

The Price of Success

I was dying to find out what he was thinking. You couldn't blame me. Craig should have been ecstatic. I know I would have been. He had made it: he had conceived and built one of the largest e-tailers on the planet, from scratch. Craig had finished building his grand home on a knoll overlooking the Blue Ridge. With his beautiful wife and two great boys, his life seemed perfect. What's more, the monkey was off his back: he had retired as CEO and had taken our company public. He had raised more money than any ten companies should be able to spend. Yet he wasn't celebrating.

Craig saw it in my eyes and motioned for me to sit down. As I walked into his office, the phone rang. His speakerphone was a modern octopus- looking contraption that sat in the middle of an antique table. The table itself wasn't very big, maybe four feet across. It had belonged to his children's one-hundred-year-old great grandfather. He walked over and pushed a button. "Hello, this is Craig."

"Howdy, pardner!" the voice boomed out of the conference phone.

"Hi, Bill." Craig brightened, recognizing his friend's voice. "How are ya and where are ya?"

"Just leaving the 18th green at Hilton Head," Hunt said sheepishly. "Although I'd rather be there with you." Even with the crackle of Bill's cell phone, we could detect a twinge of emotion in his voice.

"You're here in spirit, Bill," Craig grinned. "We're a team. This would never have happened without all five of us."

"You're right," Bill responded. "We built it together."

Craig leaned forward in his chair. "You and I go back a long way, Bill. We've done some pretty spectacular stuff together."

"That's for sure. As I played these last few holes, I kept thinking about that. Remember flying down to the Price Club? It all started there."

"We've got our roots in retail. We owe a lot to Sol Price. We copied the things that worked for him, and improved the things that didn't. Tell you what, if the folks driving our stock up today knew half of what you and I know about retail, we'd be in fine shape."

"So tell 'em, Craig," Bill said. "And don't give Sol all the credit. Most of what makes Value America great we brewed up ourselves. Remember that trip to San Diego with Scott Chrisman when you told him how you learned to sell? It was on that same trip that you explained how we were gonna change retail. You called it a retail revolution. Remember?"

"Yeah. Like it was yesterday," Craig said, drifting off....

"YES, I WORKED hard to get in, but I just couldn't bear the thought of spending the next three years in law school. I don't even like lawyers." Craig was telling Scott Chrisman and Bill Hunt the tale of how he'd gotten here.

“Here” was 5,500 feet above the California coast, headed southeast at 140 knots in Craig’s Cessna. It was October 1985. Scott was in the pilot’s seat, with the thirty-year old Winn acting as co-pilot. He had been working on his license for months now, mostly in his spare time, usually before sunrise.

It was a sparkling Tuesday morning, adorned with the kind of sky that makes the weather in this part of the world legendary. The three had just taken off from Torrance Airport, a small municipal airstrip nestled beneath the green, windblown hills of the Palos Verdes Peninsula, southwest of LA. The maroon and white Cessna Skylane 182 was loaded with samples of high-velocity ceiling fans made by Patton Electric. Bill was their VP of Sales. Their destination was San Diego’s Montgomery Field, a forty-minute flight, and then on to a small but promising new customer, the Price Club. As a manufacturer’s rep, it was Craig’s job to create profitable partnerships between the people who made things and the people who sold them.

“You couldn’t have picked a more unlikely candidate,” he explained loudly over the plane’s “David Clarks,” the heavy green headsets worn by everyone on board. Communication over the engine’s roar simply did not happen in airplanes like a 182 without electronic assistance. “My father was born for this, not me.”

Bill Hunt nodded. He had known Craig’s father, the gregarious Bill Winn, for fifteen years. Hunt was in his forties, tall, athletic, and recently returned from a stint at Harvard Business School. The story of Craig’s rocky start was being told for Scott’s benefit. Bill knew all about it. He had, after all, known the younger Winn since Craig was a teenager.

The elder Mr. Winn had taken the same shortcut from youth to manhood that so many of his generation had: combat in World War II. Twenty-five missions as a B-17 turret gunner over occupied Europe had made Bill Winn a hard man to shake. A post-war education at USC on the G.I. Bill had led to a career as a manufacturers’ rep. It was started with bluff, bluster, and little else, but it had developed into a thriving little business, representing manufacturers like Patton to chain stores with buying offices in Southern California.

