General Merchandise Retailing in America:

1850-1980

This is the story of a great business rivalry - the century long struggle for retailing leadership between Montgomery Ward and Sears, Roebuck.

The Setting

Up to the 1850's retailing in American consisted of peddlers, general stores and specialty shops. The rural areas of 18th century America were regularly visited by peddlers who carried their wares on their backs or on the backs of their pack animals. In the nearest small town the American farmer could find a variety of high-priced merchandise at the general store. And in the larger towns and cities, Americans could shop at a variety of specialized shops or at temporary open-air stalls manned by the urban cousins of the rural peddlers.

The situation cried for newer, more efficient distribution methods. That cry was answered first in the large cities where there emerged a new concept of retailing - the department store.

Department Stores

The early department stores grew out of small, dry goods stores, most of them founded by persons of humble beginnings.

The first department store in the world was established by Aristide Boucicaut in Paris, France. Boucicaut called his store the Bon Marche, meaning cheap or a bargain. His original store was a small shop selling piece goods, but by the early 1850s his store had grown and assumed the characteristics of a true department store.

In the United States the leading claimant to having founded America's first department is Alexander T. Stewart. This Irishman immigrated to the United States at the age of 20 after having been trained for the ministry. He taught school for two years. While teaching he loaned a small sum of money to a friend who wanted to start a small dry goods store. The friend went bankrupt and A.T. Stewart was stuck with the store. Stewart decided to try his hand at retailing. He liked it and was good at it. Between 1823 and 1848 his business grew. In 1848 he built a large dry goods store for women. Dubbed the Marble Dry Goods Palace, this departmentalized monster is viewed by some as the nation's first department store. In 1862 Stewart erected a larger store, catering to both men and women. Called the Cast Iron Palace, this store contained 8 floors of 2 acres each. It employed over 2,000 persons and offered a wide variety of hard goods and soft goods. It was definitely a true department store.

A second claimant to the title of founder of America's first department store is Rowland Hussey Macy. Born in New England, Macy became a seaman aboard a whaling ship at the age of 15. He returned to land and founded six unsuccessful small retail businesses. In 1858 at the age of 36 he arrived in New York for his seventh try at retailing. He believed that out of his failures he had learned what was needed to succeed. And history proved him right. His business expanded rapidly, new departments were added, and by 1866 the store employed 200 employees.

The department store concept made it possible for the middle class in the cities to obtain better merchandise at a lower price than had previously been possible. Volume purchases of merchandise reduced the cost per unit paid by the department store; and volume sales, stimulated by heavy advertising, a fixed price policy, and a money back guarantee made it possible to pass those low costs on to the customer while still making a good profit.

Around the country other merchants followed the examples of Stewart and Macy. In Philadelphia, an ex-secretary of the local YMCA founded a small, men's clothing store in 1861. The man's name was John Wannamaker. His business gradually expanded until in 1876 he opened the historic Grand Depot, alleged to be, "the largest space in the world devoted to retail selling on a single floor."

Wannamaker was an innovative merchant who claims many firsts in American retailing. Among his credit are the first white sale, the first restaurant on a department store's premises , the first use of pneumatic tubes, and the first health and recreation facilities for employees. In 1896 Wannamaker bought A.T. Stewart's Cast Iron Palace in New York. And when he died in 1824, Wannamaker was regarded by many as the greatest American retailer of his generation.

In Salt Lake City, Utah, Mormon leader Brigham Young conceived of the idea of a department store owned by the community. The result was the Zions Cooperative Mercantile Institution, which opened its doors in 1869 and which also had a legitimate claim to be the first true department store in America.

In Chicago, traveling wholesale dry good salesman, Marshall Field, worked hard, slept in the company warehouse to save money, and with a partner established a department store in 1868. Field placed great faith in maintaining a "tone" to the store that would set it apart. His motto, "give the lady what she wants" sought to capture that tone. For himself and his employees he preached the positive mental attitude philosophy. He summarized it with this famous list of 12 things to remember as we go about our work:

1. The value of time
2. The success of perseverance.
3. The pleasure of working.
4. The dignity of simplicity.
5. The worth of character.
6. The power of kindness.
7. The influence of example.
8. The obligation of duty.
9. The wisdom of economy.
10. The virtue of patience.
11. The improvement of talent.
12. The joy of originating.

