

# THE WORLD'S WORK

VOLUME XXVII

*NOVEMBER, 1913 to APRIL, 1914*

A HISTORY OF OUR TIME



GARDEN CITY      NEW YORK  
DOUBLEDAY, PAGE & COMPANY  
1914

# SECRETS OF BUSINESS SUCCESS

## V—FILENE MERCHANDIZING

BY

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**N**O MIRACLES happen in the retail business. Successful merchandizing is built along the lines of reasonable scientific thinking."

If one were to express in a few words the creed of the Filene store in Boston, this perhaps would come somewhere near it. And if a second article were to be added to this underlying creed, it might be:

"The people do not owe a living to any business except inasmuch as that business serves and benefits the people."

These, of course, are generalities. Generalities are easy; concrete analysis and application are difficult. In the Filene store one finds in a very unusual degree a studious, minutely detailed method of merchandizing which not only seeks out correct principles but puts them into graphic form.

To give the proper perspective, glance for a moment at the history of this business. William Filene opened the first store at Salem, Mass., in 1856. In 1863, he established a wholesale dry-goods business in New York City. A few years later he opened small retail stores at Lynn, Mass., and Bath, Me., and these were sold in 1881 and a little retail store established at 10 Winter Street, Boston, selling trimmings, laces, veils, gloves, furs, and buttons.

A second store in Boston was founded in 1882 at 4 Winter Street, devoted wholly to gloves. From these beginnings evolved a business that specialized in apparel for women and children, and which, in 1912, expanded still farther, added men's goods, and occupied an eight-story building at Washington and Summer Streets — a building that cost \$7,000,000, taken under lease.

In 1903, the business was incorporated with a capital stock of \$150,000, under the

present name, William Filene's Sons Company. In 1906, the capital was increased to \$400,000 and, in 1912, to more than \$2,000,000. At this time the two sons of William Filene — Edward A. and A. Lincoln Filene — were the only stockholders, but now shares were distributed to twenty executives and to the Filene Coöperative Association.

The business has had very rapid growth during recent years, its development paralleling the evolution of the Filene system of merchandizing. Thus the system as a whole has proved itself. Roughly, the house is doing a business at the present time of \$10,000,000 a year.

This business is not a department store in the ordinary sense, but a great specialty store. It has a selling and buying staff of about 2,100 people, but for special sales this number is sometimes greatly increased.

Perhaps the most distinctive characteristics of the Filene store are the minuteness with which its executives analyze their experience and the extent to which they have worked out a definite science of retailing. It may help the reader to grasp the fundamentals of this business if, here at the start, I describe the management of the basement — remembering that this is not the business itself, but merely one division of it that ranks in sales, probably at about one fifth of the whole. But the basement is the spectacular part of the store, if any portion of it may be so characterized, and it carries out relentlessly certain basic and original ideas.

Five years ago, Mr. Edward A. Filene, president, and Mr. A. Lincoln Filene, general manager and treasurer of the corporation, made up their minds to put into effect, so far as this section of the business was concerned, a philosophy of merchandizing

that had been gradually developing in their minds for a long time. This philosophy was based on the theory that great opportunities existed to go out into the market and buy for cash large stocks of dependable merchandise, of various sorts, at extremely low prices. But a corollary of the underlying Filene creed, remember, was this: "No business deserves success unless it serves a need of the people." Therefore, goods bought at low wholesale prices must be sold at low retail prices.

The next proposition was this: If the house were to buy these goods at the lowest possible cash price, by what means could it sell them in the shortest possible time?

#### THE AUTOMATIC BARGAIN BASEMENT

The Filenes solved this problem by establishing what they called the "Automatic Bargain Basement." It became the purpose of that basement to turn over the bulk of the stock every twelve days, and no goods could remain in the basement more than thirty days. For illustration:

A garment was placed in the basement on January 6th, bearing a tag with the date. The price was \$5. The sales force was given twelve selling days in which to sell that garment at \$5; if at the expiration of that time it was not sold, it was to be marked down 25 per cent. Therefore, after twelve days the price was reduced to \$3.75, and six selling days were allowed for it. If it still remained in stock at the close of that period it was to be reduced to \$2.50 — a cut of 50 per cent. on the first price. After six more days it was to be offered at \$1.25. Then, if nobody bought it before the "dead-line" was reached — 30 days — it was to be given away to some charitable organization.

Other merchants ridiculed this undertaking and prophesied dire failure. They said it could not be done; that the loss that would result from it would eventually ruin the whole business.

But it has been done, with brilliant success, for more than four years. There was a loss at first — rather heavy until the people of Boston really came to know of their opportunity. To-day, it is an important part of the Filene business, catering, of course, to its own particular clientele.

