Wednesday, 23 September 2020

Sam Walton: Made In America

Acknowledgements

- Of course, Wal-Mart wouldn't be what it is today without a host of fine competitors, most especially Harry Cunningham of Kmart, who really designed and built the first discount store as we know it today, and who, in my opinion, should be remembered as one of the leading retailers of all time

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Foreword

- We have always pretty much kept to ourselves and we've had good reasons for it; we've been very protective of our business dealings and our home lives, and we still like it that way
- As I do look back through, I realize that ours is a story about the kinds of traditional principles that made America great in the first place. It is a story about entrepreneurship, and risk, and hard work, and knowing where you want to go and being willing to do what it takes to get there. It's a story about believing in your idea even when maybe some other folks don't, and about sticking to your guns. But I think more than anything it proves there's absolutely no limit to what plain, ordinary working people can accomplish if they're given the opportunity and the encouragement and the incentive to do their best. Because that's how Wal-Mart became Wal-Mart: ordinary people joined together to accomplish extraordinary things. At first, together to accomplish extraordinary things. At first, we amazed ourselves. And before too long, we amazed everybody else, especially folks who thought America was just too complicated and sophisticated a place for this sort of thing to work anymore

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Learning to Value a Dollar

- No question about it, a lot of my attitude toward money stems from growing up during a pretty hardscrabble time in our country's history: the Great Depression. And the heartland area we come from out here - Missouri, Oklahoma, Kansas, Arkansas - was hard hit during that Dust Bowl era
- One thing my mother and dad shared completely was their approach to money: they just didn't spend it
- The transfer of ownership was made so long ago that we didn't have to pay substantial gift or inheritance taxes on it. The principle behind this is simple: the best way to reduce paying estate taxes is to give your assets away before they appreciate
- One of the real reasons I'm writing this book is so my grandchildren and great-grandchildren will read it years from now and know this: If you start any of that foolishness, I'll come back and haunt you. So don't even think about it

- If we had enough groceries, and a nice place to live, plenty of room to keep and feed my bird dogs, a place to hunt, a place to play tennis, and the means to get the kids good education - that's rich. No question about it. And we have it. We're not crazy. We don't live like paupers the way some people depict us
- I think it's a real statement that Wal-Mart never bought a jet until after we were approaching $40 billion in sales and expanded as far away as California and Maine, and even then they had to practically tie me up and hold me down to do it
- A lot of what goes on these days with high-flying companies and these overpaid CEOs, who're really just looting from the top and aren't watching out for anybody but themselves, really upsets me. It's one of the main things wrong with American business today

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Starting on a Dime

- It particularly bothers me because I learned a long time ago that exercising your ego in public is definitely not the way to build an effective organisation. One person seeking glory doesn't accomplish much; at Wal-Mart, everything we've done has been the result of people pulling together to meet one common goal - teamwork - something I also picked up at an early age
- I learned early on that one of the secrets to campus leadership was the simplest thing of all: speak to people coming down the sidewalk before they speak to you. I did that in college. I did it when I carried my papers. I would always look ahead and speak to the person coming toward me. If I knew them, I would call them by name, but even if I didn't I would still speak to them. Before long, I probably knew more students than anybody in the university, and they recognized me and considered me their friend
- Ever since high school, I had made all my own money and paid for all my own clothes. That continued in college except I had to add tuition and food and fraternity dues and date money to my expenses. Dad and Mother would have been glad to help if they could have, but it was the Depression and they had no extra money at all
- Helen also said no partnerships; they were too risky. Her family had seen some partnerships go sour, and she was dead-set in the notion that the only way to go was to work for yourself. So I went back to Butler Brothers to see what else they might have for me
- I didn't just learn from reading every retail publication I could get my hands on, I probably learned the most from studying what John Dunham was doing across the street
- As helpful as that franchise program was to an eager-to-learn twenty-seven-year-old kid, Butler Brothers wanted us to do things literally by the book - their book. They really didn't allow their franchises much discretion. At the very beginning, I went along and ran my store by their book because I really didn't know any better. But it didn't take me long to start experimenting that's just the way I am and

always have been. Pretty soon I was laying on promotional programs of my own, and then I started buying merchandise directly from manufacturers

- Here's the simple lesson we learned - which others were learning at the same time and which eventually changed the way retailers sell and customers buy all across America: 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 price than you would have by selling the item at the higher price. In retailer language, you can lower your markup but earn more because of the increased volume
- In all my excitement at becoming Sam Walton, merchant, I had neglected to include a clause in my lease which gave me an option to renew after the first five years. And our success, it turned out, had attracted a lot of attention. My landlord, the department store owner, was so impressed with our Ben Franklin's success that he decided not to renew our lease - at any price - knowing full well that he had nowhere else in town to move the store. He did offer to buy the franchise, fixtures and inventory at a fair price; he wanted to give the store to his son. I had no alternative but to give it up. But I sold the Eagle Store lease to Sterling - so that John Dunham, my worthy competitor and mentor, could finally have that expansion he'd wanted. It was the low point of my business life. I felt sick to my stomach. I couldn't believe it was happening to me. It really was like a nightmare. I had built the best variety store in the whole region and worked hard in the community - done everything right - and now I was being kicked out of town. It didn't seem fair. I blamed myself for ever getting suckered into such an awful lease, and I was furious at the landlord

