

## CHANGES IN RETAILING

By John Barnes

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Recently, Debbie and I decided we needed a new Blue Ray DVD player. First thing I did was go to the Internet and did some research. The technical aspect Debbie left up to me. I am partial to Sony (SNE 30.50) so I went to their website and checked out its latest offerings. Once I settled on the model I wanted, I went to Amazon (AMZN 744.00), ordered it, and Blue Ray player was at the house in two days.

By the way I have been an Amazon Prime member since 2004. I am partial to books, and have a library of about 3500 books, and about 100 on my Kindle app.

I didn't even think about going to electronics store. I did not want to leave the house and deal with traffic. I was being lazy.

Not long ago, a young man I mentored in the stocks and bonds business asked if I thought Northwest Arkansas could ever become another Detroit. Thoughtful question. Walmart's headquarters in Bentonville is one of the major economic drivers in that part of the state. What he was really asking was it possible that Walmart could go the way of Sears, Roebuck and Co. My answer was yes it was possible, but such an economic bust would only happen if Walmart leaders lost sight of the changes in customer behavior.

One economic maxim I have learned in life is the customer reigns supreme. The customer always finds the best value, and if you the retailer are not offering it, the customer will quickly abandon you.

Now please indulge me as I take you back in time. In the late 1950s my family lived in Memphis and our shopping outings usually took us to 495 North Watkins Street where Sears had a 14-story, 1.5 million square-foot store. The art-deco building, constructed in 180 days in 1927, was Sears' eighth regional distribution center serving both as a retail outlet and a mail-order fulfillment center. (Wikipedia)

As a young boy, I found the place amazing. There was so much stuff for sale. Clothes for women, men' girls and boys. Available clothing were style for Sunday dress-up or casual for outdoor play. You could find a new Kenmore refrigerator, washing machine or dryer. Regardless of your favorite sport there were items in the sporting goods department. Car batteries, tires, windshield wipers, floor mats, seat covers and other practical equipment for cars. Department by department, you could find anything you wanted.

When I got bored being with Mom and Dad as they shopped for a new Kenmore washing machine or clothes for all of us, I would talk them into letting me ride the escalators. By myself. Unattended. There was no concern for a kid's safety. It was a much different time. Sometimes I was forced to take by younger sister and I promise to hold her hand.

I always started school with a new pair of Jeepers high top tennis shoes. Christmas shopping did not officially start until the Christmas "Sears Wishbook" arrived in the mail. I would spend hours perusing the toy pages trying to decide which one toy I would ask Mom and Dad for Christmas. One toy was all we could afford and it was bought on credit. You see, Sears, Roebuck and Co. had a history of selling via the catalog to rural Middle American (particularly farm) families who needed credit until the harvest was in and the crops sold.

My first bicycle was a J.C. Higgins model. My first transistor radio was a Silvertone as was my first record player. When I became 13, I got a J.C. Higgins 22-cal. single-shot, bolt action rifle which I still have. These were Sears brands as were Craftsman tools and Die-Hard batteries. The Sears brands were known for their quality.

And our family was no different than our neighbors. Everyone shopped at Sears.

For 60 years, that Sears store served Memphis and surrounding Mid-South area. The retail portion of the store closed in 1983 followed by the catalog distribution center in 1993. The building is now being converted into a multi-use facility (Wikipedia).

Sears Crosstown, as it was known, is being preserved and redeveloped as mixed-use vertical urban village with emphasis on arts, education and healthcare. ([www.crosstownconcourse.com](http://www.crosstownconcourse.com))

Sears, Roebuck and Co. got its start when Richard Warren Sears, a railroad agent in Minnesota, and Alvah C. Roebuck of Chicago became partners in the 1880s and started sending catalogs throughout the Mid-West and Mid-South to rural families who could buy via mail-order a larger variety of merchandise at a lower price than the local general store. The first catalog was published in 1888. By 1895 it contained 532 pages. In 1905, you could buy a car via the catalog made by Lincoln Motor Car Works. In 1908 the catalog included ready-to-assemble kit houses known as Craftsman homes. (Wikipedia).

As the country's demographics began to change post World War II, the marketing of Sears had to change. Main Street commerce was dying and suburbia was where the action was. Malls and strip centers began attracting shoppers. Catalog sales declined and the last one was printed in

1993. Sears tried suburban department stores. After the end of World War II, the customer buying habits were shifting and a retailer by the name of Sam Walton was paying attention.

