

Ten Commandments of American Retail

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Over the past 1.5 centuries, what has led to dominance or failure in American retail, and what takeaways should investors and managers draw from that history? Here are the ten lessons I learned.

This paper is based primarily on my analysis of five books, four of which I've read twice, about four category-killer retailers that have functionally dominated their category for a cumulative total of 150 years or so: [The Great A&P](#) by Marc Levinson, [Made in America](#) by Sam Walton, [The Everything Store](#) by Brad Stone, and [Pour Your Heart Into It](#) as well as [Onward](#) by Howard Schultz of Starbucks*. Additional context is drawn from books and information about other successful retailers, listed at the end**.

Note that one challenge with the sort of methodology I'm using is that stories can often be misleading if read improperly - an issue I address extensively in a companion paper, "[Countering Cute Storytelling](#)," which is probably more useful than this one (if you only have time to read one). Consider my observations there to be an input as well as a caveat to my commentary here.

Without further ado, here are the loosely organized **Ten Commandments of American Retail**:

Steal shamelessly.

Few retail behemoths are founded on unique ideas, and while they do often innovate plenty of things along the way, sometimes their best "edge" is simply doing what other people are already doing - just better. Amazon wasn't the first online bookseller. Starbucks would have languished forever as a local, low-margin roaster of whole coffee beans if Howard Schultz hadn't fallen in love with the Italian espresso bar experience and decided to port it stateside. Sam Walton was described by many as a "master of taking the best out of everything and adapting it to his own needs," borrowing concepts ranging from self-service and metal shelving to ripping off Sol Price's warehouse club concept. Costco's own Jim Sinegal once told Jeff Bezos that "*we have shamelessly stolen any good ideas.*"

If you're not building on the shoulders of giants, you'll never reach the sky.

You can't win an arms race - you need something proprietary.

The phenomenon described above works both ways - just as you can steal other people's ideas, so too can they steal yours. Playing the me-too game is *necessary* but not *sufficient* for success; you need to offer something unique. As discussed in *Shoe Dog*, Nike wouldn't have become what it is today (or perhaps even existed at all) if it had continued just being a distribution front for Japanese shoes (other people figured out that game pretty quickly, and threatened to disintermediate them).

Sources of moat can include (the more the better):

- proprietary product (Starbucks Frappuccinos, The Container Store's 'elfa' line, Amazon's "long tail" and used-good availability via Marketplace, Apple stores)
- unparalleled customer support (Amazon, Zappos, Container Store)
- unparalleled convenience (I would argue Amazon wins on this front more than price, especially

with Prime)

- low prices driven by an unbeatable cost structure or different business model, and perhaps vertical integration in some aspect of the business like product or distribution/logistics (Costco, Wal-Mart, Great A&P, IKEA... maybe Amazon?)

The current death of undifferentiated mall-based retailers hawking other people's commoditized merchandise is not a new story, but merely the next in a long line of retail death: it started with mom-and-pop grocery and variety stores in the late 1800s, and on and on and on...

Customer relationships matter, and therefore so do your front-line employees (probably).

It's hard to win customer loyalty and easy to lose it; non-customer-focused retailers uniformly died while all of those that survived focused on the customer (again, it's *necessary but not sufficient* for success.) The corollary to this is that customer interactions are often critical to get right; for businesses with a physical presence, this means that investing a little higher wage to put forth a better, more motivated associate is probably worthwhile (this was the classic Wal-Mart philosophy, and apparently one they are now re-learning.) Starbucks, The Container Store, Zappos, The Home Depot, and others have all in some way taken this approach. Moreover, in Schultz's *Onward*, one of the core points is that by the mid-2000s, Starbucks was more focused on comps than customers – and they suffered for it.

Amazon is perhaps the notable exception; its “front-line” employees (in the warehouse, shipping packages) may or may not be treated well (it is an open question), but the customer relationship is maintained via algorithms, personalization, and Bezos's top-down ultimatum that customers not walk away unhappy.

Adapt to your customers; don't expect them to adapt to you.

As Arthur Blank puts it on page 237 of *Built From Scratch*, “[Home Depot] learned that the consumer dictates who we must be, what we must be, what our content must be, and what services we must give them.”

Retail is not the right industry for purists. The Starbucks of today is perhaps best known for frilly, ridiculously customized drinks (double-pump hazelnut cappuccino with soy milk and stiff foam, exactly 197 degrees) but there was a time when the company had a bitter internal debate about *whether or not to offer non-fat milk* because it violated the Italian coffee experience and the purity of their dark roast. The company eventually realized it needed to be what its customers wanted it to be, not a carbon-copy replica of some mythological Italian ideal, and now adapts to local markets (offering flavors like Black Sesame in China, for example).

