

Background and Introduction

Our communities, from the largest to the smallest, exist in a free market global economy and society. Every day billions of people working in ventures all over the world work hard to capture available spending. Competition for our spending is intense and local retail and service ventures are increasingly challenged. There is a silver lining and opportunities to grow a stronger economy and community by smartly competing in this environment.

This thought piece – **Lessons from Sam Walton, Keys to Wal-Mart Stores' Success** – offers insights on how your community can become stronger by competing more effectively and discover those entrepreneurs who can grow and diversify your economy and society. We hope this paper stimulates your development strategy thinking. We welcome your feedback, insight and even push back. Let me know what you think by contacting Don at don@e2mail.org.

Questions and Additional Information

Don Macke – e2 Entrepreneurial Ecosystems
A Hosted Initiative of NetWork Kansas
402.323.7336 – don@e2mail.org

Lessons from Sam Walton *Keys to Wal-Mart Stores' Success*

Why this Matters?

In many of his paintings for *The Saturday Evening Post*, Norman Rockwell captured the golden age of American main streets and rural communities. His images conveyed a glass half-full vision of happy people in their daily lives and vibrant communities. While these were idealized pictures of America, there was a foundation of truth in them, a truth that eroded over the intervening decades.

The rationale for many rural communities has been undermined by three powerful forces:

1. Change in underlying basic industries – farming, fisheries, timber/forestry, mining and manufacturing.
2. Intense external competition for local spending – extracting it from communities.
3. The draw of urban areas and the outmigration of rural risk-taking youth.

The decline of historic community downtowns is a constant reminder of decline impacting the ability of communities to undertake the challenge of their own development. We cannot go back to the glory days of 1940s, yet there are opportunities for growing stronger economies and better communities by focusing on competing for local spending.

These factors have impacted, in many cases negatively, the viability and prosperity of thousands of rural communities across America. This entrepreneurship strategy paper draws on lessons learned from Sam Walton, Walmart, Inc. and Wal-Mart Stores.

Sam Walton, Walmart, Inc. and Wal-Mart Stores... A Little Context

Sam Walton and Wal-Mart Stores. By all accounts Sam Walton was born in Kingfisher, Oklahoma in 1918. He was an Eagle Scout and attended the University of Missouri where he was a member of ROTC. He was in the U.S. Army and served in the states during World War II. One of his introductions to retailing was as a management trainee with JC Penny's in Des Moines. He also worked with the Ben Franklin chain. In the summer of 1950 he opened Walton's Five and Dime in Newport, Arkansas. His first Wal-Mart Store opened in 1962 as Wal-Mart Stores Discount City in Rogers, Arkansas. By 1968 there were 24 stores and Wal-Mart Stores became a regional retail player.

Current estimates for 2018 suggest there are now nearly 12,000 stores with an international footprint, and some would suggest that Walmart, Inc., is now the world's largest retailer. *Sources: www.entrepreneur.com, the *Economist* and other biographical information. There are numerous books available about Sam Walton and Walmart, Inc.* Sam Walton's early competitive focus was on offering consistently lower prices in the hope that larger sales and volume would ensure both profitability and a competitive niche in the existing retail marketplace.

Our lessons from Sam Walton and Walmart, Inc. are not really rooted in the strategy of low prices and high volume. This is a commodity strategy that most local business cannot realistically pursue. Our lessons for a stronger local economy through smart competition can be found in Sam Walton's 10 Commandments:

1. Commit to your business.
2. Share your profits with your associates and treat them like your partners.
3. Energize your colleagues.
4. Communicate everything you possibly can to your partners.
5. Appreciate everything your associates do for the business.
6. Celebrate your success.
7. Listen to everyone in your company.
8. Exceed your customers' expectations.
9. Control your expenses better than your competitors.
10. Blaze your own path.

Chances are good that these ten pieces of advice from Sam Walton are true for entrepreneurs today. Rooted in this advice is a keen commitment to understanding your potential customers' needs and wants and smartly selecting where you can compete based on price, offerings, service and experience.

Before we get into the lessons learned, let's spend a bit more time exploring the competitive environment our communities and local businesses are experiencing today.

