, your server appears to take your order. If you should ask about a certain dish, you are informed of the details as though it were the server's favorite recipe. Your server promptly and courteously removes dishes from your table and not only appears with water or coffee refills without a request but remembers whether you are drinking regular or decaffeinated coffee.

You may pass this off as "working to get a bigger tip." But haven't you had many servers who may also want to get (or expect) a larger tip but who don't promptly and courteously perform?

Why not give your card to a server who impresses you. Tell the server that you would like to see him or her at your store. Tell the server about your company and your goals and ask him or her if they have ever considered being a salesperson. He or she may protest that they know nothing about your merchandise; but, at that point, explain that your future depends upon customers coming back again and again and again. This takes the kind of care and treatment that you have just received. Explain that you know that some servers are so good that customers ask for them by name. Explain that in retailing there is more of a chance to develop a personal trade. And explain that you are sure that it will be easy to become knowledgeable about the products you sell whether apparel, appliances, or exercise equipment. Be sure to explain that you have a difficult time training people to be as sensitive to customers as that server was to you at the restaurant.

Some servers earn more than your salespeople. You will have to offer something more than $6 an hour. Inasmuch as you are probably paying your present salespeople at least $6 an hour, be aware that many are not building either regular customers for you or personal trade for themselves. Many "personal trade customers" buy even more if suggested by a trusted salesperson.

RThought: Try this tip. Let me know how it turns out, particularly the reaction to your approach and, regarding those who do accept, how they work out.

DOING BUSINESS THE NICE WAY

The May Company, in the details of its offer for Strawbridge & Clothiers, stated that store executives in the acquired stores, according to *Women's Wear Daily* (April 4, 1996), "will be offered continued employment and will be given credit in employee benefit plans for their years with Strawbridge." In addition, May Company plans to interview other Strawbridge executives for possible placement in its firm.

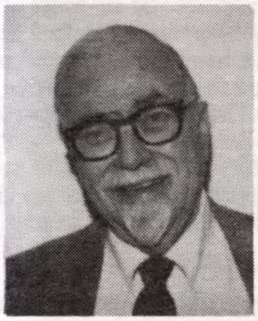
RThought: I suspect that Strawbridge, still being a family-controlled business, brought up the issue out of concern for employees with many years of service. It's nice to be nice — and to learn of others being nice — and it often costs very little. I believe May Company will receive a good return on their expenditure and hope that three or four years from now May Company will issue a report on that return.

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

SIC Code	Category	MARCH 1996	MARCH 1995	Percentage Change	Year-to-Date Three Months 1996	Year-to-Date Three Months 1995	Percentage Change
52	*Bldg Matl Group	$ 9,637	$ 10 009	- 3.7%	$ 25,771	$ 25,847	+ 4.4%
57	*Furniture Group	10,882	10,114	+ 7.6	30,926	28,812	+ 7.3
571	Furniture Stores	5,385	5,093	+ 5.7	15,037	14,286	+ 5.3
572	Appl, TV, Radio Stores	4,586	4,221	+ 8.7	13,364	12,192	+ 9.6
5941	*Sporting Goods Stores	1,822	1,672	+ 9.0	4,888	4,250	+ 15.0
5942	*Book Stores	671	644	+ 1.6	2,601	2,563	+ 1.5
5944	*Jewelry Stores	1,374	1,145	+ 20.0	3,925	3,296	+ 19.1
531Pt	Conventional Dept Stores	4,192	4,057	+ 3.3	10,637	10,231	+ 3.9
531Pt	Natl Chain Dept Stores	2,957	3,148	- 6.1	7,831	8,274	- 5.3
	Subtotal	7,149	7,205	- 0.8	18,462	18,505	- 0.2
531Pt	Discount Stores	11,176	10,456	+ 6.9	30,313	27,703	+ 9.4
531	*Department Stores	18,325	17,661	+ 3.8	48,775	46,208	+ 5.6
539	*Misc General Mdse Stores	4,551	4,437	+ 2.6	12,615	12,194	+ 3.4
541	*Grocery Stores	33,272	32,330	+ 2.9	96,326	92,537	+ 4.1
56	*Apparel Stores	8,833	8,547	+ 3.4	22,657	21,659	+ 4.6
561	Men's & Boys' Stores	742	733	+ 1.2	2,101	2,108	- 0.3
562,3,8	Women's Stores	2,556	2,840	+ 10.0	6,642	7,129	- 6.8
565	Family Clothing Stores	3,248	2,807	+ 15.7	8,166	7,124	+ 14.6
566	Shoe Stores	1,591	1,537	+ 3.5	3,899	3,736	+ 4.4
591	*Drug Stores	7,255	7,033	+ 3.2	21,211	20,303	+ 4.5
596	*Nonstore Retail	5,740	5,766	- 0.4	18,258	15,791	+ 15.6
5961	Mail Order	3,787	3,676	+ 3.0	10,891	10,180	+ 7.0
	**Retailing Today* Total Store Retailing†	102,362	99,358	+ 3.0	287,953	273,580	+ 5.6
	**GAF TOTAL	49,369	46,883	- 5.3	134,367	128,449	+ 4.6

†Excludes car dealers, auto supply stores, eating and drinking places, service stations, and some specialty stores.
*Included in *Retailing Today* Total Store Retailing.
**General, Apparel, and Furniture.

For further information regarding these figures, contact Nancy Piesto, Services Division, Bureau of Census, Washington, D.C. 20233; telephone 301-457-2706/2708; fax 301-457-3677. For a subscription to *Monthly Trade, Sales and Inventory Report* at $57 per year, contact the Government Printing Office, Box 371975M, Pittsburg, PA 15250-7975; telephone 412-644-2721/2828.



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GOTTSCHALKS IMPROVES RESPONSE TO ADS

DM News recently reported that Gottschalks, Inc., which operates 35 department stores and 28 specialty stores, mainly in California but stretching as far north as Tacoma, Washington, has been able to *double* and *triple* the traffic at some of its locations!

By using advanced call-center technology and a sophisticated, credit card-based information system, the chain is now able to segment approximately 800,000 of its cardholders who meet pre-set criteria. Each call, which costs Gottschalks 6 to 11 cents, apprises a customer of upcoming, special in-store promotions likely to be of interest to him or her.

Store managers are involved in setting specifications for customers to be called.

RThought: Gottschalks does not sell over the phone, but it does invite its customers in a personal, friendly manner to come in and shop. The effort is apparently paying off!

HOW MANY OF YOUR TAX DOLLARS SHOULD GO INTO DEFENSE?

As reported in the July 1995 issue of *The Defense Monitor,* the guideline for the military is to be able to fight two "regioual wars" (undefined) at about the same time.

General Merrill McPeak, Chief of Staff of the Air Force (1991-94), said:

> **We should walk away from the two-war strategy. Neither our historical experience nor our common sense leads us to think we need to do this. We've had to fight three major regional contingencies in the past 45 years. [Editor's Note: Korea, Vietnam, and the Persian Gulf would be my guess; there is serious question of whether or not we should have ever been in Vietnam.] One comes along every 15 years or so — two have *never* come along simultaneously.**

There were alarmists, especially the Republicans, who claimed we had a readiness crisis in 1994. Thus, President Clinton added $25 billion to the budget over six years. And Admiral William Owens, Vice Chairman of the Joints Chief of Staff, said:

> **If you look at the numbers involved in "operations other than war" at any given time, it is about 24,000...out of 1.5 million-plus [troops]. The numbers are not huge.**

The proposed military expenditures should be called "pork barrel legislation" because many of the weapons to be developed are in the districts of the more powerful members of the House.

The Center for Defense Information prepared the following table:

Continued

WOULD SAM HAVE APPROVED?

The front page of *Discount Store News* (May 20, 1996) reported Wal★Mart Stores' new policy on vendor responsibility for markdowns. Originating from a hardlines department, the article specifically stated: "It is not clear...how many departments would be affected by this policy."

Let's do some arithmetic and use figures slightly different from those used by *DSN.*

Assume Wal★Mart buys 100,000 gadgets for $4.50 per unit and plans to sell them at $6 per unit, a 25% gross margin. Wal★Mart's "agreed upon" sell-through of 85% would result in a guaranteed gross margin of $1.50 per unit on 85,000 units. Markdowns on the 15,000 purchased units that were beyond the agreed upon sell-through would be Wal★Mart's responsibility. If only 75,000 were sold through at $6, then the vendor would pay Wal★Mart the amount of markdown necessary to sell the unsold 10,000 items.

Let's assume these 10,000 units sell for $5. If 85,000 units were sold, Wal★Mart would receive a gross margin of $127,500 (85,000 times $1.50). If Wal★Mart sold only 75,000 units at $6 and then 10,000 units at $5, it would receive the following:

75,000 units at $1.50 gross margin	$112,500
10,000 units at 50 cents gross margin ($5-$4.50)	5,000
Vendor pays $1 markdown on 10,000 units	10,000
TOTAL	$127,500

Wal★Mart would be guaranteed full gross margin on the agreed upon $85,000 sell-through. Its gross margin is at risk on only 15,000 units.

RThought: Is there parity between Wal★Mart and the vendor in negotiating the sell-through? I doubt it, since delivery from distribution centers to stores, placement in ads, timing of offering, and, especially, handling in the stores is more subject to control by Wal★Mart than by the vendor.

RThought: Sam, together with Procter & Gamble, created partnering with vendors. But is this process a form of partnering? Do you believe that setting the sell-through percentage is negotiated by equals? What if the 85% sell-through does not occur because Kmart or Target offers an equivalent item at an original $5 retail price and Wal★Mart, without the knowledge of the vendor, has to meet that price?

RThought: At least this is better than a *postfacto* demand for tens or hundreds of thousands of dollars with no set formula, something which has occurred in the past.

RThought: Would Sam have approved?

RThought: Comments on this subject may be the start of "Lettters to the Editor."

Comment: Thoughts from readers would be welcome.

Weapon	Fiscal Year 1996 ($ billion)	Total Program Cost ($ billion)
Ballistic missile defense	$2.9	$91.0
F/A-18E/F Hornet attack aircraft	1.1	63.0
NSSN new attack submarine	1.2	58.0
F-22 advance tactical fighter	2.2	57.7
DDG-51 Arleigh Burke destroyer	2.4	53.9
B-2 Stealth bomber	.987	53.0
F/A-18C/D Hornet attack aircraft	.687	39.3
V-22 Osprey tilt-rotor aircraft	.811	35.9
Trident II D-5 nuclear missile	.542	30.9
Milstar communications satellite	.693	27.0
C-17 transport aircraft	2.6	21.2
E-8A JSTARS reconnaissance aircraft	.733	8.4
RAH-66 Comanche helicopter	.199	6.7
TOTAL COST	$17.1	$546.0

Unfortunately, in our defense expenditures, if the Air Force receives $1 billion, the Army and Navy must each receive $1 billion.

We are sure of two things about the numbers:

1. Estimates are always low in order to get a new weapon system approved; and

2. No weapon has ever come in below estimate.

The projected $546 billion cost of all new weapons to be designed and built will be wrong, and as years go by, the military services will either cut back or eliminate some because they will not be needed or cannot meet agreed upon performance.

The Air Force has claimed for years that the B-52 is obsolete — but then B-52s were used effectively in the Gulf War to do "blanket bombing" of the Iraqi ground forces.

Major Ralph Peters, Office of the Army Deputy Chief of Staff for Intelligence, said:

> **There is not one compelling reason to buy a single additional bomber, submarine, or tank today, save the preservation of the industrial base.**

RThought: If we cut out even half of the $546 billion, we *could* prevent states from throwing many of their destitute people out onto the streets — many to die or to commit crimes which will require more dollars for prisons.

Note: If you want objective analysis of defense spending, look to the retired admirals, generals, and colonels who have spent a good part of their careers overseeing the types of projects listed or who were in command positions during wars where they learned what types of weapons were needed.

If you wish to be informed, send $35 to the Center for Defense Information (organized during the Vietnam War in 1972), 1500 Massachusetts Avenue, N.W., Washington, D.C. 20005, and receive *The Defense Monitor* each month. Say, "Robert Kahn, Lt. Col., USAF (Ret) sent me."

ONCE, RETAILERS WOULD ANNOUNCE SOMETHING LIKE...

"In honor of those who have served our country, Tiffany & Co. will be closed today," as was the case on Memorial Day, May 27, 1996. The ad was printed in *The New York Times* on page 3.

Once, all of retailing honored this day. Apparently, dollars have become more important. Am I, perhaps, not understanding? I was a reserve officer for 39 years and am now retired. (I volunteered in July 1941 because the Macy's Research Division seemed the wrong place to be at the time. I was also recalled during Korea.) Several of my high school, college, and graduate school friends gave even more: they didn't make it back. It is for them and their families that Memorial Day is important. It is also for us, the beneficiaries of their sacrifice.

RThought: Would being open just half a day be a proper rememberance of the battle deaths listed below

Civil War — Union	140,410
Civil War — Confederate	74,524
World War 1	53,513
World War II	292,131
Korean War	33,651
Vietnam Affair	47,369

Or are we afraid that we won't make the figures that Wall Street whiz kids have projected for our second quarter?

RThought: Whenever I am in New York, I visit Macy's. I start at the ninth floor and work my way to The Cellar. And I always stop at the plaque on the ground floor at the main escalators and read the names of friends from 50-plus years ago who did not return from World War II.

Were there any "Macyites" who did not return from Korea or Vietnam? Or doesn't Macy's care any more? Is it because dead people don't put dollars in Macy's coffers that their names are missing? But then, many stores didn't even memorialize those who did not return from World War II!

OTHER COUNTRIES ARE SOMETIMES SO LOGICAL

I am constantly impressed by how other countries handle, in a very simple manner, problems that we make complex and usually solve by means of expensive legislation and/or litigation.

The following is an item from *The Retail Trader,* the monthly publication of the Retail Traders' Association of New South Wales, Australia:

CHANGES TO FEDERAL UNFAIR DISMISSAL LAWS

> **Changes to the Federal unfair dismissal laws have now received Royal Assent and will apply to all applications from January 15, 1996.**
>
> **After January 15, 1996, all claims under the Federal law must start in the Australian Industrial Relations Commission. The Commission will try to settle claims by conciliation.**
>
> **If both parties agree, the Commission can also *arbitrate* to settle a claim. The result of arbitration will be legally enforceable.**
>
> **If the parties do not agree to arbitration and conciliation is unsuccessful, the claim will go to the Industrial Relations Court of Australia.**
>
> **The Court will consider all of the circumstances to decide whether a remedy is appropriate.**
>
> **The Court will refuse to hear a claim if the employee is protected by appropriate State laws.**

ANNUAL SURVEY OF SCANNER ACCURACY IN MICHIGAN STORES

Attorney General Frank J. Kelley issues an annual "scanner accuracy" survey of Michigan stores. The results and scope which were reported in the *Consumer Protection Report* of the National Association of Attorneys General indicate that Attorney General Kelley has failed to comply with the recommended standard by the U.S. Bureau of Weights and Measures for such a survey.

The report states that five stores were tested in Grand Rapids, five in Oakland County, and seven in Bay City, for a total of 17 stores. There should have been a minimum of 100 items per store selected in accordance with the approved Bureau of Weights and Measures procedure. The summary of the report states only 280 different items (only 16% of the number which should have been purchased in 17 stores) were checked.

On this *inadequate sample*, Attorney General Kelley reported that there were 41 errors, or an error rate of over 14%. He did report some "good" news: underpricing appears to be increasing! However, he stretched his inadequate, unscientific sample even further by reporting that the error rate was over 20% in Oakland County (1990 population of 1,141,997), over 16% in Grand Rapids (1990 population of 189,126), and over 9% in Bay City (1990 population of 38,936). He *indicated a bias* in sample selection by reporting that the survey concentrated on "sale" items; yet, he implied that the error rate applied to all prices. Sale items usually involve price changes; they may have been in process when tested.

RThought: The Feature Report, "Procedure for Price Verification," printed in the February 1996 issue of *RT*, set forth the procedure which was approved by the Office of Weights and Measures, which in 1993 established a Price Verification Working Group which included members from the Food Marketing Institute, the National Retail Hardware Association, the Pennsylvania Food Merchants Association, and several supermarket chains. I have written to Attorney General Kelley to ask him why he did not follow the procedure which was recommended by the Bureau of Weights and Measures and eagerly await his reply.

RThought: It is unbecoming to the Office of the Attorney General of a major state for the officeholder to conduct an unscientific test of retail store pricing when a sound basis of sampling is available. It is even worse for that attorney general to have the results of an unscientific survey distributed to the other 49 attorneys general as though it were worthy of dissemination. I suspect that the results of the survey were then the basis of a press release by Attorney General Kelley, perhaps demeaning retailers and trying to make himself a heroic protector of the consumer. Question: Is Kelley running for office? To repeat information from the February *RT*, you can order a copy of the National Conference on Weights and Measures Publication 19, dated August 1995, by contacting Weights and Measures Coordinator Kenneth S. Butcher, Office of Weights and Measures, National Institute of Standards and Technology, Building 221, Room A357, Gaithersburg, MD 20899, or you can place an order by telephone at 301-975-3991; by fax at 301-992-0647; or by e-mail at Stanley@micf.nist.gov. Or the February 1996 *RT* is available at $10 prepaid.

RThought: Food-store readers of *RT* in Michigan may wish to approach Attorney General Kelley with the request that he discontinue what has now become an annual disregard of an approved method of testing prices. The Michigan food industry association, together with representatives of the major Michigan supermarket chains, should raise the matter. Is this failure to use an approved, statistically sound procedure a violation of public trust?

(**Late Note:** Attorney General Kelley's office has replied, stating, "The survey to which you allude is not nor was it represented to be a scientific survey with statistically reliable results. It was simply a replication of a 'real world' shopping trip in response to the advertisements of retailers in Michigan. Most consumers do not follow the verification program of the National Conference on Weights and Measures. While a useful device, it is not the law in this state." Make your own judgment as to whether the Attorney General presented the information in a manner which would imply that the "survey" was intended to measure the statistically correct error rates in each of the three areas and that it could be expected in all of the supermarkets in each area. The respondent for Attorney General Kelley is in error if he believes most supermarket shoppers are responding to an advertisement. Most shoppers do *not* read ads!)

SHORT SHORTS

The U.S. has no exclusive on Chapter 11. Dimmey's, a five-unit discount chain in Melbourne, Australia, was unable to service debts of A$27 million dating back to an acquisition in 1989! In Australia, a receiver is appointed, usually an accounting firm (in this case, KPMG of the worldwide Big 6), and it asks for bids. Sixty expressions of interest have been received. It is expected that all will go in a single transaction.

When purchasing new carpets, are you demanding carpets made of recycled carpets? *Retail Store Image,* April 1996, stated, "'The Gap and Wal*Mart have both begun to require environmental responsibility on the part of carpet manufacturers,' says Pieter Van der Toorn, marketing manager with Interface Flooring Systems, Inc. 'Five years ago, this was not an issue. Today, we're working with many retailers to re-use carpet and keep it out of landfills. In fact, you can't do business with The Gap right now until you address these issues. Wal*Mart is going that way, too. If you want to be part of their team, you must have comprehensive answers to the environmental questions they raise.'" **RThought:** I hope your company will follow this thoroughbred leadership. Manufacturers will do what customers insist on just as retailers respond to their customers. All of us can be environmentalists; by doing so, we help make a better world for our grandchildren and great-grandchildren. On top of that, we often save money!

Abuse of numbers. The 1995 National Retail Security Survey has been published and, once again, it abuses statistics. We are told that theft (a combination of employee and customer theft), administrative error (I hardly classify this as a security problem), and supplier fraud came to $25.62 billion! This is an implied accuracy of ±$.005 billion, or ± about .02% accuracy. If, like previous reports, this figure is drawn from a sample of several hundred retail firms, it is not necessarily a random selection by industry. Yet, newspaper reports will be quoting $25.62 billion *as a fact* until the 1996 report comes out. Fortunately, *MMR* was wise enough to round the amount to $26 billion in the headline of an article based on the report. The article went on to quote the study as saying that nearly $10 billion was the result of employee theft while shoplifters were estimated to have taken another $9 billion. *MMR* did what the report's author should have done: rounded the numbers to avoid implying greater accuracy than existed.

OO YOU HAVE EMPLOYEES WHO OOULD MAKE THIS MISTAKE?

Although this subject was reported in the January 1996 *RT*, at the present time, thanks to a reader who sent me pertinent articles, I have much more information regarding it. (You need cases like this one to study, even if Harvard Business School does not!)

During December of 1995, some of the headlines of major articles in the *Washington Post* read:

"P.G. [Prince George's] Teens Sue Eddie Bauer, Officers"
(November 14, 1995)

"Teen Stripped of More than Just a Shirt"
(November 15, 1995)

"P.G. Store Incident Spurs Apology by Eddie Bauer"
(December 1, 1995)

"Eddie Bauer's Unsportsmanlike Conduct"
(December 4, 1995)

"Eddie Bauer's Image in Area Tarnished by Incident"
(December 30, 1995)

Women's Wear Daily also headlined:

"Eddie Bauer Pushes to Correct Guard's Wrong"
(December 4, 1995)

The facts appear to be that Eddie Bauer has a warehouse store in Prince George's County, Maryland, where the majority of the people are African-American. The two teens involved were 16-year-old African-Americans who were working part-time toward college. One youth liked the shirt the other was wearing, so they headed to Eddie Bauer to make another purchase. As they approached the Eddie Bauer store, they were stopped by two uniformed security officers, who were off-duty police officers working for the store, and were asked, "Can you show me the tag on that shirt?" The youth replied, "This is an Eddie Bauer shirt. I bought it yesterday." The officer then requested, "Can you show me the receipt?"

Let me interpose: Does any *RT* reader carry the sales tag for a shirt purchased the previous day?

The police officer then ordered, "Well, I'll tell you what, why don't you take the shirt off and go home and get the receipt!!!" The teen, minus the shirt, left the store in his undershirt beneath his jacket, trying to remember what he had done with the receipt. Fortunately, he did find it and returned to the store.

When a reporter from the *Washington Post* learned of the incident and showed up at Eddie Bauer, the store manager asked, "Why are you writing a story about that? It's a police matter. It's not us. Contact the police. They are guarding the building." In addition, a spokeswoman from Eddie Bauer's head corporate office in Redmond, Washington, called the matter a "minor incident."

No matter what the spokesperson said, the NAACP became involved; Eddie Bauer retained Hill & Knowlton to improve its public relations; President Rick Fersch came from Redmond to offer his apologies and to meet with the NAACP, a meeting which Fersch believed to be constructive; and the store began to donate considerable merchandise to organizations in Prince George's County.

A suit has been filed, asking $1 million for the youth who had bought the shirt and $500,000 for the youth who wanted to buy one. These two shirts may turn out to be the most costly shirts in the history of Eddie Bauer, a $1 billion company!

The *Washington Post* even printed a quote by the National Retail Federation, saying that retailers had lost nearly $20 billion in 1994 due to shoplifting and employee theft. What that statement was supposed to convey to its readers, I don't know, because no shoplifting nor employee theft was involved in this particular event.

We are all well aware that prejudice exists in our country against African-Americans. The two teens in this case say that they and their friends are used to being followed by police when they are in malls.

