ATTENTION KMART SHOPPERS

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The Rise and Fall of
America's First Big Discounter

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"One tear, two tears, now I can't see through them to even walk. They are not for the corporation. They are for the loss of this part of my life, my extended family, my friends, my customers."

—A Kmart employee on the closing
of the Somerset, Pennsylvania store,
November 1995[1]

"This was a discount store
Now it's turned into a cornfield
...
And as things fell apart
Nobody paid much attention"

—Talking Heads,
"(Nothing But) Flowers"

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INTRODUCTION

If you stop by Kmart, you might see a few friends there. After all, thousands of people come through this store every day. And since it's open 24 hours, they'll be coming well into the night. There's usually a long line at the Little Caesars Pizza, and the merchandise is piled high on the shelves.

A few decades ago, this store could have been any one of thousands of locations throughout the United States. But in 2025, it could only be in one place—the remote Pacific island of Guam, home to by far the most successful of the five stores left in the Kmart chain. It's the only discount store in this US territory, and the nearest Wal-Mart and Target stores are thousands of miles away. With no significant competition, there's nothing stopping this Kmart from operating just the way it did 30 years ago.

When the Guam Kmart opened in 1995, it showed how widespread the chain had become that it could extend its influence to this small island, closer to Asia than to the rest of the United States. It became one of nearly 2,500 stores in a chain that dominated the American landscape—and one which, in the meantime, was putting down its first globe-spanning stakes in countries as far-flung as Singapore and Slovakia.[2]

But the store's opening was also a sign of the trouble Kmart was facing back at home. Wal-Mart, the company's biggest rival, had surpassed it in sales just a few years earlier, becoming not only the nation's largest discount chain but the largest retailer of any kind. Kmart was now falling far behind, and Guam was a perfect example of the company's latest strategy for future success. The island and its population of 150,000 were big enough to support one discount superstore, but not two, so whoever got there first could lock down the market indefinitely. The opening of this new store, and others like it around the world, showed that Kmart was essentially running away from the increasingly powerful competition rather than trying to fight it.

This strategy worked, to an extent. But there were only so many places that Wal-Mart and Target couldn't reach. Over the years, overwhelmed by its rivals, Kmart dwindled to a tiny sliver of what it once was. The Guam location remained as successful as ever, but it was one of only 12 stores that survived long enough to quietly mark Kmart's 60th anniversary in 2022.

The Kmart store on the remote island of Guam is still thriving while thousands of others have closed. (Daniel Ramirez, Flickr)

Back in 1962, there were hundreds of new discount stores of all kinds opening across America, taking advantage of special deals with suppliers and cheaply constructed buildings to sell their wares at the lowest possible price. The concept, which evolved in the years following World War II,

had become sensationally popular by then, and established retailers of all kinds were clamoring for a share of the new industry's profits.

But it was the S. S. Kresge Company, operators of a storied chain of five-and-ten-cent stores, that would lead them all. What set Kresge's new experiment, Kmart, apart from the pack wasn't anything special about the stores themselves. It was money. Kresge's leaders, realizing that the days were numbered for their original business model, were willing to invest more in building these discount stores than the other companies were. And as one of the few American retailers that hadn't exhausted its expansion funds during the economic boom of the '50s, Kresge could afford to make the largest investment the discount industry had ever seen. So Kmart grew much bigger, and much faster, than any competitor.

By the time Kmart turned 20, in 1982, it had clearly won the battle over the field of discounting. Its longtime biggest competitor in the industry, Woolco, announced that it would shut down all of its stores that year—and Kmart already had eight times the sales of Woolco. 2,000 Kmart stores blanketed the country, and they were already attracting an overwhelming majority of Americans to shop there. Satisfied that the competition had been defeated and there was nothing to improve on, Kmart stopped expanding and shifted its focus to a variety of specialized side businesses.

Many of the smaller discount chains went the way of Woolco and disappeared, unable to keep up with Kmart's dominance. But a couple of others continued their rapid growth into the '80s, after Kmart had gotten complacent. Every American today knows their names, of course—Wal-Mart and Target. How did these two chains, both of which also got their start in 1962, succeed where so many others had failed? And how did they manage to drive a company several times their size into bankruptcy so quickly?

Wal-Mart grew out of small towns in and around Arkansas, places that other companies thought were too small to support a discount store. Each Wal-Mart therefore became an incredibly important part of the local economy, and for better or worse they became a symbol of Southern culture. When the chain started to expand into other parts of the country, it managed to rework that identity and make itself a part of a broader rural American culture, even as it started to conquer the nation's suburbs.

Target, on the other hand, was the brainchild of a fashionable department store company in Minnesota. The chain drew on that prior experience to establish an identity as an "upscale" discount store—a place that promised to be both trendy and inviting, and to look more expensive than it actually was. While Wal-Mart proliferated in smaller communities, Target clung to the suburbs of major cities as it grew, maintaining a sense of urbane culture there even as those suburbs drove actual urban areas into economic decline.

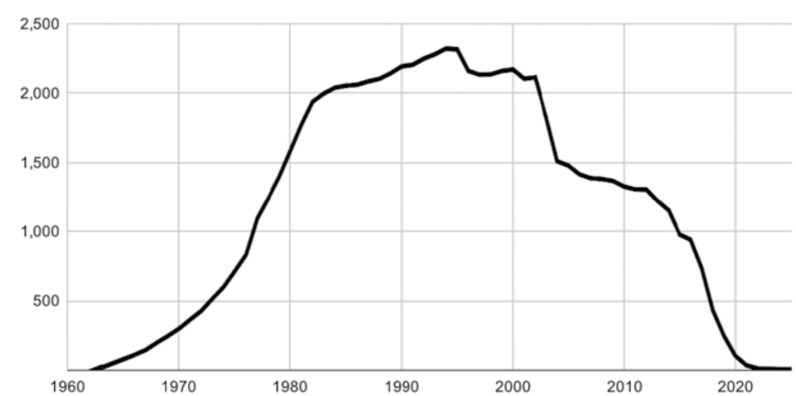
When both of these companies started to emerge as nationwide retailers in the '80s and '90s, the stage was set for an epic clash of competing American identities. The dividing line between Wal-Mart and Target wasn't an exact match for the one between rural and urban, or between poor and rich. But it had just as much potential to divide Americans into factions—to give people an emotional attachment to the corporation that sold them clothes and appliances.

Kmart's lack of a clear cultural identity was an asset, for a time. It prided itself on being the store that served almost

everyone, and for decades it achieved that goal. But the rise of Wal-Mart and Target challenged the chain to decide who, exactly, it was meant for. Kmart didn't have an answer to that question—which meant that its answer, ultimately, was "nobody."

After Wal-Mart overtook the company to become America's largest retailer in 1990, Kmart repeatedly tried to reinvent itself. It copied bits and pieces of the strategies of its two successful competitors, but it still didn't have an answer to that essential question. Instead, it ran out of money from the thousands of renovations and reconstructions it conducted in an effort to catch up. Kmart filed for bankruptcy in 2002, a few days before the chain turned 40.

For most companies, bankruptcy is something close to a death sentence. Observers at the time assumed that Kmart had reached the end of its lifespan. But this was a chain of over 2,000 stores, most of which were still at least marginally profitable. So instead, Kmart reorganized itself, ended up merged with Sears, and continued its slow decline without putting up much of a fight any longer.



Total number of Kmart stores in the U.S., 1962–2024.

With a population of less than 5,000, the remote valley town of Hamilton, Montana, might not have been the most likely place for Kmart to show up. But in 1989, the company's final year as America's largest discounter, it did. With the nearest Wal-Mart and Target both 40 miles away in Missoula, Kmart was able to thrive in Hamilton for the next 30 years. As most locations disappeared and the chain collapsed, it became Kmart's last store in middle America, the only one left for thousands of miles around.

The Kmart in Hamilton, Montana, during its liquidation sale in 2022. (Jason Savage)

The Hamilton store had so little pressure from competitors, it never even felt the need to update its logo, which the company changed the year after it was built. It became a relic, a time capsule, and sometimes even a destination for a certain type of tourist. But as the chain dwindled from thousands of locations to hundreds to less than a dozen, its unusual status couldn't save it from the chopping block forever. It finally shut its doors in March of 2022, shortly after the chain turned 60.

The history of Kmart is a remarkably symmetrical one. After it was created, it spent 20 years steadily growing, then 20 years stagnating and stalling out, and then spent another 20 years in a steady decline before finally (almost) disappearing. If its store count is plotted on a graph, it starts to take on the shape of a flat-topped mountain peak—the red line on the cover of this book, turned into part of the rugged terrain around the Hamilton Kmart.

Attention Kmart Shoppers is the story of this company's mountainous path to enormous success, and then to an equally massive failure. It's the story of how Kmart attained a position of incredible dominance over its competitors, and lost it all, in the span of a single lifetime. Every single tick upward and twitch downward of that red line represents an American community that became, for better and for worse, a part of that story.

Over the course of six decades, the doors were flung open on 3,135 Kmart stores that employed millions of workers and served hundreds of millions of customers. They popped up in small towns, big cities, and medium-sized suburbs. They drove smaller stores out of business, and were driven out of business by larger stores. Some people were devastated by the closing of their local Kmart, while others were devastated by the opening of theirs.

The decline of Kmart took so long that it became a part of new narratives: how Amazon was sucking sales away from brick-and-mortar stores, how the ensuing "retail apocalypse" was emptying out shopping centers, and toward the very end, even how the COVID-19 pandemic was affecting every business in the world in one way or another. But the chain was in deep trouble long before any of those factors started to contribute to its bitter end. And to fully understand how it got there, we need to go back a century further to the very beginning of modern American retail.

CHAPTER 1

Kresge Before Kmart (1877–1960)

In 1896, Frank Woolworth took a meeting with one of his suppliers, a traveling salesman who sold tinware pots and pans. Frank had started the Woolworth's chain of five-and-ten-cent stores in 1879. His company now had dozens of locations throughout Pennsylvania, and it was expanding rapidly into neighboring states. The salesman asked if he could join the chain, become the manager of a new store, and perhaps share the ownership of it 50-50 with Frank. Woolworth, who was having enough trouble dealing with the business partners he already had, turned him down.

That young man was Sebastian S. Kresge, who would instead go on to start his own chain of stores and become Woolworth's biggest competitor. For much of the 20th century, the two men's names could be found emblazoned across downtown shops in hundreds of cities across North America. When Kresge died in 1966, at the age of 99, he just barely missed out on seeing his company overtake Woolworth's in revenue—both of them raking in over $2.5 billion in annual sales three-quarters of a century after that fateful meeting.

What ultimately allowed Kresge to surpass Woolworth was the birth of Kmart in 1962, which grew Kresge's company to seven times its previous size in the span of a single decade. But the company's creation of Kmart was only possible after six decades in an industry that has now just about disappeared from the American landscape—the five-and-dime business.

BEFORE THERE WERE FIVE-CENT STORES, THERE WERE FIVE-cent counters, which took America by storm in the late 1870s. Dry goods stores of the time were fairly complicated places to buy from: you had to know going in precisely what you wanted, ask a cashier or hand them a list, have them pull it out of a drawer behind a counter, and wait for them to work out what you owed from a long list of prices.

Five-cent counters, by contrast, were simple. When a store was overstocked or had slumping sales, oftentimes it would lay out a table, cover it in a random assortment of cheap items, and advertise that everything on it was going for five cents apiece. The counters encouraged not just buying but *shopping*—browsing around a store long enough to be persuaded into buying more than just the thing you came in for, perhaps things you didn't ever think you needed or realize you wanted.

And these counters were immediately successful, not only in getting rid of surplus merchandise, but also in getting people into the store to buy other items that weren't so cheap. Dry goods stores started buying bulk orders of various trinkets—tools, utensils, sewing materials—and taking them straight to the five-cent counter. Sometimes they bought this merchandise at a higher price than they could sell it for, knowing that all the extra customers would buy other things while they were there and make up for the loss.

The five-cent counter craze helped to transform sleepy dry goods emporiums into massive department stores with famous names, like John Wanamaker in Philadelphia and Macy's in New York City. Or, at least, that was the sales pitch of mail-order wholesalers like Butler Brothers of Chicago, which were making millions by shipping that five-cent merchandise to stores all over the country. Before catalog retailers like Sears and Montgomery Ward showed up in the 1880s, these mail-order warehouses showed that industrial mass production and the advent of the railroads could turn a local business into a national one. And in the process, these companies reshaped retail with their five-cent goods.[1]

As five-cent counters popped up all over the United States, it wasn't long before the trend hit the northern fringe of upstate New York, landing at Augsburg and Moore's dry goods store in Watertown, which was struggling to get rid of its surplus stock. The store's table of "Yankee Notions," ordered in bulk from a mail-order house in New York City, was laid out beautifully by the store's young clerk, Frank Woolworth. A few hours later, just as the advertisements had promised, the table was cleared, and some of the store's slowest-selling items were gone as well.

Frank was inspired by that success, and he soon began to imagine the five-cent counter expanded into an entire store. He set himself up in the bigger city of Utica with $315 worth of merchandise, but after three months his store was barely breaking even. Undeterred, he quickly packed up again and moved down to Lancaster, Pennsylvania, in the heart of what would later be called "Amish country." The Pennsylvania Dutch already had a reputation for conservative values and thriftiness, and just as Frank had hoped, that spirit brought them to his store in droves. On the new store's first day, he sold over 2,500 items for a nickel each, nearly a third of his entire stock. Woolworth had solved the most pressing problem faced by any retail business: finding the right kind of customers and appealing to them.[2]

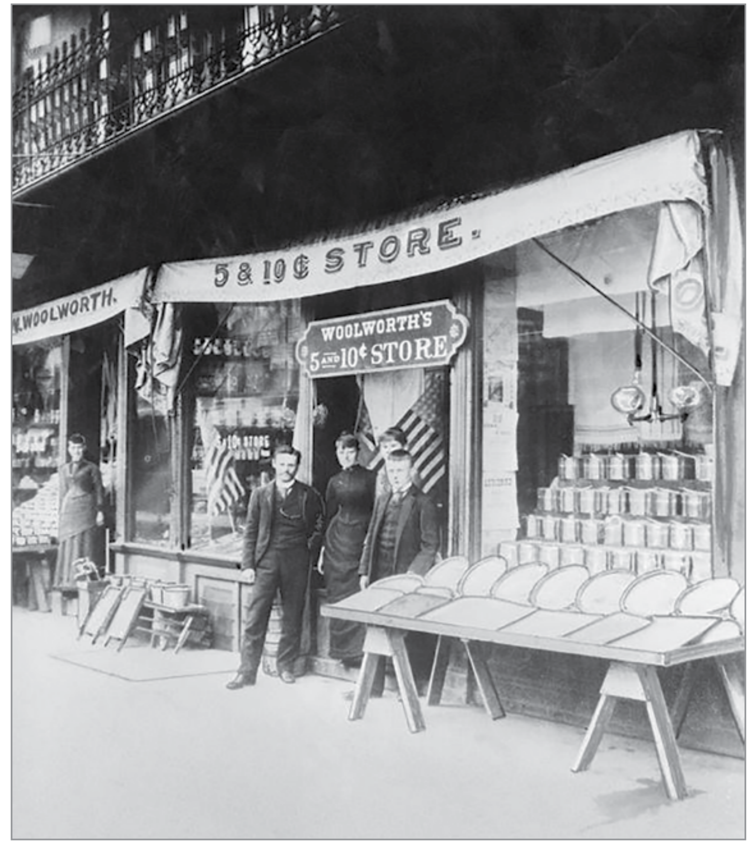
The store soon added a ten-cent section, expanding the range of merchandise that could be sold. Frank Woolworth had created the world's very first five-and-ten-cent store, or "five-and-dime," or simply the variety store. Of course, it's possible that other people had the same idea before Woolworth opened his first store in 1879, but if so, their names have been lost to history.

Although very few five-and-dime stores have made it into the 21st century, the variety store has smoothly evolved into the modern "dollar store." The change in price is appropriate: five to ten cents in 1879 would be worth about $1.60 to $3.20 in 2024 money. And while none of the major five-and-dime chains actually survived the transition to the modern dollar stores that sell more snack food than sewing supplies, the "Woolworth Idea" that Frank's company once proudly claimed as its own is alive and well: a tiny profit margin on a million cheap items is better than a large profit margin on a handful of them.[3]

With an incredibly successful concept on his hands, Frank recruited a few partners to open more stores in nearby cities. They were people he knew and trusted, such as his brother Sumner, one of his cousins, and his former boss at the dry goods store, William H. Moore. But he quickly realized that sharing the ownership with them 50-50 was a bad deal for him, as he was now one of six people rapidly organizing more five-and-dimes throughout Pennsylvania and across the country.[4]

Of course, Woolworth couldn't keep it in the family for very long, either. Central Pennsylvania became ground zero for the spread of the variety store. Chains like S. H. Kress and

McCrory's sprouted up not far from Lancaster in the 1880s and quickly expanded into many other cities. They were all racing to be the first to establish themselves in a new area.



The first Woolworth five-and-ten-cent store in Lancaster, Pennsylvania, shortly after it opened in 1879.

It was in this atmosphere that Sebastian Kresge came of age. Born in 1867 on a farm near Kresgeville, Pennsylvania, a town settled by his direct ancestors, Sebastian was eager to learn whatever he could about becoming a businessman. As a traveling salesman for the W. B. Bertels tinware company, he was a firsthand witness to the

Panic of 1893, one of the worst economic depressions in the nation's history. Many of the businesses Kresge sold merchandise to were struggling or going under. But as people across the country were pressured to be more frugal, chains like Woolworth's and McCrory's were growing faster than ever.

Sebastian was living frugally, too, although the tinware business was successful enough that he wasn't forced into it. Instead, after five years on the road, living minimally while selling his wares, he had managed to save up $8,000 to start a business of his own. The experience was formative for him: "When one starts at the bottom and learns to scrape," he would later say, "then everything becomes easy."[5]

Along the way, Kresge had become convinced that the five-and-dime was the wave of the future. He wanted to invest his savings in one of these stores and manage it for himself. Frank Woolworth turned him down, having learned his lesson about the dangers of taking on partners, but John McCrory agreed to let Kresge manage and co-own a new store in Memphis, Tennessee.

McCrory, another former dry goods clerk, was one of the first to follow Woolworth into the variety store business, opening his first store near Pittsburgh just three years later in 1882. His name was John Graham McCrorey by birth, but the story goes that he legally changed his last name to avoid the expense of an extra letter on each store's sign.

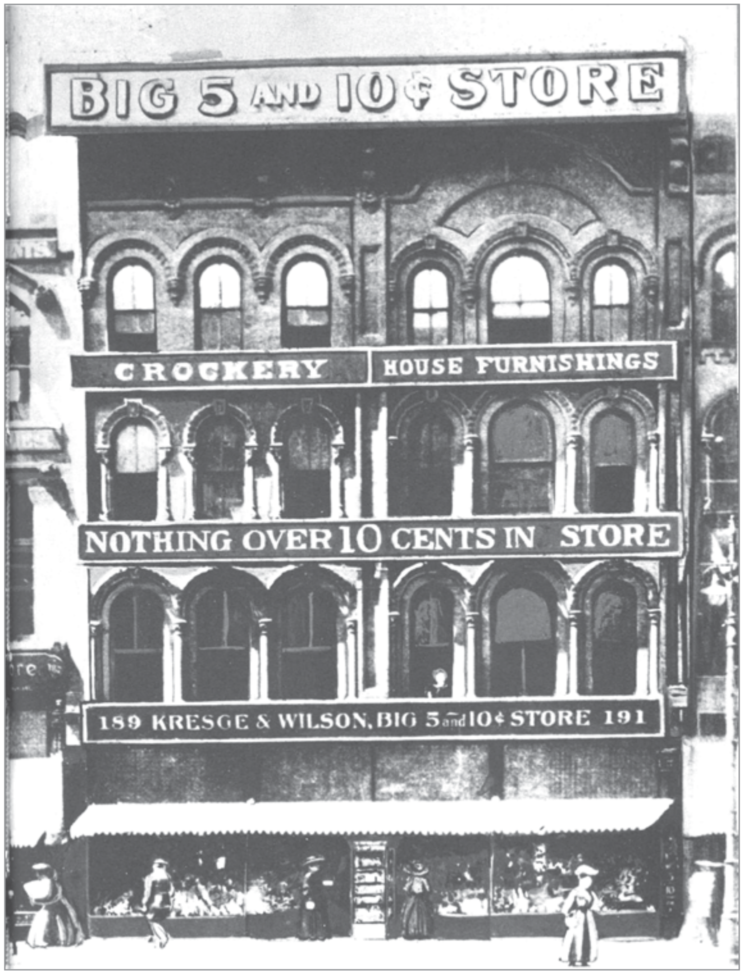
By the time Sebastian Kresge bought in, the savings from that name change hadn't added up to very much: McCrory had only opened eight stores, all in western Pennsylvania. But he was planning an aggressive push into other areas of the country to get a leg up on the competition, and Kresge was

a perfect partner to lead that expansion. Sebastian learned the ropes of store management from one of McCrory's other managers, G. C. Murphy, before going down south to take over the Memphis store.

Memphis was not where the Kresge empire would ultimately take root, although it was where Sebastian married his first wife. The only time Kresge's name made its way into the pages of Memphis's primary newspaper, the *Commercial Appeal*, was when he was arrested for grabbing an alleged shoplifter by the arm. Mrs. J. Higgins, who was leaving the store with two pairs of stockings, was awarded $100 in damages after Kresge was convicted.[6]

But while he was working in Tennessee, Kresge's savings were enough to pay for another half-ownership of a store that McCrory was setting up on Woodward Avenue in downtown Detroit, Michigan. In 1899, Kresge made a deal: he would trade McCrory his half of the Memphis store ownership in exchange for the other half of the Detroit store. Sebastian's mentor G. C. Murphy had been the manager of that store in Detroit, but in March of that year he had left McCrory's to start his own five-and-dime store. Over the years, the G. C. Murphy Company would become a major chain in its own right.[7]

As he took over the Detroit location, Sebastian was now following in Murphy's footsteps, although he wouldn't have sole ownership of the store for long. Kresge's brother-in-law, Charles Wilson, had also been partnering with McCrory on a store in Omaha, Nebraska, but had decided to sell out of the business and return to Pennsylvania. Along the way, he stopped in Detroit to visit Kresge, who convinced Wilson to invest the money he'd gotten from the sale into his business. At the start of a new century, Kresge & Wilson's 5 and 10 Cent Store was born.[8]



The first Kresge store in Detroit, and the company headquarters on the upper floors, both expanded rapidly. The photo on this page shows the store in 1905, and the facing page features the new "Kresge's Korner" while under construction in 1917.

Like the five-and-dime retailers they had learned from, Kresge and Wilson soon found themselves with a business that was incredibly successful and practically begging to be expanded. In June 1900, they opened a branch store at the other end of Woodward Avenue—25 miles north of Detroit in the city of Pontiac. More quickly followed, radiating outward a little further from Detroit each time: Port Huron, Michigan; then Toledo, Ohio; then Pittsburgh; then Columbus.[9]

The continual expansion could be seen in Detroit, too, as the flagship store repeatedly outgrew the space it was leasing and was forced to relocate. Store No. 1 danced around the intersection of State and Woodward, occupying four different locations on the same few blocks before settling in 1909 on the northwest corner. No. 1 would sit at "Kresge's Korner" in one form or another for the next 70 years.[10]

The Kresge chain was just beginning to embark on a trajectory of exponential growth when it was marred by tragedy at Store No. 11 in Cleveland. The day before the Fourth of July, 1908, a clerk demonstrating a sparkler accidentally ignited the nearby counter covered in fireworks, which turned the entire building into an inferno in a matter of seconds. Eight workers and customers were killed, while dozens more were badly burned.

Sebastian Kresge vowed that his stores would never sell fireworks again. This promise was evidently forgotten before long, however, because a similar firework explosion occurred at a Kresge store in Kansas City in 1921. But this time, no one was injured, thanks in part to the sprinkler systems installed in buildings all over the country specifically to prevent disasters like the one in Cleveland.[11]

Tragic as it was, the Cleveland fire was not at all a setback to the chain's rapid growth. Kresge bought out his brother-in-law and became the expanding company's sole owner, giving him the freedom to run it as he saw fit—and he saw fit to build dozens more of these stores. In 1912, the S. S. Kresge Company was incorporated and listed on the stock market for the first time, representing a chain of 85 stores that stretched from Minnesota to Missouri to Maine. The F. W. Woolworth Company incorporated the same year, after wrangling its family of six separate chains into a single corporation that ran nearly 600 stores.[12]

Placing shares in the Kresge company up for public trading was an effective way to generate cash to finance further expansion. But the outbreak of World War I dented those ambitions, and the war was followed by economic inflation that made selling items for a maximum of ten cents apiece harder than ever.

In the early 1910s, Kresge started supplementing its five-and-ten-cent stores with nearby 25-cent or even 50-cent stores. In 1920, the first Kresge Dollar Stores were introduced, offering merchandise priced as high as one dollar. Usually, they were called simply "Green Front" stores, after the color-coded awnings that distinguished them from the "Red Front" of Kresge's five-and-dimes. And it was important not to mix the two up, because the company aimed to put its dollar stores as close as possible to its existing dime stores—sometimes next door or even combined into a single large building, sometimes separated by another building or across the street, but always convenient for a shopper to go between.[13]

A "Red Front" Kresge dime store (left) and a "Green Front" Kresge dollar store, side by side in downtown Ann Arbor, Michigan, in 1926. (Ann Arbor District Library)

When the war ended and America sought to "return to normalcy," in the famous words of President Warren Harding, Kresge was in an excellent position to capitalize on the country's improving economic conditions. Between Red Fronts and Green Fronts, the company opened several dozen new stores each year throughout most of the 1920s. By 1929, nearly 100 new locations were being added to the chain each year. Total annual sales more than tripled over the course of the decade, from $43 million to $156 million.[14]

The dollar stores were not the only major change Kresge made to the structure of its business in the Roaring '20s. Headquartered less than a mile from the border with Windsor, Ontario, the company indulged what must have been a long-standing temptation by opening its first Canadian stores in 1929. The expansion there was just as swift, and by the end of the year, 19 Canadian Kresges had joined their 578 American counterparts in what was easily the world's second-largest variety chain behind Woolworth's.[15]

But an even more important development was made in 1929, the full significance of which would not be realized for decades. That year, a Kresge location joined grocery stores and a movie theater in one of the new buildings clustered outside a golf course on the outskirts of Kansas City, Missouri. Many people thought the new development, decked out in the style of Moorish architecture from Spain, was absurd. Even in the new age of the automobile, they assumed that few people would drive out to the fringes of the city to do their shopping.

Country Club Plaza proved them wrong. The new development was immediately successful, and its popularity only grew as tracts of newfangled suburban housing were built all around the once-remote spot. But it would be a few decades before there was any widespread copying of their

success. Kresge wouldn't open another store in one of these suburban "shopping centers" until 1938.[16]

At the time, most people were less concerned with the potential of this new development than they were with the founder's personal life. Sebastian Kresge's wife, Anna, divorced him in 1924, accusing him of being emotionally distant and cruel to her and their five children. Before the divorce was even final, Sebastian was wooing a twice-divorced New York socialite named Doris Mercer, 22 years his junior, and they were soon married.

But Doris was dismayed to find that despite the millions he'd made, Sebastian was still as frugal as he had been when he was scraping by as a traveling salesman, and he never delivered the luxurious lifestyle he'd apparently promised her during their courtship. Over the next four years, the couple was in and out of divorce court, finally splitting in 1928 when evidence cropped up of Sebastian having affairs with other women.

Doris went on to marry an Iranian prince, while Sebastian's third wife came from the same part of rural Pennsylvania as him. The whole affair was a media frenzy, but if people were put off by Kresge's personal infidelities, it didn't seem to turn them away from shopping at the stores that proudly bore his name. Those same four years had been the greatest growth period in the company's history so far.[17]

Sebastian Kresge in 1922.

Map of Kresge locations in the 1920s.

The year 1929 could have marked new horizons for the Kresge company or the end of years of scandal for its founder, but instead it became notorious for the stock market crash that kicked off the Great Depression. Unlike in the short-lived Panic of 1893, variety stores didn't weather the Depression era much better than other retailers. At Kresge, sales fell, and the profits that were funding the company's ambitious expansion plans dried up. The chain came to an abrupt halt with just shy of 700 locations.[18]

Aside from the lasting effects of the Depression, the Kresge chain had pretty much filled out the quadrant of the United States it considered its region of operations. On a map, this region was strikingly rectangular, with a western edge tracing the Great Plains from North Dakota to Kansas, then turning due eastward until it sliced between Virginia and North Carolina. Kresge stores were easy to find inside this rectangle and nonexistent in the nation's South and West.[19]

Meanwhile, with the economic pressure of the 1930s, the heyday of the Kresge Dollar Store was short-lived. The original appeal of the five-and-ten-cent store—that you could pick up any item from a counter and take it home by handing over just a nickel or a dime—was long gone, and the merchandise was now sold for whatever price hit the right balance between supply and demand. So it wasn't too noticeable when Red Fronts and Green Fronts were merged into a single store, which became Kresge's policy starting in 1932. Within 15 years, half of the Green Fronts were gone.[20]

As a result, the total number of stores in the chain was already slowly declining by the time World War II broke out. And after that, with building materials suddenly in short supply and the labor force needed to put them together being shipped overseas to fight, the slow trickle of new Kresge stores came to a complete stop. The company's plans for future development were put on hold until the war was over.

Just before America entered the war, the potential of the suburban shopping center was starting to become clear. By 1942, Kresge had stores in eight of these shopping centers. When construction projects could resume after the war, the popularity of single-family detached housing developments in the suburbs skyrocketed, and the shopping center model followed suit. Kresge quickly went along with the trend, moving dozens of its neighborhood locations, already well outside of downtown districts, into the new centers.

And for the stores that stayed in their existing spots, big changes were on the way to bring the buildings up to date. Some of those changes may seem obvious from a 21st-century perspective, but they were seriously innovative in their time. Throughout the 1950s, for example, Kresge proudly advertised that it was in the process of installing air conditioning systems in dozens of its stores each year.

And in 1952, the company began experimenting with a "self-service" store format with centralized checkouts. Inspired by the success of the Piggly Wiggly chain that had brought the same concept to grocery stores, Kresge eliminated its counters and the clerks that staffed them. Instead, the stores were filled with unattended shelves that required customers to bring the items up to the cashiers at the front of the store to buy them.

For those who can't remember another way of shopping, the idea that this had to be invented, let alone that the invention was so recent, might seem absurd. Maybe that helps to explain why the experiment was an immediate success and was promptly rolled out in hundreds of stores in the next few years.[21]

By 1953, this Kresge store in Boston was selling "Halloween toys" at a self-service counter, with no need for a clerk to attend it. (Leon Abdalian)

None of these changes significantly affected the overall size of the Kresge chain, either in the number of stores or the territory they covered. But the company's ambitions were growing alongside its expanding stores and increasing sales. With rivals like Woolworth's and W. T. Grant opening new locations all across the country throughout the 1950s, Kresge's traditional regional borders were holding it back from fully competing.

Kresge store No. 700 opened in 1958 in Atlanta's brand-new Broadview Plaza shopping center. It was the company's first location south of Virginia, and rumors spread that it would be far from the last. The company confirmed that it was planning to become a nationwide retailer, but reassured its shareholders that the expansion into the other two-thirds of the country wouldn't be a "substantial departure" from the Kresge they knew.[22]

The year 1959 marked the beginning of an "invasion" of sorts, as for the first time since the 1910s the chain expanded into new markets in multiple new states. To the south in Alabama and Texas and Florida, to the west in Arizona, and even in the island territory of Puerto Rico, Kresge stores were popping up in places where no one would have expected them before.[23]

Kresge's move into the South, as it happened, came in the middle of the civil rights movement. Black students protested the segregated lunch counters inside five-and-dime stores with "sit-in" demonstrations, most famously at the Woolworth's in Greensboro, North Carolina. But Kresge didn't need to expand southward to face these protests—it already had segregated lunch counters at some of its well-established stores in Virginia, West Virginia, and Kentucky.