In Atlanta, Georgia, a Jewish emigrant from Hungary gave up his job as a traveling peddler, borrowed $500 and started a retail dry goods tore in 1867. Morris Rich added "southern hospitality" to the basic department store ingredients of the Yankees. Within a decade, Rich's was emerging not only as a full-fledged department store, but also as a prominent Atlanta philanthropic institution.

The experience of Morris Rich is one of many examples of the American economic system providing opportunities for dispossessed European Jews to make successes of themselves. Among other Jewish emigrants who did so was Adam Gimbel, who started as a pack peddler, then founded a small store in Vincennes, Indiana, and finally started what became the famous Gimbel's department store in New York City.

Aaron Montgomery Ward

While lower cost distribution entered American cities with the arrival of department stores, rural America continued to suffer the higher costs of small stores and peddling. But the developments in the cities caused many retailers to wonder how similar low costs could be achieved for the countryside.

The first man to find and implement an answer was Aaron Montgomery Ward. Ward had experience as a clerk in several wholesale establishments and at Marshall Field and Company in Chicago. Out of this experience grew a conviction that mail order was the answer for the countryside. Catalogs describing the available merchandise could be sent to farm families; the farmers could send their orders by mail; and the merchandise they ordered could be mailed to them. In this way, Ward could eliminate the costs of several middlemen and the cost savings could be passed on to the rural customer.

In 1871 Ward drew down his accumulated savings to purchase a batch of goods at wholesale. But before he could mail his advertisement to farm customers, the Great Fire struck Chicago and destroyed the building where Ward had stored his merchandise.

Chagrined, but not defeated, Ward worked and saved for one more year. Then with his savings and the investments of two partners, he once again bought merchandise at wholesale prices, printed a one-page price list and sent it to Midwestern farmers.

The business was not an overnight success. Orders arrived slowly too slowly for Ward's partners. In 1873 they sold their shares in the business to Ward and expressed their doubts that he would survive. A frustrated Aaron Montgomery Ward carefully evaluated the situation. Since his merchandise was of high quality and his prices were low, he concluded that his problem was that of establishing credibility in the eyes of his farm customers. And so Ward began to attend meetings of a large, farmers' organization known as the National Grange of the Patrons of Husbandry. At those meetings he promoted his business, and, on at least one occasion, made a special offer to entertain Grange order-takers in Chicago if the local Grange could obtain$300 worth of orders. This strategy worked. Orders from the farmers' clubs and the Granges fueled a sharp expansion in orders and in 1874 Ward decided to devote himself to the business on a full-time basis.

In 1875 Ward introduced a new sales tool, the money-back guarantee. This tool had already been used by the new department stores in the big cities, but Ward was the first to use it in the national mail order business.

Ward's original price list of 1872 contained 163 items. By 1875 he was mailing his customers a thick catalog listing 3,899 items. The business continued to grow and prosper, and new products were regularly added to the catalog. But the basic business philosophy of quality merchandise at low prices, backed by a money-back guarantee did not change.

In 1893 Aaron Montgomery Ward sold his controlling interest in the business to his brother-in-law, George Thorne. Ward could look back with satisfaction on his accomplishments. The mail order business, which he had founded, had brought low cost distribution to rural areas that had previously been isolated.

But Ward was not looking backward. He was too busy leading one of the nation's early environmentalist crusades. Ward had become convinced that Chicago's lakefront should be transformed into a beautiful public park, available to all citizens. At that time the lakefront area served as a dumping ground for trash and a home for penniless tramps. Ward's proposals were not warmly received by the public. He ended up spending 20 years of his time and a substantial amount of his personal fortune waging the battle to clean up the lakefront. Eventually, however, he won over the opposition. Today, Chicago's lakefront park stands as a tribute to Ward's vision.

Richard Sears

Aaron Montgomery Ward formulated the basic principles of the mail order business and founded a successful business based on those principles. Richard Sears elaborated the principles and, with his flair for sales promotions, built an even more successful mail order business.