But to carry on this bargain basement means the most expert buying, for if even one third of the goods were to take the first loss of 25 per cent. the whole scheme would fail. Also, it means paring the selling expense to the bone. There are no deliveries from this basement without an extra fee, which is arranged for by means of a series of stamps. There are no charge accounts, no alterations, no elevator service, no refunds or exchanges after 48 hours — though within that time limit the usual Filene guarantee holds good. And the advertising space is separate from that of the store proper.

Moreover, the equipment and methods of this basement are reduced to such simplicity that many a visiting merchant, accustomed to the ponderous, slow moving, conventional store, has stood in amazement when he beheld it. Even the sales-slips are done away with by means of a special stub attached to the goods and, with the aid of special machines of the type of cash-registers. The whole basement staff, including the buyers, is a separate organization — built up to specialize.

#### AN EXPERIMENTAL DEPARTMENT

This basement has been a merciless experimental laboratory of merchandizing for the whole store. Aside from its organic principles and its simplicity of operation, it is largely without buying or selling rules — a sort of experimental department for the store proper, where rules govern. It is the Filene theory and practice that there ought to be some experimenting outside of systems.

Now go upstairs.

Mr. Edward A. Filene is usually the spokesman for the house when business philosophy and business science are discussed. He has done a great deal of the work of putting into typewritten words the daily operating scheme of the business. It should be said, too, that Mr. Filene has been active in the study of industrial relations and in civic work, and in his addresses has made public the fruits of his analytical, constructive thinking.

To begin, what is the foundation of good merchandizing? Mr. Filene's answer is something like this:

"Good merchandizing consists in having the right goods at the right time at the right prices and in the right quantities. But the right goods at the right time and at the right prices may cause a loss if the quantities are wrong, or if we keep them beyond their time."

It follows, then, that one of the fundamentals — and business is built on these fundamentals — is to discover the kinds of goods and the quantities the people will buy, and the times when they will buy at prices that will support a business.

In many business houses this is done almost entirely by guess-work on the part of the buyers, or, if not literally by guess-work, then by means of an uncharted, unanalyzed, unrecorded "experience" that exists more or less vaguely in the minds of the buyers.

It is impossible to eliminate guessing altogether, but the Filene practice is to minimize it and to substitute a system that discovers, in great measure, the facts.

#### "FULL LINES"

Take gloves as a typical example. To buy great quantities at a price that is much higher than a store's trade warrants means loss. Some high-priced gloves must be bought, but how many? Some low-priced gloves, too, must be handled. How many?

The Filene system divides the gloves into three "full lines." The "best-selling full line" is fixed by the price at which sales are greatest, say \$1.50. Above this is the "highest-priced full line," and below it the "lowest-priced full line."

Now how are the quantities in these three lines to be determined? The answer is: by statistics of previous years. It is the Filene policy to chart experience as it accumulates, so that it may be, as nearly as possible, a mathematical guide for buyers in the future.

But analyze a "best-selling full line" more closely and see how it is made up. Take women's coats. Here, for example, is a coat designated by the store as a "BB" — best in Boston at this price. It is a "quality" coat as to material and intrinsic worth; but it does not afford the store a real living profit. This deficiency

must be offset by an "MP" coat — more profitable. This is the natural "affinity" of the "BB" and must sell in equal quantities with the latter. Statistics show that it will sell, and that the woman who buys an "MP" will be just as much pleased as the one who selects the "BB." This is because an "MP," though lacking something in intrinsic value, atones by its style, effect, conceits, or something of that sort. Some artistic idea has gone into it, so it brings the more profitable price. Thus the two classes of women are served.

Nor is it left to chance to maintain the equilibrium between the two kinds of coats. It is a part of the store salesmanship to sell to the different classes of women just what will best serve their ideas and needs, and to see that a "BB" coat does not go to an "MP" customer.

#### THE HIDDEN NATURE OF LOSSES

But suppose that, despite this merchandizing system, a buyer has bought wrong, and that a lot of goods have to be marked down in order to sell them. A mistake is not regarded as a crime. On the other hand, a mistake may offset itself, and more, by pointing the way to more scientific merchandizing in the future. But this end can be attained only by the rigid enforcement of the Filene methods. Among these methods is the systematic study of "markdowns."

Here, again, we strike one of the basic fundamentals, which may be put briefly, thus:

A knowledge of the hidden nature of losses.

A study of markdowns presupposes special records. This is self-evident in the following quotation from a Filene bulletin to executives:

"A careful analysis of the Markdown Book will reveal to you many secrets. It will show that you had to mark down because first one and then another of your competitors offered goods at a lower price, indicating that the manufacturer who sold those goods had been selling to too many of your competitors to make further dealing with him profitable to yourself. Or, possibly, he may have been selling your competitors at a cheaper price than he

sold you, making it possible for them to undersell you."