The company was confronted by sit-ins in all three states, as well as protests and threats of boycotts in the

North, aiming to get Kresge to ban segregation in its stores completely. In many Southern cities, lunch counters were legally required to be segregated, and the Kresge company refused to challenge those laws. But under pressure from these activists, in 1960 it agreed to instruct store managers to not prosecute the sit-in protesters.[24]

Being faced with protests in its stores and picket lines in front of its Detroit headquarters wasn't an encouraging sign for the company's new direction, but Kresge's new Southern stores were a success, and the chain was now poised to continue its growth until it covered the entire country. However, that nationwide expansion would come in an unexpected form. And despite what Kresge had promised its investors, it certainly would be a substantial departure from the past 60 years of the company's history.

This painting, from Kresge's 1959 annual report to investors, shows the company's ideal vision for its spacious new stores as the suburban era dawned.

IN THE RETAIL INDUSTRY, COMPANIES TYPICALLY EXPAND IN cycles. Building new stores is generally profitable in the long run, but expensive in the short term. It's rare that a company can continuously spend a large portion of its earnings on new stores, while also investing money in keeping the existing stores in good shape, and ensuring there's enough profit left over to deliver to the shareholders. Instead, a company might decide ahead of time to focus on expansion for five or ten years, then switch its focus to maintaining and improving the stores it already has.

Many of the major five-and-dime chains had taken advantage of the postwar economic boom of the '50s to fuel their expansion. Woolworth's growth program added over 350 stores to the 2,100 it already had, finishing in 1961. The W. T. Grant Company overtook Kresge in store count around the same time, doubling its 500 locations to over 1,000 in an intense push between 1955 and 1963.[25]

On the other hand, Kresge's ambitions for growth had taken longer to build up. As the company entered the 1960s, its push to expand had barely begun. So, out of the three largest variety chains in America, Kresge was in by far the best financial position to do something if, say, its leaders suddenly realized that the days of the five-and-dime were numbered. And as the company's stores in New England and New York faced a new kind of competition, that was exactly what Kresge executives were starting to believe.

CHAPTER 2

The Kmart Idea (1958–1961)

For many small business owners in the 1930s, "chain store" was a dirty pair of words, almost as profane as the word "discounting." Woolworth's, Grant's, and Kresge's were just a few of the big retail syndicates that were known to take advantage of their size and their established connections with suppliers, getting discounts on bulk purchases of merchandise. As a result, they could sell those same items to their customers at low prices that smaller businesses couldn't hope to match. And while even the biggest chains struggled through the depths of the Great Depression, their smaller counterparts were far more likely to be driven out of business.

To prevent these chains from completely overrunning the competition, the Robinson-Patman Act was passed into federal law in 1937. The law required manufacturers to set a single consistent price for their products, and it prohibited retailers from undercutting those prices. Almost immediately, sellers began to look for loopholes.

Charles Wolf was one of them. Wolf supplied luggage to New York City-area stores, but he was known to leave behind business cards with the address to his warehouse.

Anyone who came out to his storage depot would be offered a sizable discount on the goods. And since he wasn't technically running a retail business, the Robinson-Patman Act didn't apply.

Eugene Ferkauf, whose father ran one of those luggage stores, thought that was pretty clever. In 1948, not long after he returned from fighting in World War II, he opened a small shop in a loft in midtown Manhattan, using the same loophole with a lot less subtlety. Employees stood on the street, offering "membership cards" to passersby. Anyone with a membership card was no longer a shopper—they were now part of a cooperative organization that could buy Ferkauf's wares at discount prices.

Under the invented name of "E. J. Korvette," Ferkauf's business outgrew that loft quickly. More locations soon popped up across Manhattan and the other boroughs of New York, but Ferkauf's ambitions quickly outgrew the questionably legal membership scheme. He shifted his business model, opening a 162,000-square-foot department store in a shopping center on Long Island in 1955. This new store ditched the cards and the rock-bottom prices that came with them, but the company had developed a reputation strong enough to ensure a successful launch anyway. By 1957, Korvette department stores could be found all the way from Philadelphia to Hartford, Connecticut, while the much smaller location that started it all still handed out membership cards in New York.[1]

Meanwhile, on the opposite end of the country, a similar kind of store was making a name for itself. In the same year that Ferkauf set up his loft, a group of 800 employees of the US Post Office in Los Angeles got together to form a nonprofit coalition, fighting the inflation that immediately followed the war by opening a membership warehouse store with rock-bottom prices—a real version of the thing that Korvette was pretending

to be. And much like at Korvette, all a prospective shopper had to do was pay the $2 fee to become a member for life.

The Federal Employees' Distributing Company, or "Fedco" for short, was massively popular among just about everybody in Southern California who was eligible to become a member, which was mostly people working for the government and related institutions. When the organization got into a tax dispute with the state, for example, the government struggled to avoid a conflict of interest—it couldn't find a state attorney anywhere in Los Angeles who wasn't a Fedco member. But Fedco's nonprofit business model, great as it was for shoppers, made it incredibly difficult to transform the stores into a powerful chain as Korvette had done.[2]

A San Diego lawyer, impressed by the packed Fedco stores he saw while visiting Los Angeles, offered the organization access to a warehouse owned by his mother-in-law to open another store. But with its ultra-low prices and razor-thin operating margins, Fedco couldn't afford to expand out to San Diego. So instead, the lawyer—the aptly named Sol Price—copied its business model. He kept the $2 lifetime membership cards, but FedMart was a for-profit company—and it was profitable from the moment it opened its first location in 1954. In the coming years, FedMart's quick success would be copied by new discounters popping up all across the country, down to the use of the word "mart" in their names.

Sol Price later went on to found a similar warehouse retail chain, Price Club, which would ultimately be acquired by Costco. As a result, he was an influential figure in the development of two closely related massive retailing industries—the modern discount store and the warehouse club—but lived to see competitors inspired by him overrun his own ventures. When a journalist referred to Price as "the father of an industry" in an interview, he quipped, "I should have worn a condom."[3]

The first FedMart store shortly after opening in San Diego in 1954.

The membership discount store was successful on both coasts, but it was making powerful enemies, particularly in New York. Some of the city's biggest retailers, including Macy's and Gimbels, repeatedly sued Korvette in its early years, as well as the suppliers that offered the chain special prices on their merchandise. Out of dozens of lawsuits, most were quickly dismissed, and none of them forced Korvette to drop its discounting strategy. They actually had the opposite effect—Korvette became more popular than ever when it started to advertise itself as the store with such low prices, the big department stores wanted to make it illegal.[4]

And when it came to the law, it was becoming clear that the membership loophole wasn't quite as important to this burgeoning industry as it had first seemed. The cards made shoppers at Korvette and FedMart feel like they were part of an exclusive club, so they were certainly an effective marketing gimmick, but they weren't the only thing protecting the stores from the wrath of the federal government.

Since manufacturers have to consider many complicated factors when setting prices for their merchandise, there were a wide variety of exceptions to the Robinson-Patman Act's rules about minimum prices. With so many possible loopholes, it was incredibly difficult to prove that illegal price discrimina-

tion was actually taking place. So those provisions of the Robinson-Patman Act were rarely enforced, regardless of whether the offending party was using a membership gimmick or not.

That lack of enforcement would soon be put to the test, as a new generation of discount stores sprang up without the flimsy protection of $2 membership cards. After shopping at Korvette in 1951, Carl and Dorothy Bennett were inspired to start their own discount store in the nearby town of Port Chester, New York. Like Korvette, they started in a small upstairs loft space and gave their store an invented name, C. Caldor and Co. This was later shortened to simply Caldor—the result of the Bennetts mashing parts of each of their first names together.[5]

The original Caldor location, staring from its windows across the Byram River into Connecticut, happened to be pointing to where the next stage in the evolution of the discount store would take place. New England towns were full of cheap and often unused real estate, mostly in the form of abandoned 19th-century textile mills.

The mills were a perfect setting for a low-margin business prone to growth spurts, as many of them were now divided up into small lofts like the ones that had birthed Korvette and Caldor. If a small discount store was a success there, it could continually expand until it had filled the entire building (often over 100,000 square feet). Some of the first major "open-door" discount chains, or companies that ditched the membership cards and allowed everyone to shop without the fee, got their start exactly this way: Arlan's out of New Bedford, Massachusetts, Mammoth Mart in nearby Framingham, Ames not far away in Sturbridge, and Ann & Hope in Cumberland, Rhode Island.[6]

The mill stores were well-established in New England by the time they got the legal all-clear, more or less, from the federal government. In 1958, the Supreme Court found parts of the Robinson-Patman Act to be unconstitutional. Undercutting the competition by arranging discount prices with suppliers was still technically illegal, but only if it could be proven that it was done with the specific purpose of driving another retailer out of business. The court also decided that retailers didn't have the legal standing to sue their competitors for such a violation; it could only be prosecuted by the antitrust division of the US Department of Justice, which had already shown no interest in trying to enforce the previous version of the law.[7]

The Ann & Hope textile mill in Cumberland, Rhode Island, was transformed into a discount store in the 1950s. (B. Michael Zuckerman, Wikimedia Commons)

Established retailers, big and small, were finding it difficult to compete with these rising discounters even before the Supreme Court decision, and now it seemed that the floodgates had been opened. For some of those competitors, the response was obvious: if you can't beat 'em, join 'em.

Bell Shops, a Boston-based chain of women's clothing and specialty stores, was one of them. The chain stretched across New England and as far south as Washington, DC, with more than 70 locations, mostly found in traditional downtown shopping districts. By the mid-1950s, suburban shopping centers, and the discount chains that were moving into them as they outgrew their textile mills, were putting serious pressure on Bell's business. The Feldberg family, owners of the chain, carefully studied their competition and decided that discounting was the wave of the future.

Partnering with the Stop & Shop grocery chain, in 1956 they put a small discount store on the side of the company's new supermarket in a state-of-the-art shopping center in Hyannis, Massachusetts. Stop & Shop's leaders were surely thinking about their rival, the Grand Union company, which had joined the discounting bandwagon that same year with the launch of its first Grand-Way stores. And they must have continued thinking about it, because Stop & Shop broke with the Feldbergs and acquired another emerging discount chain, Bradlees, in 1961.

Stop & Shop's move into discounting was typical of many supermarket chains based in the Northeast. By the late 1950s, the few established retailers jumping on the potential of the discount store were mostly grocery companies. They were often the ones building these suburban shopping plazas, which were meant to be centered on their supermarkets. Adding a discount store onto the side helped to turn their new developments into one-stop shopping centers.

But Bell's discounting ambitions didn't end there. A few months after the Hyannis location debuted in 1956, the company's first full-size Zayre discount store opened in Boston's Roslindale neighborhood. If the advertisements were to be believed, it wasn't just another discounter, it was "Boston's first modern self-service department store." At 32,000 square feet, it was small for an urban department store, but it completely dwarfed its next-door neighbor: an F. W. Woolworth five-and-dime.[8]

Grocery companies may have been some of the first established retailers to get into the discounting business, but the discount format posed a greater threat to conventional variety stores than anyone else. Discount stores were beating variety stores at their own game. Thanks to their special arrangements with suppliers and low operating costs in large, warehouse-like buildings, they offered a greater selection of products at lower prices than retailers like Woolworth and Kresge could.

And even when discount stores didn't outdo their variety neighbors in size, they often still beat them where it mattered. The original Zayre in Hyannis was less than half the size of the W. T. Grant store in the same shopping center, but by 1961, the store's total annual sales were over 30 percent higher than Grant's.[9]

A typical Zayre store in Addison, Illinois. (Joe Archie, Flickr)

In the summer of 1957, the Kresge company sent a team of its executives out on a nationwide tour of its stores. The stated purpose of these visits was to "stimulate sales"—staging such a momentous event would surely inspire the employees and customers at each location with enthusiasm. But the executives were clearly looking just as closely at the competition as they were at their own stores. The threat posed by the discounters was undeniable, and the executives' advice for how to combat it was not inspiring confidence: "We must meet this challenge with greater emphasis on merchandising and stronger promotional activities in our store."[10]

One of the executives on that team was sales director Harry Cunningham. Like essentially all of Kresge's executives, Cunningham was promoted from within, having started out in 1928 stocking counters at the Kresge store in Lynchburg, Virginia. By 1940, he'd become a store manager and had moved closer to company headquarters in Detroit. It was there that the legend of Harry Cunningham's brilliance, reprinted in press releases and advertisements for decades afterward, would begin.

The story goes that a customer came to Cunningham's store in Grosse Pointe, Michigan, one day with a list of eight items he wanted, picked out from an ad in the local newspaper. The Grosse Pointe store was in a wealthy area of Detroit's prewar suburbs, but the store itself was older and smaller, and it didn't carry any of them. Refusing to let the man walk away empty-handed, Cunningham took the list, drove to the flagship store downtown, and delivered all the items directly to the customer's doorstep.

From that point on, Cunningham was known for having his employees ask shoppers if there was anything they wanted but couldn't find. Making sure that the store was always stocked with the most popular items helped to double its sales in a single year. And thanks to that performance, he steadily rose through the Kresge company's ranks.

Though they may not have been particularly helpful in the short term, the 1957 store visits evidently had a serious effect on Cunningham. A few months after the tour was over, he was appointed "general vice president" of the company, a title that Kresge had never had before, and which came with no clear responsibilities attached. It seemed to effectively be a place to hold him until company president Franklin Williams retired and Cunningham could take over the top post.

As vice president, Cunningham continued to tour the country. He was intent on studying the tough competition of the discount stores, which by now were turning into a craze, haphazardly spreading into all regions of the country from their New England stronghold. When Williams stepped down in 1959 and Cunningham took his place, he continued to direct company resources to studying this craze further.[11]

Thanks in part to the growing influence of discounters, the entire variety store industry was becoming stagnant in the midst of what was supposed to be an era of economic booms. Kresge's concerted effort to move into the suburbs and its push into the southern and western halves of the country were both promising in the short term. But even as these large and thoroughly modern stores opened their doors, the very idea of the five-and-dime was in danger of becoming obsolete.

Kresge had been negotiating to buy up the similarly-named S. H. Kress variety chain, with hundreds of stores throughout the South and stretching into California, almost perfectly matching the regions Kresge wanted to expand into. But the acquisition talks collapsed at the end of 1960, when Kress reported worse profits than expected for the year—as did Kresge and most of its other competitors. All of these chains were falling further and further behind as discount stores proliferated. And just as soon as Kresge had started to open dozens of new shopping center stores each year, it had to close dozens more of its urban locations that were now rapidly becoming unprofitable because business was shifting to the suburbs.[12]

For Kresge, these closures became an opportunity to test some of Cunningham's ideas about the future of retail. In May 1961, one of the older, smaller Kresge stores on the far west side of Detroit was converted into the first Jupiter Discount Store. Jupiter offered a limited collection of only the most popular products at conventional Kresge stores. This helped to lower expenses at the unprofitable locations as much as possible, while also ensuring bargain prices on those items.

Compared to the loft stores it was patterned after, Jupiter wasn't an overwhelming success. Sales at the first Jupiter store were still just a fraction of what even the smallest new Kresge stores were pulling in. But it was enough of a financial improvement over the old five-and-dime it replaced that another four were converted by the end of the year, with many more planned for 1962. And Kresge's biggest competitors were soon copying the idea—W. T. Grant created Diskay Discount Mart, while Woolworth later launched Worth Mart.[13]

Just a week after the first Jupiter store opened, though, Woolworth made a much more important announcement: it would be starting its own chain of full-sized discount department stores, which it promised would grow into "the biggest discount house company this country will ever see." The company had successfully kept the news under wraps until its annual shareholder meeting, but with sales falling and profits squeezed, it was certainly a welcome surprise for the attendees.[14]

Kresge had been making plans to potentially do the same for years at Cunningham's direction, but the Woolworth announcement spurred the company to put those plans into action. In early June, it signed three leases for 60,000-square-foot buildings at shopping center developments around Detroit. By the end of the month, those plans were revealed to the public for the first time. Cunningham tempered the announcement by saying that these plans would "have no effect on the continued expansion of the new Kresge variety stores."[15]

But the company's discounting plans were already much more ambitious than that press release would let on. The day Cunningham made the announcement, he'd just returned from a trip to Texas, where Kresge had opened 12 variety stores in just two years and was currently preparing two more. The stated purpose of his visit was to check up on those stores, whose lackluster sales were putting a dent in Kresge's enthusiasm for the South. But he was also there to investigate the Spartan Discount Stores chain, the product of a Tennessee clothing manufacturer that had exploded into the industry with over a dozen stores in its first year.

Kresge had decided that it would be easier to acquire one of the rapidly growing discount chains and provide extra funding for its upward momentum than to start from scratch, and Spartan was a top candidate to be purchased. The company wasn't alone in thinking that: Montgomery Ward, one of the country's largest retailers, had been negotiating to buy Spartan as well, but their talks had fallen through shortly before Cunningham's visit.[16]

The following week, Cunningham rushed to New England to discuss the possibility of buying Zayre. In five years, the Feldbergs had built 16 discount stores, establishing a chain that stretched out from its Massachusetts roots as far as Illinois and Tennessee. Zayre was poised to become the largest discount chain of them all by the end of 1962, and it was opening stores even faster than the old Bell Shops could close.[17]

Cunningham was greatly excited to see that even with all the costs of expanding, Zayre was still turning a handsome profit. And once again, he wasn't alone—major retailers like J. C. Penney, Gimbels, and even W. T. Grant had made purchase offers, but the Feldbergs had turned them all down in favor of Kresge.

With those discussions well underway, Kresge's newly formed discount division had started to refer to the three stores under construction in Detroit, and the plans for more being made across the country, as the "Z type." That single letter was a convenient code for referring to Zayre, since the merger talks were being kept completely confidential.

In August, aware that the Zayre deal could fall through and leave Kresge to develop a discount chain on its own, employees at headquarters started brainstorming for what to call that chain. Seeking a name that would connect the stores with Kresge while also keeping them obviously separate, they landed on two finalists: "Big K" and "K-Mart."

Kresge president Harry Cunningham addresses investors, while a portrait of the elderly Sebastian Kresge seems to peer over his shoulder. (Jimmy Tafoya, Detroit Free Press)

In the midst of it all, Sebastian Kresge was 94 years old, still chairman of the company's board, and still keeping in regular communication with Cunningham and other executives. He was skeptical, occasionally even hostile, toward the discounting idea. And he was clearly worried about how these dramatic changes to the company he founded, the chain that until now bore his name on every store, would affect his legacy.

During the Zayre negotiations, he warned Cunningham that the merger could lead to the Feldberg family overrunning the leadership of the Kresge company: "My past experience has been such as to keep away from people of that type and caliber." And when the deal ultimately fell through, he made the final decision to name the stores "K-Mart," only to get cold feet about the name in October: "Mrs. Kresge and I…think it is too confusing or too Jewish."[18]

Sebastian's apparent antisemitism might have played a part in derailing the Zayre deal, but it wouldn't end up affecting this decision. By then, it was too late to find another name. K-Mart had already been announced to the press, sketches of what the stores would look like had been published with the name emblazoned on them, and the signs were already being built (with a lowercase "m" and no hyphen).

As 1961 drew to a close, the company was all in on discounting. The day before New Year's Eve, 11 Kresges shut their doors to be converted to the Jupiter format. As for Kmart, dozens of leases had been signed for future locations, and many more were being negotiated for shopping centers all over the country. Before a single Kmart opened, the company had invested over $80 million in the concept—roughly 20 percent of its total annual sales.

When Sebastian Kresge died five years later, his obituary recounted what he had apparently said to Harry Cunningham upon being told how much money was riding on the Kmart idea: "Good for you, Harry. I'm behind you 100 percent." A letter to Cunningham in November 1961, though, was much more subdued: "I am wondering, Harry, at this time how you feel about the new stores we have taken on; whether on the whole they are going to give us the volume that we expect."[19]

The discounting industry was full of success stories by then, but there were many failures behind them. Quite a few retailers had jumped on the bandwagon looking for easy money, only to be driven out of it quickly by tough competition. Where would Cunningham and Kresge's attempt at joining the party leave them? The answer to that question would begin to arrive, for them and for Woolworth and for a whole host of competitors, in 1962.

CHAPTER 3

The Year of the Discount Store (1962)

On March 1, 1992, Kmart officially celebrated its 30th anniversary. Across the country, 2,300 stores joined in the party, serving birthday cakes, having clowns give away balloons, and replacing the typical Muzak with a collection of 1962's greatest hits. All the festivities centered on the Kmart store in Garden City, Michigan, which had opened on that day 30 years before. There was just one small problem: March 1 wasn't really the chain's birthday, because Garden City wasn't really the home of the first Kmart.[1]

FROM AN EARLY STAGE IN ITS DEVELOPMENT, THE KRESGE company had intended for what became the Kmart brand to be flexible. Just as small and failing Kresges were being converted into Jupiter bargain operations, the idea was that larger failing Kresges could be transformed into Kmarts. The full-size stores under construction in Michigan were several times the size of even the biggest Kresge five-and-dimes, so the converted Kresges would be much smaller, "bantam" Kmart stores.

The first of these bantam Kmarts was supposed to open in late March in Peoria, Illinois. The downtown Kresge store, which had been there since 1916, closed in January for the conversion. But this process wasn't limited to decades-old stores that had seen better days. It could just as easily be applied to new, state-of-the-art Kresge locations that had never actually opened in the first place.

The year 1961 was the company's first in California, with five variety stores opening that year to extend Kresge's reach to the Pacific Ocean. As 1962 began, the sixth was under construction at the Mission Plaza shopping center in San Fernando. But Donald Shanedling, the developer of Mission Plaza, was excited by the first announcements about Kmart and made Kresge an unusual offer. If the company turned that store into a discount outlet, he would give it a steep discount of his own on its lease. Shanedling was so confident that Kmart would attract thousands of extra customers to his shopping center, he agreed that Kresge wouldn't have to pay a cent until it reached sales of $1,280,000 for the year—more than twice the revenue of a typical Kresge store.[2]

After a last-minute change in plans, San Fernando, California, became the site of the world's first Kmart. To highlight Kmart's presence, Mission Plaza had been hastily renamed "Discount City, USA," and all the surrounding smaller shops in the center were required to engage in discounting as well. The early opening gave Kresge an opportunity to test the Kmart format, and the large crowd that showed up on opening day—January 25, 1962—was an encouraging start.[3]

Even so, when the company's attention turned closer to home a month later, it didn't hesitate to advertise the opening of "the first unit of its new nationwide K-mart chain" in Garden City, Michigan. That technically wasn't

true, but the launch of the first *full-size* Kmart certainly marked the beginning of a new era for the company, which could be seen from day one. The grand opening sale on March 1, 1962, saw Kmart ringing shoppers up for a total of $48,137—nearly three times the company's previous record for grand openings, and almost four times as much as the San Fernando bantam store had brought in on its first day.[4]

The second full-size Kmart store in Pontiac, Michigan, is packed with Kresge employees during a sneak preview event.

Garden City perfectly represented the new American landscape of the suburbs that Kmart would both capitalize on and help to create. Since 1940, the population of this century-old farming community 15 miles west of downtown Detroit had leapt from 4,000 to 38,000, and its six square miles of land were now fully overtaken by waves of sprawl.

Kmart arrived smack dab in the middle of the closest thing the area had to a historic downtown, sitting on the opposite corner from city hall and a row of shops dating back to the 1920s. Other than that, it was nothing but freshly built tracts of cookie-cutter housing for miles around.[5]

Despite the enormous potential of these Kmart stores, the emergence of suburbs like this one was still posing a threat to Kresge's core business. "What the merchandising industry has been up against is the colossal problem caused by the loss of business to central city locations," board member Howard Baldwin wrote to Sebastian Kresge in February 1962. "It has been going on all over the country and is probably worse than a lot of people realize."[6]

Kresge had been following that trend throughout the 1950s and into the '60s, moving hundreds of its variety stores out of cities and into the suburbs. But now, with Kmart, it would become a leader of that exodus. As he attended the ribbon-cutting ceremony in Garden City, then the next one in nearby Pontiac a few weeks later, Harry Cunningham proudly said that these suburban towns had been chosen not for their present ability to support a major discount store, but for their potential for future growth. And as the new largest employer in Garden City, Kmart wouldn't just benefit from that growth, it would become a significant part of what was driving it.[7]

The reopening of downtown Peoria's historic Kresge store as the second bantam Kmart, which took place on the same day as the Pontiac opening, suggested that the company wasn't yet ready to completely give up on the downtowns that had made it a major retailer in the first place. But the plan was to turn only the best of the faltering Kresges into miniature Kmarts, while the small and unpromising ones would become Jupiter Discount Stores.

It was telling, then, that 36 Jupiter conversions had taken place by the end of 1962, while only three Kresge locations in the US would ever be converted into Kmarts.[8]

As the year came to a close, there were a total of 18 Kmart stores in operation. Most of these had started construction during the year and opened in November, just in time for the start of the holiday shopping season. In December 1962, Kmart was far from the largest discount chain, or even the fastest-growing. Zayre had opened 20 stores during the year, for a total of 47, and 10 other discounters still outranked Kmart in location count.[9]

But even in that first year, Kmart had already become one of the most ambitious discounters in the industry when it came to staking out territory. While competitors mostly focused on dominating a particular region and building up strength to gradually expand outward, the first 18 Kmarts were scattered across the country, from California to South Carolina. Half of them were located in states where Kresge had no presence at all four years before. Six were located in the company's home state of Michigan, but another five were in Texas.[10]

This was more than just a business strategy. It was sending a message: the S. S. Kresge Company was prepared to put the full force of its resources and manpower toward the goal of turning Kmart into the first discount chain to span across the whole nation. With plans already underway to build dozens more each year, that mission was going to be difficult for other retailers to compete with—even the ones that had a head start.

COMING INTO 1962, IT WAS EASY TO ASSUME THAT THE future of the discounting industry would be defined by the battle between the two five-and-dime giants, Kresge's

Kmart and Woolworth's Woolco, as they raced to reinvent themselves for the '60s. And the first Woolco certainly looked like a formidable competitor when it opened its doors in Columbus, Ohio, in June. At 100,000 square feet, it was nearly twice the size of the Garden City Kmart and offered a much wider selection of merchandise. The Great Southern Shopping Center's 5,000-car parking lot was full on opening day, and it seemed like Woolco was off to a very promising start.

In spite of Woolworth's earlier promise to create "the biggest discount house company this country will ever see," though, the company was far more cautious with Woolco than its rival was with Kmart. The first Woolco was joined by another on the opposite end of the Columbus suburbs, then one in Richmond, Virginia. The company finished 1962 with just those three Woolco stores in the United States—as well as another four in the Canadian province of Ontario, where Woolworth hoped to face less competition as it experimented with the discount format.

As Kresge continued to ramp up the construction of new Kmarts in the next few years, Woolco fell further behind. Another three stores opened in 1963, scattered from Colorado to Louisiana to Arizona, but Woolworth was still basically testing the waters. What was the result of all this testing? The company decided in 1965 to use a slightly smaller store format, more like that of Kmart, and only then did Woolco pick up the pace and begin to open dozens of new stores each year.

The timing of Woolworth's entry into discounting didn't help, as the company had just finished a major expansion program of its variety stores. But as the undisputed ruler of the five-and-dime market, Woolworth just didn't feel the same sense of urgency that Kresge did when profits began to shrink.

In any case, it was more interested in Kinney Shoes, the chain of 500 small shoe shops that it bought in 1963 for a price that would have built only a handful of Woolcos. Woolworth's strategy of prioritizing store count over store size would eventually make it the largest retailer in the world by total number of locations. But it ultimately allowed Kresge to overtake the company in total sales before the decade was out.[11]

WOOLWORTH AND KRESGE WERE THE BIGGEST VARIETY chains to get into discounting in 1962, and their debuts were both hotly anticipated. But they weren't the only ones that made the decision to launch new discount chains that year. Neisner Brothers opened its first Big N store. Kuhn Brothers followed in that vein, and just so happened to take the name that Kresge had passed over—Big K. Meanwhile, Kress created "J. P. Mercer" in Southern California, and J. J. Newberry launched its first Britt's stores. The Gamble-Skogmo company opened discount outlets under three different names that year, but only its Tempo stores would last longer than a decade.

Despite the threat that all these discount stores posed to the old five-and-dime everywhere they appeared, many of the other major companies in the variety industry were unmoved. After failing in its own short-lived bid to acquire Zayre, W. T. Grant never tried to match the discount stores of its competitors, outside of its Canadian branch Zellers. McCrory, McLellan, and H. L. Green had just merged together in 1961, and the combined company would stick to its five-and-dime roots through the end of the century.

And the executives at Butler Brothers turned down a proposal from a franchise operator in Arkansas, who'd been studying the discount stores for years and wanted to see his company get in before it was too late. After instigating the five-cent counter craze of the 1870s and giving birth to the entire variety store industry in the process, Butler Brothers had started its own chain of franchised five-and-dimes under the name "Ben Franklin." By 1962, there were thousands of these franchises, and if they had all been under the same ownership, they would have made up a chain larger than Woolworth's.

The Butler Brothers company had already tested discounting on a small scale in a few "pilot stores," and decided it didn't have much potential. "Your management has concluded that the movement of a large quantity of goods at a low margin will not necessarily produce a satisfactory return on investment," company executives said in their 1961 annual report. Perhaps they believed too strongly in the massive retailing industry they'd invented to even consider following another idea. Their visitor went back to Arkansas, determined to do it without them.[12]

So when that franchisee, Sam Walton, opened the first Wal-Mart Discount City in July of 1962, few people paid any attention. In hindsight, of course, that opening could be called the biggest story of 1962, but at the time it seemed to be just about the smallest story in an eventful year for the world of retail. At 16,000 square feet, Wal-Mart was tiny compared to a new Kmart or Woolco. But it was the largest store that Rogers, Arkansas, a town of less than 6,000 people, had ever seen.

Rogers already had a Ben Franklin store, though, and it wasn't one of Walton's. After the franchisee who owned that store complained, Wal-Mart's grand opening was greeted by a delegation of Butler Brothers officials, who asked to speak with Sam in private. Thirty minutes later, he relayed to his employees the warning those

officials had given him: "Don't build any more of these Wal-Mart stores."[13]

Sam Walton had never intended to be in charge of a whole chain of discount stores, but he had the detailed knowledge of the industry he needed to do it. Like Harry Cunningham, Walton spent much of the late '50s touring discount stores from New England to Southern California. But while Cunningham's visits to the competition were a carefully guarded secret, Walton made a show of it. His folksy demeanor was so charming to discount store managers and employees all over the country that they inevitably answered all his probing questions about exactly how their stores operated.

Despite that dramatic confrontation on opening day, Walton continued trying to convince the Butler Brothers management to turn the Wal-Mart concept into a nationwide franchise. They were still completely uninterested, and the fact that Walton was one of their most successful franchisees didn't persuade them one bit. "When those Butler Brothers folks turned down my discounting idea," Walton later wrote in his autobiography, "I got a little angry." Shortly after he was rejected for the final time, in 1964, the next two Wal-Mart stores were opened. By the end of the decade, there were 18.[14]

While most discount chains were firmly planted in the rapidly expanding landscape of America's suburbs, Wal-Mart was almost exclusively located in small, rural towns. With the exception of two stores in Fayetteville and North Little Rock, Arkansas, none of the towns that had a Wal-Mart by the end of the '60s were home to more than 15,000 people. It helped that Sam's wife, Helen, had once told him she refused to live anywhere with a population over 10,000.

This focus on small communities didn't hamper Wal-Mart at all—in fact, it was the key to the chain's early success. These towns could just barely support one discount store, and certainly not two of them. Whoever opened a store there first was therefore safe from direct competition, meaning that Wal-Mart needed to expand quickly to ensure that it could be the first to get to as many towns as possible.

Walton wasn't the first to realize this, either. Gibson Products, a wholesale supplier in Texas similar to Butler Brothers, had started franchising discount stores in 1960, and they quickly blanketed Texas in towns large and small. Gibson's Discount Centers had started to spread over the border into Arkansas by 1962, and Sam Walton had tried to become one of their franchisees before starting Wal-Mart. Gibson's turned him down, thinking he lacked the experience to run one of their stores.