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Bouncing Back

- It's true that I was forty-four when we opened our first Wal-Mart in 1962, but the store was totally an outgrowth of everything we'd been doing since Newport - another case of me being unable to leave well enough alone, another experiment. And like most other overnight successes, it was about twenty years in the making
- Of course I needed somebody to run my new store, and I didn't have much money, so I did something I would do for the rest of my run in the retail business without any shame or embarrassment whatsoever: nose around other people's stores searching for good talent. That's when I made my first real hire, the first manager, Willard Walker
- Two things about Sam Walton distinguish him from almost everyone else I know. First, he gets up every day bound and determined to improve something. Second, he is less afraid of being wrong than anyone I've every known. And once he sees he's wrong, he just shakes it off and heads in another direction
- In fifteen years' time, we had become the largest independent variety store operator in the United States. But the business itself seemed a little limited

- Our first big clue came in Saint Robert, Missouri - near Fort Leonard Wood - where we learned that by building larger stores, which we called family centers - we could do unheard-of-amounts of business for variety stores, over $2 million a year in sales per store, just unthinkable for small towns. The same thing proved true to a lesser degree in Berryville, Arkansas, and right here in Bentonville too

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Swimming Upstream

- Our stores really didn't look that good - they weren't professional at all
- We had no established distributors. No credit. Salesmen would just show up at our door, and we would try to get the best deals we could. Sometimes it was difficult getting the bigger companies - the Procter & Gambles, Eastman Kodaks, whoever - to call on us at all, and when they did they would dictate to us how much they would sell us and at what price. P&G gave a 2 percent discount if you paid within ten days, and if you didn't, man, they took that discount right off. I don't mind saying that we were the victims of a good bit of arrogance from a lot of vendors in those days. They didn't need us, and they acted that way. I never could understand it. To me, it always seemed like a customer was a customer, and you ought to try to sell them what you could
- For a time in there, we owned a mix of several different types of stores. We had variety stores under both the Ben Franklin and Walton names as well as our Walmart discount stores. For years, while we were building Wal-Marts, we continued to run our various Ben Franklin and Walton variety stores. But we gradually phased them out, usually replacing them with Wal-Marts
- Sam had us send our sales report in every week, and along with it we had to send in a Best Selling item. I mean we had to. What he was doing was teaching us to look for what's selling all the time. You had to look because you had to send in this report every week, and if you reported that nothing was selling well, Mr. Walton would not be happy. He would think you weren't studying your merchandise, and in that case he'd come study it for you. He's been that way ever since I first met him in 1954
- Your stores are full of items that can explode into big volume and big profits if you are just smart enough to identify them and take the trouble to promote them. It has been a real key to helping this company dramatically increase its sales per square foot. If you are going to show the kind of double-digit comparable store sales increases that we show every year, and grow a company the way we've grown ours, you have to be merchandise driven. Otherwise, you become like everybody else. I can name you a lot of retailers who were originally merchandise driven, but somehow lost it over the years. In retail, you are either operations driven - where your main thrust is towards reducing expenses and improving efficiency - or you are merchandising driven. The ones that are truly merchandise driven can always work on improving operations. But the ones that are operations driven tend to level off and begin to deteriorate
- Another way we tried hard to make up for our lack of experience and sophistication was to spend as much time as we could checking out the

competition. It's something I did from the beginning, and it's something I insisted all our managers do

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Raising a Family

- Shrinkage is unaccounted-for inventory losses usually caused by theft
- One thing I never did - which I'm really proud of - was to push any of my kids too hard. I knew I was a fairly overactive fellow, and I didn't expect them to try to be just like me. Also, I let them know they were welcome to come into our business, but that they would have to work as hard as I did - they would have to commit to being merchants
- Among other things, Walton Enterprises owns banks in several towns around here. Jim and a partner own the local newspaper, the Daily Record. The story of buying the Record shows just how far we've come from those days when Helen could just sashay through the store and pick up what she wanted - a practice, by the way, that I always frowned on. Back before we went public with Wal-Mart, I bought the newspaper figuring that we would have a cheap place to print our circulars. I think I only paid $65,000 for that old paper. When we went public, though, some New York lawyers came down and told us we had to sell the paper to Wal-Mart because otherwise we would be taking advantage of the public company if we continued to print the circulars. So we sold it to Wal-Mart at cost, about $110,000 by then
- If you don't want to work weekends, you shouldn't be in retail