As so often happens in the business world, Sears got into the mail order business by accident, and then made the most of his good fortune. He started work as a manual laborer at a Minnesota railroad station. He was promoted to a position as a telegraph operator and then as station manager. As manager he was encouraged to develop a trading business among local farmers, Indians and townspeople. By accident he discovered that there was a lucrative market for mail order watches. And he discovered that he had the ability to write advertising that could tap that market. In 1886 he decided to quit railroading and devote himself full-time to the direct mail selling of watches. A year later Sears moved to Chicago and advertised for a watchmaker who could assemble watches from components that Sears would buy. Young Alvah Curtis Roebuck answered the ad and was hired on the spot.

The business of the new R.W. Sears Watch Company grew rapidly. Roebuck assembled the watches and Sears sold them through heavy advertising in farm magazines, and the provision of installment credit. He began to add other jewelry items for sale and in 1889 a money-back guarantee was added to his advertising. Despite the company's success, Sears sold out to Roebuck in 1889 and tried a new career in banking. But banking did not provide the excitement Sears had found in mail order. And so, in 1893, Sears rejoined Roebuck. Their new partnership was named Sears, Roebuck and Company. By this time the company had a mail order catalog of 196 pages advertising a wide range of merchandise from jewelry to furniture and clothing to musical instruments.

Working a 12 hour day, 7 days a week, Richard Sears set out to catch up with industry leader Montgomery Ward and Company. The strategy was the same low price, heavy advertising and a money-back guarantee. But Richard Sears was able to execute the strategy more effectively and within 10 years he had caught up with and surpassed the sales volume of Montgomery Ward and Company.

Sears was a promotional genius and a risk taker. A classic example of these two talents at work is the 1901 cream separator promotion. Nobody except Sears thought cream separators could be sold by mail. The product was a complex piece of machinery requiring a local dealer to set it up and service it. But Sears was willing to gamble on a hunch that farmers would buy from his catalog if the price were low enough. He found a manufacturer willing to mass-produce cream separators at one-half the going price. His advertising overcame the fears of the customer, and his mail order company bypassed the local agents to capture a large share of the cream separator market.

Richard Sears' marketing skills were not balanced by administrative abilities. He had trouble controlling costs. Liabilities rose to three times the amount permitted by the company's charter. Alvah Roebuck became concerned about his personal liability and decided to sell his interest in the company to Sears in 1895 (unlike Richard Sears, Alvah Roebuck was not a risk taker). Sears bought Roebuck's stock and then sold part of it to a new partner, Julius Rosenwald.

With Sears promoting sales and Rosenwald providing efficient administration, the company entered a decade of outstanding growth and profitability. But there were tensions between Sears and Rosenwald. These came to a head in 1907 when the nation experienced a severe financial panic and for the first time in its history, Sears, Roebuck and Company failed to set a new sales record. Richard Sears wanted to increase advertising to offset the decline. Rosenwald, on the other hand, wanted to cut staff and other expenses and await the general upturn of the national economy. The conflict was put to a vote of top management. Rosenwald's conservative, cost-cutting approach won. As a result, the company's profit performance improved in 1908, even though sales declined as anticipated.

This episode, combined with Sears' ill health, caused him to resign as president of the company on November 21, 1908. He kept the title of chairman of the board, but never attended a board meeting. For all practical purposes, he had severed his ties with the company. Six years later, he died.

Julius Rosenwald

From 1908 to 1925 the dominant figure in the Sears story was Julius Rosenwald. The company's growth continued, but there was a major change in the company's style. Rosenwald had been raised in a Jewish shopkeeping tradition that emphasized full disclosure before a sale was made. Rosenwald carried that tradition to Sears, Roebuck, and it became a source of tension between Rosenwald and Richard Sears. Rosenwald disapproved of Sears' exaggerated advertising promises and fought a constant battle to bring the promises in line with the actual performance.

Richard Sears correctly retorted that exaggeration was needed to get the customer's attention. Sears reasoned that when the customer received the merchandise it would still be seen as a bargain for the money, and, in those few cases where the customer was not satisfied, he could return the merchandise and get his money back. In view of the fact that Sears, Roebuck's business was based on millions of repeat orders, Richard Sears must have been correct in his assessment of customer satisfaction.

