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Tomorrow's retailing problems; John Lee, MBA, helps build the retailing world of tomorrow

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The industry is already looking for answers to

**Tomorrow's Retailing Problems**

By MILTON PERLMUTTER
President, Supermarkets General Corporation

Fundamental changes are taking place in the retailing world. The consumer today is better informed, more outspoken, and more selective than before. The new life styles, educational levels, and desire for individuality among young people are perhaps the most dramatic of these changes.

Can retailing adapt itself to such change in the coming decade? More than ever before, the consumer and the government are reshaping our working environment. Whether or not the retailing industry meets this challenge depends on the answers we find to five key problems:

- Can the industry improve the quality of its management and provide job satisfaction for its non-management personnel?
- Can the industry keep pace with the demands of the new retailing technology?  

Continued
— How will the industry react to the impact of government regulations?
— Can the industry convince the financial community of its long-term strength?
— How will the industry respond to the increasing urban pressures in society?

Quality of Personnel

One of the major problems facing a retailer today is that many people who walk into his store walk out again dissatisfied. Either the store did not have the product they wanted, or they received poor service from its personnel.

I am very much concerned with such poor service. It often reflects the level of job satisfaction that exists in the retailing industry, and the resulting failure of employees to identify with their company’s objective. This problem exists in other industries but it is crucial in retailing, where public service is vital.

But in addition I am concerned about the adaptability of our people to a more sophisticated technology. For example, we are going to need the information controls and productivity that can be provided by the new point of sale system and other complex automated equipment. And this will require retailing people with the judgment and the discipline that these systems demand.

So it is extremely important that we in retailing bring into our industry people who are qualified to assume responsibility and leadership in both management and operating positions. We need to provide training programs, improved working conditions, and competitive employee benefits. And we must teach not only job specifics but also how to communicate with customers.

The picture the public has of our industry today is one of long hours, hard work, and years of apprenticeship. How are we going to be able to attract young college-educated people to an industry that has this image? A U.S. Department of Commerce survey recently showed that both the retail and wholesale industries contribute a substantially smaller percentage of their payroll, than other industries, for so-called employee benefits.

Improving this percentage is one answer to attracting young people. But offering them authority and responsibility is another.

With our operations more and more decentralized, we are going to be hiring, as potential managers, those who understand merchandising and advertising, who can use the newest technologies, who can relate to personnel and consumer problems, and who can assume responsibility and make decisions on the spot. These people will have to react quickly in a fashion-oriented environment, for example, to satisfy the rapidly changing tastes of the customer.

What then will happen to the current manager who lacks such skills? On-the-job training is one answer, but the fact is that the role of the manager is not going to stay the same. There will still be a place in retailing for someone to start at the bottom and move up by means of hard work, diligence, and study. But it will become more difficult, since the senior store executive of tomorrow will not be able to know everything there is to know about the variety of items in his store, from food to furnishings to fashion merchandise. Instead, he will have to rely on someone who has specialized knowledge in these areas.

This in turn may create another problem. Those currently in top management will have to sharpen their skills to meet the challenge of highly-educated young people. The result is certain to be an expanding communications gap between the older, high-level manager who learned mainly through experience and young college graduates trained in the latest management theories. A by-product of this, however, will be a greater acceptance of change. Top management will be more responsive to changing consumer desires and will consider them a challenge rather than a threat to their way of doing business.

The New Technology

Innovations in such areas as credit management, inventory management, and labor management will follow the introduction of new equipment and information systems made possible by today’s technology. The use of this technology will vary from company to company, depending on its practicality, the size of capital investment required, and the management skill in using the information.

This last development, in fact, will be a problem for most retailers: balancing the new information obtained through technology and a new management class possessing the skills to apply this information properly. This means a future in which middle and top management will have to pay more attention to systems. Not only will the new systems be decision-oriented, they will also be more expensive than methods used in the past. Both money and time will be wasted if the information they produce cannot be used properly.

The new technology will be a boon to both the consumer and the retail employee. Customer attitudes will change as stores keep in step with their desires. Retailers will be able to do a better job containing the pressures for higher markups. And the employee will be better trained,
better motivated, better compensated, more productive, and more involved in decision-making. And in turn he will make a more meaningful contribution to the store's operation.

Government Regulation
Is the retailing industry over-regulated? This is a major problem today. Economic controls, truth in lending, environmental requirements, zoning laws, consumer protection laws, IRS and SEC requirements—all these have a direct impact on the retailer, and on his profit. From the retailer's point of view, today's political pressures and regulations, which vary from state to state, are confusing, time consuming, and costly. If this continues, the industry is certain to find itself in a permanent profit squeeze that will make future expansion and modernization difficult.

