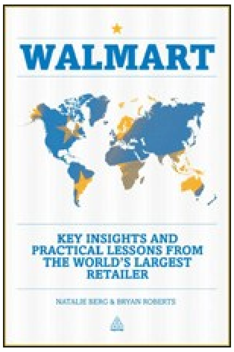

Walmart: Key Insights and Practical Lessons from the World's Largest Retailer

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Chapter 2: Rise of Consumerism

Overview

In 1919, a 21-year-old demobbed soldier was returning to England after the First World War. Using his £30 stipend, the young Jack Cohen set up a market stall in London's East End. His business model was simple: buy surplus groceries from the armed services and sell them cheaply to his budget-conscious customers. His business soon flourished and expanded to additional market stalls and a wholesale unit. However, this wasn't enough for the ambitious Cohen. In 1924, he signed a deal with a tea supplier, TE Stockwell, to sell their unmarked tea under his own brand. Cohen took the first three letters of his supplier's name and the first two of his own and the very first Tesco private label item was launched.

Tesco today is one of Walmart's fiercest competitors in the multinational food-retailing arena. In stark contrast to Walmart, whose 'house of brands' model initially left little room for private label, Tesco made private label a core component of its business strategy from day one. Today, it is arguably the world's most successful private label retailer, with Tesco-branded goods accounting for approximately half of all products that go through the till. It was the first retailer to establish a three-tiered 'good, better, best' private label portfolio, a strategy that has since been admired and replicated by leading retailers across North America, Europe and Asia. Its Value range was launched in 1993 as a means of fending off competition from new entrants to the UK market: discounters Aldi and Lidl. Five years later, through the analysis of shopper data, Tesco recognized that there was a gap in the market for premium private label items and launched its Finest range. Today, Tesco Value and Finest are both £1 billion+ brands, making them larger than national brands such as Walkers or Coca-Cola in the UK. The company has found equal success in non-food private labelling. Its Florence & Fred apparel line has been turned into a standalone clothing store in the Czech Republic, competing with fast-fashion chains such as H&M. Meanwhile, Tesco has extended its brand into financial services, letting its shoppers decide whether their car insurance requirements fall into the Tesco Value, Standard or Finest bracket.

The company's unparalleled success with its private label portfolio helped it to drive shopper loyalty, differentiate from competition, increase profit margins and cement its status as the world's third-largest grocery retailer.

Yet in spite of Tesco's accolades, its turnover is equal to just one-fourth of Walmart's. While Tesco looked to private label to drive loyalty, Walmart's notion of attracting shoppers was based on the premise of stocking national brands, albeit at the lowest price around. In fact, its first major private label launch didn't take place until 1983, nearly 60 years after Tesco introduced its branded tea to London shoppers.

Despite the fact that today Walmart and Tesco are major competitors on a global front, it's important to look at their domestic markets to understand how each strategy evolved. Market conditions have played a major role in the global development of private label. In Western Europe, a combination of retail concentration and the presence of hard discounters paved the way for private label development at an early stage. In fact, according to Nielsen, Switzerland, the UK and Germany are the global leaders, with private label accounting for more than half of all products sold in Switzerland alone. Meanwhile, in Walmart's home territory, private label today continues to lag behind Europe, with a modest share of 22 per cent of the US market. Despite bouts of retail consolidation over the past several decades, the US grocery sector remains extremely regional in structure. This, combined with the fact that the United States is a vast, sparsely populated country, means that private label has not had the opportunity to build up the same level of scale as it has done in the more concentrated European markets. As a result, US retailers have historically put minimal effort into their private label items, leaving it to be perceived for many years among shoppers as the ugly sister to the national brand, a generic alternative that historically lacked in quality.

But let's also not forget that Walmart used to be a self-proclaimed 'discount department store' and it wasn't until the late 1980s that they began adding groceries to the assortment. Prior to that, Walmart's merchandising efforts were centred on home wares, apparel, sporting goods, toys, electronics, health and beauty care (HBC), garden supplies, automotive and pharmaceuticals. When Walmart was starting out in the 1960s, these general merchandise categories featured influential brands such as GE and Whirlpool which continued to gain momentum as post-Second World War prosperity led to increased consumer demand for household products.

Therefore, in order to get a better understanding of how Walmart's branding strategy has evolved, we have to go back to the beginning. In fact, we have to go back to post-war America, well before the first Walmart store even opened.

Arrival of the boom times

'In the fifties and sixties, everything about America was changing rapidly' **SAM WALTON**

The end of the Second World War resulted in newfound economic and individual prosperity. This happened much quicker in the United States where, unlike in Europe, consumers did not experience the war on their own soil.

