

Leased vs. owned departments (And some implications for schools)

Ted Kolderie

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Background

Not every organization can do everything well. So organizations often specialize. People needing services go to different stores and different offices for the things they need. Often these different 'shops' are in different places.

But people want convenience. So in recent years there has been an effort to bring a range of services together in a single 'center'. This was the idea of the "department store"; then of the supermarket; then of the postwar shopping center. Hospitals now offer a range of services, including in — patient care, outpatient care, residences for the elderly, childcare and social services. The 'office building' now offers a variety of business services as well as simply space. The idea has appeared in government; as in Hennepin County's 'service centers'.

A school is a center for services to children: academic courses, a library, physical education, music education, drama, sports, counseling, special education, alternative education, public health nursing, family education, driver training, vocational training, child care. The analogy today is explicit: The second volume of TheodoreSizer's study was titled, "The Shopping Mall High School."

But again: Not every organization can do everything well. So in many of these centers the idea is not for the parent organization to own and run every shop and service. The centers are set up, instead, as a collection, at a single location, of separate and independent businesses, professions and agencies.

Could a school be organized on this model, too? In Chicago recently I talked with the director of leased operations for a major retailing organization. It is common for stores to have departments that the store itself does not own. His description of their "leased departments" — and his explanation of why they lease, and how — was full of fascinating implications for an institution like school, in which it has always been assumed that every instructional service would be an "owned department".

Here are my notes of that conversation. As always, I'd be interested in your reactions.

Leasing, in Department Stores

Q: I take it the relationship is much more than we find in a shopping mall. A: Oh, Yes. In a mall the building owner provides just the shell and the building services for the operator of a retail business who agrees to set up there. Leasing goes way beyond that. We're talking about separate and independent businesses operating really an integral part of our store; indistinguishable to the customer from the departments our store owns and runs itself.

Probably 10 to 15 per cent of a department store is normally under lease; whether you measure by square footage, or head-count or sales. For the store it's partly a matter of cost and partly a matter of service and quality: Lessees can do some things cheaper, and can do some things better. For the lessee, coming into our store is an opportunity to share in our reputation and the customer confidence we've developed over the years, and to get the benefits of our locational decisions, our credit card system and — if they want — of our support services.

Q: Which departments are typically leased; and which not? A: Beauty salons. Furs. Fur storage. Fine jewelry. Books, increasingly: I think six retail companies have switched to leased books in the past year. Oriental rugs. Shoes, in a lot of stores. Shoe repair. (I know a store where this has been leased to one family for 50 years.) The garden store. Florists. Picture framing. Computers. Some food operations: the deli, and — more commonly — cookies, or a 'name restaurant. Sometimes the pharmacy. Sometimes optical. Sometimes the travel service or ticket service. Sometimes hats. A lot of things some stores don't offer any more were leased when they were offered: Kitchen-planning; driver-training; home cleaning.

Typically not leased? Consumer electronics. Men's suits. Intimate apparel. Children's clothes. Furniture. Housewares.

There are some marginal cases. Musical records will often be technically owned by the store but have all the stock supplied (and maybe selected) by a sole distributor. Sometimes there will be just a property deal, as in a mall, where an independent firm is in our store in a physical sense only. Cosmetics are an interesting case: Those lines are much sought-after by stores, so the firms can pretty much dictate what's sold, and how — and sometimes even by whom. Technically the store owns the department, but the cosmetics firm has a whole lot of control. There's just no piece of paper: no lease, literally.

Q: What drives leasing? A: There are some customer services and some technologies we just don't understand well enough. Also, leasing makes sense in the case of a new product; where the lessee is ready and we're not up to speed yet. Sometimes we find situations where our merchandising people simply do not show much interest in a particular product or service — one that may represent, say, only 15 per cent of their sales. A lessee is a specialist and will give that product the attention it needs, and that we want it to have.

Sometimes a manufacturer — like one high-fashion line of luggage — simply won't do business on any other basis: If you want his goods you have to lease. And there are some operations our store simply can't afford to run, given our targets about return on investment. Lessees are often able to run at lower costs, or willing to accept lower returns. Leasing frees up our capital for other uses.

Q: What kinds of firms become lessees? A: There's a wide variety. There's an international company that does the beauty salons in many department stores. At the other extreme are "ma and pa" operations in shoe repair, or coins-and-stamps. There might be large firms that are also local firms. And so on.

Q: Who do the employees work for? A: We can go either way. In our store at the moment I'd say 60 per cent of the employees in leased departments work for the lessee, and 40 per cent are on the payroll of the store. But that split has a lot of historical reasons. Our preference today is for the lessee to hire, supervise, evaluate and compensate the employees. That gives us a lot more flexibility, in the store.

Q: Run over the terms of a typical contract. A: Up to five years maximum. Some are for one year. The commission is related to sales. It might range from five to 30 per cent. The average would be about 15 per cent.