An Arkansas businessman and former J.C. Penny employee, Walton bought a Ben Franklin store. He believed higher volume and lower prices to the customer was the future. Leasing retail space, and franchise agreements hampered his crusade. Finding lower-cost suppliers and passing on the savings to the shopper, Mr. Sam's business finally started to grow. A lease expiration forced Walton to move his store, and "Walton's Five and Dime" was born in Bentonville, AR. (Wikipedia).

Fast forward to the late 1970s, and I'm a newspaper editor in Heber Springs. I was part of a community effort to attract a Skil-saw factory and Gar-Bro Manufacturing Co, the maker of concrete handling equipment. Other factories would come to Heber Springs. With more jobs existing in the community, more retail outlets were needed. In about 1978, Walmart announced it was going to build a store on Hwy. 25N, and within a month the Grundfest family of Little Rock, owners of Sterling Stores, Inc., was going to open a store on Hwy 25 S. It was named Magic Mart and an early competitor to Walmart (WMT 73.88). The Heber Springs Walmart would be the 281st store in Mr. Sam's chain. Magic Mart did not survive.

Mr. Sam was relentless in his desire to cut costs and keep prices low. He eliminated the jobber and the manufacturer's representative. He build distribution centers so Walmart employees controlled the shipping. Movement of the product to the store was examined along the supply chain an excess cost was eliminated wherever possible.

Soon, if you were a manufacturer and you wanted to sell to Walmart you had to have a physical presence in Northwest Arkansas. If there was a problem, a manufacturer's representative had to

be "Johnny-on-the-Spot" and Walmart's headquarters. Time was money and Mr. Sam did not like wasting time nor money.

Every Day Low Prices became Walmart's mantra and the consumer responded by making the big box stores the world's largest retailer. Today, Walmart is the United States' largest private employer, and the next five private employers' total employment does not equal WMT's payroll.

Back to my young friend. The brain of Walmart's operations is Northwest Arkansas. Every vendor servicing Walmart -- whether it be consumables for the customer, shelving and lighting for the stores, on warehouse moving equipment -- has an office nearby Walmart's headquarters.

I mentioned earlier how I did not care to visit Best Buy (BBY 31.81). I have the same aversion for a Walmart Store. It has become too easy for me to order online, get free shipping and what I want in two business days. I'm on a first name basis with my UPS (UPS 110.70) and FedEx (FDX 160.09) drivers.

Debbie's and my shopping habits for the most part have moved to the Internet. Let me tell you a story to illustrate. Debbie had a blue plastic mop bucket. Larger than a normal mop bucket had wheels making it easy to use. One day the bucket sprung a leak, and needed to be replaced.

Complaining she could not remember where she bought the bucket, Debbie did not like the idea having to go to Walmart, Home Depot (HD 137.40) or Lowe's (LOW 81.83) to find a new one. I asked her if she still had the bucket. She did. So I asked her to bring it to me. Once she handed the bucket to me, I turned it over and there was the name of the manufacturer.

I suggested she might "Google" (GOOG 737.33) the manufacturer's name to see if the bucket would show up and reveal where it was being sold. She did and found Walmart offered it for sale. How much, I asked. "Seventeen dollars and fifty-five cents plus shipping," she replied.

I asked, "Okay, now see if the bucket is offered on Amazon and what the price is?" She went back to her computer, and soon returned to tell me Amazon was offering the identical bucket at \$17.99 with Prime shipping."

My next question was could she wait two days to receive the bucket. Her answer was yes, so I suggested she order it from Amazon because as Prime members we were entitled to 2-day free shipping making the overall transaction cheaper than buying the bucket online from Walmart. Convenience also played into the decision. Not having to drive to a store made for a nicer experience.

Yes, we pay nearly \$100 for Prime annual membership, but we have always saved money by being member because of the number of books I buy each year. But now Amazon offers other perks to Prime members. We now use the membership to live- stream movies and television shows.

Realizing customers' shopping habits are shifting online, Walmart leaders have decided Amazon is their major competitor. Last fall, Walmart announced the company was going to spend \$2 billion to improve the customer's online buying experience and offer annual free shipping with its \$49 per year ShippingPass guaranteeing 2-day delivery. (The Wall Street Journal).

If convenience, free 2-day shipping, and price is not a major consideration, it seems to me Walmart now understands what the customer wants and if that decision is made millions of times a day, a \$2 billion dollar investment to remain competitive seems like an inexpensive solution.

For Northwest Arkansas' sake, I hope Walmart's plan works. I do not want that part of the state to become another Detroit.