Throughout the 1960s, Wal-Mart expanded outward as quickly as it could from its northwest Arkansas home, but it was far behind Gibson's, Kmart, Woolco, and dozens of other discounters. No one would have thought that its astonishing pace of exponential growth could be kept up all the way through the end of the century, and none of those competitors saw the chain as a serious threat. When Robert Drew-Bear published his comprehensive history of the discount industry, *Mass Merchandising: Revolution & Evolution*, in 1970, the book never mentioned Wal-Mart once.[15]

For the time being, that was how Sam Walton liked it. His constant, sometimes obsessive, visits to other discount stores continued as Wal-Mart grew, and he could often be found, notebook in hand, studying every detail of a Kmart. Even as late as the 1980s, no Kmart executive batted an eye when Walton made the trip up to Michigan to tour the company's headquarters. Nor did they see any problem with answering all his questions about how Kmart worked.[16]

An advertisement in the Rogers Daily News promises door prizes and "quality" discounts at the first Wal-Mart.

Many variety store chains, large and small, made their first moves into the discounting field in 1962. Like the Northeastern supermarket chains that went before them, these established retailers took advantage of their decades of experience running stores to put their own spin on the discounting concept. But once the discounters began to outgrow their old textile mills and started dominating suburban shopping centers, it was clear that this revolutionary new format was nothing like a supermarket or a five-and-dime—it was a department store without the frills.

Despite the similarities, the nation's major department store companies weren't rushing to bring discount prices into their upscale venues. For most of the 1950s, Federated Department Stores was the closest thing the industry had to an exception. Fedway (not to be confused with Fedco or FedMart) was the Midwestern company's attempt at launching itself into mid-sized cities in California and Texas. The word "discount" was never uttered, and the multi-story buildings outwardly resembled any other downtown emporium. It was only in the relatively low prices—and low standards—that the distinction was made. Fedway's sales were disappointing, killing any plans for expansion outside the 10 stores it started with.

As the decade came to a close and discounting became a nationwide craze, the industry's attitude started to change. Interstate Department Stores bought out several independent discounters to convert into its Topps and White Front chains, which quickly came to outnumber the dozens of conventional department stores the company owned across the nation. L. S. Ayres of Indianapolis opened its first Ayr-Way discount store late in 1961, while the Allied Stores company launched Almart. J. C. Penney acquired the small Treasure Island chain in Wisconsin, although it was more interested in Treasure Island's catalog operation than its discount business.[17]

None of these moves into discounting, though, were as fitting as that of Dayton's in Minneapolis. Dayton's had only one store until the early 1950s, but it was massive—a 12-story behemoth on Nicollet Avenue, with over a million

square feet of selling floor inside. It was the fourth-largest store of any kind in the country, behind only Macy's in New York, Marshall Field's in Chicago, and Hudson's in Detroit.

But Dayton's departed from that centralized strategy in 1952. The company announced that it would be branching out to the suburbs—not just by opening a new store, but by building an entire shopping center for itself. In order to keep attracting customers during the frigid Minnesota winters, Dayton's hired Austrian architect Victor Gruen to design a shopping center with indoor hallways and common areas between the stores, something America had never seen before. When Southdale Center opened in 1956, it became the country's first major enclosed shopping mall.[18]

Southdale wasn't the last shopping mall Dayton's intended to build, either. The company planned a ring of four "Dales" surrounding the Twin Cities at the tip of each compass point. Adding to the historic downtown department stores it had recently acquired in St. Paul, Rochester, and Sioux Falls, South Dakota, Dayton's would become a powerful chain with eight locations, dominating Minnesota's high-class shopping.

These ambitions were hampered, though, by the slow speed of all this construction. The company's second mall, Brookdale, opened in 1962, but its Dayton's store wouldn't be ready for another two years. The company had already bought the land for all four malls, but the last of them would take another decade to complete. Seeking a path to faster growth, Dayton's announced in the summer of 1961 that it was joining the party and starting its own chain of discount stores.[19]

It was a bold move, considering that the Twin Cities were already becoming overwhelmed by discounters. The area's first discount store, part of the Atlantic Mills chain, had opened in

1958. By the end of 1961, seven others had come along to join it. Another seven were planned to open in the area in 1962, including the first three of Dayton's new chain. Wanting to avoid any association between Dayton's and discounting, the company gave the stores a separate brand identity—a simple bullseye for a logo, and "Target" for a name.[20]

The first Target store was planned for the north end of St. Paul, where it was initially supposed to open on March 1, the same day as Kmart's Garden City store. But that idea was abandoned when work abruptly stopped on a "Jubilee City" store four miles away in Roseville—the developer was worried that the area's discount market was becoming too crowded. The location was perfect for Dayton's: the nearly finished building sat across a newly built highway from a large empty field the company already owned, the future site of its third mall, Rosedale. Target took over the site and opened its doors in May.[21]

The hastily repurposed Roseville store was the first of four Targets that would open in 1962. Three of them encircled the Twin Cities, catching up to Dayton's 20-year shopping mall construction plans in a single year, while the other was placed in Duluth. The company's discount stores already came close to outnumbering its five department stores—a strategy that executives later realized was a mistake, as resources were spread too thin. The four Target stores operated at a loss their first year. They were caught between Dayton's classy clientele and the budget-conscious shoppers who normally frequented discount stores, and they couldn't really appeal to either.[22]

Unlike Kmart, Woolco, Ayr-Way, Almart, and most of the others, Target was given a name completely unrelated to its parent company Dayton's, as the company wanted to keep its discount stores totally separate in the minds of Minnesotans from its department stores. But the company soon realized

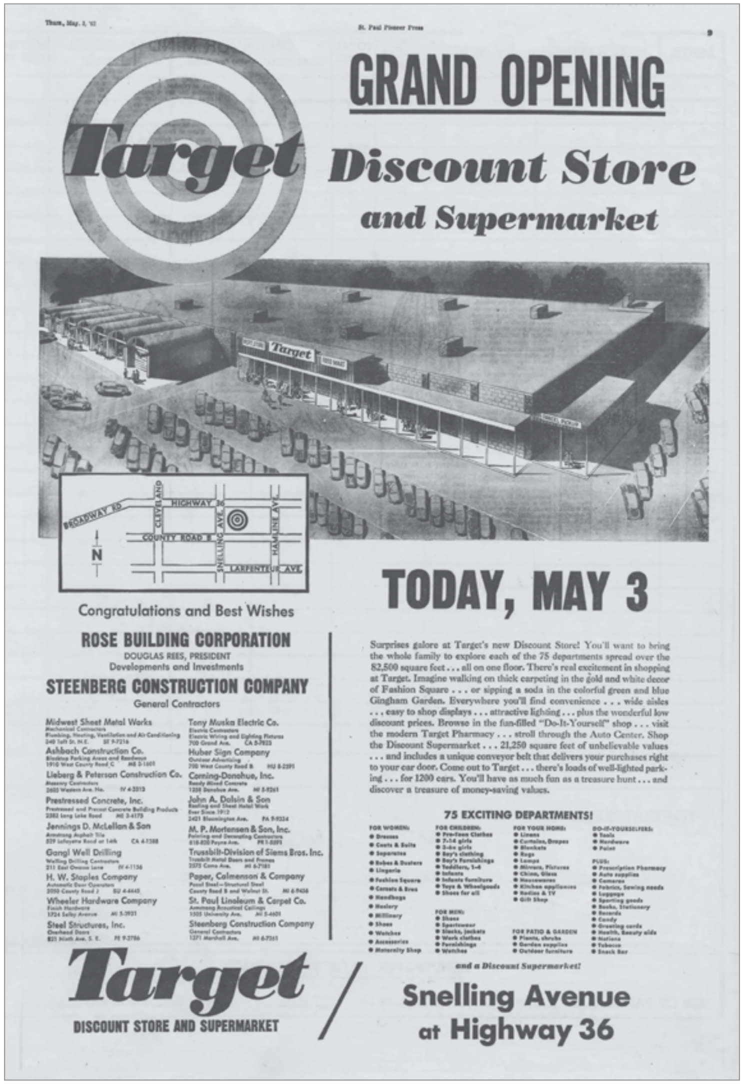
that its experience with being chic and stylish was exactly what it needed to set Target apart from a crowded discount field. Dayton's had staged enough clearance sales, after all, that it knew how to get the latest fashions at the lowest possible price.

So the company set out to create an "upscale discount" chain, giving Target an identity that sounded like a contradiction but was remarkably effective. Without significantly raising prices compared to other discounters, Dayton's focused on making its new stores appealing, inviting, and even trendy. By 1965, a study found that the majority of Twin Cities families were regularly shopping at Target, coming from all walks of life—and including many who didn't want to admit they were buying at a discount.[23]

After its initial struggle, Dayton's now felt confident enough to expand Target beyond its original four locations—not just within Minnesota, but throughout the middle of the country. By the end of the decade, 17 stores stretched from Denver to Houston to St. Louis, while construction still hadn't started on the company's fourth mall. The department store division continued to expand, but only by making acquisitions—Dayton's merged with Hudson's, the similarly massive store in Detroit, which was also becoming a regional chain by hiring Victor Gruen to design a series of malls.

Other department stores sought to imitate Target's success starting in the late 1960s: Rich's in Atlanta created Richway, Strawbridge's in Philadelphia started Clover, and the May Company launched its Venture stores after hiring away the Dayton's executive who had originated the idea for Target. Federated Department Stores, having already failed with its very different model of Fedway stores, tried again by copying Target for its Gold Circle chain.

But by then, the world of discounting, which had once seemed to have limitless potential for retailers of all kinds, had become fiercely competitive. None of these chains made it to the end of the century, and many of their stores were ultimately bought up by the Dayton Hudson Corporation to fuel Target's further growth.[24]

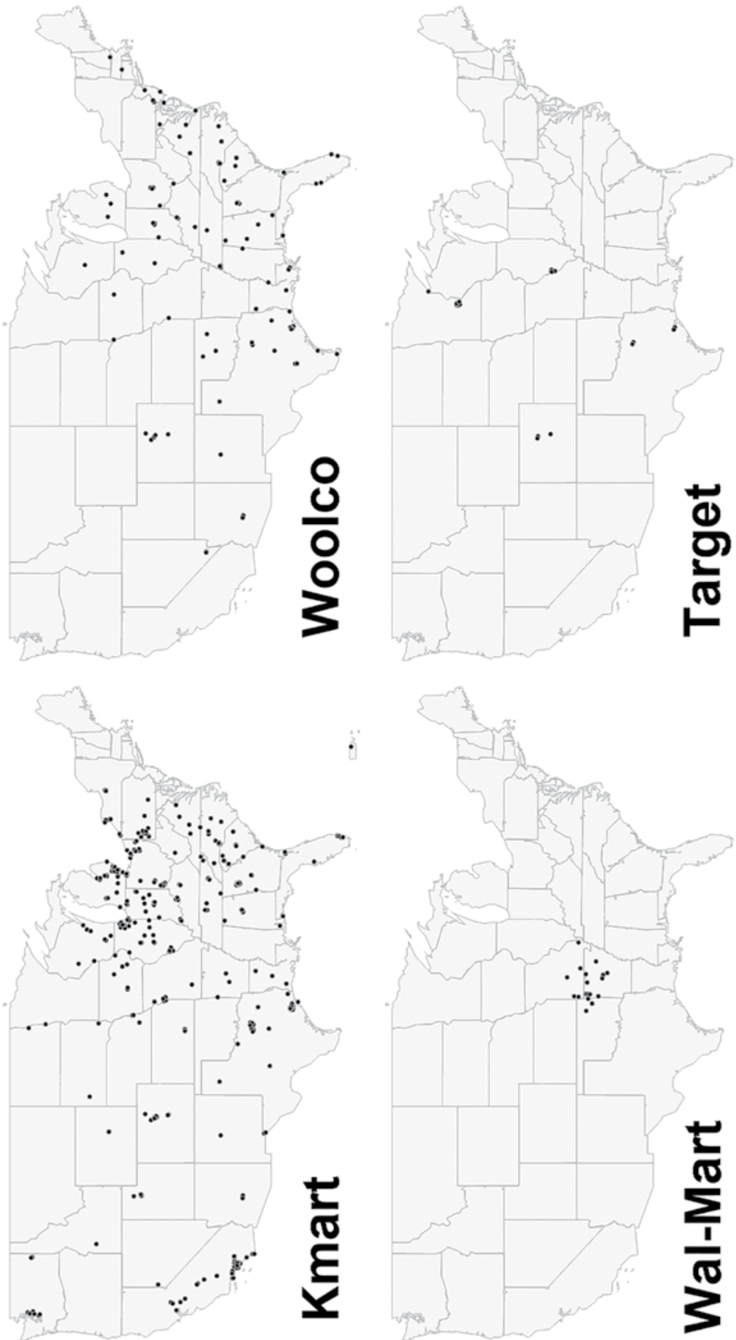


Target's first advertisement in the St. Paul Pioneer Press presents a somewhat more dignified version of the typical discount store.

Discounting wasn't born in 1962, but it was a crucial year in the discount store's evolution from possibly illegal experiment to trillion-dollar industry. It would take decades before the significance of that one year to the history of American commerce could be fully understood, but it was clear at the time how quickly the concept was being embraced by established companies looking to ensure they had a future in a changing world.

"Retailers of every description—department stores, five-and-dimes, specialty shops, supermarkets—are being forced to examine, and frequently to change, their store hours, prices, accounting techniques, inventory selection, and merchandising policies," *Fortune* magazine wrote in its April issue of that fateful year. "The discount house is itself a response to the explosive growth of suburbs and to the enormous shift in the distribution of income during the last two decades—forces that are reshaping every aspect of American society and of the US economy."[25]

As 1962 came to a close, those forces had only grown stronger. The discount store had now become fully mainstream—few American cities were still without one—and many established businesses would be made and broken by their response to the changing winds that blew firmly in the direction of the suburbs. But at that moment, none of them had as much confidence, or were investing as much money, in the industry's future as the S. S. Kresge Company.



Map of store locations at the end of 1969.

CHAPTER 4

Blue Light Special (1963–1972)

"Attention, Kmart shoppers. There's a blue light special in one of our departments…"

These words are immediately recognizable to multiple generations of Americans. When the Muzak on the PA system gave way to that announcement, it meant that Kmart's signature event had appeared once again. A flashing blue light on a pole, tall and bright enough to be seen from all over the store, served to guide customers to the deepest discount in the building—a limited-time-only, get-it-before-it's-gone offer that convinced many a shopper to walk away with something they didn't need or even want, as long as they got a good deal on it.

Kmart's attitude toward the blue light special waffled back and forth over the decades. At times, it was seen as a relic of a distant past, a burden on the chain's efforts to continually reinvent itself in the face of changing competition, and an easy target for cheap jokes from late-night comedians. In other times, it was a nostalgic touchstone that encapsulated what little brand identity the chain had, and perhaps the one thing that could set it apart from its rivals.

It was during one of the latter periods, in April of 2001, that Kmart reintroduced the blue light special after having banished it for a decade, as part of a desperate and unsuccessful attempt to stave off bankruptcy. At a lavish press conference announcing the return, a gaggle of supermodels and Kmart executives were joined by a 60-year-old from Ohio named Earl Bartell. A company spokesperson explained that Bartell was the inventor of the blue light special—he created it in 1965, when he was the assistant manager of a newly opened Kmart in Fort Wayne, Indiana.[1]

But Bartell's officially sanctioned claim was not without a little controversy. Several other former Kmart employees took credit for the idea, including John Koehl, a merchandise manager of a store in Toledo, Ohio, and Bob Anderson, who had been in charge of the menswear department of the Kmart in Lakewood, Colorado. Was one of these men telling the truth, and the others all lying?[2]

More likely, they independently arrived at the same idea at more or less the same time. The blue light special was an evolved form of the "fifteen-minute special" that was nearly ubiquitous in discount stores of the late 1950s and early 1960s, and which many Kmart stores had embraced from the very beginning. These specials provided a convenient excuse for stores to get rid of slow-moving merchandise when they needed to clear the shelves and make way for the next new product—as the only way a discount store could keep costs down was to make sure that product turnover was high.[3]

As for the light and its iconic color, it was a common and convenient solution to the common problem stores had with these flash sales: many shoppers couldn't find the special items in the brief time before they were all gone. In many stores, these flashing lights were red because they were just safety lights taken from the sporting goods department. Various stories exist as to why Kmart stores switched from red to blue: the red light was too annoying to shoppers, perhaps, or the fire department told them that flashing red lights should be reserved for emergencies. One company executive told the *Wall Street Journal* decades later that red was rejected because it "connoted evil things."[4]

But many other stores continued to offer "red light specials" without issue, long after Kmart adopted the blue light as its trademark. They were a common sight in Woolco and Wal-Mart stores well into the '80s, for example. For many customers who weren't aware of the history behind them, they must have seemed like a lazy imitation of Kmart's famous icon.[5]

So the blue light special was not, as one might have assumed, something dreamed up in a corporate boardroom one day. Wherever it might have started, it spread organically from store to store until the company took notice and standardized it. It serves as a great representation of all the work that needed to be done by thousands, perhaps millions, of ordinary people all over America to make a vague corporate direction ("let's get into the discount business") into a reality on the ground.

And while the potential for creative freedom in that work waned over the years as Kmart became a more standardized operation, it never disappeared. One reason for the blue light special's cancellation was that the specials varied so much from store to store that shoppers never knew what to expect. But then again, the element of surprise was always supposed to be its appeal.[6]

SALES PROMOTIONS WEREN'T THE ONLY ASPECT OF THE growing Kmart chain that were left to the discretion of individual stores. From the beginning, Kmart was embroiled in the moral and political conflict over whether a store should be allowed to open on Sundays. All across the country, the traditional practice of "keeping the Lord's Day holy" was falling by the wayside. New discount store chains, less likely to be run by devout or conservative Christians than established companies were, led the charge.

For most of its history, the Kresge company and its leaders were firmly opposed to the idea. In 1957, it promised investors that Sunday selling was not "necessary or desirable" at any of its stores. Sebastian Kresge's obituary proudly noted that the man had spent a quarter of a century working "20 hours a day, every day but Sunday," and he surely expected the same attitude from his company's employees.[7]

But Sebastian lived to see that policy broken. At the height of the holiday shopping season in December 1960, Kresge officials made the controversial and reluctant decision to allow a handful of its stores to open on Sundays. This applied only if the stores' managers determined that competition from nearby Sunday-selling stores was so strong that staying closed would put Kresge far behind, and that the sensibilities of the local community wouldn't be offended by the change. Within the first few months of this policy, only nine of Kresge's 760 stores were opening on Sundays—mostly in the Southwest, where Sunday selling faced less opposition than in more conservative areas like the Midwest and the South.[8]

Shortly after Woolco and Kmart were first announced in the summer of 1961, the presidents of Woolworth and Kresge made an informal pact along similar lines. Both companies agreed that they would politically support the growing efforts to legally ban Sunday selling, and neither

was interested in breaking any taboos. But in places like California, where shopping on Sundays was already the norm among discount stores, they both admitted that they would prefer to join the competition rather than try to beat it.[9]

The debates over Sunday selling, and the passage of "blue laws" attempting to stop it, were part of something more than just an issue of religion. They pitted the right of the workers to have at least one guaranteed day off each week against the right of private businesses to keep whatever hours they liked. In some states, the laws were found to be violating the state constitution as restrictions of the businesses' freedom, and they were struck down in the courts. The US Supreme Court refused to make the same ruling on the federal level, allowing a nationwide patchwork of state and local laws to decide whether stores could open on Sunday.

Kmart's stated policy of following the local precedent, however, could quickly turn into a domino effect. In Sioux Falls, South Dakota, the norm for major businesses was to close on Sundays, but because it wasn't legally required, some smaller businesses remained open. When a Kmart store arrived in 1963, shortly after an effort to ban Sunday selling failed in the state legislature, its manager chose to keep the store open. The newly built supermarket next to Kmart did the same. In order to compete with their new rival, several other supermarkets in Sioux Falls soon announced that they would start opening on Sundays as well.[10]

In Charlotte, North Carolina, Kmart started operating on Sundays as soon as it opened in 1963. The city banned Sunday selling a few months later in February 1964, but Kmart was just outside the city limits and didn't have to comply. Instead, the store was packed on Sundays and had better sales than ever, as many of its competitors were forced to close. Realizing that sales tax dollars were being lost to the suburbs, the city repealed its blue law after just three weeks.[11]

Once the traditional norm of keeping stores closed on Sunday was broken, protests and legislation rarely succeeded in bringing it back. As Kmart grew and the Kresge company shed its conservative past, it became increasingly bold in encouraging store managers to stay open on Sundays. When the city of Macon, Georgia, cracked down on Sunday sellers in 1972, Kmart food store manager Donald Mapes was arrested for violating the law.[12]

By 1984, Kmart was actively protesting blue laws in the shrinking handful of places where they still stood. Kmart managers were arrested across the state of Louisiana on Sunday, July 29, during a state supreme court case over whether Louisiana's blue law was constitutional. Kmart was far from the only store violating these laws, but local officials often chose to make an example of the biggest violator. "Basically our position is that other stores in the area are selling everything that we do, and we're not allowed to sell, and that's not fair," a manager told the *Shreveport Times*.[13]

The Kresge company had come a long way from the late 1950s, when it refused to challenge segregation laws in the face of protests and boycotts. The growth of Kmart and the decline of the variety store caused most of the company's old managers, executives, and investors to be rapidly replaced by new ones with less conservative mindsets. And those changes in leadership only further accelerated the company's transformation.

The manager of a Kmart in Bossier City, Louisiana, explains that police have shut the store down for illegally operating on a Sunday. (Mark Gail, Shreveport Times)

The difference between these two generations of leadership could be seen in how these two chains presented themselves to the American shopper. While Kresge had established a reputation over several decades as a traditional hometown five-and-dime, Kmart as a chain and as a brand lacked a clear identity from the very beginning. Whenever a new Kmart opened, the local papers would be bombarded by a random assortment of advertisements. Some were clean and dignified, with watercolor paintings of the new building and its parking lot, and drew on the company's decades of experience in prestigious downtown settings. Others were cluttered, emphasizing Kmart's "crazy" low prices and suggesting a circus-like atmosphere, making it look like almost any other low-rent discount store.

The lack of a clear message to potential customers about what kind of store they'd find themselves shopping at didn't hurt Kmart in the least in those early days. Discounting was an incredibly popular field in the early 1960s, but in most parts of the country, it was still full of potential for explosive growth without running into much stiff competition. The success of a discount chain was mostly the result of how much money the company was willing and able to invest in that growth, and Kresge had put more money into that cause than any of its competitors.

At the end of Kmart's first year, 18 stores were already open and another 30 were under construction, planning for an opening sometime in 1963. The company was ready to repeat its plans for 1963 into the foreseeable future, opening about 30 stores every year. The expenses involved in this ambitious construction program would be large, but as Kresge's sales and profits grew, it could easily sustain that rate of expansion until the whole country was blanketed in Kmarts.

Not included among those first 18 stores was a location just across the Detroit River from the company's headquarters. Kresge intended from the beginning to expand Kmart into Canada, starting construction on a Windsor, Ontario, store in the spring of 1962. But the store, and a few other Canadian locations, weren't ready until early in the following year.[14]

And when the Windsor store opened, it presented a clear departure from the Kmart stores on the other side of the border. Kresge's Canadian director denied that the new Kmart was even a discount operation, describing it only as "a full-fledged department store offering the same facilities and wide selection as the traditional downtown store—at greater savings."[15]

As the building of new Kmart stores ramped up toward the end of 1962, the company had promised

that the "continuing program of building and modernization of variety stores will be maintained." But that promise didn't last long. While some new Kresge stores opened, 1963 saw even more of them close. In 1964, the company only opened three new variety stores in the US, the fewest since the end of the World War II construction freeze.[16]

In the meantime, 1964 saw Kmart expand to 88 stores in the United States and Canada, including a location in San Juan, Puerto Rico. Another new Kmart could be found in Casper, Wyoming, in one of the eight remaining states that had never had a Kresge store before. And that total store count placed Kmart ahead of Zayre's 72 locations to make it the largest discount chain in the nation, a feat it had achieved in a span of just three years.[17]

A prominent example of the generational cultural change that was now rapidly taking place throughout the Kresge company came soon after. Sebastian S. Kresge died in 1966 at the age of 99, having formally retired from the running of the company only a few months before his death. With his overall skepticism about the discount business, it was probably for the best that he didn't live to see Kmart overtake the variety stores that carried his name in annual sales. That milestone was reached at the end of the same year, with the discount stores bringing 53 percent of the company's total revenue of a little over $1 billion for 1966—a figure that would have been unthinkable just a few years prior.

Considering that there were still nearly five times as many Kresge and Jupiter stores as there were Kmarts, this would seem to be an incredible feat and a sign of the tremendous power of discounting. But the average Kmart was about five times the size of a typical Kresge store, so the improvement was minor—Kmart's sales were $60 per square foot, compared to $53 at Kresge.[18]

More importantly to the company's management, Kmart had lower operating costs than its five-and-dime siblings, meaning that even when sales were the same, profits were noticeably higher. These profits weren't just a boon to investors, either: Kmart's growth had become a self-sustaining chain reaction, with the 162 discount stores that were open by the end of 1966 making enough to fund the construction of the next ones. Going into 1967, the chain's goal of opening 30 new stores each year was upgraded to 50 for the foreseeable future.

On the other hand, those who feared that the focus on Kmart would lead the variety stores to neglect and decay were being proven right, and perhaps more quickly than they imagined. The opening of new Kresge stores had almost completely stopped, while competitors like W. T. Grant continued to add dozens of locations to their chains each year.

The creation of Jupiter stores to try to save struggling Kresges had now mostly stopped as well. The bargain-store format helped to cut operating costs, but it did nothing to attract people away from the suburban shopping centers and back into the downtown streets. Now, most unprofitable Kresge stores just closed—and with every passing year, more and more of them were falling behind. All of this would have been an enormous, existential problem for the Kresge company, if it hadn't been making hundreds of millions of dollars from the shift to the suburbs. In the span of a little less than five years, a major American retailer had been fundamentally and permanently changed, and it was paying off.[19]

WHEN A KMART STORE OPENED IN BURWOOD EAST IN 1969, it was an immediate success, in a manner that had become completely routine. Harry Cunningham's wife, Margaret, cut the ceremonial ribbon at the grand opening ceremony. Within 45 minutes, the doors were closed and a line of people queued up outside them—not because anything had gone wrong, but because the building had reached its capacity and couldn't fit any more shoppers. Ambulances sat waiting outside the store in case someone was trampled—or simply overcome by the day's excitement.[20]

There was just one unusual aspect of this otherwise typical grand opening ceremony—Burwood East was a suburb of Melbourne, Australia. This Kmart store, which would become the first of hundreds on the continent, was the product of a joint venture between Kresge and the Australian supermarket chain Coles. The profits were split almost evenly between the two companies, up until Kresge sold its share of the chain back to Coles in 1978.[21]

This brand-new Kmart in 1969 looked just like any other—but it was located on the opposite side of the planet, in a suburb of Melbourne, Australia. (Herald Sun)

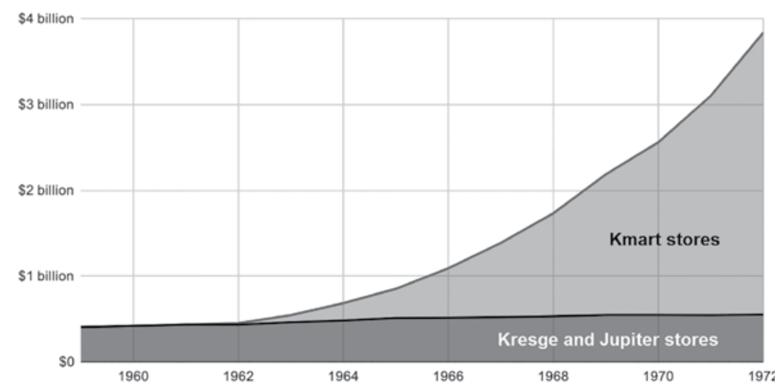
By the time the company ended its investment in Coles completely in 1994, the Kmart brand was better established in Australia than it was in North America. In the 2010s, the American Kmart would crumble into irrelevance, while the Australian version would thrive. In Australia, Kmart would end up taking over much of the struggling Target chain, which coincidentally had the same name and logo as the company helping to drive the other Kmart out of business.

The creation of the Australian Kmart was an unusual move for the Kresge company, but its biggest rival, Woolworth, had done the same decades ago with stores in Britain, West Germany, and Spain. By now, Woolworth was a famous name across the globe, which had inspired transcontinental imitators to take that name for themselves. The company couldn't enforce its American trademark against, for example, Australia's Woolworth chain, which started in the 1920s and by now had established its own line of discount stores, "Big W."

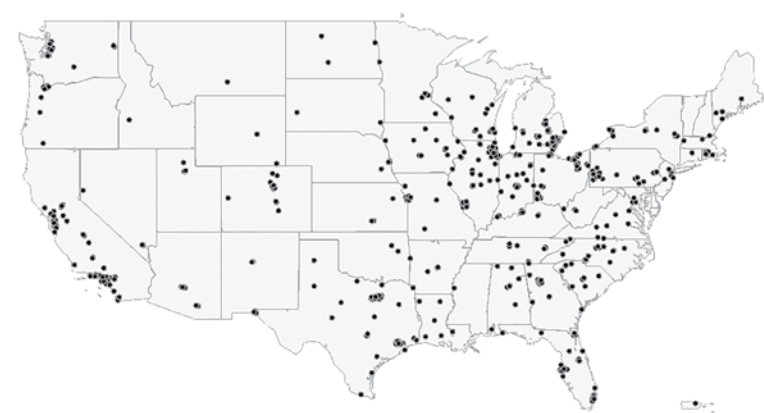
In North America, meanwhile, Woolworth had started to take discounting more seriously. The company opened dozens of Woolco stores each year in the late 1960s, creating the third-largest discount chain in the United States—still well behind Kmart, but getting close to Zayre. The company simply couldn't ignore the steady decline in its core business of variety stores any longer. It wasn't eager to get rid of struggling five-and-dimes, as Kresge increasingly seemed to be, but it was still closing them faster than it opened new Woolco stores.[22]

With these moves, Woolworth grew over the course of the 1960s from a billion-dollar company into one with annual revenues of $2.5 billion—just enough to keep its position as America's seventh-largest retailer in

a rapidly changing industry. But its closest competitor was growing even faster all the while. At the start of the decade, Kresge had less than half the sales of its biggest rival. But when the company passed its own billion-dollar mark in 1966, it was just the beginning of an exponential curve fueled entirely by Kmart. As 1970 came to a close, Kresge sat just above Woolworth—America's sixth-largest retailer.[23]



Above, Kresge company sales by division, 1959–1972.
Below, Kmart store locations at the end of 1972.



By the summer of 1971, there were 391 Kmart stores stretching across 37 states and Puerto Rico, but there was one region of the country where the chain was still conspicuously absent. Kresge had kept up a strong presence in New England for decades with its variety stores, but from the New York City suburbs of southwestern Connecticut to the Canadian border in Maine, Kmart couldn't be found anywhere despite its nine years of aggressive nationwide growth.

The reason, of course, was the intense competition. The former textile mills of Massachusetts and Rhode Island had been the cradle of the discount store. Many of the industry's most successful chains—Zayre, Arlan's, King's, Bradlees, Mammoth Mart—started in the region. But it had also seen many discount chains fail, as the competition from these growing companies shook out the smaller players faster than in the rest of the country.

But as Kmart surpassed all of these discounters in size—in 1971, it had nearly as many locations as those five rivals put together—New England couldn't keep it out forever. In August, the company opened a store in Pittsfield, Massachusetts. It was a tentative start: Pittsfield was on the far western edge of the state, a short distance from the Kmarts that already stood in Albany and Latham, New York. But the move was far from cowardly, as the new store sat right next door to a Bradlees and less than a mile down the road from a Zayre.[24]

By the end of 1972, the Pittsfield store was just one of 11 Kmarts in New England, reaching five of the six states that make up the region. The other one, Vermont, was known both then and now for its resistance to corporate America, and it would become the last state in the lower 48 to see a Kmart open when it ultimately got one in 1975. Kmart had truly, fully become the first nationwide discount chain (as long as you're willing to ignore Alaska and Hawai'i, where the chain wouldn't be found for another 17 years).

As Kmart entered its second decade, it seemed that the chain had finally outstripped even the wildest expectations that the Kresge company had at the beginning. Up to that point, all Kmart stores were officially assigned numbers starting with No. 4000, while Jupiter Discount Stores had similar numbers starting with 4500. The assumption that Kmart would have a maximum of just 500 stores, already quite a lofty goal, had now been destroyed, and the numbers had run out. As a result, new stores had to be given numbers starting with 3000—and since that range was already being used by the small handful of Kresge stores in Puerto Rico, those stores had to be renumbered as well.[25]

Even so, everything that had happened in this first ten years, leading up to this milestone of inconvenience, was just the beginning. Kmart's greatest period of expansion was still coming, and this minor change to the company's internal numbering system would turn out to be an important sign that it was about to start.