It would spell out who's to pay for what furnishings and fixtures, in the build-out of the space. It says what services the lessee must use, and which he may buy-into: advertising, delivery, payroll, security, etc. Our contract says the lessee must conform to store policy — as on hours, affirmative action, discounts to store employees, return of merchandise, etc.

Q: Who decides whether to lease or to own? A: Management in the department stores group within our larger corporation. Not corporate managers. Not store managers. Q: Is there a single decision, applying to all stores? Some companies as a matter of policy want a mixture of owning and leasing (or franchising) A: Some do. But we would handle a given department one way, in all stores and at all locations.

Q: One of the objections, whenever leasing or contracting comes up, is that "We have to keep control of the operation." A: Of course you want to keep control. You can do it in a lease. We put a lot of performance measures in the lease, not only about store policies but also about design, display, dress code etc.

It depends on how tough you want to be. If you look only at the figures — sales and bottom line — you won't see the service quality. We spend a lot of time inspecting. We have 'shoppers' who go to the leased departments, and report to me. Our real eyes and ears, though, are the other people in the other departments. If a lessee violates our policies — doesn't ring up a customer sale for a neighboring department, for example — I hear about it within minutes.

Q: Who's responsible? What's the reporting relationship? A: Each leased department has a manager, who reports directly to the person who supervises that product or service for our stores generally; who then reports to me. There is a "dotted-line" relationship between the leased—department manager in a store and the manager of that store.

This is a change in our company, in recent years. Store managers used to have a larger role than they do today in decisions about what to stock, how to sell, when and where to advertise and how to promote merchandise. The store manager's role is now more to be in overall charge of the building, the employees, the general services.

Q: Who resists leasing? A: People in central administration — buyers, for example — who lose their function and have to be reassigned when a department goes into a lease.

Q: 'Stability' is another concern. A: Change happens. Sometimes we drop a lessee. Or a lessee may move and replace its local manager. Sometimes a lessee just goes out of business. But our own buyers move and resign from time to time. So it's a toss-up. Leasing is no more stable or unstable than owning.

Q: Have the employees in one of your own departments ever said they'd like to form a company and run it? A: No. But we have a case at the moment where a firm is giving up a line of merchandise we want to keep in the store, and where we may try to find some of that firm's former employees and see if they would set up in business and take over the department.

Q: Do leased and owned departments mix? Do the different people work together well? A: You can get a we/they situation in different ways. It can develop between leased and owned departments. It can develop between the 'domestic' and 'table top' departments, both of which we own, where people develop a rivalry and won't speak to each other. Or between the employees who work on salary and the employees who work on commission. You have to watch out for it, wherever it comes from.

We tell the leased departments to be sure they're mainstreamed . . . to go to all store meetings, for example. And we tell store managers to be sure they always invite the leased departments. How well the relationship works varies. It depends on the store manager.

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A DISCUSSION ABOUT LEASING

**By Ted Kolderie
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Later, the executive from the department store group (identified below as E:) was in the Twin Cities and agreed to sit down for a discussion about leasing with a group of educators and others.

Present were: Margaret Weber, SouthSide Family School; Ruth Anne Olson, consultant; Mike Damyanovich, Osseo schools; Jon McGee, Humphrey Institute; Jim Sauter, assistant commissioner, Minnesota Department of Education; Phil Helland, formerly chancellor of the Community College system; George Dahl, Minneapolis Board of Education; Jody Hauer, Citizens League; Bart Bellair, Clara Barton Open School; Bill Heck, Robbinsdale schools; Kent Stever, Jefferson High School, Bloomington; Owen Turnlund and Jim Long, Plymouth Youth Center; John Mauriel, Bush School Executives program; Ron Carter, superintendent, District 287; Jim Walker, superintendent, North Branch; Mary Lou Klinkhammer, teacher, Roseville schools; Larry Wade, independent teacher; Crystal Meriwether, superintendent, St. Anthony/Columbia Heights; Karen Olson, science teacher; Mike Raub, former math teacher; Steve Schewe, Norwest Venture Capital.

We began by asking the store executive to describe the arrangement. (He covered basically the same ground as the interview recorded in the PSRP memo – printed before this section.) So I have picked up, here, only the points that were new or that were given greater emphasis.

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E: We want to own and run as many departments as possible ourselves. We lease only when that will clearly mean either that the customer is better satisfied or where that will clearly be more profitable for us.

Not too many years ago we thought it was a plus to put our name on any business. Much of that was done through leasing. We have pulled back a lot. The rationale is clearer to us, now. We lease (1) if it involves a specialized item or service, in which we're not technically competent; (2) when it lets us react faster to an emerging trend; (3) if it's the only way to get an item or service we want; (4) where the inventory investment would be too large or would turn over too slowly; (5) where the capital investment in store facilities would be too large; (6) where leasing would just plain earn us a higher return; (7) where it involves an item in which our people are not intensely interested but which we want given special attention. A lessee, obviously, gives a particular item 100 per cent attention.