The operative word was “little.” There were no actual employees, just Bill and two independent sales reps, one being his brother-in-law. Bill had none of the trappings even the smallest business would consider necessary. His “office” was a spare bedroom closet, equipped with a rotary-dial telephone, a hand-crank adding machine, and an old manual typewriter. His corporate stationery consisted of business cards and “from-the-desk-of” notepads. Bill’s idea of good fortune was to find an uncanceled stamp he could soak off an envelope and reuse. A child of the Great Depression if ever there was one.

The William J Winn Company was successful for one reason—the outgoing personality of Bill Winn. A charter member of the old-boy network, he could charm paint off a wall. Born with the name “Billy J,” a name that had too much personality even for him, he had had it legally changed to William J when he volunteered for the Army Air Corps.

By the late ’70s, he had done well enough to consider retirement. It seemed like a good time to get out. The world was changing. It was getting harder to make a sale merely on the strength of one’s friendships. Many of his old cronies had left, their places filled with younger buyers who didn’t know him from Adam. And then they started hiring women as buyers. Women! Bill didn’t know what they were thinking. Economic collapse was just over the horizon. Women buyers!

“So there I was, telling my father that I didn’t want to be a lawyer after all.” Craig continued his tale. “It was 1977. I had just graduated from SC and started law school,” Craig said into his mike, “but I didn’t make it through my first day. It dawned on me I’d never met a lawyer I liked. I wanted to spend my life doing things, not explaining them away.

“I told my father, and he said, ‘I was about to sell my business. If you think you can sell, I’ll give it to you. But...you don’t have what it takes.’”

As cold as that sounded, Craig knew his dad was right. He had none of Bill Winn’s easygoing personality, his gregarious relaxed manner, his seemingly effortless ability to charm people. Craig had seen his father at the top of his game—and it was a game to him—taking clients out to lunch, brilliantly holding up his end of a conversation, making his customers feel good. That’s what being a salesman was all about, wasn’t it?

Dad’s shoes were going to be awfully hard to fill. Craig was smart enough, but he was introspective, analytical, and painfully shy. Not exactly a chip off the old block. If there was such a thing as a selling gene, he had failed to inherit it. On the other hand, he knew he didn’t want to be a lawyer, so he decided he’d do what he’d always done—compensate. He would become a success through sheer force of will.

“The deal was,” Craig continued, “I could call on any account not already being sold by my father or his helper, my Uncle Jim.” That didn’t leave much for the younger Winn. Craig was relegated to small specialty stores, newcomers, wannabes, and the chains that the other guys, with all their experience, had never been able to crack.

Craig systematically attacked the problem like a general going to war. He developed a hit list of potential customers using trade show directories, identifying anybody and everybody who had ever gone to a show. This was a logical move, since if you’re attending a trade show, you’re probably interested in what’s being presented there. Cross-referencing the addresses of potential customers with his Thomas Guide map book, Craig worked out a schedule that allowed him to hit everybody in a small geographical area all at once. This way he could make an impressive ten to fifteen cold calls a day—all chosen because their map coordinates fell within block A-4 of page 27. That meant that Craig could get told no an impressive average of ten to fifteen times a day. He was Mr. Efficiency.

No one, it seemed, was much interested in the trash bags, plastic cups, or dishes that he had to sell. He got used to hearing, “No.” Which is not to say he liked it. “It got to be so depressing,” Craig confessed to his traveling companions, “I remember pulling my car off the road one day and saying, ‘God, why me? This is hopeless. I can’t sell.’”

Craig made just \$12,000 that first year, about \$2.75 an hour. During this same time, his father was bringing home \$250,000 doing essentially the same job. That attorney thing was starting to look better.

“At the end of my first year, two buyers took pity on me. One was from Zody’s, and the other was from Builder’s Emporium.” Bill and Scott knew both chains well. Zody’s was a discount retailer with over fifty stores, and Builder’s Emporium, a home improvement chain, was every bit as large. Both were destined to go the way of the dodo as the years passed, but they were very much alive in the late ’70s.

“Each buyer,” Craig said, “told me pretty much the same thing. ‘Kid, you’ve come here every week on open buying days because you couldn’t get an appointment. You’ve made your pitch and I’ve turned you down each time, yet you keep coming back. So I’m

going to give you a break. You've earned it. Give me your best promotion, and I'll buy it."

At last! It was Craig's big opportunity. The buyer from Zody's, Dick Speas, bought lawn and trash bags from North American Plastics. Jerry Schwartz from Builder's Emporium bought Honeywell smoke detectors. If all went well, Craig might even make some money.