Nevertheless, Rosenwald pushed for change. And once Sears had departed, Rosenwald's consumerism became apparent. The catalog copy for furs, for example, began to provide not only the trade names of the furs, but also an identification of the type of animal whose fur was being used. Similarly, the section on patent medicines was dropped from the catalog on the grounds that there existed no solid evidence that such products were effective.

But Rosenwald never lost sight of the basic secret to Sears' success. He continued to employ the strategy of low price based on high volume, which was achieved through large-scale sales promotions. He supplemented that strategy by pushing for cost-cutting improvements in operations, improvements in the quality of merchandise offered and improvements in the standards of service. And he also concerned himself with employee welfare. His greatest accomplishment in this regard was the introduction of an employee profit sharing plan in 1916.

During World War I, Rosenwald delegated his presidential duties to Albert Loeb and went to Washington where he performed various executive chores for the United States Government. Returning to active management in 1920 Rosenwald discovered that a degree of laxity permeated the company, particularly in the purchasing area where inventories were dangerously high by past standards. He was unable to rectify the situation before sales started to fall in response to the post war recession of 1920-21. Sears reported a loss for 1921. Worse yet, in December of that year, the company faced a liquidity crisis that threatened the firm with bankruptcy. Unable to raise funds elsewhere, Rosenwald dipped into his own fortune, purchasing some of the company's Chicago real estate for $16 million and giving the company $5 worth of Sears stock. These actions snatched the company from the brink of bankruptcy and the company returned to its profitable ways in 1922.

Changes at Montgomery Ward

While Julius Rosenwald was managing the affairs at Sears, there were management changes at Montgomery Ward. Aaron Montgomery Ward's partner, George Thorne, had turned active management of the company over to his sons after buying out Ward in 1893. The company grew steadily if not spectacularly during the following two decades. But, as had occurred at Sears, Montgomery Ward was caught with excessive inventories at the end of World War I. The company reported the first loss in its history in 1920. The board of directors prevailed upon the Thornes to retire from active management and Theodore Merseles was appointed president with a mandate to restore profitability.

Merseles cut employment and closed several unprofitable manufacturing subsidiaries. Then he and his merchandise vice president, Robert Wood, set their sights on catching up with Sears. Vice president Wood had a unique ability to find sources of merchandise and contract with them on favorable terms. He was particularly skillful at developing sources to manufacture products with the Montgomery Ward label. Products which were developed in this way, such as the Montgomery Ward automobile tire, began to gain market share in competition with Sears. Suddenly it appeared that Montgomery Ward might eventually catch up with Sears in sales volume.

It was not to be. The key figure in Ward's success, vice president Wood, had a fixation with retail stores. He was convinced that the long run survival of each and every mail order firm depended upon the opening of retail stores. But not many mail order men of those days shared his vision. Ward's president, Merseles was one who couldn't accept Wood's conclusion. He rejected Wood's requests for an experimental opening of retail stores and tried to convince Wood that Ward's business was mail order, not retail stores. The disagreement between the two became bitter and finally, in 1924, Merseles fired Wood. Wood quickly found a new job as a vice president at Sears.

The difference between Wood and Merseles illustrates the power and importance of properly defining the purpose of a business. Merseles defined Ward's purpose as running a mail order business. Given that definition there was clearly no place for retail stores. Robert Wood defined Ward's purpose as providing the American middle class with general merchandise. How that merchandise was delivered mail order or store was secondary. Wood's definition made it possible to consider retail stores.

Robert Wood

Robert Wood was an unlikely candidate for merchandising leadership. He graduated from the United States Military Academy in 1900 and proceeded to spend 10 years of his active military service in Panama with the troops constructing the Panama Canal. There he became chief quartermaster with responsibility for purchasing and distributing supplies. When America entered World War I, Wood was put in charge of purchasing all Army supplies except ordinance and aircraft. At the end of the war he emerged with the rank of brigadier general. During the war Wood worked closely with officials from Montgomery Ward and Company. After the war he accepted an offer from that retailer to become their general merchandise manager.

