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# Discount Houses - FACT, OR EXAGGERATION?

We are witnessing today a major innovation in the retail field, namely, the Discount Store. This paper will endeavor to point up past retail innovations, what each offered to the consumer, some of the chief revolutionists in our current retail upheaval, and some estimates of how goods may reach the consumer in the future.

Retail innovations of importance, comparable to that now found in the discount department stores, have been <sup>OBSERVED</sup> in the period from 1870 to 1890, <sup>AS</sup> witnessed by early forms of the now traditional department stores. General merchandise mail-order selling, took place from 1890 to 1910, then followed the variety and food chain stores from 1910 to 1930, and later <sup>the</sup> food supermarkets after 1930. Each of these major retail innovations, when first developed, offered consumers lower prices than were generally available through previously existing retail outlets. Each, with time, has traded-up the quality of its services, and with this, its operating expenses and margins. This has been particularly true of department stores, with the development over the years of more elaborate services and a greater emphasis on style merchandise. Each innovation, however, offer<sup>ED</sup> the consumer something new, besides lower prices.

We note that the department store offered a broader selection of kinds of merchandise under a single roof, the convenience and assurance of a fixed price, and the grouping of like goods into departments for more effective merchandising. The Mail Order Houses followed, offering particularly to rural patrons a wider selection of merchandise than was available from local stores. The Chains, next, especially in the variety and apparel fields brought the consumer a standardization of merchandise and a faster availability of new

developments and styles from market centers. Then came the Super-Markets, who brought all kinds of food products into a single store, thus eliminating the necessity of visiting several specialty food stores in order to complete a shopping list, and perhaps, most important, introduced the consumer to the convenience and pleasures of self-service shopping. We are now <sup>to</sup> up <sup>^</sup> the present self-service, soft-goods super-markets, which are the most rapidly growing segment of retailing. They are offering to consumers significantly lower prices for standard-- not deluxe quality merchandise. They have also adapted to the marketing of soft goods, features which consumers have tried and liked in the food field, namely, convenient access by automobile, ample parking, evening shopping hours, and the opportunity for browsing or buying at a pace determined by the customer rather than by the availability or attitude of clerks. One sees far more family groups shopping <sup>in</sup> these discount department stores than in the specialty shops with which they primarily <sup>P</sup> <sup>^</sup> come. It is to be noted that in each period of innovation, established retailers have failed to realize that the new type of store was finding consumer acceptance on other than a price basis.

We should insert here that the discount department stores as they are commonly described, are of two general types. First, the Closed-Door Stores, who allow only "members" access to the store through membership eligibility as defined by rather broad classifications of government employees, teachers, union members, or employees of government contractors. They carry a wide range of soft goods and apparel, but also give major attention to furniture, appliances, food, and automotive supplies. Several of the Closed-Door operations have recently, however, opened their doors to the general public. The second type, the Open-Door, <sup>THEY</sup> <sup>^</sup> where the discount department stores which first developed self-service for soft goods in New England and have subsequently spread across the country, <sup>^</sup> derive more than 50% of their sales from apparel items. They use the super-market type self-service, shopping carts, and central check-out for all but a few departments.

18% to 25%, compared to 36.4% for department stores. On stock turnover, Korvette's had a figure of seven times a year, compared to less than four for department store average.

Aside from the aforementioned statistics, the ease with which discount stores may be opened, or added, is noteworthy. The discount operator usually rents, and in many instances will lease out departments, thus reducing inventory investment. Fixtures are also often rented rather than purchased. Due to their pull on traffic, new shopping-center promoters encourage a discount store, thus facilitating <sup>THEIR</sup> entrance into a new suburban retail development.

The quest <sup>LOW</sup> which often runs through one's mind, is why does the discount store have such an impact on retailing? It should be remembered that in the main, the discount store is not competing against the better department store, but is competing against the department store basement operation, or budget shops and against the popular priced apparel and variety chains, <sup>AS WELL AS THE</sup> and so-called junior department stores. Most new suburbs were under-stored, in that department stores moved out there, but left out their basement divisions. The clientele of the basement operation had also moved to the suburb, but the discount stores were the ones to note the shift, and to offer their wares to this segment of the population. The discounters therefore, recognized that the "blue-collar" workers were moving to the suburbs as well as the "white-collar" people. With the failure of the department store to move out its basement goods, the goods which they normally offered such as low-priced staples, semi-staples, children's clothing, sheets, towels, mens' sport shirts, woman's lingerie, etc., fell right into the line of goods <sup>successfully</sup> ~~effectively~~ offered by the discounters. The discounters were also quick to observe the "trading-up" of the "blue-collar" class to the buying habits of the middle class. Another buying aid to the discounter is the "trading-down" by some in the so-called middle class. Those who may think of buying a boat, or taking a trip to the continent, may stint

by endeavoring to save 10% to 20% on the children's underwear.

It should be noted too, that price is not the only determining factor for the surge in discount store sales. One analyst claims that convenient location, good parking, self-service, and the opportunity to look around without being brow-beaten by a clerk are as significant. The <sup>SWBURBANITE</sup> ~~suburbanite~~ wishes to spend only a small amount of time in travel time, or in shopping; shopping is a chore to be finished as soon as possible. Furthermore, the younger generation is used to the self-service supermarket, so the discount operation with its self-service fits into accustomed patterns of shopping. The informal atmosphere has also somehow attracted more male shoppers. Aside from being good profitable items, the discounters have catered to the impulsive male shopper by displaying auto supplies, sporting goods, and hardware departments.