But all did not go well. Both promotions failed, so both buyers were in trouble. "I was devastated," Craig said. "My career as a salesman was over. I'd blown it."

Scott, still at the controls, was amused—and puzzled. "Excuse me. Didn't you just spend thirty-seven thousand dollars on this fine airplane with money you earned as a rep? Something tells me there's more to this story."

Bill Hunt just grinned.

"I took responsibility for the failures. One was my fault and the other wasn't, but either way, two good guys were in trouble. Since I'd been the one to get them in, I thought I should be the one to get them out. I covered their losses out of my own pocket—made their problems go away."

Scott just looked at him. "Nobody does that."

"So I found out. By acting honorably in the face of failure, I built a reputation."

Craig thought for a moment and glanced at Bill. "You know, those two guys gave me something far more valuable than purchase orders."

"Darn right!" Bill grinned. "Dick Speas gave you his wife."

"Your sales rep, Ginny Speas, is this guy's wife?"

"Yeah, Scott," Craig said, laughing. "Not long after this happened, she left FedEx and joined The Winn Company. Anyway, those two buyers helped me realize that I couldn't sell like my father did, scrawling orders on the backs of envelopes."

Scott adjusted the manifold pressure to 24 inches Hg and set the propeller speed to 2400 RPM. He still looked puzzled, so Craig explained. "It all started with Tim Snee, from Ralphs Supermarkets. I asked him a bunch of questions the first time we met, like what categories he liked to promote, margin goals, price points, cooperative advertising requirements, payment terms, and delivery criteria. I turned his answers into solutions.

"It was like somebody switched the light on. Buyers love talking about that stuff, since that's how they're judged."

"So what happened?" Scott asked as San Diego approach squawked on the radio, "Four seven November, there's traffic at ten o'clock, heading northwest, descending out of 4500 feet."

Looking out the left window, Craig pointed to the other airplane.

Bill chimed in, "Craig got his wife too."

"Naah. Say it ain't so," Scott moaned.

"'Fraid so," Craig answered sheepishly. "Ann Snee is Tim's wife."

"So these guys trusted you to the point they encouraged their wives to work with you. This must be some formula."

"Not really. It's pretty simple. I just stopped selling and started presenting. I got to know what the buyer wanted. Took a lot of notes. Then I'd go to our brands and say, 'This is what they need. We can restructure our standard program a little, give them what they want, and still meet our objectives.' A week later, I'd return and remind the buyer about what they said. Then I'd give them exactly what they asked for. Simple as that."

Bill chuckled. Scott laughed out loud. “That’s your big secret? Give ’em what they want?”

“That’s it. Works every time.”

Craig didn’t go into the rest of it—how difficult it is to actually give people what they want, even if you know what it is. The typical “born salesman,” Craig had observed, preferred to wing it. But he’d developed the unusual *modus operandi* of reconciling the requirements of buyers with the realities of manufacturers. The process was tedious. Winn invested hours in preparation. There were always pages of written communication between Craig, his customers, and the brands, covering every miniscule detail. After all, he couldn’t rely on his charming personality. His personality had no charm.

Even that wasn’t the end of it. After he had an agreement with the merchant, Craig continued working, doing things that made life easy for buyers and their stores. He wrote their purchase orders. He handled the advertising and point-of-purchase displays. He arranged for delivery. He made sure their sales force had been trained. More importantly, if anything went wrong, he always made it right. Somehow, Winn never met a problem he couldn’t solve. He learned to love problems, for solving them created value. His life’s work became turning lemons into lemonade.

Scott pulled back on the throttle to begin his descent into Montgomery Field. Bill Hunt smiled. He knew all about Craig’s penchant for preparation. The two had spent an entire day getting ready. They knew they were going to get the order. They weren’t even going to have to ask for it. Patton Electric made high-quality products, and the people they were going to see cared about their customers. Selling quality was part of the corporate mission. They had anticipated every possible question, knowing that a good answer today was worth more than a perfect one tomorrow.

THE CESSNA ROLLED to a stop on the tarmac not far from the general aviation terminal. Their car was waiting. It was tired but cheap, a big old sedan that could be rented for the day by pilots who knew the system.

Craig smiled as he carefully extricated the samples from the plane’s cramped interior. He inspected them one last time as he loaded them into the cavernous trunk of the ancient Cadillac.

It was usually the rep’s business to convince the retail buyer of the merits of the brand’s products. But in San Diego in the mid 1980s, the tables had turned. A fellow named Sol Price had started the Price Club, and top brands were staying away in droves.

