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Retailing in Texas: Beyond Sales Forecasts

Recently, Julian Seeherman, Chairman and CEO of Venture Stores, Inc., told students in my retailing classes at Texas A&M: "Retailing is an exciting business. Most retailers live and die by the fourth quarter operating results. You can have good sales and earnings performance for the first three quarters; but if the numbers aren't there in December, it will not be a good year." As an interested observer and student of retail practice for more than a decade, I knew that Mr. Seeherman's assessment of the importance of the holiday season to the overall financial performance of most retail businesses was accurate, and I appreciated his sharing this information with my students. However, his remarks, coupled in close temporal proximity with the first media requests of the year for holiday sales forecasts, triggered some concerns about such prognostications.


One of my concerns about the annual media barrage of "holiday sales forecasts" and "retail outlooks" is that some retailers may take them seriously and develop unwarranted feelings of euphoria or pessimism about the upcoming season. At best, such reactions can lead to complacency or anxiety. At worst, retailers may allow holiday forecasts to affect their decision making in ways detrimental to their businesses. It is the latter outcome that provokes most of my worries about participating in the forecasting process and prompts me to offer, along with my forecasts, a few caveats.

My retail sales forecast for the fourth quarter of 1992, for the nation as a whole, is somewhere between flat and a 4-5 percent increase over 1991 sales, which were 4-5 percent higher than 1990, a bad year for holiday sales. I expect Texas

retailers to fare somewhat better than retail businesses in other parts of the country because: 1) the Texas economy appears to be recovering from the recession more rapidly than the national economy, and 2) I have confidence that all the media attention to the stagnant economy will have less effect on the purchasing behavior of Texas consumers than on that of consumers elsewhere because of our inherent self-reliance and the pervasive attitude that the Texas economy is headed out of a prolonged downturn.

Does my national forecast sound familiar? Of course it does. This is essentially the same forecast we have been receiving from any number of sources for the last several years. Consumer confidence in the economy is low; debt levels are high; big ticket items and luxury products are likely to be hardest hit. Surveys indicate that holiday shoppers plan to spend less this Christmas season and trade down to less expensive, value merchandise. All of these factors portend a good holiday for the large discount retailer and a difficult season for the local retailer.

Remember, though, that these predictions come with caveats. Interpretations of holiday sales forecasts should always be tempered with the knowledge that such projections are, at best, educated guesses. For example, my earlier prediction of a 0-5 percent sales increase for the nation as a whole over the same period last year is based on several sources from the national media and conversations with retailers from different parts of the country. Many of these same sources, coupled with my familiarity with the Texas economy, Texas consumers, and Texas retailers, form the foundation for my sales projection for the Texas market. Keep in mind that forecasts are never facts and should not be interpreted in that manner. Forecasting consumers' shopping and purchasing behavior is a



particularly risky undertaking because of the myriad factors influencing our buying decisions. Even the most advanced computer systems armed with sophisticated statistical models and millions of data points cannot produce sales projections worthy of the confidence displayed by many forecasters. Sales forecasts may vary in their degree of informational support, but all are educated guesses. They should be interpreted and acted upon with that understanding.

Successful retailers are always alert to the uncontrollable factors that may influence their businesses. They do not, however, allow such outside influences to dictate their business strategies. Great retailers are as unresponsive to uncontrollable factors in their environment as they are responsive to the needs of their customers. There is absolutely nothing Texas retailers can do, or should do, about holiday sales forecasts regardless of the direction or magnitude of the predictions. Reacting to media reports concerning the state of the economy and the buying moods of consumers in general is not their business. Understanding the buying preferences and needs of their customers, and fulfilling those needs better than other retailers, is their business. Serving customers better will isolate Texas retailers from the ups and downs of consumer buying patterns by making them outlets of first choice regardless of customers' current economic situations or outlooks.

