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The Vital Two: Retail Innovation by Sol Price and Sam Walton

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Abstract

Sol Price and Sam Walton changed retail in the twentieth century. Price changed retail by combining knowledge he assembled from real estate law and the firms he observed to find creative ways to innovate in discount retail. Walton, too combined and redeployed knowledge—in some cases, the knowledge he obtained watching Price. Walton also used the knowledge he acquired from studying retail logistics to develop a supply chain that dramatically lowered costs and passed those savings onto consumers. Both succeeded by developing organizations that effectively deployed entrepreneurial judgment. Their careers provide informative examples of the judgment-based approach to entrepreneurship.

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Introduction

Retailing took over from manufacturing as the leading sector in American economic growth in the late twentieth century.¹ Retailing's growing importance and increased scholarly attention on entrepreneurial judgment—making decisions about resource deployment under uncertainty—suggest that it would be fruitful to examine the careers of arguably the two most important retail innovators of the twentieth century: Sol Price and Sam Walton.² Walton and Price illustrate the importance of entrepreneurial judgment and, specifically, the investment decision. Their contributions were creative as well as allocative. Within their local situations and armed with knowledge unavailable to central planners, Walton and Price imagined new ways to redeploy resources.³ Furthermore, their ability to create opportunities in response to social, political, and cultural changes helps us synthesize different approaches to entrepreneurship. Their achievements arguably set them alongside Jonathan Hughes's *Vital Few* entrepreneurs in American history who fundamentally changed how we live (Hughes 1966).

While we rely heavily on secondary sources, this approach is consistent with Mark Casson and Catherine Casson (2013) due mainly to the paucity of primary source material within easy access. Secondary sources are sufficient for our purposes as the sheer volume of commentary on mega-retailers provides abundant information with which to work. Sam Walton, of course, was the very well-known founder of the retail behemoth Walmart. As of this writing, Walmart is number 1 on the Fortune 500 for the eighth consecutive year.⁴ Walmart's profit of almost \$15 billion out of nearly \$524 billion in revenue gives it a market valuation of over \$389 billion. Walmart is the largest private employer in the United States, with 2.2 million employees. Due to its size and fierce opposition to labor unions, it has been a political lightning rod. While he is not as well-known as Walton, Sol Price was a retail innovator and alert entrepreneur responsible for retail innovations like the discount warehouse club. According to a *San Diego Business Journal* article published after Price died, "He was a pioneer, much the same as Steve Jobs and Bill Gates were pioneers. Much the same as Henry Ford was a pioneer."⁵ Costco, which currently ranks number 12 on the Fortune 500 and employs 214,500 people, is Price's direct commercial descendant: one of its founders was Jim Sinegal, Price's former employee.⁶ Walmart's success has spawned a large body of literature on its economic and social effects. While Walmart and Costco have hidden costs like government subsidies or tax breaks for new locations, researchers have found that benefits substantially exceed the costs.⁷

First, we explore the investment decision rather than the opportunity *per se*. The market process requires the *decision to act*, which implicitly expresses disagreement with others

¹ Jeffrey Campbell (2009, 262).

² Nikolai Foss and Peter Klein (2015).

³ The "local knowledge" argument appears in chapter two, book four of Adam Smith's *An Inquiry into the Nature and Causes of the Wealth of Nations* (Smith 1776 [1904]). It is expanded on especially in the essays in Friedrich Hayek (1948). See in particular James Otteson (2018, 41ff).

⁴ <https://fortune.com/company/walmart/>, accessed November 3, 2020.

⁵ Gary London (2010).

⁶ <https://fortune.com/fortune500/2021/search/>, accessed July 2, 2021. See also Tim Morris (2004) and Robert Price (2012).

⁷ See Carden and Courtemanche (2016), Emek Basker (2007), and Gary Gereffi and Michelle Christian (2009), for surveys of the evolving literature. Courtemanche and Carden (2011) and Pankaj Ghemawat (2006) do back-of-the-envelope calculations suggesting that on net, the Walmart effect is positive. Ghemawat (2006, 41), in particular, writes that "... these costs [of Walmart] are hard to estimate precisely ... but we *can* say conclusively that those costs are much smaller than their associated benefits". Humberto Brea-Solís, Ramon Casadesus-Masanell, and Emili Grifell-Tatjé (2015) explore Walmart's changing business strategies under different CEOs.

about current resource allocation and technological possibilities.⁸ To Klein, investment—“the act of putting resources at risk”—“is the unit of analysis”.⁹ Foss and Klein (2012) argue that the entrepreneurial function is an exercise in organizing *judgment* by assembling and deploying resources to align the world with either consumers' preferences in the case of commercial entrepreneurship or some other conception of the good in the case of political, social, spiritual, or intellectual entrepreneurs.¹⁰

We can reinterpret the entrepreneurial achievements of Price and Walton with the judgment-based approach. It complements and improves on more standard approaches relying on trait theory and opportunity recognition. Trait theory points to inherent individual characteristics predisposing one to entrepreneurship.¹¹ Trait theory is implicit in biographies showing how, for example, Sol Price had unique insight and exceptional determination.¹² However, the approach offers little help for aspiring entrepreneurs looking to Price, Walton, and others because it does not offer anything to imitate. Either the aspiring entrepreneur can recognize themselves in the traits of established entrepreneurs, or they cannot. Trait theory can also encourage a limited view among venture capitalists and angel investors who are encouraged to look for people who conform to a particular entrepreneurial image. It can also perpetuate stereotypes and inequities where only those with traits like those who have “made it” are deemed worthy of investment.

The “opportunity recognition” approach assumes an opportunity exists and needs only to be recognized and exploited. That is not obvious, however. Opportunities may only come into being through the entrepreneur's creative action, suggesting that opportunities are created rather than discovered.¹³ We take the judgment-based view that what some label “opportunity” is the entrepreneur's belief about using the resources at their disposal.¹⁴ Therefore, the unit of analysis is not the opportunity but the judgments entrepreneurs make when they arrange complementary resources. Investors can evaluate this approach and imitate other aspiring entrepreneurs who want to learn how others failed or succeeded.

Second, we explore how context affects entrepreneurial judgment. Hayek (1948) examined how context affects how people assemble and deploy knowledge. According to Hayek, the social problem is not gathering objectively existing and given knowledge, facts, and principles about consumers' preferences, available resources, and production possibilities. Instead, it is understanding and facilitating a process that uses as much social knowledge as possible. He points out that commerce is just such a process. Making public policy that restricts experimentation (as in the cases of the anti-chain movement before World War Two and Resale Price Maintenance after) excludes voices from the conversation and thereby compromises the processes within which entrepreneurs discover, create, and exploit opportunities.

We identify times in the careers of Sol Price and Sam Walton where they exercised entrepreneurial judgment effectively. The changes in the structure of American retailing as a

⁸ Jeffrey McMullen and Dean Shepherd (2006), 134. Cf. Casson (1982), 58.

⁹ Klein (2008), 186, 175.

¹⁰ Foss and Klein (2012).

