

Good Guys Finish First

One of the best things about the annual convention of the International Mass Retail Association (IMRA), which convenes again this month in Orlando, is its ability to address topics and issues of critical importance to the mass retail industry.

Last year's convention touched on many key concerns, but Don Soderquist's talk on business ethics was uncannily timely and prescient in light of subsequent events.

The Enron scandal broke less than nine months after the IMRA presentation, in which Soderquist, the retired vice chairman of Wal-Mart, extolled the virtues of ethical business leadership. Enron imploded earlier this year under the weight of scandals ranging from charges of stock manipulation to fraudulent accounting.

Its auditor, Arthur Andersen, also has been tainted, perhaps beyond repair, by obstruction charges. At press time, the Justice Department and Andersen were still trying to reach a plea agreement to settle charges that Andersen intentionally destroyed sensitive Enron documents while knowing a Securities and Exchange Commission investigation was set to begin.

Then, last month, New York's attorney general began a probe into Wall Street firms that, he says, pressure their stock analysts

to publicly promote shares of companies they believe are flawed, in order to receive or maintain the companies' investment banking business.

This breakdown in the so-called Chinese Wall that's supposed to separate investment bankers from the firms' stock analysts is another example of the heightened interest in business ethics.

Despite the advances in technology and business practices over the past two decades, the retail industry is still highly dependent upon trust between its participants. In the early days, whether it was buying land for store development or purchasing merchandise to fill the shelves, dealings were essentially based on handshakes between individuals who had faith in one another to do what they said they were going to do, or at least try their damndest to do so.

A breach of the faith between vendor and retailer or between retailer and consumer was often fatal to the offending party.

Our cover story on the State of Retail Ethics reveals that while the business today is relatively clean compared to other industries, it is still vulnerable to the seduction of shady practices that can line a company's



coffers or an individual's pockets.

While there doesn't appear to be a retailer version of the Enron scandal in the offing, there are numerous practices that can bring down a retail firm. If a company looks the other way while its buyers take special favors from vendors, takes questionable allowances on merchandise received in good quality at the right time, or manipulates its stock price with recurring "one-time" write-offs and other accounting tricks, that company is breaking trust with someone. When that happens, its vendors may retaliate with their own chicanery; its employees may slack off or worse, just out-and-out steal from the company; and its customers may go elsewhere.

Wouldn't Kmart's situation in Chapter 11 be a little bit better if the retailer hadn't squandered so much good will with vendors by not communicating and keeping them in the dark for several weeks leading up to its bankruptcy filing?

It's no coincidence that companies and people in the retail industry who are most beloved by their customers, partners and employees are noted for their above board tactics and straight-forward, no bull, approach. They are also generally the most successful over the long term.

BY DON LONGO • Associate Publisher/Editor-in-Chief

Nobody Really Emerges Intact

I have written about many different bankruptcy sagas. Despite constant talk of stand alone emergence, though, I cannot think of a single significant retailer that has filed Chapter 11, emerged and survived long term without another party investing in some or all of its assets.

I ran my thoughts by Howard Brownstein and Harvey Nachman, partners at Nachman Hays Brownstein Consulting, a Narbeth, PA-based consultancy specializing in corporate turnarounds. They agreed. Their description of Chapter 11 sounds like a life-threatening disease—if the victim emerges, he or she is never the same. In other cases, the person dies after a long battle. From their perspective, Chapter 11 is just a transitional period. "You keep organized and prevent a race to the court house," says Nachman.

Naturally, we discussed Kmart. In doing so, we looked at other chains' track records over the last two decades. When emergence occurs, it is usually due to an influx of cash that is so big that the giving party wants an ownership stake. "If there is new blood in the form of equity, it may or may not be there to take control, but it probably will,"

says Brownstein. "Every retailer that has gone through Chapter 11 has essentially been acquired."

Chapter 11 changes retailers. Saks Fifth Avenue, Strawbridge & Clothier and some other department stores are still around, but they are now owned by Federated, after their one-time parent, Cameau, went bankrupt. To the consumer, they are the same, as is Macy's, which Federated bought out of bankruptcy. But Federated differentiated its stores under a good (Stern's), better (Macy's), best (Bloomingdale's) format. What is more, successful private home brands at Macy's, like The Cellar's Tools of the Trade, were installed in other Federated chains.

Hypothetically, I applied this transformation model to Kmart. We know, for example, that Carrefour is expanding and competing with Wal-Mart around the world. And, while there's no immediate deal in the offing, assume Carrefour buys a big stake in Kmart because it wants to enter the U.S. But most U.S. consumers do not know Carrefour. So,



Carrefour keeps the Kmart name and maintains the Martha Stewart and Sesame Street programs. It also adds a few things. To the average shopper, this is a new and improved Kmart.

To live through this, though, a retailer must have a *raison d'être*. Montgomery Ward and Service Merchandise did not. Consumers don't miss them.

The question is whether Kmart has a brand worth investing in. The experts say it stands a chance. But there are no guarantees. "If Kmart resurrects, it can't exist as the same tired business model," says Brownstein. "While the Martha deal is wonderful, it can't carry a whole store." Interestingly, Kmart has changed before. Remember that the corporation was born 100 years ago as a variety store named Kresge.

Today, Kmart faces an economy where retailers get ahead by stealing market share. "There will be companies failing every year," says Brownstein. "There are only so many dollars to spend. Every now and then, a big one topples and it becomes a story."

BY DEBBY GARBATO STANKEVICH • Executive Editor