

## Where are you going to Shop?

By Jason Powell

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Attention Kmart Shoppers, we are going to be closing our Hopkinsville store this month, so please take advantage of our closeout prices and buy everything in the store!

In 1899, Sebastian Spreng Kresge started Kmart as a nickel-and-dime store in downtown Detroit, with their commitment to selling at low prices. Kmart was one of the first major "discount" retailers in the US and quickly became very popular with shoppers. They grew to over 1,500 stores, now down to about 800.

Let's think back to 1907, when F.A. Yost and Company opened up on Main street, where Harper House currently resides. In 1917 the Yost trust sold the business to D.D. Cayce, who was the President of the company, and he changed the name to Cayce Yost. A complete history of the story can be found in a paper that was written by D.D. Cayce III for this very group.

I do want to point out a few things though. D.D. Cayce was a true merchant as was his son Kenneth O. Cayce Sr. In the late 20's, they wanted to sell more radios, so they helped start a local radio station. They were continually expanding their product offering, and even became a resource for the locals in helping them find a part or item that they needed, which helped him become one of the prominent sources for hardware. The store would expand from one level store to three by adding toys in the balcony, and then later adding bicycles and other items. They even sold Chambers automobiles, which they never serviced, but they did carry Firestone and Goodyear tires.

They would have days where they would give kids balloons and there was a mechanical man, who would direct people to the appliance area. Speaking of appliances, when REA, Rural Electric, came to town, K.O. Sr piled an entire kitchen of appliances into a trailer with a generator and went out into the county to demonstrate them to help drive the expansion of electricity and of course electric appliances. They would even begin to collect the REA payments, so that they would get their customers to come into the store on a regular basis.

In 1951 Cayce Yost moved across 10<sup>th</sup> street where they occupied two bays and would later add another two bays, where they added Housewares. Up in the balcony, were the children's clothes and toys, where you might remember riding or paying for your children to ride the electric horse; another gimmick to get customers to spend more time shopping. You could put your child on the horse and then

take your time picking out items without having to tend to your child. That very horse was purchased by the Historical Society and is in the museum. In 1974 they would expand one more time, and add the controversial bridge across 11<sup>th</sup> street, where they would carry Ethan Allen furniture.

I mentioned that K.O. Sr was a true merchant. There was competition both in Hopkinsville in some part of their business, but they seem to carry everything. In fact, their tagline or logo was, "For all the things you want most in Hopkinsville it's Cayce Yost". As the Catalog business was really starting to develop, K.O. Sr. would take the boys down to the L&N train station where they would watch the parcels being unloaded, and he would see what people were buying and making sure that he carried the most popular items.

Kenneth Jr. would take over as the President of the business and buying out the other relatives. He didn't seem to want to expand out into the community, when one of his relatives suggested that they open up a store in Indian Hills. He was adamant about staying in the downtown area and wouldn't even consider moving out to a "shopping center", like the one on Ft. Campbell Boulevard across from McDonalds where Sam Walton would place store 653 in 1981. Some would say that it was Walmart that was the demise of Cayce Yost, and a few other stores in Hopkinsville, but some also say that it just wasn't the same anymore, that they just lost their "merchant" personality and that they lost their loyal customer base.

Now let's switch to another small town, Newport Arkansas in the year of 1945. This was a smaller town than both Hopkinsville and Portsmouth, with a population of about 7,000 people. A Ben Franklin variety store was purchased by a young couple for \$25,000, they used \$5,000 of their own money and were able to secure \$20,000 from her father. They picked this town because of its size. They could have purchased a store in St. Louis, but Helen insisted that they find a store in a small town, she didn't want to live in a big city.

This wasn't their first experience with retail. They had lived in Des Moines, Iowa and he had worked in a JC Penny's for about 18 months. In fact, he had a good job there, receiving some training from James Cash Penny himself, who showed him how to gift wrap a package using the least amount of paper and twine. JC Penny's was a substantial retailer by this time, and they had a corporate culture and processes. There were reports that had to be written and submitted to headquarters in New York. He received some feedback from one of the corporate managers, that he would never be a good merchant, which he would later prove wrong.

The Ben Franklin store quickly became profitable and in a short five years, it was the top performing store in the six-state region. They had really made their mark in the retail business in Newport. They even secured a lease on a building across the street that was occupied by a Kroger, which had moved out of town. This gave them the opportunity to branch out from the Ben Franklin variety store and begin the expansion into discount retailing. The new store called the Eagle was more of a defensive move to keep his main competition from expanding, but as his brother would later say, this store helped set the framework of what was to come.