¹¹ James Carland, Frank Hoy, William Boulton, and Jo Ann Carland (1984), Gavin Cassar (2010), Roderick White, Stewart Thornhill, and Elizabeth Hampson (2007). Many researchers have sought to isolate those unique psychological characteristics that predicted entrepreneurship (Busenitz and Barney 1997; Andreas Rauch, Michael Frese and Sabine Sonnentag 2000; D.K. Sarasvathy, Herbert Simon, and Lester Lave 1998; Wayne Stewart and Philip Roth 2001). More recently, finding the biological characteristics that make entrepreneurs different has emerged as an area of active research (Nicos Nicolaou, Scott Shane, Lynn Cherkas, Janis Hunkin and Tim Spector 2008; White et al. 2006 and 2007).

¹² Price (2012); see also: Slater (2004); Trimble (1990); Walton (1992).

¹³ Alvarez and Barney (2007).

¹⁴ Foss, Klein, and Bjørnskov (2019).

result of their efforts have been explored in a range of contributions from historians and economists.¹⁵ In popular and academic debates about “the Wal-Mart Effect”, people have criticized Walmart for not paying higher wages like Costco.¹⁶ Costco invites comparison to Walmart, particularly the Sam’s Club division, but despite their similarities, they serve very different customers.¹⁷ Their careers show no single recipe for success, even in a narrowly defined industry like general merchandise retail. Price served the urban markets of San Diego, Phoenix, and San Antonio—large cities with large clusters of federal employees. On the other hand, Walton translated some of Price’s ideas into a different setting and served small towns in the south, plains, and Midwest with a wide selection of goods at low prices. Today, these differences survive in different business models at Costco and Walmart. Costco focuses on the rapid turnover of a minimal selection, while Walmart stocks a much wider variety. Joel Mokyr (2016, 67) writes that “the success of able and lucky entrepreneurs is like the proverbial canary in a coal mine. The proliferation of successful entrepreneurs is a telltale sign of well-functioning markets”. We explore how the careers of Sol Price and Sam Walton fit the bill.

Opportunities, Projects, Decisions, and Entrepreneurial Judgment

Entrepreneurship research has its roots in the writings of Frank Knight (1921) and Joseph Schumpeter (1934; 1942). Knight (1921) describes the entrepreneur as the residual risk bearer who takes on the cost of uncertainty and works to bring a return to investors that exceeds the investment cost. The incentive for entrepreneurship is that any residual rewards or debts accrue to the risk bearer (Knight 1921). Schumpeter (1934) described the entrepreneur as one who carries out new combinations of economic development. He also argued that only certain people would be able to carry out entrepreneurship and that all entrepreneurship is temporary. Thus, entrepreneurship is crucial in creative destruction (Schumpeter 1942). This article is more in line with Knight’s (1921) ideas on entrepreneurship occurring under uncertainty that requires the entrepreneur to exercise a series of judgments to bring about a new combination of resources.

Sharon Alvarez and Jay Barney (2007) argue that the appropriate metaphor for entrepreneurship is “mountain building” rather than mountain climbing: constructing a mountain rather than discovering and conquering an objectively existing mountain. Meanwhile, the creation view involves “iterative, inductive, incremental decision making”.¹⁸ As GLS Shackle (1979) put it, creative entrepreneurial decision-making is not solving a jigsaw puzzle where the shapes are known and fitted together in an unknown but objectively existing pattern; instead, it is “free mosaic composition, pieces set *in a matrix of choices-to-come*”.¹⁹

Saras Sarasvathy (2001) argued that entrepreneurship comes about through processes of either *causation* or *effectuation*. Causation is determining the set of causes to achieve a determined effect. In contrast, effectuation is determining the appropriate *effect* from an available set of causes. In this perspective, entrepreneurship is more a product of circumstance than individual uniqueness. Effectuation begins with the means at hand and makes it what one can. Causation starts with a goal and gathers the resources needed to get there. Sarasvathy considers a chef who finds a recipe and shops for the ingredients to make it versus a chef who bases a menu on what they see in the pantry and refrigerator.

¹⁵ Critical historical treatments from historians include Nelson Lichtenstein (2011) and Bethany Moreton (2009). Book-length treatments from economists offering a more sympathetic view come from Michael Hicks (2007) and Richard Vedder and Wendell Cox (2007). Carden and Courtemanche (2016) survey the relevant literature accounting for the costs and benefits of the changing general merchandise sector.

¹⁶ See, for example, Wayne Cascio (2006) and Charles Fishman (2006), discussed below.

¹⁷ Cf. Vedder and Cox (2007) for discussion.

¹⁸ Alvarez and Barney (2007), 17.

¹⁹ Shackle (1979), 120-121; cf. 56-57.

Effectuation and the judgment-based approach are consistent with one another, and we see both in the careers of Sam Walton and Sol Price. Some have argued that the effectuation perspective on entrepreneurship requires the exercise of judgment (McMullen 2013). The distinction is that effectuation still focuses on an opportunity created from available means. “The judgment-based view regards entrepreneurship as an active, owning, controlling agency, the function of assembling, configuring, and reconfiguring bundles of heterogeneous resources under conditions of ‘true’ uncertainty”.²⁰ This judgment-based view leads us to “[look] in greater detail at processes of mobilizing resources in the pursuit of entrepreneurial ideas, and examining the process of groping towards those governance structures, contracts and so on that can best assist the formation and realization of such ideas”.²¹ The judgment-based view focuses on combining heterogeneous resources and the outcomes of those combinations, not on the opportunity, whether discovered or created (Foss and Klein 2020).

Foss and Klein (2012) define *projects* and *opportunities* as follows. “A project”, they write, “is a stock of resources committed to particular activities for a specified period of time”.²² *Opportunities* are “potential, but currently inactive, projects”.²³ The entrepreneur, they argue, searches for profitable opportunities through “processes of experimentation and learning, not moment-by-moment optimization” because the entrepreneur must exercise judgment about the assembly and formation “of heterogeneous, but complementary capital assets” under alternative governance structures.²⁴ These capital assets, in turn, “should ... be characterized, not by their physical properties, but by their place in the structure of production *as conceived by entrepreneurs*”.²⁵ The entrepreneur coordinates plans for current and present resource use by exercising judgment about opportunities.²⁶

Entrepreneurs intervene because they believe they can align the structure of production with technological possibilities and consumers’ preferences. The entrepreneur acts, in short, on the conviction that everyone else is making a mistake—that “he is right, while everyone else is wrong”.²⁷ Entrepreneurial judgment is difficult to communicate in anything other than entrepreneurial action; hence, it is difficult to rent this judgment out to larger firms. We see this in the careers of both Price and Walton. Price believed a warehouse store catering to government employees would work in San Diego. Walton thought large discounters could work in small towns. Both conceived of *opportunities* to realign resources and undertook *projects* to do so. They succeeded.

In this context, Sol Price and Sam Walton got their starts. Table 1 details some crucial events in their lives. Price was a lawyer, the New York-raised son of immigrants. He had been educated in law at the University of Southern California before setting up a legal practice in San Diego. Sam Walton was born in Kingfisher, Oklahoma, during the Dust Bowl. He captained his high school football team, was a lifelong Presbyterian, and graduated from the University of Missouri with a degree in economics. It seems both became retail pioneers, mainly by “accident”, but these were accidents created by their entrepreneurial judgment.