I do not suggest we should oppose all government regulations; but regulations must serve a practical purpose. I believe a study commission, sponsored by the industry, should look into this problem. It could be comprised of executives of retail organizations and associations, consumer groups, economists, and representatives of the government bodies concerned. Ultimately, it is the consumer who pays the bill for regulation, and more thought should be given to this entire area.

The Financial Community
It is almost axiomatic that Wall Street analysts consider an industry less attractive when its performance fluctuates as much as that of the retailing industry. In the long run, retailing may outstrip those industries which have a steadier earnings pattern, but the conditions of our eco-

At Supermarkets General

John Lee, MBA, Helps Build the Retailing World of Tomorrow

At Georgetown University, much of the class of '68 was activist, socially conscious, and anti-business. Today John Lee, senior class president, is assistant to the vice president for perishable merchandising at Supermarkets General.

His former classmates, he says, do not understand why.
"They went into law, the government, non-profit organizations, and social institutions. I went into the business world. I wanted to learn about it from beginning to end."

A funny thing happened to John on the way to the business world. He stopped off for an MBA degree from Harvard Business School, and found most of his fellow students to be five years older than he, and with a social consciousness less obvious than that at Georgetown. "But one thing has turned out the same: they also do not understand why I chose the supermarket field."

This is still true. Of 446 Harvard Business grads of 1972 who reported their placement, only 17 went into retailing, only three into supermarkets.

Why, then, did John?
"We live in a marketing world, and I wanted to be at the center of the action. But everyone showed me opportunity on an organization chart—until I arrived here. Mr. Perlmutter's people do not put you into a box and keep you there. In fact, they told me I would get as much responsibility as
Tomorrow's Retailing Problems

Economic universe are such that we do not always produce a consistent profit performance. The financial community should pay more heed to our long-range potential, and not permit itself to be distracted by seasonal or short-term economic conditions.

This attitude makes it difficult for retailers to obtain outside money for expansion, at least at realistic rates. Much of retailing's expansion, therefore, must come from internally-generated profits. At the same time, perhaps there is a lesson to be learned here: we must not think of expansion exclusively in terms of costly physical facilities. What we must do is look at it in terms of more efficient use of space within our current facilities.

All long-range expansion must be studied beforehand, of course. Each retailer must make a careful determination of the size of his proposed operation and the amount of time he will need to recover the investment. Population mobility, for example, can have a substantial effect on this.

**Urban Pressures**

"Don't Bother Me, I Can't Cope," is the title of a long-running Broadway play, and sometimes I wonder if it does not typify, in part, our industry's reaction to urban pressures. We must cope with such pressure in the future far better than we have done so far. Changes must be made at downtown locations, for example, if they no longer reflect the needs of the surrounding community. Otherwise, many of these stores will have to close, resulting in a loss to both ourselves and the community.

Who has the responsibility of rejuvenating downtown areas? Have we been waiting too long for governmental agencies to act? Maybe the retailing industry should take

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**John Lee, MBA**

I could handle. The other thing I liked was a feeling I could make money for this company, I could have an impact on its bottom line."

After three and a half years of increasing responsibility in gas retailing, store operations, and meat processing, John now is buying perishable foods and researching and developing new meat products for the firm's Pathmark label. Talking to a visitor recently, he was continually interrupted by phone calls from suppliers.

"Okay, it's a risk, but it's not money out of your pocket, Bill. Let's look at the operating costs. Where is the loss for you? We've knocked off costs you were planning on paying, prices like boxing and crating that are going up. You've given some, Bill, but I think we've given a lot, too."

One of the few MBAs at Supermarkets General, John is still part of a rare breed in the retailing field. But to listen to him analyze the profit-making opportunity in supermarkets is to wonder why more chains do not recruit such young men trained in modern business methods.

A cup of coffee replaces the phone in his right hand as he lists three growth opportunities that await the supermarket industry. He is a man with strong opinions.

"First, planning. Supermarket retailers seem to do very little. I spent six months as an assistant manager in one of our stores and implemented a planning program of my own. I set up profit targets for the period and how to arrive at them, down to details in every area of the operation."

"The result was that we improved our pre-tax profit 46 percent in those six months."

"Second, I see a revolution coming in buyer-vendor relationships. In the past, some vendors have tried to understand a retailer's problems, but few retailers have genuinely tried to understand a vendor's problems. I mean, if a retailer can help a manufacturer avoid running at 100 percent of capacity one week and 60 percent the next, he is not only going to help the vendor, he is going to reduce his own costs."