This would all come to a screeching halt though. He had done so well, and everyone in town could see this, even his landlord for the Ben Franklin store, which was his biggest competitor. He decided that he didn't want to renew the lease, and they were forced to sell both businesses and move out of town. He would later say that this was probably a blessing and he would be back in Newport some twenty years later.

Where would they go, what would they do? Well, this was a setback for sure, but merchandising was in their blood and they wanted to find another town to duplicate their success in Newport. They started to look for a business in a small town. With the help from Helen's father again, they would convince an owner of another Ben Franklin variety store to sell out to them in another small town in Northwest Arkansas. This store was located on the square and they would rename it Walton's Five & Dime.

His connections with the Butler Brothers, and his success with the Ben Franklin stores allowed them opportunities to purchase other stores. In fact, his brother Bud purchased a store in Versailles, MO. Sam would at the same time start another 'discount' store in Fayetteville. He would run back and forth between stores, going up to the regional office for Ben Franklin. One time while up there he heard about a new shopping center that was going to have an A&P and a drugstore. He and his brother borrowed all the money they could and they bought another Ben Franklin franchise for that shopping center.

With businesses spread out from Fayetteville to Kansas City, Sam was spending a lot of time in his car. He had to figure out a better way to get around. This would become the beginning of Walton Aviation. He would purchase a small two seater plane and he could fly back and forth in a fraction of the time, and this would later become one of his secret weapons in growing his business.

It would be another decade or so before Sam and Bud would open their first Walmart. The name, by the way, came from the Fayetteville store manager, Bob Bogle. This was another key to their success. They would use the business model of hiring store managers and giving them an opportunity to buy in and share in the profit. This profit sharing arrangement allowed Sam to hire managers that would have the same motivation and have the same passion for merchandising. Their signs would also have "We Sell For Less" on one side and "Satisfaction Guaranteed" on the other. Not a new concept as we saw similar philosophies from Marting's beginnings in Portsmouth.

So here they were in 1962 opening their first Walmart in Rogers, Arkansas. This year would prove out to be the year of the great discount stores. S.S. Kresge would open his first Kmart store in Detroit Michigan, F.W. Woolworth started Wools and the Dayton Hudson would open its first Target store in Minneapolis Minnesota. Sam was very impressed with all of these businesses. In fact, he would say that he most of his ideas came from them. From the beginning in Newport he would check out his competition. Sam would visit other stores as well, not just his competition, to look for new ideas and products. Where ever he was in the world, he would always take the time to go in a check things out, talk to the workers, and take notes. Even on vacations, the family would sit in the car as Sam would go in and check things out.

In 1970, Sam would take the company public in its first offering. You all know the story that ensued and all of the money that Walmart made its investors. From 1977 to 1987, an investor would average a return of 46%. Now that they were out of debt, they could concentrate on their key strategy of putting good sized discount store into small towns across America; which the other discount retailers ignored.

As I mentioned, Sam had a secret weapon, which would prove to help him sneak up on his competition. He was able to fly under the radar so to speak and seek out the little towns, look for areas of growth and see the traffic patterns. I suppose that if we looked in his flight log, he probably flew around the city of Hopkinsville and saw how the growth was moving out onto Ft. Campbell Boulevard. Another way he would use his airplane, was to be able to get out into his stores. This was another key to his success. He would get around to most of his stores at some point and talk with the associates, which were all included in a profit sharing program; which too would help motivate them to act on his behalf and take care of the business and to reinforce his guiding principle: to give your customers what they want.

Walmart's expansion into small towns was met with some resistance and as K. O. Cayce Jr might say that it was Walmart that stole their customers and forced them to close down. According to Sam, this was so far from his intention. He saw it a completely different way. He thought that he was able to save the small towns by offering low prices saving billions of dollars as well as creating hundreds of jobs.

Hopkinsville, was probably the exception to most of the towns that these 4500 stores operate today. We not only have one of the many distribution centers, which employs close to 1,000 workers, to another 600 or so that are employed at either the Super Center on Clinic Drive or the new Walmart Neighborhood Market on Canton Pike. This doesn't include the jobs that were created by two local business in their prime, Kentucky Derby Hosiery and Flynn Enterprises.