Wood was an avid reader of The Statistical Abstract of the United States. He was convinced that careful study of the statistics in that book could lead one to formulate winning merchandising strategies. His reading of The Statistical Abstract convinced him that mail order companies were in the process of losing their rural customer base. The statistics showed unmistakably that the American farm population was moving to the city. Wood reasoned that the only way to keep their business was to move with them and that meant mail order companies would have to open retail stores.

Unable to convince Ward's management that his idea had merit, Wood was fired and took a job as vice president in charge of factories and retail stores at Sears Roebuck and Company. At Sears, only two other executives favored the retail stores concept. But they were the two whose opinions counted chairman Julius Rosenwald, who recruited Wood, and new president Kittle, whom Rosenwald had also recently recruited. Neither man was particularly enthusiastic about Wood's idea. But they were willing to let him try the concept. And so it was that in 1925 Sears, Roebuck opened its first retail store.

Seven more followed that year. By the end of 1927 the company was operating 27 stores. By the end of 1929 there were 319 retail stores in operation and total retail sales volume was beginning to approach that of the mail order business.

General Wood had definite ideas regarding the nature of the retail stores that Sears was opening. He wanted to locate the main stores not in the traditional downtown shopping areas but rather in the outlying areas where adequate free parking could be made available. His reading of The Statistical Abstract and his observation of trends in the 1920s convinced him that the urban American shopper would be attracted by a department store with easy parking access.

Another idea was to make the Sears store a place where the family could shop for "hard goods". The cities where Sears was building its stores had populations of 100,000 or more and were, therefore, inevitably being served by existing department stores. But those stores, located in crowded central locations, emphasized the hard lines -- hardware, sporting goods, appliances and home furnishings. These goods tended to be purchased by men or by husband and wife making a joint decision. Here was a merchandising gap waiting to be filled in the big cities.

President Kittle died unexpectedly in 1928 and General Robert Wood succeeded him as president. Wood proceeded to introduce two additional innovations that solidified the early gains Sears was making with its retail structure. Wood firmly believed that the local retail store manager needed much freedom to make decisions. Only with such autonomy could the manager meet and beat local competitors under special local conditions. But Wood also believed that centralized purchasing and standardized operating procedures controlled from headquarters were essential. He created a system that judiciously mixed local autonomy with central directions.

The other innovation introduced by General Wood was to standardize the procedures of the buying organization. An overall merchandise design was developed in which all departments were to offer three basic quality categories Good, Better and Best. And an emphasis was put on merchandise development. This meant setting forth of specifications wanted in a product and then finding manufacturers who can meet the specifications at competitive prices.

The first major effort at merchandise development was in automobile tires. Sears designed the tire, awarded the contract to a manufacturer to make the tire; and conducted a nationwide contest to name the tire. A draftsman from North Dakota won the contest with the name "Allstate".

Robert Wood's retail store gamble paid off handsomely. So did his decision to enter the insurance business in the early 1930s. The decision was made by a reluctant board of directors that wanted to say "no" but yielded to Wood's plea that if they had any respect for his managerial abilities they would give him a chance to prove his point. Once again, history proved Wood correct. In fact, in the late 1970s the profits from the Allstate insurance business exceeded total retailing profits.

Perhaps the greatest of Wood's gambles was his decision to embark upon a major store building effort after World War II. As the war drew to a close, many learned economists were predicting a post war depression, and some leading rivals of Sears, such as Montgomery Ward and Company, decided to postpone post war expansion until after the depression.

But Wood didn't believe the economists. His reading of The Statistical Abstract of the United States convinced him that after the war postponed marriages would take place in unprecedented numbers. He was convinced that America was about to experience a "baby boom" that would produce a generation of economic growth.

Wood guessed correctly. The post war economy expanded rapidly as Americans welcomed peace with a spending spree and family raising spurt that continued for two decades. Sears, Roebuck gained a major step on the competition as sales doubled during the first two years after the war and earnings soared. Robert Wood's gamble provided a push that kept Sears far ahead of the competition for the next two decades.