In his autobiography, Walmart's founder Sam Walton writes: 'During the Depression, few of us had enough money to shop very often, and during World War II, everything – meat, butter, tires, shoes, gasoline, sugar – was rationed. But by the time I started out, the shortages were pretty much over, and the economy was growing. Compared to the Depression we had been used to, boom times had arrived.'

Brands suddenly became a symbol of status and convenience. They transitioned the whole notion of consuming from functional to fulfilling, enabling consumers to lead easier and more fruitful lives. In the mid-1950s, economist and retail analyst Victor Lebow described how consumption drastically changed in post-war America. In his essay 'Price Competition' in 1955, Lebow writes:

> Our enormously productive economy demands that we make consumption our way of life, that we convert the buying and use of goods into rituals, that we seek our spiritual satisfactions, our ego satisfactions, in consumption. The measure of social status, of social acceptance, of prestige, is now to be found in our consumptive patterns. The very meaning and significance of our lives today expressed in consumptive terms... We need things consumed, burned up, worn out, replaced, and discarded at an ever increasing pace. We need to have people eat, drink, dress, ride, live, with ever more complicated and, therefore, constantly more expensive consumption.

So what were the factors behind America's newfound appetite for consumption?

1 Democratization of education and home ownership

In the United States, the induction of the GI Bill entitled returning soldiers to higher education, something that was previously exclusive to wealthier families. In fact, prior to the war, only about 10–15 per cent of Americans went on to college. Many looked to capitalize on this new opportunity laid out by the government and by the peak year of 1947, veterans comprised half of college admissions. This democratization of the education system led to a more skilful workforce, with many veterans soon equipped with higher-paying jobs.

At the same time, the GI Bill was providing millions of veterans with new home ownership opportunities. Loans administered by the Veterans Administration (VA) were co-signed by the government for about half of one's mortgage. These low-interest loans, which in many cases did not even require a down-payment, meant that returning soldiers could get a head start on life. By 1950, the VA backed over two million home loans for World War II veterans.

As a result, residential construction increased nearly 1,400 per cent, from 114,000 in 1944 to 1.7 million in 1950. Families headed to the suburbs in droves, looking to achieve the American dream. They were empowered, optimistic, educated and, most importantly for retailers, full of pent-up demand.

'Retailers must face the fact that the urban population is shifting in massive proportions', Lebow wrote back in 1955. 'The middle- and upper-income groups are moving to the suburbs, where they not only have higher rent or property maintenance charges, but are also changing many of their habits in eating, dressing, transportation, recreation and social contacts.'

This societal shift created opportunities to build new schools, highways, churches and eventually strip malls to service the growing consumer demand. Like television, car ownership transitioned from luxury to necessity and the large department stores began to build branches in the suburbs. 'Traditional diners and cafes suffered because of the new car-oriented chains like McDonald's and Burger King, and the old city variety stores like Woolworth's and McCrory's just got smashed by Kmart and some other big discounters', Walton noted in his autobiography.

2 More women in the workplace

In his book *Paradox of Plenty*, Harvey Levenstein writes: 'Virtually unnoticed behind the idealized image of men "bringing home the bacon" for full-time housewives tending efficiently to their homes was the fact that many men could not pay for the new homes, cars and appliances without a financial contribution from their wives.'

Prior to the United States entering the Second World War in 1941, many US companies had secured contracts to produce war equipment for the Allies. At this time, most women were either housewives or employed in typical pink-collar jobs such as clerical work, nursing and waitressing. Having received the right to vote only 20 years earlier, women were still a long way off from true emancipation.

In fact, many employed women, particularly those of a middle class, were looked upon negatively for working as it was viewed as stealing jobs from men who became unemployed during the Depression. However, the mass mobilization of men during the Second World War resulted in severe labour shortages during the 1940s. For the first time, women began to fill these roles, working in what were predominantly 'male' roles such as welding and building planes. Many women saw this as an opportunity both to support their country and to supplement their household income owing to husbands being at war. Rosie the Riveter, a fictional character created by the government, helped to recruit more than two million women into the workforce.

For the first time, it became socially acceptable for women to work outside the home and, although many returned to their roles as housewives once the war ended, the number of working women never again fell to prewar levels. By 1960, there were twice as many working wives as there had been a decade earlier. The number of working mothers increased by 400 per cent, a large number of whom were middle class, whereas prior to the war most had been working-class women. Such a massive socio-demographic shift became a goldmine for marketers who could promise convenience to these new cash-rich, time-pressured consumers.

