

Centrum Mall¹

Nadia Chan Pek Fong, CEO of the Centrum Mall, a department store in Orchard Road, was considering how best to inform her senior staff of a new policy on staff discounts. Nadia had decided to change the discount policy to conform to current practices in other department stores in Singapore. Every staff member would be affected by the proposed changes, some adversely, some beneficially. Most of her 721 employees would receive an improved discount, but Nadia was concerned about the reaction of the Grade 1 and Grade 2 staff as they were the ones who would be affected adversely. They stood to lose their generous discounts, yet without their full co-operation, the new plan could become a bone of contention rather than a liberalisation of an old policy.

History of the Centrum Mall

The Centrum Mall had a reputation for being rather old-fashioned and traditional in its management practices. Founded in 1946 by Nadia's grandfather, a first-generation Chinese immigrant, the store had remained under tight family control. In 1961, under the tenure of Nadia's father, the store became a publicly listed company, 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. Before going public, goods were delivered free-of-charge to customers, regardless of the amount of purchase. Chairs were available in most departments, even up to now, for footsore customers. All these had built for the Centrum Mall a group of loyal customers. When delivery charges were administered for home delivery after the company went public, one long-standing customer had fruitcake delivered from the Food and Wine Department every week although the cost of delivery far outweighed the value of the cake.

Nadia, who took over the business from her father a year ago, did not want to destroy the old-world charm that distinguished the Centrum Mall from other department stores in Singapore. She knew customers highly valued the personal services and enjoyed the atmosphere of gracious living that characterised the store. However, she also felt the image projected by the Centrum Mall 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 fashion. In addition, a top-notch young buyer had recently been put in charge of the Ladies and Men's Departments. Now they carry the latest fashion trends and styles. Although the store had tried some promotions to attract younger customers, Nadia felt they had not been entirely successful. She worried about over reliance on a middle-aged and elderly clientele, which had serious implications for the store's future.

The Centrum Mall sold unusual and often expensive goods. It boasted the largest selection of foreign china and glassware, including a wide range of Wedgwood and Royal Worcester 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. Nadia believed a greater reliance on special sales would be necessary to speed up turnover.

Nadia was also concerned about what she viewed as the firm's long-term financial performance. Although business had improved since she took over (Exhibit 1), and this year's 7.5% increase in sales was above the average for retail stores (4.9%), she would have liked to see greater efficiency, a more rapid turnover of goods, and greater profitability.

¹ This task was created by Catherine Cheng. All names in this case are fictitious.

One area in need of updating, she believed, was personnel policies. Many employees concurred with customers in labelling the store old-fashioned. Despite the competitive wages paid by the store, the Centrum Mall sometimes had trouble recruiting younger sales staff. Nadia decided that to create a less stuffy image and to attract younger staff, she should modify some of the more hierarchical personnel practices. She felt having young and dynamic sales and managerial staff would attract younger customers. Therefore, one of her top priorities was to overhaul the Staff Discount programme.

Current Staff Discount Programme

When Nadia took over, the **Staff Discount programme was complex and inequalitarian**. The size of the discount depended on the position of an employee within the firm, that is, the higher the rank, the greater the discount (Exhibit 2). Six possible discounts existed. When a purchase was made, the checkout staff at the cashier counter had to verify the percentage of any purchase to be discounted by checking the employee's ID against a database before deducting the appropriate discount from the full price.

In addition to **taking up time, the system made no business sense**. Discounts at the upper end of the scale were eating into profit margins for some products. Major electrical appliances, calculators, cameras and laptops, for example, often had profit margins of 10 percent or less. Senior staff receiving a third off the price of a plasma television set were severely **damaging the profitability of the Home Electronics and Appliances Department**. At Christmas and the Lunar New Year periods, particularly, the senior staff tend to spend heavily in some of the low-profit-margin departments.

At the other end of the scale, **Nadia felt sales staff, maintenance workers and clerks were not getting a fair compensation**. She was particularly anxious to include cleaners in the discount programme. They had previously been left out because 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, Nadia hoped extension of the discount to cleaning staff would reduce the amount of "lost" merchandise.

New Staff Discount Programme

The new staff discount policy proposed by Nadia brought the Centrum Mall 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 seniority status of the purchaser.

