McGregor's Ltd. Department Store

James McGregor, President of McGregor's Ltd., a department store in downtown Boston, was considering how best to inform his staff of a new policy on employees' discounts. McGregor had decided to change the discount policy to conform with current practices in other stores. Every staff member would be affected by the proposed changes, some adversely, some beneficially. The information sent out by the Personnel Department would therefore have to be tailored to the different groups. Most of his 721 employees would receive an improved discount, but McGregor was concerned about the reaction of the managerial staff. This group stood to lose its generous discount, yet without its full cooperation, the new plan could become a bone of contention rather than a liberalization of an old policy.

McGregor was debating whether to write a memo to all managerial staff or to call small groups into his office and personally explain the reason for the change. He did not relish the prospect of justifying the new scheme to 114 people—thirty-four executives and eighty buyers. The task would be time-consuming, and the news would reach some departments before others. McGregor felt the decision should be made known to all managerial staff at the same time and should be relayed to the sales force as rapidly as possible. He wanted to see the new policy put into operation without delay.

This case is an update by Linda McJannet of a case prepared by Alison Eadie under the supervision of Professor Thomas J. C. Raymond. © 1997.

HISTORY OF MCGREGOR'S LTD.

McGregor's department store had a reputation for being rather old-fashioned and traditional. Founded in 1871 by McGregor's great-grandfather, a first-generation Scottish immigrant, the store had remained under tight family control. In 1961, under the tenure of James McGregor's father, the store went public, but much of the stock remained in family hands.

The influence of the founder, who put great emphasis on personal service, was still felt in many areas of the business. Chairs were available in most departments for footsore customers. Goods were delivered free of charge to account customers within thirty miles of Boston, regardless of the amount of purchase. One customer of long standing had fruitcake from the food hall delivered every week, although the cost of delivery far outweighed the value of the cake. Generous credit terms were extended to account customers.

James McGregor, who took over the business from his father three years ago, did not want to destroy the old-world charm that distinguished McGregor's from other department stores in Boston.

He knew customers highly valued the personal services and enjoyed the atmosphere of gracious living that characterized the store. But he also felt the image projected by McGregor's was detrimental in some respects.

Many young people thought the store catered to older people, although its merchandise was up-to-date and the store had a boutique that sold teenage fashions. The juniors department had recently been taken over by a top-notch young buyer. Although the store had tried some promotions to attract younger customers, McGregor felt they had not been entirely successful. He worried about overreliance on a middle-aged and elderly clientele, which had serious implications for the store's future.

McGregor was also concerned about what he viewed as the firm's long-term financial performance. Although business had improved since he had taken over (*Exhibit 1*), and this year's increase in sales was above the average for retail stores (4.9%), he would have liked to see greater efficiency, a more rapid turnover of goods, and greater profitability.

McGregor's did not attempt to compete with Filene's bargain basement, Wal-Mart, or other stores offering slashed prices. Instead, it sold unusual and often more expensive goods. Imports were a major feature of McGregor's merchandise. It boasted the largest selection of foreign china and glassware in Boston, including a wide range of Wedgwood, Crown Derby, Royal Worcester, and Coalport china from England, Noritake china from Japan, and Waterford crystal from Ireland. Although this type of merchandise always sold, it sometimes took a while for the shelves to clear. McGregor believed a greater reliance on special sales would be necessary to speed up turnover.

Partly behind McGregor's thinking was the memory of the turbulent wave of mergers in the late 1980s that shook U.S. retailing to its core. The company that continued to do business as usual had often become a takeover target. Allied Stores and Federated Department Stores had been the two large department store chains in the U.S. After Robert Campeau, a Canadian tycoon, acquired Allied Stores in 1986, Federated Department Stores became the battleground. Over the years, Federated had managed to retain its image as a "Grande Dame" among its peers, and it was still the largest U.S. department store chain at the end of 1987. However, Federated had long been