3 Access to credit

At the same time, the introduction of credit created a whole new sense of affordability among consumers. Unlike their parents and grandparents, who were used to buying only the essentials, consumers of the 1950s were quickly embracing the notion of buying on time.

In 1949, businessman Frank X McNamara was dining at New York City restaurant Major's Cabin Grill when he realized that he didn't have enough cash to pay. His wife had to come to the restaurant to pay the bill, and his embarrassment ignited a new business idea – to create a charge card that could be used at multiple locations. Up until this point, consumer credit was primarily based on instalments (as opposed to the revolving consumer credit which is commonplace today) and offered by individual companies as a means of driving loyalty. In 1950, McNamara launched the Diners Club in partnership with his attorney Ralph Schneider and Alfred Bloomingdale, grandson of the founder of Bloomingdale's. The world's first charge card was originally aimed at travelling salesmen who needed to dine at various restaurants entertaining clients. In its first year of operation, the cards were issued to 200 people and honoured by 27 restaurants. By the end of the following year, 42,000 people were holding a Diners Club credit card, with more than 300 businesses accepting them as a form of payment.

However, this was only the beginning. While Diners Club restricted cardholders to select restaurants, the emergence of the general-purpose bank card created a whole new set of shopping opportunities for consumers. In 1951, the first bank-card programme was launched by Franklin National Bank. Seven years later, American Express and Bank of America's BankAmericard (which would eventually become Visa) also emerged. Initially, large retailers were reluctant to accept this new form of payment. Not only did it compete with their store cards, but it also came with a fee. What was the incentive? Retailers came round once they recognized the soon to be monumental shift in how US shoppers paid for their goods. Accepting credit cards could result in increased sales and not accepting them would drive shoppers elsewhere. By 1962, American Express alone boasted 900,000 cardholders who could swipe their cards at 82,000 merchant locations.

For better or worse, easy access to credit has helped to create an entire nation of consumers. Back in 1950, outstanding revolving credit as a percentage of total consumer credit was zero. Fast-forward 50 years to 2000 and 40 per cent of consumer credit was related to outstanding balances on credit cards and other unsecured revolving lines of credit.

Today, in the face of economic uncertainty, consumers have reined in their swiping. Revolving outstanding consumer credit has dropped to approximately one-third of total outstanding consumer credit. Yet the economy is still hugely reliant on us to shop: consumer spending accounts for more than two-thirds of economic output in the United States. It's no surprise, therefore, that even when the going gets tough, the government continues to encourage consumers to spend, spend, spend. 'Take the kids to the park, buy a pizza, see a show.' This was the advice of then mayor Rudy Giuliani to the people of New York following the 9/11 terrorist attacks. Several years later, President George W Bush broadcast a similar message during a 2006 press conference. During a time of heightened global uncertainty, Bush told Americans that they can play their own part in growing the US economy. In his words, 'I encourage you all to go shopping more.' Today, consumers around the world are faced with a number of economic uncertainties that have impeded their ability and desire to spend. Unemployment concerns, inflationary pressures and, in many countries, rising taxes have dented spending. Such consumer retrenchment results in a decline in tax revenues for governments. In the United States particularly, where the average household spends about $50,000 each year, this can have a drastic effect on the overall economy.

4 Technology reshaping the kitchen

But back in the 1950s, consumerism was very much on the rise. New brands, products and even categories were emerging owing to technological advances and new scientific findings. For example, in 1955 the Crest toothpaste brand was launched after it was discovered that the use of fluoride could help protect against tooth decay, which was the second most prevalent disease at that time. In 1960, it became the first toothpaste brand to receive an endorsement from the American Dental Association, thereby establishing credibility and trust among consumers. Crest went on to dominate the US toothpaste market for the next 30 years.

Brands were synonymous with innovation during this time of social and economic reform. A growing fascination with television led to the launch of another new product: the TV dinner. In September 1953, Swanson's launch of the cleverly named product struck a chord with consumers who could now eat dinner while engaging in their new favourite pastime. Swanson had forecast selling 5,000 meals priced at 98 cents in its first year. It sold more than 10 million. Future endorsements by Howdy Doody and President Eisenhower made the brand all the more powerful.

The rise of TV dinners and other frozen foods had a knock-on effect in another area of the kitchen: the fridge freezer. Before the war, many household refrigerators lacked significant freezer space (and similarly it was too expensive for most supermarkets to feature them in stores). However, the rising popularity of frozen foods, combined with the introduction of open-top 'coffin' freezers, allowed retailers to make more space available for these products. Meanwhile, manufacturers quickly worked to develop a larger fridge freezer for consumer use.