RThought: Use this incident as a "What would one of our stores have done?" test for your top management.

RThought: Use this incident as a study case in your store-manager training sessions, and be sure to bring your "spokesperson" in on the training so he or she can recommend what to say and what not to say.

SHORT SHORTS

How would you describe Philip Morris Companies, Inc.? I doubt that you would pick the words that Sears, Roebuck chose in its 1996 proxy statement to describe Philip Morris: "A holding company engaged primarily in the manufacture and sale of various consumer products." **RThought:** Who's fooling whom?

Customers are slowly gaining, but merchants can't really serve them. As reported in *Inside Retailing* (the Australia version, not the U.S.'s), the Legislative Council of the State of Tasmania, a small Australian island off mainland Australia, voted 9 to 8 to permit (mandate?) Saturday afternoon store hours starting April 1, 1996. However, it also promised that there would be no move toward Sunday shopping for at least five years. **RThought:** Anything to make it inconvenient for the customer. If I were a mainland Adelaide or Melbourne merchant, I would arrange bargain weekend tours to capture business from the Tasmanian merchants. After all, Nordstrom arranges bargain flights for holders of Nordstrom credit cards who live in Phoenix so that they can shop in "their Nordie" in San Diego!

Learn from the mistake made when May Department Stores bought Thalhimer's and merged it with Hecht's. As reported in the May 1996 issue of *Privacy Journal,* in combining Thalhimer's charge accounts with Hecht's accounts, some obsolete accounts (over 7 years old and those in bankruptcy, which are 14 years old) were transferred. Being new accounts for Hecht's, the information was then transferred to the credit bureaus — which led to some "unwarranted" collection efforts. The Federal Trade Commission made an investigation for violation of the Fair Credit Reporting Act. May Department Stores has agreed with the FTC on a settlement. **RThought:** The one thing you DON'T want to do when you acquire another store is antagonize a large number of customers. Doing so makes you fodder for local reporters and front-page material for their editors. **RThought:** I would again like to recommend that the *Privacy Journal* is important to your credit department, your people/personnel department, and, if you do much in the way of direct mail, to your advertising department. This publication, at $118 per year ($145 overseas), is issued monthly. If interested, contact *Privacy Journal* at P. O. Box 28577, Providence, RI 02908; telephone 401-274-7861. Say, "Bob Kahn sent me."

When the war was over, the soldiers were forgotten, just as we have forgotten those who fought in Korea and Vietnam and, even faster, those who fought in the Persian Gulf. Presidents Johnson, Nixon, and Bush claimed the glory — while those broken in combat, possibly without help or even jobs, were quickly forgotten.

But there was one poet, the Ernie Pyle of the 19th century, who wrote in reply to Tennyson, for all the forgotten soldiers. He was Rudyard Kipling. In 1891, he wrote:

THE LAST OF THE LIGHT BRIGADE

There were thirty million English who talked of England's might,
There were twenty broken troopers who lacked a bed for the night.
They had neither food nor money, they had neither service nor trade;
They were only shiftless soldiers, the last of the Light Brigade.

They felt that life was fleeting; they knew not that art was long,
That though they were dying of famine, they lived in deathless song.
They asked for a little money to keep the wolf from the door;
And the thirty million English sent twenty pounds and four!

They laid their heads together that were scarred and lined and grey;
Keen were the Russian sabres, but want was keener than they;
And an old Troop-Sergeant muttered, "Let us go to the man who writes
The things on Balaclava the kiddies at school recites."

They went without bands or colours, a regiment ten-file strong,
To look for the Master-singer who had crowned them all in his song;
And, waiting his servant's order, by the garden gate they stayed,
A desolate little cluster, the last of the Light Brigade.

They strove to stand to attention, to straighten the toil-bowed back;
They drilled on an empty stomach, the loose-knit files fell slack;
With stooping of weary shoulders, in garments tattered and frayed,
They shambled into his presence, the last of the Light Brigade.

The old Troop-Sergeant was spokesman, and "Beggin' your pardon," he said,
"You wrote o' the Light Brigade, sir. Here's all that isn't dead.
An' it's all come true what you wrote, sir, regardin' the mouth of hell;
For we're all of us nigh to the workhouse, an' we thought we'd call an' tell.

"No, thank you, we don't want food, sir; but couldn't you take an' write
A sort of 'to be continued' and 'see next page' o' the fight?
We think that someone has blundered, an' couldn't you tell 'em how?
You wrote we were heroes once, sir. Please, write we are starving now."

The poor little army departed, limping and lean and forlorn.
And the heart of the Master-singer grew hot with "the scorn of scorn."
And he wrote for them wonderful verses that swept the land like flame,
Till the fatted souls of English were scourged with the thing called Shame.

O, thirty million English that babble of England's might,
Behold there are twenty heroes who lack their food to-night;
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!

RThought: In so many cases and in so many wars, we, in America, are equally guilty: "...we leave to the streets and the workhouse the charge of the Light Brigade!" And as retailers in search of profit...we have taken their Memorial Day away?

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

SIC Code	Category	APRIL 1996	APRIL 1995	Percentage Change	Year-to-Date Four Months 1996	Year-to-Date Four Months 1995	Percentage Change
52	*Bldg Matl Group	$11,632	$ 10,602	+ 9.7%	$ 32,687	$ 34,647	- 5.8%
57	*Furniture Group	10,332	9,387	+ 10.1	41,250	34,353	+ 20.1
571	Furniture Stores	5,205	4,779	+ 8.9	20,337	17,632	+ 11.5
572	Appl, TV, Radio Stores	4,206	3,839	+ 9.6	17,627	13,792	+ 25.2
5941	*Sporting Goods Stores	1,883	1,669	+ 12.8	6,548	5,503	+ 19.0
5942	*Book Stores	649	611	+ 6.2	3,252	2,849	+ 14.1
5944	*Jewelry Stores	1,432	1,148	+ 24.7	5,338	4,088	+ 30.6
531Pt	Conventional Dept Stores	4,108	4,045	+ 1.6	14,722	14,001	+ 5.1
531Pt	Natl Chain Dept Stores	2,987	3,023	- 1.2	10,628	11,031	- 3.6
	Subtotal	7,095	7,068	+ 0.4	25,350	25,032	+ 1.3
531Pt	Discount Stores	11,372	10,812	+ 5.2	41,888	34,897	+ 20.0
531	*Department Stores	18,462	17,880	+ 8.9	67,238	59,929	+ 12.2
539	*Misc General Mdse Stores	4,808	4,518	+ 6.4	17,124	16,127	+ 6.2
541	*Grocery Stores	32,343	31,527	+ 2.6	128,666	119,979	+ 7.2
56	*Apparel Stores	8,874	8,743	+ 1.5	31,684	30,342	+ 4.4
561	Men's & Boys' Stores	784	920	+ 14.8	2,665	3,328	- 20.0
562,3,8	Women's Stores	2,822	2,777	+ 1.6	9,336	10,065	- 7.2
565	Family Clothing Stores	3,220	2,848	+ 13.1	11,359	9,571	+ 18.7
566	Shoe Stores	1,862	1,627	+ 14.4	6,657	5,363	+ 24.1
591	*Drug Stores	7,297	6,846	+ 6.6	28,808	26,165	+ 10.1
596	*Nonstore Retail	5,651	5,171	+ 9.3	21,883	19,210	+ 13.9
5961	Mail Order	3,749	3,532	- 2.2	14,598	13,702	+ 6.5
	**Retailing Today* Total Store Retailing†	112,794	98,097	+ 15.0	427,442	370,155	+ 15.5
	**GAF TOTAL	49,181	46,683	+ 5.4	168,810	172,511	- 2.1

†Excludes car dealers, auto supply stores, eating and drinking places, service stations, and some specialty stores.
*Included in *Retailing Today* Total Store Retailing.
**General, Apparel, and Furniture.

For further information regarding these figures, contact Nancy Piesto, Services Division, Bureau of Census, Washington, D.C. 20233; telephone 301-457-2706/2708; fax 301-457-3677. For a subscription to *Monthly Trade, Sales and Inventory Report* at $57 per year, contact the Government Printing Office, Box 371975M, Pittsburg, PA 15250-7975; telephone 412-644-2721/2828.

Claims before January 15, 1996, will be dealt with under existing procedures.

RThought: Could we ever summarize something as simply as the statement above? With good sense on the Industrial Relations Commission, it's my guess that most matters will be settled by conciliation or arbitration, with relatively little cost, no contingency fees to attorneys, and little time between the date of discharge and the date of settlement.

LITIGATIONS OF INTEREST

Ram Avrahami v. U.S. News and World Report: Ram Avrahami sued *U. S. News and World Report* for $1,000 damages for renting his name to *Smithsonian* magazine without his permission, which is claimed to be in violation of Virginia law. The General District Court in Arlington County dismissed the case on a *technicality* because Avrahami asked *only* for financial damages instead of monetary damages and an order prohibiting the magazine from continuing to rent his name. Avrahami has now filed suit in the Arlington County Circuit Court. *U. S. News and World Report* has asked for a dismissal.

Robert Beken v. Tandy Corporation: In purchasing a $35 computer book from Computer City, a subsidiary of Tandy, Beken wrote "his terms," which were explained at the time of purchase, on the back of his check: Tandy would not place his name on its mailing list or send him any solicitations. In violation of the agreement, which Tandy agreed to since it accepted his check and knew of the conditions written on the back, the judge in the San Diego Small Claims Court awarded Beken $1,021 but rejected his application for an additional $4,000 in punitive damages.

RThought: I subscribe to *U.S. News and World Report* and I shop at Radio Shack. Perhaps I should sue if I believe this magazine is selling my name. I know that Radio Shack sends me mail.

RThought: *DM News* recently listed the following mailing lists available:

Carol Reed	99,341	last 12-month buyers
J. Jill	130,670	last 12-month buyers
Talbots Intimates	246,390	last 12-month buyers
Chadwick's	4,333,645	last 12-month buyers
Talbots	847,991	last 12-month buyers
Neiman-Marcus	500,000	mail shoppers
Frederick's of Hollywood	900,000	last 12-month buyers
Fortune	118,000	subscribers

Many more are available — *perhaps yours!*

RThought: At $1,021 per name, it certainly could be an expensive mailing list!

VALUABLE LABOR RATES

The following approach to labor rates might be used by tailors, seamstresses, carpenters, plumbers, or other repair people. It appears on the wall of Greg's Mufflers, the shop which has done the muffler work on my cars for many years.

Shop Labor Rates

$55.00 per hour
$60.00 if you watch
$70.00 if you help
$80.00 if you worked on it first

RThought: So far, I have enjoyed the $55.00 rate!

WHERE DO CALIFORNIANS COME FROM?

It was front-page news not long ago that many of the people in Southern California were jumping ship and moving out of the state as orders for munitions (remember, military aircraft are "munitions") dropped. Housing values dropped a third or more; yet, many houses could not be sold. People were off to Nevada, Arizona, etc., with lower taxes and lower costs of living.

Southern California is coming back to life. In Los Angeles County, the unemployment rate continues to be slightly higher than the California average, but unemployment is dropping in Orange County, in Riverside County, and in other Southern California counties.

The state's demographer has just released a report claiming that in the past five years one million of the four million *legal* immigrants into the U.S. have headed for California, although California has only one-eighth the U.S.'s total population. An estimated 421,000 have headed toward Los Angeles County and 98,000 have headed toward Orange County.

In 1994, California was home to 7.7 million foreign-born legal immigrants, or about 20% of the U.S. legal-immigrant population.

RThought: As I have reported before, soon California will be the first U.S. mainland state in which whites will be the minority. Northern California's Alameda County, with perhaps some Southern California counties, has now reached that stage.

CONGRESS AND THE PRESIDENT WORK TO GUARANTEE MEDICARE BANKRUPTCY

One would expect the 536 elected officials (100 senators, 435 congressmen and one president), who are all committed to 1) a balanced budget and 2) the preservation of Medicare, would act with common sense.

In fiscal year 1995 (ending September 1995), Medicare recovered over $10 billion in fraud, abuse, and waste. But in 1996, it will recover much less rather than much more than $10 billion because of 1) stop-and-go government and 2) approval of only a fraction of the $1 billion (last year's funds) needed to continue and improve detection of wrongful claims.

Medicare *made money on enforcement* of Medicare's rules and regulations.

In terms that retailers might understand, the Medicare Fraud Control Unit *spent much, much less* than $10 billion to recover $10 billion. In other words, *it showed a profit!*

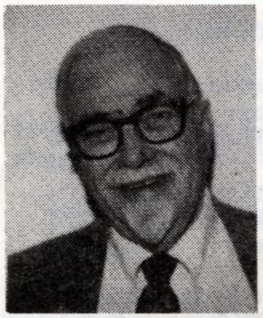
RThought: In simple terms, the way to guarantee the bankruptcy of Medicare is for the 536 politicians to continue their behavior while collecting their own pay, pensions, and benefits. (A few are to be applauded for *not collecting* their pay for the days the government was shut down; but their medical benefits were never affected.)

RThought: If you want to protect Medicare (so that you won't face a tax increase), be sure that your congressman knows you would value good sense in this situation.

WORDS — FOR FORGOTTEN SOLDIERS

Alfred Lord Tennyson wrote his famous "Charge of the Light Brigade" during the winning of a war. Perhaps it is only the "older generation" who has always remembered:

Half a league, half a league,
Half a league onward,
All in the valley of Death,
Rode the six hundred.
"Forward, the Light Brigade!
Charge for the guns!" he said;
Into the Valley of Death
Rode the six hundred.



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WALL STREET HAS CHANGED WITH ITS CUSTOMERS! HAVE YOU?

The tables which appeared on May 28, 1996, in *The Wall Street Journal* were based on many sources: the U.S. Department of Commerce; the U.S. Bureau of Census; "Share Ownership in the U.S.," a study prepared by Lewis H. Kimmel at the request of the New York Stock Exchange; the Brookings Institution, Washington, D.C.; and the New York Stock Exchange's share-ownership surveys of 1956, 1962, 1965, 1970, 1975, 1980, 1981, 1983, 1985, and 1990.

Consider that Wall Street's product is shares of stock. In 1959, 23% of Wall Street's customers had three or fewer years of high school; by 1990, this group was only 4% of its customers. On the other end of the education scale, in 1959, 29% of Wall Street's customers had completed four or more years of college; by 1990, this group made up 48% of its customers.

In 1995 constant dollars, a customer's median income in 1962 was $43,399, while, 33 years later, again in 1995 constant dollars, the median income was $56,485. Did Wall Street adjust to this change in customers? It appears so.

If there was that degree of change in the customers of Wall Street, isn't it safe to assume that a similar change has taken place in the customers of retailers?

In 1987, the Census Bureau split its department store group into three types of department stores: conventional department stores (Macy's, etc.); national chain stores (Sears, Roebuck, J. C. Penney, and Montgomery Ward); and discount stores (Kmart, Target, Wal*Mart, etc.). However, the share of the department store business has also changed:

Type of Department Store	Percentage of Market 1988	1995
Conventional	32.1%	23.1%
National chains	24.6	17.6
Discount	43.3	59.3

In eight years, it appears that conventional department stores have lost about 28% of their share and that national chains have also lost about 28%, while discount stores have increased their share about 37%. Do these figures match the type of change that has taken place on Wall Street? Have conventional and national department store chains adjusted as well as Wall Street? It does not appear so.

ACCOUNTING PRINCIPLES USED BY EACH RETAILER MAY NOT BE WHAT YOU THINK

Unfortunately, there is no central source setting forth how each retailer accounts for various expenses or how to compute something like same-store sales.

What constitutes a same-store situation?

1. Would adding 10,000 square feet to a 100,000-square-foot store constitute a same-store situation?
2. Would adding 25,000 square feet to a 100,000-square-foot store constitute a same-store situation?

Continued

MY STOMACH STILL CHURNS FROM READING...

Veterans of Foreign Wars
of the United States Donors*
You know their characteristics:

Direct Mail Responsive
Traditional
Loyal
Americans

These traits make them perfect, PROVEN prospects for a wide variety of consumer appeals... the continuations prove it!

Publications
Continuity Clubs
Merchandise
Food/Gift
Health Information
And, of course, non-profit mailings of any stripe.

***Note: VFW's donor list is separate from its member list, which is not available.**

RThought: My first thought after reading this full-page ad in *DM News:* for which war — Korean or Vietnam — did the person responsible for the ad dodge the draft or move to Canada? Does this person merit classification with us as American citizens? I don't want him!

RThought: First, if you are a member of the VFW, start a protest. Second, if you *donate* to the VFW, stop. Third, tell your post what the VFW is doing to people who, perhaps not members, contribute money to the work of this great organization.

RThought: Many members of the VFW are on in years and are "soft touches" to be taken advantage of.

Note: I am not a member of the VFW or the American Legion, but I do belong to the AFA, the ROA, and the TROA, and I support local American Legion youth activities.

3. Would adding 50,000 square feet (as would be the case with a supermarket addition) to a 100,000-square-foot store (keeping in mind that supermarkets do more per square foot than general merchandise) constitute a same-store situation?

What about preopening expenses?

1. Should they be expensed as incurred?
2. Should they be expensed the month the store opens?
3. Should they be expensed at the end of the year?
4. Should they be capitalized and written off over 10 years?

What about markdowns?

1. Should the entire stock on hand be marked down to a price at which the goods will sell?
2. Should the goods be marked down at the register, as sold, one at a time? (This overvalues inventory and increases profit.)

What about co-op advertising?

1. Should it be recorded as received?
2. Should it be taken at the amount the advertising department "thinks it will get" at the time the ad runs?

What about advertising?

1. Should it be capitalized?
2. Should it be expensed as incurred?
3. Should it be expensed as paid?

How should a retailer depreciate store fixtures (including mannequins): over 5 years? over 10 years? over 20 years?

How is goodwill amortized? 5 years? 20 years? 40 years? (Whenever goodwill is generated, there's always someone who's under the impression that the acquisition was a bargain and that abnormal profits will be forthcoming, *forever*.)

Should the cost of opening charge accounts be amortized over 12 years (the average life of an account) or expensed as incurred?

Generally Accepted Accounting Principles (GAAP) aren't so generally accepted; even if they were generally accepted, they can be bent, bruised, and beaten.

RThought: Most of these principles have been used in one form or another, yet we compare the profit of one store with that of another as if both computed profit *exactly* the same way. Unfortunately, many of those who use the reported profit of retail stores believe they are comparing "apples to apples."

PERSONAL BANKRUPTCIES

Consumer Trends, published by the International Credit Association, recently provided detailed bankruptcy information by state and by judicial district within each state (California, for example, has four districts: Central, East, North, and South). Although there was a wide variation of bankruptcies by states in 1995, the year saw an overall 12.1% increase over 1994.

The states with an increase of 10% or less were:

New York	9.54%	Colorado	7.27%
Florida	8.94	Massachusetts	7.01
Nebraska	8.89	Wyoming	4.74
Indiana	8.77	California	2.94*
Oklahoma	8.35		

*California's local recession is ending.

The states with increases of more than 20% were:

Arkansas	38.49%	Pennsylvania	23.17%
Maine	31.73	Montana	22.83
Hawaii	30.08	South Dakota	21.58
Vermont	28.10	Iowa	20.91
Delaware	25.74	North Carolina	20.74
New Mexico	24.23	Washington	20.53
Idaho	23.22	Kentucky	20.24

RThought: Couldn't one assume that the increase in personal bankruptcies of 95,000 (from 780,000 to 875,000) has affected retail sales, particularly during the Christmas season?

The same 12.1% that showed up in bankruptcies also showed up in the fourth quarter of 1995 increase in installment debt (excluding car leases, which is a substitute for car installment debt and which is increasing).

Outstanding debt in January 1996 was as follows:

Components	**$ billions Outstanding**
Revolving	$ 400*
Auto	356
Other	279
Total	$1,035

*First time at $400 level

RThought: This information is important when analyzing trends in retail sales. If you are not receiving *Consumer Trends,* you can subscribe by writing to International Credit Association, P. O. Box 419057, St. Louis, MO 63141-1757; $100/yr. Say, "Bob Kahn sent me."

HAS JOB SECURITY IN THE U.S. DECLINED?

Among the reasons given for limited retail sales increases, along with too many stores, no new styles, dressing down, no substantial increase in middle-class income in five years, a decline in new home sales, bad weather, and a few other explanations which retail "experts" are quoted as giving to reporters, is a *lack of job security.*

The Research Department of the Federal Reserve Bank of San Francisco (P. O. Box 7702, San Francisco, CA 94120) took a look at this subject recently and issued a full report (No. 96-07) with the title above.

First, the researchers quoted a study (Farber 1995) which measured job security based upon average job duration. The study found that since the 1970s the typical length of time that a job lasts has changed very little. Then, the researchers tried another measure: Who initiated the job termination, the employee or the employer? They found that the share of unemployment attributable to permanent dismissals and cyclical responsiveness as a cause of dismissal has increased and that the permanent dismissals have increased by an amount equal to the decline in layoffs. As the researchers suggest, the increase in *employer-initiated dismissals* is the reason for the increased concern about job security.

It was further suggested that the reason this fact is concealed in most job duration statistics is that more people *must be trained* for jobs today compared to the 1970s, when the employer sought people *already trained* in trades. The reduction of the percentage in the work force working under union contracts is another factor. The permanence of dismissal versus layoff, though both render an individual

A FEW THOUGHTS ON COMP-STORE SALES

First, let's look at the June 1996 comparative-store sales as a measure of a retail company's success.

Company	June Total Sales	June Comp Sales
Wal★Mart	+ 13.5%	+ 5.8%
Sears	+ 10.1	+ 7.7
Dayton Hudson	+ 9.0	+ 2.6
J. C. Penney	+ 0.6	- 0.4
Federated	+ 7.7	+ 1.5
May Company	+ 6.3	+ 0.2
Dillard	+ 5.0	+ 1.0
The Gap	+ 32.0	+ 12.0
PriceCostco	+ 11.0	+ 7.0
Best Buy	+ 30.0	+ 7.0
Pier 1	+ 21.4	+ 16.4
Waban	+ 10.6	+ 2.3
The Limited	+ 8.0	+ 1.0
Kmart	+ 1.0	+ 3.7

Consider these numbers carefully. Which company has unusual numbers?

You will immediately see that the numbers for Kmart are different from all of the others. Now that you know that Kmart's numbers are different, can you detect what is unusual?

Except for Kmart, the total sales increase for June was greater than the comp sales increase for June. In the case of Kmart, its sales for the month were up by 1.0%, but its comp-store sales were up by 3.7%, or more than the change in total sales.

Since June of 1995, Kmart has closed about 200 stores. Kmart would have closed its lowest-performing stores, which usually means that sales were dropping against the prior year or years. If these are excluded from its comp stores, then the ones which remain open are the ones that did not have declining volume. Removing the stores from the total sales accounts for the small increase in the total June sales. If you take the lowest-performing stores out of the comp-store group, then the remaining comp stores will show a better increase in comp sales.

At the same time, all of these companies are increasing their number of stores (including Kmart, which is adding supercenters). The volume of the new stores is reflected in the small increase in total sales for June.

Despite the worthlessness of comp sales as a measure, every retail stock analyst in every report I have seen on retail chains has a comment on comp sales as though it were a golden yardstick.

