SAM WALTON : MADE IN AMERICA

The Story of America's Richest Man

SAM WALTON with RICHARD HUEY

1. INTRODUCTION

Samuel Moore Walton was born in Kingfisher, Oklahoma in 1918 and died in Little Rock, Arkansas on 5 April 1992.

In 1985, *Forbes Magazine* named him as the "richest man in America" with assets of nearly US$25 billion. All of Sam Walton's personal wealth has been generated by the publicly listed Wal-Mart supermarket chain. The Walton family currently owns about 38-percent of Wal-Mart's issued shares.

Wal-Mart is the world's largest retail chain by sales turnover and continues to expand rapidly. From nine stores with sales of US$1.4 million in 1960, the Wal-Mart group had grown by 1990 to 1,528 stores with US$26 billion in sales and profits exceeding US$1 billion. The company has set a target of achieving a sustainable annual sales turnover of US$100 billion by the year 2000.

2. GROWING UP

Sam Walton always credits his father as providing him with keen trader instincts and extroverted personality traits. Thomas Walton was a farmer who loved to trade or to make a deal for just about anything. When the 1930's Depression came, Thomas Walton took on a number of jobs including banker, farm-loan appraiser, insurance agent and eventually a farm repressor as the effects of the Depression flowed through to the rural sector.

As with most families of that era, Sam's mother Nan started a small milk business to try and help feed the family. Sam would get up early to milk the cows, his mother would prepare and bottle the milk and Sam would deliver it after school to 10 or 12 regular customers.

To supplement this small income, Sam also started selling magazine subscriptions and delivering newspapers while at school. That background of struggle through the Depression ingrained a strong respect for the value of a dollar - a respect that Sam Walton still feels keenly today.

"From the time we were kids, Sam could excel at anything he set his mind to. I guess it's just the way he was born. Back when he carried newspapers, they had a contest. I've forgotten what the prizes were - maybe $10, who knows. He won that contest, going out selling new subscriptions door to door. And he knew he was going to win. It's just the make-up of the man. My only explanation is that Sam has a lot of our mother's characteristics."

—— Bud Walton, Sam's brother

At High School, Sam did well at sports. He played as the quarterback on the football team, and occasionally did double duty as the team's linebacker as well. After completing High School, Sam went on to study at the University of Missouri, where he made it on to the football team.

When Sam decided to run for student body president, he learned the secret to winning votes that would also later serve him extremely well in retail: speak to people coming down the sidewalk before they speak to you. He went out of his way to get to know everybody on campus, and before long most of the students recognized him and considered him their friend. He was successful in being elected to every office he ran for.

While at university, Sam worked to pay his own way. His parents didn't have enough money, so Sam paid his own tuition fees and living expenses. He waited tables in a restaurant (in exchange for free food), worked as a lifeguard, delivered newspapers and sold magazine subscriptions. In fact, Sam started hiring workers to help and by the end of university, he was making a profit of about $4,000 to $5,000 a year - impressive by late-1930's standards.

When Sam Walton graduated in 1940 with a business degree, he planned on becoming an insurance salesman. However, he happened to speak with a couple of college recruiters from J.C. Penney and Sears Roebuck, and Sam decided that a career in retailing wouldn't be too bad either. He eventually accepted a job as a management trainee with J.C. Penney in Des Moines, Iowa for a starting salary of $75 a month.

It was only when he started serving customers that his new employer became aware of a slight problem - Sam's handwriting was so bad no-one else could read it. That, added to the fact that Sam couldn't stand to leave a customer waiting while he fiddled with the paperwork, created incredible confusion with J.C. Penney's paperwork.

"Walton, I'd fire you if you weren't such a good salesman. Maybe you're just not cut out for retail," said Penney's regional manager Phil Blake. Luckily, however, Sam's store manager, Duncan Majors, was an excellent motivator with a proud record of having trained more J.C. Penney store managers than anyone else in the company. Majors lived and breathed retail, and passed that enthusiasm on to his employees.

Sam lasted 18 months at J.C. Penneys and quit in early 1942 to join the Army and fight in the Second World War. However, when he took the Army medical, he was turned down because of a minor heart irregularity. Since he had already quit at J.C. Penney's, Sam headed south to Tulsa to look for a job in the booming oil business. There, he met his future wife, Helen Robson.

Before they could get married, Walton was called up to join the Army although he couldn't be assigned to combat duty. Sam ended up spending the Second World War supervising security at aircraft plants and POW camps around the United States. He married Helen Robson on Valentine's Day, 1943.

