Lessons in Retailing: The Old and the New

by Andrew Brod
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In 2000 two separate news stories about retailing were linked despite their apparent dissimilarities. The first story was the end of the bull market for so-called e-tailers, the Internet-based companies that sell everything from furniture to pet toys. The second, coming at the end of December, was the closing, once and for all, of the venerable Montgomery Ward & Co.

How were these developments linked? One *could* argue that each was the result of the coming economic slow-down. Wards' corporate owners saw the writing on the wall and figured its continuing slow sales weren't enough to survive the low end of the business cycle.

It was similar with e-tailers, whose investors finally began to wonder if they'd ever turn a profit. It's one thing to gamble on ever-rising stock prices in a bull market and an economic expansion. It's quite another to do so when the economy gets sluggish.

But while the business cycle may be a common denominator here, there's another, more interesting, way in which these two stories are related. Each is a cautionary tale about an extraordinary innovation coupled with a failure to appreciate the need for bricks-and-mortar retailing.

The history of dot-coms is brief. As recently as 1995, the Web was still a tiny backwater in the world of computing. Back then, people tended to go to bookstores to buy books, call stock brokers to make investments, and attend flea markets to buy and sell knick-knacks and sports memorabilia. Now, Amazon.com, E-Trade, and eBay are household names.

The rapid growth in sales and prestige of e-tailers culminated in their impressive showing in that crucible of American advertising, the Super Bowl. Last year, in what some dubbed the "Dot-Com Bowl," 17 Internet-based retailers ran television commercials during the game.

That same barometer for this year's game illustrates the difficulties dot-coms endured in 2000. So far only three e-tailers have signed up to advertise in this year's Super Bowl. (The fact that two of the three, Monster.com and Hotjobs.com, are job-search sites seems ominous.) Seven companies that advertised last year, including Computers.com and Pets.com, have gone out of business.

One of the lessons of the dot-com shakeout is that the Internet has not completely invalidated the old business models. For example, companies with prior experience in retailing have done quite well. The Internet arm of mail-order company Land's End is especially efficient in fulfilling customer orders, a fact which has been attributed to its catalog roots.

Similarly, it is increasingly clear that a good website is not always enough. Many companies are finding that the best strategy for long-term success is to combine online operations with old-fashioned bricks-and-mortar stores.

Users of this strategy include the Nordstrom department store chain and bookseller Barnes and Noble. Dot-com pioneer Amazon.com recently struck a deal with toy retailer Toys R Us to create a joint toy website. The fall-off in dot-com stocks has aided this process, as the market valuation of Internet-only retailers has returned to the realm of common sense.

So one interesting thing about e-commerce is that for many companies, divorcing themselves of a physical retail presence can be a risky strategy. In the hyperfast world of the Internet, e-retailers have learned that lesson quickly. It took Montgomery Ward & Co. decades to learn a similar lesson.

In a way, Aaron Montgomery Ward was the Jeff Bezos (Amazon's CEO) of his era. Ward was a travelling salesman who had an idea for how to sell his products to more people than he could reach in his travels, and do it efficiently.

In 1872, a year after an earlier attempt was thwarted by the Chicago Fire, he opened a mail-order business. That year he mailed out the first general-merchandise mail-order catalog, a one-page list of 163 items. Within 10 years, Ward's catalog had expanded to 240 pages and 10,000 items.

Ward's concept was revolutionary. Nowadays, the idea of shopping from a catalog hardly seems new or exciting, but in the 1880s it was as innovative as Internet shopping was in the 1990s. Not only were urban consumers able to shop in the convenience of their homes, but Montgomery Ward & Co. became an institution among farmers throughout rural America.

Wards also came to be treasured by African Americans in the segregated South, who in many areas were prevented from trying on clothes in local stores.

Unlike most dot-com start-ups, Wards quickly turned a profit. Sales reached $300,000 in 1878 and broke $1 million in 1887. The success of Wards was so great that it spawned competitors, most notably its Chicago rival, Sears, Roebuck and Co. in the late 1880s. The two companies dominated mail-order retail for decades.

However, years later both Wards and Sears began to suffer from competition from chain stores, which were growing rapidly throughout the country. In the 1920s, Sears opened its first retail stores and Wards opened its first stores outside of Chicago. First intended to merely display items available in their catalogs, the stores soon became integral components for both companies.

But then Wards shot itself in the foot. Amazingly, from the late 1930s until the late 1950s, Wards opened *no* new stores. In fact, it had 120 fewer stores in 1954 than in

1940. Wards chairman Sewell Avery believed that economic depression inevitably followed wars, and he refused to expand when he thought he could do it cheaply during the coming depression.

Of course a post-war depression never came, and the end of World War II heralded the beginning of a strong and prolonged economic expansion. In the meantime, Wards' competitors had been busy expanding into retail's new frontier, the suburbs.

By the mid-1950s, Sears and J.C. Penney were firmly entrenched along the new roads and highways that had been built to accommodate America's burgeoning car culture. Wards was left with stockpiled cash and lots of small, aging stores in unattractive locations.

The company never recovered from this astounding miscalculation. In 1930, Wards had declined an offer to merge with Sears. In 1990, Sears declined the same offer from Wards.

Wards ended up getting passed from one corporate owner to another, never regaining its pre-war success. It was unable to throw off its stodgy image, even after extensive make-overs. It never appealed to the more upscale customers that shopped at chains like Belk, Nordstrom, and Macy's. And now Ward's is defunct.

Aaron Montgomery Ward's mail-order catalog changed the way Americans shopped, and the Internet changed it again over 100 years later. Both innovations separated, or further separated, shopping from the physical. But both needed old-fashioned bricks and mortar to complement them fully.

No one lesson applies perfectly to all retailers, but I believe a theme emerges from this tale. It's risky to ignore the fundamentals of location and the need for a tangible presence. Sometimes you just have to crack open that book, sit on that sofa, try on that shirt.

On the other hand, eBay is way cool.