Wal*Mart is not showing the double-digit increases in comp-store sales it showed for many years — and we are reminded of this almost every day.

Now, let's look at the growth in the number of Wal★Mart stores without regard to the type of store (i.e., discount, supercenter, Sam's, or international).

Year End January 31	Stores Added during Year	Total Stores by End of Year
1986	NA	882
1987	147	1,029
1988	171	1,200
1989	162	1,362
1990	161	1,523
1991	197	1,720
1992	207	1,927
1993	216	2,143
1994	315	2,458
1995	342	2,800
1996	143	2,943

In the year ending January 31, 1987, 86% of its stores had been in operation more than a year. In the year ending January 1996, 95% had been open more than a year.

If we agree that stores show the most growth in the early years, when 95% have been open more than a year (as in the year ending in 1996, as compared to 86% in the year ending in 1987), then it is less likely that same-store sales can continue to increase, regardless of when retail stock analysts say that a portion of the new stores (high growth) is declining.

These analysts seem to believe the theory: "The older the store is, the greater the rate of sales growth." That is the only theory upon which analysts can, rightfully, criticize any fast-growing retailer such as Home Depot, Circuit City, Best Buy, Office Depot, etc., because the same-store sales growth does not keep up with the pattern when an increasing percentage of their stores have been open more than one year (and, thus, out of the new-store growth period).

If sales per square foot increase, then several factors come into play:

1. Sales for a store will increase without having to add space to the store.

2. A store's expense rate will drop as fixed expenses such as utilities, maintenance, property tax, depreciation, and rent drop as a percentage of sales. (This has been true of Wal★Mart: analysts did not realize that much of the drop in Wal★Mart's SG&A expense percentage was due to increasing sales per square foot.)

And there are factors which few understand or even think about.

In 1988, when visiting some newly acquired Wal★Mart stores in Albuquerque, New Mexico, I found that they were the most uncomfortable stores in which to shop that I had ever seen. I couldn't believe that customers would want to shop in them just for lower prices!

In chats with Sam, I often pointed out that most retailers believe the formula for greater sales per square foot is "run more ads + stuff more goods in store = higher sales per square foot." My belief was that the formula should be as simple as "number of customers x length of stay = sales per square foot."

I told Sam that we had to concentrate on the phrase "length of stay" and gave him four recommendations:

1. We must never have an aisle, any aisle, that is not wide enough for a shopper with a shopping cart to pass another shopper with a shopping cart. *Neither shopper should have to give way.*

2. We must have the cleanest restrooms in town so that no shopper will ever say, "Let's go home. I have to go to the bathroom."

A FEW THOUGHTS ON COMP-STORE SALES *(continued)*

3. We must forget the old saying, "A customer who is sitting is not shopping," and provide shoppers with places to sit.

4. In the larger stores (then, 80,000 square feet), we must have coffee available catercorner from the snack bar so that people would be refreshed and continue shopping.

I won on the first three points but never won Sam over on the hot coffee!

Sam, as always, was willing to experiment if it made sense to him. Let me quote a letter from Sam dated November 30, 1989:

> **We had a study made of our new 110,000 prototype the other day. We have about 12 of those units around the country and, surprisingly, *they are doing more per square foot than the average new 80,000-square-foot stores we have been putting in.* We hadn't thought that would happen, and it is an interesting discovery...I don't know...whether it is to be one of the results of opening up the aisles and giving them more space even though we have given them about the same merchandise assortment we had in the smaller stores.**
>
> **Regardless, the customers seem to like the expanded space and the presentation, and are responding in kind. [Emphasis added.]**

The 110,000 stores at the time had tile floors in their restrooms, diaper changing tables in both the men's and women's restrooms, and vinyl wall coverings for easy cleaning. The restrooms were supposed to be checked every two hours but seldom were. I am sure that many store managers believed they would receive a larger bonus by saving the money "wasted" in checking restrooms every two hours. Customers would never tell a manager that they terminated their shopping rather than use the restroom.

Benches were placed in the stores, some in the wide aisles. I also suggested benches near the ladies' dressing rooms with small TV sets attached to the arms of the benches so that men could catch their favorite sport on TV while their wives shopped — and the same for ladies in the tool and sporting goods departments. My research amongst the sayings of one of my favorite "business sources," Confucius, uncovered that 2,500 years ago he said, "Woman can shop longer than a man can stand."

Since then, I have sent back pictures of benches pulled to the inside aisles and covered with merchandise. Some store managers have a habit of not understanding that serving customers is important.

I believe that all of the top management know the results of Sam's test. Twelve stores is a pretty good test. But you would never know that the test proved something that had wide application. Watch for yourself. Visit a supermarket with narrow aisles and note how often shoppers will not go down an aisle because there is another shopper with a cart blocking the aisle while deciding which item to buy.

I recently visited several local Wal★Mart stores. In the newer stores, with race-track aisles wide enough to put displays in the center and still have enough space on either side of the display for shoppers with carts to pass going the opposite direction, the aisles were not blocked. In the older stores with narrower aisles, however, there was no such room.

But part of the problem in the stores is that despite a powerful computer setup, which Wal★Mart has (the largest memory unit outside the Pentagon), it apparently records *what is in stock in each store* but *not the cubage of what is in each store.* Thus, each store must take what it is sent. Often, the only place goods can be put in many stores is in the aisles.

This situation is exacerbated by building stores with smaller and smaller backroom space. I have been told that some have as little as 10%! I recently saw a news article which reported that Wal★Mart is being sued by a city for violation of the zoning code because Wal★Mart had (if I remember correctly) 13 trailers in back of the store because it could not get all of the merchandise into the store!

It appears to be so easy to forget what customers demonstrate they like — and then to blame the customers. (**Note:** The Target stores that I have visited recently have done a muct better job of providing and protecting the aisles.)

Even with the knowledge Wal★Mart has learned about aisles, rounders in both the men's and the women's apparel are so close together that many shoppers avoid the departments because pushing their carts amongst the rounders will knock merchandise onto the floor.

There is further proof as to the importance of "length of stay." In the 110,000-square-foot stores, management began to find that far too often on a routine (nonholiday) weekend the parking lot would be full despite the traditional ratio of five spaces per 1,000 square feet. Thus, stalls were increased by 20%, to six per 1,000 square feet.

About four or five years ago, long after confirmation of my formula, Philip B. Miller, chairman and chief executive officer of Saks Fifth Avenue, gave a talk at the annual meeting of the National Retail Federation. Miller told what Saks had found in reworking one of its women's floors:

1. by placing rounders further apart, even though it meant fewer pieces on the floor, sales increased;

2. by abandoning the belief that if someone is sitting they are not shopping, Saks put chairs and couches in all of its cubicles and — guess what? — sales increased; and

3. by improving the restrooms, customers remained in the store longer.

RThought: Miller learned in 1992 what Sam learned in 1988-89.

RThought: My suggestion is to try it. I know you will like it, and your customers also will like it. And most important, at the same time, you will make money by making life easier for your customers.

eligible for unemployment benefits, has made an impression on those still active in the work force.

Remember the old story: If your neighbor loses his job, it's a recession; if you lose your job, it's a depression; and if your wife loses her job, it's a panic!

A cause of concern about job security is the federal law which requires a 60-day advance notice of layoffs by firms employing 50 or more. It appears to me that local newspapers compound the problem in their race to be the first to headline job terminations so that everyone in town will know of the layoffs. The final number of layoffs is usually fewer than the initial public announcements. As an example, AT&T originally announced 40,000 layoffs earlier this year but now predicts many fewer. Firms with retirement plans frequently offer accelerated retirements in lieu of layoffs.

RThought: I have yet to see a comparison of the total announced layoffs versus actual layoffs at companies such as IBM, Sears, Boeing, etc. Retailing would have a major interest in such a study because it is precisely these announcements which cause concern about job security and which, in turn, impacts the willingness of the working public to shop at our stores.

Note: In reading the monthly bulletins from the retailers' associations in New Zealand and several states in Australia, I note that the growth of the recent legalized gambling in the two countries is frequently referred to as a diversion of discretionary expenditures from retail stores, a reason seldom mentioned within the U.S.

Here, in the U.S., starting with the 1930s, casino-type gambling was allowed only in Nevada (mainly in Reno, which was then larger than Las Vegas). Many states allowed pari-mutuel betting at horse races and legalized dog races. As for card rooms, they were either legal or tolerated. The first big expansion in gambling was in 1963, when New Hampshire established a state-run lottery, the first legal lottery since 1890. By 1993, 37 states had lotteries. (When California established its lottery, almost every supermarket sold tickets. Stores reported to me that the value of lottery tickets sold *matched the dollar decline* in their food sales. However, the tickets had a gross margin of only 5%, much less than the gross margin on food.)

The next major change in gambling was in 1978 when New Jersey, in an attempt to revive Atlantic City, made casino gambling legal in that city. Only two states followed: South Dakota and Iowa. In casinos and on riverboats, bets were originally limited to $5.

In 1988, Congress passed a law permitting gambling on Indian reservations. By 1993, there were 185 Indian gaming operations, many of which were casinos. In 1993, the Mashantucket Pequot tribe in Connecticut opened the second largest casino in the world. One Indian tribe wanted to establish a casino on its former tribal land in downtown Detroit but was blocked.

In 1990, Indiana, Louisiana, Mississippi, and Missouri authorized riverboat gambling. And in 1992, Louisiana authorized what would be the world's largest casino on a downtown site in New Orleans.

People in the gambling industry believe that gambling will continue to expand and that new technologies may be adopted, even foreseeing the time when people will be able to bet on sporting events through interactive TV and computers. The industry's take (i.e., sales) is probably more than $400 billion a year, about one-third of store retailing's, if one excludes automobiles, service stations, and restaurants.

Despite its growth, retailers in the U.S. seem unaware of the vast amount of money diverted to legal gambling as a reason for less than satisfactory retail sales.

ARE WE RUNNING OUR CORPORATIONS ACCORDING TO THE LAW?

Most states have corporation codes similar to California's, so I will use the California Corporation Code as a basis.

Chapter 3 of the code deals with "Directors and Management" and covers corporate powers exerciseable by the board; delegation of day-to-day management; closed corporations; validity of shareholders' agreement; *liability for managerial acts;* and corporate formalities. [Emphasis added.]

The following is a pertinent section of this article:

> **(a) Subject to the provisions of this section and any limitations in the articles relating to action required to be approved by the shareholders or by outstanding shares, the business and affairs of the corporation shall be managed and all corporate powers shall be exercised *under the direction of the board. The board may delegate the management of the day-to-day operation of the business of the corporation to a management company or other persons provided that the business and affairs of the corporation shall be managed and the corporate powers shall be exercised under the ultimate direction of the board.* [Emphasis added.]**

The California courts have spoken to a corporation's duty to stockholders. Here are some decisions.

> **Corporate authority has been conferred upon trust and confidence that it shall be exerted with a view to advance interests of stockholders and not used with purpose to injure or destroy that interest. *Wright v. Oroville Gold, Silver and Mining Co.* (1870) 40 C 20.**

> **Directors owe a duty to all stockholders and must administer duties for the common benefit. *Remilard-Dandini Co.* (1952) 405,241 P2d 66 *Federal Employees Distributing Co. v. United States* (1962) 206 F Sup 330.**

> **Corporate directors owe duty to all stockholders, including minority stockholders, and must administer their duties for common benefit. *Burt v. Irvine Co.* (1965) 237 CA2d 828, 47 Cal Rptr 392.**

There are many more cases where the courts have held that the directors are responsible to the shareholders and must work for their benefit.

There are a number of parties who are interested in the results of a company's operation:

1. the stockholders, because they own the company; and if the company is publicly held, the market value of their shares will depend upon the results of the operation;
2. the directors, because they must act under law and because they may also hold stock and/or options;
3. the management, because their income (and job) may depend upon the results and because they may also hold stock and/or options;
4. the institutional investors, because they want preference notification of good or bad news;
5. the trade press, because they want to be the first in reporting either the good or bad news; however, when doing so, they are prone to reporting rumors on the chance that the rumors may be correct; and
6. the analysts, not because they like being the bearers of negative news regarding a company's stock, but when there is positive news, they prefer to tell only potential investors in advance.

To elaborate on the last point, analysts, who may not own any stock at all, appear to have a priority claim on news, even before the directors and immediately after the management. Because directors have established policies permitting management to provide information to analysts, the following has been established insofar as access to good or bad news goes:

1. management, because they keep operating figures confidential (except in cases like Leslie Fay, in which it appears that the figures released were unknowingly falsified by some of the officers and members of management);
2. analysts;
3. reporters, who have access to the analysts' reports;
4. directors, because director meetings are held four to 12 times a year; and
5. stockholders.

RThought: I don't believe this is how our system of stockholders-directors-management is supposed to function. *The system must be cured by the directors* if they are to fulfill their obligation as directors. In the best of all possible worlds, anything told to an analyst or to a reporter will be immediately sent to all stockholders, a process which may be unreasonably expensive, but management must decide which is such that it will "advance the interests of shareholders" (see *Remilard-Dandini Co.*).

Companies vary greatly in the amount of information included in each quarterly report: directors should "direct" management as to the minimum amount of information which is to be provided to stockholders.

SHORT SHORTS

The FTC continues to get tough on false advertising. I am sure that readers of *RT* have seen advertising for the Miracle Ear. Perhaps some with declining hearing, such as I am experiencing, are tempted by the ads to buy and try it, something that, according to the ads, appears to be such a simple aid. For all who have been tempted, be aware that Dahlberg, Inc., the maker of Miracle Ear, has settled with the FTC on charges of false advertising and has agreed to a $2.75 million civil penalty for making "false and unsubstantiated claims about the features, performance, uniqueness, superiority, or efficiency of its hearing aids. **RThought:** Remember the old admonition: "If it seems to be too good to be true, it probably is not true." **RThought:** Keep in mind the thought that if your ads appear to be too good to be true — and are not true — those who read them may complain to the FTC. And if they are too good to be true, I may be finding your name as well in *FTC News Notes.*

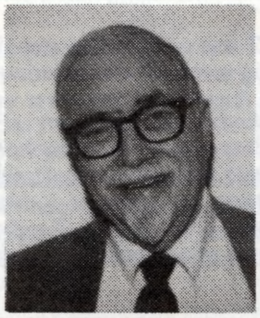
Remember when Automated Teller Machines were a novelty and society had not decided how far behind a user you should stand — not too close to appear that you were trying to get the person's PIN number and not too far back so that someone might get ahead of you in line? All of that appears to have been settled, according to *The Nilson Report* (No. 620, May 1996): during 1995, 119,328 new ATMs were installed. A majority of the new installations were 23,844 in Japan, 24,300 in the U.S., and 27,418 in Europe. There are now 618,296 ATMs worldwide. **RThought:** Japan, with half the U.S. population, will soon pass our number of ATMs!

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

SIC Code	Category	MAY 1996	MAY 1995	Percentage Change	Year-to-Date Five Months 1996	Year-to-Date Five Months 1995	Percentage Change
52	*Bldg Matl Group	$13,163	$ 12,293	+ 7.1%	$ 50,773	$ 48,740	+ 4.1%
57	*Furniture Group	10,917	10,142	+ 7.6	52,226	48,355	+ 8.0
571	Furniture Stores	5,592	5,273	+ 6.0	26,937	24,455	+ 10.1
572	Appl, TV, Radio Stores	4,509	4,250	+ 6.1	22,179	20,084	+ 10.4
5941	*Sporting Goods Stores	1,964	1,726	+ 13.8	8,492	7,659	+ 10.9
5942	*Book Stores	757	720	+ 5.1	4,039	3,916	+ 3.1
5944	*Jewelry Stores	1,839	1,402	+ 31.2	7,145	6,125	+ 16.7
531Pt	Conventional Dept Stores	4,[illegible]1	4,258	+ 4.3	19,173	18,528	+ 3.5
531Pt	Natl Chain Dept Stores	3,165	3,134	+ 1.0	13.963	14,479	- 3.6
	Subtotal	7,606	7,392	+ 2.9	33,136	33,007	+ 0.4
531Pt	Discount Stores	12,622	11,323	+ 11.5	54,313	49,888	+ 8.9
531	*Department Stores	20,228	18,715	+ 8.1	87,449	82,895	+ 5.5
539	*Misc General Mdse Stores	5,062	4,909	+ 3.1	22,175	21,602	+ 2.7
541	*Grocery Stores	34,524	33,122	+ 4.2	183,132	157,341	+ 16.4
56	*Apparel Stores	8,370	8,890	- 5.8	40,872	38,376	+ 6.5
561	Men's & Boys' Stores	813	783	+ 3.8	3,688	3,681	+ 0.2
562,3,8	Women's Stores	2,931	2,813	+ 4.2	12,268	13,060	- 6.0
565	Family Clothing Stores	3,316	2,964	+ 11.9	14,865	12,952	+ 14.8
566	Shoe Stores	1,684	1,628	+ 3.4	7,355	7,045	+ 4.4
591	*Drug Stores	7,515	7,155	+ 5.0	36,027	34,305	+ 5.0
596	*Nonstore Retail	5,511	5,442	+ 1.3	27,338	26,385	+ 3.6
5961	Mail Order	3,529	3,442	+ 2.5	18,013	16,869	+ 6.8
	**Retailing Today* Total Store Retailing†	109,850	104,516	+ 5.1	519,628	475,699	+ 9.2
	**GAF TOTAL	53,237	49,657	+ 7.2	236,800	223,094	+ 6.1

†Excludes car dealers, auto supply stores, eating and drinking places, service stations, and some specialty stores.
*Included in *Retailing Today* Total Store Retailing.
**General, Apparel, and Furniture.

For further information regarding these figures, contact Nancy Piesto, Services Division, Bureau of Census, Washington, D.C. 20233; telephone 301-457-2706/2708; fax 301-457-3677. For a subscription to *Monthly Trade, Sales and Inventory Report* at $57 per year, contact the Government Printing Office, Box 371975M, Pittsburg, PA 15250-7975; telephone 412-644-2721/2828.



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Editor: Robert Kahn (Certified Management Consultant)
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ROUTE TO

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CHRISTMAS PLANNING

In case you missed it, *Women's Wear Daily* recently reminded retailers of the short interval this year between Thanksgiving and Christmas: 26 days versus 31 days in 1995. But don't panic: check your pattern of sales for 1968, a Leap Year, with the same change from Monday to Wednesday and with five fewer days.

If your advertising for the weekend of December 14-15 is a strong "CHRISTMAS IS HERE" campaign, without panic markdowns, the December 15-18 period, or even longer, should have good response. Most people do not realize that "Christmas is next week" until sometime in the period between December 16-20.

If weather is sometimes a factor (for example, 8 inches of snow), you may want to contact Strategic Weather Service at 610-640-9485. Through this service, your competitors, firms such as Sears, Roebuck; J. C. Penney; Carson Pirie Scott; Maurice's; Charming Shoppes; Wal*Mart; Kmart; and a growing number of others already have a fairly good idea of Christmas weather in your area.

RThought: I have been pushing Strategic Weather Service since 1977. At last, retailers are using and benefiting from it!

NUMBERS TO PONDER — REVISITED

This heading appeared in the 1996 issue of *RT*. It dealt not only with declining memberships in such organizations as the PTA, League of Women Voters, Lions, Elks, Shriners, Masons, and Jaycees but with a decline in the percentage of eligible voters who vote. I pointed out that lack of participation is destroying much of the society in which many of us grew up, a society made to work by broad participation.

Here are a few excerpts from responses I received to the article.

Letter from a partner in a Big 6 accounting firm: "I observe in many businesses around our community a decline in support for these organizations. Profit pressures, downsizing, and the like.... I used to be on a nonprofit board — now I don't have time. I used to work with the United Way Budget Committee — but now I don't have time. I used to be a Rotarian — now it doesn't fit my schedule. I also used to have fun working with these organizations and enjoyed the different people who served there — but now?"

Letter from a longtime retailer in his 60s who liquidated his business and retired: "I think it's a very serious situation and I'm delighted that you wrote about it."

Letter from the retired vice president of a major high-tech company, who has moved to another state and now lives in a small town: "Locally, I've been impressed to read recently about all the kids participating in volunteer activities, things nobody in my high school or college group did. The kids are more conscious than my generation was of the need for 'service' to society. Our company encouraged volunteerism — it's in the statement of the Corporation Objectives.

Continued

THE MUSIC GOES 'ROUND AND 'ROUND

An item in the June 1996 issue of *Discount Merchandiser* announced that Toys "R" Us is about to open a 43,000-square-foot Babies "R" Us store in Westbury, NY, with 20,000 SKUs. It plans to open 10 additional stores this year and 50 next year — almost like Starbuck's coffee shops!

After reading the announcement, I was driven to my files, where I found that the Interstate Department Stores' 1968 annual report stated: "In November 1966, the company acquired the four-store Children's Supermart chain in the Washington, D.C., area and established toys as a fourth division." (The other divisions were department stores in small towns, White Front discount stores on the West Coast, and Topps discount stores in the Midwest.) The acquisition brought Charles Lazarus to Interstate. (It is my recollection that the Children's Supermart stores had both baby furniture and clothing as part of their "supermart" concept.)

Interstate landed in bankruptcy, but its subsidiary, Toys "R" Us, was making money. Lazarus refused to go into Chapter 11 bankruptcy. Instead, he took over the parent company and offered Interstate creditors a 50% cash payment plan plus the option to pay the balance in installments (creditors were to and did receive 100%). The corporate name was changed to Toys "R" Us.

Lazarus worked for all of his years as CEO for the same small salary and the same percentage of the profit. Lazarus benefited only if the stockholders benefited.

Few bankruptcies ever end in this manner.

In my file, there was a press release dated August 24, 1971, in which Sol Cantor, then CEO of Interstate, announced: "...the new 90,000-square-foot shopping center to be called Children's Village, a totally new concept in retailing, and may be extended not only to other geographical areas but to areas of merchandise other than those it will carry at the outset.... Initially, Children's Village will contain a 60,000-square-foot Children's Bargain Town discount toy supermart carrying toys, bicycles, and children's furniture; a shop to be called Togs-R-Us, devoted to clothing in the infants', boys', and girls' categories; a complete selection of shoes for all children's age groups; and an ice-cream parlor."

RThought: Current Toys "R" Us CEO Michael Goldstein is just picking up what his teacher, Charles Lazarus, didn't have time to execute with the rapid, worldwide growth of Toys "R" Us.

RThought: ...and the music goes 'round and 'round!

"[Does] company management discourage volunteerism as an unjustifiable 'cost' of business? Or are people so anxious about keeping their jobs that they don't dare take time to volunteer? Or are people so busy they don't have the time? I've noticed a decline in our industry of management support in the major trade group. Is it unethical (i.e., is there a conflict of interest) if companies support some of their employees who participate in professional societies? Or politics? Or school boards? What if different employees have different interests/concerns/goals/philosophies? What if the stockholders don't agree? How much support should be financial and how much should be verbal?" **(Note:** This man was once on his local school board and once headed a very large professional association — on company time.)

RThought: From 1946, with time out for recall during the Korean affair, I worked in Oakland, about 10 miles from my hometown of Lafayette, where I was active in the local United Way, as well as in the Bay Area United Way, at the board-of-directors level, and later represented Alameda County in the United Bay Area Crusade (five counties). I also served at various times on the boards of Fannie Wall Children's Home and Day Care Center, the Red Cross, the Boy Scouts, the Girl Scouts, and other organizations.