EXHIBIT 1 Statement of Earnings and Retained Earnings, Year Ending June 30

	Current Year	Previous Year
Revenue		
Net sales	$46,103,603	$42,887,073
Costs and expenses		
Cost of merchandise sold	27,064,915	25,176,665
Selling and administrative expenses	10,910,348	10,149,161
Interest expense	301,871	319,440
Subtotal	38,277,134	35,645,266
Earnings before provisions for income taxes	7,826,469	7,241,807
Provision for income taxes		
Federal	3,710,284	3,451,427
State	389,246	362,089
	4,099,530	3,813,516
Net earnings	$ 3,726,939	$ 3,428,291

considered vulnerable because it "rested on its laurels" and appeared to ignore changing demographics and emerging forms of retailing. Further, its management failed to control a high expense structure and bring the autonomously-operated divisions together. A bidding war for Federated Department Stores arose between Robert Campeau and D. H. Macy. It ended in May, 1988, when Robert Campeau completed the acquisition of Federated at a cost of $8.8 billion. (Subsequently, many analysts thought that chain prices had been inflated in the overheated market of the mid-eighties.) Although the wave of mergers had died down, for McGregor the lesson of the acquisition of Federated remained: even when the company was doing well, it was better to prevent trouble than to wait until it came up.

One area in need of updating, according to McGregor, was personnel policies. Many employees concurred with customers in labelling the store old-fashioned. Despite the competitive wages paid by the store, McGregor's sometimes had trouble recruiting younger salespeople. McGregor decided that to create a less stuffy image and to attract younger staff, he should modify some of the more hierarchical personnel practices. He felt a young and dynamic sales and managerial staff would attract younger customers. One of his top priorities was to overhaul the employees' discount program.

THE CURRENT EMPLOYEES' DISCOUNT PROGRAM

When McGregor took over, the program was complex and inegalitarian. The size of the discount depended on the position of an employee within the firm, i.e., the higher the rank, the greater the discount (*Exhibit* 2). Six possible discounts existed. Salespeople had to verify the percentage of any purchase to be discounted by checking the employee's ID before deducting the appropriate discount from the full price.

In addition to taking employees' time, the system made no business sense. Discounts at the upper end of the scale were eating into profit margins, and beyond, on some type of goods. Major electrical appliances, calculators, cameras, and typewriters, for example, often had profit margins of 10 percent or less. Executives receiving a third off the price of a color television set were severely damaging the profitability of the Appliances Department. At Christmas time, particularly, managerial staffs spent heartily in some of the low-profit-margin departments.

At the other end of the scale, McGregor felt salespeople, maintenance workers, and clerks were not getting a fair shake. He was particularly anxious to include cleaners in the discount program. They had previously been left out because

EXHIBIT 2 McGregor's Existing Employee Discount Scheme

Grade	Position	Discount %	No. of Staff
1	Executives—vice presidents, managers, etc.	33⅓	34
2	Buyers	25	80
3	Supervisors, executive secretaries	20	97
4	Sales staff with more than 10 yrs. consecutive service	17	29
5	Sales staff with more than 5 yrs. consecutive service	15	62
6	Other sales staff, maintenance workers, van drivers, clerks, cafeteria workers	10	349
7	Cleaners	0	70
	Total work force		721

their working hours did not coincide with store hours. The premises were cleaned in two shifts, after the store closed at night and before it opened in the morning. Incidents of "lost" merchandise in several departments had led sales personnel to suspect the cleaning staff of shoplifting. Although no allegations had been substantiated, McGregor hoped extension of the discount to cleaning staff would reduce the amount of "lost" merchandise.

He also hoped the new policy (as it was more generous for most employees) would encourage spending on high-profit-margin goods such as clothes and accessories. The new policy would increase the involvement of employees in the store and in the type of merchandise being sold and, if the incentives were sufficient, it should lead to a significantly greater volume of sales.

THE NEW EMPLOYEES' DISCOUNT PROGRAM

The new policy proposed by McGregor brought McGregor's more in line with other department stores (*Exhibit 3*). It abolished the hierarchical structure. Every employee would receive exactly the same treatment: the discount would vary according to the goods purchased, not the status of the purchaser.

Instead of six tiers, the new program had only three. A 10 percent discount would be given on lowmargin goods, such as large electrical appliances, calculators, typewriters, cameras, film, and food. A 15 percent discount would be given on books, records, stationery, household goods, clocks, toys, china, linens, sporting goods, small electrical appliances, and furnishings. Finally, 20 percent would be given for clothing, fabrics, metics, costume jewelry, purses, belts, scarves. Items on which the store made virtually no profit (e.g., candy and tobacco) would be sold at retail price.