²⁰ Foss and Klein (2015), 594.

²¹ Foss and Klein (2015), 595.

²² Foss and Klein (2012), 102.

²³ Foss and Klein (2012), 152.

²⁴ *Ibid.*

²⁵ Foss and Klein (2012), 115.

²⁶ Kirsten Foss and Nikolai Foss (2008, 203), citing Knight (1921).

²⁷ Casson (1982), 14.

Table 1
Major Events in the Careers of Sol Price and Sam Walton

Sol Price	Sam Walton
Born 1916	Born 1919
1954: Opens FedMart	1945: Opens first Ben Franklin store in Newport, Arkansas
1975: Fired from FedMart	1962: Walmart Discount City Opens in Rogers, Arkansas
1976: Opens Price Club	1983: Opens Sam's Club
1993: Price Club Merges with Costco	1987: Opens first Hypermart USA
1994: Starts Price REIT and PriceSmart	1989: Opens Walmart Supercenter
Dies in 2009	Dies in 1992

Sol Price: Effectuation and Entrepreneurial Innovation²⁸

“Sol Price created, and then created again, and then again, the ‘warehouse’ retail concept.”²⁹

To borrow Sarasvathy’s (2001) illustration, Sol Price was a chef who looked in the pantry and refrigerator, saw what he had, and made something of it. In 1954, he started FedMart in San Diego. In 1975, he was fired and locked out of his office after German retailer Hugo Mann took over the company. Undeterred, he started Price Club in 1976. In 1993 Price Club merged with Costco, co-founded by Sinegal, a Price Club executive who had gotten his start in 1954 as a part-time stocking clerk at Price’s first FedMart. After Price Club, he started a successful real estate investment trust, and his son Robert ran the PriceSmart stores, which had spun off after the Price Club-Costco merger, in the Caribbean and Central America. When he died at his home in La Jolla, California, on December 14, 2009, Price had a net worth of approximately \$500 million.³⁰

Price started his career in law, not retail, but as a lawyer, he accumulated knowledge from his clients that led him into retail. First, his work for the Seven Seas Locker Club showed him “how a large store selling a variety of goods and services all under one roof could be successful catering to a focused segment of the marketplace”.³¹ Locker Clubs rented storage lockers to sailors coming through San Diego who had to be in uniform when they joined and left their ships but who wanted to spend their time ashore in civilian clothes. They also sold a variety of services and small goods.³² What Price learned would serve him well as he developed clientele at FedMart and later at Price Club.

Second, Price visited an EJ Korvette’s store in 1954.³³ EJ Korvette’s was a chain of discount department stores founded by Eugene Ferkauf that was able to comply with the letter of the “fair trade” laws while violating their spirit by distributing membership cards to anyone who came through the door. This made them a membership club that was no longer bound by “fair trade” laws and, therefore able to sell at steep discounts. Price would use a similar strategy to avoid “fair trade” prosecutions, and his stores generally did not carry merchandise from firms that expected him to adhere to fair trade laws.

²⁸ Many discussions of the life and career of Sol Price are drawn from Price (2012). The source presents the hagiographic pitfalls one expects from a celebratory biography; however, the claims in Price (2012) are consistent with what we have found by exploring trade magazines like *Supermarket News* and *Chain Store Age*.

²⁹ London (2010).

³⁰ Information in this paragraph is from Peter Eisner (2009) and Margalit Fox (2009).

³¹ Price (2012), 33.

³² Price (2012), 32-33.

³³ Price (2012), 51.

Third, he accompanied two of his clients, Mandell Weiss and Leo Freedman, to visit Los Angeles, where they met with a discount store for federal employees called Fedco. Price noticed that Fedco's store was operating in a facility like the warehouse in San Diego for which he was seeking a tenant.³⁴ The group noticed that many people were making the four-hour round-trip drive from San Diego to Los Angeles and decided a Fedco in San Diego would do quite well. The store's managers were not interested, but Price ultimately found himself getting into the retail business because he was looking for something to do with a building his mother-in-law had acquired in a real estate swap—a clear example of effectuation in action. He started FedMart, a membership discount store for government employees, in 1954.

Price was not simply “alert” to an opportunity. He exercised judgment about how to deploy the human and social capital that made FedMart a workable proposition, and he did so in the service of investing and risk-taking. In the language of Foss and Klein's (2015) explanation of the judgment-based view, Price maintained “an active, owning, controlling agency, the function of assembling, configuring, and reconfiguring bundles of heterogeneous resources under conditions of ‘true’ uncertainty”.³⁵ He had built social capital by doing *pro bono* legal work for small business owners who had run afoul of wartime wage and price controls and the attendant rationing. When the people he had helped needed substantial (and more lucrative) legal counsel, they came to Price.³⁶ His early decisions about what FedMart would carry reflected that his business had put him in contact with people in (for example) the furniture, liquor, and jewelry trades.³⁷ These were more than contacts and, apparently, more than just clients.

In a 1990 interview with *Supermarket Business*, Price prefaced his story about FedMart's origins by saying, “I am the type of person who sticks my nose into everybody's business, so when I was practicing law, I was more than just a lawyer. I would involve myself in my client's business”.³⁸ That, presumably, was how he ended up along for a visit to Fedco.

The difficulty of conveying one's vision is one of the reasons entrepreneurs strike out on their own. As Foss, Klein, and Christian Bjørnskov (2019, 1199) put it,

In markets characterized by a context of deep uncertainty and resource heterogeneity, it is difficult or impossible for entrepreneurs to communicate their judgments to funders and other resource providers; for this reason, entrepreneurs are better off exploiting their judgments by creating and managing their own firms, rather than trying to sell these judgments through the market for ideas.

Price's experience with Fedco illustrates the phenomenon in action. Fedco was not interested in opening a store in San Diego, so Price found that he had to act on his judgment and act on an opportunity.

The San Diego retail market seemed ripe for disruption. Downtown retailers had grown “complacent”, offering wide variety and deep selection but coupling these with high prices.³⁹ However, EJ Korvette's success and the number of people driving from San Diego to Los Angeles to shop at Fedco convinced Price that a low-price discounter with more convenient operating hours could succeed. In addition, he built a reliable, low-risk clientele by offering membership to government employees at all levels and then to members of credit unions serving (for example) employees of local utilities. Therefore, FedMart could save on

³⁴ Richard S. Bragaw (1990).

³⁵ Foss and Klein (2015), 594.

³⁶ Price (2012), 43.

³⁷ Bragaw (1990).

³⁸ *Ibid.*

³⁹ Price (2012), 47-48.

advertising and save further by developing a customer base that did not write many bad checks.