Similarly, when Wal-Mart tried to literally copy West-Coast Fed-Mart warehouse clubs into the Midwest, they found out that Midwesterners don't quite like wine as much as Californians (similarly, they found that Southern treat “Moon Pies” didn't sell so well in Wisconsin.) Notably, even the notoriously arrogant Apple was forced to capitulate on the issue of screen sizes, as consumers threatened to vote with their wallets and purchase Android phones that were superior on that dimension – one valued by customers, but not by Apple.

If you don't cannibalize yourself, somebody else will.

“There are no annuities in this business.” – Jim Sinegal

"It's easier to invent the future than to predict it." – Alan Kay, via Jeff Bezos

If you think today's disruption is bad, try the freaking 1890s – 1940s. While retailers today can at least *define* their existential threat with one of two words (i.e. Amazon/e-commerce), retailers in that 50-year period faced an unprecedented deluge of technological innovations, macro circumstances, and shifting consumer preferences that seemed to upend their business faster than they could say "corporate strategy" – think *transcontinental railroad, the automobile, suburbanization, refrigeration, the Robinson-Patman Act, and two World Wars*, just to start with.

The Great Atlantic & Pacific Tea Company succeeded under the Hartford brothers' lead for so long not due to one monolithic strategy (other than focusing on low margins / low price for most of their history), but rather by consistently evolving: from shopping palaces with lavish "trading stamp" premiums to no-frills low-price stores to supermarkets to even bigger supermarkets, everything from the store format to the service format changed. Often, stores became obsolete within a few years of being built, but the Hartfords displayed unusual willingness to ignore sunk costs and rip them to shreds and rebuild if that was what was required.

While no other retailer has perhaps had to face the breadth of challenges that A&P did, other successful retail magnates took the same tack – Sam Walton made it his personal mission to ensure constant change was part of the Wal-Mart culture, and Jeff Bezos fought hard against the "institutional no" as Amazon scaled, which resulted in the creation of wholly new businesses like AWS. In particular, Bezos gave the Kindle team not just license, but *encouragement*, to disrupt their own physical-book business. In contrast, Borders and Barnes & Noble, wedded to their legacy business models, failed to adapt quickly enough to the new era. One perished, and the other now faces existential threat and seems unlikely to recover anything resembling its former glory. Historically, there are so many retailers in this category (Montgomery Ward, J.C. Penney, Woolworth's, Sears...) that you could spend a day naming them all.

"Founder-led" seems to be the way to go - maintaining culture in the absence of a guiding light is hard.

In light of the above, principal-agent issues are very real when it comes to retailers – even with the Hartfords as the only meaningful stakeholders of The Great A&P, they faced resistance from local managers for whom tearing up existing stores to build new, unproven ones was a negative.

Indeed, to surmount this local-vs-global optimization problem – i.e., that agents are usually incentivized, both in terms of status and money, to maintain their position atop the local hill rather than facing the challenging trek down through a valley to reach the mountaintop where you need to get to – it seems to pay to have a strong principal atop the business. Otherwise, there's no champion for optically bad / operationally disruptive measures that are critical to long-term success. Oftentimes, businesses can even become "locked in" to a certain way of doing things, and their business model / "institutional imperatives" constrain them from fully targeting new markets in new ways, as discussed extensively in *The Innovator's Dilemma* by Clayton Christensen.

Howard Schultz saw this problem at Starbucks once he left – rather than his bottom-up "one customer, one cup" focus, the organization's focus shifted to top-down aggregate numbers like comps, number of stores, etc, and Starbucks lost its way, driven by Wall Street comp expectations rather than a focus on the customer and the barista. John Hartford was in stores and on the road all the time, and A&P quickly fell from grace after he and his brother passed away.

Meanwhile, Jeff Bezos has a public email address and, with the help of his assistants, reads all customer emails sent to him, escalating some to the customer service team with an ominous "?" Sam

Walton liked to sit down with truckers and associates to get a ground-up view of the business. One wonders if Wal-Mart would have mounted an earlier and more effective e-commerce initiative if Sam Walton had still been alive to watch Amazon grow.

Success in retail seems to require a strong, motivated principal maintaining the culture and focus. It is notable, I think, that there seem to be few world-class retailers *not* run by “founders.” I put that in airquotes because Tony Hsieh, Howard Schultz, and the Hartford Brothers, for example, weren’t *technically* the founders of their respective businesses... but they were close enough and certainly weren’t free-agent managers.

Fail fast.