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Recruiting the Team

- I read in some trade publication not long ago that of the top 100 discounters who were in business in 1976, 76 of them have disappeared. Many of these started with more capital and visibility than we did, in larger cities with much greater opportunities. They were bright stars for a moment, and then they faded. I started thinking about what really brought them down, and why we kept going. It all boils down to not taking care of their customers, not minding their stores, not having folks in their stores with good attitudes, and that was because they never really even tried to take care of their own people. If you want the people in the stores to take care of the customers, you have to make sure you're taking care of the people in the stores. That's the most important single ingredient of Wal-Mart's success

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Taking the Company Public

- I had bought a bank in Bentonville, for about $300,000, just a little old bank with only about $3.5 million in deposits. But it really helped me learn a lot about financing things. I made some new acquaintances and began to study more about bankers and how they liked to do business

- I think it must be human nature that when somebody homegrown gets on to something, the folks around them sometimes are the last to recognize it
- From 1977 to 1987, our average annual return to investors was 46 percent
- I have frequently been asked if being a widely followed stock has forced us to manage differently, to think more short term at the expense of long-term strategic planning. The answer is that we've always had to do a good bit of both. When you're opening 150 stores a year the way we do these days, a lot of your planning is necessarily short term. But to sustain that kind of growth, you constantly have to consider what you're going to be doing five years out. I think that the stock market pressure has driven us to plan further out so that there will be some consistency next year, and the year after - not only to our profitability but to our operating sales, our gross margins, and those sort of things
- As companies get larger, with a broader following of investors, it becomes awfully tempting to get into that jet and go up to Detroit and Chicago or New York and speak to the bankers and the people who own your stock. But since we got our stock jump-started in the beginning, I feel like our time is better spent with our company to outsiders. I don't think any amount of public relation experts or speeches in New York or Boston means a darn thing to the value of the stock over the long haul. I think you get what you're worth
- As business leaders, we absolutely cannot afford to get all caught up in trying to meet the goals that some retail analyst or financial institution in New York sets for us on a ten-year plan spit out of a computer that somebody set to compound at such-and-such a rate. If we do that, we take our eye off the ball. But if we demonstrate in our sales and our earnings every day, every week, every quarter, that we're doing our job in a sound way, we will get the growth we are entitled to, and the market will respect us in a way that we deserve. Our associates and our customers - many of whom are now stockholders too - will all be better served if we perform consistently over the next ten years, whether it is at a 15 percent rate or a 20 percent rate or a 25 percent rate

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Rolling Out the Formula

- In those days, Kmart wasn't going to towns below 50,000, and even Gibson's wouldn't go to towns much smaller than 10,000 or 12,000. We knew our formula was working even in towns smaller than 5,000 people, and there were plenty of those towns out there for us to expand into. When people want to simplify the Wal-Mart story, that's usually how they sum up the secret of our success: "Oh, they went into small towns when nobody else would." And a long time ago, when we were first being noticed, a lot of folks in the industry wrote us off as a bunch of country hicks who had stumbled onto this idea by a big accident
- But while the big guys were leapfrogging from large city to large city, they became so spread out and so involved in real estate and zoning laws and city politics that they left huge pockets of business out there for us. Our growth strategy was born out of necessity, but at least we recognized it as a strategy pretty early on. We figured we had to build our stores so that our distribution centers or warehouses,

could take care of them, but also so those stores could be controlled. We wanted them within reach of our district managers, and of ourselves here in Bentonville, so we could get out there and look after them. Each store had to be within a day's drive of a distribution center. So we would go as far as we could from a warehouse and put in a store. Then we would fill in the map of that territory, state by state, county by county seat, until we had saturated that market area

- We never planned on actually going into the cities. What we did instead was build our stores in a ring around a city - pretty far out - and wait for the growth to come to us. That strategy worked practically everywhere. We started early with Tulsa, putting stores in Broken Arrow and Sand Springs. Around Kansas City, we built in Warrensburg, Belton, and Grandview on the Missouri side of town and in Bonner Springs and Leavenworth across the river in Kansas
- When you move like we did from town to town in these mostly rural areas, word of mouth gets your message out to customers pretty quickly without much advertising
- There's no question whatsoever that we could not have done what we did back then if I hadn't had my airplanes. I bought that first plane for business, to travel between the stores and keep in touch with what was going on. But once we started really rolling out the stores, the airplane turned into a great tool for scouting real estate. We were probably ten years ahead of most other retailers in scouting locations from the air, and we got a lot of great ones that way. From up in the air we could check out traffic flows, see which way cities and towns were growing, and evaluate the location of the competition - if there was any. Then we would develop our real estate strategy for that market
- Until we had 500 stores, or at least 400 or so, I kept up with every real estate deal we made and got to view most locations before we signed any kind of commitment. A good location, and what we have to pay for it, is so important to the success of a store. And it's one area of the company in which we've always had family involvement. Jim did it for a while. And even today, Rob goes on real estate trips and attends every real estate meeting
- While we may not have had competition for discounting in those little towns, we weren't strangers to competition. We were always looking at Gibson's and other regionals that might decide to come our way, and we knew what to do when they did: keep our prices as low as possible by keeping our costs as low as possible
- If you take someone who lacks the experience and the know-how but has the real desire and the willingness to work his tail off to get the job done, he'll make up for what he lacks. And that proved true nine times out of ten. It was one way we were able to grow so fast
- Sam never wants to wait for anything. He has no patience. That was probably the meld between us. That bias towards action