German furniture store and hypermarket owner Mann, who had been “(d)escribed as Europe’s most dynamic retailer”, bought out FedMart.⁴⁰ The new leadership fired Price from the company he had founded on December 5, 1975. Mann took FedMart in a different direction, spending more on advertising and introducing loss leaders.⁴¹ The company also expanded rapidly, but ultimately fell victim to “an over-zealous \$100 million expansion effort launched by Mann”.⁴² FedMart also earned some unwelcome attention due to a “60 Minutes” investigation that charged them with selling falsely upgraded meat.⁴³ FedMart closed in 1982.

Not to be deterred after his dismissal from FedMart, Price rented Suite 729 in the Fifth Avenue Financial Center office building—“directly above his former FedMart office”—and started The Price Company in January 1976.⁴⁴ It would arguably lead to his most significant contribution to retail innovation: Price Club, which he began with his son (and biographer) Robert Price.⁴⁵

Price Club was another exercise in entrepreneurial judgment. Sol and Robert Price gathered information by talking with small business owners and seeing what they needed. In Sol Price’s words, “we discovered a gap in the distribution system just waiting to be filled”.⁴⁶ Specifically, they saw that they could create value for small business owners who did not have the buying power or the storage space to take advantage of high-volume discounts. Moreover, using higher-priced cash-and-carry outlets was costly, so the Prices came up with a new retailing format targeted explicitly at these customers: the membership warehouse store.⁴⁷

The Prices thought the store could centralize procurement for small businesses that would otherwise spend more money buying from multiple salespeople and companies. This insight was important, but learning how to arrange their resources to take advantage of it was a dynamic process requiring judgment throughout. They bet that small businesses would be willing to give up convenience to save money, but they tested the limits of their bet as the first Price Club had an especially inconvenient location. It got off to a rocky start, and “(b)usiness was so bad that the employees were asked to park their cars in the front parking lot—spaces reserved for members—just to make sure that people knew Price Club was open for business”.⁴⁸ They decided to take a suggestion from one of their customers and cater to government employees as they had at FedMart.⁴⁹ They expanded their customer base by striking a deal with San Diego City Credit Union members that would allow them to shop at Price Club for a five percent markup over wholesale. They made similar arrangements with the San Diego County Credit Union and the phone company’s credit union. There was an interesting unintended consequence: Credit Union members found themselves looking for business owners to take along so that they could save the five percent markup, and this meant a lot of word-of-mouth advertising for Price Club.⁵⁰ Furthermore, “the membership concept helped reduce operating expenses ... because the membership psychologically tied the

⁴⁰ Price (2012), 105ff. The description of Mann as “Europe’s most dynamic retailer” appears in *Arizona Republic* (1982).

⁴¹ Jeff Rowe (1986).

⁴² *Sacramento Bee* (1982). See also *Arizona Republic* (1982) and Barbara Bry (1979). *Chula Vista Star-News* (1977).

⁴⁴ Price (2012), 113.

⁴⁵ Price (2012), 119.

⁴⁶ Bragaw (1990); see also Cathryn Jakobson (1988).

⁴⁷ *Imperial Beach Star-News* (1976).

⁴⁸ Price (2012), 133.

⁴⁹ <https://www.referenceforbusiness.com/history/Pa-QI/PriceSmart-Inc.html>, accessed June 30, 2021.

⁵⁰ Price (2012), 134, 137.

member to Price Club and eliminated the need to advertise”.⁵¹ Rapid turnover meant Price Club did not have to invest as much in inventory; as Sandra Vance and Roy Scott (1992, 246) pointed out about Sam’s Club, “since clubs were often able to sell their merchandise before payment was due (usually within thirty days of receipt), they were able to operate with relatively little investment in inventory”. Price Club combined what Price learned from EJ Korvette about applying a liberal understanding of the membership club model with the Fedco model of focusing on government employees to build a new model focused on small business owners.

Their success attracted the attention of Seattle businessman Jeffrey H. Brotman. He proposed to franchise Price Club in the Seattle area, much as Sol Price had proposed operating a Fedco location in San Diego. Price Club turned down his overtures, so he enlisted Price Club executive Sinegal and started Costco instead in 1983.⁵² Consistent with the judgment-based approach, Price made this decision under conditions of uncertainty. He decided how to best use the resources of Price Club, and that did not include a Seattle franchise with Brotman. He had no way to know beforehand whether this would be a mistake. In this case, it seems that Price made the wrong decision. Jakobson (1988) wrote in the *New York Times Magazine*, “One company that Price Club perceives as a threat is Costco, co-founded by Jim Sinegal, a former Price Club executive, in 1983”. In 1989, Price said of retail that someone always comes along and finds a way to do it better. Jakobson and Price were prophetic: Price Club and Costco would merge in 1993 to create PriceCostco, but the Prices would leave in 1994 and start PriceSmart, a chain of membership warehouse clubs in the Caribbean and Central America that is, as of this writing, still based in San Diego and ranked number 694 on the *Fortune*.⁵³ Costco eventually dropped the “Price” name and became Costco Wholesale Corporation. As a writer for the *Puget Sound Business Journal* put it, “Price Club pioneered the concept. Costco did it better”.⁵⁴

Successful organization of entrepreneurial judgment propelled Price’s ventures and those that followed. In a 2003 interview, Costco executive Joe Basse explained that Costco’s buyers, for example, become experts on the products they are buying and vigilant scouts for ways to improve. Specifically, Basse pointed out that his “buyer knows the whole product and can tell manufacturers things that might save them a little money in handling or production”. He offered an example from his time at Price Club and, before that, FedMart. Basse had been trying to get the manufacturer of Listerine to sell to Price Club in a larger size, and he remembered a big plastic vodka bottle from his time at FedMart. The supplier ultimately agreed to sell to Price Club in the large plastic bottles Basse had recalled from FedMart’s vodka sales.⁵⁵

Unlike other approaches, the judgment-based approach does not require that we look for the inherent exceptional characteristics that made Price an entrepreneur. Thus, we do not need to ask why Price seized this opportunity that was seemingly waiting for anyone with “eyes to see”. Instead, we can evaluate what Sol Price did with the knowledge and other resources to create value where it did not previously exist.

⁵¹ Price (2012), 122.

⁵² *MMR* (2010).

⁵³ <https://fortune.com/company/pricesmart/fortune500/>, accessed June 30, 2021.

⁵⁴ Jeanne Sather (1993).

⁵⁵ *MMR* (2003).

Sam Walton's Entrepreneurial Innovations⁵⁶

"With the possible exception of Henry Ford, Sam Walton is the entrepreneur of the century."—Tom Peters⁵⁷

Walton's path to a retail career was much more direct. At every stage, he deployed entrepreneurial judgment by investing financial capital in arrangements of heterogeneous capital goods and contracts, surrounding himself with excellent but overlooked business minds, and decentralizing and delegating decision-making so that even floor-level associates had considerable discretion over what to sell how. His successful judgment created the US's biggest fortune. He created a retail operation that became the country's largest in 1990 and routinely topped the Fortune 500 list of largest companies in the United States.⁵⁸ Walton exercised his judgment to implement a simple idea successfully. As Cascio (2006, 26) explains, "Sell stuff that people need every day, just a little cheaper than everyone else, sell it at that low price all the time, and customers will flock to you".

