

A man of innovation: sam walton

Business, Marketing



When Sam Walton opened the first Wal-Mart store in 1962, it was the beginning of an American success story that no one could have predicted. A small-town merchant who had operated variety stores in Arkansas and Missouri, Walton was convinced that consumers would flock to a discount store with a wide array of merchandise and friendly service. Hence, Wal-Mart's mission is to deliver big-city discounting to small-town America.

From humble, hard-working roots, Sam Walton built Wal-Mart Stores, Inc. into the largest, fastest-growing, and most profitable retailer in the world. A child of the Depression, Sam always worked hard. He would milk the cows, and by the age of eight, he started selling magazine subscriptions. When he turned 12, Sam took on a paper route that he continued well into his college days to support himself. Walton began his retail career at J. C. Penney in Des Moines, Iowa in 1940 making just \$75 per month. In 1945, Sam borrowed \$5,000 from his wife and \$20,000 from his wife's family to open a Ben Franklin five and dime franchise in Newport, Arkansas.

In 1950, he relocated to Bentonville, Arkansas and opened a Walton 5&10. Over the next 12 years they built up and grew to 15 Ben Franklin Stores under the name of Walton 5&10. Sam had plenty of new ideas. He liked to deal with the suppliers directly so he could pass the savings on to the customers. He later brought a new idea to Ben Franklin management that they should open discount stores in small towns. They rejected his idea.

Sam and his brother James (Bud) opened their first Wal-Mart Discount City store in Rogers, Arkansas in 1962. Walton and his wife Helen had to put up everything they had, including their house and property to finance the first 18,

000 square-foot store. With gradual growth over the next eight years, they went public in 1970 with only 18 stores and sales of \$44 million. While other large chains lagged behind, Wal-Mart soon grew rapidly in the 1970's, due to their highly automated distribution centers and computerization. By 1980, they were up to 276 stores with revenues of over \$1. 2 billion.

Sam Walton's guiding philosophy for his stores from the beginning was to offer consumers a wide selection of goods at a discounted price. The company saved money by keeping low advertising costs and located stores in small towns where residents had few options for retail shopping. On one level, Sam Walton was "just folks", the guy with the red dented pickup with the bird dogs in back. On another, he was the flinty entrepreneur, there to peer as deep into the salesmen's souls as into their sample kits and persuade them to give a deeper discount for Wal-Mart's bulk and massive purchases.

Wal-Mart's success in small towns led to criticism that the stores took business away from small, hometown merchants. Nevertheless, the company managed to successfully market the stores as friendly, local businesses. In the Wal-Mart spirit, employees often greet shoppers at the store's entrances. Since their early days, Wal-Mart stores have paid careful attention to specific community needs and wants, often selling local merchandise along with items sold throughout the chain. In addition, the company honors selected graduating high school seniors with college scholarships, and the stores hold charity fund-raisers and sponsor various community events.

Wal-Mart's corporate community spirit began to exert an influence on public policy in the 1990s. After the record industry established a parental advisory system of "sticker" musical albums containing potentially offensive material, Wal-Mart decided to ban the stickered albums altogether from their stores. The company subsequently has succeeded in influencing many record companies to release clean versions of stickered albums. Wal-Mart has considerable impact in the music industry, largely because about one-tenth of all compact disks sold in the United States are sold at Wal-Marts.

Today, Wal-Mart has over 728, 000 Associates worldwide with 3, 500 stores, sales of over \$104 billion, is in operation in all 50 states and it's still growing. In an average week, approximately 60, 000, 000 customers will shop at Wal-Mart throughout the world. In his autobiography "Sam Walton: Made in America: My Story," Sam shares with us, "If you believe in your dreams, there's no limit to what you can do." In 1992, American legend, Sam Walton left us with these words, "I would like to be remembered as a good friend to most everyone whose life I've touched; as someone who has maybe meant something to them and helped them some way."

While Walton's management techniques over the years were hardly the stuff of an MBA program, it represents the kind of grassroots common sense that many entrepreneurs readily acknowledge-but too seldom heed. (People have a knack for making business more complicated than it needs to be.) What Walton showed the world, but especially the retailing world, was that success was rooted in a mindfulness of a few basic principles. These principles consisted of constantly being mindful of; customer service and satisfaction,

always take advantage of the competitions ideas, diversify, employee satisfaction, and give back to the community. Couple this with a relentless drive to put these principles into practice.