Instead of six tiers, the new programme had only three. A 7 percent discount would be given on low-margin goods, such as large electrical appliances, calculators, laptops, cameras and food. A 15 percent discount would be given on books, CDs, stationery, household goods, clocks, toys, china, linens, sporting goods, small electrical appliances, and furnishings. Finally, 20 percent would be given for clothing, fabrics, cosmetics, costume jewellery, handbags, belts, scarves. Items on which the store made virtually no profit (e.g., chocolate and wine) would be sold at retail price.

Nadia 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. Presently, most of the spending was by the senior staff. This reflected in part their greater purchasing power, but it was also encouraged by the over-generous discounts for upper-level employees. Nadia

believed the financial difference to the company would be significant when the 33 $\frac{1}{3}$ percent and 25 percent discounts were abolished. Though the actual cut in any Grades 1 and 2 staff's spending power would be small, she estimated the store would save about \$19,000, mostly in the Home Electronics and Appliances Department. She arrived at this figure by discounting all senior staff's purchases at an average of 15 percent (Exhibit 4).

She hoped that the new policy (as it was more generous for most employees) would encourage greater spending on high-profit-margin goods such as clothes and accessories. In addition, it would lead to an increase in purchases by employees and in the type of merchandise being sold. As a result, it would also result in a significantly greater volume of sales for the Centrum Mall.

Nadia believed in the new plan. She now had to convince her senior managers, senior buyers and other senior executives of its merits and gain their support to implement the changes. Nadia knew she could expect resistance.

Before taking action, Nadia asked you what you thought about her proposed change to the discount programme that the Centrum Mall offered to its employees from a younger employee's perspective. You joined the Centrum Mall 2 years ago as a management associate, having graduated from NBS with a degree in Business. As a management associate, you were rotated round the various departments in the Centrum Mall for the last one-and-a-half years. In the last 3 months, you have been working in the CEO's office under Nadia. During this period you demonstrated strong analytical skills and had come up with good recommendations for two projects that you were handling, and this had impressed Nadia.

You agreed with Nadia that many younger staff viewed the old discount programme as unfair. For the Centrum Mall to attract younger management or sales staff, a revamp of the programme was really necessary. However, you also highlighted to Nadia that during your rotation, you sensed that many senior executives and senior buyers thought the current system was fair – those employees with the greatest responsibilities enjoyed the greatest discounts. Therefore, they would definitely resent the proposed changes.

Nadia did not relish the prospect of justifying the new scheme to 114 people. However, she felt the decision should be made known to all staff as soon as possible as she wanted to see the new policy put into operation without delay. Since you know the content of the proposal from your discussion with her, she decided to get you to draft the email for her for review.

She reminded you: "It's important that we get the tone right. The Grade 1 and Grade 2 are not going to like what we have to tell them. Obviously, we don't want to alienate them. Send me your draft as soon as possible as I want the email out before our staff start planning what they want to buy for the Christmas season."

Your Task

Draft an email to all employees of Centrum Mall announcing Nadia Sim's decision to update the Staff Discount programme. Send your draft to Nadia for her review. The final email to the staff will be sent in her name.

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	4,099,530	3,813,516
Net earnings	<u>3,726,939</u>	<u>3,428,291</u>

EXHIBIT 2: Centrum Mall's Existing Staff Discount Scheme

Grade	Position	Discount (%)	No. of Staff
1	Executives – vice-presidents, senior managers etc.	33 ¹ / ₃	34
2	Senior buyers	25	80
3	Supervisors, executive secretaries, buyers	20	97
4	Sales staff with more than 10 years' consecutive service	17	29
5	Sales staff with more than 5 years' 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

EXHIBIT 3: Staff Discount Schemes at Other Department Stores

Shiyama	20% standard rate on all goods for all full-time employees
CP Chong	15%, some variation according to merchandise
The Feel Good Group	20% standard rate on all goods for all employees
Kitty Group	10% and 15% depending on types of goods
Sim Sim Pte Ltd	No discount

EXHIBIT 4: Employee Spending Habits for Most Recent Fiscal Year

Grade	Total Bill (\$)	Per Person Average (\$ amount/No. of staff)	Total Discount (\$ amount/%)
1	53,856	1,584 (34)	17,952 (33 ¹ / ₃)
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)