Cooking the Numbers – Ames Department Stores

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Introduction

Ames Department Stores was a discount retailer founded in 1958 by two brothers named Milton and Irving Gilman at a mill in Southbridge, Massachusetts. In opening their store, the brothers sought to fill in a niche market by offering a discount department store in a more rural environment where discount department stores were not prevalent. Ames became an incorporated company in 1962 and in 1972 acquired the Joseph Leavitt Corporation as well as the K & R Warehouse Corporation. Ames continued to grow by way of acquisition by also buying other companies out of bankruptcy such as Davis Wholesale Company, Neisner Brothers, King's Department Stores, G.C. Murphy Company, and perhaps most famously, the Zayre corporation in the late 1980's (Funding Universe, N/D). At it's height of success, Ames operated 736 stores, most of which were located in the Northeastern, Southern, and Great Lakes regions of the United States with estimated annual sales of $5.39 billion during that time (Funding Universe, N/D).

The first experience of Ames with Chapter 11 bankruptcy occurred in the early 1990's after the theory of offering deep discounts on some products in the store in the hopes that customers would be drawn in to purchase higher priced items ended up backfiring on the company. What ended up happening during this time was customers would go into an Ames store only to buy the deeply discounted item and not shop there for higher priced merchandise. When Ames emerged from bankruptcy the first time on December 10th 1992, it had reduced its operations to 309 stores in 14 states and arranged for a letter of credit from lenders to continue operations. In 2001 Ames was forced to apply for Chapter 11 bankruptcy protection for a second time due to slacking sales as well as increasing competition from stores such as Caldor, Wal-

Mart and Target. and eventually ceased operations a year later in August of 2002 (Labelscar: The Retail History Blog, 2006).

The Ethical Dilemma

There are many reasons why Ames was forced to eventually file for Chapter 11 bankruptcy protection not once, but twice. Some of these reasons include expanding at a rate that was not sustainable for the organization, acquiring stores that were on the brink of bankruptcy themselves, as well as offering store credit cards to consumers who may not have been creditworthy borrowers. Another problem in the operations of the stores as a whole was by offering items at a deep discount to lure customers into the store in the hopes that they will eventually purchase higher price items. Many customers quickly figured out that they were being taken advantage of in this regard and would only shop at an Ames store to pick out the deeply discounted items and do the remainder of their shopping elsewhere.

Analysis

The first major issues that is come across when reading about the history of Ames Department Stores is the fact that they seemed to be overzealous with regards to expansion and didn't consider the impact of acquiring so many other failing stores so quickly. At one point over the course of Ames history, the CEO of the company added chairman of the board to his list of job responsibilities and in effect made it seem as though the company was doing rather well. What really ended up happening, however, was the company ended up serving its own interest by having the CEO also serve as chairman of the board, and as such did not have an adequate change to gain outside perspectives in their business dealings (Waddock, 2009). It should also be noted that, in order for companies to be successful, they need to economize and do what is right for the company and by doing so the company will find that profit is the byproduct of doing right by the customer and the employees (Waddock, 2009).

Offering limited products at a deep discount rather than discounting all merchandise also showed that Ames as a company did not have a good grasp on what customers were looking for out of a discount retailer. In addition to its employees, the customers of Ames were its most valuable asset as the customers were the reason why Ames continued to be a successful force in the retail sector for as long as it had been. Keeping customers loyal to the company is key to repeat sales and in order to do this Ames would have needed to offer the best products at the best prices so that they could have continued to compete with retail giants such as Wal-Mart or Target.

Third, Ames took a great risk in offering consumer credit card products to customers who were not qualified to obtain such credit. Often times this created a great burdeon for customers who were already high in credit card debt and the offering of credit cards to non creditworthy customers may have been one of the major reasons behind the bankruptcy filings of 1990 behind rapid acquisition of other companies that were already saddled with great debt problems.

Recommendations

The first recommendation that would need to be made should Ames have had any chance of continued success would have been to establish a board of directors that was completely separated from the everyday management dealings of the business. Having a more outside board perspective would have allowed the company to potentially operate in a manner that would have benefited the greatest number of stakeholders while remaining an efficient and viable company.

Operating in the interest only of the company rather than taking into account the perspectives of customers, employees, and the communities where Ames stores were located meant that Ames was very much out of touch with their stakeholders and as such the company may have come to overestimate how well they were doing (Collins, 2009).

The second recommendation for Ames would have been to acquire stores at a more deliberate pace rather than acquiring for maximum growth in a short period of time. Because of its rapid expansion and oversaturation in the market, Ames quickly found that it had acquired too much debt from other companies that were purchased from the brink of bankruptcy and as such Ames was not able to handle that load of negative equity hanging over the corporation. One reminder of how oversaturated the market had become with Ames stores can be seen with the number of former Ames locations which closed in 2002 that remained unused to this very day, especially in towns around the Northeastern United States.

Third, Ames would have been wise to hire a marketing team in their organization that came up with ways to not only balance offering customers deep discount on merchandise, but built up customer loyalty so that those customers would continue to frequent the establishments. One step Ames took that was moving in the right direction but wasn't pursued further was Ames 55+ discount card, where Ames shoppers over the age of 55 could get further discounts on merchandise on specific days of the week. Offering discounts only on certain products or to certain groups of customers quickly turned customers off of the stores as customers would end up picking and choosing only the products they could get cheaper at Ames than at other stores. Offering a loyalty card to all ages of customers rather than just the 55+ age demographic would have also served the establishment well as more customers would seek to shop at Ames on discount day and offering reasonable prices every day on all merchandise would continue to entice customers to remain loyal to the store even when it was not discount day.

Fourth, Ames may have benefited by coming up with a strategy that depicts the store as a local store that focuses on good customer service rather than only on discount items. Many consumers not only seek out quality merchandise at fair prices, but they seek out quality customer service as well. This is similar to how community banks operate in that they may not have the best price in the marketplace on services but they win people over with good customer service and relationship selling strategies.

Lastly, Ames should have entirely eliminated the credit card program that was acquired with the Zayre buyout in the late 1980's in order to mitigate any consumer credit debt related losses that eventually brought the company further into debt. As it stood, rather than doing that Ames chose to co-brand their credit card with Visa and offered the card to anybody who wanted one, regardless of credit worthiness, which ended up making the problem worse rather than better. This ended up taking advantage of those consumers who were not able to handle the credit card debt and as such this company not only put many customers at risk financially, but the entire Ames Department Store corporation as well.

Conclusion

Once a mainstay of the discount department store world of the latter half of the twentieth century, Ames Department Stores paved the way for the success of retail giants such as Wal-Mart and Target in today's highly competitive retail marketplace. Ames had a long running history of acquiring other retail establishments from the brink of bankruptcy only to end up in bankruptcy and eventually folding due to bad business decisions as well as poor strategic management strategies. Had Ames had the foresight to market themselves as a community store rather than a large chain, eliminated their problematic credit card program, offered discounts across the board rather than to certain groups or on certain items, and expanded at a more methodical pace they may have ended up remaining a viable operation for many years beyond their eventual demise in 2002.

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