CHAPTER 5

The Rise of the Mini-Kmart (1972–1983)

"Let's Preserve East Chicago Street," read the signs in the windows of the houses. But East Chicago Street, the main drag in Coldwater, Michigan, population 9,155, was suddenly looking a lot different. On the outskirts of town, where farmhouses and small industries had once lined the road, an interstate highway now loomed. And all around the exit ramps, East Chicago Street was starting to look like the suburban sprawl of a much larger town. First came the McDonald's, nestled between houses. One by one, those houses were bought up by developers and torn down for more chain stores, banks, and restaurants. Then, in the fall of 1974, Kmart arrived.

The people of Coldwater had mixed feelings about the new store, but Kresge had carefully tailored its design to them. At 40,000 square feet, it was one of the smallest Kmarts the company had ever opened. For Kresge, this new, small-sized store model was an exciting opportunity, something that could be replicated in small towns across America, delivering a new segment of the population right to their doors. But for its new neighbors, the Kmart struck them as just a bit larger than the discount store Coldwater already had.[1]

Like Kresge, Gamble-Skogmo was a long-standing variety store chain that recognized the power of discounting and started opening discount department stores in 1962. Coldwater had been home to one of Gamble-Skogmo's distribution warehouses for over a decade by then, so it was natural that the town would be among the very first to get one of the company's new Tempo discount stores. At 30,000 square feet, Tempo dwarfed the old Gamble variety store downtown, which closed when the new store opened.[2]

When Kmart came to town, the manager at Tempo tried to stay positive, hoping that all these developments would breathe new life into the community, that a rising tide would lift all boats. "People will come to Kmart because they're so damn curious," he told the *Detroit Free Press*. "They'll at last drive through Coldwater." But just four years later, Gamble-Skogmo abandoned all of its Tempo stores in Michigan—Kmart's home state.[3]

BY THE END OF ITS FIRST DECADE, KMART HAD ACHIEVED FAR more than anyone at Kresge could have imagined at the beginning. At the start of 1972, Kresge and Jupiter stores still outnumbered Kmarts in individual locations, but the Kmart division was responsible for more than 80 percent of the company's sales. As Kresge approached that original goal of 500 Kmart stores, discounting had transformed the company from one among many regional variety chains into the third-largest general retailer in the country, behind only Sears and J. C. Penney.[4]

But, of course, just as Kmart grew, the corporate ambitions behind it only grew further. In 1968, Harry Cunningham told a convention of financial analysts about the company's long-range plans: by 1983, he aimed for Kresge to operate 1,000 Kmarts and bring in annual revenues of $8 billion, more than Sears or any other retailer was making at the time. "It is highly likely that the 1980 version will be quite different from the stores now being designed for 1970," he cautioned investors. "Obsolescence of the entire concept during the seventies is not impossible. But whatever develops in mass merchandising, I am confident Kresge will be with it."[5]

For Kresge, that next development in mass merchandising arrived in Victoria, Texas, in the fall of 1972. The Kmart store being built there might have been completely unremarkable to an untrained eye. But, in a seemingly incorrect announcement to the local press, the company boasted that what it was about to unleash was no ordinary Kmart, but "the first 'mini' K mart discount department store in the United States."

The new store in Victoria was in fact much larger than the 24,000-square-foot original Kmart in San Fernando or any of the other bantam stores, all of which were still in operation at the time. The same pre-opening press release bragged that in its smaller size, the Victoria store would still "offer shoppers the same variety in merchandise" in all of its departments. The local newspaper in this town of 44,000 called it a "huge new facility" when it ultimately opened. But, at about 64,000 square feet, the building was indeed marginally smaller than the standard full-size Kmart models, which now ranged from 84,000 to 95,000 square feet.[6]

If anyone was overlooking the significance of this minor slimming of the store blueprint, it was only because they didn't have access to the company's internal systems. The

Victoria store was designated No. 7004, moving far beyond the 4000 range and into an entirely new segment of the store directory. It was the first of a class of stores that became known as "Group 7." While the standard Kmart model was designed for the suburbs of major cities, Group 7 stores were supposed to be just the right size to be supported by towns as small as 20,000 people.[7]

This move into smaller communities was new for Kmart, but just as in Coldwater, Michigan, the communities where it placed down its mini-stores were no strangers to discount retailing. Group 7 stores put Kmart up against new worlds of competition: not just the quaint downtown commercial streets in these towns and their lovable small businesses, but their own burgeoning suburban shopping centers and their small regional discount chains as well.

By the end of 1972, the first seven mini-stores were confronting Jack's Discount Stores in Iowa, another Tempo in Colorado, and Kuhn's-Big K in South Carolina. The first mini-Kmart in Texas was less than half a mile away from a Gibson's Discount Center—which, at 56,000 square feet, was only barely outsized by the new store.[8]

The following year, yet another mini-Kmart arrived in Jefferson City, Missouri, this time directly across the street from a similar-size Wal-Mart store. In its own first decade, Wal-Mart had built 55 stores across five states, slowly radiating out from headquarters in Bentonville, Arkansas. The two chains had met before, in a few of the larger cities in Arkansas and Missouri, but never so close, and never on such apparently equal terms.[9]

Despite being the state capital, Jefferson City had a population of just 32,000, and before Kmart arrived, Wal-Mart was its only discount store. The small population and closeness to Bentonville made the city easily part of

Wal-Mart's home turf, although its own store was just two years old.[10]

The pattern soon repeated itself in Manhattan, Kansas, then in Bartlesville, Oklahoma. Each time, Kmart would plant itself in a location within sight of the Wal-Mart that had been there for a few years. The dueling stores would be roughly the same size and shape—but the Kmarts were the slimmed-down version of their standard model, while the Wal-Marts were state-of-the-art, some of the largest locations in a chain too small to develop cookie-cutter building plans.

Many discount stores across the country were now getting the same treatment, and most of them struggled to compete against Kmart. Wal-Mart, on the other hand, was undeterred. It was in the midst of growing at an unprecedented rate for a regional discount chain. After doubling from 25 locations at the end of 1970 to 55 in 1972, the chain kept on expanding exponentially. The 100th Wal-Mart opened in 1974, and the stores themselves kept getting bigger all the while. Wal-Mart soon managed to return the favor to its much larger rival, opening a 67,000-square-foot store in Muskogee, Oklahoma, to just barely outsize one of the first Group 7 Kmarts that had opened there.[11]

SAM WALTON, WHO WOULD LATER SAY THAT HIS ORIGINAL goal in starting Wal-Mart "was to do a million dollars a year in business, then sit back and let the world roll along," was probably as surprised as anyone to find himself going toe-to-toe with one of the biggest retailers in America. But given his long-running obsession with closely studying the competition, he was better qualified for the task than almost anybody. And Wal-Mart's exponential growth was starting to get noticed, at least in the small region of the country where it was happening. Still, when one local reporter asked how the company measured up to "the likes of Sears, J. C. Penney, or K-Mart," Sam had to demur: "We'll probably never catch up to them."[12]

As 1973 drew to a close, Walton warned his employees in the pages of the company newsletter, *Wal-Mart World*, that Kmart wasn't going to stop with Group 7. He mentioned that Kresge was one of a few major companies that "have decided to take a dead aim at smaller communities in the eight to twenty thousand population range with definite smaller prototype stores for these markets." But, he concluded, "the majors will find some tough competitive markets and there may not be the gold that they expected to find in such abundance in these 'country' markets."[13]

Whether he'd gotten his hands on some insider information or was just making an educated guess based on existing trends, Sam was exactly right. The following summer, a new mini-Kmart opened in Bryan, Ohio, a town with a population of just under 8,000. The store was only 40,000 square feet, closer to the average Wal-Mart in size, and it represented the first example of a new building model designed for towns deemed too small for a Group 7 store. Bryan's Kmart was store No. 9000, the beginning of what would become known as "Group 9."

Unlike the earliest Group 7s, which were spread out all over the country from the beginning, Kresge kept the launch of the Group 9 model in its own backyard. Bryan, in the far northwestern corner of Ohio, was just 100 miles from the headquarters near Detroit. So was Coldwater, Michigan, which was chosen for the second Group 9 store. Decatur, Indiana, which got the third, wasn't much further. By the end of 1974, there were eight in operation, and all

of them were in the Midwest—far from Wal-Mart's region of the country.[14]

A Group 9 mini-Kmart in Dyersburg, Tennessee, on opening day in 1976.

Kmart's new blueprints for smaller stores didn't just place the chain in direct competition with smaller discounters. They also gave it the opportunity to take over locations from some of the retailers that failed to keep up with Kmart. Among the first Group 7 stores were three locations in South Carolina and Virginia that were previously part of Lee's Discount Stores. Lee's, owned by Kresge's longtime variety chain competitor J. J. Newberry, shut down when Newberry was acquired by McCrory Stores—Kresge's onetime business partner now grown into a fellow major national retailer.[15]

In Kmart's first decade, it was rare for the chain to take over an old building where another store had once failed: only nine of its first 500 locations were previously occupied buildings. In part, this was because the discount store concept was relatively new. Outside of New England, few of them had been around long enough to become unprofitable yet.

As Kmart became more dominant across the country, though, and other discounters struggled to compete, some vacant spaces were starting to become available, most of them smaller than the typical Kmart. It must have seemed like a perfect proof of concept when those three Lee's stores closed their doors in early August, only for brand-new mini-Kmarts to take their places in late October. By the end of 1975, over 80 of the smaller stores were in operation, and six of them were in converted locations.[16]

And as the year drew to a close, yet another of Kresge's variety store competitors was in dire straits. In October, the W. T. Grant Company filed for bankruptcy. With over 1,000 stores and more than a billion dollars of debt, Grant's was the second-largest corporate bankruptcy in American history up to that point.[17]

W. T. Grant had been slow to embrace the discounting concept. Many of its variety stores were large enough to rival full-size Kmarts, but they lacked the comprehensive selection of a department store or the discount prices of its rapidly growing competitors. As losses racked up, the company tried rebranding many of its larger suburban locations as "Grant City" and marketing them as direct competition to stores like Kmart and Woolco. But "Grant City" was never all that different from the old Grants, and shoppers were unswayed.

As Grant stores began to close by the hundreds in the final weeks of 1975, the opportunity for Kmart was obvious. In its annual report, the company proudly told its investors that the process of negotiating with landlords to take over dozens of Grant's empty buildings was going smoothly, predicting that it would open a record 160 new Kmarts in the coming year.[18]

Since the new year happened to mark America's bicentennial, the chain's logo was temporarily adjusted to add

two waving stripes and the number "76" next to the word "Kmart." The patriotic meaning of this little addition was obvious, but it sent another message as well. It promised that '76 would be Kmart's biggest year yet: the year it surpassed the mark of 1,000 discount stores, and the year it took over the remains of one of its top competitors. With these two achievements, Kmart would prove that it was the undisputed leader of the discount store industry.

This message turned out to be even more true than the company could have expected at the year's beginning. The acquisition, conversion, and reopening of the old Grant buildings that Kresge liked most was supposed to take two years to complete. But by the time the nation's 200th birthday came in July, the plan was proceeding well ahead of schedule. Stores that were supposed to open in 1977 were being pushed up into the fall.

In all, a record-shattering 260 Kmarts opened in the US in 1976, more than twice as many as had opened in any previous year. Between March and November, there was a new store opening once a day on average. On some days, as many as 15 stores would open at once. And from six pre-owned mini-Kmart buildings at the start of the year, the company finished 1976 with 160 of them. Altogether, Kresge ended the year with 1,200 Kmarts worldwide and revenues of $8.4 billion, surpassing both of the benchmarks that Harry Cunningham had predicted would be beat seven years later in 1983.[19]

AT THE SAME TIME, THE VARIETY STORES THAT GAVE THE company its name were disappearing fast. Nearly half of the Kresge and Jupiter outlets open in 1962 had closed, and the ones that remained now made up just 6 percent of the company's sales. Also disappearing was the family that gave the stores their name. Stanley Kresge, Sebastian's son, retired from the company's board of directors in 1976, and no other Kresges remained in its leadership.

So, at the next annual meeting of shareholders, attendees were asked to vote on whether its name should be changed to Kmart Corporation. The change, company leaders argued, would eliminate the growing public confusion about what the "S. S. Kresge Company" was. Some shareholders tearfully protested the decision, arguing that the company was throwing away its heritage. But ultimately, the vote was 89 percent in favor of the change.

The retired Stanley Kresge was present at the meeting. His fellow executives admitted that they had planned to make the change for some time, after Harry Cunningham originally suggested it in 1971, but were waiting for him to leave the company first. Some suggested that the change should wait until the 76-year-old passed away—"but we felt the time was right," a spokesman said.[20]

As the name change debate unfolded in the shareholder meeting, one investor asked each member of the board of directors to reveal how they voted on the proposal. But Stanley rose from the floor, telling his former colleagues that it would be "improper" to follow that demand. "I am not pleased with the change," Stanley told the assembled reporters after the meeting. "But I'm not going to make any long speeches about it. It has been decided."[21]

The venue where all of this took place only further illustrated how quickly the company was changing. For many years, these shareholder meetings had been held at the Masonic Temple in downtown Detroit, blocks away from Kresge headquarters. Those old headquarters were increasingly inadequate for the growing company, and so

was the temple's auditorium—not just in terms of size, but also in their location. Why should a business that made most of its money in the suburbs, after all, be run out of an urban office block?

And among major American cities, few were hit harder by the effects of suburbanization than Detroit. As the center of the nation's auto industry, it made sense that the region's residents would embrace a suburban landscape centered around their own cars. But those who moved out of the city—usually well-off and white—started to create a vicious and racist cycle as they did so. Detroit's Black residents, who typically couldn't afford that suburban lifestyle and were often unwelcome in the implicitly segregated communities out there, gained more political power within the city as the white residents left—and then more whites, frightened by the implications of that shift in power, fled the city as well. This pattern could be seen all over the nation in the 1970s, but Detroit became one of the most notorious examples.

The shift from Kresge stores to Kmarts was one of the many changes that kick-started this cycle. Now, the shift from the S. S. Kresge Company to the Kmart Corporation was taking place at the other end. A few years before the name change, the company had moved out of downtown Detroit and into a sprawling suburban complex in the nearby city of Troy, which would now be known as the Kmart International Headquarters. The brutalist new building was likened by many to a fortress—and simply navigating through the massive complex was a challenge. A giant bronze head, split in half, watched over the employees and visitors who made their way inside. And in a deep inner sanctum of the building, there was the auditorium where the meetings were now held.

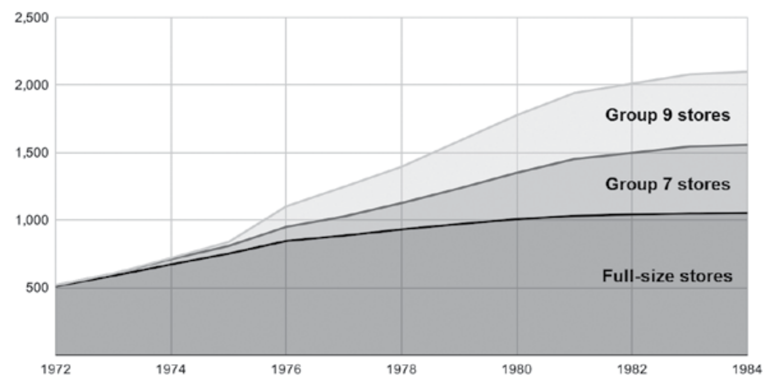
The entrance to Kmart International Headquarters, with the sculpture Reflective Head *looming over the plaza. (Phil Mortenson, Detroit Historical Society)*

With its intense focus on opening new stores and expanding to new markets, Kmart's leaders seemed to believe that their growth could be sustained almost indefinitely. And by the end of the 1970s, the mini-Kmart was the primary driver of that growth. Of the 190 Kmart stores that opened in the US during 1979, nearly 80 percent belonged to the smaller Group 7 and Group 9 formats. From America's largest cities to its smallest towns, Kmart was more than just a nationwide chain now—it was practically inescapable.

With 1,500 Kmarts already in operation, the company informed its shareholders in 1979 that it had a 10-year plan to expand to 3,000 stores by the end of 1988. It was another lofty goal, but it certainly seemed possible: if Kmart simply continued to add at least 150 new locations each year, as it had since 1976, the chain would reach that mark easily. The company's unending investment in building more and more stores, after all, had gotten them this far.[22]

But there was a noticeable drawback to the constant opening of new locations. From the beginning of the Kmart chain, the company's financial analysts had noticed a distinctive pattern in the profitability of stores. Each new location brought in a limited amount of revenue when it first opened, needing to find its footing within the local community in order to bring those numbers up. Typically, a store needed roughly three years to "mature" before it reached the level of profit that made the chain's continuing growth possible.[23]

At the end of 1979, 31 percent of all Kmart stores had been opened within the past three years, so they hadn't yet reached that level of maturity. As a result, corporate profits were dragged down significantly. With the company directing as much of its revenue as possible to the expensive task of building new stores, less and less was left for the shareholders. On Wall Street, investors were getting nervous that after nearly 20 years of enormous growth, the train could be coming to a halt.



Total Kmart store count by size group, 1972–1984.

Kmart reassured its shareholders that the squeeze was only temporary: as the chain continued to grow, the hundreds of immature stores that were constantly being opened would become a smaller and smaller percentage of its locations, and that factor would have less and less effect on their returns on investment. And if it weren't for events taking place half a world away at the very same time, that argument might have been convincing enough to keep the shareholders happy.[24]

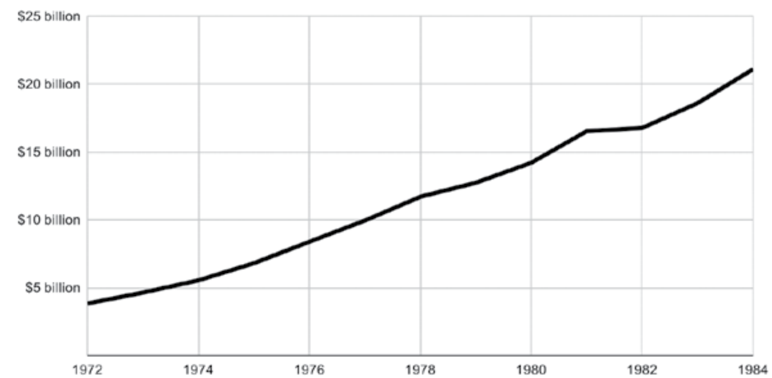
But the Iranian Revolution, which replaced a monarch friendly to Western powers with an Islamic theocracy that was hostile to them, was having ripple effects on the global economy. Oil markets panicked at the thought of losing access to such a major oil-producing country, kicking off an energy crisis that led to a global recession at the turn of the decade.[25]

Kmart was powerful and successful enough that the recession didn't pose a serious threat to its bottom line. New stores kept opening at the right pace to meet the company's long-term goals, with nearly 400 opening their doors in 1979 and 1980. But with profits shrinking, the company's investors demanded that it change course. The focus on expansion, they said, was preventing Kmart from keeping its older stores fresh and updated to the desires of shoppers. To their point, when the Knight Ridder news service reported on all of this, it called the stores "palaces of polyester," the company "complacent," and quoted an analyst as saying Kmart had "brought quality down to keep prices low."[26]

The constant focus on new locations was also giving some of Kmart's competitors an opportunity to gain ground. Other chains were regularly refreshing their stores as often as every five years, while most Kmarts hadn't had such a change since they first opened. And the disadvantage of running stores that hadn't been updated

in 20 years was more than just an issue of appearances. As competitors experimented with large-scale computer systems and satellite communication networks, many Kmart stores were still running on 1960s technology.

Furthermore, the recession was causing rising costs in building construction and shopping center development, giving Kmart yet another reason to take its foot off the gas pedal and focus on improving the stores it already had. So the company agreed to begin tests of refurbishing stores, hoping to find the layout and merchandise selection that would define "the Kmart of the '80s."[27]



Kmart Corporation total sales, 1972–1984.

The experiment began in Indianapolis in the fall of 1980. Indianapolis was home to nine Kmart stores, three of which dated back to the late 1960s and had changed little since then. The company's expansion plans called for two more Kmarts to open in the city in 1981, followed by another nine by the end of the decade. But even if the renovations were successful in turning over a new leaf for the chain, those ambitious plans for continued expansion were looking more and more in doubt.[28]

The "Kmart of the '80s" held promise. Its walls were encircled in bands of red, gold, and white. Shelves full of clothing were exchanged for more appealing racks. The various departments were rearranged in a "more logical" manner to help shoppers find what they were looking for. Renovating the nine stores cost about $3 million, but the investment seemed to be worth it. The company announced that it would expand the new look nationwide, renovating about 400 stores per year until the whole chain was caught up.[29]

At first, it seemed like Kmart could have it both ways. As the new look was rolled out across the country throughout 1981, 170 new stores opened during the year, including a milestone 2,000th store. But the company soon admitted that it was no longer expecting to reach its previous benchmark of 2,400 locations by the end of 1983—it would be investing that money into the renovation program instead.[30]

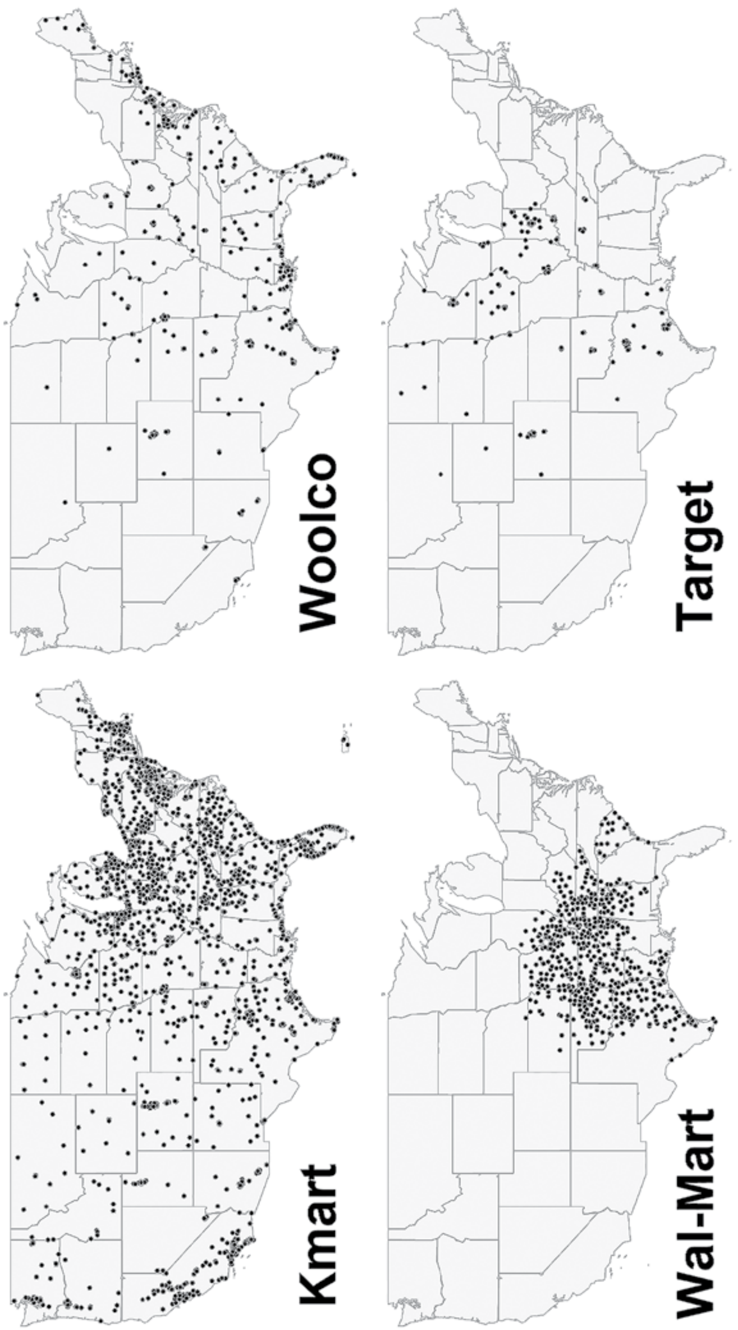
With the recession continuing to cause high construction prices and creating difficulties in getting new projects financed, the goal of 3,000 stores before the end of the decade was looking completely unrealistic. Kmart opened only about 70 stores each in 1982 and 1983, and only 21 new locations in 1984, the smallest number of store openings since 1962. But it faced a further setback early in 1983, when the company announced that it would be closing a number of stores it had determined were unprofitable.[31]

The company was used to closing Kresge and Jupiter stores by the early '80s, a process that had accelerated during the recession. But closing a Kmart was still almost unheard of. Out of over 2,000 Kmarts that had opened in North America, only six had been permanently shut down between 1962 and 1982. The new round of cuts affected only a small fraction of the company's locations—33 stores ultimately closed between December 1982 and the end of 1983. But it shattered the illusion of Kmart as an unstoppable juggernaut just as much as the slowing expansion program did.[32]

Among the closing stores was a location on Keystone Avenue in Indianapolis, which had been one of the test locations for the chain's new '80s look. It probably didn't help that the Keystone store had been the site of an armed robbery a few months before the remodel, resulting in the death of an armored car agent.[33]

But that high-profile murder was only the tip of an iceberg for a community that was changing on a much deeper level. The Avondale Meadows neighborhood where the store was located had just undergone a profound demographic change. Although it sat on the northern outskirts of the primary Black neighborhood in Indianapolis, Avondale Meadows had an 86 percent white population in 1970. A mere decade later, it had shifted to become 76 percent Black.[34]

The Keystone closure, unfortunately, was part of a larger pattern. Kmart stores in West Memphis, Arkansas; Jennings, Missouri; and the Algiers neighborhood of New Orleans, all majority-Black areas, were among the first to shut their doors. The growth of suburban communities was leading affluent whites to leave many of the nation's urban centers, while African Americans often couldn't afford to do the same. And when these neighborhoods lost much of their population, businesses like Kmart often could no longer turn a profit there.[35]



Map of store locations at the end of 1982.

"Everybody is a Kmart shopper," a corporate report observed in 1977. "Kmart customers cannot be stereotyped. They come from all age brackets, from all income brackets, from all ethnic backgrounds, from the whole diverse spectrum of employment backgrounds, from all sizes of families, located in all kinds of places. In sum, our customers are all consumers buying goods in the United States."[36]

There were limits to this philosophy, as was shown when stores in predominantly Black areas were among the first to hit the chopping block. But it was this mindset that drove the largest era of expansion in Kmart's history. In the span of just seven years, the chain had opened nearly 1,300 stores, tripled its annual sales, and profoundly changed the economic landscape of hundreds of communities of all shapes and sizes.

But just as the recession of the early '80s put a stop to Kmart's dreams of continuous expansion, the political changes that the recession set in motion would help to destroy the idea that a single store, a single place, could ever be a universal experience for all Americans.

As Kmart executives debated whether to slow their roll in the face of economic conditions, California governor Ronald Reagan was taking advantage of those same conditions to convince the American electorate to put him in the White House. His presidential run was just the latest expression of a new conservative philosophy that was perhaps best summarized by his British ideological ally, Margaret Thatcher: "There is no such thing as society. There are only individuals."

Maybe no one recognized it at the time, but these words spelled doom for, among many other things, Kmart. Kmart *was* society: its very existence depended not on people who necessarily loved shopping at the "palace of polyester," but on people who saw it as an integral part of their community. People who knew that it was the most convenient place to shop, for themselves and everyone they knew. People who participated in it mainly because they couldn't totally opt out of it, like any other element of a society.

What Thatcher and Reagan and a whole generation of conservative politicians promised the world was a kind of freedom: the freedom of individuals to focus on themselves, regardless of the consequences it would have on their so-called "society." Unfortunately, in many cases what this became was the freedom of the rich to avoid the poor, of whites to avoid Blacks, of every community to break itself apart for the benefit of those with the money and power to break it. These actions were not the least bit new, but they hadn't been encouraged in mainstream culture with this level of enthusiasm since the Great Depression.[37]

The Kmart Corporation was far from a hapless victim of this disaggregation of society. The suburban shopping centers it was building all across the country were helping to drive this transformation, drawing customers away from downtown shopping districts and stripping those areas of their status as gathering places for the entire city. But Kmart could not survive for very long in a world that behaved this way.

In this new era, it would not be enough to simply sell the things people wanted and needed to buy at an affordable price in a convenient place. After decades of rapid growth in the discounting industry, the country was practically saturated, and discounters now needed to set themselves apart from their thousands of competitors. To keep the customers coming back, a company needed to cultivate an identity, to make them feel that shopping at Store X made them better than the people who shopped at Store Y—to break society apart even further with every purchase.

Out of the hundreds of discount chains that blanketed America at the end of the 1970s, two of them had corporate strategies baked in that would help them thrive in this changing cultural climate. Wal-Mart, with its ironclad base in small towns throughout the South, had developed a rural identity that would soon help it appeal to a certain kind of shopper even in the suburbs of the North. Target, already a beloved brand in the handful of cities where it was now a familiar name, was further cultivating its upscale discounting concept by building dozens of new stores in those areas. Neither of these chains was planning on designing a store that could appeal to every American, but both surpassed $1 billion in sales for the first time in 1979.[38]

That milestone put them a long way behind Kmart, which didn't see either of them as a serious threat to its $12 billion business. But in an industry where hundreds of companies were struggling to stay afloat, and where even Kmart was running out of opportunities to grow, the rapid expansion of Wal-Mart and Target going into the '80s was unmatched. In the coming decade, the field of discount retailing would be swept by the philosophy of disaggregation as much as American politics was under President Reagan.

And in the end, Kmart didn't manage to kill that Tempo store in Coldwater. When the company pulled out of Michigan, the location was sold to another regional discount chain, Fisher's Big Wheel, which added onto the building and almost doubled its size. Fisher's struggled in the '80s, but it held onto the store until January 1991, when the company announced that it and two others in rural Michigan would be closing.

By then, Kmart was also doubling the size of its Coldwater store, but that wasn't what drove the store out of business, either. The three stores that Fisher's was closing had one bigger thing in common: that same month, all three towns witnessed the grand opening of a Wal-Mart.[39]

CHAPTER 6

#1 Retailer (1983–1990)

September 24, 1982. A customer walks into a Woolco store in Fort Worth, Texas, and asks a cashier if the store is offering any going-out-of-business specials. The cashier tells the customer that as far as they know, the store isn't going out of business.

In fact, it was. And so were all 335 of the other Woolco stores in the United States. The stores' employees may have been the last to know, but the F. W. Woolworth Company had chosen this Friday afternoon to announce that its foray into the discounting field was coming to an abrupt end. All the US locations would shut down in January, after the holiday shopping season was over. Only the Canadian Woolcos, which were facing much less competition from other discounters, would survive.

The announcement was surprisingly sudden, but those who paid close attention to Woolworth's ongoing struggles with the stores weren't surprised that this moment had finally come. Woolco was never anywhere near as profitable as its rival Kmart, and the recession wiped out what little profit the chain still had. The company had tried to turn Woolco's fortunes around, hiring Bruce Allbright away from the growing Target chain to try to emulate some of its success, and redesigning its stores to compete with the new "Kmart of the '80s." But Woolworth never made the same kind of wholehearted commitment to Woolco that Kresge did to Kmart—which, by this time, was operating over 2,000 discount stores across the nation—and shoppers never embraced it, either.

The front of the first Woolco store in Columbus, Ohio, during its liquidation sale. (Tim Revell, Columbus Dispatch)

But even though Woolco was shutting down and the Woolworth variety stores were steadily dying away, the Woolworth company was not in any danger of disappearing completely. By 1983, there were over 3,300 other stores in the company's possession. Rather than try to operate one big store like Woolco in every city and suburb in America, Woolworth went all in on a different strategy, aiming to have 10 small specialty stores in every mall in the nation. And some of the company's most popular brands—Kinney Shoes, Richman Brothers, and Foot Locker, to name a few—were already most of the way there.[1]

Kmart entered the 1980s with only one chain that even came close to being a nationwide competitor in the discounting field: Woolco. But Woolco was only a fraction of Kmart's size, and was already on the brink of being surpassed by the two fastest-growing regional discounters: Wal-Mart, now branching out from its Arkansas roots to stretch from Nebraska to Georgia, and Target, based in the Midwest but with scattered outposts surrounding Dallas and Denver.