Serving customers better will also improve the long-range prospects for regional and local retailers. Better service will insulate Texas retailers from the price competition that remains as the only competitive weapon available to retailers who have lost sight of the fact that the customers' definition of value includes more than price alone. The customers' definition of value includes a "what I get" component as well as a "what I pay" component. The customer's preferred retailer will be the one who most successfully balances these two elements to achieve customer satisfaction. Too many retail businesses have tended to focus on the "what I pay" side of the equation by engaging in protracted price competition that is often ruinous, particularly for small business retail establishments. For this type of retail business (and the majority of Texas retail businesses fit into the small business category), price competition can never result in a sustainable competitive advantage. Price is the

easiest element of the strategic mix to duplicate, and larger competitors have too much purchasing leverage with suppliers and a cost structure too low for price to be an effective marketing tool for most Texas retailers.

Smaller retail businesses can, however, compete very well on the "what I get" side of the value equation. In fact, local and regional retail businesses have a distinct competitive advantage over large national competitors in their ability to identify and understand the individual needs of target customers and to readily adapt the retail offering to cater to those needs. Customers will pay more for the "personality fit" that the local retailer is ideally positioned to provide.

From the local clothier who knows the names, sizes, and preferences of all of her customers to the jeweler who understands the desires of his patrons and contacts them with product ideas in advance of family birthdays, graduations, and other important events to the hardware salesperson who knows and understands the building prowess of local "do-it-yourselfers," Texas communities are filled with successful retail businesses operating on the "what I get" side of the customers' value equation. Their customers are treated like individuals and made to feel important. Their customers come back again and again whenever the need for products and services arises.

Their customers' loyalty, earned and cultivated through personal relationships, makes national sales and earnings forecasts irrelevant for these Texas retailers.

— *Larry G. Gresham*
Associate Professor of Marketing and
Director, Center for Teaching Excellence
Texas A&M University

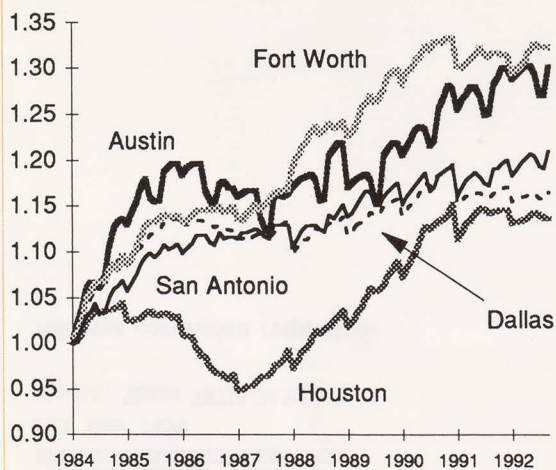
Employment and Unemployment Rate by Metropolitan Area