After Lafayette, a town now of 23,000, incorporated in 1968, I became active on a local level. However, probably 80% of the people who live in Lafayette work elsewhere. Lafayette is a small, all-volunteer city, working with a minimal professional staff, but many residents take little part in its affairs and its organizations. They are more likely to do what I did: the husbands are active where they work, especially executives, and not active where they live, while their wives are active in their town of residence. The same problem exists in many suburbs.

APPLAUSE, PLEASE!

The following short item appeared in *Supermarket News,* June 3, 1996:

> **Food Lion of Salisbury, North Carolina, and the City of Charlotte, North Carolina, have received the National League of Cities/Food Market Institute Neighborhood Partnership Award for promoting supermarket access in underserved communities. Food Lion and Charlotte won the award for the chain's store No. 635 in the city's Northwest Corridor. Before the store opened in December, residents had no local source of groceries, Food Lion reported. The store now serves more than 13,000 customers weekly.**

I'm not sure which of my emotions is the strongest: happiness, because a company in the supermarket industry assumed its responsibility to the society in which it both practices and prospers due to the free-enterprise system, or sadness, because there are so many areas in so many cities where there is no clean supermarket of adequate size, offering both merchandise at a fair price and jobs — including training — for minorities. Too many of the chains want money from the minorities but will not give them jobs.

On the opposite coast, in my territory, the City of Oakland, California, is concerned because the last supermarket in West Oakland may close. My father was born in West Oakland 106 years ago and was reared there. It is now an area which is predominantly African American. I became aware of this part of Dad's history when I showed him the Fannie Wall Children's Home and Day Care Center after I became the first male and the first white member of its board of directors. It was owned and operated by the Federated Negro Club Women of Northern California. Dad's home, in which it was later housed, had a rated capacity for 35 children, with metal fire escapes from its three floors.

Oakland has many Safeway and Lucky supermarkets. However, it has been about 35 years since Safeway closed its doors in West Oakland. It closed because the NAACP was picketing the store in an attempt to shame Safeway into hiring more African Americans who resided in the area. As far as I can remember, there never was a Lucky store in West Oakland.

RThought: I know that Vons supermarkets have been successful in minority areas in Los Angeles and that Pathmark has been successful in New Jersey areas. If you, my reader, know of other supermarkets which have had experienced success, please let me know so that I can recognize them.

IS THERE GROWTH LEFT FOR WAL★MART, KMART OR TARGET?

The June 24, 1996, issue of *MMR* analyzed the market share held by the largest general merchandise discounters in the 50 largest markets. In most cases, the three largest — Wal*Mart, Kmart, and Target — were listed. However, in some cases, only two of the largest were named.

The table below shows the positions held in the 50 markets:

Company	Rated No.1	Rated No.2	Rated No.3	Rated No.4
Wal★Mart	20	10	6	1
Kmart	10	25	10	2
Target	9	9	12	0
Others	11	5	7	2

The "other" companies were:

Biggs	Hills
Bradlees	Lechmere
Caldor	Meijer
Fred Meyer	Venture

None of the three major discounters were rated in all of the 50 major markets. Their penetration is as follows:

Kmart	47
Wal★Mart	37
Target	30

The three major discounters have no fear of entering a market which already enjoys one or both of its major competitors. Most of the new store's volume will be lost from department stores (both conventional and national chains), drug stores, specialty stores, and, as they develop their supercenters, from supermarkets. There will be continued growth from two other factors: population growth and inflation.

RThought: In addition, each of the major discounters has added over the years:

- National fast-food outlets
- One-hour photo services
- Opticians
- Photo studios
- Video tape rentals
- Package wrap and shipping services
- Catalog services
- Pharmacies
- Discount travel services

And they have enlarged the scope of departments:

- Office supplies (competition with Office Depot/Staples/OfficeMax)
- Toys (Toys "R" Us is feeling the competition)
- Fashion (private-label apparel)
- RTA furniture
- Foods (private-label cookies, sodas, etc.)

A SECRET METHOD FOR IMPROVING SERVICE AND MORALE

Has your people/personnel/human resource department (in order of preference by most associates but disregarded by most management) ever determined how many full-time and part-time associates, with a minimum of one-year service, have not completed high school? (The reason I suggest a minimum of one-year service is so that you can determine those whose quality of service is satisfactory or better.)

If you should happen to have these statistics, you should check with a local school district for the availability of a GED (General Equivilancy Diploma) program. If you have five or more associates who indicate an interest in obtaining a GED in any one school district, fund both the preparation and the testing.

If an employee attended high school but did not graduate and the school still exists, the diploma is issued by that school; if an employee never attended high school or the school no longer exists, the diploma is issued by the State Department of Education. Possession of a GED means that the graduate is eligible for admission to a two- or a four-year college on the basis of having completed high school and, possibly, other requirements.

If there are other significant employers located in the same town as your store, ask their people/personnel/human resource department to similarly determine prospects for the program. Ask them to bear their proportionate cost; but if they don't, *you* bear the total cost. Good news spreads fast: you will make customers who will never leave you, no matter what competition comes to town. And *you will have proven you are interested in them for more than their dollars,* the first thing a customer wants from a retailer.

If you counsel these associates, you will find a variety of hard-luck reasons which explain why they never completed high school: a teenage marriage, a pregnancy, hard times on a farm, a parent's lost job, a death in the family, etc. Many associates may never have heard of a GED, but all of their lives, they will have felt handicapped because they did not complete high school.

Don't be surprised if a number of your associates pass the GED test *without* having taken the preparation course. Many non-high school graduates are unaware of how much they have learned without a teacher. from reading books and newspapers, from listening to or watching the news, from thinking things through, from talking to people who did graduate from high school or college, or, perhaps, from helping a child through high school.

You won't be a pioneer. One way or another, more and more people are learning about the GED. In 1995, 724,000 people took the test and, of those, 523,463 (72%) received their GED, the largest number since the rush at the end of World War II, when discharged members of the armed forces took the test so that they could take advantage of a college education under the GI Bill.

The test is not limited to people like you and me with normal eyesight, hearing, and no other serious handicap: In 1995, those taking the test in Braille, from audio cassette, or in large print increased by 19%, while some 5,000 were afforded helpers who would mark the test taker's answers, a 17% increase over the previous year.

GED graduates are in the company of some famous people. For example, you may laugh at the humor of Bill Cosby, who earned an MA and EdD from Massachusetts University after having been a student at but never having earned a degree from Temple University. Not only did Cosby advance without a high school diploma but, with a GED, he earned his master's and doctorate degrees without a bachelor's degree! (Note: Bill Cosby and his wife recently gave a multimillion dollar gift to Spelman College, which is mainly a black women's college in Atlanta.)

U.S. Senator Ben Nighthorse Campbell is another GED graduate from the 1950s, having earned his GED while serving in the Air Force. Recently, he walked through commencement with the graduating class of Placer High School in Auburn, California, the school from which he should have graduated in 1951 — 45 years late!

I have told the story previously of how I learned about the GED, but I would like to tell it again. In early 1945, our Army Air Force Service Group (SP) landed on Leyte. Our flying field at Dulag was still under construction, so we were assigned space in a quagmire. It took several weeks to drain and clean up the area. After we finished the project, the question was how to keep 700 men active and out of trouble. Thus, we started Quagmire College. From the 700 men I was able to find about 45 who could teach courses from English to history and from math to econ without any textbooks. I was then informed of the GED program and received complete information from the 5th Air Force Headquarters on Leyte.

In my squadron, the last men to join us in training were about 30 whom we called "The Dead-End Kids" after a group from the 1930 movies. They came from lower Manhattan, with the heaviest of the "kids" weighing about 130 pounds, but they all had a good 200 pounds of energy — so much energy that my first sergeant had them play football every afternoon after work to dissipate some of it! None had finished high school. The same was true of another group in their late 20s and early 30s who had quit school in 1932-35, at the bottom of the Depression, when they were needed on Midwest farms. It was from this latter group that I learned many could pass the GED test without the preparation program.

None of us knew then what a wonderful thing the GI Bill would be! (The bill still exists, but it is not as inclusive.)

The GI Bill is one of the best investments ever made by our government. I can guarantee that over the years since World War II those who went to college have paid far more in income tax as a result of their better education than they would have paid during the past 50 years had they not gone to college. The country benefited from a better-educated work force.

Unfortunately, there are still 45 million adults who hold neither a high school diploma nor a GED.

We retailers would benefit through our associates and our new loyal customers by backing the GED program.

SHORT SHORTS

Now that Jordan Marsh has become part of Macy's, I can tell you that the first sales transaction of the Jordan Marsh Company in 1851 was the sale of one yard of cherry colored ribbon by Eben Jordan to Louisa Bareid, his friend. Friendship is the basis of confidence, and confidence is the basis of success. The store was 145 years old when it became Macy's; Eben Jordan was old enough to have been the father of Rowland Hussey Macy. **RThought:** I don't believe anyone bothered to record the last customer.

I had always thought that CPR was a way to save the life of a person who had stopped breathing. Not any more! The Conference Board is having a seminar on a new sales analysis tool kit: CPR (customer conversion, penetration, and retention analysis). It is to be held September 27, 1996, at the Grand Hyatt Hotel, New York, New York. Contact the Conference Board by telephone at 212-339-0345 or by fax at 212-980-7014. Perhaps the fees — $595 for an associate and $680 for a nonassociate — may require a bit of the "old" CPR!

FEATURE REPORT

HAVE YOU ANSWERED THE CALL TO ELIMINATE SWEATSHOPS?

The following is a list of retail firms which have answered the call of the U.S. Labor Department and the National Retail Federation to put an end to children working in substandard sanitary conditions, often earning as little as the equivalent of less than $4 *for an eight-hour shift.* If a company is a subsidiary, its parent company is shown in parenthesis, along with article (The) if part of the corporate name.

Abercrombie & Fitch (The Limited)
Accessory Lady
Aeropostale (Federated)
After Thoughts
Ann Taylor, Inc.

American Apparel Manufacturers Assoc.
Army and Air Force Exchange Service
Baby Superstore
Balliet's
Banana Republic (The Gap)

Bath & Body Works (Intimate Brands)
Baum's
Beall's, Inc.
Bergdorf Goodman (Neiman-Marcus)
Bergner's

Best of Times (The)
Bloomingdale's (Federated)
Bon Marche (The) (Federated)
Bon-Ton (The)
Boscov's

Boston Stores
Brookstone
Brylane (The Limited)
Bullock's (Federated)
Burdine's (Federated)

C.R. Anthony Co.
Cacique (The Limited)
Carlisle's
Carson Pirie Scott
Cato Stores Corp. (The)

Chadwick's of Boston
Champs Sports
Charter Club (Federated)
ClothesTime, Inc.
Cole Department Stores

Cole National
Colorado
Contempo Casuals (Neiman-Marcus)
Dana Buchman
Dayton Hudson Corp.

Dayton's (Dayton Hudson)
Eddie Bauer, Inc. (Spiegel)
Edison Brothers Stores, Inc.
Elisabeth Renberg's, Inc.
Express (The Limited)

Famous-Barr (May)
Federated Department Stores, Inc.
Filene's (Federated)
Foley's (May)
Footquarters

Foot Locker (Woolworth)
Fortunoff
Frederick's of Hollywood
Galyan's Trading
Gap (The), Inc.

Gaylord's National Corp.
Gerber Childrenswear
Gilmore Brothers Specialty Stores
Gingles Department Stores
Gitano

Going to the Game
Goldsmith's (Federated)
Gottschalks
Guess, Inc.
Gymboree Corp.

Harris Co. (The)
Haverty Furniture Co., Inc.
Hecht's (May)
Henri Bendel (The Limited)
Hills Stores Co.

Hit or Miss (TJX Cos.)
Hudson's (Dayton Hudson)
Infinity Sports
J.C. Penney Co., Inc.
Jacobson Stores, Inc.

Jessica McClintock
Jordan Marsh (May)

Kaufmann's (May)
Kellwood Co.
Kids Footlocker (Woolworth)
Kids Gap (The) (The Gap)
Kids "R" Us (Toys "R" Us)

Kinney Shoes (Woolworth)
Kittle's
Kmart Corp.
Lady Foot Locker (Woolworth)
Lands' End

Lane Bryant (The Limited)
Lazarus (Federated)
Lerner New York (The Limited)
Levi Strauss & Co.
Limited Too (The Limited)

Liz Claiborne, Inc.
Lord & Taylor (May)
Macy's East/West (Federated)
Marshall Field & Co. (Dayton Hudson)
Mast Industries (The Limited)

May Department Stores Co.
Meier & Frank (May)
Mercantile Stores Co., Inc.
Mervyn's (Dayton Hudson)
Mixit

Modell's Sporting Goods
Montgomery Ward & Co., Inc.
NFL Properties
NM Direct (Neiman-Marcus)
Newport News, Inc.

Nicole Miller
Nordstrom, Inc.
Northern Getaway (Woolworth)
Northern Reflections (Woolworth)
Old Navy Clothing Store (The Gap)

Oshman Sporting Goods Services, Inc.
Pace Management
Parisian
Patagonia
Paul Harris Stores

Penhaligon's (The Limited)
Pfaltzgraff Co.
Rackes, Inc.
Renberg's, Inc.
Reynolds Brothers, Inc.

Robinson's (May)
Ross Stores, Inc.
Routzahn's
S&K Famous Brands
Saks Fifth Avenue

Sam's Club (Wal★Mart)
S.F. Music Box Co. (Woolworth)
Searle
Sears, Roebuck and Co., Inc.
Spencer Gifts

Spiegel, Inc.
Sports Authority (The)
Stern's Department Stores, Inc. (Federated)
Stone & Thomas
Structure (The Limited)

Superior Surgical Manufacturing
Talbots, Inc.
Target (Dayton Hudson)
Timberland
TJ Maxx (TJX Cos.)

Toys "R" Us
United Retail Group, Inc.
Venture Stores
Victoria's Secret (Intimate Brands)
W.H. Smith

Wal★Mart Stores, Inc.
Weaver's
Weinstock's (Federated)
Woolworth Corp.
World Foot Locker (Woolworth)

ZCMI

RThought: Does your company sell apparel and other soft goods? Is your name on this list? If not, write to Robert B. Reich, Secretary of Labor, 200 Constitution Avenue, Washington, D.C. 20210, for information.

RThought: Once upon a time there were 100 or more American car manufacturers. Gone are the Auburn, Cord, Duesenberg, Hudson, Kaiser, Henry J, Marquette, Nash, Peerless, Pierce-Arrow, Reo, Rockne, Sears, Stanley Steamer, Star, Studebaker, Stutz, White, and more that I cannot remember. Also gone are such insignias as La Salle (General Motors), Edsel (Ford), and DeSoto (Chrysler). We also saw the time when our population reached 150 million people and companies like BMW, Honda, Hyundai, Mazda, Mercedes Benz, Nissan, Saab, Subaru, Suzuki, Toyota, Volkswagen, and Volvo appeared on the scene and made a profit — all because GM, Ford, and Chrysler did not and could not please all of the American consumers.

The idea that three major discounters — Wal★Mart, Kmart, and Target — can please all customers who want value pricing just does not ring true in our competitive, free-enterprise system.

The same can be said for Federated, May Company, Dillard's, Sears, J. C. Penney, and Montgomery Ward: they will not be able to please all department-store customers and thus will have local, if not national, competition.

Knowing the territory and *knowing their customers* will mean continued growth for Carson Pirie Scott, Dayton's, Hudson, Kohl's, Marshall Fields, Proffitts, Younkers, and others which are led by executives who are ambitious and innovative and who can inspire their associates.

RThought: Remember that 1962 was a vintage year: Harry B. Cunningham started Kmart; John Geisse started Target; and Sam Walton started Wal★Mart. That period of retail innovation ended in 1992, 30 years later, when all three passed away. (It should be mentioned that Woolworth founded its Woolco stores in 1962, but they had been liquidated or sold by the early 1980s.)

We may never again see such a period.

THE FTC IS AFTER PRICE FIXERS

June 10, 1996: The Federal Trade Commission announced that New Balance Athletic Shoe, Inc., has agreed to settle FTC charges that it fixed the resale price of its shoes in violation of antitrust laws.

June 10, 1996: Precision Molding, the leading supplier of wood products used to construct frames for artists' canvases, has agreed to settle FTC charges that it attempted to fix prices and restrain trade in the market for these products, known as stretcher bars.

June 17, 1996: The FTC has given final approval of a consent agreement with Budget Rent-A-Car Systems, Inc., settling charges that it engaged in deceptive practices.

June 17, 1996: The FTC has given final approval to a consent agreement with NordicTrack, Inc., settling charges that it made false and unsubstantiated weight-loss and weight-maintenance claims in advertising its machine.

RThought: What will happen if the Republicans win and the FTC is eliminated to save money?

RThought: Beware!

NEGATIVE OPTIONS ARE AN UNCONSCIONABLE WAY TO DO BUSINESS

I believe "negative options" are wrong, yet many businesses still persist in using them. Take, for example, the Book-of-the-Month Club. If you **do not** return the card which is hidden amongst its monthly mailing, you will receive the next "Book of the Month." That's exactly what happened to me in January. While recuperating from surgery, I tried to keep up with clients by telephone, but I certainly did not tackle the almost 2-foot high stack of mail which awaited me— it wasn't a high priority.

Then, I received a book I had not ordered. I proceeded to search through the mail and learned that the "choice" was mailed, a book which was of zero interest to me, because the club had not heard from me. I marked the package "Refused" and took it to the post office. That move prompted a letter from the club scolding me because I had done it once before, as a member, about six years ago! However, when I had complained on the previous occasion, I was told that the club would put me on a "positive option" list. Obviously it never happened. My remedy to this situation was resignation from the Book-of-the-Month Club, even though I had accumulated more than 20 credits which could be used against the purchase of future books. (There are also record, cassette, and CD clubs operating on the same basis.)

Another example of a "negative option": a four-page communication from Wal★Mart that I recently received. The first paragraph after the salutation read:

> **The purpose of this letter is to introduce the Shareholder Investment Program ("Program") to shareholders of Wal★Mart Stores, Inc., effective immediately. This Program was developed to provide enhanced and cost-effective services for Wal★Mart shareholders.**

In glancing the document over, I realized that it was a dividend reinvestment plan, something that I, as a consultant, had suggested many years ago but had been told would be too expensive. (I remain unconvinced.)

I began to read about the plan but stopped after reading, *"If you wish to be enrolled* in the Program to reinvest...," because I wasn't interested in reinvesting my dividends.

Then I received a telephone call from a cousin of mine who has been a stockbroker for over 40 years. He told me that Wal★Mart was using a "negative option" and faxed me a copy of the cover letter he had received. The forth paragraph, in boldface, read:

> ***If you wish to be enrolled* in the Program to reinvest your future dividends toward the purchase of additional shares through the Program, *you do not need to complete* the enclosed Special Request Form. You are automatically enrolled under the full-dividend reinvestment option.**

Then, the next to last paragraph stated that in order to continue receiving dividends by check I must "complete and sign the enclosed Special Request Form" and return it to "First Chicago Trust by *June 7, 1996,* in order for [my] July dividend to be paid in cash."

When Wal★Mart was recently added to *The New York Times* list of most widely held stocks, it had, as I recall, about 250,000 shareholders. It's hard to believe that I could have been the only shareholder who didn't read every word — just because I wasn't interested in reinvesting my dividends.

When this plan takes effect, I plan to write Wal★Mart a few days later to ask, "Where is my dividend?" because it is my belief that a "negative option" is not legally valid in this case.

RThought: In addition to the cover letter, Wal★Mart also included a page of "Questions and Answer" (note that one answer is assumed to fit all questions since "questions" is in the plural and "answer" is in the singular). One question and answer, in particular, bothered me.

What options do I have with future dividends?
...Shareholders *owning 201 or more shares will receive cash dividends unless* they elect [positive option] to have their dividends reinvested...." [Emphasis added.]

There was no such distinction made in the cover letter. Since I have "201 or more shares," I did receive a check!

The source of the shares bought with the reinvested dividends is not given. If the shares are bought on the market, how long after the dividend date? Is this just a way to give management some additional "buy pressure" with the hopes that it will boost the price of the stock?

RThought: I could ask Wal★Mart these questions, but it is the responsibility of Wal★Mart to give correct information to *all* of its shareholders, regardless of whether or not they own more or fewer than 201 shares.

RThought: No matter what the answers may be, I don't believe "negative options" have any place in retailing, especially among the practices of the largest retailer in the world.

DO RETAIL ANALYSTS UNDERSTAND ANYTHING ABOUT THE RETAILING CALENDAR?

The June 1996 issue of *Discount Merchandise* headed one its articles "Wal★Mart's Aberration?" and quoted Steven J. Shuster, a retail analyst with First Manhattan Consulting Group: "We all know that Wal★Mart has changed. In spite of negative comparable store sales for April, Wal★Mart had positive earnings for the first quarter, up a penny [per share]. But if same-store sales dip two months in a row, then maybe it's not an aberration."

The aberration is that people may write for, edit for, and publish a retail magazine but a firm claiming to be a "consulting group" may not always remember 1) the fact that Easter, unlike the 4th of July and Christmas, is on a different date every year and 2) there is a lot of buying at Easter: clothing for both youngsters and adults, candy and baskets for Easter egg hunts, extra groceries for family gatherings, and more.

In 1995, Easter was April 9; thus, extra volume fell in April. In 1996, however, Easter fell on March 31; thus, extra volume fell in March.

As long as analysts, consultants, and magazine publishers refuse to refer to, or try to comprehend, the impact of retailing's calendar, I would recommend that retailers stop reporting March and April as separate months and report only a combined figure.

RThought: Try changing Mother's Day from May to June in alternate years and see what happens to monthly comparisons. Or don't analysts and retail publication writers realize that retailers make extra sales for Mother's Day!

IS PRICECOSTCO LIKELY TO CAUSE A PROBLEM FOR ITS MEMBERS?

The June 1996 issue of RT ran an item headed "Don't Allow Use of Your Name and Social Security Number as I.D. or on Lists," explaining how an English instructor at Modesto Junior College in California had obtained the names and Social Security numbers from student rolls and from faculty member pay stubs which had been discarded. Using this information, the instructor opened charge accounts incorporating false addresses.

As a member of PriceCostco, I receive its mailings. One such offer included a form with a note from Bob Craves, senior vice president of membership and marketing. The message read:

> **We would like to mail special offers like this directly to you in the future. But we need your help. Please take a moment to complete the information on reverse, fold, seal, and drop in the mail. We'll even pick up the postage.**

On the back of this offer, PriceCostco requested the following:

- Membership number
- Member's name (first and last)
- Social Security number
- Driver's license number and state
- Date of birth
- Home address
- Home phone
- e-mail address (if applicable)

RThought: My four associates, who make up "Robert Kahn and Associates," each receive as a fringe benefit a membership in both PriceCostco and Sam's. Filling out what looks like an innocuous form could cause them no limit of financial endangerment from any dishonest person who may have access to the list Craves "craves" to create. Would Craves sell this list?

RThought: But something else is strange regarding this postpaid card: the company publicly lists its address as 999 Lake Drive, Issaquah, WA 98027; but the address on the form is P. O. Box 34535, Seattle, WA 98124-9947. The addresses don't match!