Sewell Avery

While Sears, Roebuck was prospering under the leadership of Robert Wood, Montgomery Ward was attempting to recover from its slow start in opening retail stores. President Merseles cautiously opened 8 retail stores in 1927, two years after Sears had entered the business. Merseles resigned in 1928 and was succeeded by George Everitt. Everitt accelerated the opening of retail stores. By the end of 1929 Ward's had 531 of them, located primarily in small or medium size towns.

In 1930 Ward's opened 49 new stores but closed 24. The next year the company posted a loss of almost nine million dollars. A worried board of directors brought in a new chief executive officer, Sewell Avery. Avery shook up the organization, putting practical chain store executives in charge of the retail stores and reorganizing to eliminate conflicts between the mail order and retail operations. By 1933 Avery had Ward showing a profit. Performance continued to be good for the rest of the 1930s. By 1939 Ward had 618 retail stores and catalog sales had recovered to their 1926 peak. Nineteen-thirty-nine was also the year that a writer in Ward's advertising department created the fictional children's story character named Rudolph the Red-Nosed Reindeer. Rudolph was created for use in a Montgomery Ward Christmas give-away program of that year.

With the approach of World War II, Avery struck a defensive posture and called for a halt to store expansion in 1941. When the war ended, Avery agreed with the predictions of prominent economists that a major depression would follow the war. As a result, Avery refused to invest in new stores and modernization of existing stores. Instead, he put Ward's cash into government securities and short-term bank deposits. As the anticipated depression failed to materialize, other retailers followed Sears and expanded their operations. But Avery continued to hold back. Many of Ward's top managers became disillusioned. Two presidents at Ward's quit between 1946 and 1948. In 1952, 100 store managers quit Ward's. Still Avery refused to open any new stores. He proudly pointed to Ward's nest egg of $300 million in short-term investments and predicted that when the depression came, he would have the last laugh.

In 1954 Ward's lackluster performance attracted a takeover specialist named Louis Wolfson. Wolfson launched a campaign to gain control of Montgomery Ward. Wolfson was only able to gain a minority of seats on the board, but the campaign convinced 81-year-old Sewell Avery that he should resign as board chairman. He did so in 1955.

Robert Brooker

Ward's board of directors elected company attorney John Barr to the position of president. Barr immediately reversed directions. In 1956 eight million dollars were spent to modernize stores and in 1957 the company opened its first new store since 1941. While opening new stores, Barr also looked for a merchandising man to replace him and lead Montgomery Ward in its turnaround effort. In 1961 he hired Robert Brooker as president. Brooker had been a vice president of Sears and a president of Whirlpool Corporation. Brooker brought in a number of key new management people, including Edward Donnell, former manager of Sears' Los Angeles stores.

Ward's new management team then achieved an impressive turnaround. One of the keys to their success was in the purchasing area. They reduced the number of suppliers from 15,000 to 7,000 and the number of brands being carried dropped from 168 to 16. Ward's private brands were given 95 percent of the volume compared with 40 percent in 1960. The results of these changes were lower handling costs and higher quality standards.

Another key to Ward's successful turnaround was the cluster strategy in metropolitan areas. Clusters of modern new stores were built to serve each of a number of metropolitan areas Each group of stores was centrally managed, carried the same merchandise and participated in a coordinated program of promotion and advertising.

Brooker's strategy worked and Montgomery Ward began its comeback. But the company's stock was slow to reflect the turn around and Brooker became worried about the possibility of a takeover by an outside firm, particularly one of the conglomerates that were actively acquiring major corporations in the 1960s. Brooker looked for a friendly merger partner to increase the size of the corporation and thereby give it protection against an outside takeover. He finally found one in the form of the Container Corporation of America. The two firms merged in 1968. The new holding company was named MARCOR. A decade later, MARCOR was acquired by the Mobil Oil (Under Mobil's management Montgomery began to lose its competitiveness. In 1986 Mobil sold it to management in a leveraged buy-out.)

The turnaround at Montgomery Ward and Company was one of a number of developments in the late 1950s and 1960s which together created an environment of unprecedented competition for industry leader Sears, Roebuck and Company. Other key developments were a bold change of direction of J.C. Penney, the emergence of nationwide discounting , and increased competitiveness by the old-line department stores.