Walton was born in Kingfisher, Oklahoma on March 29, 1918, and came of age during the Great Depression. He showed the ability to lead people in organizational settings throughout his life. At age thirteen, he became the youngest Eagle Scout in Missouri history.⁵⁹ His high school classmates voted him "Most Versatile Boy", which seemed fitting: he was president of his senior class, quarterback of the undefeated, state-championship-winning football team, an active member of many student organizations, and a member of the undefeated, state-championship-winning basketball team.⁶⁰ He went on to the University of Missouri, where he studied economics, served as president of what was the largest Sunday School class in the world, and was "constantly earning money".⁶¹ After graduating from college, Walton turned down a job offer from Sears Roebuck and became a management trainee for JC Penney. He convinced his brother Bud to join the program, and Sam went on to training in Des Moines while Bud went to Cedar Rapids.⁶² In the military, he served in Salt Lake City—"a minor heart irregularity" kept him stateside—and noticing the layout of Zion's Co-operative Mercantile Institution (ZCMI) stores owned by the Mormon church, he wondered if the concept would work elsewhere. While he was there, Walton read everything he could about retail. We can see him exercising his ability to manage people and combining resources to achieve new things from childhood through adulthood.

Their time in Salt Lake City had soured his wife, Helen, on city life, and they resolved to spend the rest of their lives in small towns. After Walton passed on an opportunity in Saint Louis, he bought and stocked his first Ben Franklin Store in Newport, Arkansas, in 1945 with \$5,000 he had saved and a \$20,000 loan from his father-in-law (which he dutifully repaid).⁶³ Bud partnered with Sam and opened a store in Versailles, Missouri, in 1947.⁶⁴ Ben Franklin was a chain of variety stores supplied by Butler Brothers, and it had 1,590 outlets in 1950—mostly in small-to-medium-sized towns in the Midwest.⁶⁵ "Within four years, he turned the money-losing store into the top Ben Franklin franchise in Arkansas".⁶⁶ He had franchised his

⁵⁶ Note that Walton and Price were not competing directly; Walton was more *causal*.

⁵⁷ Quoted in Walton (1992), 250.

⁵⁸ Slater (2004), 89; Walton (1992), 19.

⁵⁹ Walton (1992), 12.

⁶⁰ Walton 1992) 12.

⁶¹ Trimble (1990), 30.

⁶² Trimble (1990), 33.

⁶³ Walton (1992), 21-22; Trimble (1990), 49.

⁶⁴ Vance and Scott (1992), 234.

⁶⁵ Vance and Scott (1992), 233. See Vance and Scott (1993; 1994) for accounts of Butler Brothers.

⁶⁶ Slater (2004), 25.

Ben Franklin store from Butler Brothers, and while he learned a lot from them, he writes, “Butler Brothers wanted us to do things literally by the book—their book. They really didn’t allow their franchisees much discretion”.⁶⁷ The Butler Brothers program was a store-in-a-box. They wanted anyone, including people with no retail experience, to successfully operate a Ben Franklin store.⁶⁸

Walton was able to find a way to exercise as much discretion and judgment as he could within the bounds of the contract; specifically, he found “a clause in his agreement that allowed him to buy a sizeable percentage of goods from other sources”.⁶⁹ Fundamentally, Walton learned a lesson about the elasticity of demand for moderate-quality goods in small towns. By accepting low profit margins, he could make a fortune on volume.⁷⁰ He opened a second store, the Eagle department store just down the street, after convincing the landlady of the nearby Kroger to let him lease the building rather than his competitor John Dunham, who had wanted to expand his Sterling store.⁷¹

Walton learned a lesson about short-term leases during his time in Newport. One Paul Holmes, Senior, owned the building he occupied.⁷² Walton lost the lease in 1949 when the landlord decided not to renew.⁷³ Walton notes, “He did offer to buy the franchise, fixtures, and inventory at a fair price; he wanted to give the store to his son. I had no alternative but to give it up”.⁷⁴ As for Eagle, he “sold the lease to Sterling, so that John Dunham, [his] worthy competitor and mentor, could finally have the expansion he’d wanted”.⁷⁵ His time in Newport was instructive: “The most important discovery Sam Walton made in Newport was that there was a charm and satisfaction in retailing that he had not fully expected. Sam Walton was crazy about selling and about satisfying customers”.⁷⁶

He and Helen eventually settled in Bentonville, Arkansas (which already had three variety stores) after his father-in-law helped them negotiate for the 99-year lease on the barbershop next door to the site they were considering. In 1951 he opened a Ben Franklin franchise under his name: the Walton 5 and 10.⁷⁷ He implemented self-service in his stores after taking the night bus to Ben Franklin stores in Pipestone and Worthington, Minnesota, and seeing self-service in practice.⁷⁸ Walton’s first store was, Walton writes, only the third self-service variety store in the United States and the first in his eight-state region.⁷⁹ Through the 1950s, Walton opened stores across the region. The success of his Bentonville store gave him the impetus to open another self-service store in Fayetteville, but this time it was not a Ben Franklin franchise.⁸⁰ Of the Fayetteville store, Walton writes,

But this store was ahead of its time too, self-service all the way, unlike the competition. This was the beginning of our way of operating for a long while to come. We were innovating, experimenting, and expanding. Somehow over the years, folks have gotten the impression that Wal-Mart was something I dreamed up out of the blue as a middle-aged man, and that it was just this great idea that turned into an overnight success.

⁶⁷ Walton (1992), 23; see also Trimble (1990), 46.

⁶⁸ Vance and Scott (1992), 233.

⁶⁹ Slater (2004) 25.

⁷⁰ Walton (1992), 25.

⁷¹ Walton (1992), 27-28.

⁷² Trimble (1990), 46.

⁷³ Slater (2004), 25; Walton (1992), 30.

⁷⁴ *Ibid.*

⁷⁵ Walton (1992), 30.

⁷⁶ Trimble (1990), 53.

⁷⁷ Slater (2004), 26; Walton (1992), 32.

⁷⁸ Walton (1992), 33.

⁷⁹ *Ibid.*

⁸⁰ Walton (1992), 34.