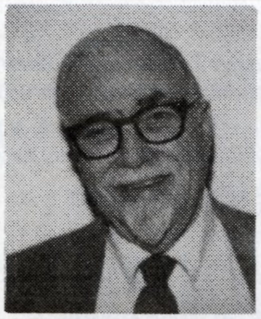
Did someone with access to the PriceCostco mailing list do this mailing with the intent of obtaining the information needed to open fraudulent bankcards or charge accounts, just as was done by the instructor at the junior college?

LET'S HOPE SAFEWAY ESTIMATED THE COST CORRECTLY

Safeway, Inc., is about to place 2-foot by 2-foot advertising tiles on the floor of 165 stores in the San Francisco Bay Area. A San Francisco advertising agency has bought spaces which will be resold to its clients, the cost of which is in line with other in-store advertising costs (i.e., shelf, aisle, or shopping cart ads).

RThought: Although the editor of Brand Marketing believes it is a good idea, I can just picture a shopper who is entranced by an ad on the floor pushing his or her cart into an elderly person, causing the person to fall to the floor, or perhaps into a young child who is walking next to its mother and is caught between two carts. Safeway should charge extra for the ads placed where aisles intersect because they will be dangerous. But, then, the tiles may keep 100 or so personal injury attorneys busy with suits against the company.

RThought: If shoppers have their eyes focused on the floors of busy aisles, who's going to buy the items no longer advertised at eye level? And aren't grocery stores getting cluttered enough these days?



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Editor: Robert Kahn (Certified Management Consultant)
Publisher: Robert Kahn and Associates, a Corporation
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WOULD YOU BE INTERESTED IN AN AMERICAN-STYLE POWER CENTER IN CHINA?

Harry Newman of Newman Properties, together with Heng Tong, a Chinese publicly held company, are planning an 800,000-square-foot power center on 120 acres in northwest Beijing. In true U.S. fashion, it will be located alongside an expressway, the Great Wall of China Expressway. It will be more like a power center than a mall. The big boxes will be linked to the in-line stores and will open on an enclosed sidewalk — air conditioned in the summer and heated in the winter — a concept which Harry saw in Tucson, Arizona, 23 years ago.

The *bona fides* of Newman to build a power center in China are:

1. First West Coast developer to be president of the International Council of Shopping Centers (ICSC).
2. President of the International Shopping Centers Educational Foundation, the organization which will soon publish a textbook for the 65 universities offering courses in real estate development.
3. National trustee of ICSC since 1966.
4. General or limited partner in 24 small malls or strip centers plus the following centers:

Vancouver Mall	Vancouver, WA	(1,098,000 square feet)
Westdale Mall	Cedar Rapids, IA	(872,000 square feet)
Mall of Orange	Orange, CA	(825,846 square feet)
SeaTac Mall	Federal Way, WA	(740,507 square feet)
Village at Corte Madera	Corte Madera, CA	(465,000 square feet)

5. Writes good poetry that does not translate well into Mandarin Chinese!

Here are other features of the center:

1. On-site parking spaces for 2,600 vehicles (3.5 per thousand feet of GLA plus, of course, plenty of room for bicycles in a separate, covered space — more than 2,800 spaces.
2. Two off-ramps from the Great Wall of China Expressway.
3. A trading area of 10 million population.
4. There is no official name for the mall, but Newman, with his poetic license, refers to it as "The Great Mall of China."

If your plans include expansion into China but you want the niceties of a U.S. center — not any of those 1,400-foot, tall towers that are available in Jakarta — contact Harry at Newman Properties, 310-495-4833, Extension 3003. Say that Bob Kahn sent you. But hurry — the space is going fast.

RThought: American retailers deserve an American-style shopping center as part of our contribution toward bringing Chinese shopping centers into the 21st century.

CAN LONG-RANGE WEATHER FORECASTING IMPACT PROFIT?

Almost 30 years ago, *RT* became the first retailing publication to recommend the use of long-range weather forecasting. Few comprehended.

Today, the method of forecasting I referred to in 1977 is provided by Strategic Weather Service (1325 Morris Drive, Wayne, PA 19087; 1-800-882-5881). Its helpful *Weather Strategist* bulletin included the following item in its July-August 1995 issue:

> **Sears, Roebuck and Company has historically marked down oscillating fans in mid-July. Last year SWS forecast a heat wave for the week the markdowns were scheduled. On the advice of SWS consultants, the markdowns and clearance advertisements were canceled. "Needless to say, it was extremely hot and we sold out of fans. It was very profitable," said [Jim] Mergott [national manager, local market focus at Sears].**

RThought: All of those who don't believe that weather can be forecast a year in advance, with an accuracy rate close to the five-day forecasts provided by various weather services, please continue 1) to plan unnecessary seasonal markdowns and 2) to be short of weather-impacted items in an attempt to avoid seasonal markdowns.

WHAT DOES SEARS MEAN WHEN REPORTING 'SAME STORES'?

Same-store sales, that wonderful, elastic yardstick!

In reading Sears, Roebuck and Company's 1995 annual report, I had difficulty in interpreting its meaning of same stores.

Page 2 of the report stated: "Over the last three years, we have outpaced the retail industry with domestic *comparable store increases of 8.9% in 1993, 8.3% in 1994, and 4.7% in 1995.*" [Emphasis added.]

Page 5 stated: "Continued emphasis on apparel is paying off for both customers and Sears. *Through store renovation, approximately 6 million square feet of apparel selling space was added during 1994 and 1995, nearly half of which was converted from back office space....*" [Emphasis added.] Based on about 800 department stores, as reported on page 10 of Sears' 1994 report, that would be about 7,500 square feet per store added during 1994-95. **(Comment:** In my local Sears store, the basement was converted to selling space.)

Continued

Page 7 stated: "We continue relocating furniture departments from mall-based stores to off-the-mall Homelife stores, which enables us to provide customers a broader assortment of furniture and accessories.... Sears had 5.7 million square feet of mall-store space devoted to furniture in 1992 and, by 1998, intends to have approximately 5 million square feet of furniture which has been moved to out-of-the-mall stores in the new, freestanding Homelife format" — another 6,700 square feet based on 800 mall stores. It is my opinion that cosmetics, jewelry, and apparel produce higher sales per square foot than did the furniture departments. Does a major change in the departments within fixed four walls (including removal of low-sales per-square-foot departments) constitute a real "same-store gain" compared to other retailers who do not have low-density usage, like furniture departments and excessive back-office space?

The report does not appear to indicate whether the same stores which produced the increases in 1993, 1994, and 1995 include Sears' hardware, Homelife, Brand Central, and Western Auto stores, all of which are part of Sears.

Sears has never, to my knowledge, defined what kinds of stores make up the "same stores" on which it reports its year-to-year improvement.

RThought: If Sears is adding millions of square feet of selling space within the four walls of mall stores, then all it will have to do to continue this trend is to take more and more low sales/square-foot departments out of the four walls of the mall department stores and expand departments with high sales per square foot.

RThought: Most retailers reporting growth in same-store sales do not make this type of change in merchandise offered by the compared stores.

WHO HAS BANK CREDIT CARDS?

At the May 1996 conference of the National Consumer League in Los Angeles, information on credit-card ownership was presented which was based upon a telephone survey by Opinion Research Corporation of 1,008 people (502 women and 506 men) over the age of 18. Based on the size of the random sample, the results had an accuracy of ±3%.

Of those surveyed, the percentage of annual income levels with credit cards were:

$15,000-$24,999	65%
$25,000-$34,999	79
$35,000-$49,999	86
$50,000 or more	91

Of the sample over 18, the percentages broke down as follows:

Over 18	71%
35-65	81
Among college students	9 out of 10

About one in four surveyed said that they had taken steps to improve their budgeting. Many of those were of 18 to 24 year olds, which is the group most likely to allow a card company to use direct debiting to a checking account. Of those making credit card payments, the following was found:

Pay minimum payment only	10%
Pay more than the minimum	38
Pay full amount	48
Other	4

Of those surveyed, 22% have found unauthorized charges of which 37% were billing errors and 57% were fraudulent misuses. **(Note:** The researchers did not ask how long a time period was involved — a crucial omission.)

RThought: Bank cards (plus American Express and Discover cards) have won the battle. Cards good only at one store become rarer and rarer.

J.C. PENNEY IS MINDFUL OF ITS OWNERS: ITS SHAREHOLDERS!

The last page of the J.C. Penney Company, Inc., 1995 annual report contains information of interest to its shareholders:

- Sales release dates and sales period covered
- Earnings release dates
- Information on dividend reinvestment/direct deposit
- How to obtain quarterly newsletters to stockholders
- How to obtain quarterly financial updates
- How to obtain the handbook on minority business opportunities
- How to obtain the community partners report on social responsibility
- How to obtain updates on environmental responsibility
- How to obtain Internet access to all press releases

RThought: Very little is missing. The only services I would add are dividend record dates and payment dates (these can be set for a year in advance without a problem) and a fax number for these reports (there is a telephone number given, but then someone has to record the name and address — when the stockholder can do it and mistakes can be avoided).

RThought: Penney is to be congratulated. I hope other major retailers will follow its example.

CANADIAN RETAILERS KNOW MORE ABOUT THEIR CUSTOMERS THAN DO U.S. RETAILERS

The Print Measurement Bureau of the Canadian government annually surveys 10,000 Canadians. Although the U.S. population is roughly nine times that of Canada, it would not have been necessary for the U.S. to survey 90,000 people to obtain the same degree of accuracy (assuming that in both cases the sample is randomly selected from the universe).

The report shows the frequency of customer buying in nearly every category sold by retailers. In 1995, the survey showed that the *number of people* who reported that they made at least one purchase in *each* category dropped about 9% from 1994.

Here are other results:

- About 45% of the eligible respondents made hardware purchases, down 13% from a year ago.
- About 57% bought women's apparel, down 9% from a year ago.
- About 42% bought sports clothing, down 17% from a year ago.
- About 31% said that they are dressing smartly, down from 37% five years ago.
- About 62% of the respondents attach a high importance to brand names.

RThought: Which of these results are important to you? What do you believe such a survey would show if taken in the U.S.? Would such information be helpful? Would as many retailers be in Chapter 11 if they had had such information before they expanded their chains? Would Congress kill the allocation of funds for such an activity even though losses may have decreased and corporate income tax increased as a result of such information?

SOME THOUGHTS ON THE CHANGES IN THE WELFARE SYSTEM

On August 22, 1996, President Clinton signed HR 3734 into law, a welfare-reform bill which includes the following changes:

1. Aid to Families with Dependent Children (AFDC) will cease. It will be replaced by block grants to states to provide Transitional Aid to Needy Families (TANF). Each state has authority to set its own grant levels and set eligibility rules subject to the federal restrictions on aid to immigrants who have not become U.S. citizens.

2. A schedule has been established for what is called "work participation rates," or the percentage of parents placed in jobs or state-defined work training with the associated costs born by the state. There is some leeway for parents who are the caretakers of children under age one. After two years, all parents are required to work, with the definition of "work" being set by each state. If the children are over six, the parent(s) must work, even if child care is not available.

3. Though the law allows a lifetime limit of five years for receiving aid from the block grants, states *may* set shorter limits, presumably to use the block grants for some other purpose. Availability of Medicaid (Medi-Cal in California) is not automatic. States *can* ban welfare assistance to *legal* immigrants who have not been naturalized. No "undocumented" or "unqualified" immigrants can receive federal assistance except Medicaid, in cases of emergency, plus a few other minor provisions, such as treatment for symptoms of a communicable disease. Assistance *cannot* be provided from state funds.

4. Food stamps will be reduced to an estimated $23 billion to $27 billion over the next six years. Food stamps cannot be provided to legal immigrants until they are naturalized, with minor exceptions.

5. To insure that there is maximum meanness, the law forbids states from providing services, including nonemergency health care, to undocumented persons with state or local funds, unless the state enacts legislation expressly extending coverage to undocumented persons.

(Note: The above summary was provided by the California Children's Lobby, the only lobby in the 50 states devoted to the needs of children, in its monthly report for August 1996.)

In addition, aid to the blind and disabled has been reduced.

But there are problems in doing what the law requires.

There is no central file on how long people have been receiving various forms of welfare assistance. The states may have some of this information, but it is incomplete.

Suppose someone has received welfare for five years in New York and then moves to California. If one applies for welfare in California, the welfare interviewer might ask where the applicant last resided. If the answer is New York, California could contact New York for whatever information it has and thus be able to make some approximation of how many years of eligibility the person has used. But what if the applicant stopped over for some time in Illinois and received no welfare? Contacting Illinois would not produce any information as to what had been extended by New York.

About seven million people, some chronically, are on welfare in some form or on all forms. Newspapers have often referred to "welfare queens/kings" who have received welfare for many years. Some even depict families in which second and third generations have been supported almost entirely by welfare.

Within two years or less, each state is supposed to "force" these seven million people (with a few exceptions) to get a job. Is it possible? I'll deal with that point later.

Are we forgetting that already we have more than seven million unemployed people who are actively seeking but cannot find jobs? These are people *who have had jobs* but who are now out of work: their plant or store closed, their employer downsized and eliminated them, or two companies merged and the great bonus to the shareholders was produced by "eliminating" duplicate positions, which also helps pay, according to Graef Crystal, for some of the unearned executive-officer salaries.

At one time the unemployed had a skill for which they were paid. They understood the discipline of going to work every day and dressing appropriately for the job. And now they are unemployed. If unemployed long enough, they might have to seek welfare, but not if they are a legal immigrant. Fortunately, only seven million are now unemployed — the figure has been higher.

Perhaps people on welfare can't get jobs because they lack the intelligence to learn, although the law now requires a state to train them.

Let's turn to a book that was a controversial bestseller when it was first published in 1994, *The Bell Curve: Intelligence and Class Structure in American Life,* by Richard J. Herrstein and Charles Murray. The term "bell curve" comes from the distribution of intelligence. If you think of a cross section of a bell, there is a symmetry. It is apparent, for example, when you see a picture or cross section of the Liberty Bell in Philadelphia.

Now let me introduce the term "decile" which is used to describe a universe if it is divided into 10 parts. If you categorize 100 people into 10 groups, each consisting of 10 people, each group is a decile. When human intelligence, as measured by IQ tests, is divided into 10 groups, you have the following distribution:

Decile No.	IQ Range	Median IQ
1	Under 81	74
2	81-87	84
3	87-92	90
4	92-96	94
5	96-100	98
6	100-104	102
7	104-108	106
8	108-113	110
9	113-119	116
10	119 plus	126

Look at the symmetry of this pattern.

The bottom of the range (81) is 19 points *below* the median of 100. The bottom of the tenth decile is 19 points *above* the median of 100. The same is true for the two sets of five deciles. For example, to become a member of Mensa, your intelligence must be in the top 2%, or above 130. There are 2% with an IQ below 70%.

What does an IQ of 70 mean?

Intelligence quotient, or IQ, is your intelligence age divided by your physical age. For example, if a young person passes a test with results on the level of an 8 year old and the youngster is 10, then 8 divided by 10 equals .80 or an IQ of 80. If the test result is that of a 12 year old, then 12 divided by 10 equals 1.20 or an IQ of 120.

Referring back to the decile table, the first two deciles, or 20%, have an IQ of 87% or less. The maximum age used in computing IQ is a

SOME THOUGHTS ON THE CHANGES IN THE WELFARE SYSTEM *(continued)*

physical age of 16. Twenty percent have an IQ of 87; 87% of 16 gives the mental age of 14.

But let's stop here for a minute. Do you believe that 20% of the jobs in your business can be filled by people with the mentality of a 14 year old? If 20% of your employees had that mental capacity, their poor quality of work could destroy your business!

What do Herrstein and Murray tell us about the IQ of people on welfare?

According to the book, the percentage of young white women who have given birth to an illegitimate child, in deciles, are as follows:

Deciles 9 and 10	2%
Deciles 7 and 8	4
Deciles 5 and 6	8
Deciles 3 and 4	17
Deciles 1 and 2	32

We now know that white women of low intelligence have substantially more illegitimate births than those with a higher IQ. It appears to be a corollary of their intelligence. Because women on welfare tend to have a lower IQ, most must perform simple jobs because they are not hard to learn — not jobs you may wish or need to have filled.

How many white women go on welfare after the birth of their first child?

Deciles 9 and 10	less than 1%
Deciles 7 and 8	2
Deciles 5 and 6	8
Deciles 3 and 4	17
Deciles 1 and 2	31

The impact of low intelligence on the demand for welfare after the first birth correlates with the high percentage of low intelligence amongst women on welfare. It warns us that they may be hard to train. Firms, many of which incorporate an intelligence test in their screening of applicants, are unlikely to offer positions which people on welfare are able to fill.

What are the odds of doing prison/jail time for young white males?

Deciles 9 and 10	1%
Deciles 7 and 8	1
Deciles 5 and 6	3
Deciles 3 and 4	7
Deciles 1 and 2	12

RThought: Only Congress would produce a law which requires the states, not the federal government, to educate and train welfare people, many of whom do not have the basic intelligence and/or the emotional stability to be trained. And when "trained," they are offered to businesses which have no capacity to use people of the intelligence level that appears to exist in vast numbers amongst those on welfare.

Those who do have the intelligence which places them in the sixth to tenth deciles are the ones we watch on TV: the ones who tell the audience about the year or two that they spent on welfare because of some unfortunate situation and how they absorbed the training made available to them, making them self-supporting citizens. And everyone applauds. Members of Congress then conclude that anyone could do the same if they would only try.

RThought: It appears to me that many of the people on welfare who are now being required to get jobs within two years do not have the ability to learn a job or meet other standards set by business in seeking employees who have the capability to do the work available.

Will the next and obvious step be a law requiring each type of business to take its "share" of "trained" welfare people?

Let's look at the average employment figures for 1995.

Civilian labor force	132,304,000
Unemployed	7,404,000
Employed in the labor force	124,900,000
Employed in agriculture	3,439,000
Employed by the government	18,362,000
Employed in the private sector	93,123,000
Others excluded	9,976,000
Employed in retailing	21,173,000

Retailing is a big industry, representing about 22.7% of those employed in the private sector.

Will the next law *mandate that each category of business* in the private sector *take its proper proportion* of those welfare persons which the state says "are trained" and "you have to take them"? Note that governments probably will not be required to take "their share."

What will you do with them? What effect will they have on your other workers of higher intelligence (perhaps with IQs has high as 119)?

The tax savings promised by the government as a result of decreasing the cost of welfare will not come close to covering the cost of lost business and increased expenses resulting from the employment of "trained" ex-welfare employees.

Or will private-sector businesses become the grantors of welfare dollars to keep the welfare-trained people from damaging its businesses?

RThought: We have over seven million unemployed, people who have shown their ability, at sometime, to hold a job in our free-enterprise system. A majority of the Congress, approved by the President, says that passing a law can produce a miracle.

RThought: If there are no jobs available for the welfare-trained people, and welfare has stopped, what will they do? If you were on welfare and had an IQ of 84 and you diligently tried to absorb the training and still could not get or keep a job, what would you do? Rob people? Burglarize homes? Pick pockets? Steal cars? Beg? Make night hours unproductive for retailers? Shoplift?

Once people of low IQ could be hod carriers, but that job has been eliminated.

Regardless of IQ, there is a basic instinct to eat and survive, even if other citizens bear a penalty.

UPDATE ON RENTING NAME AND ADDRESS LISTS

The July 1996 issue of *RT* reported the case wherein a California man, when making a purchase at Computer City, a subsidiary of Tandy Corporation, wrote conditions on the back of his check that his name would *not* be placed on any mailing lists and that he would *not* be sent any solicitations. His "terms" were upheld by the San Diego Small Claims Court as a binding contract. The court awarded him $1,021 but rejected his application for an additional $4,000 in punitive damages.

In the same issue, *RT* reported the case in Virginia against *U.S. News and World Report* wherein the magazine leased the plaintiff's name to the *Smithsonian* magazine. The plaintiff's case, however, was thrown out of the General District Court in Arlington County for lack of venue (no financial damages were sought).

To bring you up to date on the latter case, the plaintiff has now filed the case in the Arlington County Circuit Court where the judge has had to rule under the state law which says that no one can "appropriate" a person's name for trade without obtaining permission. A single judge has ruled, according to *NSM Report* (June 24, 1996), that marketers are not appropriating the names and do not owe individuals anything for the use of their names; thus, buying a list is *not* using the names without permission. In addition, the judge ruled that renting names and addresses does not invade a person's privacy.

RThought: To have made such a ruling, someone other than the judge must throw away his junk mail at home before he even sees it. I would estimate that my wife and daughter receive 1,000 catalogs per year (20 per week). I believe most are from rented lists from the two or three catalogs they actually use.

RThought: If you are selling your lists and want to keep in touch with lawsuits affecting nonstore marketing, I recommend *NSM Report*, issued biweekly at $275 a year ($320 overseas). Contact Maxwell Sroge Publishing, Inc., 522 Forest Avenue, Evanston, IL 60202; telephone 847-866-1890; fax 847-866-1899. Say that Bob Kahn sent you.

HOW ARE THE TIMES' 'FAVORITE STOCKS' PERFORMING THIS YEAR?

The following are *The New York Times* 15 favorite stocks based on the largest holdings in individual accounts at Merrill Lynch during the first six months of 1996. The *Times* lists the stocks alphabetically, but I have listed them according to their price change.

Stock	Percentage Change in Price January-June 1996
Intel	+ 25.8%
General Electric	+ 18.9
IBM	+ 11.7
Wal★Mart	+ 10.7
Motorola	+ 9.9
Exxon	+ 5.4
Disney	+ 3.8
PacTel	- 1.1
Merck	- 2.7
GTE	- 2.8
AT&T	- 5.0
Bell Atlantic	- 9.9
U.S. West	- 11.2
Bell South	- 11.8
SBC Com	- 15.9
Arithmetic average	- 1.7%

RThought: On the average, there was a loss; but the range, from +15.8% to -15.9%, was wide. Just because a stock is held in the largest number of accounts at Merrill Lynch does not prove that such a large number of investors or their consultants are good "stock-pickers." But, then, the most experienced fashion buyers probably vary as much in their choice of next season's fashions.

Note: PacTel, U.S. West, Bell Atlantic, Bell South, and SBC Com are five of the six Baby Bells that were spun off from AT&T.

IF YOU REMEMBER FAVORABLY JOHNSON & JOHNSON'S RECALL OF TYLENOL, YOU SHOULD BE AWARE OF THIS CASE

The National Advertising Division (NAD), created by the Council of Better Business Bureaus, Inc., settles complaints about advertising which are submitted by both parties. In addition, acceptance of a NAD determination is voluntary.

American Home Products, the makers of Advil, recently filed a complaint with the NAD challenging the Extra Strength Tylenol claim: "If you use ibuprofen and have an ulcer, Tylenol may be a better choice for you." Even though such a claim certainly could frighten a person with an ulcer, note that the phrase uses such words as "if" and "may" and that no definite statement is made — just a suggestion, ma'am.

Johnson & Johnson chose not to submit to the voluntary process of the NAD, stating that any question about the claim had been litigated and resolved in 1987.

The NAD has now referred the claim to the Federal Trade Commission, where Johnson & Johnson's appearance before it will be mandatory.