Sam Walton understood better, it seems, than anyone else that no business can exist without customers. He lived by the creed of, make the customer the centerpiece of all your efforts. In addition, in the process of serving Wal-Mart's customers he served Wal-Mart associates, shareholders, and communities. He accomplished this almost without parallel in American business. Walton knew what the customer wanted. The customer wanted everything: a large assortment of quality merchandise; low prices; satisfaction guaranteed; friendly service; convenient hours; free parking; a pleasant shopping experience. His motto was, " always exceed the customers expectations".

In the 1950's and 1960's the great migration from the inner cities and from the rural areas to the suburbs had begun. The big retail giants stayed put, around the large populated suburban and urban areas. Small town and rural America either had to travel to the big city to buy cheaper or buy from the local merchant at a higher price. These merchants seemed to think that since they had a captive audience they could stick with their 35 to 45 percent mark-ups. There seemed to be an ever widening or let me say, vacuum occurring.

Walton has been accused of single handily driving the small town merchants out of business. Reality shows though that the small town merchants brought about their own demise, by being greedy and only trying to monopolize their

small piece of the market. They also viewed that raising the mark-up on their goods could only solve their loss of revenue, declining because of people moving out and people driving to the urban areas to shop. Sam saw just the reverse of this. Buy in tremendous volume, mark the goods up less than 30% and carry a large variety of goods.

" Every day low prices" is a hall mark of Wal-Mart and Sam credits a manufacturer's agent from New York, Harry Weiner, with his first real lesson about pricing: " Harry was selling ladies' panties for \$2 a dozen. We'd been buying similar panties from Ben Franklin for \$2. 50 a dozen and selling them at three pair for \$1. Well, at Harry's price of \$2, we could put them out at four for \$1 and make a great promotion for our store. " Here's the simple lesson we learned ... say I bought an item for 80 cents. I found that by pricing it at \$1. 00, I could sell three times more of it than by pricing it at \$1. 20. I might make only half the profit per item, but because I was selling three times as many, the overall profit was much greater.

Simple enough, but this is really the essence of discounting. By cutting your price, you can boost your sales to a point where you earn far more at the cheaper retail. Sam's adherence to this pricing philosophy was unshakable, as one of Wal-Mart's first store managers recalls: " Sam wouldn't let us hedge on a price at all. Say the list price was \$1. 98, but we had paid only 50 cents. Initially, I would say, 'Well, it's originally \$1. 98, so why don't we sell it for \$1. 25?' He'd say, No. We paid 50 cents for it so mark it up 30 percent, and that's it. No matter what you pay for it, if we get a great deal, pass it on to the customer.' And of course that's what we did." Moreover, that's what

we continue to do - work diligently to find great deals to pass on to our customers.

Some will argue that Walton's plan was, and Wal-Mart's plan even today, is to drive all competition out and raise prices for even larger profits. In essence, become a monopoly similar to the previous small-town merchants. The argument is mute because a true free market will not allow this to occur. Someone will come in to fill the new vacuum that will be in existence. Just like Sam Walton did with Wal-Mart.

Walton also saw a large segment of the country, although widely dispersed in small towns, being totally inconvenienced by the big retailers. Yet the treatment by the people who owned the small-town stores who were neighbors, and sat in the same pew on Sundays was even worse in Sam's eyes, it was unconscionable. He could not understand how neighbors could treat one another in such a way over profitability. It was not right and he would make sure people were treated like friends and family when they came into a Wal-Mart.

Sam Walton from the very beginning would scope out his competitors. When he would go to a competitor's store, it was always tempting to see how dumpy it was, how small it was, or any other negative aspect that would make his stores seem better. He would never tolerate those types of thoughts. When he and whomever came back from visiting the competition, he would force them to focus on what the competition did better than their stores did. Once he went into a store in Tennessee and the place was awful.

The produce smelled, and it was just a disaster. In addition, his associates were kidding each other wondering what Sam was going to say about this situation. Sam looked at the back of the store and saw a cigarette rack and said, " You know, that's the finest cigarette merchandising I've seen in a year." Sam's view of his visits to the competition was that you have to see what they do better than you and learn from them. You must never have the arrogance to take your competition for granted, because that can come back and hurt you.

