

SURVEY OF
RETAILING OF DURABLE CONSUMER GOODS

Following is a report on recent trends in the retailing of furniture and household appliances by Cleveland department stores, furniture stores and appliance stores. It is based mainly on telephone conversations with about 20 store executives or owners. It applies especially to questions 1 and 2 of the Board's inquiry on developments in the Regulation W field, i. e. inventories and prices, together with other closely related matters.

In general the stores report considerable worry over declining sales, but less frequently a concern over inventories as such. The price situation is confused, with conflicting reports even from stores of the same type with approximately the same line of goods. Attitudes toward Regulation W are mainly favorable. Some touchy situations in manufacturer - retailer relationships are apparent in the appliance field.

Sales

Slowdown in sales of furniture and appliances is the central fact stressed by nearly all. In most cases this is dated back several months. It is frequently described as earlier and more gradual in the case of furniture than of appliances. Some indicate December or January as the turning point. Department stores and furniture stores, with some exceptions, describe January clearance sales as disappointing.

Most frequently mentioned reasons for sales difficulties are (a) insecurity fears of consumers (b) fact that most pressing needs of consumers have been filled, coupled with dissatisfaction over price. Other reasons advanced much less frequently are (c) exhaustion of savings bonds (d) effects of Regulation W (e) loss of overtime pay.

One small furniture dealer, whose opinion was fairly typical of both small and large stores, volunteered the following summary:

"The marked change in sales is because customers are not buying for security reasons. They are afraid of the future. It's not because they are broke. They have money in the bank. It's not because of their hope for lower prices. It's not because of Regulation W. (In response to a question, he added:) No, it's not because of the elections, either."

In connection with consumer caution, more than one store mentioned the effect of newspaper stories about unemployment.

Inventories

Department stores do not consider themselves overstocked in furniture and appliances. Some express the attitude that it is their managerial duty to keep inventories at proper levels, and they are doing it. This attitude raises question whether their statements should be discounted somewhat for the element of managerial pride. On the whole, we believe not, especially because department store executives in the past have admitted frankly their belief that they were overloaded with men's shirts and cotton sheets.

The smaller furniture and appliance stores seem about equally divided between those who say their stocks are definitely too high and those who say that they have kept their stocks down to a par with their weakened sales position. One appliance dealer says:

"I read Kiplinger. I have been cutting and shading my stocks for months. The trouble is sales, not stocks."

Among the small stores, those which consider themselves overstocked mention the following lines of products: stoves, refrigerators, washing machines, radios. Stoves are mentioned most frequently.

Prices

The department stores are quite definite that there have been no important price breaks in furniture and appliances, and furthermore that there are none on the horizon. They are referring to manufacturer's prices and their own prices. They indicate that smaller appliance stores have probably been cutting, but they claim not to be concerned about this tendency because of a difference in clientele.

Exceptional price reductions, considered by the department stores to be relatively unimportant, take the form of: (a) model change-overs, e.g. washing machines (b) here and there a manufacturer's reduction on a given model for promotional purposes (c) store clearance sales.

Reports on price trends by furniture and appliance stores must be divided into reports on manufacturers' prices and retailers' prices. First, manufacturers' prices: A number of furniture and appliance stores, including some smaller ones, say that no significant price reductions are being made by manufacturers. Others report to the contrary. Examples are: A popular brand of stove, down \$20.00; an "apartment-size" washing machine thrown in to the dealer for \$2.00 extra with each purchase of a standard washer; price reduction on electric blankets in the offing; refrigerators down recently, but not enough to help the dealer; manufacturers' prices on new model appliances expected to be lower, with refrigerators mentioned as an example. (Note: refrigerators are fully as often mentioned on the other side, e.g. example of stationary or rising price.)

As to what the furniture and appliance retailers say about their own pricing policies, the picture is again mixed. A considerable number of the smaller dealers say there is merchant price cutting going on, but it is done

by the other fellow. They usually say that the margins are too small to allow them to cut, or else that they are "not that kind of concern." This, of course, is one of the touchiest spots in relations between competitors, and relations with suppliers. An example is the following. Store A says he hasn't cut prices but others have. Asked which, confidentially, he names a competitor, store B, which he says is well known for price cutting, has recently lost a franchise with Westinghouse, and is now running drastic sales. Store B is then contacted in normal fashion and asked routine questions. B goes out of his way to emphasize that he always follows manufacturers' suggested prices and that he runs no special sales of any kind. Subsequently, a casual trip past the store window reveals huge banners announcing "drastic sales" on many lines of appliance merchandise.

A few of the smaller furniture and appliance stores state flatly that they are responding to the poor sales situation by making substantial price reductions on their own account. Sometimes this statement is guarded by saying that they do the cutting by means of larger trade-in allowances, which is perfectly O.K. with the manufacturer.

Regulation W

If the store attitudes are correctly reported to us, there is a strong predominance in favor of Regulation W. This applies to the smaller stores as well, although the few exceptions were found among the smaller stores.

Examples follow.

A small furniture store says:

"I like Regulation W. It keeps customers from buying autos they can't afford and leaves more money for furniture!"

A small appliance dealer favors Regulation W because he likes to keep his stocks on his own floor rather than temporarily in a customer's house.

The department stores appear to favor the Regulation without exception.

A few of the smaller furniture and appliance stores indicate their belief that the Regulation has been a major factor in hurting their sales. One says that the 20% down payment is the bad part, but the term of repayment is O.K. Another says he doesn't like the provision limiting trial periods to 10 days, but otherwise he has no objection to the Regulation.

Dealer-Manufacturer Relations

A number of small furniture and appliance dealers volunteered complaints against manufacturers' policies on appliances. This was a by-product of the survey, and no attempt was made to persuade the dealer to elaborate or defend his point of view. Frequently mentioned, however, were low margins or discounts for the dealer, and high prices for consumers. Less frequently mentioned were other alleged factors, such as full-line forcing, requirement of buying in carload lots, and required acceptance of unusually early delivery of refrigerators this year. A few furniture stores which also have handled appliances state that they are now going out of appliance lines partly for reasons of this type.

Statistical Confirmation

Fourth District data on department store trade appear to yield broad confirmation of the above findings at two important points.

Re inventories: we keep a stock-sales ratio for certain selected departments, where stocks at beginning of month are divided by sales during month.

Resulting ratios are compared with 1935-39 averages, as derived from N.R.D.G.A. turnover data for specified departments, national coverage. It appears from these data that stock-sales ratios for furniture and appliances have only recently reached 1935-39 levels, and are now running slightly higher, but not spectacularly so. The excess over base period appears somewhat higher for appliances than for furniture.

Re: effect of Regulation W on sales of furniture and appliances. It is admitted that the sales slump in these lines was pronounced after September. We would expect that if the Regulation is the principal cause, instalment sales in these departments would drop more than cash and charge sales. Our data appear to indicate the contrary. Although instalment sales data are not reported by individual departments, we have experimented with estimated allocation of total store instalment sales among the departments where such sales are chiefly concentrated. On this basis it would appear that the recent year-to-year drops in total sales of furniture and appliances were composed of (a) slight drops in instalment sales of furniture and appliances (b) much heavier drops in cash and charge sales of these lines. Thus the proportion of instalment sales to total sales seems to be increasing in these departments, even though the departments' total sales picture has been poor for reasons other than the Regulation.

We talked about this tentative conclusion with executives of two large department stores. One said that he believed it was true that cash and charge sales of these hard goods have been slowing down more than instalment sales, although he couldn't confirm it from his records because their breakdowns are inadequate. The other said he didn't care to express a definite opinion, but he believed our view was quite possibly correct.

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