RT Comment: I will watch for an FTC ruling and report on it.

DO YOU WANT TO SAVE MONEY ON YOUR BIG BOXES?

If your answer is yes, someone in your business should be reading *Air Conditioning, Heating and Refrigeration News* (telephone 313-362-3700; fax 313-362-0317). Ask for the July 8, 1996, issue and look for an article headed "Synergistic Design Helps Wal★Mart Justify Energy Efficiency Measures."

Wal★Mart has built three environmental demonstration stores: its Supercenter in Moore, Oklahoma, and its Wal★Mart discount stores in Lawrence, Kansas, and the City of Industry, California. The above mentioned article states that the Moore store's savings in energy will be in excess of $100,000 a year and that over a 20-year life (with remodels included) it will be over $2 million!

Wal★Mart has not placed a patent on anything developed nor has it kept secret knowledge of what was done or kept people out of its stores (except comparison shoppers). Tom Seay, Wal★Mart's executive vice president in charge of real estate and construction, was quoted in the article as saying, "We're confident this design [of the Moore Supercenter] will prove extremely efficient, and *we are willing to share this design and the data we collected from monitoring with anyone interested in an energy-efficient approach.*" [Emphasis added.] Sam Walton wanted it that way — Wal★Mart's environmental know-how was not to be a part of "competition."

Now you understand how Wal★Mart is attempting to save our environment. Believe me, the steps mentioned in this article are but a few of those it has incorporated (for many years, I, along with First Lady Hillary Clinton, served on its Environmental Advisory Committee).

When was the last time you offered to share a proven saving with your competitors? (Wal★Mart made the same offer at the opening of its first energy-saving store in Lawrence, Kansas.)

RThought: If we are going to preserve and improve the environment for our grandchildren and their children, it is going to take a lot of change in what we do. Many times, when we "do good," we save money — certainly making it a "good deal."

RThought: If you don't take Wal★Mart up on its offer, it will be just one more way that Wal★Mart will have a lower expense rate and, thus, will sell merchandise at a lower price than you!

WHAT IS IN THE FUTURE FOR MALLS?

The first statistic of interest is that there are few new regional malls (800,000 square feet or larger) being built: 27 such malls came on stream in 1989 but only an average of five for 1993-95; seven are planned to open this year.

On the other hand, I see more and more communities redeveloping their old downtown sections and developing more and more chains — The Gap, Tower Records, etc. Manhattan now has discount stores in traffic locations and San Francisco has a group of major discount/off-price stores — Toys "R" Us, PriceCostco, Bed Bath & Beyond , etc. — in the South of Market location, replacing old manufacturing buildings located near freeway exit and access ramps.

Power centers are increasing, with free-standing big boxes such as Levitz, Home Base, Home Depot, Service Merchandise, Kmart, Wal★Mart, Target, Office Depot, OfficeMax, Circuit City, PriceCostco, Sam's, Good Guys, etc., clustered around a large, open parking lot.

Many existing malls are tearing down some of their old buildings (20 to 30 years old) and are building "to order" stores long excluded from malls, discount stores and supermarkets, while some buildings are being converted to uses other than retailing.

Many of the apparel chains, which at one time believed they had to be located in every mall in every town are either liquidating and closing or are in Chapter 7 or 11. Those who said that the U.S. did not need an infinite number of men's, women's and shoe stores were right!

RThought: On the other hand, there are still hundreds of well-maintained, well-located malls surviving nicely without the many teenagers they had previously "enjoyed" (a recent study by Simmons Market Research reported that teenagers are spending as much time — 1.7 hours per week — in church as in malls). In fact, the disappearance of teenagers may have made the malls more attractive to the 40 and 50 year olds who, as teenagers, made the regional mall a great place to hang out. I would not be surprised, if at some time in the future, a new crop of teenagers "discovers" enclosed, regional malls.

ACTION AGAINST THE TOBACCO INDUSTRY

The Insurance Forum is published by Joseph Belth. As far as I know, he was (until he retired) the only professor of insurance in the U.S. His July 1996 issue had a fascinating study of investment by insurance companies in the tobacco industry.

The article listed 33 selected life and health insurance companies which owned $1.9 billion in bonds and $2.6 billion in stock of Philip Morris, RJR, American Brands, BAT, and Loews.

Life insurance companies have to pay off the face value when people die younger than expected because they smoked cigarettes. If one begins to smoke after taking out a policy, the insurance company cannot change the premium for, perhaps, an early death. On the other hand, the health insurers usually receive, especially on group policies, the chance to adjust premiums to the risk of smokers.

We wonder why insurers invest against their own interest.

Some groups (but no retailers except for Target stores, which has pulled tobacco products from its shelves) are trying to enact action (the American Medical Association has written to all 7,000 mutual funds asking them to refrain from investing in the tobacco industry).

WHAT AGES ARE YOUR CUSTOMERS?

Most retailers cater to one or perhaps two of the age groups below. Pick your one or two groups to see what the U.S. Bureau of Census projected for eight age groups through the year 2050 (numbers are in thousands).

Age	1996	2010	2030	2050
Under 5	19,403	20,012	23,066	27,106
5 to 13	34,809	35,605	41,588	47,805
14 to 17	15,167	16,894	18,788	21,207
18 to 24	24,616	30,138	31,826	36,333
25 to 34	40,374	38,292	42,744	49,366
35 to 44	43,311	38,521	44,263	47,393
45 to 54	32,341	43,564	38,897	43,494
55 to 64	21,360	35,283	36,348	42,368
65 to 84	30,125	33,737	60,924	60,636
85 and over	3,747	5,671	8,455	18,223
Total	265,253	297,716	346,899	393,931

I have been critical of long-range forecasts, but this 54-year projection has something going for it! For example, *all of the people who will be 55 or older in 2050 are already present and alive* (except for net migration).

RThought: The 65-to 84-year-old group will double in size and the 85-and-over group will triple. If you are serving mature people now, will you aim at serving these two groups in the future or will some innovative entrepreneur move into the field and take all of the business? On the other hand, the 18- to 24-year-old group will increase only 50% in size and the 35- to 44-year-old group will increase by a bit over 20%.

RThought: Don't try to plan 54 years ahead, but do look at the changes in your customers in the next 14 and 34 years and make moderate changes yourself.

Two Turnoffs In Fund Raising

Avoid these turnoffs when you're seeking funds, says Robert Kahn, publisher of *Retailing Today:*

- **Converting donors'** gifts to a "membership" and then billing them for a renewal the following year.
- **Embarrassing donors** by putting a message on the outside of an envelope such as: "Membership Renewal, Second Notice."

Source: Fred Goss' What's Working in Direct Marketing, 11300 Rockville Pike, Ste. 1100, Rockville, MD 20852.

Good Reasons For a Change

Doing these things periodically can enhance your employees' work environment and stimulate their minds:

- **Move or** replace wall art, posters and plants. *Reason:* People stop seeing or reading these items after about a month. So they no longer inspire or inform but become background clutter.
- **Change traffic** patterns and move workstations and other furniture. *Reason:* Doing so can force people to abandon comfortable—but less productive—work habits. *Note:* This doesn't mean you have to totally disrupt the workspace. Even minor changes can yield results.

Source: Charles Shook, 425 W. Redoubt Ave., Ste. 304, Soldotna, AK 99669.

Pet Peeve Of the Month

My pet peeve is people who recite from overhead projection displays or printed materials. I attend presentations to learn more than what is printed. Please use overheads and printed materials to enhance—not replace—the verbal explanation of the subject.

Source: Cynthia Schleich, community liaison, Condell Medical Center, Libertyville, IL 60048.

(*Editors' note:* Please send your pet peeve to Pet Peeve, *communication briefings,* 1101 King St., Ste. 110, Alexandria, VA 22314 or fax 703-684-2137 or e-mail us at jmcgavin@combriefings.com.)

Test Yourself

Untie These 'Not' Phrases

Test your tight-writing skills by changing each "not" structure to one word that means the same thing:

1. Henrietta said her reports were not the same because she was not able to use her favorite computer program.
2. Not many people attended the board of directors meeting—a situation that does not often occur.
3. After the reorganization, Marmaduke did not have the authority he needed.
4. The customer service representative said she was not certain if the price included installation, so the customer did not accept the contract.
5. Because he failed to notice that the employees were not happy, he faced a production crisis not unlike the one that had occurred two weeks earlier.

Suggested answers:

1. Henrietta said her reports were *different* because she was *unable* to use her favorite computer program.
2. *Few* people attended the board of directors meeting—a situation that occurs *rarely*.
3. After the reorganization, Marmaduke *lacked* the authority he needed.
4. The customer service representative said she was *uncertain* if the price included installation, so the customer *rejected* the contract.
5. Because he failed to notice that the employees were *unhappy*, he faced a production crisis *similar* to the one that had occurred two weeks earlier.

Marketing

Write a Seven-Sentence Plan

You can craft a clear and simple marketing plan by limiting it to these seven sentences:

- **First:** Describe the purpose of your marketing.
- **Second:** Clearly explain what customer benefits you'll stress.
- **Third:** Define your target audience.
- **Fourth:** List your marketing techniques.
- **Fifth:** Declare your marketplace niche—the position that you feel is yours in the eyes of your customers and prospective customers.
- **Sixth:** Describe your identity—the way you see your organization.
- **Seventh:** State your marketing budget as a percentage of projected gross revenues.

Source: Jay Conrad Levinson, writing in *Inc.,* 38 Commercial Wharf, Boston, MA 02110.

Face-to-Face Communication

Parrying Painful Put-Downs

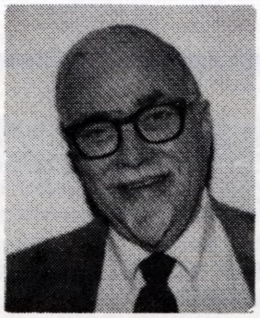
Listening for the hidden message in these put-downs will allow you to respond assertively:

- **"If only** you'd cooperate with me." *Hidden message:* "You have to fall in line with what I want." *Response:* "How can we cooperate?"
- **"You won't** like this, but ..." *Hidden message:* "Before I say anything, I'm going to make you tense or even angry." *Response: "I'll* decide how to react to what you say."
- **"That's going** to be hard for you because you can be somewhat bossy." *Hidden message:* "I have the right to criticize you even though you didn't ask for it." *Response:* "In what ways am I bossy?" *Note:* This response is called "negative inquiry"—you invite criticism but must be prepared for a blunt answer.

You can also use a technique called "fogging" to respond to a put-down that exaggerates a situation but also has some truth in it. To make it work, you accept the grain of truth but not the put-down. *Example:*

- **"Your messy** desk makes the whole department look bad, and it's typical of your attitude." *Response:* "You're right, and I'm going to straighten it up today."

Source: Assertiveness: A Positive Process, by Barrie Hopson and Mike Scally, Pfeiffer & Co., 8517 Production Ave., San Diego, CA 92121.



RETAILING TODAY

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ONE EMPLOYEE CAN SPOIL ALL OF YOUR GOOD WORK

I doubt that many *RT* readers regularly read *Black Enterprise*, the "*Business Week*" for black businesses which are growing not only in number but in size.

In the July 1996 issue of *Black Enterprise*, one article was headed "Afrocentric Marketing." It told of the success story of Diane White and her "eclectic collection of Afrocentric merchandise" from ceramic figurines to bed linens. White received the National Retail Federation award as its Small Retailer for 1996. In the process, the president of NRF introduced White, whose background includes being a financial analyst and receiving an MBA from Harvard, to Alan Questrom, chairman and chief executive officer of Federated Department Stores, Inc. As you may be aware, Federated includes Macy's and many of the best-known department stores in the country. Questrom said, upon meeting White, "We didn't know the size of our [black consumers] market. But Diane brought passion and commitment...so we said, 'Let's find some space and see what [the venture] can do.'" In the end, White rented 500 square feet in the Arcade section of the New York 34th Street Macy's. (The article included a delightful picture of White and Questrom in front of her Blackberry boutique.)

In addition, there was another item in the same issue about Federated. In a special advertising section devoted to diversity, it said, "With an employee base as diverse as the merchandise it sells, Federated Department Stores, Inc., strives to mirror the communities in which it operates nationwide."

And then there was the cover story, "The Real Black Power," where another Federated subsidiary was mentioned. Because of one Federated employee, who alleged that Tim and Denise Moret-Gipson were trying to return stolen china at Bullock's in Los Angeles, when all they were doing was returning extra china they had received as wedding gifts, blacks were told to boycott the Bullock stores. The Black Consumer Organization of America expressed the necessity for African Americans to spend a higher proportion of their money with those businesses which clearly demonstrate a sustained support for African-American interests.

RThought: If the *Black Enterprise* staff had known that Bullock's was a subsidiary of Federated, it might not have run the first two articles in the same issue as the cover story.

RThought: I believe that the first two articles mentioned are more typical than the third, but it is the latter one which is likely to arouse passions enough to cause African Americans to boycott Bullock's. And had they been aware that Bullock's is a subsidiary of Federated, other Federated stores might have been listed.

RThought: This story hasn't been exposed in the newspapers as was the incident involving Eddie Bauer in Prince George's County by the Washington, D.C., papers and how two young black men were wrongly accused of stealing. Eddie Bauer's chief executive officer

Continued

DISHONESTY COSTS!

It's a shame that four multibillion dollar retailers — Best Buy, Inc., CompUSA, Inc., Montgomery Ward & Company, and Tandy Corporation — did not clarify all of the terms of their "zero-interest" financing programs and, thus, became the subject of a 23-state investigation into deceptive advertising practices. Montgomery Ward, who passed away long ago, did not begin or build his company on questionable advertising, nor did Charles Tandy, who has only been gone a decade or two.

I must disclose, however, that when these companies agreed to pay a total of $925,000 (Tandy paid $300,000, Montgomery Ward paid $275,000, and Best Buy and CompUSA paid $175,000 each) they did so with no admission of guilt.

How often does your company pay thousands of dollars when deep down in your heart you believe you never did anything wrong? If I had the resources of these companies and truly believed that I had done nothing wrong, I would do more to prove my innocence. But each of us has our own standard.

All four have agreed to "prominently disclose finance terms in their advertising, in their stores, and in their bills," a practice that all reputable retailers should automatically perform.

In an article I read regarding this matter, CompUSA contends that it has always had complete disclosure and has never had a complaint. Best Buy and Montgomery Ward maintain that they have been in full compliance with the new (is truth "new"?) standards for some time. The article included no quote from Tandy.

The next time you spot a "0% interest" ad and there are no credit details — such as "Interest will accrue *unless* all payments are made as agreed upon" (and if "agreed upon" is not defined, it may mean that if a customer is a day late on any of 36 payments it will trigger three years of finance charges) — the odds are that the disclosures within the ad are not complete.

RThought: Shouldn't local Better Business Bureaus react to such ads rather than the attorney generals of 23 states? Or don't the local Better Business Bureaus watch the ads of major retailers? If they don't, then you, as an honest retailer, should submit a complaint, unless, of course, you believe it is the right of large retailers to be something less than fully honest.

RThought: Those of us who do *not* use the tools that are available to us deserve the economic penalty that we will have to pay as a result of public contempt because we do nothing about unethical and, perhaps, illegal representations.

felt it necessary to cross the continent to handle the matter personally. (See July 1995 *RT*.)

Overlooked: Tim and Denise Moret-Gipson share a household income of $160,000 per year. They could afford to live in almost any neighborhood or in the suburbs, but they have elected to live in the middle-class Leimert Park area of Los Angeles because it is a predominately black neighborhood.

Questions: Could this happen in one of your stores? If it did, would the customers involved be entitled to an apology?

WHY CAN'T THE NRF BE MORE ACCURATE?

The standard line used in the National Retail Federation news releases is "NRF members represent an industry that encompasses over 1.4 million U.S. retail establishments, employs more than 20 million people, 1 in 5 American workers, and registered 1995 sales of $2.3 trillion."

Three times I have brought to the attention of the NRF president that "1 in 5" *is not* an accurate number. Judge for yourself.

The most recent numbers for American workers, as of June 1996 (which change little from month to month), are:

Civilian labor force	133,669,000*
Employed civilian labor force	126,160,000*
Employed retail trade	21,548,000**

* Table 4, page 79, August 1996 *Monthly Labor Review*, U.S. Department of Labor

** Table 12, page 84, August 1996 *Monthly Labor Review*, U.S. Department of Labor

Those employed in the retail trade represent:

1 out of 6.20 in the civilian labor force
1 out of 5.88 in the employed civilian labor force

Neither of these numbers round off to 1 in 5 as quoted by the NRF news releases. However, 1 in 6 would be accurate for those who are employed in retail trade — and 1 in 6 is still an impressive figure.

RThought: Is anything really gained by fudging? Or is the NRF influenced by members who are a little (a lot?) careless in quoting "regular price"?

DIFFERENT APPROACHES TO RETAIL CREDIT

The August 1996 issue of *The Nilson Report* (300 Esplanada Drive, Suite 1790, Oxnard, CA 93030; $695/yr.) set forth some figures which are seldom seen: retail credit *sales* and related outstanding *receivables.* Below are the results of five major department store chains.

Company	Outstanding Receivables ($ millions)	Annual Charge Volume ($ millions)	Outstanding as Percentage of Charge Sales
Sears, Roebuck	$23,800	$17,130	139%
J.C. Penney	5,138	9,869	52
Federated	2,699	5,731	47
May D.S.	2,377	6,000	40
Dayton Hudson	1,919	3,821	50

Note the outstanding receivable ratio upon which finance charges may be collected and the annual charge volume.

Sears' outstanding receivables is 139% of its annual charge volume. For the other four chains, the outstanding is about 50% of the annual charge volume.

RThought: No wonder Sears treats the financing of its accounts receivable as a "profit center"!

Financing receivables is easy and costs substantially less than the finance-charge revenue on the accounts. If we called this differential "gross margin," it would be about 60%, perhaps even more!!!

WHY I DON'T SHOP AT BARNES & NOBLE, EVEN THOUGH IT'S A VERY GOOD COMPANY

It was Saturday, August 3, and I was in my office (which is in my home) catching up on my reading. The particular publication in my hand was *Hotline,* the newsletter of the Newsletter Publishers Association. A box was headed "The Importance of Customer Satisfaction," and these two quotes caught my eye:

> **Current, past, and potential customers define our business. They are the reason we exist. To be successful, all our business efforts must be viewed through the eyes of our customers.**
>
> **Paul Allaire, Chairman and Chief Executive Officer**
> **Xerox Corporation**
>
> **Customers don't care how big you are. They don't care about organizational charts or how many divisions you have. They want the person standing in front of them to be able to solve their problems.**
>
> **Vernon Locks, Jr., Chairman and Chief Executive Officer**
> **Baxter International, Inc.**

The quotes appeared in *The Customer Is Always Right*, by Armen Kabodian.

Upon having my interest piqued, at 4:30 on that Saturday afternoon, I called Lafayette Book Store where I have two accounts: one in my name for business books and one in my wife's name for our personal books. Within 30 seconds of my call, the person at the bookstore queried the computer and informed me that the book was not in stock. I was asked if I would like to order it. When I replied, "Yes," within another 30 seconds, I was told that the wholesaler had it in stock and that the $14.95 price probably indicated a paperback. When I asked the bookstore to order it, I was informed that it would be ordered Monday and that I would receive a phone call when it arrived on Wednesday. Total time: something under four minutes!

The bookstore is located three blocks from the Lafayette post office which I, or one of my four associates, visit several times a week. The closest Barnes & Noble is about five miles away. I suspect that Barnes & Noble may not give the same type of computer service to a good customer (I assume my volume would be classed as a "good" account), but most likely there would be a delivery cost. Of what value is it to drive 10 miles to pick up one book?

RThought: Not everyone has as good a local bookstore as I, although I suspect that many small bookstores which have been under the same management for five years or more offer this kind of service and the same kind of computer information on what they and their wholesalers have in stock.

RThought: I do my part. I always pay my bills on time. I don't believe there is anything better in retailing than a good retailer — and a good customer.

Note: It took more time to write this article than it did to order and pick up my book!

WHO HAS THE BEST MANAGEMENT AND LEADERSHIP SKILLS, MEN OR WOMEN?

Whenever I study an annual report, I look at the page naming the officers and directors and am always surprised at how few women are listed, considering the percentage of employees/associates who are women. In the December 1996 issue of *RT*, there will be a report on officers and directors of many large retail companies — by company name — and for those readers who remember this Feature Report, it may be embarrassing.

Larry Pfaff and his firm, Lawrence Pfaff and Associates (3506 Lovers Lane, Suite 3, Kalamazoo, MI 49001; telephone 616-344-2242; fax 616-344-2054), prepared the following article. It is being presented with some condensation: my comments are in brackets. It is the second major study of management and leadership skills of male and female managers (Pfaff's prior report was summarized in the April 1995 issue of *RT*). This report is included because most readers of *RT* are either CEOs or COOs who need to know these facts.

Table of Results

	Employee Ratings		Boss Ratings		Self Ratings	
MLPI Factors	Higher Rated M=men W=women	Statistically Significant* Y=yes, N=no	Higher Rated M=men W=women	Statistically Significant* Y=yes, N=no	Higher Rated M=men W=women	Statistically Significant* Y=yes, N=no
Goal Setting	W	Y[2]	W	Y[2]	W	N
Planning	W	Y[2]	W	Y[2]	W	N
Technical Expertise	--	N	--	N	M	N
Performance Standards	W	Y[1]	W	Y[2]	W	Y[2]
Coaching	W	Y[2]	W	Y[2]	W	N
Evaluating Performance	W	Y[2]	W	Y[2]	W	N
Facilitating Change	W	Y[2]	W	Y[2]	W	Y[2]
Delegation	W	N	W	N	--	N
Recognition	W	Y[2]	W	Y[2]	W	Y[2]
Approachable	W	Y[1]	W	Y[1]	W	Y[2]
Directive	W	N	M	N	M	N
Participative	W	Y[2]	W	Y[2]	W	Y[2]
Strategy	W	Y[1]	W	N	M	N
Communication	W	Y[2]	W	Y[1]	W	N
Teamwork	W	Y[1]	W	Y[2]	W	N
Empowering Employees	W	Y[1]	W	Y[2]	W	N
Trust	W	N	W	Y[1]	W	N
Resourcefulness	W	Y[1]	W	Y[2]	W	N
Self Confidence	W	N	W	N	M	N
Decisiveness	W	Y[2]	W	Y[2]	W	N

* Significance level indicates the probability that the measured difference would occur at random in a population this size. The commonly accepted standard is to consider differences as statistically significant when the probability is 5 percent or less.

[1] Probability is 5 percent or less

[2] Probability is 1 percent or less

Female managers — as rated by their bosses, themselves, and people who work for them — were rated significantly better than their male counterparts. [**Comment:** Why don't companies have more female senior managers? Can it be that the traditional bias toward male senior executives is greater than their responsibility, as officers, to produce maximum growth and profit?]

This study, conducted over 24 months from 1994 to 1996, shows significant differences in the management and leadership skill levels practiced by male and female managers. The study included 941 managers (672 male, 269 female) from 204 organizations across 17 states. It included managers at all levels.