The bulletin goes on to enumerate some of the other secrets to be gleaned by this sort of analysis, ranging from causes that lie outside the store down to such detail as wrong styles, poor fits, bad workmanship, etc.

The surprising length to which this analysis of markdowns may be carried affords of itself a pretty complete scheme of merchandizing; and when the concrete scheme is evolved in actual words, the tools suggest themselves. These tools are the accounting and recording methods.

Another fundamental thing in the Filene system is to take losses quickly when they are unavoidable. Any attempt to gloss them over means a greater loss than if they are taken the minute the discovery of the mistake is made. The rule is to get rid of the wrong stock and buy back the value into the "full line." A good deal of mental vigor is needed to do this — to make the immediate sacrifice for the sake of the ultimate benefit.

A fundamental necessity of Filene merchandizing is to build up, as the seasons progress, complete stocks of the styles that will sell without forcing and without markdowns; and this, of course, goes deeper than the mere determination of the prices for the "full lines," etc. Here is the rock on which the unskilful merchandizer wrecks himself very often.

#### THE YELLOW TICKET SYSTEM

The Filene store, like any other store, must guess in advance the public fancy as to styles. But it has worked out various ways of minimizing the danger of buying unwisely. As in most of its operations, these methods have been put into concrete, definable systems. As one example take the "yellow ticket" system.

This method is aptly described by Mr. Edward A. Filene:

"We go into the market and from all the manufacturers' guesses we pick out samples of what experience teaches us is the best thing for us to buy. We send these first purchases to the store and put on them yellow tickets which say, 'These goods are not to be sold.' If a customer

wants them she can order them, but the samples are not to be sold to her. If there is a sufficient demand, we can order a small quantity of that article on which we have lost customers because they could not wait, but the sample must never be sold until we are through with it. Yellow is our danger signal, and the yellow ticket on a piece of goods means simply that in this first choice of goods we don't know whether the article is 'yellow' or not. To make sure, we put on a merchandise quarantine — until we find out whether it is good or dangerous."

Briefly, the yellow ticketing removes the choice of goods — other than staples — from the realm of somebody's memory and converts what is ordinarily a very chaotic condition to a hard-and-fast system. Then, by a logical elaboration of this method, the stock in any given line is gradually built up to the point where the nature of the demand is no longer in doubt. Of course, it should be borne in mind that this is merely the briefest possible description of the yellow-ticket system, without any attempt to describe the details or to say where it applies or where it does not.

#### THE CALENDAR AND "CALL SLIP" SYSTEMS

For another glimpse at Filene merchandizing, take the store's "calendar system" for determining the scientifically correct dates for such events as the "first showing," the "opening," the "splurge sale," the "change of season," etc.

In the unscientifically managed store these matters are left to rule-of-thumb department managers, who decide without any great analysis. Yet when each of these events is really analyzed — and they are analyzed at Filene's — a long line of considerations, varying with different departments, is seen to have an important bearing on the probable success of the events. Thus it is possible to work out a more or less fixed calendar which gives the basis, in advance, for the adequate preparation of working plans.

Then look briefly at the "call-slip" system. Call-slips are not uncommon in the retail trade, but their value is often largely offset by the failure to enforce such system, and failure to analyze the

information gained from the slips. In a word, call-slips constitute a record of goods called for by customers but not in stock or handled by the store.

#### AN ADVENTURE IN GLOVES

Years ago, when the Filene store was very small, calls began to come in for terra cotta or "crushed strawberry" gloves. An investigation was made, but none of the importers had this shade, nor could they give any information about it. But from leading dress-makers and from other sources the Filenes got facts pointing toward the conclusion that an important style was foreshadowed. The largest part of their glove orders were placed for this shade. By the time the goods came, the rush was on. Many stores were wholly unable to get these goods, and the Filenes scored a big hit.

The call-slip is a barometer; but, like other systems in perfunctory use, it will not analyze itself, though it holds many hidden facts.

There are bulletins, too, about "EP" goods—extra premium. Once a clerk boasted in the presence of an executive that she had just "soaked" a customer with a pair of "EP" shoes. She was not a good salesgirl, nor was she a student of the Filene philosophy; yet she was fairly typical of the average clerk throughout the country—and perhaps of the average merchant. It is the practice in many stores to give the clerk an extra premium for working off undesirable merchandise. But if you follow out the principles of a business that is maintained on a basic philosophy, an "EP" piece of goods must mean something different. For example, it may mean that the season is short and the goods must move. It is part of the Filene philosophy to drill its principles into the clerks, and into the whole business organization.