Price Club wasn’t a big deal; there were only a few locations. The “corporate headquarters” was still in the original warehouse. It wasn’t fancy, just an old converted World War II aircraft assembly plant, a large metal Quonset hut affair, enclosing about 100,000 square feet. Warehouse-type steel racks were stacked to the rafters. Forklifts plied the aisles as customers scampered to safety with their oversized shopping carts. Neiman-Marcus it was not.

The Price Club was causing problems, making people nervous. Sol Price wasn’t surprised. He’d made people nervous before. He had been the founder of FedMart, one of America’s first discount stores. By the 1980s, FedMart had spawned many imitators.

When he had started FedMart, specialty and department stores had been furious. But Sol had figured out a better way to serve both consumers and brands. In the process, he had revolutionized the way America shopped. It was not to be the last time.

FedMart now had hundreds of stores. The revolution had settled down and become business as usual. Price had grown bored. As FedMart grew, Sol had hired professional managers from other retailers. They, quite naturally, had brought their prior understanding and experience with them, putting their own stamp on his vision. Changes in management philosophy ultimately quenched the flames of Sol Price's first retail revolution.

FedMart was no longer a challenge, and challenge was where the fun was. So Price sold the big discount chain to a German businessman. The deal included a non-compete covenant that prohibited him from reentering the retail business. But he was a tinkerer, an innovator, one who could think outside the box, even if it were a box that he had invented.

So Sol founded the Price Club, the first cash-and-carry wholesaler designed to serve the small business community. It wasn't a retailer, never mind the registers that lined the front of the warehouse (Sol wouldn't let anyone call it a store—it was always a warehouse or location). The key to the wholesale concept was that you had to be a member to shop there, and not just anybody could qualify for membership. You had to own your own business, be an executive in a business, or be part of a qualified organization. You couldn't just walk in off the street.

Beyond that, you had to pay for the privilege. Sol, in a stroke of inspiration, realized that people would be more likely to frequent his store, excuse me, location, if they had already paid for the right to do so.

And how could you get people to pony up \$25 a year for the privilege of spending their money in one place rather than another? By offering significantly lower prices on higher quality merchandise, that's how. Works like a charm. If you know you're saving \$50 on a \$200 lateral file for your office, you're going to be impressed. Members always bragged about how much the Price Club saved them. The arithmetic was a no-brainer.

There was a rub, though. Selling things for significantly less than everybody else was a good way to go broke. But that's where the genius of charging a membership fee became apparent. Sol figured the fees were going to be his profit. His mark-up only had to cover his costs, and with his superior inventory management, those were as low as they got, hence the lack of amenities in the dingy old Quonset hut on Morena Blvd.

It was a numbers game. When he started, there were only a handful of members, but as time went on, the numbers became enormous. Eventually, over thirty million Americans would pay \$35 a year for the opportunity to shop in the "stores" he inspired. Craig considered Sol America's greatest merchant. He was unquestionably the most inventive. Even WalMart's Sam Walton looked up to Sol.

Selling things at cost-plus meant that Price was operating on a razor-thin ten percent gross margin. Compare that to the thirty to sixty percent gross margins ubiquitous in the retail community, and you'll appreciate how happy his customers were and how angry he'd made his competition.

Actually, for the member, it was even better than these numbers might suggest, because retail gross margins are calculated on the selling price, not on cost. For Price Club to achieve a ten percent gross margin on an item that cost \$90, they would charge

\$99.95. Another retailer, in order to achieve a fifty percent margin on the same product, would charge \$179.99. A fifty percent gross margin doubles the price of the product. A sixty-five percent gross margin, common among catalog retailers, nearly triples the product's actual cost.

As strange as it sounds from this side of the cash register, Price Club's pricing strategy caused big problems for manufacturers like Patton. WalMart, for example, would tell Patton, "If you sell your Model XYZ fan to the Price Club, we won't sell it in our stores because we'll go broke trying to compete." This, of course, put Patton in a delicate situation. A big discounter with hundreds of stores could move a lot of Model XYZ fans. Sol had a revolutionary game plan but very few locations. Over a decade later, online retailers like Value America would be challenged with an even more extreme version of this same problem.

ARRIVING AT THE big, ugly, steel-walled building, Craig, Bill, and Scott wound their way through the aisles to a back corner. Flimsy temporary dividers hid a number of cheap desks. There fifteen or twenty mostly young men and women who shared Sol's vision ran the store accordingly. None of them wore expensive business suits. Every day was casual day. Most wouldn't even have thought of themselves as executives, though they were serving in those roles. Some had been senior merchants at FedMart, happily jumping ship soon after Price left. Others were new, just learning their craft, caught up in the excitement of corporate pioneering.