McGregor believed the new system made sense because it was simpler. Salespeople would no longer have to figure out one of six discount possibilities. They would deal with only one or two at most, since all the goods in one department would tend to be sold at the same discount. The new system also made financial sense. Low-profit-margin goods would be sold at realistic prices, and high-profit-margin ones would sell faster. In overall financial terms, McGregor was not sure how the change would affect the company. He kept records of employee spending, but these were not divided according to departments (*Exhibit 4*). Most of the spending was done by executives and buyers. This reflected in part their greater purchasing power, but it was also encouraged by the over-generous discounts for upper-level employees. McGregor believed the financial difference to the company would be significant when the 33⅓ percent and 25 percent discounts were abolished. Though the actual cut in any one manager's spending power would be small, he estimated the store would save about $19,024, mostly in the Appliances Department. He arrived at this figure by discounting all executive and buyer purchases at an average of 15 percent.

McGregor believed in the new plan. He now had to convince executives and buyers of its merits and gain their support to implement the changes. Some of the younger staff, he knew, welcomed change and modernization in the store. A few of them had even suggested more radical moves, such as trimming McGregor's somewhat top-heavy

EXHIBIT 3 Employee Discount Schemes at Other Boston Stores

Filene's	20% standard rate for all goods for all full-time employees
Jordan Marsh	15%, some variation according to merchandise
Lord and Taylor	20% standard rate on all goods for all employees
Sears, Roebuck & Co.	10% and 15% depending on type of goods
The Harvard Coop	5–30% depending on type of goods
Bradlee's	No discount

EXHIBIT 4 Employee Spending Habits for Most Recent Fiscal Year

Grade	Total Bill	Per Person Average		Total Discount	
1	$53,856	$1,584	(34)	$17,950	(33⅓%)
2	91,520	1,144	(80)	22,880	(25%)
3	88,774	915	(97)	17,755	(20%)
4	17,864	616	(29)	3,037	(17%)
5	29,462	475	(62)	4,419	(15%)
6	122,848	352	(349)	12,285	(10%)

management structure. But most of the executives and buyers had been with McGregor's for many years and were devoted to its traditions. McGregor knew he could expect resistance, but he was not sure how much. He certainly did not want news of the proposed changes to reach the sales force in general before he had the full agreement of executives and buyers.

Before taking action, McGregor explained his plan to Allen Lee, a younger buyer who had been with the company for three years. He laid out some of his reasoning and asked for Lee's thoughts. Lee agreed that many salespeople viewed the discount program as old-fashioned, even unfair, and that they needed to attract a younger salesforce in order to attract younger customers. He also agreed that the new program would save some money for the company, but he wondered if the resistance it would meet was worth the savings. On the issue of fairness, for example, many senior executives thought the current system was fair: those employees with the greatest responsibilities enjoyed the greatest discounts. Further, if McGregor stressed the $19,024 savings, the executives might wonder why it should come out of their pockets, especially since the store was doing well. Finally, he suggested that if saving money was McGregor's main motivation, he might look to more significant ways to cut overhead and administrative expenses. McGregor promised to consider Lee's comments, but he said he was still convinced the outdated employee discount program was the place to start.

Study Questions

1. Once McGregor has chosen his arguments, what structure will work best in this situation? One-sided or two-sided? Tell or sell? Given, since, therefore? Recommendation, rationale, implementation? Storytelling?
2. In arriving at his decision to modify the discount program, McGregor considered many arguments in its favor. Identify his arguments with a suitable key word. Which seem most cogent and persuasive to you?
3. What attitudes are the executives and buyers likely to have toward the new discount program? Which of McGregor's arguments are likely to seem most persuasive to them? Can you devise new arguments that might be more acceptable to them?
4. In designing his communication to his senior managers, should McGregor concentrate on one or two issues, or should he discuss all the issues that had a bearing on his decision?
5. Do you find merit in Allen Lee's suggestion that there might be more meaningful ways to cut costs and overhead than McGregor's new discount program? What might they be? What arguments support your view?
6. Suppose you disagree with McGregor about instituting the new program as it is described in the case. What changes would you make? Or would you leave the current plan in place? What arguments and what structure would you choose to persuade McGregor to modify or abandon his new program?