Building the Partnership

- It's just that in my very early days in the business, I was so doggoned competitive, and so determined to do well, that I was blinded to the most basic truth, really the principle that later became the foundation of Wal-Mart's success. You see, no matter how you slice it in the retail business, payroll is one of the most important parts of overhead, and overhead is one of the most crucial things you have to fight to maintain your profit margin. That was true then, and it's still true today. Back then, though, I was so obsessed with turning in a profit margin of 6 percent or higher that I ignored some of the basic needs of our people, and I feel bad about it
- The larger truth that I failed to see turned out to be another of those paradoxes - like the discounters' principle of the less you charge, the more you'll earn. And here it is: the more you share profits with your associates - whether it's in salaries or incentives or bonuses or stock discounts - the more profit will accrue to the company. Why? Because the way management treats the associates is exactly how the associates will then treat the customers. And if the associates treat the customers well, the customers will return again and again, and that is where the real profit in this business lies, not in trying to drag strangers into your stores for advertising
- In the whole Wal-Mart scheme of things, the most important contact ever made is between the associate in the store and the customer
- I have always believed strongly that we don't need unions at Wal-Mart. Theoretically, I understand the argument that unions try to make, that the associates need someone to represent them and so on. But historically, as unions have developed in this country, they have mostly just been divisive. They have put management on one side of the fence, employees on the other, and themselves in the middle as almost a separate business, one that depends on division between the other two camps. And divisiveness, by breaking down direct communication, makes it harder to take care of customers, to be competitive, and to gain market share. The partnership we have at Wal-Mart - which includes profit sharing, incentive bonuses, discount stock purchase plans, and a genuine effort to involve the associates in the business so we can all pull together - works better for both sides than any situation I know of involving unions
- One of the most successful bonuses has been our shrink incentive plan, which demonstrates the partnership principle as well as any I know beyond just straight profit-sharing. As you may know, shrinkage, or unaccounted-for inventory loss - theft, in other words - is one of the biggest enemies of profitability in the retail business. So in 1980, we decided the best way to control the problem was to share with the associates any profitability the company gained by reducing it. If a store holds shrinkage below the company's goal, every associate in that store gets a bonus that could be as much as $200. This is sort of competitive information, but I can tell you that our shrinkage percentage is about half the industry average. Not only that, it helps our associates feel better about each other, and themselves. Most people don't enjoy stealing, even the ones who will do it if given the opportunity. And most associates don't want to think that they're

working alongside anyone who does enjoy stealing. So under a plan like this, where you're directly rewarded for honesty, there's a real incentive to keep from ignoring any customers who might want to walk off with something, or, worse to allow any of your fellow associates to fall into that trap. Everybody working in that store becomes a partner in trying to stop shrinkage, and when they succeed, they - along with the company in which they already hold stock - share in the reward

- Another important ingredient that has been in the Wal-Mart partnership from the very beginning has been our very unusual willingness to share most of the numbers of our business with all the associates. It's the only way they can possibly do their jobs to the best of their abilities - to know what's going on in their business. If I was a little slow to pick up on sharing the profits, we were among the first in our industry - and are still way out front of almost everybody - with the idea of empowering our associates by running the business practically as an open book. I've always told people in the stores what was going on with the numbers. But after we decided to act like a partnership, we formalized the sharing of information to a much greater degree

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Stepping Back

- If I've given the impression so far that Wal-Mart has occupied most of my competitive energy over the years, that's not completely accurate. I've pursued my other passions all along, too, mostly quail hunting and tennis - and I pursued them both very competitively. A lot of businessmen seem to prefer golf, but I always thought it was a little too country club for me and it took too much time and wasn't really competitive in the same way that tennis is, you know, in a give-and-take, head-to-head way
- The truth is, I failed at retirement worse than just about anything else I've ever tried. Actually, I knew it was a mistake almost right after I resigned the chairmanship. I tried to stay out of Ron's way. The problem was that I actually just kept doing exactly the same thing I had been doing all the time. I wanted to see my ideas keep flowing around the company, but I wanted Ron to be successful in operating the company and building an organization. Unfortunately, I just couldn't quite stay away from it to that degree. The situation is quite a burden for Ron, and would have been for any forty-year-old guy wanting to run his own company
- At any company, the time comes when some people need to move along, even if they've made strong contributions. I have occasionally been accused of pitting people against one another, but I don't really see it that way. I have always cross-pollinated folks and let them assume different roles in the company, and that has bruised some egos from time to time. But I think everyone needs as much exposure to as many areas of the company as they can get, and I think the best executives are those who have touched all the bases and have the best overall concept of the corporation