Adding to the excitement was stock-option euphoria. Sol Price was committed to sharing the wealth: every Price Club employee had stock options. They all owned a piece of the pie. They all believed that getting in on the ground floor gave them the potential to get rich.

Fortunately, the investment community understood that it took a retail chain at least five years to build the scale necessary to turn a profit. They knew that once scale was achieved, profits would follow. They recognized that new retailers needed time to attract customers, and that the surest way to attract them was with low prices, which initially meant lower margins. Emerging retailers also had to invest heavily in their infrastructure and systems. These costs represented a disproportionately high percentage of their early revenues, making their initial losses worse. Wall Street recognized that new retailers had to build a name for themselves too, reaching out through advertising. The cost of advertising further assured that profits would be delayed.

Yet most emerging retailers found the capital markets receptive—quite willing to give them the vast sums of money they needed to build their systems, advertise, and achieve scale, many years before they became profitable. Their value was calculated as a multiple of projected results. Long before unprofitable dot-coms were valued so highly by Wall Street, rapidly emerging retailers enjoyed the same good fortune.

Sadly, however, no dot-com analyst would ever grasp the correlation between the established mode of evaluating retailers and the new retail world of dot-com. From retail to railroads, from telephony to television, valuing companies based upon their potential was not some new gambit that had been pulled out of the hat to blow smoke in the eyes of tech investors. Although the media may scoff at the notion, valuing pre-profitable

companies in emerging fields has been a valid, well-established, and productive strategy for well over a hundred years.

Price Club was a special place. Its founder's charisma, his noble corporate mission of serving brands and consumers alike, his willingness to share the wealth, all came together to give the firm a wonderful atmosphere, almost a religious fervor. It was as if the entire staff had become knights embarked on a noble crusade. Their members were their liege lord. The old retail world was the dragon they had set out to slay. And Sol's business plan was their sword. Every one of these corporate crusaders understood the company's mission and philosophy. They drank it in. They all valued its principles and followed its precepts. This wasn't just a job. It was a cause. Something about this powerful approach inevitably drew people in.

Hovering over it all was the great man himself, though Sol didn't even keep an office at the warehouse. To look at him, you would never guess that he was one of the most innovative business leaders of the twentieth century. He was about five feet, ten inches tall, in his early sixties, with thinning silver hair. The only remarkable thing about his appearance was his eyes. Sol had the strangest eyes. One bored holes right through you. The other was a free spirit. It had a tendency to wander about, quite independent of the other. It could be disconcerting to hold a conversation with Sol. There was no way you were going to make eye contact.

Trained as an attorney, Price was an active listener. His style was to ask a question twenty different ways. He wanted to discern if you really knew what you were talking about, if you believed in what you were saying.

During this exciting time, Craig developed a close relationship with a FedMart merchandiser named Dick Gerhardt. A math major in college, he used a logical, calculated approach in negotiating with suppliers, many of whom were represented by The Winn Company. This endeared him to Craig, who could sell no other way.

It was in Craig's best interest for Gerhardt to stay where he was. After all, FedMart had hundreds of stores. Dick bought big. His orders were a huge part of Craig's income. But both could see the life slowly draining out of the once vibrant retail giant. Gerhardt found the new owner's process-oriented management style suffocating and paranoid; he came to hate his job. So Craig, seeing the writing on the wall, encouraged Dick to make the jump to the Price Club. It was a move neither would ever regret.

Craig, Bill, and Scott had come to make a presentation to the hardware merchant, Yale Conrad. Yale was in his thirties, short, with thinning blond hair combed straight back. He wasn't trained as a merchant, but he seemed sharp enough. Besides, how much damage could he do? It was supposed to be a tiny department. The Price Club, like so many successful retailers, was comprehensive. They sold some forty categories of merchandise, from office supplies for small businesses to bulk foodstuffs for convenience stores. Hard goods like appliances, housewares, and tools weren't critical. If he failed, no harm done.

It turned out to be a good thing they weren't counting on Conrad's failure. He didn't. He succeeded in spectacular fashion, in ways no one had anticipated. Yale was brilliant,

tireless, and devoted. He and Craig shared a passion for the Price Club. Its mission was their mission.