Still, even before Woolco flamed out of its distant second-place spot, Kmart was the undisputed king. In 1980, Kmart was pulling in more revenue than the 16 next-biggest discounters combined. And under the economic recession that marked the beginning of the new decade, these smaller chains—many of which had rushed into discounting in and around 1962 and fallen far behind ever since—were struggling to keep up. In the next two years, five of those 16 chains shut down: E. J. Korvette, Two Guys, Kuhn's-Big K, FedMart, and J. C. Penney's Treasure Island stores. Woolco was the sixth.[2]

The closing of hundreds of stores only accelerated the industry's growing arms race. Wal-Mart bought out Kuhn's-Big K, giving it nearly 100 new locations and an East Coast foothold in the Carolinas. Target acquired Indiana's Ayr-

Way chain and absorbed much of what had been FedMart, giving the Minnesota-based company a new regional hub in sunny Los Angeles. And Kmart, which had just sworn off its own plans for rapid expansion, picked out a few of its favorite Woolco locations for good measure.[3]

DESPITE KMART'S OVERWHELMING SUCCESS, THE KMART Corporation and its shareholders were beginning to question the wisdom of keeping almost all of its eggs in the discount store basket—96 percent of its total annual sales, to be exact—when there was so much instability in the field. Woolworth, for example, had once loomed over Kresge in the variety market, and though it had fallen well behind Kmart, it was still growing steadily and in new directions.

The leader in the field of retail diversification, even better at it than Woolworth, was the only retailer in America that still stood above Kmart in sales: Sears, Roebuck and Company. Sears was a true corporate behemoth—operating its department stores and its catalog, but also building its own Homart shopping malls to place new stores in, making its own Kenmore appliances and Craftsman tools, selling Allstate insurance and Coldwell Banker real estate. To top it all off, the company was headquartered in the tallest building in the world, the Sears Tower in Chicago.[4]

Kmart executives denied that they were actively trying to dethrone Sears from the No. 1 spot it had held since 1928. "I'll be happy if and when it happens," company president Bernard Fauber told the Associated Press, "but it's not high on my list of priorities." But whether becoming America's largest retailer was a deliberate priority for Kmart or not, the company was now starting to look for opportunities to branch out from the discount stores it was famous for. And that new direction put

the company on the same path followed by Sears and Woolworth, which Kmart clearly saw as its primary competitors.[5]

This effort at diversification started small in 1979, with Kmart buying out the Canadian operations of SCOA Industries. Perhaps it was a deliberate effort to copy off of Woolworth and its success with Kinney Shoes that led the company to start by acquiring a footwear retailer. SCOA was responsible for operating the shoe departments in Kmart's Canadian locations, so the buyout gave the company more control over its own existing stores. But the purchase left Kmart operating the company's dozens of standalone shoe stores, though it had never participated in the specialty retail market before.[6]

Whatever inspired the company's leaders to get started, Kmart slowly developed a taste for having extra businesses on the side. In October 1979, the company launched an experimental discount supermarket, U-Pak. U-Pak's only location, in Pontiac, Michigan, lasted exactly 28 days before it was shut down, apparently because the store was unlikely to ever become profitable. Outside observers noticed, however, that U-Pak was selling plenty of groceries. They suggested a more likely reason for the suddenly aborted launch: its employees had started negotiations to join the local Retail Clerks Union.[7]

With U-Pak shuttered, Kmart was about to embark on a very different venture, but it was still "looking to get into the food business." So said an executive at Furr's, a chain of cafeteria-style family-oriented restaurants in the Southwest, as it announced that it was being acquired by Kmart in 1980.

It was a serious departure for the company, and people were beginning to take notice, although executives downplayed the idea of a major shift in strategy to the press. "We still feel our greatest opportunity for improvement and additional growth, revenue and profit is in our existing base of K mart stores," company president Bernard Fauber told the *Detroit Free Press*, adding that diversification "is not one of our highest priorities."[8]

But after that Kmart expansion plan ran out of gas in 1982, the company became more and more ambitious in its efforts to diversify. Late that year, a closed-down Kresge store near Detroit was transformed into an outlet for name-brand fashion. Mimicking the off-price offerings of the rapidly growing closeout chains Marshalls and T. J. Maxx (a new subsidiary of Zayre), Designer Depot's focus on high-end fashion made it about as different from Kmart as a store could be, except for its discounted prices. Even as the company tried to shake off its dowdy image by redesigning its Kmart stores, it was hedging its bets: if anyone still thought they were too good to shop at Kmart, they would probably be happy to shop at Designer Depot, and the empire would continue to grow.[9]

Inside Kmart's short-lived U-Pak grocery store in Pontiac, Michigan. (Hugh Grannum, Detroit Free Press)

Just as specialty retailing was starting to reshape Kmart's ambitions, the big-box model of retailing that Kmart had helped to popularize was reshaping specialty retailers. A new generation of chains was seeking to dominate specific segments of the industry by building large superstores that specialized in a specific type of product, allowing them to offer an incredible selection of that product at discount prices.

The first company to really strike it big with this "specialty superstore" model was Interstate Department Stores, one of the numerous retailers that had failed to keep up with Kmart in the discount field and was forced to declare bankruptcy in the mid-to-late 1970s. But there was one division of the company profitable enough to survive the liquidation process—Toys "R" Us. By the mid-1980s, the chain had firmly established itself as the one-stop shop for toys among children and parents all over America. In the process, Toys "R" Us practically wiped out the traditional toy stores of a previous generation, which were a small fraction of the size. And the toy aisles at stores like Kmart were struggling to keep up, too.

The success of the Toys "R" Us business model dazzled the retail world, and imitators began to pop up all over the country. Not just more toy superstores, but superstores for every type of product a person could possibly want to buy—and, of course, every type of product that Kmart had only a small department for. There was Best Buy for electronics, Bookstop (soon to be bought out by Barnes & Noble) for books, and Blockbuster for video rentals. With so much more to offer, each of these chains had the potential to wipe out hundreds of independent stores and smaller chains within their specific category. And so the specialty superstores received an appropriate nickname: "category killers."

If this shiny new business model—eliminate the competition by building big warehouses devoted to your type of merchandise, offering a wide selection of products at low prices that nobody else can hope to compete with—sounds familiar, that's probably because companies like Toys "R" Us were looking at the rise of the discount store, and especially at Kmart, for inspiration.[10]

And not only were they taking inspiration from discount stores, they were taking advantage of the buildings left behind by discount chains that had failed. In 1979, J. C. Penney's struggling Treasure Island discount stores in Atlanta were downsizing, a last-ditch effort to hold their own against Kmart. A group of investors leased the vacant spaces in four Treasure Island buildings that the stores no longer needed, using them to open a series of home improvement warehouses. The Home Depot was born.

The placement of its first few stores turned out to be particularly fortunate. Two years later, Treasure Island shut down completely, just as Home Depot became successful enough that it needed bigger stores, so it had plenty of extra space to expand into. The result was a chain of enormous superstores that dwarfed the traditional hardware retailers, offering more items at lower prices than the friendly neighborhood store could hope to keep up with.[11]

And Home Depot had an additional trick up its sleeve to get shoppers interested. Its stores were not only much larger than the traditional hardware store, but they also had a noticeably different business model: encourage customers to do all their home improvement projects themselves instead of hiring expensive contractors, trusting that the store's employees had enough expertise to get them started.

The same economic and political forces that were changing where people wanted to shop were also making the "do-it-yourself" style of home repair into a phenomenon.

The Home Depot developed an effective brand identity based on this trend, making its customers feel that they were self-reliant individualists because they were capable of assembling the mass-produced products they had picked up from a big-box store all by themselves.

For Kmart, the outlook in trying to compete with them was particularly bleak. Building Materials had long been one of the least profitable departments in a typical Kmart store, operating at a loss for much of the 1970s. It was one of the first areas to be jettisoned when Kmart started designing mini-stores with less merchandise. Meanwhile, The Home Depot was profitable enough to open 31 massive superstores in its first four years, and already it seemed poised to expand out from its Southern base and spread across the nation.[12]

So, in February 1984, Kmart announced that it was teaming up with Hechinger Co., an established chain of hardware stores in the Washington, DC area that was also searching for a way to keep up with the category killers. The two companies planned to create a jointly owned chain of no-frills home improvement super-warehouses called The Home Team, with the first three locations already under construction in the Chicago area.

Taking a page from Home Depot's strategy of using vacant space from failed discounters, two of these Home Team stores would be located in former Woolco buildings that Kmart had acquired. One of those, in Niles, had been sold to Kmart two years before the rest of the Woolco chain shut down, and it had spent a brief time as a Kmart store before closing in the company's 1983 wave. The third location, conveniently placed next door to a Kmart in Elmhurst, took up part of a former Korvette department and furniture store.[13]

But as the stores approached their intended opening dates, executives at Kmart and Hechinger clashed over how The Home Team should be run. Kmart, with 60 times the annual sales of Hechinger, was in the strange position of sharing the ownership of the new chain 50-50 with its much smaller partner. The planned debut quickly slipped from spring into summer, then into fall, as squabbles about the design of the stores put the operation on pause.

After just three months of trying to work together on the project, Kmart and Hechinger announced in May that they were splitting up. The decision came just in time for Kmart Corp.'s annual shareholders meeting, where company president Bernard Fauber chalked it up to "two strong groups attempting to agree on how a company should be operated." Kmart got custody of the three Chicagoland stores, still set to open their doors in October, but lost the rights to use the Home Team name.[14]

Hechinger and Kmart weren't the only companies racing to get into the Home Depot copycat market at that moment. W. R. Grace & Co., once an enormous conglomerate owning everything from sugar plantations to cruise ships, was sinking into debt and looking to turn itself around. It already owned several small hardware store chains, so the superstore model seemed like a natural fit. The Grace company was preparing to launch the first Home Quarters stores right in Hechinger's Virginia backyard, just as the company extricated itself from its failed deal with Kmart.[15]

But Grace itself was beaten to the punch by its own former executives. Frank Denny and David Saks had left their positions in charge of the company's home improvement division to launch their own chain early in 1983. Grace filed a lawsuit to try to stop the new Home Pro Warehouse chain from recruiting any more people away, but to no avail. Within a year, there were nine Home Pro Warehouses surrounding San Antonio.[16]

Rebounding from the failure of The Home Team, Kmart quickly entered talks with Home Pro Warehouse. The company offered Frank Denny the opportunity to stay in charge of the chain, which would become a wholly owned subsidiary of Kmart. Shareholders approved the plan in September, putting Denny's team in charge of the Chicago-area stores just in time for them to open the following month.

This new combined chain was given the name Builders Square. And between Illinois and Texas, 15 Builders Squares were in operation by the end of 1984. Kmart promised its investors that no less than 100 of the stores would be bringing in $1 billion in annual sales before the decade was out.[17]

In the meantime, Hechinger also ended up rebounding well from its failed relationship with Kmart. Home Quarters failed to turn things around for the struggling hardware division of the W. R. Grace company, and it was spun off as an independent company within a year of its launch. Hechinger, which had continued to experiment with the superstore format since the Home Team deal fell through, bought up Home Quarters, making the company another serious competitor to Builders Square and to the Kmart Corporation.[18]

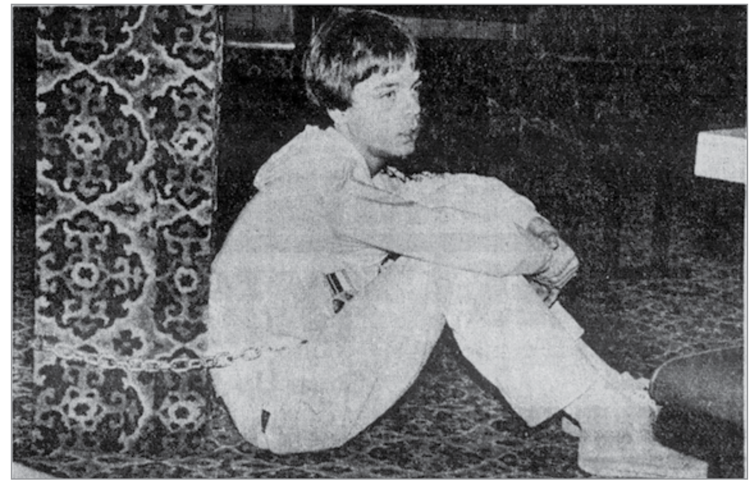
BUILDERS SQUARE BECAME BY FAR KMART'S LARGEST AND most successful effort to diversify its corporate holdings, but it was only made possible by a constant process of experimentation. Building off the growing Designer Depot chain, for example, the company converted another closed Kresge store in the wealthy Detroit suburb of Birmingham into "Accents"—a boutique selling fine china and crystal, items that would never be found at Kmart, at discount prices.[19]

But perhaps the strangest format the company tried out in its quest to diversify came about in 1982. It had noticed that a growing number of the shopping centers anchored by Kmart stores were becoming home to pizza parlors. Not Italian restaurants, exactly, but family entertainment centers with arcade games and cartoon characters intended to host children's birthday parties. Chains with names like Pizza Time Theatre, ShowBiz Pizza Place, and Chuck E. Cheese's made up yet another bandwagon that retailers of all kinds suddenly wanted to hitch themselves to, as hundreds of their locations quickly blanketed the American landscape.

Kmart already had some experience in running family restaurants from owning Furr's Cafeterias, and it didn't want to be left behind. So two pizza parlor arcades were quickly launched next to Kmarts outside St. Louis. Lacking the animatronic characters that made Chuck E. Cheese and ShowBiz Pizza famous, the restaurants instead featured live performers who staged magic shows for the kids. "Abra K Dabra" became one of the dozens of chains hastily created to capitalize on the trend.[20]

Abra K Dabra was never a profitable enterprise, and the vague suggestions that the concept could be rolled out in locations next to any of the nation's other 2,000 Kmart stores never materialized. If that didn't spell the end for this experiment clearly enough, outside factors did: the video game bubble burst in 1983, with arcade machine sales falling for the first time as consumers lost interest in what came to be seen as a fad.

But even in its brief lifetime, Abra K Dabra's wizard costumes and faux-medieval decor apparently attracted a little bit of a cult following. On the final day of the Wood River, Illinois, location in December 1983, a 15-year-old regular customer bought a chain and padlock at the neighboring Kmart, then chained himself to a post inside the restaurant. His protest forced Abra K Dabra to stay open for a few extra hours until he could be cut loose, but he failed to convince company executives to change their minds about the closure.[21]



Fifteen-year-old Pat Kirby, chained to a post inside Abra K Dabra on its final day. (John Badman, Alton Telegraph)

If the Kmart Corporation learned anything from the strange interlude in its history that was Abra K Dabra, it was perhaps that creating your own side businesses and trying to expand them into major chains was much harder and much less rewarding than simply finding successful, growing companies and buying them out.

This lesson would soon be learned again on a larger scale. Kmart had aggressively expanded Designer Depot, opening 79 locations within four years of the chain's launch, in the hope that what had seemed like such a promising concept would eventually start generating profits. But as 1986 came to a close and no profits had materialized, Kmart tried to sell off the chain. Failing to find an interested buyer, it abruptly shut down Designer Depot early in 1987.

At the same time, the company announced it was selling off Furr's Cafeterias—not because the restaurants were unprofitable, but because they were a small group, had little impact on Kmart's bottom line, and didn't fit with its plans for future growth.[22]

The following year, Kmart would cut its losses on a chain again for all the same reasons, but this time it carried much more symbolic weight. The S. S. Kresge variety stores, and accompanying Jupiter Discount Stores, had dwindled to just 76 locations in the United States. Kmart entered negotiations with Woolworth to sell off the stores, but the talks broke down. Instead, they were sold to McCrory Stores, the same chain that had given Sebastian Kresge his start in the business.[23]

McCrory had ended up in a strange and just barely profitable position, collecting most of the declining variety chains of yesteryear—J. J. Newberry, S. H. Kress, T. G. & Y., G. C. Murphy—salvaging what was left of them from bankruptcy as they struggled to compete against the likes of Kmart. And now, the deal with John McCrory that had launched the Kresge chain at the end of the past century had unexpectedly turned into a loan, paid back in full after 88 years with plenty of interest.

A few dozen Kresge stores in Canada remained under Kmart's ownership for a few years longer. But the McCrory sale clearly marked the end of an era that the company had already had in its rearview mirror for quite a while.[24]

HOWEVER, THESE CLOSURES AND SALES WERE NOT A SIGN that the Kmart Corporation was struggling. In fact, it was just the opposite: it had found a few specialty chains that were actually contributing to the company's overall profits, and it wanted to focus its resources on growing them further. A few months after the Kresge stores were sold, Builders Square opened its 100th location in just under three years of operation—the milestone that was originally and ambitiously set to be reached in five years.[25]

In the meantime, the company had made two other major acquisitions that were working out in its favor. The first was Waldenbooks, a nationwide chain of over 800 bookstores, bought from the Carter Hawley Hale department store company in 1984. Waldenbooks, with its stores mostly located inside malls rather than at outdoor shopping centers, selling books at full price rather than at a discount, was a slightly odd fit for Kmart. But it directly competed with B. Dalton, the mall bookstore chain created by Dayton Hudson, giving Kmart a new battlefield of competition with Dayton Hudson's up-and-coming Target discount stores.[26]

Kmart promised Waldenbooks that it would take a "hands-off" approach to running the chain, which was already successfully growing and competing with B. Dalton. But both Target and Kmart were soon experimenting with the book trade, combining it with their experience in discount retailing, and putting themselves in direct competition with growing discount bookstore chains like Crown Books and Barnes & Noble.

B. Dalton had launched its first Pickwick Discount Books stores in 1983. Waldenbooks executives had wanted to try out the same concept, but its upscale corporate parents at Carter Hawley Hale weren't interested in discount sales and squashed the project. Now, under the parentage of the nation's biggest discounter, the plans were quickly rolled back out. Within four months of the acquisition, five Waldenbooks stores had been converted into the first Reader's Market discount outlets.[27]

It wasn't long, though, before Dayton Hudson decided to focus on the growth of Target and its department stores. After three years of disappointing results, Pickwick was shut down in 1986, a few months before the company announced that B. Dalton was up for sale. The proceeds would help to pay off Target's purchase of the recently liquidated Gemco, another major regional discounter based in California.

Rumors in the retail world had it that Dayton Hudson was negotiating with Sears, still the nation's largest retailer, as a potential buyer. But the best offer ended up coming from Barnes & Noble, the company that had pushed discounting into the bookselling industry and unsettled the likes of Waldenbooks and B. Dalton in the first place.[28]

When it came to the field of book discounting, Reader's Market did only a little better than Pickwick. As B. Dalton shut down its discount locations, the president of the Waldenbooks division assured the media that Reader's Market wouldn't face the same fate in spite of its own disappointing profit returns, but that it simply needed some retooling. "Retooling," in this case, meant abandoning all but a few of the chain's most successful discount bookstores. Instead, Reader's Market was transformed into a book department that would be found inside Kmart stores.[29]

KMART'S THIRD AND FINAL SUCCESSFUL PURCHASE OF THE mid-'80s was PayLess Drugs, giving the company nearly 200 pharmacies in the Pacific Northwest and the potential for hundreds more—as well as the potential to bring its best insights into Kmart's in-store pharmacies. As with Builders Square and Waldenbooks, Kmart promised to take a hands-off approach in managing PayLess, which was beginning to seem like the only approach the company knew how to take.[30]

In the meantime, with over 1,500 specialty stores in its holdings, the company's 2,200 Kmarts still made up about 90 percent of overall sales. But all the focus of executives,

corporate investors, and the media was trained on these shiny new toys that made up the other 10 percent, while Kmart stores had reached a kind of equilibrium. Thoroughly updated for the '80s, Kmart wasn't losing any customers, but it rarely gained them, either. The opening of new Kmarts had never completely stopped, but the appearance of a few dozen new locations across the country each year had become an afterthought.[31]

As the 1980s began, the worry among investors had been that Kmart stores were beginning to stagnate because the company was distracted by its aggressive plans to open more and more locations. Over the course of the decade, the company had traded that distraction for a different one: aggressively diversifying its retail operations.

This new distraction was much more satisfying for Kmart's shareholders, but it wasn't any better for the long-term health of the discount stores that had built the company into a major national retailer in the first place. Despite the aesthetic changes that had kept the chain looking fresh, Kmart was as stagnant as they had feared.

As most of Kmart's direct competition was disappearing during the '80s, this stagnation may have seemed like a final state of victory. But the few discount rivals that survived had different ideas. Dayton Hudson Corporation, owners of Target, spent the '80s following essentially the opposite strategy from Kmart. Starting the decade with several specialty chains, it sold them off, like B. Dalton, to focus on exponentially growing its discounting operations. Between 1980 and 1990, Target's store count was multiplied by five—from 80 to 400.[32]

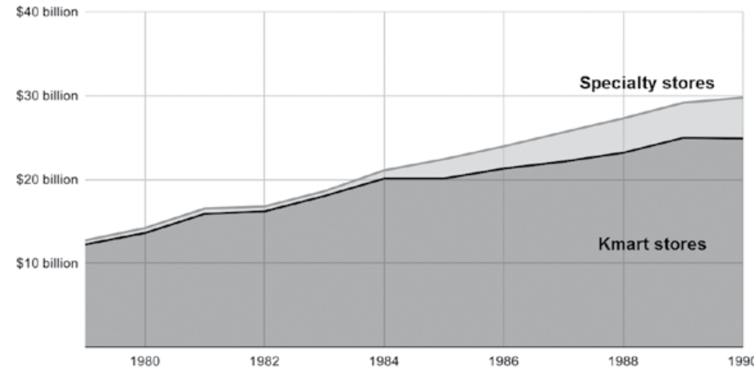
But the more immediate threat to Kmart's future came from the company that started and ended the decade with almost total focus on its discount stores. The number of

Wal-Mart stores also multiplied by five over the decade—from 276 to 1,400. And that store count only told part of the story. Limited to a 350-mile radius around northwest Arkansas in 1980, Wal-Mart finished the decade stretching 2,000 miles from Arizona to New Jersey, from south Florida to northern Wisconsin.

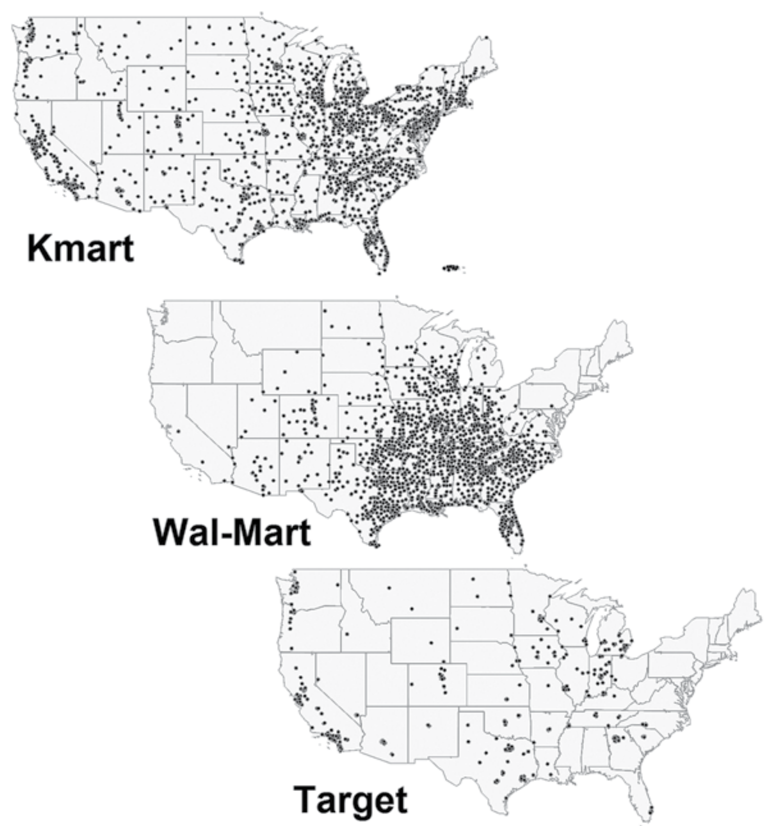
The company wasn't stuck to its small-town roots, either. Sam Walton was uncomfortable, to say the least, with the thought of going into the suburbs around major cities, where most of the competition was. But quite a few city slickers were hearing about the Wal-Mart phenomenon—by word of mouth and through advertising campaigns—and driving out to see it for themselves. So when Wal-Marts started opening in the suburbs, or just about anywhere they wanted to go, they had no difficulty finding customers.[33]

Meanwhile, the average Wal-Mart had grown from 46,000 square feet—a bit bigger than a Group 9 mini-Kmart—to 70,000, nearly as large as a full-sized Kmart store. And the company's use of that space had become much more efficient: from sales of $99 per square foot per year at the start of 1980, Wal-Mart more than doubled that to a whopping $244 per square foot. For comparison, Kmart's sales per square foot had actually fallen slightly when adjusted for inflation, and the company's specialty stores were making less per square foot than the discount stores.[34]

And through it all, Wal-Mart had only occasionally experimented with diversifying its own business. Not interested in using its enormous profits to acquire major specialty retailers, the company created a few small chains of its own and named them after members of the Walton family. Helen's Arts & Crafts and Dot Discount Drugs never got far. The only thing that did was a chain of wholesale warehouses known as Sam's Club.



Above, Kmart Corporation sales by division, 1979–1990. Below, maps of the Big Three discounters' store locations at the end of 1990.



The trend of retail diversification that defined the 1980s had lasting effects on the companies that participated in it over the coming decades. In the case of Kmart, even as the company's focus shifted back toward its discount business in the '90s, the impact of those acquisitions would echo for decades into its future. Without getting too far ahead of the '80s in this chapter, it's worth taking a moment to notice that Kmart, Sears, and Woolworth all embraced the strategy of diversification while Wal-Mart and Target rejected it, and consider where each of those companies has ended up in the decades since.

Whether or not Kmart executives had the specific goal throughout the '80s of beating out Sears to become the nation's largest retailer, the company remained a close second for the whole decade. Sometimes, seasonal variations in sales patterns allowed it to briefly surpass Sears for a month or two at a time. But the actual No. 1 title was still just barely out of the company's reach.

Sears finished 1990 with $32 billion in revenue. Kmart, meanwhile, came in at $29.8 billion. But Wal-Mart, which hadn't even reached into every corner of the US yet, pulled in $32.6 billion the same year. Kmart would spend much of the '90s trying to respond to this stunning development. The once-undisputed king of discount retailing had been overthrown by a regional upstart, which had managed to expand to 20 times the revenue it had a decade before. As Sam Walton himself put it in an interview that same year: "Kmart stayed with it too long. They were self-satisfied with what they had accomplished. They thought they could roll over everybody. And they woke up one day and found out the world had changed, retailing had changed. They were behind."[35]

CHAPTER 7
Super Powers (1988–1994)

"Who's number one?" the new store's manager called out. "We're number one!" a chorus of voices replied. And with that, the assembled dozens of employees dispersed, ready to take their posts and welcome shoppers into the first Super Kmart Center, located 30 miles outside of Cleveland in the rapidly growing town of Medina, Ohio. It was July 25, 1991.

The new store, measuring 148,000 square feet, combined a bigger, brighter version of the typical Kmart with a full-sized supermarket. It was a glimpse into what Kmart hoped would be its future, and a group of executives, led by the company's chairman Joseph Antonini, flew down from Michigan to mark the occasion.

But the Kmart officials who attended the store's grand opening were joined by a very important unofficial guest—allegedly. It would never be confirmed, of course, but none other than Sam Walton was said to be seen walking down the aisles, inspecting the merchandise.

Whether Walton himself really was there that day or not, his company was clearly paying attention. This store opening, after all, was a panicked reaction to Wal-Mart's rapid growth, and particularly to its tests with the first few Wal-Mart

Supercenters in Missouri. Wal-Mart, which had become the actual, literal No. 1 retailer in the country just months before, was now prepared to compete one-on-one with Kmart anywhere—including Medina, Ohio. Barely a year after it opened, the employees at Kmart's first Super Center found themselves staring at a brand-new Wal-Mart across the street.[1]

THE CONCEPT OF PLACING A LARGE DISCOUNT STORE AND a large supermarket under one enormous roof hit Kmart and Wal-Mart at about the same time, but it had a history of its own going back decades. In the same 1973 letter that warned employees of the encroaching mini-Kmarts, Sam Walton mentioned "the 'Hypermarche' warehouse approach to food and general merchandise as currently being operated in various European countries," calling it an "interesting development that we'll watch."[2]

The European hypermarché, with stores as large as 250,000 square feet dwarfing any American discount store of the time, was an object of fascination for US retailers almost as soon as France's Carrefour and Belgium's SuperBazar started launching them in the early 1960s. It wasn't just their size that stood out, but their efficiency: abandoning the traditional department store format, much of the merchandise was simply laid out on the floor in the bulk pallets in which they arrived to the loading dock. Sam Walton remarked that the hypermarché looked more like one of Wal-Mart's distribution warehouses than any of its stores. And over the next quarter-century, business journalists spilled quite a bit of ink on the topic of whether these behemoths could ever be successfully replicated in North America.[3]

But while no American store looked quite like the hypermarchés of Europe, those European retailers were inspired by

American discounters when they created the format. Maurice Cauwe launched Belgium's first SuperBazar stores after a 1959 visit to the Grand-Way discount store in Paramus, New Jersey. Grand-Way was the Grand Union supermarket chain's answer to the birth of discounting in the Northeast, combining its existing grocery outlets with discount stores. The 85,000-square-foot store in Paramus that inspired the first hypermarchés, incidentally, was just the right size to be converted to a standard Kmart in 1979, after Grand Union abandoned the effort.[4]

While they lacked the size and pizzazz of their European cousins and never exactly caught on, combination stores like these weren't unheard of in America. The most successful example was a chain launched three months after the first full-size Kmart—and just a two-hour drive away. The first Meijer Thrifty Acres opened in Grand Rapids, Michigan, in June 1962, an outgrowth of Meijer's existing grocery stores throughout the state. As Kmart spent the '70s and early '80s destroying all but its strongest competitors, Meijer's combination format gave it a crucial advantage in dozens of stores across Michigan, allowing it to thrive in Kmart's own backyard.[5]

But Kmart recognized the potential of the combination discount and grocery store long before Meijer ever became a noticeable thorn in its side. In the early 1960s, the company's analysts noticed that Kmarts in shopping centers with neighboring supermarkets had noticeably higher sales than those without them. The company quickly began enlisting supermarket chains across the country to operate stores next door to Kmart locations, all under the name "Kmart Foods."[6]

Kmart Foods was held at arm's length by the Kresge company, but it was clearly important to the overall success of the Kmart chain. When the operator of a Kmart Foods in San Angelo, Texas, collapsed a few months after opening the store in 1963, Kresge took over the supermarket, pushing the company unhappily into the grocery industry. Kresge experimented with the format in a few other locations, but its supermarkets ended up operating at a loss, and the concept was abandoned quickly.

"We have no intention of getting importantly into the grocery business simply because we do not like the profit margins and the competitive situation in this area," an executive wrote to Sebastian Kresge in 1966. "But we are positive that it is a great plus for our total K mart image."[7]

So Kmart's first half-hearted attempt at competing with the supermarkets was short-lived and unsuccessful. The company's second try, the experimental U-Pak store in 1979, was even less promising and was abandoned even more quickly. But as the '80s drew to a close, Kmart would be forced by unforeseen circumstances to get into the grocery business on a much larger scale. The company still didn't much like the competition it faced, and it could only hope that the financial results were better this time around.

OVER THE YEARS, THE LESSONS THAT AMERICAN OBSERVERS took away from the overseas success of the hypermarché shifted. For example, when Makro, a chain based in the Netherlands, started to open its own locations in the US in 1981, they looked very different from Meijer or any other combination store. In keeping with Sam Walton's observation that hypermarchés looked like distribution centers, Makro's American locations were technically not even stores. They were warehouses, intended to allow small businesses to buy products in bulk for resale.