It's true that I was forty-four when we opened our first Wal-Mart in 1962, but the store was totally an outgrowth of everything we'd been doing since Newport—another case of me being unable to leave well enough alone, another experiment. And like most other overnight successes, it was about twenty years in the making.⁸¹

By the time Walton and his brother Bud opened Wal-Mart Discount City in Rogers, Arkansas, in 1962, Walton had some seventeen years of experience owning and managing his stores. He had learned a lot about innovation and organizing entrepreneurial judgment in that time. 1962, it turns out, was a huge year for retail. Harry Cunningham launched the first Kmart in Garden City, Michigan. Dayton Department stores opened the first Target in Minnesota. Woolco opened in Columbus, Ohio. Michigan grocer Hendrik Meijer opened the first one-stop supercenter in the United States, his "Thrifty Acres" store.⁸²

Where Kmart had avoided cities with populations lower than 50,000, and Texas-based Gibson's had avoided towns with populations lower than around 10,000, Walmart was unafraid to expand into smaller towns. Later, Walmart would expand into major metropolitan areas by building in the suburbs and waiting for future growth to come to them.⁸³ Walton believed large-scale discounting could work in the small towns major chains and other discounters were overlooking. Butler Brothers, which owned the Ben Franklin chain, was not interested and rebuffed Walton's 1962 proposal for small-town discount stores.⁸⁴ Ultimately, however, Walton was able to secure financing for his vision from bankers like James H. Jones and Stephens Capital and ultimately from investors worldwide when the company went public in 1970.⁸⁵

Walton was a disruptor. His brother Bud noted an unspoken truce between rival store groups that one chain would not invade another's state. Sam Walton, however, did business where he pleased.⁸⁶ The Waltons settled in Northwest Arkansas because of proximity to Helen's family and the added benefit that its proximity to Missouri, Oklahoma, and Kansas meant Walton had easy access to four different hunting seasons.⁸⁷

One Walmart executive has said that many observers made the mistake of thinking Walmart is in the retail business when, in fact, Walmart is in the distribution business—just as it has been said about McDonald's that their business, fundamentally, is real estate rather than burgers.⁸⁸ As Thomas Holmes (2011) has shown, Walmart enjoyed "economies of density" by packing stores around distribution centers even to the point where they cannibalized one another's sales. In Walton's words, "(j)ust like today, we became our own competitors".⁸⁹ The cost savings more than made up for it, however. Walton explains:

That method was to saturate a market area by spreading out, then filling in. In the early growth years of discounting, a lot of national companies with distribution systems already in place—Kmart, for example—were growing by sticking stores all over the country. Obviously, we couldn't support anything like that.⁹⁰

⁸¹ Walton (1992), 35.

⁸² Meijer company history website, <http://newsroom.meijer.com/our-history>. Accessed June 30, 2022.

⁸³ Slater (2004) 92.

⁸⁴ Trimble (1990), 97; Vance and Scott (1992), 236.

⁸⁵ Cf. Trimble (1990) 93-94, 130-133.

⁸⁶ Bud Walton quoted in Walton (1992), 38.

⁸⁷ Walton (1992), 31.

⁸⁸ Art Turock (2004).

⁸⁹ Walton (1992), 111. The use of distribution centers had apparently been taken from Ben Franklin (Vance and Scott 1992, 241).

⁹⁰ Walton (1992), 110; cf. Trimble (1990), 119.

His strategy accounted for the hidden costs of massive geographic expansion:

But while the big guys were leapfrogging from large city to large city, they became so spread out and so involved in real estate and zoning laws and city politics that they left huge pockets of business out there for us. Our growth strategy was born out of necessity, but at least we recognized it as a strategy pretty early on. We figured we had to build our stores so that our distribution centers, or warehouses, could take care of them, but also so those stores could be controlled. We wanted them within reach of our district managers, and of ourselves here in Bentonville, so we could get out there and look after them. So we would go as far as we could from a warehouse and put in a store. Then we would fill in the map of that territory, state by state, county seat by county seat, until we had saturated that market area.⁹¹

He was one of the country's biggest independent variety store operators in 1962. He enjoyed his success because he made successful judgments about sourcing supplies, advertising, store layout, and distribution, not because he seized an already-existing opportunity that no one else had noticed. Walton's innovations seem obvious in retrospect, but they were not obvious in prospect.

Walton: Gathering Knowledge and Information

Walton was always looking to learn more and find better ways to do things. He described himself as "an avid student of management theory" and recalled that "back in the mid-seventies [he] started reading the work of W Edwards Deming".⁹² Slater (2004) refers to him as "Part investigative journalist, part master spy", and part of his competitive drive included an obsession with doing things better, faster, and more frugally. He borrowed ideas liberally from other retailers, and he was not shy about asking or visiting others' stores and adopting any idea he thought good enough to use. He had learned a lesson during his training at JC Penney: pay attention to competitors.⁹³ He was hardly unique in this respect: Sol Price's FedMart had copied the Los Angeles Fedco very closely, and Costco co-founder Sinegal reported that Costco is "shameless" in borrowing ideas from other retailers—he was disappointed when he visited a competing store and didn't come away with an idea he could use.⁹⁴

As Sol Price put it, "Sam phoned to tell me he was going to start a wholesale club. It was no surprise. He is notorious for looking at what everybody else does, taking the best of it, and then making it better".⁹⁵ Calling the company's employees "Associates" came from working for JC Penney. The membership warehouse selling few SKUs (stock-keeping units) and turning over inventory quickly had been Sol Price's brainchild. Walton implemented the company cheer after seeing something similar in South Korea. Walton frankly admitted that he imitated Kmart in many ways, and at industry conferences, he attended sessions regularly and scribbled notes he would later distribute to his managers.⁹⁶

He maintained an "open door" policy for everyone in the company. During his regular visits to the stores themselves, he would talk to customers, employees on the floor, managers, truck drivers, and anyone else he could find. A lot of his best ideas, he would later say, came from Walmart employees. The first store to employ a greeter at the front of the store was in Crowley, Louisiana, in 1980. The idea worked to reduce shoplifting and make customers feel

⁹¹ Walton (1992), 110. County seats were targets (Vance and Scott 1992, 240).

⁹² Walton (1992), 226.

⁹³ Trimble (1990), 91.

⁹⁴ David Pinto (2009).

⁹⁵ Quoted in Walton (1992), 189.

⁹⁶ Cf. Trimble (1990), 92-93.

more welcome. Walmart executive Tom Coughlin said, "I guess his vindication had to be the day in 1980 when he walked into a Kmart in Illinois and found that they had installed people greeters at their front doors".⁹⁷ "As an example of the spirit of equality that prevailed at Wal-Mart, no one, including Walton himself, had a reserved space in the parking lot at the headquarters office building".⁹⁸

As Walton explained, an important part of Walmart's management culture was to "Force Ideas to Bubble Up" from the people closest to the customers.⁹⁹ He would sometimes ride with his truck drivers and would occasionally show up to a warehouse in the very early morning with doughnuts for dockers and truckers, from whom he would then solicit suggestions about how to do things better.¹⁰⁰ Walton also had a knack for finding ideas that might work and then getting them in front of the people who could implement them. An idea discussed at the Saturday morning management meeting, for example, would be deployed and evaluated before the following week's meeting. He was not one to hesitate: "His tactics later prompted *Discount Store News* to describe him as a modern-day combination of Vince Lombardi (insisting on solid execution of the basics) and General George Patton ('A good plan, violently executed now, is better than a perfect plan next week.')."¹⁰¹ Future CEO David Glass explained, "What we guard against around here is people saying, 'Let's think about it.' We make a decision. Then we act on it".¹⁰²

Emphasizing the importance of communication, Walton offers the instance of beach towels. He asks "What good is figuring out a better way to sell beach towels if you aren't going to tell everybody in your company about it?"¹⁰³ This goes all the way up the chain to the buyers, who will need to know about successful experiments so they can update their beliefs about (for example) how many beach towels they will sell. Walton's team created the "Eat What You Cook" program, where buyers were sent to different stores to manage the departments selling the merchandise they had bought. They are, in effect, sharing local knowledge and apparently, with satisfactory results. As Walton put it, "I guarantee you that after they've eaten what they've cooked enough times, these buyers don't load up too many Moon Pies to send to Wisconsin, or beach towels for Hiawatha, Kansas".¹⁰⁴

While Walton admits he stood on the shoulders of giants, it would be a mistake to say that this in any way diminishes what he had accomplished. Walton imitated, experimented, and improvised; nothing prevented others from doing the same. Walton combined ideas from different retailers in different places and at different times, and he successfully merged them with his own knowledge and redeployed them successfully. This combination of information gathering and entrepreneurial judgment began when Walton was running his Newport Ben Franklin. He supplemented what he had learned in the JC Penney training program and from his study and observations in Utah with careful observation of his competitors, specifically the Sterling store across the street that John Dunham operated.¹⁰⁵

⁹⁷ Quoted in Walton (1992), 230.