Creating a Culture

- A strong corporate culture with its own unique personality, on top of the profit-sharing partnership we've created, gives us a pretty competitive edge. But a culture like ours can create some problems of its own too. The main one that comes to mind is a resistance to change. When folks buy into a way of doing things, and really believe it's the best way, they develop a tendency to think that's exactly the way things should always be done. So I've made it my own personal mission to ensure that constant change is a vital part of the Wal-Mart culture itself. I've forced change - sometimes for change's sake alone - at every turn in our company's development. In fact, I think one of the greatest strengths of Wal-Mart's ingrained culture is its ability to drop everything and turn on a dime
- Maybe it's none of my business, but I've done everything I can to discourage our folks from getting too extravagant with their homes and their automobiles and their lifestyles. Every now and then somebody will do something particularly showy, and I don't hesitate to rant and rave about it at the Saturday morning meeting. And a lot of times, folks who just can't hold back will go ahead and leave the company
- If you get too caught up in that good life, it's probably time to move on, simply because you lose touch with what your mind is supposed to be concentrating on: serving the customer

Making the Customer Number One

- Quite a few smaller stores have gone out of business during the time of Wal-Mart's growth. Some people have tried to turn it into this big controversy, sort of a "Save the Small-Town Merchants" deal, like they were whales or whooping cranes or something that has right to be protected
- The whole thing taught me a lesson about the way the national media seems to think. When you start out as an unknown quantity with just a dream and a commitment, you couldn't buy a mention of your company in one of these publications. When you become moderately successful, they still ignore you unless something bad happens to you. Then, the more successful you become, the more suspicious they become of you. And if you ever become a large-scale success, it's Katie bar the door. Suddenly, you make a very convenient villain because everybody seems to love shooting at who's on top
- I think in the case of variety stores, they have to completely reposition themselves, something like the way Don Soderquist did when he was president of Ben Franklin. He saw that there just wasn't any future in competing with Wal-Mart and Kmart so he started converting a lot of their variety stores into craft stores. They offered a much bigger assortment of craft merchandise than any Wal-Mart could, and they held classes in things like pottery and flower arranging, services we could never think about providing. It worked. They stayed in business in the small towns and have been quite successful with many of those stores. The same thing can be done with fabrics: offer higher quality material and throw in some sewing classes. Or ladies' apparel. I don't care how many Wal-Marts come to

town, there are always niches that we can't reach - not that we won't try. Just like everybody else, in order to survive, we need to keep changing the things we do

- Now in the case of hardware stores, I don't deny that we've been hard on some of them, too, but if they're in a decent location they shouldn't have that much trouble with Wal-Mart. It's the one kind of store for which I have the least sympathy because, frankly, a good smart hardware store operator can just beat us to death if he thinks about what he's doing and commits to putting up a fight. If he gets his assortment right and makes sure his salespeople have excellent knowledge of the products and how to use them, and goes out of his way to take care of his customers, he can keep plenty of business away from us. We don't have nearly the assortment of a hardware store - plumbing supplies and electrical equipment and specialty tools. And not all of our folks can explain how to fix a leaky faucet or rewire a lamp the ways folks in a hardware store should be able to. Our paint customers don't get waited on much either. They have to pick out their own paint and then walk around with it looking for the rest of the things they want. The same is true in sporting goods, where the customer can't expect to get nearly the same kind of service from us as from a specialty store
- On the surface, the idea of serving the customer sounds so simple, so logical, and so obvious. But from the very beginning, the way we have practiced it has been so radical that it has frequently gotten us into trouble with what folks call "the system." In the early days, the department stores put a lot of pressure on vendors to keep them from selling to discounters like us because they hated what we were doing: offering our customers prices much lower than theirs. In some states, the department stores used so-called "fair trade" laws to try and block discounters from doing business at all
- We don't have any problem with the idea of paying a middleman a commission on a sale, if his services add value to the purchasing process by making it more efficient. This controversy is another case, I think, of a group of people believing for some reason that they're just entitled to take a piece of the action, no matter how little they contribute to the transaction or what it means to the customer. The argument is as simple as the small-town merchant controversy. If American business is going to prevail, and be competitive, we're going to have to get accustomed to the idea that business conditions change, and that survivors have to adapt to those changing conditions. Business is a competitive endeavor, and job security lasts only as long as the customer is satisfied. Nobody owes anybody else a living
- In the early days of the industry, most discounters were served entirely by middlemen, jobbers, or distributors who came in and said to those old promoters, "We'll keep your shelves filled for 15 percent of the gross." In other words, the price on every item included a 15 percent commission to the jobber for supplying the merchandise. That's how the fast-buck promoters got into the business without even having to think much like merchants. They took what the jobbers gave them, added on the 15 percent, and still underpriced the department stores by a long shot
- Don't ever feel sorry for a vendor. He knows what he can sell for, and we want his bottom price