Area	Total nonagricultural employment (thousands)			Total employment (thousands)			Unemployment rate
	Sept. 1992	Sept. 1991	Percentage change	Sept. 1992	Sept. 1991	Percentage change	Sept. 1992
Abilene	50.1	48.5	3.3	48.8	47.1	3.6	6.5
Amarillo	81.1	80.3	1.0	93.5	92.0	1.6	5.4
Austin	398.3	392.1	1.6	436.8	428.1	2.0	5.0
Beaumont-Port Arthur	155.4	151.3	2.7	165.2	159.6	3.5	8.7
Brazoria	73.7	73.5	0.3	89.7	89.3	0.4	7.5
Brownsville-Harlingen	82.7	78.8	4.9	101.1	95.6	5.8	11.9
Bryan-College Station	59.0	54.7	7.9	64.2	59.4	8.1	4.0
Corpus Christi	137.5	135.9	1.2	153.7	151.7	1.3	9.6
Dallas	1,380.4	1,378.7	0.1	1,349.4	1,345.0	0.3	7.0
El Paso	215.7	210.1	2.7	230.5	223.8	3.0	10.7
Fort Worth-Arlington	592.3	589.5	0.5	691.4	687.0	0.6	6.8
Galveston-Texas City	79.5	79.4	0.1	105.3	105.0	0.3	8.9
Houston	1,633.5	1,642.8	-0.6	1,652.7	1,660.5	-0.5	7.4
Killeen-Temple	77.7	75.6	2.8	93.6	90.3	3.7	7.8
Laredo	50.0	47.7	4.8	52.2	49.5	5.5	9.4
Longview-Marshall	70.8	70.5	0.4	74.4	73.6	1.1	9.4
Lubbock	98.3	97.1	1.2	108.2	106.9	1.2	6.3
McAllen-Edinburg-Mission	108.2	104.2	3.8	137.1	132.4	3.5	17.1
Midland	45.9	46.3	-0.9	45.8	46.1	-0.7	7.8
Odessa	44.6	45.6	-2.2	48.7	49.6	-1.8	10.6
San Angelo	38.7	38.2	1.3	43.3	42.5	1.9	5.9
San Antonio	538.9	530.2	1.6	576.9	566.3	1.9	6.6
Sherman-Denison	37.1	37.2	-0.3	43.3	43.6	-0.7	7.9
Texarkana	47.5	46.5	2.2	53.4	52.2	2.3	7.8
Tyler	63.7	63.6	0.2	69.9	69.2	1.0	8.0
Victoria	30.6	30.2	1.3	36.2	35.8	1.1	6.2
Waco	83.9	82.7	1.5	88.4	86.7	2.0	6.6
Wichita Falls	50.1	50.0	0.2	51.0	50.6	0.8	7.1
Total Texas	7,276.2	7,185.3	1.3	8,076.8	7,978.2	1.2	7.5
Total United States	108,868.0	108,751.0	0.1	117,953.0	117,335.0	0.5	7.2

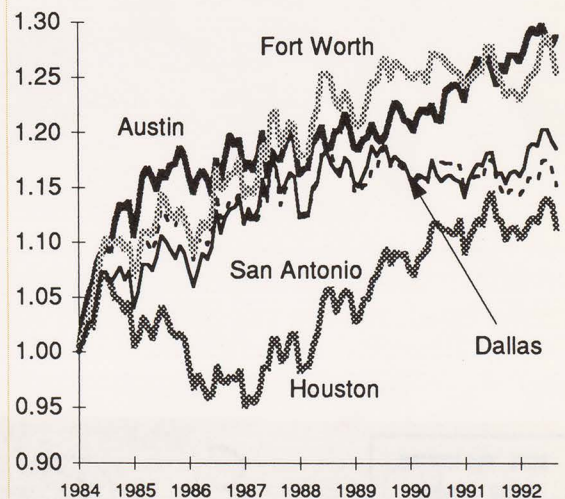
Note: Data are not seasonally adjusted. Figures for 1991 have undergone a major revision; previously published 1991 figures should no longer be used. Revised figures are available upon request. All 1992 figures are subject to revision.

Sources: Texas Employment Commission and U.S. Department of Labor, Bureau of Labor Statistics.

**Nonagricultural Employment
in Five Largest Texas
Metropolitan Areas**
(January 1984=1.00)



**Total Employment in Five Largest
Texas Metropolitan Areas**
(January 1984=1.00)





Total Quality Management (continued)

ty and to effect various changes in the traditional manufacturing, engineering, and business systems processes. The leadership of the 22,000-person workforce in California saw an opportunity in the relatively smaller-scale Austin operation to develop process improvement models that could be applied later at Lockheed California.

Critical to the success of Lockheed Austin's culture change was securing consensus from all elements of the organization, particularly employees represented by Lodge 2720 of the International Association of Machinists and Aerospace Workers (IAM&AW). In July 1990, Lockheed Austin management and District Lodge 776 of the IAM&AW crafted an agreement outlining a joint partnership that was to become the basis for all TQM initiatives involving employees represented by the IAM&AW. A six-person joint committee, consisting of representatives from the bargaining unit and management, reviews TQM initiatives that affect bargaining unit employees. Not only was this committee instrumental in addressing and resolving initial employee involvement concerns expressed by the IAM&AW, it has also been a catalyst for implementing process improvements in operations throughout the plant.