Sam was once asked, "could a Walmart story still occur in this day and age?", his answer was, "of course it could happen again. Somewhere out there right now, there's someone – probably hundreds of thousands of someones – with good enough ideas to go all the way. It will be done again over and over, providing that someone wants it badly enough to do what it takes to get there. It's all a matter of attitude and the capacity to constantly study and question the management of the business." The other question that he was often asked, if you were a young man starting out today with the same sorts of talents and energies and aspirations that he had when he first started, what would he do? Sam replied, "I don't know exactly what I would do today, but I feel pretty sure I would be selling something, and I expect it would be at the retail level, where I could relate directly to customers off the street. I think I'd study the retail field today and go into the business that offered the most promise for the least amount of money. Probably some kind of specialty retail, something to do with computers".

A year after the closing of Cayce Yost in 1994, technology would start to take over the world. This is when the world-wide web was released for the public to use. A young Princeton graduate, working on Wall Street had a dream of creating "the everything store" that would exist on the internet. He saw how quickly that this technology was going, and that it was going to be revolution.

At 30 years old, he and his new wife had decided to start this company, but what should they call it and where should they call headquarters? They considered a few names, from Cadabra, to Awake.com, Browse, com, and even Relentless.com. They chose Seattle, Washington, because it had a relatively low population, which meant they would only have to collect sales tax from a small number of people, and because it was of course a mecca for technology.

They would secure their first major investor, his parents, who would invest \$100,000. He told his parents that there was a 70 percent chance that they could lose it all, and he wanted to make sure that they were okay with it and that he would still be able to come home for Thanksgiving. He would be able to secure another \$145,000 from his wife Jackie's family. Later that year, they would get non-family members involved and they would raise another \$1 Million from local business owners despite that the fact that he would tell them the same store he told his parents.

I am talking about Jeff Bezos and his "everything store" is Amazon. A name that would describe his vision for his company. The Amazon River is the largest river in the world. It is so much larger than the next largest river. As you see the Amazon logo printed on the cartons on yours or your neighbor's doorstep, you will notice that the arrow runs under the name, which signifies the "everything store" with everything from A to Z. Jeff wanted to bring a more convenient shopping experience than the big-box store, and where he could eventually personalize the website for each shopper based on their previous purchases. He was starting with books, but he would later say that he wanted to build "the next Sears".

Like Sam Walton, Amazon was the underdog in the retail world. They were inventing a new way to provide customers "everyday low prices" on a platform, as they call it, that provides a great customer experience. Yet, there were some big competitors who took on a Walmart like business strategy, like Barnes and Noble and Borders Books, along with many smaller chains and local stores, like the one we used to visit in Green Hills Mall area, Davis-Kidd.

As Sam Walton did, Jeff would recruit the right people. He insisted on hiring smart people, they needed to have the pedigree of attending the best schools and working for companies that gave them the skill set that would help drive Amazon's business to what it is today. In fact, Amazon would end up cajoling some key people away from Walmart, including a former U.S. Army Ranger from Georgetown, Kentucky who would become the Amazon's Chief Information Officer. Another key was a retired Walmart Vice President of Distribution, who would design the first state-of-the-art distribution centers, which would later be called "fulfillment centers".

Like Walmart, they too would grow very rapidly. From 1998 to 2000, they would raise over \$2 Billion. Jeff wrote in the first letter to Amazon's shareholders, "we believe that a fundamental measure of our success will be the shareholder value we create over the long term...". He continued on to say, "We have invested and will continue to invest aggressively to expand and leverage our customer base,

brand, and infrastructure as we move to establish an enduring franchise.” His view of his company was that they could be a Walmart, offering everyday low prices, and a Nordstrom’s by providing great customer service.

There would be an unlikely meeting, with the CEO of Costco, which is headquarters are just east of Seattle in a small town of Issaquah, Washington. They would meet on a weekend, at a Starbucks; which had also tried to get onto the Amazon wave, located in non-other than a Barnes and Noble. The meeting was set up by Jeff Bezos. Jeff was looking for a source for product that he wasn’t able to obtain. They would discuss their business philosophies and nothing would come of the meeting other than Jeff would, like Sam Walton, get an idea from Costco. Out of this meeting sprung the idea of selling memberships, and another key to Amazon’s success, Amazon Prime.

Amazon would continue to branch out into new categories, like apparel, sporting goods and jewelry, and branch out into world and establish itself in new countries. In order to manage their order fulfillment during the Holidays better, they would have to invent their own technology and equipment to handle the large array of products and massive amount of transactions. Another hurdle that they faced was their customer’s perception about paying shipping costs, so the beginning of “free shipping” would start with customers who purchased over \$99 dollars would get their order shipped to them for free in what Amazon would call Free Super Saver Shipping. Over the course of a few months, that threshold would drop to \$25. And with Amazon Prime, it would drop to zero. They would eventually make 2-day free shipping the standard for Prime members.