While in the Army, Sam maintained a passion for retailing and took every opportunity to read books and visit retail stores around the country. Helen's father was a prominent lawyer, banker and rancher, and he was very keen for his new son-in-law to be set up in a business of his own. Helen had only one rule: she didn't want to live in any city with a population of more than 10,000 people.

3. STARTING OUT SMALL

With the end of the War in 1945, Sam approached the Butler Brothers Company who ran two chains of franchise retail stores: Federated Stores (small department stores) and Ben Franklin (variety stores commonly called "five and dimes" or "dime stores"). They offered Sam a Ben Franklin store in Newport, Arkansas (population: 7,000 people).

The 27-year old Sam Walton liked what he saw, and agreed to buy the Ben Franklin for $25,000 - using $5,000 of his own money and $20,000 borrowed from his father-in-law. Sam was so keen to get started that he signed a contract which anybody with more experience would have re-negotiated: Sam agreed to pay a rent of 5-percent of his gross sales. When he bought the store, it had sales of around $72,000 a year.

The Ben Franklin franchise program turned out to be well put together. They had developed an excellent accounting system, which include a "Beat Yesterday" book in which this year's sales figures were compared with the sales figures of one year ago on a day by day basis. Sam started out working within the franchise system, but before long he was trying a number of his own promotional ideas. He used to drive all over looking for whatever merchandise he could get a good deal on.

Sam soon learned he made greater profits by selling a large number at a low profit margin than by selling just a few with a high profit margin. That is, an increased volume generates more profits than are lost by lower markups. This principle would later form the bedrock foundation of the Wal-Mart chain.

Within three years, sales at the Newport store grew from $72,000 to $175,000. Sam was able to pay back his father-in-law after two-and-a-half years in business. When a store became vacant next to his Ben Franklin, Sam took up the lease and opened a small department store selling anything he could get a good deal on. His brother Bud was just back from the Army, and he helped Sam run both stores.

By the end of 5-years in operation, the Ben Franklin store was turning over $250,000 in sales per year, generating $40,000 in profits. Things looked bright except for one minor detail - in Sam's enthusiasm to negotiate his original lease, he had failed to include a right-of-renewal. The landlord refused to renew the lease, and offered to buy the store for his son to operate. Sam had no option but to sell the Newport Ben Franklin store and start over again somewhere else.

4. BOUNCING BACK

The sole advantage of losing the lease on the Newport store was that the 32-year old Sam Walton could now start afresh in a new location applying everything that had been learned at Newport. Sam found a small store in Bentonville which was turning over about $32,000 a year. He negotiated a 99-year lease on the store and a barbershop next door, took out the dividing wall and set up an enlarged store along the lines of a new concept he had just heard about - self service. Sam's Bentonville shop was the third self-service variety store to open for business in the entire United States of America.

The store was called Waltons Five and Dime, although in effect it was operating as a Ben Franklin franchise.

"I guess Mr. Walton just had a personality that drew people in. He would yell at you from a block away, you know. He would just yell at everybody he saw, and that's the reason so many liked him and did business in the store. It was like he bought business in by being so friendly."

— Inex Threet, Clerk, Waltons Fine and Dime

As a result of his Newport experience, Sam was determined not to have all his eggs in just one basket ever again. He found an old grocery store in nearby Fayette and converted it into a self-service variety store. Sam convinced a dime store manager he knew to manage the Fayette store with the promise of a share of the store's profits.

Meanwhile, Sam's brother Bud had bought a Ben Franklin store in Versailles, Missouri. He and Sam also went into a fifty-fifty partnership to set up a Ben Franklin store in a new retail concept called a shopping center in Kansas City. The shopping center idea fired Sam up so much that he tried to duplicate it in Arkansas. Unfortunately, he was a little ahead of the market and Sam ended up losing about $25,000 trying to develop a shopping center.

"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 ever known. And once he sees he's wrong, he just shakes it off and heads in another direction."

— David Glass, CEO, Wal-Mart

By this stage, Sam was doing so much driving from store to store that he decided it might not be a bad idea to save time by flying his own plane.

"One day, I got a call from Sam and he said, "Meet me in Kansas City, I want to buy an airplane". Boy, it took me by such surprise. I always thought he was the world's worst driver and even my father wouldn't ever let Sam drive him. I thought, "He will kill himself the first year". So I did everything in the world to try and talk him out of that first airplane. He called me later and said he'd bought this Air Coupe for $1,850, and I had to come see it. I'll never forget going over to the Bentonville airport and seeing what he called an airplane. It had a washing machine motor in it, and it would putt-putt, and then miss a lick, then putt-putt again. It didn't even look like an airplane, and I wouldn't go near it for at least two years."

— Bud Walton, Sam's brother