As it rolled out in America's major metropolitan areas, Makro emphasized that it was closed to the general public, and that only representatives of "legitimate businesses" with approved "passports" could enter the warehouse. But the

enormous outlets, each complete with a gas station and a 200-seat restaurant, clearly had potential for some wider appeal.[8]

To fill that demand, a new generation of "wholesale club" stores soon popped up. Taking a page from E. J. Korvette's membership strategy at the birth of discount retailing, these chains started using membership in the "club" as an excuse for rock-bottom prices, allowing as many people as possible to join while maintaining an air of exclusivity that only further increased the appeal.

Another craze in the retail world had begun, and all kinds of people and companies wanted a piece of the action. Sol Price, kicked out of the FedMart chain he founded shortly before it went bankrupt, had been trying since 1976 to replicate his past success with his warehouse-like Price Club stores, and now he was once again surrounded by tough competition. In 1985, Carrefour, the French hypermarché company that had become Europe's largest, bought shares in the newly launched Costco chain. And established American retailers wanted to take advantage of the opportunity as well: Zayre launched the BJ's Wholesale Club chain in 1984.[9]

Sol Price (left) and his son Robert in the first Price Club warehouse store. (Robert E. Price)

Wal-Mart got into the business with its first Sam's Club locations in 1983, and the company openly admitted that the idea was not an original one. "I don't know that we are smart enough to pioneer something," one Wal-Mart executive, Jack Shewmaker, said about the new warehouses. "We are just smart enough to recognize a good idea when we see it."[10]

But unlike some of its predecessors, Sam's Club took the membership cards seriously. Aside from registered businesses, inclusion in the club was limited to employees of government agencies and various industries that were considered "trustworthy," in an effort to eliminate shoplifting and bounced checks, thus keeping operating margins and prices as low as possible. In other words, it was like the Fedco stores of decades ago, except without the non-profit status. As Shewmaker, perhaps an overly honest man, explained to assembled journalists and business leaders at a press conference: "We may even exclude some of you."[11]

Despite the strict rules on who could join, the first Sam's Club stores were soon crowded with well-qualified shoppers, leading Wal-Mart to open multiple club stores in each of the test market cities just to relieve the pent-up demand. After that successful start, Sam's Club expanded rapidly alongside its corporate parent. But the company soon turned to thinking about how the hypermarché concept could be integrated into its discount stores as well.

In 1986, Wal-Mart started a partnership with The Cullum Companies, Texas-based owner of the Tom Thumb supermarket chain, to open a series of "Wal-Mart Super Centers." These would be combination stores similar to Meijer's, adding a standard 50,000-square-foot Tom Thumb supermarket to a typical Wal-Mart discount store—which by now had grown to 100,000 square feet, rivaling some of the largest Kmarts.[12]

But as planning for the new stores got underway, Wal-Mart's ambitions for the new format grew, and so did the stores themselves. Ballooning from 150,000 to 225,000 square feet, the Super Center became a "mall without walls," with a much wider variety of merchandise and an array of specialty shops inside: a bank, a hair salon, a video arcade, even an entire food court. From fresh produce and large appliances to fine jewelry and videotape rentals, these new mega-stores would offer just about anything a person might want to buy. And in a nod to the European models that had inspired these new developments, Wal-Mart announced that it would call the new stores Hypermart USA.[13]

AS THE KMART CORPORATION BEGAN TO RECOGNIZE WAL-Mart's growing threat to its bottom line, it launched itself into a copycat effort. A few months after the Hypermart USA announcement, Kmart began partnering with Bruno's, a grocery retailer from Alabama, for a very similar chain of "hypermarkets," announced in a press release that could practically have been plagiarized from Wal-Mart's. One can only imagine how Sam Walton must have felt, after all those years spent studying and spying on Kmart to figure out the finest details of its success, to see that the massive company was now desperately trying to copy off of him.[14]

And it wasn't just about Hypermart—the Kmart Corporation was simultaneously looking to copy Wal-Mart's success in other ways. In 1988, Kmart bought out a majority interest in Makro's American warehouses, aiming to gain experience in the wholesale club market to help it compete against the likes of Sam's Club. Despite opening its doors to more non-business owners to keep up with the competition, Makro had only built four locations in its seven years on the continent, compared with over 100 Sam's Clubs. Kmart quickly began opening more Makro warehouses, but they were a long way from becoming serious competition in the growing field.

So, the following year, the company acquired PACE Membership Warehouses, a rapidly growing chain that started around the same time as Sam's Club and now had 47 warehouse clubs of its own across the country. To further bolster this new acquisition, Kmart bought up the remaining ownership of Makro's US stores and converted those locations into PACEs, all while continuing to invest in building more warehouses.[15]

Meanwhile, Kmart's first American Fare hypermarket opened in January 1989 in an Atlanta suburb, just over a year after the launch of Hypermart USA in Dallas. Designed from the ground up to one-up Wal-Mart's version of the "mall without walls," American Fare boasted even more amenities in its 244,000 square feet—a record store, a Warner Bros. merchandise shop, more restaurants in its food court, as well as an entire Waldenbooks store.[16]

But in the brief time that its handful of Hypermart stores had been operating, Wal-Mart had already started to move on from the experiment. Barely two months after the first of them opened, Wal-Mart unveiled another new format, which it called "a small-town version of the Hypermart." It was similar to the original plan Wal-Mart had developed with Cullum before that concept started to grow, except this time the company was handling the groceries itself. And so the original name for that plan was brought back, creating the first Wal-Mart Supercenter.

The idea of a "small-town version" of Hypermart USA was obviously appealing to a company that was built on

dominating the market in small Southern towns, especially when many of its older stores were falling behind Wal-Mart's rapidly increasing standards and would soon need remodeling or replacing. The first Supercenters were located in towns of about 10,000 people, 40 to 70 miles from the major metropolitan areas of St. Louis and Tulsa—close enough to draw in some curious city slickers, but far enough that Wal-Mart couldn't rely on suburban shoppers to keep the stores afloat.[17]

And ranging from 120,000 to 150,000 square feet, Wal-Mart Supercenters demolished the idea Kmart had relied on 15 years earlier in creating the mini-store formats: that the small-town discount store needed to be a downsized version of the real thing tailored to the rural shopper. The Supercenters were immediately successful, far more so than Hypermart USA. They proved that a community of as few as 8,000 people could support a store three or four times the size of the Group 9 Kmart specifically designed for them—as long as you were willing to crush most of the town's other existing businesses in the process.

In that vein, these tests were seen by many as threats, and both Wal-Mart and Kmart were bringing new, and newly determined, enemies on themselves as they conducted these experiments. Two of America's largest retailers carefully contemplating how to get into the food business was certainly cause for alarm in the grocery industry—for executives and workers alike. Both Kmart and Wal-Mart had forbidden their employees from joining labor unions from the beginning, a policy that occasionally sparked controversy and attempts to change that fact, but which was par for the course among department and discount chains. Labor advocates in the '70s and '80s were more likely to protest against the two companies for hiring non-union construction workers to build their stores than for blocking unions within them.

Unionized workforces in supermarkets, on the other hand, were much more commonplace and had been for decades. Unsurprisingly, neither Kmart nor Wal-Mart had any intentions of following that standard—any grocery sections they created would follow the same anti-union policies as the rest of their departments. Creating a non-union competitor in a largely unionized industry would have been one thing, but in the hands of two $30 billion companies, there was a very real possibility that the unionized stores could be wiped out.[18]

As far as Wal-Mart was concerned, any opposition from organized labor was a speed bump to pass over. The company was already starting to develop a reputation as the store that killed Main Street in small towns all over the South, and that reputation had done little to stop the company's dizzying exponential growth. Now that Wal-Mart was becoming the dominant discounter nationwide, with more and more people across the country viewing the company as an invading menace, making a few more enemies would do little to hurt its enormous profits.

Kmart, on the other hand, had a lot more to lose. The company had quickly scuttled its previous attempt at breaking into the grocery industry, U-Pak, after a unionization effort sprung up at the test store. Unlike Wal-Mart, however, some of the employees at Kmart's distribution warehouses and other facilities ultimately unionized, leading some labor advocates to praise the chain as a slightly better alternative to its menacing rival. That perception was not exactly well-earned—the company had tried to fight off those unionization efforts,

and they applied to a tiny portion of the chain's hundreds of thousands of workers. But if being seen as a little friendlier to organized labor provided Kmart with any advantage at all, the company could ill afford to abandon that advantage.[19]

Protesters wave picket signs against a new Super Kmart Center in Dearborn, Michigan—which, unlike other supermarkets in the area, would not allow its employees to unionize. (Mary Schroeder, Detroit Free Press)

For Kmart, however, copying off of Wal-Mart was a necessary move in order to stay relevant in the retail world—the company needed to convince its investors not to jump ship and buy stock in its rapidly growing competitor. And so, months after Wal-Mart opened the first Supercenter, the company started knocking down walls at two Kmarts in Illinois and Iowa, walls that separated the stores from the vacant buildings that had once housed their neighboring supermarkets. These new combination stores were given the name "Super Kmart." But with the new stores being barely larger than the standard Kmart, and with grocery sections less than half the size of those in the Wal-Mart Supercenters, the comparison Kmart seemed to be inviting was not flattering to the company.[20]

To make matters worse, when the first American Fare store opened a few months later, Kmart learned the same lesson Wal-Mart had already started to take away from its Hypermart experiment: a store that huge seemed to be more intimidating than appealing. After all, half the appeal of the hypermarket format was in its grocery selection. And while the stores worked reasonably well as occasional shopping destinations, few people wanted to brave the largest store—and the largest parking lot—they'd ever seen every single week just to put food on the table. With four more American Fares already in some stage of construction, the company hastily changed its blueprints, shrinking two of the planned stores and canceling the other two entirely.

All the special features that could be found in Atlanta were eliminated from the new American Fares, except for the Little Caesars pizzeria in its food court. And Little Caesars would soon strike a deal with the company to open locations inside hundreds of other Kmart stores. (Perhaps it was because of their kinship: the first Little Caesars opened in Garden City, Michigan, in 1959, three years before and two-and-a-half miles away from the first full-size Kmart.) In any case, when the second American Fare opened in North Carolina, the result was something much closer in size and product offerings to the Wal-Mart Supercenter.[21]

Finally, the company landed on a new store design that sat somewhere in between the smaller Super Kmarts and the larger American Fares, creating the Super Kmart

Center. When the first of these opened in Medina, Ohio, in 1991, it seemed that all that tinkering had failed to innovate beyond the competition. Kmart had just essentially come up with its own version of the Wal-Mart Supercenter, three years after that store was first introduced.

But Wal-Mart was slow to roll out the new Supercenter format—only six of them were in operation by the time Kmart had its first. Clearly, an arms race of expansion was about to begin between the two retailers. And if Kmart could follow through on its long-term hopes of eventually blitzing the suburbs and outskirts of America's major cities with as many as a dozen Super Kmart Centers each, it could possibly put itself ahead of the competition once again.[22]

THE SUPER KMART CENTER WAS THE VANGUARD OF THE NEW image that Kmart wanted to project going into the '90s. But it would take a long time for the new format to become a significant force next to the 2,200 Kmart stores that already existed, if it ever could. Unlike the Wal-Mart Supercenter, Kmart's version wasn't intended as a replacement for a typical discount store. As company chairman Joseph Antonini had said at the opening of the first Super Kmart, "This is not a store you're going to see rolled out around the country." Super Kmart's growth would mostly take place on top of the existing Kmart footprint.[23]

Where the average Kmart customer was concerned, the shift into the "store of the '90s" didn't begin in Medina, Ohio. It had started two years before in Oak Park, Michigan, where the company had opened its first new store in the Detroit area in a decade. The Oak Park prototype store wasn't any larger than the typical full-size format, except for higher ceilings to allow taller displays. Departments were rearranged and poorly selling products were culled, but the new design was mostly created to give stores a fresh look and feel for a new decade.[24]

From Oak Park, conveniently located seven miles from Kmart headquarters, the rollout quickly extended to all corners of the country. The company announced plans to overhaul every single one of its stores by 1995. Stores that were too small to get the new layout would be expanded, and any buildings that couldn't easily be expanded would be replaced by new stores nearby. During the same timeframe, 250 entirely new stores would be opened, many of which would be Super Kmarts, giving the company 2,500 fresh and modern locations nationwide by the middle of the decade.[25]

And any visitor could tell at a glance whether their local store had received the update of the '90s or not, because the new look extended to the outside of the building and to the sign pointing to it from the highway. In September 1990, Kmart unveiled its new logo at a press conference in the parking lot of the Oak Park store. The big red "K" was transformed from a forward-leaning letter, whose shape was never perfectly consistent, into a thick, squarish block. The turquoise "mart" that followed was scrapped in favor of a white cursive scrawl inside the "K."

The change may have been superficial, but it was a sign of the company's serious commitment to creating a new image for itself in American culture. Out of the $2.3 billion that the company planned to spend on its ambitious five-year program to update or replace every Kmart store, it was estimated that the logo change alone would cost as

much as $250 million. No wonder the previous logo had remained the same since 1962.[26]

Kmart chairman Joseph Antonini watches as the chain's new logo is unveiled at the Oak Park prototype store near Detroit. (William Archie, Detroit Free Press)

Unlike the last time Kmart had frantically refreshed its stores' design in the early '80s, the company was making this round of renovations a top priority. The specialty chains were no longer crowding out their older sibling for attention, but they still very much played a part in Kmart's hopes for its future. While annual discount store sales were expected to rise from $25 billion to $35 billion during the five-year plan, the company predicted that sales at its specialty stores would exponentially expand from $4 billion to $15 billion in the same period.[27]

Part of the company's plan to achieve this ambitious goal came from experiments started in the last months of the 1980s to create new category-killing retailers. Builders Square had succeeded in surpassing Home Depot to become America's largest do-it-yourself superstore, and now it was expanding into new markets. Through the Builders Square division, Kmart started trying out a chain of office supply stores under the name of Office Square, as well as a series of sporting goods warehouses called Sports Giant.[28]

But before these new experiments could get very far, Kmart returned to making acquisitions instead. Like Builders Square itself, both of these new chains were designed to compete with small but quickly growing retailers that seemed promising. However, Kmart soon decided that it was easier to buy up those companies rather than continue to copy off of them. The Sports Authority, which had opened 19 stores in just three years since its founding, was brought in to replace Sports Giant. And Office Square was sold to the similar upstart OfficeMax, in exchange for Kmart gaining partial ownership of the company—which quickly turned into a full merger.[29]

Meanwhile, Waldenbooks, with its typically smaller locations inside shopping malls, was struggling to keep up with book superstores like Barnes & Noble. The company had launched its own line of "Waldenbooks & More" stores specifically designed to compete with the category killers, but customers were confused about what "More" meant and sales were slow. So Kmart made one more purchase, Borders Books and Music, an existing chain of large media superstores, in 1992.[30]

This time, all these acquisitions were intended to be more than just superficial cash grabs that distracted from Kmart's core business. As the Kmart modernization plan reached its halfway mark in late 1992, sales had increased slightly, but they were still lagging well behind the company's lofty expectations. For the latter half of the massive project, there was a push to build larger Kmarts, if not necessarily Super Kmarts, to compensate for this. But in the constant battle to stay competitive with Wal-Mart, the specialty chains were looking like the best thing Kmart had that Wal-Mart didn't.

So in 1993, after just four years, the Oak Park store was replaced with a new prototype that showed off the company's changing strategy to win over shoppers. At 116,000 square feet, the newly re-redesigned Kmart at Utica Park Place, again conveniently located near headquarters in a Detroit suburb, fell right in between the standard full-line store and the Super Kmart format in terms of size. But it was the Utica Park store's neighbors, not its square footage, that made it an exciting development for the company. The new Kmart was accompanied by a Builders Square, a PACE Membership Warehouse, Sports Authority, OfficeMax, and Borders—six superstores, all owned by the Kmart Corporation, and all in one convenient place.

This "power center" was not an entirely new concept in the retail world. The various category-killing chains had preferred to congregate together in shopping centers of their own since they first became popular in the mid-1980s. And Builders Square and PACE stores already tended to be built close to Kmarts. But more than any other design the company had rolled out in recent years, the Kmart power center provided a clear vision for how the chain could get ahead once again—not just copying Wal-Mart's ideas, but actually providing something to shoppers that Wal-Mart couldn't.[31]

A rendering of Utica Park Place, a "power center" where all six of the large retail spaces would be occupied by different divisions of the Kmart Corporation. (Richard L. Bowen and Associates Inc.)

The Utica Park prototype was promising, but it came too late. The same year it opened, Kmart announced it was pulling back on the modernization program, because most of the stores that hadn't yet been redone had limited potential. The stores that had been modernized in the past four years, of course, were too new to be redone already, so the power center model was relegated only to new areas the company was looking to expand into, and there weren't many of those left in the nation.[32]

With what remained of the modernization program falling apart, Kmart's focus shifted to an aggressive expansion of the Super Kmart Center, still in its infancy. But the company faced the same problem there—few places were far enough from any existing Kmart and also populated enough to support a new superstore, aside from the small towns where Wal-Mart had already cornered the market. And this, too, was a copycat move—just as Kmart began

to double down on the idea, Wal-Mart was also gaining confidence in its Supercenter format and starting to roll it out widely.

The four Super Kmarts at the start of 1993 grew to 19 at the end of the year, and 67 the year after that—a pattern strikingly similar to what Wal-Mart Supercenters had done one year earlier: six at the start of 1992, to 26 one year later, to 68 at the end of 1993.

If Kmart was deliberately following its rival in this, though, it soon found itself hopelessly behind. After reaching 68 Supercenters, Wal-Mart doubled that again to 143 at the end of 1994. Kmart, now starting to run into serious financial pain from the underperformance of its modernized stores, simply didn't have the resources to keep up with that exponential growth.[33]

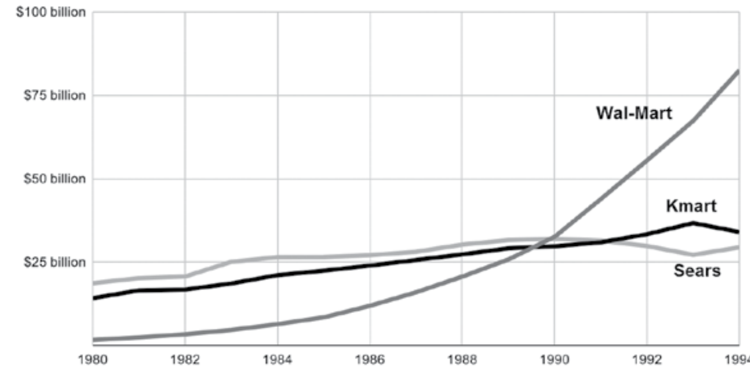
As the five-year benchmark from the start of the decade approached, Kmart was a long way from achieving the financial goals it had promised itself and its shareholders. At the end of 1993, with just a year left before the deadline, Kmart sales had barely grown at all from the hundreds of expansions and replacements made at older stores. In fact, sales at the average Kmart store had actually fallen in those four years, when adjusted for inflation. And with those modernizations now coming to an end, it seemed things could only get worse.

The company's specialty stores had fared a lot better: thanks to the recent acquisitions Kmart had made and the steady growth of those chains outside the rare instances of the power centers, total sales in the division had doubled in those same four years. But the five-year plan had called for specialty sales to quadruple.[34]

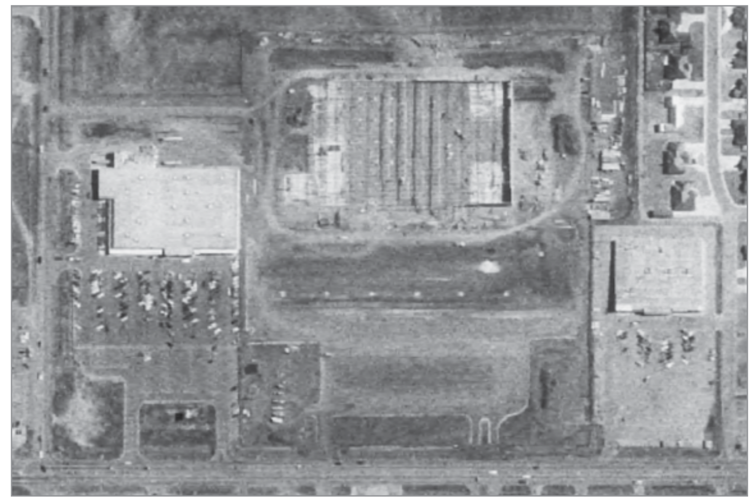
The fact that specialty stores were the best and biggest, if not the only, advantage Kmart had over Wal-Mart was not lost on the investors. Since the category-killer chains had more potential than the company that owned them as a whole, the Kmart Corporation agreed to allow its investors to buy stock in those chains separately. But many shareholders were still unsatisfied, and they started to demand that the specialty retailers be sold off so they could prosper elsewhere.[35]

AMERICA'S THREE LARGEST RETAILERS HAD STARTED THE decade almost perfectly matched, with Wal-Mart, Sears, and Kmart (in that order) each bringing in a little over $30 billion in sales in 1990. Throughout the next four years of aggressive remodeling, Kmart had managed to finally achieve that goal of overtaking Sears, and it reclaimed the status of the nation's second-largest retailer in the process. But its 1994 sales of $34 billion showed very little growth, falling well short of the company's ambitious goal of $50 billion in revenue for that year. Wal-Mart's sales for 1994 were $82 billion.[36]

The battle for dominance of the discounting market was over before it had even begun. By the time Kmart realized what it was up against, Wal-Mart had already found a path to exponential growth that Kmart was unable to follow and powerless to block. And now, Wal-Mart was in a class of its own, selling nearly three times as much as the next biggest retailer. Even if Kmart could find the brighter future it desperately needed, that future would inevitably still be cast in Wal-Mart's shadow.



Sales of the three largest retailers in the U.S., 1980–1994.



Main Street, Altus, Oklahoma, 1995.
On the right is a Group 9 mini-Kmart, built in 1976.
On the left, a Wal-Mart built in 1989. In the middle,
a new Wal-Mart Supercenter is under construction,
nearly five times the size of the Kmart.
(Historic Aerials)

CHAPTER 8

Big Ventures, Big Targets (1994–1999)

Floyd Hall was about to become Kmart's newest chairman. With investors urgently pressuring the company to change course, it plucked its new leader out of semi-retirement, where he was running an obscure business that made reproductions of museum art. Hall had previously been CEO of the Grand Union supermarket chain, where he'd helped to turn the company around from the brink of bankruptcy. The people responsible for hiring him were hoping they wouldn't need him to do that again, and they were mostly interested in the entry on his résumé before Grand Union. In the early 1980s, Hall was the CEO of the Target division at Dayton Hudson.[1]

It wasn't hard to see why Kmart wanted to take leadership lessons from Target, one of the few discount chains in the country that was holding its own against both Wal-Mart and Kmart. Part of the reason Wal-Mart could grow so quickly, after all, was that Kmart had destroyed so much of the competition in the discount field over the past few decades. Most of the chains that survived were weakened, limited to small areas of the country, and lacking the money to expand into hostile territory. Other than Wal-Mart, Target was the only discounter that had steadily grown the whole time. In the process, it too managed to become a major nationwide chain.

Target's greatest strength against this tough competition, from early on in its history, was its ability to cultivate a sense of identity among its customers. The chain billed itself as an "upscale" discounter—not because prices were significantly higher, but because the Dayton Hudson Corporation used its experience running urbane department stores to keep Target trendy and fashionable. The stores could look and feel exclusive without charging the kind of prices that would turn many customers away.

Hiring Floyd Hall was a clear signal that Kmart had given up on trying to directly emulate Wal-Mart, that it now aimed to be a company that could thrive as a national retailer without being anywhere near as big as the leader of the discount field. But if Kmart wanted to start copying off of Target's insurgent success, then the company that once prided itself on saying that "everyone is a Kmart shopper" needed to change course. It had to find a way to make people feel that being a Kmart shopper actually said something about them.

THIS WOULDN'T BE THE CHAIN'S FIRST STEP INTO TRENDI-ness. In 1985, coming off of the "Kmart of the '80s" renovations, the company sought a celebrity spokesperson to keep shoppers interested as it shifted its primary focus toward its side businesses. It found Jaclyn Smith, the former *Charlie's Angels* actress, who was more interested in designing products than simply endorsing them. The Jaclyn Smith Signature Collection line of sportswear, sold exclusively

at Kmart, proved that the chain could mix name-brand, designer merchandise with bargain prices.

A bigger, and more surprising, partnership was announced two years later. This time, Kmart would be developing a line of home furnishings with none other than Martha Stewart, the lifestylist extraordinaire whose high-class cookbooks and homemaking advice were a long way from anything you'd expect to find at a discount store.

Kmart officials were hesitant to approach Stewart at first and, fearing that she would reject them out of hand, identified themselves only as representatives of a "national retail chain" when they first got in touch with her company. But she found the opportunity appealing. "I could understand their position of trying to improve the quality of their merchandise and make wonderful merchandise available to a large segment of the market," Stewart told the *New York Times*. "This allows me to apply my esthetic to a lot of people."

Still, many scoffed at the strange combination. "One might wonder what a woman who has a chauffeur to send out for the loaf of bread she forgot has to say to the rest of us," quipped a columnist in the *Philadelphia Daily News*. And while the partnership with Stewart persisted for the next several years, it didn't remake Kmart's image in American culture as executives had hoped it would.[2]

But a decade later, as Target retaliated by partnering with architect and designer Michael Graves for its own line of "cheap chic" home goods, Kmart saw an opportunity to fight back. In the late '90s, it strengthened its relationships with both Smith and Stewart, and sought out new exclusive connections with other iconic brands, like Joe Boxer underwear, Sesame Street, and the Walt Disney Company.

CEO Floyd Hall (right) greets Big Bird at a Kmart shareholders' meeting in 1997, celebrating the chain's exclusive merchandise agreement with Sesame Street. (Nico Toutenhoofd, Detroit Free Press)

Before the company could use these connections to start seriously trying to reinvent its image, though, it had to stop the downward slide it had fallen into. As the modernization project of the past five years came to an unsatisfying end, 1994 was the first year in the chain's history that saw more Kmarts close than open, with 120 locations shutting their doors. But 1995 was much worse: as Kmart sought to get rid of the locations that couldn't be expanded or remodeled and weren't profitable enough to risk building a whole new replacement store, over 200 stores closed, while fewer than 60 new locations opened in their place.[3]

Many of these closing stores were small Group 9s that had opened in the mini-Kmart wave of the late '70s. But they were a diverse group in terms of age, size, and location throughout the country. Three of the original 18 Kmarts that opened in 1962 were put on the chopping block. So

were five new stores that were opened as part of the modernization effort. The only thing they all had in common was that the company didn't see a profitable future in them.[4]

On the other hand, Kmart very much saw a successful future for its specialty retail chains—outside of the company. Shareholders had already demanded to be allowed to invest in the growing specialty chains separately, but that wasn't enough—the value of their investments would still be dragged down by Kmart's struggles with its core business. Responding to their demands, the company rapidly started spinning the chains off. OfficeMax and The Sports Authority became their own companies once again, after a few years of exponential growth funded by Kmart's corporate resources. The company's two bookstore chains, Borders and Waldenbooks, were awkwardly combined into the Borders-Walden Group before being turned loose.

The others saw different approaches. PayLess Drugs was sold to the Thrifty Corporation, which was itself bought out by Rite Aid soon thereafter. The PACE Membership Warehouses, which had grown tremendously, weren't actually turning a profit on their razor-thin operating margins. The only way Kmart Corp. could make money off of them was to sell the stores to Wal-Mart, as embarrassing as that was, and let them turn into Sam's Clubs. And the small handful of Kresge variety stores still surviving in Canada were closed, bringing nearly 100 years of experience in the five-and-dime business to a final conclusion.[5]

By the end of 1995, the company was left with only Kmart and Builders Square stores. Within a year, Kmart was negotiating with Hechinger, the hardware chain that it had once tried and failed to partner with in creating Builders Square in the first place, to sell the stores and focus all of its attention on the Kmart chain.

Hechinger was struggling even more than Builders Square in its efforts to compete with The Home Depot, which had overtaken both of them to become the nation's largest home improvement retailer. The growth of Hechinger's own superstore chain, Home Quarters, had stalled, so the company welcomed an opportunity to bring a more successful business into the fold. But barely two years later, Hechinger collapsed into bankruptcy. Many of the former Builders Square locations were promptly bought out by Home Depot, which now sat pretty right next to a Kmart store in many shopping centers across the country.[6]

Kmart's hopes of "killing" in any specialized categories of the retail industry had always been shaky. None of those individual side businesses were a clear priority for the company, even though the specialty division as a whole distracted it from its core business. And since Kmart couldn't afford to roll out the "power center" concept on a large scale, the specialty chains had no meaningful connection to the Kmart stores themselves, except that they happened to be owned by the same company.

Kmart had tried to handle this disconnect by giving the chains and their original owners as much autonomy as possible, but that only gave them and their investors more desire to break off from the company entirely. If the leadership of each chain was basically independent from the parent company, what was the point of Kmart owning them, other than to make money for Kmart? In the end, specialty retail was a distraction from Kmart, and Kmart was a distraction from specialty retail, and they could no longer coexist in one company.

The unraveling of Kmart's diversified strategy was right in line with what most other major retailers were doing or had already done. At the same time, Woolworth was shedding

its five-and-dime business just like Kresge and, with only its specialty chains left to work with, soon renamed itself "Foot Locker Inc." Sears, further than ever from the status of the nation's largest retailer it had held less than a decade ago, shut down its catalog and jettisoned its finance divisions.[7]

But the strongest comparison was with Target, the chain that Kmart now seemed to want to emulate. The Dayton Hudson Corporation was still one of the more diversified major retailers, with over 300 non-discount department stores that made up about a third of the company's locations. But Dayton Hudson's specialized chains, like Lechmere electronics stores and the B. Dalton bookstores, were gone by the end of the 1980s. The result was a company that bore more than a little resemblance to the Kresge of the '60s and '70s: a legacy general merchandise business that had basically stopped trying to expand, with an innovative and popular discount chain growing rapidly off its back.[8]

THE NEW PLAN TO REINVENT KMART STARTED WHERE THE previous one ended: with the closure of over 200 unprofitable stores. In the context of the old strategy, shuttering so many locations seemed like a sign of failure, the collapse of a plan that wasn't supposed to end that way—at least not with all the closures taking place at once. But now, like the loss of all the specialty businesses, the liquidations were seen as an opportunity to create a leaner and hopefully meaner Kmart, with a clear focus on whatever part of its core business was actually working.

The efforts to make Kmart leaner didn't stop at the US border yet, but soon they would have to. In 1997, all 123 Kmart stores in Canada were shut down. The decision came just a few years after Woolco, by then existing only as a Canadian chain, was sold to Wal-Mart, which entered the country in over 100 places overnight. The Canadian Kmarts were sold to Zellers, which took over the stores just as Kmart had taken over the American locations of the onetime parent company of Zellers, W. T. Grant.[9]

The moves also brought an end to some of the company's short-lived experiments outside the US. A few years earlier, Kmart had tried expanding into Europe, buying up 13 Communist-era department stores from the government of Czechoslovakia shortly after the Cold War ended. Smaller ventures popped up in Mexico and Singapore, where Kmart opened a handful of stores, each time in partnership with a local retailer.

The intercontinental Kmarts didn't have to deal with competition from Wal-Mart, like the ones in the US, Canada, and Mexico. Maybe the company thought for a while that turning into a fully global chain, getting a foothold in countries all over the world before Wal-Mart did, was its long-term path to success. But even with the help of local partners to get them up to speed on the new markets it was trying to enter, Kmart failed to achieve any kind of popularity overseas.[10]

So, like almost everything else, the international Kmarts were cast out of the company. The European locations were sold to the British supermarket chain Tesco, while the others were handed over to the partners that had helped build them. Kmart even abandoned its minority ownership of the Australian Kmart chain, which was now quite successful in its own right and would still get to keep the name as it continued its steady growth. All of these moves cut the Kmart Corporation's total store count by more than half in four short years, from over 5,000 at the start of 1994 to just 2,100 at the end of 1997. But more importantly, the closures gave the company exactly one focus: Kmart stores in the United States, which were the only thing left.[11]

The Kmart in Bratislava, Slovakia, in December 1993, complete with a Little Caesars Pizza Station. (Vladimír Benko, TASR)

Whatever "power" the Kmart power center might have had to turn the messy conglomerate into a comprehensive retailer with a coherent strategy, no one would ever know. Even at the height of the specialty division's success, Kmart's core discounting business still brought in more than three-quarters of the revenue. Now that the core business had become its only business, there was no longer any temptation to get distracted, and nowhere to run away from the competition. Kmart the company would live and die on the strength of Kmart the store chain, Kmart the brand, and Kmart the identity.