Here, winning was all a matter of numbers, of performance. How many dollars could they generate per pallet, per location, per day? How could they maximize value for the member? Deals were negotiated on cold mathematics, as cold as the concrete floors in the big warehouse, not on what the traffic would bear.

Unfortunately, Yale Conrad was insecure, a problem that was given free reign when he came to recognize the power he had as a buyer. The power of economic life or death was his, one yes or no at a time.

Craig in time came to recognize the symptoms. Those suffering from insecurity have an overwhelming need for control, unquestioned and unchallenged. Insecure people are consumed with a suffocating craving for praise. And when they don't get enough, they personally proclaim their self-adoration. Yet their focus is seldom on their firm's accomplishments or its worthy mission; it's all about them. They must be the center of attention, and they won't hesitate to tear others down in order to elevate themselves. Their egos are out of control. They'll spend lavishly on the best clothes and the finest cars to create the illusion of competence.

They tend to be perfectionists. Their dress and personal hygiene can be fanatically fastidious. They won't tolerate an ounce of fat on themselves or their spouses. Their offices and homes are immaculate—any object out of place is immediately attacked; their souls are haunted until order is restored. The labels in their medicine cabinets all face outward. Their sock drawers tend to be a dead giveaway.

There is a dark side to insecurity. Rage can be triggered by the simplest things. Insecure people can't handle criticism, even when it's constructive and done in private. Many are abusive. Paranoia runs rampant. They become fixated on their foes and will stop at nothing to incapacitate them. Self ultimately triumphs over morality; yet they're invariably sanctimonious, piously justifying their unwarranted attacks on their rivals.

One of the more curious traits of insecure people is their tendency to undermine the credibility of those they fear. If their adversary has achieved something praiseworthy, they claim credit for themselves. Failing that, they mischaracterize the achievement, making a good deed look bad. The adversary is often accused of exaggeration or even lying. Evidence and logic never enter into the equation. It's all a matter of positioning and perceptions.

Craig was surprised to learn that insecurity did not manifest itself in overt shyness, as one might expect, but in compensation for their self-perceived inadequacies. Conrad was a classic case, and Craig studied him for years, observing and learning.

All the symptoms were there: a constant jockeying for position, a longing to be in control, the calculated undermining of those who failed to show blind devotion. There were rumors that he was abusive to his wife.

Relative stature was the key to Yale's insecurity. In order to elevate himself, those around him had to be torn down. He had a pathological need to have absolute perfection in his surroundings: the perfect wardrobe, precisely cleaned and pressed; the perfect office with everything in its place, every accessory precisely aligned; the perfect car, polished and spotless. If a speck of dust were to invade this perfect environment, the offending bit of soil would be dealt with immediately and ruthlessly. And ego? Conrad had a habit of telling sales reps, "To you, I am God."

Craig eventually learned how to work with Yale, finding that the more vile manifestations of insecurity are thwarted in the presence of altruistic corporate behavior. The more Conrad became dependent on The Winn Company, the better he behaved. Dependence, Craig found, was one of the most effective antidotes to the poison of insecurity.

Unfortunately, this would not be the last time Craig would do battle with this cancer. A decade or so later, he would discover just how much damage insecure people could do to him and his dreams.

Craig concluded the ceiling fan presentation. He was confident. Conrad was pleased. Bill had reservations. "Here's the problem," he said to Yale. "Other retailers have told me they'll drop the Patton line if you buy it. Your prices make them look bad."

Conrad glanced at Craig. Yale was being placed on the defensive, and he didn't like it.

"So what am I supposed to do? Sign on with you and risk losing my biggest customers? You tell me. What would you do?"

There was a long pause. Yale was now glaring at Craig, silently screaming, "Start earning your keep! Do something!"

Craig had faced this concern before with other brands. He chose his words carefully. "The way I see it, you'd like to keep selling all your old customers and serve Yale and the Price Club too."

"Right," Bill replied. "That's why I'm here."

"Then don't compete. Patton has five styles of fan blades, and different brackets. You have four motor housings, eight light kits. Everything's available in three metal finishes. Right?"

"Yeah," Bill answered. "But we don't make or market even a tenth of those possible combinations."

"So let's create one just for Yale." As Craig spoke, he got up and placed several samples on the table. "The Price Club member deserves the best. These blades," he said, selecting the ones crafted out of real oak. "This solid brass motor housing, and remote control. We need you to combine these with this leaded-glass light kit." (He always used the term we to represent Price Club and you to represent the brand unless he was alone with the brand, and then they, too, were we.) "The Winn Company will design Yale's packaging and build his displays.