⁹⁸ Vance and Scott (1992), 242.

⁹⁹ Walton (1992), 228.

¹⁰⁰ Trimble (1990), 145). See also Lee Scott, quoted in Walton (1992), 210).

¹⁰¹ Trimble (1990), 109.

¹⁰² Quoted in Walton (1992), 221.

¹⁰³ Walton (1992), 221.

¹⁰⁴ Walton (1992), 226.

¹⁰⁵ Walton (1992), 22-23.

Walton: Hiring and Retaining Excellent People: Managerial Talent and Entrepreneurial Judgment

Walton developed the human resources at his disposal as sources and aggregators of information. Walton would speak with anyone he thought might have insight he could use, and he encouraged his subordinates to do the same. Walton also surrounded himself with talent that compensated for his weaknesses and delegated decision-making authority accordingly. As Trimble (1990, 188) writes, "... it was necessary for him always to be looking for good men to replace his stockpile of talent. He was an indefatigable scout of the retail field". The insight he had was that employees were not just rule-followers who implemented centralized decisions but also decision-makers.

Managers, directors, and store personnel had a great deal of autonomy—and a great deal of responsibility. Bob Connolly, who joined Walmart in 1989 and ultimately became executive vice president of marketing, submitted a proposal explaining some of his ideas. His superior, Bill Fields, "looked at the proposal and asked me why I had wasted both his time and mine by submitting it. 'We hired you to do a job,' he said. 'Go do it.'"¹⁰⁶ Trimble (1990, 121) explains Walton's philosophy: "If he said this once, he said it a thousand times: 'Do it. Try it. Fix it.' Translated, that meant he'd welcome seeing a store manager take a gamble on something new, then if it didn't work, tinker around with changes that might help it succeed". As Vance and Scott (1992, 244) put it, "According to Walton, the primary task of the business manager was 'simply to get the right people in the right places to do a job, and then encourage them to use their own inventiveness to accomplish the job at hand'".

Walton's team was aggressive about harnessing and deploying market-specific local knowledge to make wise judgments about what to carry where. Walton instances their operations on the Florida panhandle:

For example, we've got one store in Panama City, Florida, and another only five miles away in Panama City Beach, but actually they're worlds apart when it comes to their merchandise mix and customer base. They're entirely different kinds of stores. One is built for tourists going to the beach, and the other is more like the normal Wal-Mart, built for folks who live in town.¹⁰⁷

Walton hired Claude Harris while he was expanding his Ben Franklin operations. It was a combination of serendipity and Walton's alertness. Walton was in Memphis, where he was trying to hire a manager of a McCrory's store.¹⁰⁸ After it became clear it was not going to work out, Walton struck up a conversation with Harris, who was managing the Woolworths where Walton was drinking coffee. The conversation ended with a job offer, which Harris did not take. Eventually, however, he joined Walton's team. According to Harris, "I was finally convinced when I was at Sam's house one day and Bob Bogle's kids ran in and jumped up in Sam's lap".¹⁰⁹ Harris, who eventually oversaw Walmart's buying operations, noted that as a buyer, he was working on behalf of "millions and millions of customers who expect the best price they can get. If you buy that thing for \$1.25, you've just bought somebody else's inefficiency".¹¹⁰ Harris also pushed back against large suppliers like Procter & Gamble that tried to dictate terms.¹¹¹ Harris noted that Walton saw mistakes as an unavoidable part of business but saw

¹⁰⁶ <https://www.massmarketretailers.com/walmart-luminaries-look-back/>, accessed July 8, 2021.

¹⁰⁷ Walton (1992), 219-220.

¹⁰⁸ Trimble (1990), 109.

¹⁰⁹ Ibid.

¹¹⁰ Claude Harris quoted in Walton (1992), 185.

¹¹¹ Ibid.

learning from mistakes as an essential competitive advantage. Harris describes the “Correction of Errors File”:

Sam started something he called Correction of Errors File. Everyone was supposed to have a file in their desk in which they would list the mistakes they had made that week, along with what they had done to avoid making the same mistake again. He recognized that everyone makes mistakes, but he wanted them to know what they were, and to do something about them. And he admitted that he made mistakes too.¹¹²

Walton used entrepreneurial judgment to learn from his mistakes and turn them into successes. In the mid-1950s, Walton tried to develop a shopping center and thought he would expand the operation nationwide. It turned out to be a debacle, but Walton learned how to correct mistakes quickly and decisively—and where he failed, investment banker Jackson Stephens would later succeed.¹¹³ Walmart’s 200,000+ square foot Hypermart USA stores, which opened in 1987, 1988, and 1990, were “disappointments”, and Walton said he “was mistaken in my vision of the potential for the Hypermart in this country”.¹¹⁴ However, Walton learned a lot from their failure, noting just before acknowledging that he “was mistaken”: “They were marginally profitable stores, and they taught us what our next step should be in combining grocery and general merchandising—a smaller concept called the Supercenter”.¹¹⁵

Walton ventured into the membership warehouse club market in 1983 with Sam’s Club, a concept he had borrowed from Sol Price’s Price Club and which, according to Walmart executive Ron Loveless, was a risky venture insofar as the company was “bringing a West Coast idea to the Midwest”, and they “didn’t know how it would be received”.¹¹⁶ Loveless “remember(s) one idea that didn’t transfer too well. Price Club had a huge stack of wine in the front of its stores. We bought the same amount for our stores in the Midwest, and we learned the hard way that Midwesterners aren’t exactly wine drinkers”.¹¹⁷

Walton recruited aggressively and brought Helen into the mix when he tried to lure talent. When he pursued Ferold Arend, then at the JJ Newberry chain in Omaha, Helen was tasked with convincing Arend’s wife that it was a good move. Generally, she helped vet talent and held “a sort of tacit veto power” over appointments.¹¹⁸ As she put it, “we usually took the wives out, too. I’m sure lots of people weren’t doing that in those days”.¹¹⁹ Clarence Leis, who managed the first Wal-Mart Discount City in Rogers, stayed at the Waltons’ home while being recruited.¹²⁰ Sam’s brother Bud was “heavily involved in real estate operations, acquiring leases, getting buildings erected, helping to expand the chain physically”.¹²¹ At one point, Walton took a shine to Ron Loveless, the eight-year-old son of their housekeeper. Eventually, he would become one of Walton’s executives.¹²²

In managerial hiring, Walton looked for “men with families, believing them to be more stable and motivated, and those with a strong church affiliation, since such affiliation showed that they could ‘identify with something outside of themselves’ and ‘work for a common

¹¹² <https://www.massmarketretailers.com/walmart-luminaries-look-back/>, accessed July 8, 2021.