But this was a company that had stagnated long enough for not one, but two major competitors to come seemingly out of nowhere, because of how much America wanted a better alternative to Kmart. Could it possibly become "innovative" and "popular" again? With every other segment of its business gone, the company had no other choice but to try.

Kmart's Lower Manhattan store at Astor Place. (Patti McConville, Alamy)

The opening of a new Kmart store was a rare occurrence by now. But the one store that debuted in September 1996 was one of the company's largest, and certainly its tallest. The four-story Kmart sat at the base of Manhattan's One Penn Plaza skyscraper, within spitting distance of Madison Square Garden and Penn Station, and facing the iconic Macy's department store on the other side of 34th Street.

Kmart wasn't totally new to New York City, but its previous locations in the city proper had all still been in traditional shopping centers on the suburban fringes. Opening a major chain discount store in the heart of Midtown Manhattan was almost unprecedented. E. J. Korvette had once had a location across the street from the Herald Square Macy's, too, but that was decades ago. The move seriously one-upped Target as well—as urbane as it was, that chain was still years away from opening urban stores of its own.[12]

The new store also set the chain apart from Wal-Mart, whose mission of expanding into every part of the country

had stalled at the municipal borders of most of America's largest cities. Nowhere had presented more resistance to any proposal for a Wal-Mart store than New York, where the residents were well-known for their aversion to most national chain businesses. It's often said that the pushback stemmed from Wal-Mart's anti-union policies—but then came Kmart, whose stance on labor unions was no different, with little controversy and much fanfare.

Perhaps Kmart overcame that resistance because it seemed like a less threatening alternative to Wal-Mart. Maybe it was just that Kmart's dowdy suburban image, dated as it was, was more palatable to Manhattan residents than Wal-Mart's aggressive business posture and its rural, vaguely conservative brand identity. Regardless, the Penn Plaza Kmart was a store that would never face competition from Wal-Mart, which all by itself was a plus for the company.[13]

The new urban Kmart was soon joined by another Manhattan location, taking over the building of the recently closed Wanamaker department store. It was no coincidence that this store was located just two miles from the New York Stock Exchange, allowing the company to easily invite Wall Street traders and business reporters to visit and experience the new face of Kmart firsthand.[14]

Ultimately, these urban stores were intended largely to impress those investors, and they never became part of a larger effort to actually reach a new type of customer. Another opened on Philadelphia's Market Street in 1997, but that was as far as the company was willing to take the concept. The urban stores were prominently featured in TV commercials, though, as Kmart desperately tried to change its image and draw people's attention to the more significant changes now once again taking place at stores all over the country.

THE FAILED MODERNIZATION PROJECT OF THE EARLY '90S was barely over when Kmart started to try again. The company's new leadership, headed by Floyd Hall, promised that Kmart's profits would increase year-over-year at least twice before the rapidly approaching end of the century. And even though most of the stores in the chain had been completely remodeled or replaced within the past five years, they still concluded that bad and outdated store layouts were a major barrier to achieving that goal.[15]

Just as Kmart was canceling its plans for the last batch of store modernizations in 1995, it started to test a new format in and around Fort Wayne, Indiana. The company's new leadership had been emphasizing the importance of adding food items to standard Kmart stores for the first time, learning from the success of the supercenter even as the growth of the Super Kmart had stalled out.[16]

The new "high-frequency" stores placed a "pantry" full of "consumables," pre-packaged foods and other convenience-store items, at the front of the store, aiming to allow shoppers who just needed to pick up a thing or two to get in and out of Kmart as quickly as possible. This went against the traditional strategy of trying to draw the casual shopper in, making them walk through aisles full of merchandise they didn't come in the door looking for but might decide to buy while they were already in the store. The executives' strategy for changing the image of shopping at Kmart was now, seemingly, to make it as quick and painless of an experience as possible, in the hope that the small sales they would get from these customers would still be more than what they were getting already.

The first tests of the high-frequency store layout were apparently successful at getting more customers in the door, because they were soon followed by a well-publicized ceremony at a newly remodeled Kmart in Gaithersburg, Maryland. The store had first opened less than three years beforehand, and now it needed to be extensively renovated to match the new idea of what a Kmart should be.

That absurd situation would soon be repeated all over the country. At the Gaithersburg grand re-opening ceremony, it was announced that the high-frequency format would be rolled out to all 2,100 stores by the end of 1998, at a cost of $750 million. Having just come out of an expensive nationwide remodeling project that failed to attract new customers or improve the company's profits, Kmart was now throwing itself into another one—knowing that there were no other options that would satisfy the shareholders.[17]

The remodel had been underway for nearly two years and had been rolled out in 300 stores by the time it got an official name, which would turn out to be a brand of its own. In April 1997, the newest high-frequency store was unveiled at Chicago's Brickyard Mall, boasting the new name "Big Kmart." Attached to the new version of the company's logo, which squeezed a cursive "m-a-r-t" inside the big red "K," the new sign looked at a glance like it said simply "Big K," the same name the company had passed over in 1961 in favor of "Kmart."[18]

For the stores that were seeing their neon logos replaced for the second time that decade, this much fanfare seemed a little wasteful for a financially struggling company. But the intention was clear: going into the 21st century, Kmart would come in exactly two varieties, "Super" and "Big," both of which were clearly meant to be better than the Kmarts of decades past simply by virtue of their new names.

A typical Big Kmart in Newport News, Virginia. Like most stores converted to the new branding, the building didn't actually get any bigger—except for this sign, the changes were on the inside. (Carmen Shields, Flickr)

The company planned to convert all of its existing stores to the Big Kmart format, but like the mini-Kmart before it, the new design was perfectly suited to taking over the abandoned locations of other discounters that had gone under. As Kmart prepared for its largest acquisition in over 20 years, it showed once again that it was really trying to emulate Target's success. To see that, one only needed to look at the bankrupt Midwestern chain it was taking over from.

Target was a relatively new player on the national stage, but Kmart wasn't the first major retailer to hire a former Dayton Hudson executive to try to copy their success. All the way back in 1968, Target's founder John Geisse abruptly left after disputes with other executives over the chain's slow expansion and who should head the company. He soon found a new job at the May Department Stores Company in St. Louis, which offered him a chance to start over.

Like Dayton Hudson, the May Company had become a major player in department store retailing by acquiring

a bunch of other successful department stores scattered across the country. But while sales grew, profits shrank, and May was making so many acquisitions that the Federal Trade Commission became concerned that the company was violating antitrust law.

Blocked from purchasing any more retail chains, the May Company decided that its next best move was to start its own new chain. Geisse was hired just as his former employers at Target opened their first stores in the St. Louis area, posing a direct threat to May's home base. Geisse's new venture became known as Venture, and its business model of "upscale discounting" was a blatant copy of Target's successful strategy.[19]

Like basically every discount chain in America not named Wal-Mart or Target, the '90s were a difficult time for Venture, which May spun off into a separate company at the start of the decade. Facing tough competition from the national chains, Venture decided that its best strategy was to break out of its established region in Missouri and the surrounding states, and it boldly expanded into the Houston and Dallas–Fort Worth areas in 1993.[20]

But instead of breathing new life into the struggling chain, the Texas move only drove Venture further into debt. In the summer of 1997, Venture shut down most of its Texas stores, as well as a few unprofitable locations elsewhere, and sold all the remaining leases to Kmart. In Kmart's hands, these locations were the perfect size to become new Big stores. And so, 19 new Big Kmarts and a larger Super Kmart opened in former Venture stores that November. During all of 1997, only 10 other new Kmart stores opened nationwide.[21]

Selling off those stores failed to save Venture, which filed for bankruptcy early the following year. With all of the company's locations now being liquidated and put up for sale, Kmart took the lion's share of them again. On October

29, 1998, 45 Big Kmarts opened in about half of the former Venture locations—the largest number of stores Kmart had ever opened in a single day, even more than at any point during the frenzied expansion of the mid-'70s. The Ventures gave Kmart a stronger footprint in and around Chicago, and its first locations in Oklahoma City, the only major metropolitan area that had never had a Kmart before—thanks in part to a strong Wal-Mart presence.[22]

The Venture purchases were the closest Kmart ever came to acquiring another discount chain outright. While the company had benefited greatly from the demise of W. T. Grant in the '70s and Woolco in the '80s, among many others, it had picked out only a handful of the best locations left behind by each of them.

In contrast, Kmart's biggest rivals had made full acquisitions early in their history that had helped them grow—Kuhn's-Big K for Wal-Mart, Ayr-Way and Gemco for Target. But those were successful, promising smaller discounters that happened to be located outside the established market areas of the acquirers—something that no longer existed for the big three discounters on either count. Almost all that was left now were the chains that had, for one reason or another, failed.

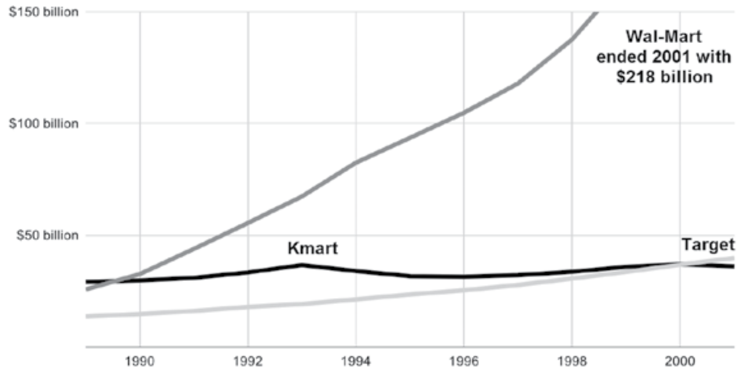
And even as Kmart had tried to be selective by rejecting dozens of the Venture buildings, the fact remained that many of the ones it took were in locations that had limited potential. Within just two years, Kmart would close 20 percent of the former Venture stores, and more than two-thirds of them would be gone by the end of 2003. If the Venture deal was intended to be an innovative step toward the 21st century for Kmart, what it turned out to be was a kind of last hurrah, and one that would soon become the first thing sacrificed as conditions got worse.[23]

THE COMPANY HADN'T QUITE ACHIEVED ITS GOAL OF ROLLING OUT the new format in all stores by the end of 1998, with 800 stores still left to go. Those 45 Venture-turned-Kmarts debuted on the same day that the chain held grand reopening ceremonies at 120 other locations, as they also became Big Kmarts. But with per-store sales rising the past two years, and Big Kmarts bringing in 10 to 15 percent more revenue than their un-Bigified counterparts, the company had high hopes for the new millennium and the start of its second century in business.[24]

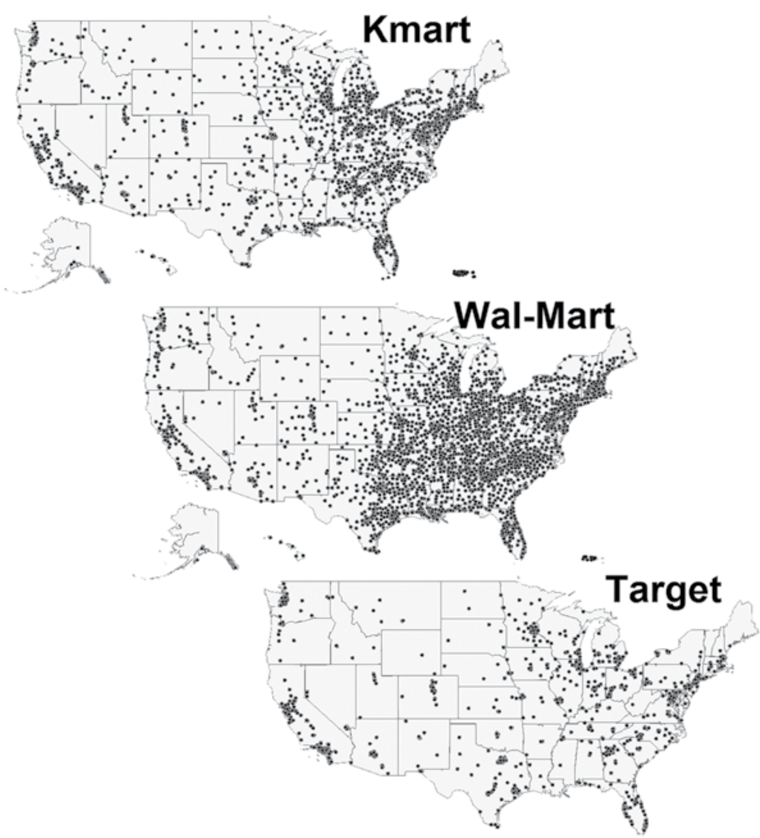
In May 1999, the Kmart Corporation proudly reported that its profits for the past three months had jumped up by a full 43 percent over the previous year. But after that announcement, the company's stock price actually fell, as investors hoping to be pleasantly surprised were disappointed that it wasn't any higher.[25]

While a reaction like this from Wall Street was clearly ridiculous for a company that was still ultimately making money, the investors had a point. Even with these recent gains, Kmart had spent most of the '90s fighting to break even, while most of America's major retailers were steadily growing.

In the year 1999 alone, Kmart dropped down from its rank as the nation's third-largest retailer, behind Wal-Mart and Sears, to the sixth. Even as Kmart's sales and profits grew significantly, the company fell behind Home Depot, Kroger, and Albertsons, all of which were growing even faster. The Dayton Hudson Corporation was close behind, threatening to make Kmart the third-place contender in a discount industry it had once completely dominated. But in the hearts and minds of American shoppers, Kmart had fallen behind Target years ago.[26]



Above, the total sales of the Big Three discounters, 1989–2001. Below, maps of their store locations at the end of 2001.



That same ranking, produced by the National Retail Federation, included a very different kind of company near the bottom of the list. Coming in at No. 93 was Amazon.com, which had become the first Internet retailer to pull in over a billion dollars in annual sales, after five years of rapid growth. Even the most skeptical investors were becoming cautiously optimistic that Amazon might soon begin to turn a profit.[27]

Kmart was apparently paying some attention to the rise of the Internet, because it closed out the 20th century by partnering with Yahoo to launch BlueLight.com. Announced two weeks before Y2K, the new online service wasn't intended to compete against Amazon in e-commerce, but against AOL in getting people hooked up to the Internet in the first place.

Despite the launch of this new venture, Kmart's idea of e-commerce still consisted of throwing a few digital advertisements around, and the company's website only served to point visitors back to their physical stores. As BlueLight.com was announced, the *Detroit Free Press* interviewed a retail industry expert who predicted that e-commerce would never be successful enough to displace brick-and-mortar stores: "The Internet is just yesterday's catalog."[28]

And in the short term, that analyst was right. Kmart had barely started putting BlueLight.com installation CDs at its checkout counters when the dot-com bubble burst, throwing thousands of hyped-up web-companies into bankruptcy. BlueLight briefly surpassed AOL as the nation's largest Internet service provider. But with problems mounting in the first years of the 21st century, Kmart quickly lost interest in the World Wide Web.[29]

CHAPTER 9

The First Bankruptcy (2000–2003)

"In our opinion, the next six months represent a critical time for Kmart, and we would not be surprised if the company were to file Chapter 11 bankruptcy if trends do not improve."

These words, coming from the influential Wall Street retail analyst Wayne Hood of Prudential Securities on the second day of 2002, were shocking. Kmart had stagnated for over a decade and was a shadow of its former self by then, and sales for the 2001 holiday season were particularly disappointing. But the idea that the company could be completely running out of cash wasn't a serious concern to most investors, observers, or even to many Kmart executives.

Kmart strongly denied that a bankruptcy filing was in its future, saying that even with some recent lackluster results, it had more than enough money to pay its bills. But investors were still fearful, and the day after Hood's statement was released, the company's stock price fell to its lowest value since 1970, barely over a third of what it had been just a few months before.

To some extent, the shareholders who rushed to sell their Kmart stock that January were just looking for an excuse to get away from the chain. After falling behind Target in 2000, the company had become not only the third-place discounter in the nation, but a distant third. "I just keep wondering when it's going to go out of business," one analyst told the *Chicago Tribune*.[1]

But Hood's prediction seemed to have something to it. Two weeks after it was printed, the Fleming distribution company was in the middle of its weekly deliveries, bringing grocery items to the supermarkets of Super Kmarts and pantry sections of Big Kmarts nationwide, when it noticed that the company's payment for the deliveries hadn't gone through at the usual time. Fleming immediately called its trucks back from their Friday rounds and demanded an explanation. Kmart's many other suppliers started to notice the same thing throughout the weekend.[2]

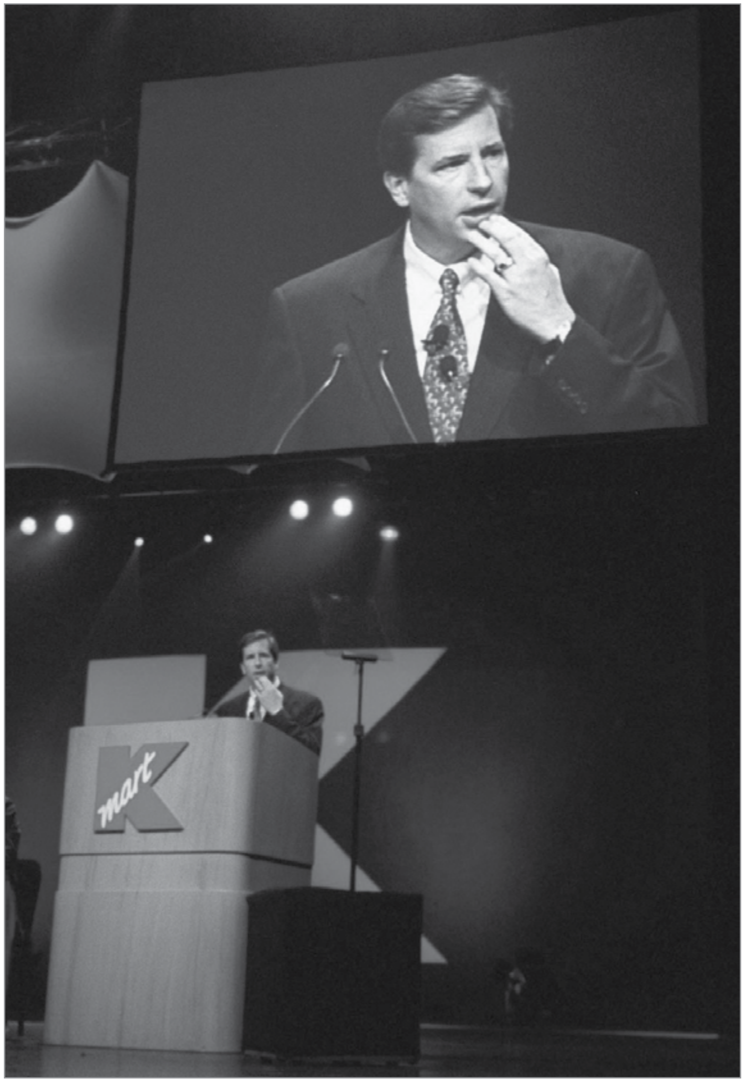
And on the following Tuesday, the company began to send filings to a federal bankruptcy court in Chicago. The rumors had been proven true faster than anyone could have expected: Kmart was broke. The company's leadership promised that the bankruptcy process would only serve to cut losses and allow Kmart to bounce back stronger than ever. But many in the business world had heard that line more than enough times and quickly agreed: this was the beginning of the end.[3]

JUST A YEAR AND A HALF BEFORE, A SPOKESPERSON HAD been proudly telling store employees and the press that the Big Kmart turnaround of the late '90s had "driven the company back to health." By June 2000, the Big Kmart renovation program had come to an anticlimactic end, as about 200 stores were deemed too small to convert and were left as they were. The statement was intended to mark what was, in a way, the end of that era. Floyd Hall was leaving Kmart's chairmanship, five years after he was brought out of retirement to take the role, and two years after he had originally intended to return to his retirement.[4]

The business press often described Hall as if he had stormed into Kmart headquarters and single-handedly changed the company's entire retailing strategy based on his personal experience working at Target. But realistically speaking, a group of Kmart executives and shareholders had chosen to hire him because he represented the new strategy that the company had already devised. The first test locations for the Big Kmart format, often said to be Hall's idea, were nearly ready to open when he was hired in 1995. And when he resigned five years later, it was because that same group was looking to shake things up, to take advantage of the responsible and mostly successful moves that had kept the company afloat, and start harnessing them to create faster profit growth.

The person they chose to be the face of the corporation going into the new century was Charles Conaway, a 39-year-old "whiz kid" who had developed a great reputation as an executive at the CVS Pharmacy chain. While he was there, CVS acquired several of its competitors and surpassed the likes of Rite Aid and Walgreens to become America's largest drugstore chain. It was rumored that J. C. Penney and Sears, both desperate to reinvent themselves, were trying to hire him at the time. But it was Kmart that managed to get Chuck to sign a five-year contract.[5]

Conaway quickly began to deliver the "celebrity" pizzazz and aggressive attitude he had been hired for. Shortly after he arrived at Kmart headquarters, he ordered the giant head sculpture removed from the front of the building. Portraits of Sebastian Kresge and other past leaders were taken off the walls and unceremoniously dumped on the floor. "If there's one thing I hate," Conaway told another executive, "it's history."[6]



New Kmart CEO Chuck Conaway speaks to investors. (William Archie, Detroit Free Press)

In August, he announced that Kmart's new goal would be to become competitive with Wal-Mart, and he promised that his leadership team could make this happen in two years. He wasn't referring to the overall sizes of the two companies (Wal-Mart by then had more than five times the annual revenue of Kmart), just the business model and prices on merchandise. But it was still an extremely ambitious promise to make.[7]

And with that goal in mind, Conaway chose former Wal-Mart executive Mark Schwartz to be his second-in-command. Schwartz had left Wal-Mart after trying and failing to start his own real estate business, which he abandoned when it came under millions of dollars in debt. In the two years since then, he had briefly been the CEO of Hechinger–Builders Square before it collapsed, then led Big V Supermarkets, which also went bankrupt shortly after Schwartz left for Kmart.[8]

Conaway and Schwartz, and their team and its new strategy, came into the Kmart Corporation just as serious cracks were starting to show in the finished Big Kmarts. Chuck's boast about catching up to Wal-Mart came just days after the company finished its worst financial quarter since the Big Kmart renovations started, losing $400 million in three months. The foundation for Conaway's plans was crumbling, but he was undeterred.[9]

Another mass closure of 72 stores was announced that summer, including a dozen of the former Venture locations that had been converted into Kmarts less than two years before. The loss wasn't replaced, either, as the year 2000 saw fewer new Kmarts open than any previous year going back to the chain's founding in 1962. The company tried to compensate for the closures by announcing five new Super Kmart Centers for 2001. Meanwhile, Wal-Mart prepared to open 179 Supercenters during that year.[10]

UNDER CONAWAY, A KEY PART OF KMART'S STRATEGY FOR clawing its way back up was to emphasize that it had lower prices than Wal-Mart and Target—a statement that was only occasionally true. Market studies had found that Kmart's prices were the highest of the three chains on average, and in many cases, those prices were continuing to rise.

In an attempt to fix this, Kmart brought back the notorious blue light special as something more than just the name of a short-lived Internet provider. Not only did the regular announcements of ultra-discounted deals come back at stores across the country, but Kmart also began pushing a program it called "BlueLight Always," mimicking Wal-Mart's "Always Low Prices" and once again emphasizing the discount element of the discount store.[11]

To bring shoppers' attention to these changes, Kmart swiped a marketing gimmick from Wal-Mart: proudly displaying price comparisons between the Big Three discounters next to certain merchandise. Kmart's "Dare to Compare" campaign had been in stores for only a few months when it provoked a lawsuit from Target, which had privately investigated hundreds of the signs and claimed that it found errors in 89 percent of them. These mistakes included both incorrectly high Target prices and incorrectly low Kmart prices. Sometimes, the signs even made "comparisons" with items Target didn't actually sell.

Within days of the lawsuit, the "Dare to Compare" signs had disappeared from stores, a change that was supposedly planned out months in advance. Kmart claimed it had always intended to replace the campaign with more "Blue Light Special" branding at the start of September 2001.[12]

KMART FOUND ITSELF TAKING THIS NEW DIRECTION AGAINST a backdrop of an economy and a nation in crisis. After a modestly profitable holiday season in 2000, the company had returned to losing money months before the events of September 11 shook America. The nation had already been in a minor recession for the past few months, and a devastating terrorist attack in the heart of its largest financial center only made matters worse.

Thanks in part to this depressed economy, Conaway's plans for reinventing the company were finished almost as soon as they had started. With little warning, he and Schwartz left the company in January 2002, shortly before the end of the fiscal year. Conaway was replaced in the top position by company executive James Adamson. For his part, Adamson later said that the first time he had heard any suggestion that the company was approaching bankruptcy was in Wayne Hood's dire warning to investors. The day after Conaway and Schwartz left, Kmart began missing payments to its suppliers.[13]

Kmart's bankruptcy, filed five days after the sudden change in leadership, was the largest in the history of the American retail industry. That was the same distinction that W. T. Grant had received a quarter of a century before, as it collapsed under the dominance of Kmart in the discounting field. Unlike W. T. Grant, however, Kmart's story was not going to end with this bankruptcy—there was still some potential in many of the company's stores, and the hastily assembled new leadership was more than willing to take on the difficult challenge of finding it.

But before any kind of rebuilding process could begin, there was a rush to investigate how things had gone so badly so fast. The Enron scandal, in which a major conglomerate had hid billions of dollars in debt from its investors until it abruptly went bankrupt, had broken only a month before. Federal regulators immediately suspected that something similar had happened at Kmart, working off of anonymous tips that had started to arrive shortly before the bankruptcy was declared.

Sure enough, the investigators found incorrect accounting practices in Kmart's books that effectively hid hundreds of millions of dollars in losses. Contracts with vendors that were supposed to lead to payments spread out over several years were reported as lump sums paid in a single quarter, artificially inflating the company's supposed profits.

When all these problems were found and investigators compelled Kmart to release corrected earnings figures, the cause of the sudden bankruptcy became extremely clear. In just the three-month period between the start of November 2001 and the end of January 2002—including the holiday season, normally the best time of year for any retailer's finances—the company had lost a whopping $1.57 billion.[14]

The bulk of the suspicion fell directly on Chuck Conaway. As chairman, Chuck had boasted that he only spent one day a week working in his office at headquarters. The other six days were spent traveling across the country, as he aimed to visit all 2,100 Kmarts in a single year to ensure their quality.[15]

But far from the image of a selfless, hard-working pilgrim that this might have created, Conaway and other executives used the store visits as an excuse to buy luxury cars and multi-million-dollar private planes at the company's expense. And despite spending so much time away from headquarters, Conaway bought a 14,000-square-foot mansion near the office shortly after taking the job.

And the store visits themselves seemed to have little actual purpose. They often devolved into Conaway and Schwartz screaming at minimum-wage workers and store managers, firing them almost at random and provoking others to quit. Kmart already had a reputation for bad customer service, but this roving band of executives was only breeding more resentment among the company's rank-and-file employees.

As the company's finances fell apart around them, the lavish compensation for the executives only grew. Shortly before the bankruptcy, dozens of them received retention loans with an average value of over a million dollars apiece, with the loophole that the loans wouldn't have to be paid back if they were fired. The two guys at the top received the largest of the payments: $3 million for Schwartz and $5 million for Conaway.[16]

FOR THE CONSTRUCTION WORKERS WHO WERE BUILDING a new Kmart store in Somers Point, New Jersey, at the time, Kmart's bankruptcy must have seemed like a sure sign that their jobs would soon be gone. Other unfinished stores that were much closer to completion were abandoned. The company stopped construction on Super Kmart stores on the Caribbean islands of Trinidad and Barbados, promising locations in places where Wal-Mart and Target were unlikely to follow anytime soon. It also canceled plans for a Super Kmart in inner-city Milwaukee, an urban environment where Wal-Mart was slow to make inroads.[17]

But surprisingly, the construction continued in Somers Point. The store opened in October of 2002, the only new location the company finished that year. And even though the Kmart chain would survive for another two decades, it would ultimately prove to be the last new Kmart to ever open.

At the time, the Somers Point location was promising to overcome the chain's flaws and define its post-bankruptcy future. Like most Wal-Mart Supercenters, it eliminated the typical drop ceiling in favor of exposing the underside of the roof. This change wasn't just another copycat move—it was intended to make the store feel larger, brighter, and more open. But many shoppers were turned off by it, feeling that it looked as cheap as it was, and finding that it hurt the pretense that the store was a nicer place to shop than Wal-Mart.[18]

Bigger changes were taking place at the "Store of the Future," a freshly remodeled Kmart on the outer fringe of the Detroit suburbs. The new prototype was described as a "brand theater," where name-brand items were prominently displayed in creative, eye-catching ways that helped distract shoppers from the unpopular branding of Kmart itself. This strategy took full advantage of the well-known brands that Kmart had exclusive agreements with, like Disney, Sesame Street, and of course Martha Stewart—the longtime celebrity spokeswoman for the company, now closely associated with Kmart.

Stewart would later say that she regretted not taking the opportunity to buy the chain out of its bankruptcy, joking that she could have renamed the stores after the nickname she'd received from her 15 years working with the chain—"Kmartha." At the time, though, Stewart was deeply implicated in an insider trading scandal that would ultimately land her in prison, which certainly didn't help Kmart's own reputation.[19]

And when it came to Kmart's own brand in this "store of the future," it was almost unrecognizable. The "K" logo here, like many of the store's decorative features inside and out, was green instead of the typical red. This seemed to be an admission of defeat, as if Target had claimed ownership of the color red in the discount field and Kmart had

no hope of winning it back. The new logo was formed by a green arrow symbolizing progress and motion—one that unfortunately, because of the shape of the letter "K," had to point backward.[20]

One of the green prototype Kmarts in Peoria, Illinois.
(Eric Behrens, Peoria Journal Star)

The Somers Point store and this new "futuristic" prototype were optimistic and fresh, but they were far removed from the reality of Kmart in 2002. The company had set a goal to get out of bankruptcy in 18 months, with a lot of losses that needed to be cut before the company could hope to be profitable again, and the clock was ticking.

Shortly after losing his position as chairman, Chuck Conaway had told the *Detroit Free Press* that he believed two-thirds of Kmart stores were successful enough to compete with Wal-Mart and Target, while the other third were simply "unproductive assets." The implication was clear, and nobody was surprised when the company released a list of 284 stores that would close by June.[21]

The news hit hundreds of communities across America simultaneously—urban, suburban, and small-town alike—that a struggling, perhaps obsolete, but still important part of their commercial fabric was about to be ripped away, eliminating 22,000 jobs in the process. In many of those communities, local residents protested, wrote letters, and drew up petitions to keep their stores open, promising to shop at Kmart more if only it would stay.

Out of the 284 Kmarts on the list, the company granted a reprieve to exactly one: a neighborhood store near downtown Buffalo, New York. To keep it open, the city offered Kmart $400,000 a year in tax breaks, rent discounts, and other incentives, in the hope that this would be enough to make the store technically profitable. Everywhere else, the protests fell on deaf ears, and the other 283 stores unceremoniously liquidated their merchandise and their fixtures.[22]

But for every person who lamented the loss of Kmart in their area, many more shrugged. It was that widespread feeling that Kmart had little to offer, after all, that had driven the company to this point. Many assumed that the empty buildings would soon be taken over by some more successful retailer, but the poor performance Kmart had managed in those locations made them seriously undesirable. After the stores closed, they were put up for auction, but 80 percent of them received no bidders.[23]

The mass closures sent a message to the managers, employees, and customers at hundreds of other unprofitable Kmart stores: if they didn't turn things around immediately, they would be next on the chopping block. But between the negative press attached to the bankruptcy, the well-publicized closures, and the lack of funding for yet another round of store remodels, there was hardly anything that would encourage people to suddenly start shopping at Kmart.