- 'Don't leave in any room for a kickback because we don't do that here. And we don't want your advertisement program or your delivery program. Our truck will pick it up at your warehouse. Now what is your best price?' And if they told me it's a dollar, I would say, 'Fine, I'll consider it, but I'm going to go to your competitor, and if he says 90 cents, he's going to get the business. So make sure a dollar is your best price.' If that's being hard-nosed, then we ought to be as hard-nosed as we can be. You have to be fair and upfront and honest, but you have to drive your bargain because you're dealing for millions and millions of customers who expect the best price they can get. If you buy that thing for $1.25, you've just bought somebody else's inefficiency
- We assembled the top ten officers of both companies in Bentonville for two days of soul-searching and thinking, and within three months we had created a P&G/Wal-Mart team to build a whole new kind of vendor-retailer relationship. We formed a partnership to conduct our business, with one of the most important outcomes being that we started sharing information by computer. P&G could monitor Wal-Mart's sales and inventory data, and then use that information to make its own production and shipping plans with a great deal more efficiency. We broke ground by using information technology to manage our business together, instead of just to audit it
- Following the P&G/Wal-Mart partnership, many other companies began to view the supplier as an important partner. The partnership was also a model for many of our other vendor relationships. In our situation today, we are obsessed with quality as well as price, and, as big as we are, the only way we can possibly get that combination is to sit down with our vendors and work out the costs and margins and plan everything together. By doing that, we give the manufacturer the advantage of knowing what our needs are going to be a year out, or six months out, or even two years out. Then, as long as they are honest with us and try to lower their costs as much as they can and keep turning out a product that the customers want, we can stay with them. We both win, and most important, the customer wins too. The added efficiency of the whole process enables the manufacturer to reduce its costs, which allows us to lower our prices
- Whoever said 'retail is detail' is absolutely 100 percent right. On the other hand it's simple

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Meeting the Competition

- Toward the end of 1976, Kmart had purchased more than two hundred store locations left over from the defunct Grant's chain, and they had their hands full trying to make that work. Not only that, they seemed to have a management philosophy at the time of avoiding all change, something that never works in this business. I'm sure that worrying about Wal-Mart fell way down on their priority list, and I occasionally think back to how lucky we were not to have had to face Harry Cunningham - or Kmart's current management team - during that period
- I try to play a "what-if" game with the numbers - but it's generally my gut that makes the final decision. If it feels right, I tend to go for it, and if it doesn't, I back off

- Sam's are big stores in warehouse-type buildings aimed at small-business owners and other customers who buy merchandise in bulk. A membership fee entitles a customer to shop at Sam's, which charges wholesale prices for name-brand, often high-end merchandise - everything from tires to cameras to watchers to office supplies to cocktail sausages and soft drinks. If you've never been in one, they're a lot of fun to shop, and the people who work there are a little crazy. Like the old days at Wal-Mart, they're liable to do anything on a moment's notice to move the merchandise

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Expanding the Circles

- Distribution and transportation have been so successful at Wal-Mart because senior management views this part of the company as a competitive advantage, not as some afterthought or necessary evil. And they support it with capital investment. A lot of companies don't want to spend any money on distribution unless they have to. Ours spends because we continually demonstrate that it lowers our costs. This is a very important strategic point in understanding Wal-Mart. The efficiencies and economies of scale we realize from our distribution system give us one of our greatest competitive advantages
- We stock over 80,000 items in our stores, and our warehouses directly replenish almost 85 percent of their inventory, compared to only about 50 to 65 percent for our competition. As a result, the gap from the time our in-store merchants place their computer orders until they receive replenishment averages only about two days. That probably compares to five or only about two days. That probably compares to five or more days for a lot of our competitors, which don't ship as much merchandise through their own network
- Not only do we stock more of our merchandise in our own distribution centers, we also rely on our own private truck fleet to a much greater degree than our competitors do. Our private fleet is one of the nation's largest, maybe the largest
- The drivers see more stores every week than anybody else in this company. And I think what Sam likes about them is that they're not like a lot of managers. They don't care who you are. They'll tell you what they really think

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Thinking Small

- I always wanted to be the best retailer in the world, not necessarily the biggest. In fact, as I said in that article thirty something years ago, I've always been a little bit afraid that big might get in the way of doing a good job
- For us, thinking small is a way of life, almost an obsession. And I suspect thinking small is an approach that almost any business could profit from. The bigger you are, the more urgently you probably need it. At our size today, there's all sorts of pressure to regiment and standardize and operate as a centrally driven chain, where everything is decided on high and passed down to the stores. In a system like that, there's absolutely no room for creativity, no place for the maverick merchant that I was in the early days at Ben Franklin, no call for the entrepreneur or the promoter. Man, I'd hate to work at a place like that, and I worry every single

day about Wal-Mart becoming that way. I stay on these guys around here all the time about it