It is estimated that there are over 60 million Amazon Prime members. These customers purchased a membership for \$99 and in return they would not only get 2-day free shipping, but they would get access to a plethora of benefits which include: unlimited streaming of movies and TV shows with Prime Video, and the ability to borrow books from the Kindle Owners’ Lending

The story of Amazon’s rise to the successful business today is amazing. There is story after story of how they have reinvented the way people not only buy the products, or read their books, but also how they have helped provide the technology for so many other companies through their Web Services program, which was developed in order to take advantage of their massive capacity availability during the off season. Amazon invented their own sort of black Friday with designating July 12<sup>th</sup> as Prime Day, where they offer discounts on everyday items and generated \$525 million in revenue in 2016. Speaking

of sales for 2016, of every dollar spent on online purchases, it is said that 53 cents of every dollar was spent on Amazon.

They continue to push the envelope in all that they do. Not only are they getting closer to being the “everything store”, and you can almost buy anything on their site. But they are changing the way we get our orders. Over the past couple of years, Amazon has gotten into the shipping and delivery business. With their new Global Supply Chain services, they now have transoceanic shipping vessels, and they purchased 40 wide body airplanes and even are building a shipping hub here in Kentucky, similar to UPS’s hub in Louisville, where they will be able to ship not only their products, but I am sure that they will open up these services for everyone. In the United Kingdom, Amazon ships about 50% of their own product. They have even started to utilize drones for delivery out in the rural areas of the UK. Jeff has a patent for a floating distribution center, which may end up housing all of these drones. They are even offering same day delivery in some of the larger cities here in the US and in some cases within two hours.

Even though Amazon is considered an online retailer, they do see the benefit of having traditional brick and mortar stores. They are starting to open up some pilot book stores which will carry the most popular books and other items, which they plan to expand the number to 350 stores. They are parlaying their grocery business by starting up a new convenience store called Amazon Go. It will be a little different than we are used to though. Once you enter the store, your phone will identify you as a Prime Member, and you can collect your items and then just walk out of the store.

Brad Stone, the author of the book “The Everything Store”, wrote a story in The New York Times entitled “Can Amazon be the Walmart of the Web?”. This didn’t sit well with Walmart. A few weeks later, Paul Vazquez, the CEO of Walmart.com at the time said, “if there is going to be a ‘Walmart of the Web’, it is going to be Walmart.com. Our goal is to be the biggest and most visited retail website.”

Walmart’s revenue from their .com business in 2016 was a mere \$16.7 Billion compared to Amazon’s total revenue of \$126 Billion, which was not all from their retail sales. They have invested over \$3 Billion in acquisitions of Jet.com, Moosejaw.com and Shoebuy.com. Walmart’s total revenue for last year was \$482 Billion, but they had a 30-year head start on Amazon. They may be the King of Retail, at least in the brick and mortar stores, but they do have some catching up to do online.

Just last month, I heard Doug McMillon, the CEO of Walmart address the rapidly changing retail landscape and he said, “We will win!” and continued with, “what would Sam do? He would be



aggressive and make change.” This is what they are doing, and in a big way. They are getting back to their roots, and focusing on the customer. They are leveraging their 4500 store locations and their massive distribution chain to provide their customers a way to not only Save money and live better, but now to save time and make it easy; something that Amazon is known for.

They are focusing on running great stores, delivering value to their customers, being great merchants, and providing convenience. They are introducing new services like: Walmart Pay, which allows you to check out using an app on your phone, Pick up, which allows you to pick up items that you ordered online, and Online Grocery, where you can order all of your needs online, then pick them up at the store that you designate; this is in about 600 stores and they plan to add another 500 this year. They announced last week that they would offer free shipping for online orders over \$35. They started by building trust with their customers by offering everyday low prices, and now to save time and effort.

So, who will win? Where will both of these retailers be in the next 50 years? They both have built a great brand and consumers certainly trust them. In an article I read recently by an expert in retail investing, Jan Rogers Kniffen, he predicts in 2030, that retail will be split 50/50 in brick in mortar and online. With Walmart building their online platform and Amazon building brick and mortar stores, they might end up looking a lot alike. I guess that we will be receiving packages just hours after we click a button or maybe even think it and a package will be delivered to wherever we are by a drone, with either Amazon or Walmart painted on it.

#### References:

“Made in America” by Sam Walton

“The Everything Store” by Brad Stone