Sam Walton felt that a business should always diversify, spread their risk. While Walton may have had his fortune tied up in one business, he still sold everything and anything he could get a good price on. Sam Walton felt that if you want anything bad enough, you could find a way to do it. Sam Walton said, " There's a steep price you pay for success, and successful people in business know that." Sam's philosophy on leverage was that you couldn't spend more than you're taking in, that leverage will always come around and bite you. Conversely, Walton also felt that tough times magnify opportunity for those who avoid debt. He always said that there will come a time when big opportunities will be presented to you, and you have to be in a position to take advantage of them.

Sam Walton told a story about how back in the late 1970s, when Wal-Mart had about 250 stores, when he received a call from the chairman of Kmart offering to buy Wal-Mart. Walton replied, " Gee, that's funny. I thought we'd buy you." The Kmart people were amused. After all, at the time Kmart had five times as many stores as Wal-Mart. However, Walton knew that internal

and external problems were plaguing Kmart. The company was over leveraged and lacked focus. Kmart was a retailer in distress. Walton could see that, and he knew it was time to seize the moment and go for the jugular. In the sluggish, high-interest-rate economy of the early '80s, Kmart faltered and Wal-Mart ate its proverbial lunch.

Sam is notorious for calling his employees, " as did J. C. Penney, 'associates'" instead of clerks or workers. This may not seem like a large difference, however, it instills a feeling in each employee that he/she is responsible for the operations of the firm. Sam had never thought of using it at Wal-Mart until during a visit to England when he saw a storefront window. " It was the Lewis Company, J. M. Lewis Partnership. They had a partnership with all of their associates listed up on the sign. For some reason, that whole idea really excited me: a partnership with all our associates."

His openness to talk and listen to anyone of his employees made them feel that they were an integral part of the company. He would later on use his company's satellite system to communicate live to all of the stores at once to relay messages, which he thought, were vitally important. Although this practice is not copied from any company, the very concept of being close to all associates is being copied from his early mentor, J. C. Penney. Sam believes in opening the lines of communication, so they do not only flow from top to bottom, but from bottom to top. Mr. Penney also displayed this idea by spending as much time as possible in his stores.

One author said, " Walton does a remarkable job of instilling near religious fervor in his people." Sam borrowed this idea from Mr. Penney, the president

of J. C. Penney, while Sam worked for him. " Then, of course, the icing on the cake was when James Cash Penney himself visited the store one day. He didn't get around to the stores as often as I would later on, but he did get around." Sam made a point to be in the store as much as he could, unlike many managers of today. The reason for this was to allow his associates to really feel important with the president of the company coming to visit them.

Few could argue with Adam Smith's statement that " It is not from the benevolence of the butcher, the brewer, or the baker, that we expect our dinner, but from their regard to their own interest." Those businesses that refuse to look after their own self-interests will not be businesses long enough to have any impact. At the same time, however, there can certainly be regard for a larger purpose. For some businesses, commitment to a larger purpose would be simply learning the difference between right and wrong, while others take a more responsible view of the role they play in the lives of their employees, their customers, and ultimately how they affect the world. Sam Walton's philosophies were and are fundamentally based on giving back some of the wealth that he and his family receive.

Sam Walton, was not just one of the most successful and rich men in America, but prided himself and his family on giving something back. His family's gifts reflect a wide variety of interests, spread across numerous organizations, with a heavy emphasis on education. His programs continue after his death.

Walton funded a special scholarship program that sends kids from Central America to college in Arkansas. Presently, there are about 180 of these

children enrolled at three different Arkansas schools, and Sam paid about \$13, 000 a year per student. He also sponsored seventy scholarships of \$6, 000 each year for children of Wal-Mart associates. In addition to many educational institutions, recipients of Walton family gifts include church groups and community projects like zoos, libraries, and recreational facilities.

He supported hospitals and medical research programs. He funded art groups and theater groups and symphonies. He gave to conservation and environmental causes and veterans' groups, as well as to economic development groups and free enterprise groups. Sam and his family also supported both private and public schools. Sam supported such groups as the Citizens Against Government Waste, Students in Free Enterprise, and the Arkansas Business Council. He conducted an aggressive United Way campaign. He was the largest single contributor to the Children's Miracle Network Telethon, donating \$7. 5 million.

Sam donated his share of the proceeds from his book, *Made in America*, to the New American School Corporation, a private initiative started by business leaders who have pledged to raise \$200 million for the development of "break-the-mold schools." Most of the giving that Sam Walton has done has either been anonymously, or linked to strict requests for no publicity.