"Now, Bill," Craig continued melodramatically, "you know the rules. Anything special my friend Yale Conrad designs is his exclusively. Don't even think about selling this model to any of his competitors."

Bill smiled. "No. Of course not."

Yale got up and looked closely at his new fan. The others could see the wheels turning. Yes. A Yale Conrad original. A Price Club exclusive.

"This will work," Bill said. "Nobody else will have this model."

"Exactly. Everybody wins. Patton keeps its customers. Price Club gets to sell the best fan, and I still get to show my face around here."

That got a chuckle out of them. But Bill knew that what sounded simple, just combining parts in a new way, was actually quite complex. New bills of material had to be written, cost studies undertaken, and packaging procured. Winn had a knack for making the difficult sound easy and making the impossible merely appear to be an interesting challenge. He was so darn reasonable, how could you argue with him? He knew every nuance of Bill's and Yale's business as well as they knew them. Bill found himself loving and hating Craig at the same time. Solutions came too easily, and he was so confident they would prevail. Yet he always let others accept the credit, as he had for Conrad today.

Somehow, Bill thought, they would overcome the obstacles. They had done it before. Besides, now that Craig had made the offer and Conrad had accepted, they were committed. Handshakes were exchanged, and Yale excused himself.

"It's not going to last, you know," Craig said to Bill as they gathered their samples. "We've been planning as if our current customers are going to be around forever. They're not."

"What do you mean, 'they're not?'"

"What I'm talking about is the next retail revolution. Every ten years or so, somebody comes up with an idea that changes the way people buy and sell things. It's not that the old ways disappear; they just get eclipsed, left behind in the shadows. They become victims of commercial evolution, losers in the game of natural selection."

"Go on," Bill had to hear this.

"At the end of World War II, if you wanted to buy something, you'd go to the place that sold it. You'd go to Betty's Bake Shop, then to Harry's Hardware, Tom's Toys, and maybe the Curl Up and Dye Beauty Salon. There was plenty of personal service and good advice. In the fifties, as the suburbs took off, department stores did too. You could buy most anything from perfume to tires, from underwear to garden tools. They sold it all, so they were convenient. Of course, when you think about department stores today, you see high-priced apparel, cosmetics, and domestics, 'cause they've been run out of the categories that once made them strong."

"I'm with you so far," Bill said, following with interest.

"What hurt them was the retail revolution of the sixties: discounters. That phase was ushered in by none other than the white-haired gentleman standing over there." Craig nodded in the direction of Sol Price.

"FedMart."

"Right. Sol started FedMart about five miles from here, and the breed proliferated. Now, twenty years later, you've got WalMart, Kohls, Target, K-Mart, and Lord knows who else. Cutthroat competition is now a way of life. They're killing each other. Those that don't adapt will soon be extinct."

Bill stared at Craig. "Why don't you just take a gun and shoot me?"

"How do you think I feel? It's my living, too. Adapt or die, pal."

"So department stores owned the fifties, and discounters, the sixties."

"In the seventies, we saw the rise of shopping malls."

"Asphalt contractors loved 'em," Bill offered.

"You know, our malls have ten square feet of asphalt around them for every man, woman, and child in America." Craig smiled.

Bill sighed. How does this guy come up with this stuff?

“They function like department stores. Together in a mall, specialty stores are comprehensive. They save shoppers time. But today, department stores, regional discounters, and shopping malls are going south. Something new is evolving right under their noses.”

“You don’t mean...”

“Yep. Just watch. Before you know it, there’ll be warehouse stores selling everything you can imagine.”

Bill looked around him. The floors were concrete. The ceiling was the other side of the roof. There were no product displays, no sales staff, no air conditioning, no amenities of any kind. “Oh God, no,” he muttered.

“This is the future,” he said brightly. His attitude was an interesting contrast to the dimly lit warehouse. Craig always saw the possibilities.

“Come on. There’s no way. Just look at this place.”

“Look on the bright side, Bill. We’ll sell tons of your new ceiling fans here at a hundred bucks apiece.”

“Thank you, Doctor Winn. I feel so much better.”

Craig’s eyes scanned the warehouse. “Do you know how they do it, Bill? Do you know what makes Price Club better?” Bill hesitated, so Craig answered his own question. “Turn.”

“Turn,” Bill repeated. He knew what it meant, but he didn’t know where Craig was going.