- If you had to boil down the Wal-Mart system to one single idea, it would probably be communication, because it is one of the real keys to our success. We do it in so many ways, from the Saturday morning meeting to the very simple phone call, to our satellite system. The necessity for good communication in a big company like this is so vital it can't be overstated. What good is figuring out a better way to sell beach towels if you aren't going to tell everybody in your company about it?
- In retailing, there has always been a traditional, head-to-head confrontation between operations and merchandising. You know, the operations guys say, 'Why in world would anybody buy this? It's a dog, and we'll never sell it.' Then the merchandising folks say, 'There's nothing wrong with that item. If you guys were smart enough to display it well and promote it properly, it would blow out the doors.' That's the way it is everywhere, including Wal-Mart
- The bigger we get as a company, the more important it becomes for us to shift responsibility and authority toward the front lines, toward that department manager who's stocking the shelves and talking to the customer. When we were much smaller, I probably wasn't as quick to catch on to this idea as I should have been. But as an avid student of management theory, back in the mid-seventies I started reading the work of W. Edwards Deming, the famous statistician who taught so much to the Japanese about improving their productivity and competitiveness
- In many big retail companies the department head is just an hourly employee going through the motions, somebody who punches a clock, then rips open boxes and stacks whatever's in them onto shelves. But we give our department heads the opportunity to become real merchants at a very early stage of the game
- In Store Within a Store we make our department heads the managers of their own businesses, and in some cases these businesses are actually bigger in annual sales than a lot of our first Wal-Mart stores were. We share everything with them: the costs of their goods, the freight costs, the profit margins. We let them see how their store ranks with every other store in the company on a constant, running basis, and we give them incentives to want to win. We're always trying for that fine balance between autonomy and control. Like any big retailer, Wal-Mart obviously has certain procedures which we require our stores to follow or items they must stock. But we have taken steps to make sure our stores have some autonomy. The responsibility for ordering merchandise lies with the department head. The responsibility for promoting merchandise is with the store manager. Our buyers have much more responsibility for deciding what's carried in our stores than buyers at most other companies
- We're always looking for new ways to encourage our associates out in the stores to push their ideas up through the system. We do a lot of this at Saturday morning meetings. We'll invite associates who have thought up something that's really worked well for their store - a particular item or a particular display - to come share those ideas with us

- The VPI (Volume Producing Item) contest is a perfect example of how we put this into practice. Everybody from the department manager level on up can choose an item of merchandise they want to promote - with big displays or whatever - and then we see whose item produces the highest volume. I've always thought of the VPI contest not just as a way to stimulate sales, but as a method of teaching our associates how to become better merchants, to show them what can be done by picking an item that's available and figuring out a creative way to sell it, or buy it, or both. It gives them the opportunity to act the way we used to in the early days
- Anytime a company grows as fast as Wal-Mart has, pockets of duplication are going to build up, and there will be areas of the business which may no longer need. No boss or employee really likes to dwell on such matters: it's only human nature not to want to have your job, or the jobs of the people who work for you, eliminated. But it is absolutely the responsibility of a company's top management to be thinking about this issue all the time - to ensure a sound future for the overall company
- One way I've approached this is by sticking to the same formula I used back when we had about five store. In those days, I tried to operate on a 2 percent general office expense structure. In other words, 2 percent of sales should have been enough to carry our buying office, our general office expense, my salary, Bud's salary - and after we started adding district managers or any other officers - their salaries too. Believe it or not, we haven't changed that basic formula from five stores to two thousand stores. In fact, we are actually operating at a far lower percentage today in office overhead than we did thirty years ago, and that includes tremendous expenses for computer support and distribution center support - though not the actual cost of running the distribution centers. Really, it includes everything that we supply centrally in the way of support for the stores
- A lot of first-time visitors are kind of shocked by our executive offices. Most people say my office and those of all the other Wal-Mart executives look like something you'd find in a truck terminal. We're in a one-storey office-warehouse building. The offices aren't real big, and the walls are covered with inexpensive paneling. We never had fancy furniture or thick carpet, or suites with bars for our executives. I like them just like they are. We sure as heck won't win any interior decorating awards, but they're all we need, and they must be working fine. Just ask our shareholders
- If you don't zero in on your bureaucracy every so often, you will naturally build in layers. You never set out to add bureaucracy. You just get it. Period. Without even knowing it. So you always have to be looking to eliminate it. You know when Tom Watson, Sr., was running IBM, he decided they would never have more than four layers from the chairman of the board to the lowest level in the company
- What you have to do is just draw a line in the dirt, and force the bureaucracy back behind that line. And then know for sure that a year will go by and it will be back across that line, and you'll have to do the same thing again

Giving Something Back

- Creating a huge personal fortune was never particularly a goal of mine, and the proof of that lies in the fact that even to this day most of my, and my family's, wealth remains in the form of Wal-Mart stock. I think most people in our position would have hedged their bets a long time ago and diversified into all kinds of investments
- As the family focuses more broadly on educational reform, we want to be very careful. We are devout believers in the Wal-Mart way of doing things, and we want some basis by which to measure our investment. We're not satisfied that the traditional methods by which charitable foundations are operated really meet our criteria. Some people have crowed a great deal about all their philanthropy over the years, but too many of these foundations, I suspect, were only begun as tax shelters without much real sense of purpose. Many of them seem to have become very nice places to work for a small group of folks who have built up pretty thick crusts of administration and bureaucracy. Those are two of the things we have fought the hardest to keep out of our company, so naturally we don't want them clogging up our nonprofit efforts