The collective hard work of all Lockheed Austin employees has paid off. According to Frank Reuter, director of Total Quality Management Programs, "In the three years we have been actively measuring effectiveness of our TQM initiatives we have seen results in the whole spectrum of areas: reduced overhead costs, reduced cycle time, increased customer satisfaction, improved employee morale, and most importantly, repeat business and new contracts. By going beyond 'paying lip service' in focusing on our internal and external customers' expectations and empowering teams to streamline and improve their work processes, we are significantly improving our competitiveness." Indeed, Reuter and his Lockheed colleagues attribute two recent contract wins totaling nearly \$75 million to the company's TQM initiatives.

While process improvement methods "chart" well in traditionally measured disciplines such as manufacturing and engineering, identifying and qualifying process improvements in "softer"

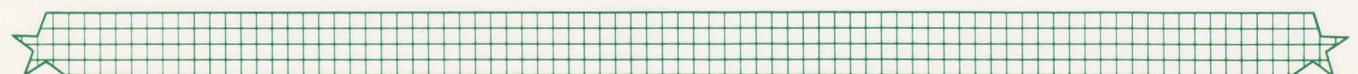
administrative disciplines within the company proved more challenging. For example, Jeff Jeffrey, who as a project team leader in Lockheed's marketing department, is responsible for compiling the company's annual strategic plan, often found himself at cross purposes with the producer of a parallel document, the annual five-year financial forecast. "The strategic plan is supposed to provide the basis for the financial forecast," Jeffrey explains. "The financial data are supposed to provide the feedback mechanism to 'recalibrate' the strategic plan throughout the year as financial forecasts become reality."

By collaborating, Jeffrey and various marketing and finance personnel were able to identify numerous process improvements that yielded an annual cost savings of \$75,000. The improved accuracy, traceability, and credibility of both documents also resulted in greatly improved cross-functional work team relationships and greater customer satisfaction.

These team-based TQM successes also earned Lockheed Austin a position as one of seven finalists for the prestigious Austin Quality Award, which is modeled after the internationally recognized Malcolm Baldrige Award. Although Lockheed did not win the award, it was singled out by the Austin Quality Council for a "Significant Merit Award."

The uncertainty underlying future defense and nonmilitary government budgets all but guarantees a smaller market and the accompanying downsizing of personnel. Lockheed Austin likely will not be immune from these realities. Mazaika summarizes, "For the most part, our people have embraced the TQM concepts, challenged the old systems, and exploited the successes as well as the failures. Our results have greatly enhanced our 'survivability quotient' for the 90s."

— Sylvia Simpson
Public Relations Manager
Lockheed Austin



Total Quality Management in the Private Sector: Lockheed Austin

Delilah Salinas, an electronics assembler in the manufacturing shop at the Austin Lockheed facility, points to a bar chart that illustrates the number of hours it takes to produce aerospace hardware known in the industry as "shipsets." Salinas describes the project as a cable modification program for the C-141 aircraft and outlines the changes she and her teammates have implemented that have reduced the time it takes to produce a shipset by nearly 40 percent.

Three years ago Lockheed Austin recharted its strategic and tactical directions in an effort to stay competitive in the changing U.S. aerospace business. Before that time, employees like Salinas were not likely to be tapped as subject matter experts on the production cycle time of a product. "The work teams—not the supervisor—establish the groups' goals and then work to achieve them within the boundaries that we set," says Don Cantler, Salinas' manager, now referred to in the culturally correct vernacular as functional team leader. "The number one boundary, of course, is to make a profit within the overall constraints of the budget. As a result of a high degree of employee involvement and management functioning primarily as boundary setters, the actual cost per shipset has come down significantly."