J.C. Penney

J.C. Penney was a nationwide chain of soft goods stores that had traditionally emphasized the small and medium size towns of

America. The company founder, James Cash Penney, established his first store at Kemmerer, Wyoming, on April 1, 1902. His previous experience as a clerk in dry goods stores in Missouri, Colorado and Wyoming had convinced him that he had the ability to purchase the right soft goods at the right price for the small town customer. His Christian upbringing led him to believe that an emphasis on Christian fair dealing would create a loyal group of customers.

He called his first store the Golden Rule Store, and he laid down in print the Christian principles that the customer could expect to find in practice at his store.

The success of that store made James Cash Penney dream of expansion. He solved the twin problems of raising cash and training manager for expansion by developing a partnership system. Every Golden Rule Store manager would be given a chance to open and own a portion of his own Golden Rule Store. First, he had to train a man to replace him. Once this was done he could put up 1/3 of the capital needed for the new store. Penney would put up the other 2/3 and the two of them would be in business as partners. Using this concept, Penney expanded his operation to 34 stores by 1912. At that time the name of the company was changed to J.C. Penney and Company because other firms had begun to use the Golden Rule theme.

The company continued to expand and prosper over the next four decades. To be sure there were changes. One of the most significant was the decision in 1927 to abandon the old partnership concept and replace it with a salary plus a commission based on profit. Another was the decision to move corporate headquarters to New York. But the company continued to emphasize rural and small town markets, to sell for cash and shun credit and to focus on soft goods. And the company continued to stress the development of a corporate ethos or way of doing things based on James Cash Penney's Christian concepts.

In 1957 the assistant to the president of Penney's risked his job by writing a lengthy, critical memo to the board of directors. In the memo William Batten expressed his belief that Penney was being by-passed by developments in the marketplace. In order to remain a major factor in American retailing, he argued, Penney's would have to expand its merchandise offerings and become a full line department store, it would have to move into the urban malls that were beginning to spring up, it would have to offer customer credit, and it would have to start a catalog operation. Penney's board agreed with Batten's views. They hired him to implement his ideas. And over the next decade, J.C. Penney and Company suddenly became a serious competitor for Sears. (At the time of Batten's memo, Penney's sales were only 28 percent as large as Sears. By 1974 Penney's sales represented 33 percent of Sears' sales.)

The Discounters

Even more threatening to Sears was the emergence of discounting. The movement's most glamorous company in the early years was E.J. Korvette. That firm was founded by Eugene Ferkauf in 1948. He began with a small luggage shop and a big idea selling hard goods at prices 10 to 40 percent below those found in department stores.

The concept worked and Ferkauf began to add appliances and other items. Sales mushroomed in the 1950s rising from $55 million a year to $750 million a year over a ten-year period. At one point in the early 1960s Korvette was opening one huge new store every seven weeks.

But the Korvette story had a sad ending. Ferkauf and his home office executives began to have trouble administering the operation as it got larger. Mistakes were made and costs began to rise. When soft goods were added, Korvette's managers discovered that they didn't know how to handle the problems of obsolescence, and markdowns. Similar problems were encountered when Korvette added supermarkets. In 1966 Korvette merged with Spartan Industries, a soft goods chain. Eugene Ferkauf was eased out of management and the Spartan management tried to turn things around. Five years later the firm was sold to Arlen Realty. Arlen later sold it to a French firm. And in 1980 the French firm basically closed down the once proud Korvette.

The most successful of the discounters turned out to be the most unlikely K Mart. This firm was founded as a 5 and 10 cents store in 1897. Company founder Sebastian S. Kresge took his life savings to start the company, which he called S.S. Kresge. By 1929 when founder Kresge stepped down as president, S.S. Kresge was a nationwide chain with almost 600 stores. Growth continued for the next three decades. But by the early 1950s company executives began to be concerned by the fact that sales were growing slowly and profits were declining.