Another series of closures was basically inevitable, and early in 2003, it arrived. Another 326 stores were listed for liquidation, and 37,000 jobs would disappear with them. The chain would be left with a little over 1,500 locations, about 100 more than Conaway had suggested would survive.[24]

The 600 stores that closed in the span of just 10 months were scattered all over the country, and the distinction between "profitable" and "unprofitable" was often confusing. Newer, larger, nicer-looking stores were sometimes shut down while older, smaller, dingier ones remained. But there were clear patterns in the midst of it all. Southern states in the heart of Wal-Mart country, like Louisiana, Mississippi, and Arkansas, lost the majority of their Kmarts. The greatest losses of all were in Texas, which had started 2002 with 106 stores and would be left with just 20 by May 2003. The chain pulled out of major metropolises like Dallas, Houston, and San Antonio entirely.

Closer to home, one of the two Kmarts in the city of Detroit was shuttered, in a move that blindsided and infuriated locals. The Meyers Road Super Kmart had opened just four years prior in a neighborhood that was 97 percent Black, and it had the highest sales per square foot of any Kmart in 2000. Local leaders, who had helped convince skeptical residents to support the store when it opened, saw the closure as a shocking act of betrayal. A Kmart shareholder who lived nearby was disgusted, saying that the move "constitutes institutional racism." Once again, when there was financial trouble, stores in majority-Black areas were among the first to hit the chopping block, regardless of how successful they actually were.[25]

In a sign of how thoroughly Kmart had lost in its battle to be the leader of the discounting industry, the company also shuttered a little over half of its 124 Super Kmart Centers. The larger format had never worked as well as it had for Wal-

Mart, which finished 2003 with over 1,400 Supercenters that were on the verge of outnumbering its non-grocery stores. As the liquidation rolled on, Fleming, Kmart's grocery supplier and one of the first businesses to notice that Kmart could no longer pay its bills, filed for bankruptcy itself.[26]

Also included in the closing wave of 2003 was the store in Buffalo that the city had spent so much money to save. Apparently, even with that extra $400,000, the location was still not profitable. This time, there would be no reprieve, and the store closed along with all the others in April.[27]

THE DAY AFTER THOSE HUNDREDS OF AUTOMATIC DOORS were locked up for the final time, the Kmart Corporation's lawyers returned to bankruptcy court to make their case that the company had changed for the better. It had spent months negotiating with suppliers and banks, promising that the reorganized company would eventually pay off its millions of dollars in debts.[28]

As the company prepared to exit bankruptcy protection and begin the next era of its history, federal regulators announced that they wouldn't fine Kmart for the illegal accounting practices that had driven it there. They decided instead to focus on prosecuting specific executives who were thought to be responsible for hiding the losses. But this prosecution failed to include Conaway and Schwartz, who had led the company to this point, and who bailed with multi-million-dollar golden parachutes immediately before the deception unraveled.

Only two former Kmart executives were taken to court over the scandal: Tony Montini, manager of the company's pharmacy division, and Joseph Hofmeister, vice president of merchandising, were charged with

securities fraud and criminal conspiracy. Six months later, all of their charges were dropped, after a federal judge decided that the company should have been held responsible in the first place.

But by now, the opportunity to start another prosecution was gone. No one would ultimately be held accountable for running up billions of dollars in debts, nearly destroying a major American retailer, and putting tens of thousands of people out of work in the process.[29]

Tony Montini (left) hugs his attorney while Joseph Hofmeister stands beside, after the case against the two former Kmart executives was dropped. (Hugh Grannum, Detroit Free Press)

Instead, the Kmart Corporation began yet another quest to return to profitability. Despite many protests—from suppliers like Kodak whose debts were left unpaid by the new deal, from shareholders whose old Kmart stock was now worthless, from shopping center owners who would receive the new Kmart stock as compensation for their missed rent payments instead of cash—the bankruptcy ended just a few weeks after the closings were finished.[30]

Once again, Kmart was under a young new leader with a reputation for getting rich quick. But this time, the company hadn't chosen him—he chose it, whether it liked him or not. Eddie Lampert, a 40-year-old Wall Street money manager turned multi-billionaire, had purchased 62 percent of the company's new stock as it pulled out of bankruptcy, and had gotten himself appointed Kmart's chairman in the process.

Lampert, as it happened, was born in 1962, just like the Kmart chain itself. He promised to use his unprecedented singular power over the company to keep pushing it to success. But even before he took the position, there was widespread speculation that he was more interested in liquidating stores and selling off the real estate than actually participating in the retail industry. And if that were true, Lampert could become the third thing born in 1962 to threaten Kmart's survival, after Wal-Mart and Target.[31]

CHAPTER 10

The World's Longest Going-Out-of-Business Sale (2003–?)

Eddie Lampert was in the middle of negotiating to invest hundreds of millions of dollars in the Kmart Corporation as it emerged from bankruptcy. The four guys who held him hostage in a Connecticut motel room for 30 hours probably didn't know anything about that. But less than two weeks after surviving the kidnapping, Lampert made his move on Kmart.

By the start of 2003, Eddie Lampert was on the verge of becoming a celebrity among investors. *Business Week* magazine would soon be asking if he was "the next Warren Buffett?" His keen ability to turn millions into billions on behalf of the ultra-rich clients of his company, ESL Investments, was undeniable.

That investing skill had also put Lampert on the verge of becoming a billionaire himself, which was the main reason why four young men pulled him out of his office's parking garage one day in January 2003 and threatened to kill him unless he paid up. The kidnappers claimed to be hitmen hired by one of the other major retailers Lampert was sinking his teeth into at the time. AutoZone's corporate leaders, they said, offered them $3 million to kill Lampert, and he was only released after he countered with $5 million.

The idea that AutoZone executives would actually be behind this kidnapping may seem ridiculous, but it said something about Lampert's approach to investing that law enforcement took the claim seriously for days afterward, thoroughly investigating the company. Lampert had been a major shareholder of AutoZone for five years, and in that time he had used his power to force its CEO to resign and the retailer to change its business strategy by cutting more costs, all to improve the value of his portfolio.[1]

At the time of the kidnapping, though, Lampert had shifted his focus from AutoZone to much bigger prey. He had bought up more than a third of the Kmart Corporation's enormous debts, giving him the opportunity to negotiate and make another set of demands when the company came out of the bankruptcy process. But before that could happen, Lampert stepped up his involvement in Kmart even further. After spending roughly $500 million, he increased his stake enough to ensure he would have the primary control of the reorganized company, just as hundreds of stores entered the final weeks of their liquidation sales.[2]

As the new Kmart Corporation prepared to exit bankruptcy, its old shareholders and the board of directors they had elected were wiped out. Only one of the nine members of the new board had been involved with Kmart before. Eddie Lampert became the chairman of the reorganized company, and the size of his investment gave him the power to choose three of the other eight board members. One of Lampert's picks was a longtime friend, business partner, and onetime college roommate at Yale: former Goldman Sachs executive Steven Mnuchin.[3]

THE WALL STREET ANALYSTS WHO IDOLIZED LAMPERT WERE confused, to say the least, about how he intended to make a profit on a retail chain that hadn't been consistently profitable in about a decade, one that had lost nearly $6 billion in the first three years of the new century. Kmart insiders were equally perplexed about what he had in mind for the company, and their confusion was compounded by the fear of what demands he might make when he eventually tried to get the value of his investment back.[4]

But despite the unusual methods that put him in that chairman position, Lampert's initial plans sounded very much like those of the people who sat in the chair before him—the focus was on bringing back shoppers with lower prices and more of their favorite brands. Like his infamous predecessor Chuck Conaway, Lampert soon started talking about visiting stores across the country to personally monitor their progress. And in an interview with the *Detroit Free Press*, he pointed to the company's decades of success up to the late '80s as his primary reason for believing that Kmart could get there again.[5]

Even as late as 2003, there was still something to be said for the strength and resilience that Kmart's well-established national footprint gave it. The dominance of Wal-Mart and the rising popularity of Target as its best alternative had forced Kmart down greatly, but the three of them combined had completely destroyed most of the other competition. Since Venture's closure in 1998, most of the other remaining regional discount chains—companies like Bradlees, Caldor, and Ames—had collapsed, unable to cut their losses and emerge from bankruptcy as Kmart had.

There were exactly three nationwide discounters in America, and while Kmart was certainly the smallest and weakest of them now, it was still a member of that exclusive group. And the market share of everybody but the Big Three in the discounting industry had fallen from 30 percent in 1990 to just 10 percent in 2004.

If Kmart could manage to positively distinguish itself from both Wal-Mart and Target and advertise itself as an appealing third option, it could potentially survive. But the company still had few ideas for how to achieve this, and it was still unclear whether Lampert actually expected these plans to work. It was even less clear whether he *wanted* these efforts to succeed, or whether he would find more value in scrapping the chain and selling it off in parts. Either way, Kmart didn't have much time to turn things around.[6]

WITH COSTS CUT AND HUNDREDS OF FAILING LOCATIONS eliminated, Kmart emerged from its bankruptcy as a modestly profitable retailer, at least for the time being. It had been in that state for barely over a year before the first signs appeared that the company's future lay elsewhere. The Home Depot, which had become one of the largest buyers of empty Kmart locations during the bankruptcy, announced a deal to purchase two dozen more, stores that Kmart had previously shown no intention of closing.

For the most part, Home Depot was interested in the locations, not the buildings themselves, most of which would be demolished. But the company was willing to pay nearly $400 million for those stores, an indication that most of the Kmart chain sat on what would be considered prime

real estate—if only it was being used for some other purpose than trying to compete with the Wal-Mart or Target across the street.

When Kmart announced the deal in June 2004, the company's stock price jumped to the highest level in its history. Wall Street analysts were unsure about the long-term wisdom of this strategy for a retailer whose store count was already shrinking, but investors clearly loved the idea. And as it all directly increased Lampert's personal wealth by several million dollars, it wasn't difficult to guess what he would direct the company to do next.[7]

Less than a month later, Kmart announced it was selling off another 54 locations, this time to Sears. For decades, Sears had been placing most of its stores in major shopping malls, where it had to compete with other department stores in the other anchor spaces. But like Kmart, Sears had stagnated and fallen behind its competitors in the past two decades, so it was increasingly interested in opening more standalone locations—in exactly the type of spots that Kmart could sell to them.

Sears also shared something else with Kmart: Eddie Lampert's presence. By the time he started to get seriously involved with Kmart, Lampert was already the second-largest owner of Sears stock. Now he was the largest, owning almost 14 percent of the company, and it was obvious that he had been the one driving both Sears and Kmart to make this deal.

And Lampert's heavy involvement with Sears hadn't gone unnoticed by Wall Street. When the Kmart–Home Depot deal was first announced, Sears stock had perked up by more than 5 percent, as investors speculated that he was orchestrating something of the same kind with Sears. Others went further, suggesting that Lampert was planning to have Sears buy out Kmart entirely.[8]

As it turned out, what he was planning was exactly the opposite. While sales at the Kmart stores that survived were still falling, the price of the company's stock had been continually growing as a crush of investors followed Lampert into the fray. This, combined with the profits made from all the closures and location sales, had given Lampert and the other new Kmart executives billions of dollars in excess cash to play with.

In November, the company announced that it would not be using this windfall on yet another attempt to revitalize the stores. Instead, Kmart was buying Sears, a company more than 50 percent larger than itself, and with a slightly better outlook for future success. But Sears had much less cash to swing around, and it was less directly useful to Eddie Lampert, so it was the one that suddenly found itself up for sale.[9]

Kmart Holding Corporation may technically have been the one to buy up Sears, but the new merged company quickly made its priorities clear. It took the name "Sears Holdings Corporation." Kmart's sprawling headquarters complex outside Detroit was abandoned in favor of the Sears main offices, which had moved out of the iconic Sears Tower years before to a similarly vast complex in the Chicago suburbs.

And as the merger was completed in 2005, dozens of recently emptied Kmarts continued their conversion into the new Sears Essentials brand. Being merged into a single company, theoretically, gave Sears the opportunity to pick whatever locations it liked from Kmart for further expansion, without any fuss or the need for money to change hands. Spokespeople suggested that hundreds of others, if not all of the Kmart chain, could receive the same treatment in the coming years.[10]

But the first Sears Essentials stores had been open for barely a year when the company decided to ditch the name, preferring to call the dozens of former Kmarts "Sears Grand"—a name previously reserved for stores about twice the size of the typical Kmart. The concept was never expanded any further, and after six years of uncertainty, all of these stores were either permanently closed or converted back into Kmarts.[11]

The stores that had their "Kmart" signs restored to them at the end of that failed experiment were the only exceptions to a downward trend that hadn't stopped with the merger. It didn't exactly inspire confidence in the future of the combined companies that no new Kmart stores had opened in years. And while the Sears chain was still mostly intact, dozens more Kmarts were closing each year. The fears—or, in some cases, hopes—of those who had watched Eddie Lampert take over the company were coming true. Under his leadership, Kmart was worth more dead than alive. Even stores that still had serious potential to make a profit were being closed, often indiscriminately, unless that profit was worth more than the value of the real estate they sat on.[12]

A Sears Essentials in a former Kmart store in San Diego, California. (Allan Ferguson, Flickr)

Shortly before the Sears–Kmart merger, the *Chicago Tribune* wrote that "it may seem far-fetched that a retailer as massive as Sears, Roebuck and Co. could ever be dismantled to tap the underlying value of its real estate." But what was happening to Kmart, which came to the merger with more than twice as many stores as its new partner, quickly began to apply to Sears as well.[13]

Closing a large number of unprofitable stores can sometimes be necessary for the long-term health of a company. But even aside from the damage it can deal to the communities that rely on those stores, it almost always comes with downsides for the company's bottom line. For every Sears and Kmart that closed, the average cost of distributing merchandise to each surviving store went up.

And despite the billions of dollars that the combined company was making on the stock market, very little of that money was actually being spent on the stores. After a full decade of Kmart frantically trying to renovate its way out of trouble, the chain's store improvement expenses were now the lowest in the industry. Other than some half-hearted remodeling projects here and there, the company had essentially given up on convincing people to shop at Kmart.[14]

Twenty years before, a merger between Sears and Kmart would have promised an unstoppable powerhouse of a company, combining America's largest and second-largest retailers. But by the time it actually happened, they had slipped in the rankings to ninth and 14th, respectively. Merging the two together only managed to put Sears Holdings in fourth place, according to the National Retail Federation, and by 2011 it had fallen back out of the top ten.[15]

As the company's finances continued to slide, the closing of stores accelerated. Between 2005 and 2011, the Sears chain remained relatively intact, losing only 39 stores, com-

pared to 174 closing Kmarts during the same timeframe. But when it came to determining just how successful stores needed to be to avoid being sold off for their real estate, the calculus would soon change dramatically, and there would be no turning back.[16]

TOUGH COMPETITION HAD LONG BEEN A MAJOR THREAT to both Kmart and Sears, but now some of that competition was coming from inside the stores themselves. Under a new program introduced early in 2008, "Sears Holdings Organization, Actions, and Responsibilities," or "SOAR" for short, the company's dozens of different divisions and departments were split up, and would now be treated like separate companies with their own profit goals and directives.

The result was that each department's employees were instructed to only do things that would benefit the department they worked for, with no regard for the success of the store as a whole. Department leaders rushed to claim the largest share of the profits, while passing off all the very necessary expenses of running the store on the others. Workers who ostensibly had the same goals were made to fight against each other, and even the executives at the head of each department were stuck trying to race for the biggest bonuses.

Strangely enough, this atmosphere of chaotic infighting was very much by design. Eddie Lampert was inspired to establish SOAR by "Objectivism," the philosophy of science-fiction author Ayn Rand. In books like *The Fountainhead* and *Atlas Shrugged*, Rand argued that the highest purpose of human life is to become a heroic figure, and so people should reject all sense of obligation to their communities and focus on doing what most benefits themselves.

Whether Lampert sincerely thought the SOAR program would turn managers into great heroes who would step up and save Sears and Kmart with their brilliance, or whether he deliberately created chaos as an excuse to close more stores and sell off their real estate, no one can say. But as he and his company ESL Investments acquired hundreds of millions of dollars in assets from the failing chains, he seemed to be the only person benefiting from it.[17]

In one way, Eddie Lampert was achieving that lofty goal of becoming "the next Warren Buffett." Buffett had gotten his start in the early 1960s buying out Berkshire Hathaway, a Massachusetts textile mill. Berkshire Hathaway became one of the largest conglomerates in the world, Warren Buffett became a multi-billionaire as he steered it to acquire company after company in all kinds of industries, and the textile business that started it all was long since shut down and forgotten. Lampert's followers had suspected he was trying to do the same thing to Kmart, and then to Sears.

But if his ultimate goal was to use these dying retailers and their cash reserves as a springboard to make himself one of the richest people in the world, Lampert had fallen well short. His personal wealth peaked somewhere around $7 billion before the steady decline of Sears Holdings and its stock price started to drag him down with it.

Still, though, Eddie Lampert was just about the only person who would come away from this collapse with more money than he had when he went in. And whatever regrets he might have had about how it all turned out were surely soothed when he sat on the deck of his 288-foot-long yacht, the *Fountainhead*.[18]

Eddie Lampert's 288-foot yacht, the Fountainhead, spotted off the coast of Long Island. (Mr.choppers, Wikimedia Commons)

THE DECLINE OF BOTH SEARS AND KMART HAD BEEN WELL underway long before anyone was talking about the "retail apocalypse." The typical explanation for this apocalypse, which has seen many other major American retailers driven into bankruptcy, liquidating stores, or simply stagnating, is that Amazon did it.

The rise of Amazon, and of e-commerce in general, is certainly an important factor for explaining why so many malls and shopping centers have been emptied out in the early 21st century. Even the most popular and best-positioned brick-and-mortar retailers have faced serious challenges keeping up with the online competition. But Amazon's power is often exaggerated. Even in 2020, a year defined by people unexpectedly needing to move all their activities online, Amazon's total US retail sales were less than half of Wal-Mart's. And while no American retailer can say that it's come away completely unscathed from

Amazon's rise, many of them have successfully created multi-billion-dollar online presences of their own.

The truth is, most of the chains that have been driven out of business in this apocalyptic scenario were severely weakened years beforehand. Many were the subjects of leveraged buyouts by private equity firms, which took the retailers' profits to recoup the cost of their investment and left the chains drowning in debt. If other factors prevented those chains from improving their profits and paying off that debt, the losses would rise and rise until eventually, the only thing the new owners could do to turn a profit was to shut it all down and sell off the real estate.[19]

Private equity buyouts have been a popular tactic in the business world for decades, but the potential dangers for the companies acquired in them only started to become fully clear with the Great Recession of the late 2000s. An early example was Mervyn's, a department store chain spun off by Target in 2004 and sold to a group of investors that included two private equity firms. The outlook for Mervyn's was already not good, but under the new ownership the chain was quickly stripped apart, and the last remaining stores closed just four years later.[20]

The legal arrangement that gave Lampert and his investment firm power over Sears Holdings wasn't exactly the same as a private equity buyout, but the ultimate result was not much different. Like the investors who drove Mervyn's into liquidation, Sears Holdings was ignoring the stores it owned in favor of finding more ways to profit off the real estate they sat on. As the company's ongoing collapse became more and more obvious and other investors backed away, Lampert continued to tighten his grip on the company. Hundreds of still-open store buildings were sold to Seritage Growth Properties, a company he owned, which leased them back to Sears Holdings.

By the end of 2015, the year of the Seritage deal, Sears Holdings was reduced to about 700 Sears department stores and 940 Kmart stores. Weaker than ever before and unable to make ends meet without continually selling off important assets, even Eddie Lampert admitted that Sears Holdings had entered a "death spiral" with no coherent plan for long-term survival, let alone success.[21]

A liquidating Kmart in Levittown, New York.
(Yuriy Mikhed, Wikimedia Commons)

Over the next three years, without much fanfare, another 600 Kmarts and 300 Sears stores would be liquidated. The impact on Kmart continued to be the greater of the two, as it was left with about 330 locations. Despite wave after wave of mass closures rolling through, the chain had managed to ensure that it still had at least one location in every state (except Alaska). Now, even this unraveled, as the last remaining Kmarts closed in seven states, including Wal-Mart's home of Arkansas.[22]

Sears Holdings finally filed for bankruptcy in October 2018. The story might have ended here, but Eddie Lampert still hadn't given up on tightening his control of these now-unsalvageable chains. His company ESL Investments bought up what still remained: the best-performing 400 of about 700 stores were declared "Go Forward" locations, leaving the rest behind to be liquidated. There were no longer other investors to try and please; everything was placed directly under Lampert's control.

Lampert even managed to dodge the responsibility of paying over a billion dollars in pensions to Sears and Kmart retirees, since those debts were left with the bankrupt husk of the former Sears Holdings when it sold him the rest of its assets. Instead, the federal government's Pension Benefit Guaranty Corporation was stuck paying that bill. That agency, as it happened, was being overseen by Steve Mnuchin, Lampert's college roommate and former Kmart takeover partner, who had since become Secretary of the Treasury under President Donald Trump.[23]

Under ESL Investments' Transformco division, most of the 400 "Go Forward" stores were soon "transformed" into empty buildings available for lease. But remarkably, Lampert still insisted on keeping many stores open, when most retail bankruptcies end in a mass closure of all stores. The world's longest going-out-of-business sale soon entered its third decade, chipping away bit by bit at the few pieces that were left.

Even the COVID-19 pandemic wasn't quite enough to finish off Kmart. The 55 locations that were still operating in March 2020 were considered "essential businesses," thanks to the small grocery areas that were added back in the late '90s, so they were allowed to stay open at the height of lockdown restrictions. All the while, Transformco took

full advantage of the government aid provided to struggling businesses (and doled out by Mnuchin's Treasury Department). Without the pandemic, many of those Kmarts might actually have finished liquidating sooner.

Instead, as Kmart reached the 60th anniversary of its conception in the summer of 2021, the chain was reduced to the same size it had been at the end of its first year—exactly 18 stores. Scattered across the country alongside the 33 remaining Sears locations, these were the rare handful of stores that had faced down Wal-Mart, Target, Amazon, mountains of corporate debt, a concerted effort to find better uses for the real estate, and a pandemic, and were still profitable enough to justify their existence to someone as unforgiving as Eddie Lampert.

The overwhelming pattern among the last 18 Kmarts was that their locations protected them from competition. In some cases, this was because they were remote—from the small town of Hamilton, Montana, to the islands of Key West and St. Croix and Guam. The US Virgin Islands became one of Kmart's last two strongholds, with four stores in the small Caribbean archipelago. Kmart's rushed Caribbean strategy had worked to make it the territory's only major discount retailer.

But the chain's other hub was the opposite of remote, with seven stores in and around New York City. Here, the city's unofficial ban on Wal-Mart, which extended to many of its wealthy northern suburbs, was Kmart's saving grace. The deep distaste of local residents for that corporate behemoth, and the protests Wal-Mart had faced whenever it tried opening a store in the nation's largest city, had created a safe harbor for the corporate behemoth of a previous generation.

And so, by the summer of 2021, New York was one of the only places left where a Kmart was still a common sight.

Even the downtown Manhattan location, built back in 1996 to dazzle Wall Street, managed to outlive its original purpose, closing years after Sears Holdings ceased to be traded on the stock market. Altogether, only three of the final 18 Kmart stores were less than ten miles from the nearest Wal-Mart—a notable distinction, considering that 90 percent of Americans live closer to a Wal-Mart than that.[24]

Meanwhile, Kmart's slow retreat to these relatively isolated locations, as it happened, ultimately created some interesting opportunities for the chain's other nationwide rival. Like Wal-Mart, Target had mostly rejected empty Kmarts as inferior to the locations it already had. But some of the stores that survived until the chain's final years were in popular vacation spots—like North Carolina's Outer Banks, Jackson Hole in Wyoming, and the Hawaiʻian island of Kauaʻi—where demand for a Target store among the affluent regulars was high. Kmart had gotten to these places first, and they were far too small to support both chains, so quite a few people ended up impatiently waiting for their perfectly successful Kmarts to liquidate and open up the space for the more desirable competition.[25]

In each of these places, the locals would soon get their wish. By this point, even the most profitable stores in the chain could easily be sold off for the right price, and Target was willing to pay to get those customers. A full 20 years after it began, there were still good bargains to be found at the world's longest going-out-of-business sale.

CONCLUSION

On March 6, 2022, the neon sign at the Kmart in Hamilton, Montana, went dark for the final time. It was the end of the line for a corporate logo that had been introduced to Americans almost exactly 60 years before, the sloped red "K" alongside a squat turquoise "mart" that once shone over suburban parking lots in thousands of communities across the country.

From the perspective of the Kmart company, or what was left of it, this was a logo that was 30 years out of date, that had long since been replaced with a new corporate look. But it was an appropriate farewell for one of the last remaining locations of a chain that, from the perspective of most Americans, was itself 30 years out of date.

The Hamilton Kmart was survived by ten siblings, scattered across a handful of places where the company's competition couldn't quite yet reach. But while these stores may be marginal, they're also resilient. Kmart might be a distant memory for many Americans, but in Guam and the US Virgin Islands, the stores are thriving just as much as they ever were.

And if the seemingly never-ending decline of this once-dominant chain does finally come to a complete stop someday soon, it seems certain that the Kmart name will still live on. With a Kmart.com online shopping site already established, the chain is well-positioned to join other historic retailers like Montgomery Ward and Toys "R" Us as an online-only shadow of its former self.

In the twilight years of Kmart's brick-and-mortar life, after the distribution centers were mostly shut down, the chain was reduced to shipping items directly to and from stores to fulfill whatever e-commerce demands there actually were coming through Kmart.com. In the meantime, the site mostly became a poorly regulated marketplace for third-party sellers, in an attempt to compete directly with Amazon on that front.

This led to one final embarrassment for a chain that had already been the butt of so many jokes. In July 2021, it was found that a third-party supplier on Sears.com and Kmart.com was hawking T-shirts that referred to Ashli Babbitt, an insurrectionist who had been shot and killed by law enforcement in the storming of the US Capitol six months prior, as an "American patriot." Many on social media were outraged. Some passionately declared that they would never shop at Kmart again, seemingly unaware that they and their fellow consumers had already made that decision long ago.[1]

THE STORY DOESN'T END WITH THAT SAD LITTLE WEBSITE, either. Kmart permanently changed the landscape of American commerce, both figuratively and literally. Figuratively speaking, Kmart turned a fragmented and diverse discounting industry into one dominated by national chains. Its particular weaknesses and flaws reshaped two small companies in Arkansas and Minnesota and allowed them to grow into two of the nation's largest retailers—or, in Wal-Mart's case, the largest business of any kind in the world.[2]

Other companies built themselves up on a promise of becoming "the Kmart of" toys or electronics or hardware, back when that was a desirable thing to be. Every American, at every store they visit, is shopping in a world that was changed forever by Kmart's enormous influence.

But in a more literal sense, Kmart physically changed the American landscape. With 3,135 different discount stores over the course of its 60-year history, Kmart covered

about 275 million square feet of that landscape at one time or another, or roughly 10 square miles. If all those buildings were put together in Garden City, Michigan, they would be nearly enough to cover the entire city twice over. And so, on 3,130 different occasions, communities across America have been faced with an empty space where a Kmart used to be.

For a sense of what's happening to those spaces, consider the example of Texas, which once had 222 Kmarts and lost its last one early in 2020. Thanks to tougher competition from Wal-Mart in the South, the average Kmart in Texas closed six years earlier than those in the rest of the country, so the state is ahead of the curve when it comes to Kmart reuse and recycling.

It may be surprising to learn that, as of the summer of 2021, only 13 of those 222 former Kmarts were left abandoned. Another 33 have been demolished, mostly for larger stores like Home Depot and Wal-Mart that couldn't fit in the old buildings and needed to replace them. But that means that all the others, nearly 80 percent of the state's former locations, have now found some other purpose.

For the most part, that purpose is to be reconfigured into a strip mall, accommodating a handful of businesses too small to occupy an 80,000-square-foot building by themselves—dollar stores, category killers, and clothing shops, often providing between them all or most of the same merchandise that the Kmart would've had.

But nearly a quarter of the buildings still standing are being used for something other than retail. Communities are getting creative: former Kmarts in Texas are now home to community centers, government offices, schools, colleges, churches, and medical clinics. Storage facilities are a popular option, and so are flea markets and gyms. One building in Houston's Bear Creek neighborhood is split between a barber academy and an indoor go-kart track.[3]

For these new users, it helps that the peak of Kmart's expansion was in the late '70s, when the company was largely focused on neighborhood shopping centers. Those buildings have turned out to be much easier to integrate back into their surroundings than the power centers and superstores on sprawling highways that defined the '90s. In some cases, the former Kmarts sit across the street from former Wal-Marts in a small neighborhood setting—the difference being that Wal-Mart relocated to a bigger and more dominant building further out of town, while Kmart just disappeared.[4]

And one of these urban neighborhood Kmarts created a unique opportunity for the community around it when it finally closed. Back in 1977, the city of Minneapolis removed a block of Nicollet Avenue, a major thoroughfare, so an ambitious shopping center project could be built on top of it. What they got, ultimately, was a Kmart with a 75-year lease, and a traffic headache. A city official called it "the worst planning mistake in Minneapolis history," but it was a crucial resource for many locals and became Minnesota's last surviving Kmart. One resident called it "both a pleasure and a pain for the neighborhood."

The store's going-out-of-business sale was already mostly finished in May 2020, when George Floyd was murdered by a police officer less than two miles away. In the ensuing protests and riots, there was hardly anything left to be taken by any looters, but the building itself was damaged and the liquidation ended early.

The city would soon tear down the building, as it had wanted to do all along, and the uninterrupted flow of cars up and down Nicollet would be restored. But in the meantime, it allowed the blank façade and boarded-up windows to be covered in painted murals. The Kmart became art. And what was once called the "Berlin Wall" of Minneapolis, for just a moment, was full of color.[5]

The Lake Street Kmart in Minneapolis, covered in murals in 2020 and undergoing demolition in 2023. (ZUMA Press, Alamy, above; Eóin, Wikimedia Commons, below)

ACKNOWLEDGMENTS

From the early 1960s onward, the official name of the chain was actually spelled “K mart,” and the name of the company was “K mart Corporation,” with the space not being removed until the rebranding of 1990. For the sake of consistency and to avoid confusion, in this book it is always spelled “Kmart” regardless of the time period being described. In the footnotes, and in quotations, it is spelled as it appears in the relevant sources.

A similar choice was made when discussing Wal-Mart, which officially changed the spelling of its name to “Walmart” in 2018, after introducing a logo without the star acting as a hyphen a decade prior.

A SUBSTANTIAL PART OF THE RESEARCH UNDERPINNING THIS book was the product of a pre-existing project by the author to compile a database of all current and former Kmart locations. The author has created similar location lists for the S. S. Kresge, Jupiter Discount Stores, Sears, Woolco, Venture, Wal-Mart, and Target chains, all of which contributed further to that research. Links to all of these databases can be found at reschultzed.com/spread.

Those lists and this book are part of a larger effort to encourage interest in local history, which is best represented by Bluepages, a collaborative wiki of local history topics founded and administered by the author. If you enjoyed this book, if you know anything about Kmart that wasn’t mentioned in it, or if you just like the idea of doing some historical research of your own, consider paying a visit to bluepageswiki.org and learning about how to contribute.

AN INDISPENSABLE RESOURCE IN THE WRITING OF THIS book was the collection of the Bentley Historical Library at the University of Michigan, which holds the papers and correspondence of the Kresge family as well as a scattering of official company memos, internal newsletters, and other materials of the Kmart Corporation up to about 1985. Given that the official corporate archives are not available for research at the time of writing, their ultimate fate still up in the air, these papers constitute the next best thing.

Another important source of information was the annual financial reports published by a number of major American retailers. Created for the benefit of shareholders, these colorful magazine-like documents are a biased but valuable resource for the history of the companies they represent. Such reports from all of the following companies were found on Mergent Archives (mergentarchives.com) and used as sources for this book:

Butler Brothers/City Products Corporation

CVS Corporation

Dayton Corporation/
Dayton Hudson Corporation/
Target Corporation

E. J. Korvette

F. W. Woolworth Company/
Venator Group/Foot Locker Inc.

Federated Department Stores

Gamble-Skogmo

Hechinger Company

J. C. Penney Company

Rite Aid Corporation

S. H. Kress Company

S. S. Kresge Company/K mart Corporation/
Kmart Holding Corporation

Sears, Roebuck and Company/
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The Home Depot

W. T. Grant Company

Walgreen Company

Wal-Mart Stores

Zayre Corporation

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