In the kitchen, brands were quick to innovate, capitalizing on the new house-proud female consumer. In 1955, Lebow wrote: 'Where clothes were formerly the measure of the man, or woman, today the hostess may entertain in the most casual dress, but her table settings, her decorations, her recipes, and her manner of serving become her claims to social status and prestige.'

Changes in technology were reshaping the way people prepared, consumed and stored food. The 1950s and 60s saw the launch of household microwaves, non-stick Teflon pans, coloured kitchen appliances (no more white, thanks to General Electric), automatic can openers and toaster ovens, as well as enhanced features for refrigerators and stoves. Brands were so influential that some product launches from this era are still known today by their branded name. Tupperware and Saran Wrap are classic examples.

5 The television – an advertiser's dream

Known as the Golden Age of Television, the 1950s saw TV ownership skyrocket in the United States, representing one of the most significant social and technological changes of the century. In 1950, a mere 9 per cent of the US population owned a television set. Within five years, this jumped to 65 per cent and, by the end of the decade, 86 per cent of US households were watching television in their own homes.

Many popular brands found on supermarket shelves today were brought to market during these two decades. Dove soap was introduced in 1955, Cornetto ice cream in 1963, Diet Pepsi in 1964 and Doritos in 1966, just to name a few. New product launches supported by powerful marketing campaigns forever changed US lives. For example, 1956 saw the debut of Miss Clairol, the first at-home hair colouring kit, supported by the advertising slogan: 'Does she or doesn't she? Only her hairdresser knows for sure.' From Miss Clairol's launch in the 1950s to the 1970s, the number of US women dying their hair soared from 7 per cent to more than 40 per cent.

TV therefore changed the rules of the game for a vast number of consumer brands emerging at this time. This was an entirely new form of communication and entertainment, and quickly became a mass-marketing vehicle that enabled brand manufacturers to bring their products to life. In 1960, Wrigley used its first set of twins in a TV spot to tempt viewers to double their pleasure and double their fun. A few years later, the giggling Pillsbury Doughboy introduced himself to US viewers, followed by Oscar Mayer spelling out bologna's first name to America. Manufacturers could now reach consumers directly in their own homes and were quick to invest in TV advertising. In 1952 alone, commercial airtime advertising increased 38 per cent over the prior year to $288 million.

At this time, television in the United States was limited to just three networks: ABC, CBS and NBC. To put this into perspective, the average household today has more than 100 channels available, not to mention various new forms of media such as blogs and social networking sites. In the 1950s, the concentration of media created a captive audience and therefore TV advertising was hugely effective, unlike today where, owing to a fragmentation of the media, only 18 per cent of TV advertising generates a positive return on investment. Today, according to Socialnomics, 90 per cent of people skip television ads via TiVo/DVR, effectively making television advertising redundant. Consumers today have much more control over what messages reach them. The rise of social media and consequent product recommendations is quickly becoming a far more relevant and effective tool for reaching consumers.

Yet back in the 1950s, television advertising ruled the roost. As Lebow put it in 1955, 'Probably the most powerful weapon of the dominant producers lies in their use of television. To a greater degree than ever before a relative handful of products will share a monopoly of most of the leisure time of the American family.' This was the golden age for brands.

Mr. Clean, now owned by Procter & Gamble (P&G), debuted in 1958 with its first all-purpose cleaner. The launch was supported by the brand's first television commercial, which aired on WDTV/KDKA in Pittsburgh. Within six months, Mr. Clean had become the number-one household cleaner in the United States, and to this day it holds the title of the longest-running advertising jingle in television history. In his book *Brought to You By: Postwar Television Advertising and the American Dream*, Lawrence R Samuel said: 'After the Depression and the war, television advertising took on the important responsibility of assuring Americans that it was acceptable, even beneficial to be consumers. A vigorous consumer culture, largely suspended for the previous decade and a half, was about to be primed by the biggest things to hit advertising since the commercialization of radio in the 1920s.'

The promotion of consumerism wasn't just limited to television ads. The 1950s also saw the emergence of television game shows such as *The $64,000 Question* (1955) and *The Price is Right* (1956). In their book *Consumed*, Andrew Benett and Ann O'Reilly note: '... TV game shows contributed to the consumerist mind-set by giving "ordinary" people the chance to win the latest exciting products, thereby alerting viewers to what was especially desirable in the way of toasters, washing machines, and automobiles.'

By the time Walmart opened its doors on 2 July 1962, consumerism was in full force.