By then Kresge had become a variety store chain. In 1959 a new president took over. Harry Blair Cunningham had started to work for Kresge as a 90 hour a week stock boy after graduating from college with a journalism degree. He worked his way up to a vice presidential position by 1957. During the next two years he was given the freedom to travel and study the chain and its competitive environment. When he became president in 1959, he had decided upon a new direction for Kresge. "We must go into discounting," he said. And then he added, "Our organizational strengths give us a ready made corps of store managers; our real estate department can pick free standing sites away from the high cost shopping centers. And if we adopt a policy of selling branded merchandise a t a discount, we can become a major department store chain." The Kresge board accepted Cunningham's recommendations. The new discount stores were called K-Marts. The first was opened in 1962. Over the next two decades the K-Mart concept expanded faster than any of its competitors, and by 1979 the chain was the second largest department store chain, behind Sears, Roebuck.

It was also in the 1970s that Wal-Mart began to attract attention. Founder Sam Walton began his career as a J.C. Penney employee in the 1930s. In 1945 he started his own store, a Ben Franklin franchise in Newport, Arkansas. He opened 14 more Ben Franklin stores between 1951 and 1962. Most were in small towns with populations of 5,000 or less. Walton attempted to make those stores into discounters. But Ben Franklin wouldn't support that strategy. So Walton tried a different approach. He opened his first independent Wal-Mart Discount City in Rogers, Arkansas in 1962. That experiment was repeated in hundreds of Midwestern small towns over the next 18 years. By 1980 Wal-Mart was poised to move into larger communities. It would become the fastest growing general merchandiser in the 1980s.

Resurgent Department Stores

In addition to the resurgence of Ward's and Penney's and the emergence of the discount department store, a third change in the environment increased the competitive pressures on Sears Roebuck. This third change was a new aggressiveness on the part of the old-line big city department stores. The major stores in the large cities began to open full line department stores in the malls that were springing up in the suburbs of the major cities. This move brought the department stores into direct competition with Sears in the suburbs. In addition some of the stores strengthened their positions through merger. For example, Detroit's Hudson chair merged with Minnesota's Dayton chain to form the Dayton-Hudson Corporation. Many years earlier, Boston's Filenes joined with Columbus Ohio's F. and R. Lazarus, Atlanta's Rich's and other stores to form Federated Department Stores. And in the post war period, Federated emerged as an aggressive competitor. These and other department store consolidations began to challenge Sears in the 1960s and 1970s.

Sears' Loss of Competitive Edge

Sears, Roebuck and Company continued to follow the strategy laid down by general Wood until the mid-1960s. Then management adopted a major change in strategy. They reasoned that the American middle class was getting sufficiently affluent to cut back on the purchase of low price, low quality merchandise and to increase purchases of higher price, higher quality merchandise. A new strategy of following this trend was adopted. This meant cutting back and eventually dropping the bottom of the line merchandise, which Sears had always referred to as "good" in its price line of good, better and best. The new strategy also meant adding a fashion line. And so, whereas the old Sears offered customers a selection of good, better or best merchandise, the new Sears was to offer the customer a selection of better, best or fashion merchandise. At the time the strategy began to be implemented in the mid-1960s, the strategy made some sense. But contrary to the predictions of most economists, the American economy in the 1970s failed to provide the anticipated gains in real income. American consumers therefore became more cost conscious than Sears anticipated. And with Sears having deliberately given up the low price end of the market, the discounters, particularly K-Mart, moved in and grew at the expense of Sears.

Included with the new Sears strategy of the 1960s was a decision to place greater emphasis on profit. Management incentive systems were reworked to induce local managers to place greater emphasis on profits rather than merely increasing sales. This, too, allowed the competition to gain market share at Sears' expense.

For a while Sears' strategy seemed to be working. But with the worldwide recession of 1974-75, it became clear that something was amiss, as sales failed to keep up with inflation. A self-study was conducted in 1975. This was followed by a reorganization and the development of a new strategy which involved reintroducing the low price merchandise and changing the incentive system to encourage store managers to increase sales volume in addition to meeting profit targets. As the 1980s began retailing's biggest, unanswered question was, "Will the new Sears strategy work?".

Conclusion

The answer to the questioned turned out to be "no". Sears was unable to regain its competitiveness in the 1980s. By 1990 both K-Mart and Wal-Mart were poised to pass Sears in general merchandise sales and profits. The reasons for Sears' failure and its rivals' successes must remain the subject of another article.

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