Employees rated female managers higher than male managers in 19 of the 20 skill areas assessed, 15 at a statistically significant level. [**Comment:** "Statistically significant" means the difference is "real" and not because of an inadequate sample.] Bosses rated female managers higher than male managers in 18 of the 20 areas, 15 statistically significant. On self ratings, women scored themselves higher in 15 areas, only 5 significantly. Men rated themselves higher in only 4 areas. [**Comment:** With this much information, return to the chart above and study each pair of male and female columns. Be sure you understand them.]

Pfaff's first study challenged the conventional wisdom that women are only better at communicating, empowering, and being positive. The second study, using a different set of subjects, once again indicates that the conventional wisdom is wrong.

As in the first study, the boss ratings show that the higher-ups recognize the higher skills of women managers. [**Comment:** If this is

WHO HAS THE BEST MANAGEMENT AND LEADERSHIP SKILLS, MEN OR WOMEN? *(continued)*

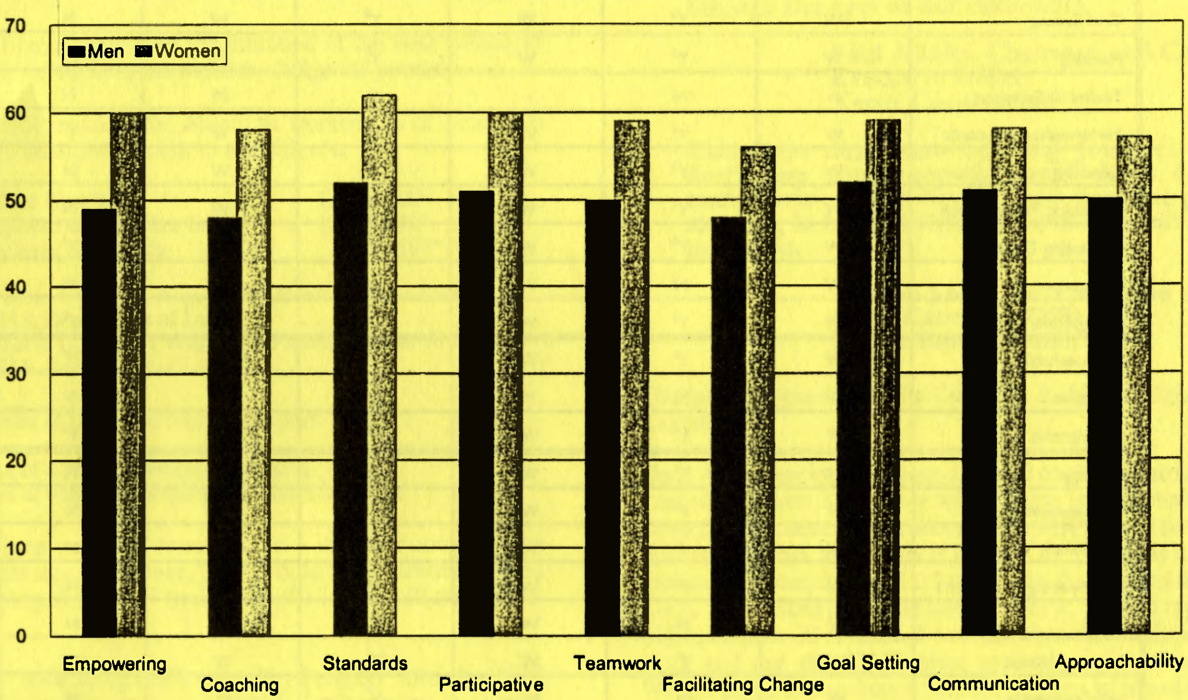
true, then the higher-ups are not doing their job. Is it not the job of management to promote on the basis of superior skill?]

The statistical significance of this data is important. In two successive studies, *men are not rated significantly higher by any of the raters in any of the areas measured.* (Emphasis added.) [**Comment:** The two successive studies used different subjects and different people. Honestly, are the hundreds of readers correct in believing that "our people are different?"]

RThought: The bar chart below indicates how the supervisors rated the male and female managers who report to them. The subjects are those which are shown at the bottom of the bars and which the managers rated. The ratings are averaged by sex for each proficiency. The fact is that the average rating for each proficiency falls in a narrow range: *female ratings range between 55% and 72% and male ratings range between 47% and 53%.*.

WHAT THEIR SUPERVISORS SAID

Relative proficiency of male and female managers, expressed in percentile, as rated by the managers' bosses
(areas of greatest difference)



Source: Lawrence A. Pfaff and Associates

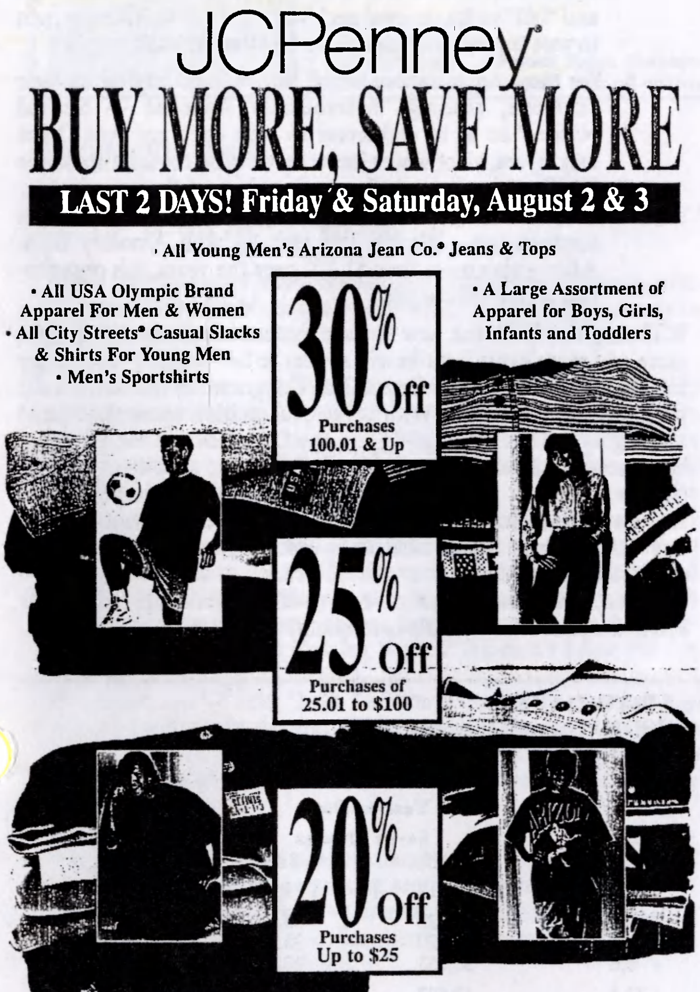
RThought: One of the greatest unstudied expenses in a retail store is that of training an employee/associate to be skilled as a manager in that particular company, but not recognizing his or her competence, and then having a competitor recognize it and hire the manager away. Not only does the original retailer have to train a new person but the former employee can study the new employer and explain that "at XYZ we used to do it this way" and "I believe you will save money and increase sales by doing the same."

SHORT SHORT

How important are interest payments on the national debt? A recent Research Report by the American Institute for Economic Research (June 24, 1996) included the annual interest payments for the past 35 years. From 1960 to 1980, interest was 1 to 1.5% of our Gross Domestic Product (basically, the income of the country). In 1985, it started to rise, went to about 3%, and stayed at that general level through 1995. **RThought:** In thinking over what happened during that 1980-85 period, I recall that Ronald Reagan, representing the party that now demands a "balanced budget," was president and was plugging expenditures for such extravagances as Star Wars in order to give us 100% protection from missiles located any place in the world. Perhaps interest would have risen to only 2% of the GDP had we, the general public, not acquiesced to that degree of protection but had, instead, settled for a balanced budget. The expenditures for national defense had dropped from about 9% of the GDP in 1970 to about 4.5% in 1980, but defense expenditures rose to about 6% in 1988, falling again to about 4% in 1995. **RThought:** Now Congress is "forcing" on the Defense Department more money than it has asked for so that some local businesses, important to key members of Congress, can benefit.

DID J.C. PENNEY DISTORT ITS JULY SALES FIGURE?

On Friday, August 2, 1996, the local newspaper carried a J. C. Penney six-page newsprint tabloid with the following front page:



RThought: I wondered about this unusual ad, unusual in size and unusual in message, almost a distressed ad, but a sale *not* including Sunday. Then I looked more closely at the dates.

I believe that Penney's July ended on Saturday, August 2, and that its July results were issued Thursday, August 8. Why take the extra markdowns on Sunday (part of August) when August may not need a last-of-month sales boost?

RThought: Will this ad produce a same-store sales increase because of these special markdowns? Are the markdowns worth getting better same-store sales?

SHOPPERS HAVE LOST THEIR TRUST IN ADS — SO TELL THE TRUTH

In what country were the following statements made by the director of a leading advertising agency?

> **Retailers would gain more from their advertising if they "just told the truth."**
>
> **Consumers are tired and cynical about retail advertising because of dishonest practices, confusing messages about what the retailer actually stands for, and the mismatch between the offer promised in the ad and the merchandise delivered.**
>
> **The discount mentality that many retailers have, and project in their advertising, has done enormous damage to many potentially strong retail brands.**
>
> **Short-term thinking has been responsible for a lot of incredible propositions that mean nothing to the consumer.**
>
> **What does a percentage-off day say about a chain's price points on other days?**
>
> **Customers believe that it is too expensive on those other days if you can afford to give, say, 15% or 25% off on one day.**
>
> **Some advertisers must believe that consumers are morons.**

RThought: Do you recognize these flaws in retail advertising? Do these observations describe your business? Will you feel better or worse to know that these quotations are from an Australian publication, *Inside Retailing*? But they could have been included in any U.S. retail publication, with supporting ads drawn from *your* "ad book."

SHOULD AAFES BE PRIVATIZED?

Many retailers believe the Army and Air Force Exchange Service should be operated by a private concern while other retailers have a different idea. For example, AAFES asked me to serve as a volunteer adviser to the commanding general while I was serving on the Wal★Mart board of directors. AAFES considered Wal★Mart its major competitor (were there no Wal★Mart, Kmart would be its major competitor). Sam Walton, who served in World War II, had an instant reply when I asked him if I could serve: "Give them all the help you can."

For those who believe that AAFES should be privatized, which company will volunteer to operate the AAFES tactical field exchanges in Bosnia? I don't hear any volunteers. Tuzla Main and Tuzla West exchanges are right there, supporting the NATO peacekeeping forces. Their tents don't have a Red Cross on top, so they are fair game, but consider the extra volume you would receive off 1,200 SKUs in the main exchange and the 500 SKUs in the west exchange.

RThought: I haven't heard of one volunteer for Bosnia, just as no one volunteered in the Gulf War. As a retired officer and a former troop commander, I wouldn't trade AAFES for any outfit that "just wants the safe spots" for exchanges. The exchanges' volume in Bosnia is about $10,000 to $12,000 per day, with candy being the best seller. Between 1700 and 1800 hours they are the busiest, when troops change after their 12-hour shifts (Bosnia does not have an 8-hour law or even a 5-day week). And troop hours apply to AAFES personnel.

RThought: I have always appreciated Sam's response.

IT DOESN'T PAY TO BE CHARITABLE

The following name and address lists were offered in *DM News,* July 8, 1996, by one list broker only:

Charitable Organization	Donors
U.S. Committee for UNICEF	421,856
Paralyzed Veterans of America	323,807
Veterans of the Vietnam War	73,609
Oxfam of America	56,200

RThought: Keep in mind that your $10 contribution to one of these organizations may be worth more than $10 to someone who is selling your name and that your mailbox may soon be overflowing with junk mail from so-called "charitable" organizations betraying good-hearted people.

RThought: My wife and I never contribute to an organization (and we contribute to more than 100 per year) unless it passes one of the following tests:

1. We know the organization from a background of contacts (e.g., I have served on the Allocations Committee for the United Way of the Bay Area for many years and have been exposed to its 300-plus agencies: the local Red Cross, Boy Scouts and Girl Scouts, plus a long history of support for other agencies).

2. An organization must meet all (or have only minor failure of) criteria of the National Charitable Information Bureau. Contact NCIB at 19 Union Square West, New York, NY 10003 (telephone 212-929-6300; fax 212-463-7083) to receive its Wise Giving Guide. And if you support NCIB with $35 or more per year, you will receive three rating reports a year.

3. If we do not know the organization and the only name on the request is that of the executive director, we presume that the net yield of the mailing just about equals his or her salary.

4. If the organization lists its directors, we must know of or about one or more directors or the organizations that they represent. My wife and I seriously question giving to those organizations which convert our "gift" into a "membership" and "bill" us for renewal each year. Only if we have the right to vote for the directors do we feel that we are "members."

5. For those organizations which have a large imprint on their envelope, reading "Membership Renewal — Second Notice," so as to embarrass us with our local Post Office employees, all of whom know us, we send the information to NCIB asking it to challenge the ethics of the organization, even if NCIB reports that the organization meets all of its requirements. We did this recently with Amnesty USA. After giving more than $1,100 over the years, this organization is now off our list.

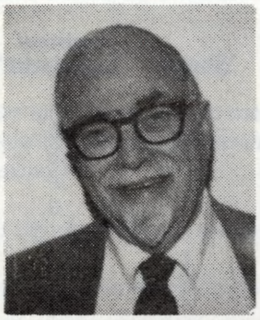
RThought: With the new welfare system based on state grants, more and more organizations will appear to be "begging" for money to help fill the gap that the Republican Congress and the Democratic president have created. With seven-plus million unemployed and seeking — but not finding — jobs, the Congress and the president have now proclaimed that able-bodied persons, after two years on welfare (although they did not specify if this was "two years after they have been given enough training") will be thrown out onto the streets, perhaps to beg, to steal, or to become prostitutes. They have somehow assumed that the cost of prisons, a free room (even if crowded) and about two meals a day will cost less than helping the *untrained poor who would like to qualify for a job.*

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

SIC Code	Category	JULY 1996	JULY 1995	Percentage Change	Year-to-Date Seven Months 1996	Year-to-Date Seven Months 1995	Percentage Change
52	*Bldg Matl Group	$12,589	$ 10,976	+14.7%	$ 76,017	$ 71,600	+ 6.2%
57	*Furniture Group	10,882	10,240	+ 6.3	73,829	68,923	+ 7.1
571	Furniture Stores	5,661	5,317	+ 6.5	37,020	35,063	+ 5.6
572	Appl, TV, Radio Stores	4,424	4,143	+ 6.8	31,053	28,477	+ 9.0
5941	*Sporting Goods Stores	2,044	1,799	+ 13.6	12,607	11,298	+ 11.6
5942	*Book Stores	687	711	- 3.4	5,500	5,365	+ 2.5
5944	*Jewelry Stores	1,455	1,272	+ 14.4	10,037	8,799	+ 14.1
531Pt	Conventional Dept Stores	3,716	3,782	- 1.7	26,906	26,389	+ 2.0
531Pt	Natl Chain Dept Stores	2,952	3,232	- 8.7	19,970	20,897	- 4.4
	Subtotal	6,668	7,014	- 4.9	46,876	47,286	- 0.9
531Pt	Discount Stores	11,675	11,114	+ 5.0	78,240	72,499	+ 7.9
531	*Department Stores	18,020	17,831	+ 1.1	122,708	117,654	+ 4.3
539	*Misc General Mdse Stores	4,773	4,649	+ 2.7	31,922	31,127	+ 2.6
541	*Grocery Stores	34,550	33,468	+ 3.2	231,193	223,785	+ 3.3
56	*Apparel Stores	8,567	8,362	+ 2.5	58,451	56,499	+ 3.5
561	Men's & Boys' Stores	700	698	+ 0.3	5,157	5,183	- 0.5
562,3,8	Women's Stores	2,413	2,615	- 7.7	17,398	18,488	- 5.9
565	Family Clothing Stores	3,259	2,916	+ 11.8	21,132	18,733	+ 12.8
566	Shoe Stores	1,559	1,526	+ 2.2	10,520	10,188	+ 3.2
591	*Drug Stores	7,250	6,664	+ 8.8	50,318	47,879	+ 5.1
596	*Nonstore Retail	5,205	4,794	+ 8.6	37,660	36,382	+ 3.5
5961	Mail Order	3,477	3,094	+ 12.4	24,812	23,190	+ 7.0
	**Retailing Today* Total Store Retailing†	116,107	110,226	+ 5.3	778,315	742,851	+ 4.8
	**GAF TOTAL	50,179	48,092	+ 4.3	338,359	320,857	+ 5.5

†Excludes car dealers, auto supply stores, variety and misc. general merchandise, eating and drinking places and service stations, and some specialty stores.
**General, Apparel, and Furniture.

For further information, contact Nancy Piesto, Services Division, Bureau of Census, Washington, D.C. 20233. Telephone 301-457-2706/2708; fax 301-457-3677. To subscribe to *Monthly Trade, Sales and Inventory Report* call Government Printing Office, 412644-2721 or 2828; or write GPO, Box 371975M, Pittsburg, PA 15250-7975. Current cost is $57 per year. Handle same as magazine subscription. Will receive notice of renewal.



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SEX DISCRIMINATION AT CHEVRON SUBSIDIARY

Chevron Information Technology, a subsidiary of Chevron Corporation (formerly Standard Oil Company), has agreed to pay $8.5 million-plus as the result of a landmark sex discrimination lawsuit filed by 777 current or former female employees. The plaintiffs claimed that the company discriminated against females in two ways: 1) women were paid less than men doing the same or equivalent work; and 2) women were denied promotions because they had reached the "glass ceiling."

This case was headed towards a jury trial; but with juries tending to show sympathy towards plaintiffs in sex discrimination cases and Chevron Information Technology fearing that an unusually large amount might be awarded by a jury, the case was settled out of court. A factor which may have influenced this decision is another out-of-court $2.2 million settlement by the same subsidiary for a 1992 sex discrimination lawsuit brought by four women.

RThought: I wonder how many retailers could be exposed to a major danger on the grounds of underpaying women for the work they perform or not promoting women to positions commensurate with the work they perform?

RThought: How might I obtain a measure of how retailers treat male versus female employees?

I have on file in a convenient location the annual reports of most retailers doing over $1 billion in sales.

Most annual reports list their officers by name; thus, the first name usually reveals the sex of the officer. On the other hand, it is common knowledge that women comprise the majority of customers for most kinds of retailers. It is also common knowledge that women represent a majority of the employees/associates. The following table is based upon 93 annual reports (in a few cases, a 10K form was used in lieu of an annual report) and indicates the number of men and the number of women who are listed as officers. Assistant secretaries are listed separately because this position has historically been filed by women.

Men	2,265	88.3%
Women	282	11.0
Assistant secretaries*	18	0.7
Total	2,565	100.0%

* Usually women

Continued

HOW USEFUL ARE NRF NUMBERS?

The National Retail Federation's latest *faux pas* are the numbers — reprinted, unfortunately, in reputable publications — reported in "Mood Survey: Retail Holiday Outlook." The Deloitte & Touche survey was conducted in early October of this year for the NRF and was based on 1,000 telephone calls. Just imagine being asked in early October: "How much did you spend on Christmas gifts last year? How much will you spend this Christmas?" Could you answer either question with any degree of accuracy? Apparently, Deloitte & Touche was satisfied with the results: $765 this year as compared to $685 last year, or a 12% increase! Further, the report broke the responses down by age group and by income level, meaning even fewer than 1,000 consumers in each category and, thus, of much less accuracy.

The NRF reported a survey of "approximately 500 retailers, representing a broad sampling of retail executives," with *no indication of any weighting* of the answers by types of retailer. It announced: "With the 6% increase projected, holiday sales should approach $466 billion this holiday season, up from $440 billion in 1995."

The $440 billion sales figure tipped me off as to what comprises the NRF's definition of the "holiday season": the November and December sales for all types of retailers equaled exactly $440 billion!!! But what did that $440 billion consist of that you and I might not consider to be holiday season retailing?

Automobile dealers	$ 87 billion
Supermarkets	72 billion
Gasoline	24 billion
Eating and drinking places	39 billion
Fuel oil dealers	3 billion
Building materials	20 billion
Total	$245 billion

Do you consider any of the above $245 billion to be "holiday buying"?

November and December are the low points of the year for building materials and car dealers. And when was the last time you gave a Christmas or Chanukah gift of 10 gallons of gasoline or 100 gallons of fuel oil for heat? On the other hand, during the months of November and December, a sales increase is often experienced in eating and drinking places because of Thanksgiving, Christmas, and New Year's Eve. Of the $440 billion reported by the NRF as last year's holiday season sales, I would say less than $200 billion should be so classified.

RThought: Within eight hours of the NRF release of the projected 6% increase in holiday sales this year, I received telephone calls from several newspaper reporters from around the country, asking for my opinion on the increase! Not knowing at the time the source of tne figure, I said the percentage is 6% higher than I would place it because of several factors: 1) there are 27 days between Thanksgiving and Christmas this year compared to 31 days in 1995; 2) consumers are finally reducing the size of their credit card balances, when, just last year, they were adding to their debt by charging more than they were paying; 3) stores are striving to keep their inventory in line so that the last few days before Christmas of this year will not be like those in 1995, when the newspapers were filled with ads for Christmas-type merchandise which was marked down in order to sell it at almost any price but, hopefully, at above cost (and which is added to their sales but not to their profit).

