Remarks on Marketing Ethics

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Thank you. I am honored to be your keynote speaker today, especially in view of our topic of marketing ethics. It is a subject for which I have a very strong personal interest and commitment. You've heard this morning from a number of respected individuals who have studied ethics, business and marketing. My remarks will focus on the application of ethics in business in my field of retailing. It is my firm belief that ethics in business is not an option — it is not only right but an absolute requirement for success.

In retailing, ethics can be defined simply as “good business practices” — delivering:

1. quality merchandise;
2. value prices; and
3. customer service.

These elements must be supported by honest advertising and an unwaivering policy of standing behind the merchandise. Quite simply, that is the ethical framework of our company! If these practices are followed consistently, the financial pay-back will be there. And in today's highly competitive world of retailing, strong financial performance is mandatory.

In merchandising, the first strong position on ethics can be summed up in one phrase: “satisfaction guaranteed or your money back.” Montgomery Ward was the first company in America to make such a guarantee. In 1875, Aaron Montgomery Ward said, “We guarantee all our goods. If any of them are not satisfactory — we will take them back, pay all expenses, and refund the money paid for them.” This concept of “satisfaction guaranteed or your money back” was unheard of in those days of “caveat emptor.” It sent shock waves through the business community of 1875 and led to major changes in the way that businesses treated their customers. This is the way Montgomery Ward does business today — more than 100 years later. But, frankly, somewhere along the line Montgomery Ward and other general merchants lost their focus and were not delivering on this promise. Montgomery Ward’s financial results suffered accordingly, and it fell substantially behind its competition. The company ultimately became top-heavy and bureaucratic. Worst of all, it was out of touch with its customers.

Why did this happen? Up until the middle 1970s, retailing was a sellers’ market and the mass merchants enjoyed favorable results. But, increasingly more competition entered the market and, before anyone had realized it, the retailing square footage in this country had dramatically outpaced buying consumption! In the ’80s, the population of this country grew by 10 percent while total retail square footage grew by 75 percent. First came the discounters with their emphasis on low price and convenient locations. Then, the specialists with brand names and...
value prices. The mass merchants and department stores suddenly found that someone rapidly was taking their customers away. The specialists developed better systems and low-cost methods of operating. This enabled them to sell quality brand name merchandise at lower gross margins, while providing excellent customer service. Meanwhile, many of the general merchants failed to address the competitive issues and lower their cost of doing business. Instead of streamlining operations and systems, they attempted to compete in a different way by lowering quality, by taking features out of their products so that they could compete with discounters and specialists on a price basis — and by reducing customer service. The general credibility with consumers. Good long-term business merchants had arrived at a point where they had lost practices had suffered because of general merchants’ quick-fix tactics rather than viable strategies.

Montgomery Ward had lost that all-important focus on the customer and because of that disconnection the company almost did not survive. When I joined in 1985, there were real questions as to whether or not the company should even be allowed to continue operating. It had reached a breakeven point in the retail business, but was losing almost $75 million a year in the catalog and discount divisions. Mobil, the parent company, was questioning whether it should liquidate Montgomery Ward at a valuation of $500 million or try one more time to repair it. That was my challenge! The company had clearly failed to keep up with competition, and had strayed from its promise of “satisfaction guaranteed” in an effort to compete. My job in 1985 was to evaluate our options for survival.

First, we studied our 113-year-old catalog business, which was largely serving a rural customer base, and found that it no longer met the needs of today’s customers. Quality had declined, and the division had been losing substantial amounts of money for a number of years. Small town consumers no longer had a need for a large general merchandise catalog. New highway systems now enabled them to reach regional shopping centers within a short time. Chains like Wal-Mart were fulfilling their shopping needs. We made the very painful decision to discontinue our catalog operations, which had been the foundation of our company and the mail order industry. It was a strategic decision that allowed us to reduce costs and to focus our energies on developing a retail operation that could compete on the basis of good business practices. At the same time, we divested our Jefferson Ward discount store chain, closed unprofitable retail stores and exited lines of merchandise in which we felt we could not compete effectively against the specialty stores. Ultimately, we gave up $2.5 billion in annual sales — 40 percent of our total sales — in an effort to redeploy assets to grow our new business strategies.

The first critical step at Montgomery Ward was to create a mission statement containing 13 basic planks with the objective of becoming a chain of value-driven specialty stores. The mission statement concentrated on becoming a low cost operator and improving quality and service in order to compete more effectively with the specialty retailers. The important element of this mission statement relevant to our subject today is that it laid the foundation of principles by which the company would operate. It related directly to understanding and serving the needs of customers — in the merchandise, the service, the design of our stores and all other aspects of our business. We made a thorough study of those retailers growing the fastest, focusing on market share and return on equity. The best specialists (Limited, Wal-Mart, Toys “R” Us, Circuit City) were producing R-O-Es up in the 30 percent range. Meanwhile, general merchants were producing R-O-Es only slightly better than 10 percent, and losing market share. The messages were unmistakable — a straightforward approach: value, low operating costs, and merchandise specialization were vital to our future. We studied our private-label strategy from the perspective of customers. They had come to believe that our private-label goods were not of the same quality and value as the brand names they knew and respected. Our market research substantiated the fact that we were losing customers who had purchased private-label merchandise and were dissatisfied. Unfortunately, management had been gauging consumer reaction on customer complaints. The fact is that customers don’t always complain — they just don’t come back — and you lose that share. To change our customers’ perception of us, we needed to add quality brand names — and we've added brand names that are among the best in the industry. In fact, today we are the nation's leading retailer of such brands as G.E., Maytag, Zenith,