“Do you know how many inventory turns Sears averages?” Craig asked, not expecting Bill to respond. “One point two times a year.”

“How do they stay in business?”

“Good question. It means that if they buy your product in January, they’ll sell it in November. How many turns does Price average?”

“More than 1.2, I’m guessing.” Bill was sharp today.

“Try eight. They buy your product in January, and it’s gone by February. It’s sold before they even pay us for it! Because their turn is so fast, they’re never out of pocket. It makes them sort of like a bank—they’re able to make a spread on other people’s money.”

Craig and Bill got up and strolled through the aisles of the Price Club. “Inventory management and distribution. That’s what it’s all about. Department stores and discounters have expensive warehouses and stores, but look at this place.” As if on cue, the beep-beep of a forklift backing up punctuated their conversation. Craig and Bill moved out of the way and watched the operator take a pallet of pickles down from its perch. “Here, the warehouse is the store. It may not be pretty, but this is the most efficient solution yet.”

The late afternoon sun poured through the port side windows of Craig’s Cessna. He had come to love this time of day, love the vague feeling of emotional fatigue that invariably followed a long but successful day of parry and thrust, give and take. He wasn’t sleepy, but he closed his eyes against the glare, replaying it all in his mind.

Bill's mind was churning too, thinking it all over. As so often happens, answers had merely led to more questions, and now he had a head full of them. "Hey, Craig. Got your intercom on?"

"Yeah, Bill," he answered, adjusting his headphones.

"Remember what you said about retail revolutions? Where do you see us going after warehouse stores?"

Craig smiled and sat up. He had given this question a lot of thought. "Every new wrinkle comes in reaction to some need the previous revolution failed to meet. So ask yourself, as good as the Price Club is, where are they falling short?"

"First, there's no sales help or good point-of-purchase materials to explain why someone should buy our products."

"Bingo," Craig smiled. "You're one for one. It's up to the package to do the selling."

"They're inconvenient," Bill said. "It's a hassle to get to a Price Club and a bigger hassle to find what you want once you're there."

"Ka-ching! Give the man in the red sweater another point."

"The selection's not so hot, either," Bill added, hoping for a perfect score. "I'll bet they carry less than three thousand items."

"You're as sharp as a marble, my man. Three for three. All right, Bill, here's the future as I see it. All of the things Price Club does well will still resonate a decade from now. Better technology will mean more efficient inventory management, and that in turn will enable future retailers to sell stuff at better prices. Sol's commitment to quality is important, and so is his support of brands. I think the store of the future will emulate Sol's product breadth. You'll be able to buy everything. For my money, his idea of leading with office products is also genius."

"Okay. So much for adoration. What about invention?" Bill probed.

"The problem is that there's an information gap. It prevents consumers from learning what they need to know. And it's getting worse. Products are becoming more complex. They need more explanation, not less."

"Yeah. I agree."

"So we need a way to make consumers better buyers—to differentiate features, functions, and benefits, the same way you and I do for professional chain store buyers today."

"That's impossible," Bill said. "We can't sell every consumer."

Craig smiled. "Not today. But in the future, we'll be able to present things electronically, using multimedia: text, pictures, sound, even video. People will watch our product presentations right in their homes."

Bill smiled. When Craig got an idea into his head....

"Somebody will find a way to combine these new PCs we saw at the Price Club with phones and maybe even TVs."

"Is that why you bought that new computer today?" Scott interjected.

"No, I think this revolution is a ways off. But I'm told Dell is an up-and-comer. It's unbranded now, but the deal was too good to pass up. It's lightning fast, got an Intel 286 processor!"

"Wow." They were both impressed.

“Now imagine, guys, using this PC to view an electronic presentation of Patton fans. Buy them in your home and have them shipped from the factory to your doorstep. It’ll happen. Someday.”

“You’ve really thought about this, haven’t you?” Bill asked.

“It’s been, what, fifteen years since we put a man on the moon? Some of that technology has to trickle down to us common folks.”

“So you’re talking about bringing the store and the products to the customer?” Scott was having a hard time envisioning this.

“Exactly. Think about it—there’s no store. No warehouse. No overhead. And non-existent inventory turns very fast. There’s just the factory and the consumer. Supply and demand. The store is virtually transparent. It’s the ultimate retail revolution. It gives everybody everything they want.”

“Except manufacturer’s reps,” Bill pointed out.

“No more reptiles,” Craig agreed. “So when this happens, we’d better be the ones making it happen.”

Bill just grinned and shook his head.