Running a Successful Company: Ten Rules That Worked for Me

- Rule 1: COMMIT to your business. Believe in it more than anybody else. I think I overcame every single one of my personal shortcomings by the sheer passion I brought to my work. I don't know if you're born with this kind of passion, or if you can learn it. But I do know you need it. If you love your work, you'll be out there every day trying to do it the best you possibly can, and pretty soon everybody around will catch the passion from you - like a fever
- Rule 2: SHARE your profits with all your associates, and treat them as partners. In turn, they will treat you as a partner, and together you will all perform beyond your wildest expectations. Remain a corporation and retain control if you like, but behave as a servant leader in a partnership. Encourage your associates to hold a stake in the company. Offer discounted stock, and grant them stock for their retirement. It's the single best thing we ever did
- Rule 3: MOTIVATE your partners. Money and ownership alone aren't enough. Constantly, day by day, think of new and more interesting ways to motivate and challenge your partners. Set high goals, encourage competition, and then keep score. Make bets with outrageous payoffs. If things get stale, cross-pollinate; have managers switch jobs with one another to stay challenged. Keep everybody guessing as to what your next trick is going to be. Don't become too predictable
- Rule 4: COMMUNICATE everything you possibly can to your partners. The more they know, the more they'll understand. The more they understand, the more they'll care. Once they care, there's no stopping them. If you don't trust your associates to know what's going on, they'll know you don't really consider them partners. Information is power, and the gain you get from empowering your associates more than offsets the risk of informing your competitors

- Rule 5: APPRECIATE everything your associates do for the business. A pay-check and a stock option will buy one kind of loyalty. But all of us like to be told how much somebody appreciates what we do for them. We like to hear it often, and especially when we have done something we're really proud of. Nothing else can quite substitute for a well-chosen, well-timed, sincere words of praise. They're absolutely free - and worth a fortune
- Rule 6: CELEBRATE your successes. Find some humor in your failure. Don't take yourself so seriously. Loosen up, and everybody around you will loosen up. Have fun. Show enthusiasm - always. When all else fails, put on a costume and sing a silly song. Then make everybody else sing with you. Don't do a hula on Wall Street. It's been done. Think up your own stunt. All of this is more important, and more fun, than you think, and it really fools the competition. "Why should we take those cornballs at Wal-Mart seriously?"
- Rule 7: LISTEN to everyone in your company. And figure out ways to get them talking. The folks on the front lines - the ones who actually talk to the customer - are the only ones who really know what's going on out there. You'd better find out what they know. This really is what total quality is all about. To push responsibility down in your organisation, and to force good ideas to bubble up within it, you must listen to what your associates are trying to tell you
- Rule 8: EXCEED your customers' expectations. If you do, they'll come back over and over. Give them what they want - a little more. Let them know you appreciate them. Make good on all your mistakes, and don't make excuses - apologize. Stand behind everything you do. The two most important words I ever wrote were on that first Wal-Mart sign: "Satisfaction Guaranteed." They're still up there, and they have made all the difference
- Rule 9: CONTROL your expenses better than your competition. This is where you can always find the competitive advantage. For twenty-five years running - long before Wal-Mart was known as the nation's largest retailer - we ranked number one in our industry for the lowest ratio of expenses to sales. You can make a lot of different mistakes and still recover if you run an efficient operation. Or you can be brilliant and still go out of business if you're too inefficient
- Rule 10: SWIM upstream. Go the other way. Ignore the conventional wisdom. If everybody else is doing it one way, there's a good chance you can find your niche by going in exactly the opposite direction. But be prepared for a lot of folks to wave you down and tell you you're headed the wrong way. I guess in all my years, what I heard more often than anything was: a town of less than 50,000 population cannot support a discount store for very long

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Wanting to Leave a Legacy

- Free enterprise is the engine of our society; communism is pretty much down the drain and proven so; and there doesn't appear to be anything else that can compare to a free society based on a market economy. Nothing can touch that system - not unless leadership and management get selfish or lazy. In the future, free enterprise is going to have to be done well - which means it benefits the workers, the stockholders, the communities, and, of course, management, which must adopt a philosophy of servant leadership

- At Wal-Mart, we've always paid our executives less than industry standards, sometimes maybe too much less. But we've always rewarded them with stock bonuses and other incentives related directly to the performance of the company. It's no coincidence that the company has done really well, and so have they
- When you look at what's happened to the American auto industry, it's tempting to want to treat the Japanese unfairly - the way they treat us with their protectionist laws. Our auto industry doesn't play on level ground. But I don't think we should counter with protectionism because it doesn't address the real problem: the quality of our product doesn't compete with that of the Japanese, whether we want to admit it or not. The challenge is a great one for management. What they have to do is build a partnership with their people