"A retailer should not just call in four vendors and go with the lowest price. I think we should learn how a vendor operates, what his fixed costs are and what his variable costs are, and how our product requirements will affect his cost structures. Today, the vendor nicks us in a sellers' market, and we get back at him in a buyers' market. This is an adversary relationship that doesn't really help either of us in the long run."

Finally, John sees opportunity in the more extensive use of computers. "We haven't begun to realize all that they can do for us. For example, they can help us track how far ahead or behind our price policy is compared to that of our competitors. We use checkers in each other's stores now, but generally we operate on a gut feeling. That's not enough if we are to have a price structure that is fair to our profit requirements as well as competitive."
some of the initiative, and work with other businesses to
revitalize these areas.
Attractive malls, easier parking, cultural and social
service projects, improved transportation, and meeting the
energy crisis—these programs and more can be achieved
by concerned retailers who realize the civic responsibility
as well as the marketing opportunity that exists in these
downtown locations.
Retailers have long understood that the needs of cus-
tomers are not at odds with their own interests. What has
permitted some of these problems to arise, however, is
that many retailers have begun to take both their business
environment and their customers for granted.
To the old saying, caveat emptor, society has added a
new idea: caveat venditor. Let the seller beware! What the
retailer must be most aware of are changing economic and
customer trends, plus the options he has open to him to
meet those trends. This means more planning. It means
spending more money on research and development pro-
grams. It means reducing operating costs while better
satisfying the needs and desires of customers. And it means
doing all this while not relying on the government or the
financial community.
But most of all it means creating a business atmosphere
that will be attractive to the type of young people we want
to bring into the retailing industry. This, as I said at the
beginning, is the issue which will have the greatest impact
on our future, because these educated youths will bring
the initiative, the creativity, the technology, and the sense
of responsibility on which we will build our future growth.
Perhaps more than in any other industry, they represent
the foundation for tomorrow.

John Lee speaks up for his ideas.
"I think this corporation's biggest
strength may be its willingness to
listen. Sometimes my point is ac-
cepted and sometimes not. But the
point is that I get a fair hearing."
"What's the deal with Pete? Can you
set up a meeting today? Look, he is
going to sound you out on soybean
prices for our fortified hamburger.
He's willing to set a fixed price and
guarantees it will go no higher. But
I've been studying the futures mar-
ket in soybeans, and it looks like the
price is going to go down, not up
this summer. I know I told him, too."
Has the business world let John
down in any way? He replies very
slowly, still in his way the idealist of
the late '60's. "I don't think busi-
ness in general has responded to its
social responsibilities. I mean all
business, not just retailing. It looks at
environment, minorities, and con-
sumerism as problems more than as
opportunities.

"Perhaps that's why my job here is
satisfying, for I do believe we are
exerting leadership in social respon-
sibility. I mean things like unit pric-
ing, freshness expiration dates, see-
through trays in meat packaging, and
chill-pak chickens. When I organized
the production of our own Italian
sausage, for example, I was able to
get a decision to use all pork butts
instead of the lower grade pork nor-
manly used in sausage. This costs
more, but it means we are giving the
customer a good value."
If people like John Lee grow into
positions of responsibility in the next
10 years, the supermarket industry
then is going to be quite different
from what it is today.
"Eventually there is going to be a
showdown between chains who re-
sist change and those who monitor
change and adapt to it. Those who
survive will be those who recognize
and react to the problems the indus-
try faces in people, technology, con-
sumerism, social pressures, energy—
the things Mr. Perlmutter is currently
talking to retailing leaders about."
Does a young man set a goal for
himself when he enters the super-
market field? How does he measure
his own success, his own potential?
"My goal when I joined Supermar-
kets General," says John, "was to
make for the company in my first two
years at least three quarters of a mil-
lion dollars in pre-tax profits. Now I
have a more ambitious goal. The im-
pact I want to have is on the efficiency
of the company, so that not only will
it make more money, but some of
that profit can be passed on to the
consumer. If I can accomplish this,
my own career will fall into place."
"It is being tested, it is with our con-
sumer panel, and that is all I can say
at this time, Jerry. Well, we are de-
veloping our own centralized pack-
aging for some meat products. I'm
handling a number of them. No, you
ruin your product if you do that, you
cheat the customers. Okay, that's dif-
f erent. Okay, so call me back when
you get that figure, Jerry."