A theoretical fundamental is to keep the store running and distribute the load more evenly than is done ordinarily. It is better, the Filenes believe, to do a business of \$200,000 every week than to sell \$300,000 some weeks and \$100,000 others. Here once more is the opportunity for a great deal of constructive thinking, though

it must be acknowledged that great progress, even at Filenes', has not been made toward this end. Yet the philosophy is working out slowly with that purpose in view. Speaking on this subject, Mr. Edward A. Filene said:

"When the time comes that we can afford to do business a little more scientifically—and when I say more scientifically I do not mean more theoretically—we should refrain from overloading our business on any one day, but should determinedly get the business evenly distributed."

#### ANALYZING AN ORGANIZATION

I have described only a few examples of the system of analysis by which the Filenes seek to build up a science of merchandizing. But perhaps the most important analysis they make pertains to the organization itself, and is the biggest thing of all because essentially it underlies everything else.

The organization is analyzed and charted and works along unconventional lines. Perhaps its main characteristic is a board of managers, made up of four vice-presidents, one of whom is also the store manager, another the merchandise manager for the women's departments, another the publicity manager and the merchandise manager for the men's departments, and another the assistant treasurer and controller. These men are all partners in the business. They hold weekly meetings at which written plans are presented, discussed, and passed on up to Mr. A. Lincoln Filene, general manager, for approval or veto. The operations of the store are worked out in advance by means of these dissected and worded plans.

If we were to follow out the pyramids of this organization chart, we should find the same analytical philosophy permeating them all. The Filene stock-sheet, for example, shows about 200 departments—an analysis far more minute than is customary. Here the usual department often becomes three or four distinct departments, each with a separate buyer and assistant.

On this stock-sheet is shown, in twenty-

eight distinct columns every selling day, a minute analysis of departmental operations. Here are a few representative column-headings — remember that separate figures are entered for every one of the two hundred departments:

Planned sales for month.

Open to buy.

Daily average required to get planned sales.

Actual daily average for month to date.

Actual sales to-day.

Actual sales for month to date last year.

Actual sales for month to date.

Actual markdowns for month to date.

Per cent. markdowns from September 1st (beginning of fiscal year).

Planned per cent. of markup.

Stock on hand to-day.

Planned stock end of month.

The frequent occurrence of the word "planned" will scarcely need comment after what has been said about the store's philosophy. But doubtless some merchants who read this will question the efficacy of so much detail. Mr. Edward A. Filene himself says that the store could get along with very much less system, if the present day alone were the consideration. But detailed facts have made the store grow, and will make it grow still further. That is the theory. With like minuteness, the profits are analyzed and the expense distributed, so that pretty nearly every counter tells its own story of profit or loss.

Even the arrangement and display of goods in the Filene store are carried out in minute subdivision — radically different from ordinary merchandizing. Above the first floor, orthodox store customs have been overthrown. You do not see the customary store fixtures, but find yourself in "streets" with specialty shops all along them, offering you display-windows filled with goods. In the ordinary store you have to inquire for what you want — often you grow weary in the search and are frequently misdirected by the store employees themselves. But here you are guided by permanent signs that designate the shops and the subdivisions of the shops. If you

are looking for a given garment or style or size, a sign directs you to it.

#### THE HUMAN ELEMENT

But there is a bigger side to this Filene organization. It is a human side that can scarcely be touched in this article. Perhaps this is unfortunate, for it is a story that has a broad and interesting appeal. It is a story of a great success that has developed out of a sympathetic leadership of men and women.

One of the most notable elements of this human side of the organization is the arbitration method, whereby employees may appeal to a board which is made up from their own number and upon which the firm is not represented. Charges of unfair treatment, adjustment of wages, dismissals, etc., are thus arbitrated.

Then there is the minimum wage, which is \$8 a week for women and girls. And a special commission system is used, that enables the sales-persons to increase their earnings in proportion to their efforts.

There is the educational system, too. In its recent development it becomes perhaps the first move in this country to provide distinct, subdivided training in a store for different phases of the merchandizing art. In this work the Boston high school system is taking part. Fifty girls from the high schools spend two hours a day at the Filene store as part of their study.

Plans for a profit-sharing system are in partial effect, and will extend to all employees.

And then the activities of the Filene Coöperative Association — an organization of all the employees — cover numerous fields of welfare work. In this organization are a men's club, a young women's club, a girl's club, a choral club, a medical director, a health committee, a library, a newspaper, a deposit and loan bureau, club rooms and restaurant, and so on.

Perhaps the most productive part of all the analysis in the Filene store is that which is directed toward the men and women of the organization, for no store can rise much above the personnel of those within it.