There is some difference between the old hard-goods discounter, and the new discounter. The new discounter believes in strong advertising. This may take the form of fire-works, a tempting travel trip, the presence of a movie celebrity, or a real low price on a staple grocery item.

Traffic is of paramount importance inasmuch as "impulse buying" takes the place of personal selling to move merchandise. They feel that more often than not the sales clerk is simply an obstacle between the customer and the merchandise. As one observer puts it, the department store operation too often resembles the proverbial old-~~maid~~ <sup>MAID</sup> librarian, who cherishes her books but resents letting them out. The department store treats each piece of merchandise as if it were a precious jewel while the discounter sees the store not as a place to display merchandise but simply as a channel through which the goods move as rapidly as possible from manufacturer to customer. Sol Cantor, of Interstate Department Stores states that "instead of the traditional department store's motto of "Thick on the best, thin on the rest", the discount operator says "Think on the best, to hell with the rest." Cantor finds that his discount

stores can cut 50% to 60% out of what his department stores consider a convenient assortment. Macy's New York, carries 129 separate styles of mens' shirts ranging in price from \$1.49 to \$14.09, whereas Korvette shows only 35 styles ranging from \$1.49 to \$6.99. Self-service means that what can be sold must be on display, but space can be given only to that which will sell. The discounter however, does not just concentrate on the "hot" items. But, by narrowing the choice to a few items the discounter creates fast-moving items. One consultant states "that the sale is lost if the customer is given more than three or four choices." The narrowing of items is also beneficial to the manufacturer.

What appears to be the future for the discount store field? Signs already point to possible over-expansion, some shaking out, and some manifestations of a cautionary approach to some rising problems. To quote Prof. McNair again, he comments by saying that "repeatedly we have seen innovators in retailing start on a low-price, limited-service, fast-stockturn, low-operating-cost basis, frequently in unattractive surroundings; and then, as they catch on and their public acceptance grows, they trade-up,-- better goods, more services, nicer stores, more promotion, higher costs, higher margins, slowdown in stockturn, increased investment, declining rate of return on investment-- all leading to ultimate vulnerability to the next innovator who catches on with the public."

Major discounters are moving more cautiously in expansion projects. More attention is being given to building a strong central organization, and more time being ~~to~~ given to new locations. Those firms with little or no planning, but who have expanded because expansion is their criterion of success, may be counted in the drop-outs. Two related chains among soft-goods chains resorted to Chap. XI in the courts, the reason being given was too much money spent for expansion. Someone in New York has said that if all the crossed fingers on Seventh Ave. were laid end to end, we could build a bridge across

explain? II

Atlantic. Credit men feel the basic problem with the over extended chains has been confusing the term discount with capital. Some chains feel that if they have the former, they don't need the latter. They feel that huge volume and quick turnover that goes with discounting would generate enough funds to pay bills and open still more new stores. Many of these operations no doubt have been operating on the suppliers' money.

In the over all merchandising picture, there is a strong belief, that the traditional retailers will not only survive the present retail revolution caused by the discounter, but will prosper and grow in the future. Traditional stores have people in management posts with imagination, they offer wider selection, they offer the charge account, and a choice of services from monogramming to gift-wrapping. Furthermore, top national sources and brand name manufacturers have realized they cannot maintain a prestige position as a quality supplier by having their lines used as a price leader in discount stores. The traditional retailer has been able to develop specialists within his store. Finally, and most important, ~~is that~~ this type of store has built a community image.

The traditional stores, however, can gain much from a study of the discounter's policies. These policies include (1) working with a low <sup>MARK-UP</sup> merchandise ~~margin~~ averaging 22 to 24% on retail. (2) Making use of maximum plant facilities possibly seven days a week-- usually 12 hours per day. (3) advancing self-service shopping to the utmost and having only a few strategic check-out desks. (4) Striving for a fast turn-over-- seven to 10 times a year. This is done by eliminating size, color, and classification of slow-moving items. (5) Choosing a location which is new and <sup>WITH</sup> easy access to traffic arteries. (6) Setting up simple accounting and operating systems which are taken care of by big volume. (7) Providing true one-stop shopping.

(8) Stressing functional simplicity in the store with fixtures, displays, and personnel.

So the fight is on, and quite a few of the discounters will find the going rough. The traditional retailer has been forced to look over his operation, do some pruning, and in most cases will come out of the <sup>WASH</sup> ~~was~~ more efficient. The discounter cannot be ignored as ~~was earlier~~ viewed, but his entrance in the <sup>t</sup> ~~retail~~ field has put some additional desire in the progressive store's thinking towards a more successful operation.

*one name*  
 As to the <sup>u</sup> ~~future~~, or the next innovation in retailing, may I close this paper with a quotation from the <sup>a recent address by</sup> ~~present~~ president of Sperry & Hutchinson. He predicts by saying "We have no way of knowing what is going to happen over the next generation, but one thing is certain: the changes are going to be revolutionary. The ~~discount house~~ is only a beginning. As all of your know, all kinds of explorations and experiments are going on. The department store is just beginning to fight back. The speciality store in many lines has only begun to flourish; and looking still further down the road, it wouldn't surprise me a bit to see <sup>US THIS</sup> ~~end up with~~ a <sup>r</sup> ~~virtually~~ storeless economy, in which for many items a <sup>WOMAN</sup> ~~woman~~ may be able to sit in her home, press some buttons, and find the groceries or clothing or other ~~items~~ on her door-step an hour or so later, along with her S & H stamps-- all at a cost lower than she is now paying. Efforts by Sears and other companies today towards telephone selling and TV advertising certainly point in this direction. Indeed the stories of Alladin's Lamp and the Arabian Nights are becoming true in our mid-20th century economy."

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