No retail empire is without its share of failures. Starbucks had plenty of failed products like *Sorbetto* and *Mazagran*, as well as a poorly-considered mid-2000s foray into entertainment somewhat reminiscent of what sent Six Flags into bankruptcy. Amazon’s entry into categories like jewelry yielded far less payoff than originally expected, and its attempt to compete with eBay in auctions essentially failed entirely (though it did sort of transform into the company’s hugely successful Marketplace third-party platform).

The key seems to be a willingness to try new things and tolerate failure – Sam Walton noted he had a strong expectation that he would win, but also a willingness to shake off mistakes along the way – but to not be stubborn and take a “my way or the highway” approach.

Buzz buzz.

Tech titans Peter Thiel and Marc Benioff both point out that *marketing matters* – you can have a good product, but it isn’t necessarily going to sell itself. The Great A&P launched itself into the public consciousness with blatantly false ads (we’ll save the ethics lecture for another time). Far from the staid image it has in present times, Wal-Mart of the ‘50s and ‘60s had entertainment ranging from donkey rides to popcorn/ice cream machines to pie-eating contests, and stunts like literal pyramids of toothpaste or giant displays of womens’ panties at fire-sale prices. Starbucks often collaborated with Kenny G in the early days, and after a slow opening in Chicago, focused on promoting openings in new markets. The Container Store similarly created pre-launch buzz at its stores. Even after two decades, when Starbucks launched VIA instant coffee, it created buzz by getting reporters/analysts to drink what they *thought* was conventionally-brewed coffee but turned out to be VIA (which grabbed a lot of headlines).

A “land grab” may be necessary... but scaling isn’t trivial.

Many of the retailers seemed to have a Get Big Fast mantra – given the “cloning” issue discussed above, as well as the benefits of scale for cost structure, branding, and supplier negotiating power, it seems like in many cases, growing faster than is advisable is usually advisable. First mover advantages are limited – indeed, remember that most great retailers were *not* truly first movers in a category. The Great A&P, Wal-Mart, Amazon, and Starbucks all expanded at a breakneck pace and managed to outrun imitators.

However, scale brings problems: corporate culture doesn’t work the same way when you don’t know everyone’s name and everyone’s spread out across the country. These transitions can often prove to be a stumbling block.

You either die a hero, or live long enough to see yourself become the villain.

We Americans love underdogs – until the underdog puts everyone on the mat and becomes the reigning champion. Every retailer that grows really large (A&P, Wal-Mart, Amazon, Starbucks all faced this) eventually become a lightning-rod for criticism by populists and politicians alike, *whether or not it is deserved* – South Park’s [“Gnomes” \(S02E17\)](#) has a witty take on this. This phenomenon can often result in challenges ranging from employee morale to executive distraction to political pressure (as A&P found out for seemingly two decades).

On the other hand, long-gone small-town mom-and-pop shops are immortalized as Ellie Walker’s drugstore in Mayberry ([Andy Griffith, S01E04](#)) – a friendly place with a friendly face where little Opie can get an ice cream, maybe even for free. Reality is vastly different, of course – the reason small-town shops died is because they had high prices, poor selection, and often poor quality merchandise – but don’t let the facts get in the way of the argument! (Note: I almost solely patronize indie coffee shops, but only because they’re way better than SBUX.)

Bonus: Everyone has blind spots.

Not strong enough to be a commandment... but the Hartfords didn’t realize for a shockingly long time how real the political threats facing A&P were; Starbucks had woefully underinvested in supply chain and technology because they were so focused on the front-end experience vs. the back-office, and Bezos whiffed on the music category (letting Apple get a big early lead) because he was a big reader and not a big music guy.

Conclusions

I don’t actually invest much in retail, but to the extent that there are other business models that are retail-like in nature, there is obviously some cross-application – or perhaps application for those that invest directly in retail. Of course, while retail may be a dead sector for investment opportunities at the moment, there are always niches at the corners – even Amazon has seen fit to buy some businesses (though, usually, not before trying to put them out of business first). As Sam Walton once put it,

“Could a Wal-Mart type story still occur in this day and age? My answer is 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 business.”

* You can argue that Starbucks is more “restaurant” than “retailer,” but I think their business model is more retail than restaurant, and Schultz himself views Starbucks as a retailer.

** Note: in addition to the “big five” books, I also drew on sources such as [Stop and Sell The Roses](#) (1-800 Flowers), [Built From Scratch](#) (Home Depot), [Delivering Happiness](#) (Zappos), [Uncontainable](#) (The Container Store), [Shoe Dog](#) (Nike), and various other broader-topic books ([Different](#) by Youngme Moon, [The Innovator’s Dilemma](#) by Clayton Christensen), as well as news articles/etc and my own research on some publicly-traded retailers. I by no means claim to be an expert – these are just casual observations from my reading.