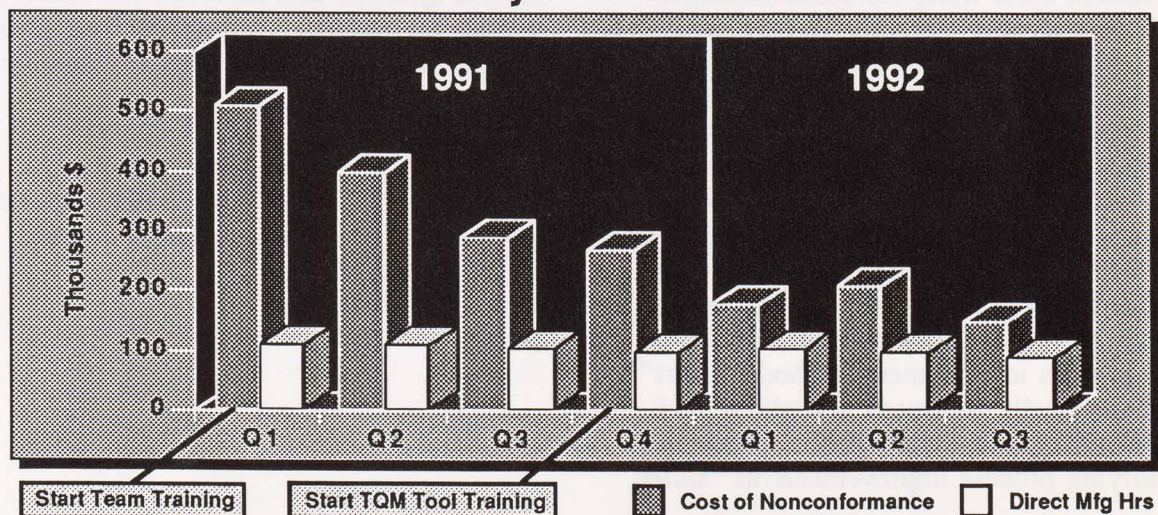
This cultural and organizational retooling—which Lockheed Austin refers to as team-based total quality management (TQM)—is a radical departure from traditional aerospace hierarchies. Successful implementation mandates a high degree of employee involvement and leadership behavioral change. For Lockheed Austin the transforming of employees' perception of their ownership in the enterprise and of management's role in the process proved, at times, a painful process. Ultimately however, this change has resulted in dramatic improvements in productivity and reduced overhead costs in nearly every facet of the 1,500-person enterprise in southeast Austin.

The shrinking Defense Department budget and historic changes in the global political climate signaled the long-forecasted beginning of a new era for U.S. aerospace contractors. Having already weathered some early storms in military program cutbacks, Lockheed Austin was poised for a new tack. In 1989 Lockheed Missiles & Space Company's Michael Mazaika, the new general manager, immediately put into motion an ambitious plan to "flatten the organizational structure and redistribute accountability, authority, and responsibility to the worker closest to the work and the customer," all basic tenets of a team-based TQM structure.

From the California company, Mazaika brought with him a headquarters-endorsed quid pro quo charter to improve Lockheed Austin's profitabili-

(continued on preceding page)

Cost of Quality at Lockheed Austin



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The Bureau of Business Research serves as a primary source for economic and demographic data on the state of Texas. An integral part of UT Austin's Graduate School of Business, the Bureau is located on the sixth floor of the College of Business Administration building.

Announcement

On November 13 the Bureau sponsored a one-day conference entitled "The Role of Natural Gas in Environmental Policy." Cosponsored by the Institute for Environmental Strategy, the conference featured speakers from academia and state government discussing the possibilities for substituting natural gas for other fossil fuels, problems of implementation, and potential benefits to the state and nation. Conference papers will be published by the Bureau in spring 1993. If you wish to be notified when the book is available, please contact us by phone (512) 471-5179 or fax (512) 471-1063.

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