The discussion went about as follows:

Q: You have pretty tight control. What are the advantages for a lessee? E: An opportunity to get close to the traffic in our store. Inclusion in our advertising. Access to our credit card.

Q: What's the mix of leased and owned? E: In our company, about 15 per cent. It may be higher elsewhere. I am hearing currently that Montgomery Ward may convert to a concept of leasing all departments.

Q: You mentioned computers: You got in quickly through leasing; now you say you've gotten out temporarily. Would those changes have been harder or easier if you'd owned the department yourself? E: Harder.

Q: Have you ever converted one of your existing, owned departments to a lease? E: We may be doing this soon with our books.

Q: Will the owned and leased departments work together as a team? E: It's always a challenge. But the "walls" can also appear between our owned departments. The one between "fashion" and "home" is famous: One always thinks it's getting second place. You also get "walls" between operations and merchandising.

Q: Have you ever changed lessees? E: Sure, occasionally. The lease is for a limited term to give us that opportunity. And we have some "outs" that let us terminate a lease.

Q: Which system gives you better control? E: You need to know a business in order to monitor it. With a lease you have to trust the lessee -- or retain someone who knows the business. Currently one of my projects is to learn the fur business.

Q: I'm basically a leased department, as I teach. Your description of these arrangements rings a lot of bells with me. I do what the system cannot do for itself. I used to be an "owned department". I didn't have nearly the freedom then to develop. I am much freer now. I am more accountable now. I don't advertise: I don't need to do that. E: The leasing system is very sensitive to quality problems: I hear immediately when a lessee screws up. And lessees are always "in stock" and are never short of selling staff.

Q: Why wouldn't the store employees do things so well? E: We get bogged down in size and scale.

Q: How does the lessee deal with the extraneous questions? Somebody who stops by and asked to be directed somewhere? What would a lessee in a school do with a kid who thinks he's about to throw up? Teacher: I'm not there alone. There's a system, still in place. Q: So, the answer is that it's double-staffed? Consultant: It's not the 'leased teacher' vs. the regular teacher. You always have specialist teachers coming in. The question is whether the specialist teacher might be 'leased' rather than on staff. E: Our leased departments know enough to help in these situations. Consultant: When I was in this role I made sure I always responded just like any employee. Principal: You're still not part of the "wholeness" of the school's mission. Teacher: And I couldn't be, without diluting what I do. It's a tradeoff. Educator: In her case, though, we've been talking about a part-time person. Leasing isn't necessarily just for part-time. In the store the leased department is there all the time. E: Yes.

Principal: I can see this for evaluation. Or for an occasional science consultant. But why would a school lease a permanent department? Teacher: You could lease an entire science department. Principal: But then she (pointing) would have lost her independence. Teacher: Not if she was president of the operation!

College educator: Leasing was growing in our system. For courses in medicine, and in law enforcement, for example. (To E:) Our problems were much like yours. Our faculty supported buying that kind of instruction. E: How about foreign language? Educator: We couldn't use leasing to go around the normal hiring practice.

Q (to an alternative school): Are you basically a leased department, to the district you serve? A: The district has a certain number of kids it is unable to serve. They have a contract with us to do that. So I guess we are. Principal: I've probably got 15 per cent of my total operation leased at the moment, if I add up everything. Another principal: I lease, we're saying here: for counseling and for community liaison. And I'm not the only principal in the district with this arrangement. Consultant: The district used to use leasing as a way to get good services. Later I thought I saw the district using it as a way to get services cheap. Teacher: In one district I was brought in by the classroom teachers, when they were given the freedom to control their own budget.

Observer (to the alternative school): Success for the store is in making the leased department indistinguishable from the owned departments. In your case, I suppose, success is precisely in keeping those differences that make your program more effective with that very special sort of student. A: True. We're also out of the school building. The program wouldn't work in the regular school building.

Superintendent: If we had to start again I see no reason why most everything couldn't be done with leased operations. It's conceptually possible. Teacher: Wouldn't the control be all gone, in that case? Principal: Or all better.

Teacher: I think about the computer lab. It seems to me that would be an ideal thing to lease. It's high-cost. The technology is changing all the time. It takes special skills to use it, which our staff may not have. E: That was our thought, when we sold computers. Teacher: We usually feel we can do everything. We hire. Then we're stuck with that position forever. And it takes time to set up a hired position. We've got a need now for suicide prevention. We have to move quickly.

E: The trend now in churches is to lease counseling. Observer: Isn't the arrangement in hospitals essentially leasing? I think about some emergency-room physicians. Or pathology, or anesthesiology. Or look in the paper today: The governor wants this Japanese-language center at Giants Ridge. The instruction is apparently going to be leased from the Concordia Language Camps.

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The meeting was then adjourned, with thanks to all present.

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Afterward, the teacher who had suggested the idea about the computer lab reported that someone leaving the meeting had told her a subsidiary of Josten's now does offer that service. This is so. They will install and maintain the lab in the school; under an arrangement which permits the company to use the facility as a learning center outside of school hours.

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