¹¹³ Trimble (1990), 75; Walton (1992), 39.

¹¹⁴ Walton (1992), 198-199.

¹¹⁵ Ibid.

¹¹⁶ Quoted in Walton (1992), 200.

¹¹⁷ Quoted in Walton (1992), 201.

¹¹⁸ Trimble (1990), 113.

¹¹⁹ Quoted in Trimble (1990), 112.

¹²⁰ Trimble (1990), 102.

¹²¹ Trimble (1990), 113.

¹²² Trimble (1990), 116.

good”.¹²³ The companies Walton periodically raided for talent apparently did not do much to fend Walton off apart from telling those who departed that they were making a mistake by leaving an established retailer for Walton’s operation. Speaking to *Forbes*, Walton said “The best thing we ever did was to hide back there in the hills and eventually build a company that makes folks want to find us”.¹²⁴

Walton also instilled a culture of frugality at Walmart. Even when he was the richest man in the world, he drove a nondescript, coffee-stained pickup truck, picked up a nickel when he saw it on the sidewalk, and paid \$5 for a haircut from his barber in Bentonville (he did not tip).¹²⁵ Accommodations at Walmart’s headquarters were spartan; one executive described the décor as “early bus station”. Walton himself had a scratched-up desk in a small office, and board meetings happened around folding tables among people seated on folding chairs. When people traveled, they flew coach and shared hotel rooms. When they had time to eat, they visited family restaurants rather than going out for fine dining.

Walton’s frugality also meant low hourly wages at Walmart, but he exercised effective judgment by learning from his mistakes and becoming an innovator in worker compensation. As Walton puts it,

Now, I would love to tell you this partnership was all part of my master plan from the beginning, that as a young man I had some sort of vision of a great retailing company in which all the employees would be awarded a stake in the business. That I saw them having the opportunity to participate in many of the decisions that would determine the profitability of that business. I would love to tell you that from the very beginning we always paid our employees better than anyone else paid theirs, and treated them as equals. I would love to tell you all that, but unfortunately none of it would be true. ... Back then, though, I was so obsessed with turning a profit margin of six percent or higher that I ignored some of the basic needs of our people, and I feel bad about it. ... In fact, the biggest single regret in my whole business career is that we didn’t include our associates in the initial, managers-only profit-sharing plan when we took the company public in 1970.¹²⁶

Conclusion

Late twentieth-century retail innovations are studies in effective and *effectual* entrepreneurial judgment. Sol Price and those who came after him *discovered* new ways to get goods into consumers’ hands. The acquisition and deployment of heterogeneous capital goods was the essence of their entrepreneurial actions. Research in economics, entrepreneurship, and organizational science recognizes the entrepreneur’s importance. As Hughes (1986) explains, individual entrepreneurial actions can be fundamental, paradigm-shifting events in economic history, and as Mokyr (2016, 67) explains, successful entrepreneurs indicate a well-functioning market economy. Late twentieth-century retail—several episodes in the careers of Sol Price and Sam Walton, specifically—show how entrepreneurs exercise resource-deploying judgment as they develop opportunities in response to the incentives and possibilities they encounter.

Because of the uncertainty inherent in the entrepreneurial process, it is difficult for pioneers like Price and Walton to communicate the value of their judgments in the market of ideas. They have to exploit those judgments and demonstrate their value by creating and managing firms (Knight, 1921; Foss et al. 2019). Fedco did not see the value of Price’s idea

¹²³ Vance and Scott (1992), 244

¹²⁴ Quoted in Trimble (1990), 120.

¹²⁵ Walton (1992), 8.

¹²⁶ Walton (1992), 126-128.

to start a franchise in San Diego. Price had to exploit his judgment about the viability of this idea by creating FedMart. Price did not value Brotman's vision for a Price Club in Seattle. Costco's success demonstrated the value of that idea, and Price Club merged with Costco in 1993.

Walton and Price exercised several kinds of judgment. Their assessments of people, learning, experimentation, and combining heterogeneous resources were successful but imperfect. Regarding people, Price seemed to have misjudged the resourcefulness of Brotman. Price refused to partner with Brotman in a franchise arrangement, only to merge with the company Brotman cofounded, Costco, a decade later. Walton made a judgment about valuing his employees enough to include them in the profit-sharing plan from the start. Initially, it was for managers only. He corrected this error a year after taking the company public.

When it came to the importance of learning, both Price and Walton learned from other retailers. Price realized from EJ Korvette that the membership club model was an effective way to offer steep discounts to customers legally. Walton learned from ZCMI about store layout and the Butler brothers about the importance and the limitations of standardizing operating procedures across stores.

On the importance of experimentation, Price tested several business models. Price experimented throughout his attempt to start a discount store as a Fedco franchisee. That attempt failed, so he launched FedMart instead. FedMart combined the target market of Fedco and the membership club model from Korvette's. With Price Club, he kept the membership model but focused on a different target market, small business owners. The launch of Price Club was not the culmination of a careful long-term plan that began with a proposal to start a Fedco franchise. Instead, it was simply another experiment in a series as Price felt his way through new retailing models.

Walton experimented with leasing arrangements. He learned the importance of long-term leases after a bad experience in Newport, Arkansas. The owner refused to renew Walton's lease after just four years, which meant Walton was forced to sell a franchise location. He locked in a 99-year lease on the property for a new store franchise two years later.

Finally, Price and Walton made judgments about combining heterogeneous resources. Price combined relationships from his profession as a lawyer and an inherited piece of property to start FedMart. He combined the business models of Fedco and what he learned from EJ Korvette to create a membership club targeted at federal employees. Walton combined what he learned from Price Club's membership model with his experience with small-town retail through Ben Franklin stores and Walmart to launch the Sam's Club division. Entrepreneurs search for production technologies, probability distributions, and governance structures. It is easy to demonstrate the properties of efficient price discrimination using textbook models in which consumers' valuations are known. However, it is difficult to identify the ranges over which people's values for different goods might differ. In the case of entrepreneurial innovations like those launched by Sol Price at Fedmart and Sam Walton at Walmart, the entrepreneurs and managers did not know *ex ante* what kinds of consumers they were dealing with or what those consumers would be willing to pay for the goods on offer. It takes the exercise of judgment for people to understand which business plans might succeed and which ones might fail. Fedmart (and later Walmart) started with the conviction that people would be willing to drive a little more and sacrifice some of the convenience of downtown shopping to save a few dollars. They reorganized the retail industry, and in so doing helped change the way people shop.

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