By company, the men and women officers, as well as the assistant secretaries, are as follows:

Fiscal Year	Company	Men	Women	Assistant Secretaries*
1995	Albertson's, Inc.	59	1	2
1996	American Stores	21	3	1
1996	Ames Department Stores	22	3	0
1995	AutoZone, Inc.	24	0	1
1995	Avon Products	14	5	0
1995	Barnes & Noble	7	3	0
1996	Best Products	12	2	0
1996	Best Buy Co.	26	2	0
1994	Bradlee's, Inc.	21	5	0
1994	Bruno's	18	1	0
1994	Burlington Coat Factory	6	1	0
1995	Caldor Corp.	13	0	0
1995	Charming Shoppes	19	4	0
1995	Circle K Corp.	27	3	0
1996	Circuit City Stores	43	2	1
1995	Consolidated Stores	40	9	0
1995	CUC International	16	2	0
1995	Dayton Hudson Corp.	17	4	2
1996	Delchamps, Inc.	8	0	1
1995	Dillard's Department Stores	43	4	0
1995	Dollar General	10	0	0
1995	Eagle Food Centers	5	0	0
1995	Eckerd Corp.	28	1	0
1995	Family Dollar Stores	15	0	1
1995	Fingerhut Cos.	19	3	0
1995	Fleming Cos.	21	1	0
1995	Food Lion	49	9	0
1995	The Gap, Inc.	66	46	0
1995	Federated Department Stores	13	2	0
1996	Genesco, Inc.	10	0	0
1995	General Host	4	0	0
1995	Giant Foods	22	1	0
1996	Grand Union	5	0	0
1995	Great Atlantic & Pacific Tea Co.	28	2	0
1996	Handleman Co.	8	0	0
1995	Hannaford Bros.	24	3	0
??	Hanover Direct, Inc.	7	7	0
1995	Harcourt General, Inc.	16	0	0
1996	Hechinger Co.	22	7	0
1995	Hills Stores	5	0	0
1995	Home Depot	42	5	0
1995	Ingles Markets	12	1	0
1994	Interco	8	1	0
1995	Kmart Corp.	30	1	0
1995	Kohl's Corp.	6	2	0
1995	Kroger Co.	12	0	0
1996	Lands' End	16	5	0
1996	Levitz Furniture	8	1	0
1994	The Limited, Inc.	14	0	1
1996	Longs Drug Stores	14	0	0
1995	Lowe's Cos.	33	1	0
1996	Marsh Supermarkets	16	0	1
1995	May Department Stores	32	1	1
1994	Melville Corp.	32	2	1
1995	Mercantile Stores	7	1	0

Fiscal Year	Company	Men	Women	Assistant Secretaries*
1995	Fred Meyer, Inc.	13	2	0
1995	Micro Warehouse	12	1	0
1995	Musicland Stores	22	4	0
1995	Nordstrom, Inc.	18	7	0
1995	Office Depot	34	3	0
1995	Pathmark	10	1	0
1995	Payless Cashways	16	2	0
1996	Penn Traffic	9	0	0
1995	J.C. Penney Co., Inc.	53	6	0
1995	Pep Boys	24	0	0
1995	Philllips-Van Heusen	16	2	0
1995	PriceCostco, Inc.	75	6	0
1993	QVC	35	5	0
1996	Revco DS, Inc.	23	0	0
1995	Riser Foods	16	0	0
1996	Rite Aid	29	3	1
1995	Ruddick Corp.	62	1	3
1994	Safeway, Inc.	64	7	0
1995	Service Merchandise	8	0	0
1996	Shopko Stores	30	4	0
1995	Smith's Food & Drug	3	0	0
1995	Southland Corp.	17	1	0
1995	Spiegel	23	2	0
1995	Staples, Inc.	35	12	0
1995	Supermarkets General	10	1	0
1995	TJX Cos.	56	20	0
1995	Tandy Corp.	16	1	1
1996	Toys "R" Us, Inc.	68	9	0
1993	U.S. Shoe	10	1	0
1995	Venture Stores	22	0	0
1995	Vons Cos.	20	3	0
1995	Waban, Inc.	42	3	0
1995	Walgreen Co.	43	0	2
1996	Wal★Mart Stores, Inc.	148	10	0
1995	Weis Markets	9	0	0
1995	Weston	31	2	0
1995	Wickes Lumber	10	0	0
1995	Woolworth Corp.	18	6	0

*Usually women

RThought: An 8:1 ratio of men to women in retail companies may not be proof of discrimination, but it is obvious that the ratio between men and women among the top-level positions is nothing of which to be proud.

It is my observation that among store managers and buyers there are many more women than 1:8 men. Of the 93 companies listed, 24 (25%) have no women officers and 19 (20%) have only one.

Do you wonder how The Gap can be such a profitable, growing company with 46 women at the top? Or TJX Companies with 20 women? Or Consolidated Stores with nine women, as well as nine with Food Lion?

HOW IMPORTANT IS GROSS MARGIN PER SQUARE FOOT TO COMPANY PROFITABILITY?

Discount Stores News asked full-line discount stores to provide departmental data for 20 departments and published its findings in the August 5, 1996, issue.

WHY I WORRY ABOUT USING THE CPI

How many times do you use the Consumer Price Index? And how many times do you assume that the CPI measures what it purports to measure?

Do any of your leases contain a CPI adjustment clause?

Do any of your union contracts have such a CPI clause?

When you are adjusting your own pay rates, do you consider the change in the CPI since your rates were last reviewed?

Have you ever asked yourself, "What if the CPI is wrong?" or "What if the CPI always overstates what it purports to measure?" or "Do I know how the U.S. Bureau of Labor Statistics collects the data from which it computes the CPI?"

I asked myself these questions over the Veterans Day weekend.

We subscribe to three local, daily newspapers; and starting with Friday, November 8, and continuing through Sunday, November 10, the papers were fat with run-of-the-press ads. Because some retailers had both Friday and Sunday tabloids, we were inundated with 80 or 90 inserts — with wonderful prices — drawing hundreds of thousands of readers into stores!

BUT NOT A SINGLE ONE OF THESE SALE PRICES WILL LOWER THE CPI...NOR WILL ANY WEEKEND TABLOID PRICE...EVER!

Let me explain.

First, let me give the importance of weekend prices. A few years ago, I queried the CEOs of large retailers who where readers of *Retailing Today* as to the percentage of business they did on weekends and holidays. Not all companies could provide a figure which included holidays, but the range of weekend business was 38-40%. With holidays, it would have been slightly higher.

Why are weekend and holiday prices important? Normally, these prices are lower than weekday prices. But, first, let's look at the percentage of a family's expenditure spent on the type of merchandise that is sold by the type of companies whose officers and others read *RT*. Below is the weight by types of merchandise carried by "retailers":

Merchandise	Weight (out of total 100%)
Food at home	9.780%
House furnishings	3.644
Household supplies	1.118
Apparel commodities	5.440
Medical care commodities	1.283
Entertainment commodities	2.003
Toilet goods and personal care commodities	0.634
Total	23.902%

Not all of the roughly 24% of expenditures by a typical family are of the type included in weekend and holiday specials, but I would estimate it to be 18-20%. In other words, getting the right price for merchandise sold in retail stores on weekends is important in producing a correct CPI.

BUT HOW DOES THE U.S. BUREAU OF LABOR STATISTICS GET ITS PRICES?

The bureau has about 25,000 experienced shoppers who shop different stores for items which meet CPI specifications. However, *they don't shop on Saturdays, Sundays, or holidays!* After all, they are government employees! And we all know that in the government only the military and the police work on Saturdays, Sundays, and holidays.

These shoppers never shop stores when weekend sale prices are in effect, yet retailers estimate that 40% of the merchandise is sold on weekends and holidays! The Bureau of Labor Statistics simply does *not* care.

There is a special congressional committee studying this matter. After chatting with the professor at The Hoover Institution who chairs the committee, however, I am not sure he understands what I have set forth above.

Even on weekdays, the bureau shoppers may not record the correct price but a higher price: The biggest error here results from our ability to take off a percentage discount at the point of sale. Suppose a bureau shopper finds a garment on a rounder which meets the bureau's specification, and the topper states, "30% Off." The customer knows that a 30% discount will be applied at the register. The bureau shopper does not purchase and does not do any arithmetic — but the bureau shopper does record the *price shown on the hang tag!*

One can immediately see the overstatement of the CPI in merchandise other than supermarket merchandise; supermarkets have systems and expend considerable effort to have their shelf prices match their selling prices.

RThought: There is a solution to the first problem: schedule the bureau shoppers when sale prices are in effect. Have the shoppers work four days a week, two days on weekends and two during the week. With pay at time and a half for working Saturday and Sunday, the shoppers would be paid for five days and actually work only four!

RThought: With more accurate CPI adjustments, savings to the government would be great.

All Social Security payments are adjusted annually for the cost of living. The savings would be enough to protect Social Security for years, if not decades. The cost-of-living adjustment is based entirely upon the CPI and is used to adjust military personnel (active and retired) and most government pay schedules in most states and in many counties and cities.

RThought: If you would like to send this article to a member of Congress or to other government, you have permission to copy it under my copyright. Just mark the copy: "Reproduced by permission of *Retailing Today*."

THE TYPE OF PRICE REDUCTION THE BUREAU OF LABOR STATISTICS CANNOT HANDLE — BUT THE CUSTOMERS CAN — is the Toys "R" Us 84-page catalog which was included with the Veterans Day ads. I attempted to total the value of the coupons, which ran about 12 to a page, but gave up because many coupons said that an item was available at a fixed price; others

WHY I WORRY ABOUT USING THE CPI *(continued)*

said that an item was "$5 off" if it was a certain catalog number; others said that an item was free with the purchase of two items; and still others merely showed the item and the net price at which it was available.

The cover of the catalog claimed $1,700 in coupon savings. I tried to compute a total but could not. I am sure, however, that if one used only half the coupons he or she would save more than $1,700!

RThought: I am equally certain that a mother with two or three kids under 10 would have found enough savings to prompt her NOT TO SHOP WAL★MART, KMART, AND TARGET, the primary competitors of Toys "R" Us. In recent years, the major discount store chains have been taking an increasingly large percentage of the toy market. Toys "R" Us doesn't care if the Bureau of Labor Statistics has a problem in pricing any items on the 84 pages of its catalog — some of which may be on the list of items used to determine the CPI.

SHORT SHORTS

Big jump in supermarket size. The Food Marketing Institute reported that the median size (half larger and half smaller) of new stores in 1994 was 48,200 square feet, compared to 38,000 in 1993. An increase of more than 25% in one year is almost unheard of! Perhaps the last time there was such an increase was when The Great A & P replaced thousands of its corner stores with 5,000-square-foot "supermarkets." **RThought:** Obviously, room is being made for all of the new SKUs in food, plus pharmacies, one-hour eye glasses, bank branches, laundry and dry cleaning facilities, on-site bakeries, one-hour photo services — and leaving space for food courts to compete with Starbucks, McDonald's, and others!

Disproving a survey conducted by the *National Home Center News*. In the June 3, 1996, issue, *NHCN* reported that a survey of 1,000 American consumers indicated that almost 40% said that they plan to shop for supplies at DIY supercenters, such as Home Depot and Lowe's. (On May 26 — the week before — *NHCN* published a list of the 500 top home centers, with total sales at roughly $600 million, including Home Depot at $15.470 billion and Lowe's at $7.075 billion, for a total of $22.545 billion. These two leading chains represented 37.6% of the total reported by the top 500 home centers.) **RThought:** Projecting "almost 40%" for 1996 means a slight increase for these two superstore chains. And it is not a "big change." Assuming that Menard's, HomeBase, Builders Square, and a few others also operate some supercenters, the 40% projection may indicate a *decline* in the percentage done in 1997 by supercenters.

Things I cannot understand. Safeway, Inc., paid civil penalties of $135,000, court costs of $49,000, and gave $75,000 worth of groceries to food banks in three California counties because it was selling, as "fresh," meat which had been previously frozen. Safeway also extended the "sell by," the "use or freeze by," and the "best if used by" dates by four days. **RThought:** Sacramento County found out about this practice from an ex-employee. As it was done in the Pak'n Save warehouse stores acquired by Safeway some years ago and now numbering 19, one can only guess that someone was trying to meet some goal or increase a bonus. The report indicated that this practice was followed throughout the warehouse chain. *How could someone above store level **not** have known about this practice?* If someone above store level knew, why didn't he or she stop the practice? **RThought:** The $250,000 penalty isn't going to hurt Safeway; what will hurt Safeway in Sacramento, Alameda, and San Joaquin counties (in addition to Contra Costa County, where I have my residence and where the local paper carried the report) are the people who suddenly don't shop at Safeway and who will question *everything:* meat, fish, and poultry products, dairy products, produce, drug items, anything that could hurt family members if not pulled on time and honestly presented.

It brought back memories of an old consultant's story.... At a meeting of the Direct Marketing Association of Detroit, Chris Cedergren, a featured speaker, said, "For many carmakers, the cost of advertising, marketing, and distributing a new vehicle would soon surpass the cost of actually building it!" The story: After four weeks of completely analyzing the problems of a manufacturer, the consultant said, "All you have to do is reduce the cost of making your gadget by $3," to which the manufacturer replied, "It doesn't cost $3 to make!"

Be careful if you do business with Lucent Technologies. Lucent Technologies, which inherited business from AT&T, has the maintenance agreement on my Merlin telephone system (eight phones including one portable) for which I pay $68.73 per month. When the battery in the portable phone went dead, I called Lucent, and it sent me a "free" battery *but charged $21 in service charges!* **RThought:** I learned too late that the same batteries are available at my local Radio Shack, which I pass almost every time I go into town, and which charges no service charge but only $10 for the battery!

The most annoying message on earth: The message on voice mail said, "I am in the office but have left my desk. Please leave a message on my voice mail at the sound of the beep, and I will call you when I return." **RThought:** I don't have voice mail, but I am convinced that 1) many who do have voice mail do not listen to it, 2) half of those with voice mail do not return calls, and 3) there must be a button that, when pushed, cancels all messages. **RThought:** I use an answering service which uses human beings! The service faxes messages to me; and if the operator believes a call to be important when I am traveling, I can receive the message via my beeper. **RThought:** What we need is something that will transfer voice messages to print media so that people will receive messages as I do!

The world without cigarettes! Canada's Oshawa Group Ltd. plans to sell its drug chain, Pharma Plus, because 130 of its 147 stores are located in Ontario, the Canadian province which has banned the sale of cigarettes in drug stores. A professional board in Canada has ruled that it is improper for pharmacists, a profession based on healing, to peddle a product that is dangerous to the lives of its customers. For the year ending January 27, 1996, the stores experienced a loss of $6.2 million. Not only did Pharma Plus lose the cigarette revenues but it lost other purchases which would have been made by customers while buying cigarettes. At the same time, competition from Wal★Mart Canada and Loblaw Companies is reducing its profit on filling prescriptions. (**Note:** Wal★Mart has eliminated cigarettes from all of its Canadian stores, as Target has done in the U.S.) **RThought:** In all probability, the stores are too large for a pharmacy only, but I believe that a purchaser with more imagination and who is uninhibited by the past format will turn a profit in most of the 147-store locations.

Taking the data on full-line discount stores, I computed the gross margin per square foot.

Department	Percentage of Store Sales	Gross Margin Percentage	Sales per Square Foot	Gross Margin Dollars per Square Foot
Miscellanous	2.31%	40.42%	$907.58	$366.84
Food	8.64	19.18	761.16	145.99
Pharmacy	3.17	24.55	514.88	126.66
Jewelry/watches	1.73	41.53	259.51	107.77
Cosmetics	1.68	25.01	398.84	99.75
Hardware	3.00	34.23	279.16	95.55
Photo	1.51	16.89	513.32	86.70
Automotive	2.67	22.03	377.21	83.10
Houseware	7.07	29.07	29.67	81.30
Stationery	3.52	40.40	198.62	80.24
Furniture	3.11	32.19	232.32	74.78
Consumer electronics	7.88	16.46	446.40	73.48
Crafts	1.25	38.01	154.44	58.70
Toys	5.15	28.07	205.36	57.64
Household cleaners	3.03	19.56	254.50	49.78
Sporting goods	3.58	27.24	180.35	49.13
Domestics	5.39	33.85	153.71	48.65
Health & beauty care	6.20	19.78	341.26	47.72
Apparel	25.11	33.61	133.85	44.99
Lawn & garden	4.01	28.24	142.54	40.25

RThought: Compute these figures for each department in your store. Do you have too much space devoted to apparel and to lawn and garden, both departments yielding less than $45 gross margin per square foot? If you condensed each department by 10%, would you still receive the same gross margin dollars (thus a higher gross margin per square foot) and give some more space to departments with $95 or more gross margin dollars per square foot (thus ending up with more gross margin dollars out of the same size store)? Would it improve your profit? Is it worth experimenting with?

Apparel has the sixth from the highest gross margin percentage. If gross margin percentage is as important as most say it is, including many retail analysts (especially those who criticized Floyd Hall of Kmart Corporation when he introduced The Pantry, by saying, "How can Hall improve his gross profit with a low gross margin department?"), perhaps something can be learned from these figures.

You might also play around with direct department expenses (in dollars per square foot) and see how little they fluctuate from department to department, regardless of gross-margin percent. It might also encourage you to see how much you can improve store profit by working to increase gross margin dollars per square foot.

WHY DOES THE *TIMES* CONTINUE TO PUBLISH ERRONEOUS INFORMATION?

The New York Times' slogan, "All the news that's fit to print," implies that a story or data must be accurate to be printed. On August 4, 1996, however, this newspaper carried a short article on welfare recipients which included a pie chart showing certain classifications of recipients:

Hispanic	23%
Black	34
White and other	43

No such figures have ever been released by the government!

Every time the U.S. government releases figures pertaining to race or nationality, a footnote is included which reads, "Persons of Hispanic origin may be of any race," because a person's classification of "Hispanic origin" is *solely upon the basis of their last name.* In other words, the 23% Hispanic are also included in the 43% white and other and in the 34% black.

The 1990 U.S. Census of the resident population is presented as follows:

White	199,686,000
Black	29,986,000
American Indians, Eskimo, Aleuts	1,959,000
Asian, Pacific Islanders	7,274,000
Other races	9,806,000
Total	248,711,000

A separate breakdown of Hispanics, which can be of any race, is the following:

Historic Origin	
Mexican	13,496,000
Puerto Rican	2,728,000
Cuban	1,044,000
Other Hispanic	5,086,000
Hispanic total	22,354,000

If Mary O'Brien marries Manuel Ponce de Leon, Mary, as well as all of their children, will be categorized as Hispanic.

From what the *Times* reported, I assume that some government report stated that of those receiving welfare benefits 43% were white and other (which would include American Indians, Eskimos, Aleuts, Asians, and Pacific Islanders) and 34% were black. However, the figures had a separate breakdown of Hispanics in addition to blacks and whites.

If my assumption is correct, the pie chart should have been simple:

White and other	66%
Black	34

RThought: Perhaps the *Times* had reworked the figures and did not like the idea that the white and other category represented a majority of the recipients on welfare and, thus, created the Hispanic category to reduce the white recipients to a minority.

Note: I know these remarks are confusing. If you have questions, fax me at 510-284-5612 and I will reply.

RETAILERS LISTED AMONG THE 100 LARGEST ADVERTISERS

Advertising Age annually prints the top 100 companies based on dollar advertising expenditures in the U.S. In its recent list for 1995, nine of the top 100 companies were retailers:

Rank	Company	$ (millions) in U.S.	$ (millions) in Sales	Percentage of Advertising	On Web?
6	Sears, Roebuck	$1,226	$34,925	3.5%	No
21	J.C. Penney	602	21,419	2.8	Yes
24	Federated	510	15,049	3.4	Yes
28	Kmart	482	34,389	1.4	No
44	May	358	10,507	3.4	No
46	Circuit City	343	7,029	4.9	Yes
48	Wal★Mart	339	93,627	0.4	Yes
50	Dayton Hudson	328	23,516	1.4	No
52	Tandy	304	5,839	5.2	No

Arranged by percentage of sales spent on advertising:

Wal★Mart	0.4%*
Kmart	1.4
Dayton Hudson	1.4
J.C. Penney	2.8
Federated	3.4
May	3.4
Sears, Roebuck	3.5
Circuit City	4.9
Tandy	5.2

*Does not include cost of 13 tabs per year with circulation of about 90 million

RThought: One reason why Wal*Mart can sell for less and yet stay in business is that its expense rate is lower. Much is written in the trade press about Wal*Mart's lower distribution expense, but I don't recall the same observations ever being made regarding its lower cost of advertising (I am certain that with Wal*Mart, as with other retailers, a part of the cost is often borne by the vendor in the form of cooperative advertising).

SHORT SHORTS

Let me acknowledge a retailer with a heart of gold: It should not pass unnoticed that Sam Skaggs, who built Skaggs Drugs in Salt Lake City into American Stores, with a volume of about $20 billion, and his wife, Aline, recently contributed $100 million to the Scripps Research Institute in San Diego towards research into prescription drugs. This type of research is not their only area of interest: he and his wife have made contributions to universities in Utah. (**Note:** I saw this latest announcement in *The New York Times*; however, I did not see it in the trade press. *The trade press devotes little space to "good works," even though retailers often deserve applause. If the good works of retailers were reported, other retailers might do more.*)

Wal★Mart has entered those countries within Latin American which have the most credit-card volume, with Brazil, Argentina, and Mexico combined producing 73% of the volume.

Country	1995 Volume ($ million)
Brazil	$15,698
Argentina	8,120
Mexico	6,224
Subtotal	$29,932
Total of 32 countries	$41,222

Columbia, Chile, and Venezuela also experienced volume over $1 billion. Other countries were below $400 million.

RThought: Credit card sales are of growing importance in more and more developing countries. (Source: *The Nilson Report*, No. 622, June 1996. For further information regarding a subscription — 24 reports at $695/yr. — telephone 805-983-0448 or fax 805-983-0792.)

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

SIC Code	Category	AUGUST 1996	AUGUST 1995	Percentage Change	Year-to-Date Eight Months 1996	Year-to-Date Eight Months 1995	Percentage Change
52	*Bldg Matl Group	$12,069	$ 11,339	+ 6.4%	$ 88,068	$ 82,939	+ 6.2%
57	*Furniture Group	11,602	11,009	+ 5.4	85,476	79,932	+ 6.9
571	Furniture Stores	5,904	5,596	+ 5.5	42,924	40,659	+ 5.6
572	Appl, TV, Radio Stores	4,850	4,524	+ 7.2	35,950	33,001	+ 8.9
5941	*Sporting Goods Stores	2,223	1,952	+ 13.9	14,812	13,250	+ 11.8
5942	*Book Stores	1,225	1,133	+ 8.1	6,748	6,498	+ 3.8
5944	*Jewelry Stores	1,541	1,408	+ 9.4	11,546	10,207	+ 13.1
531Pt	Conventional Dept Stores	4,621	4,463	+ 3.5	31,525	30,852	+ 2.2
531Pt	Natl Chain Dept Stores	3.476	3.438	+ 1.1	23,446	24,335	3.7
	Subtotal	8,097	7,901	+ 2.5	54,971	55,187	- 0.4
531Pt	Discount Stores	12,680	11,516	+ 10.1	90,920	84,015	+ 8.2
531	*Department Stores	20,777	19,417	+ 7.0	145,891	139,202	+ 4.8
539	*Misc General Mdse Stores	5,073	4,859	+ 4.4	36,974	35,986	+ 2.7
541	*Grocery Stores	34,944	33,259	+ 5.1	266,105	257,044	+ 3.5
56	*Apparel Stores	10,270	9,616	+ 6.8	68,723	66,115	+ 3.9
561	Men's & Boys' Stores	796	755	+ 5.4	5,941	5,938	+ 0.1
562,3,8	Women's Stores	2,679	2,822	- 5.1	20,076	21,310	- 5.8
565	Family Clothing Stores	3,928	3,386	+ 16.0	25,047	22,119	+ 13.2
566	Shoe Stores	1,988	1,885	+ 5.5	12,512	12,073	+ 3.6
591	*Drug Stores	7,429	6,894	+ 7.8	57,748	54,773	+ 5.4
596	*Nonstore Retail	5,266	5,514	- 4.5	42,880	41,896	+ 2.4
5961	Mail Order	3,444	3,500	- 1.6	28,204	26,690	+ 5.7
	**Retailing Today* Total Store Retailing†	123,173	116,520	+ 5.7	903,845	861,502	+ 4.9
	**GAF TOTAL	56,197	52,417	+ 7.2	394,530	373,274	+ 5.7

†Excludes car dealers, auto supply stores, variety and misc. general merchandise, eating and drinking places and service stations, and some specialty stores.
**General, Apparel, and Furniture.

For further information, contact Nancy Piesto, Services Division, Bureau of Census, Washington, D.C. 20233. Telephone 301-457-2706/2708; fax 301-457-3677. To subscribe to *Monthly Trade, Sales and Inventory Report* call Government Printing Office, 412644-2721 or 2828; or write GPO, Box 371975M, Pittsburg, PA 15250-7975. Current cost is $57 per year. Handle same as magazine subscription. Will receive notice of renewal.