The Drive to Capture Our Spending

Earlier we summarized the general forces impacting rural communities. Now let's explore how a second force impacting rural communities across America. Companies seeking to generate sales and produce profits by capturing rural consumer spending have pursued four strategies over the years:

1. Catalogues and Mail Order (our 1929 house was a Sear's box car house kit)
2. Franchises (think McDonalds versus the local malt and hamburger shop)
3. Big Box Stores (Wal-Mart Stores started in rural Arkansas, spread through rural before hitting the cities)
4. Electronic Commerce (Amazon is now the world's #1 retailer)

Chris Gibbons, the founder of Economic Gardening, argues that the key to economic success is growing more competitive local entrepreneurs. The key to competitiveness is exploitation of genuine competitive niches.

Locally-owned retail and service businesses were the mainstay in 1940s America. World War II GIs returned home to family businesses with new energy, ideas, and skills, creating a competitive edge against outside competition into the 1950s and 1960s. But by the 1970s, these Veterans and their businesses were aging and facing increasing challenges. From the 1970s to today, too often we have seen a trend of owners seeking to retire, no new owner is in place, a quick closing is announced, the business is sold, and another local vacant building is boarded up on main street.

This drive to capture local spending may seem impossible to fight. Too many business owners and communities have given up and surrendered. We would argue that in any environment there are opportunities. Let's explore how Sam Walton and Wal-Mart Stores grew from one "Five and Dime" in tiny, rural Newport, Arkansas to the world's reputed largest retailer.

Two Rooted Opportunities and Strategies

- Strategy 1 – Help Entrepreneurs Capture More Local Spending***
- Strategy 2 – Discover Growth-Oriented Entrepreneurs and Help them Grow***

Strategy 1 centers on helping entrepreneurs capture more local consumer spending by households, government entities including schools, and non-profit organizations. Stronger entrepreneurs, who become more competitive in capturing local spending streams, also become better positioned for growth. In Strategy 2, we focus on helping those "growth-oriented" entrepreneurs target larger, often external markets, contributing to revitalization of our community's basic economies.

Growing a stronger and more sustainable economy is rooted in two financial transactions:

Capturing Local Spending	Expanding the Basic Economy
Competitively capturing more of a community's spending can increase economic activity, grow stronger businesses, generate jobs and produce local tax base. This strategy has limits and works best coupled with a strategy to expand the basic economy.	The cornerstone of economic development in the past 50 years has been expansion of the basic economy. Simply put, basic industries sell outside of the area economy, bringing in revenues and income, generating the opportunity for local spending and wealth creation.
Strategy #1	Strategy #2

Some in the economic development field have focused solely on the basic economy approach, seeing it as akin to “trickle-down economics” – grow the basic part of the economy and all will be fine. What we have found is this simple formula does not necessarily result in thriving and prosperous economies or even healthy communities. Unless we can grow rooted and locally owned ventures, spending and wealth simply pass through a community undermining our end game of broadly shared and sustained community prosperity. It is within this context that our proposed two strategies are relevant.

Strategy #1 – Growing Stronger Locally-Rooted Entrepreneurs

Our first strategy is centered in John McKnight's [asset-based community development](#) approach or ABCD. The asset-based approach is simple. Don't focus on developing what you do not have. Instead, spend most of your time focused on the assets and opportunities that already exist in the community. Within the entrepreneurship framework, this means focusing development energy and resources on the entrepreneurial talent already in your community.

In rural communities, most entrepreneurs have relatively small businesses. Developmentally, at any specific point in time, there is only so much capacity available to grow the venture even when greater development opportunity may be present. Helping local entrepreneurs become more competitive by capturing more local spending (a much easier and less risky proposition when compared to selling to larger markets outside of the local community) positions them for greater success and may enable some to move into the “traded” or basic economy (selling outside of the local community).

Also, focusing on local entrepreneurs and helping them capture spending leakages can help your community identify those entrepreneurs with the orientation and potential capacity for growth. This identification and development approach enables a community to begin special work with growth-oriented entrepreneurs.

Proposed Community Engagement Process. We need a proposition that will get local entrepreneurs to come out and engage with us. We then need a smart process that keeps them engaged. In Atwood, Kansas (county population of just 2,500), we used a simple marketing strategy to get local entrepreneurs engaged. We called it the 10% strategy, which focused on how we could work together to add just 10% to an entrepreneur's bottom line. We found this simple message, focused on increasing net income for local entrepreneurs, to be compelling.

To keep them engaged and willing to encourage others to engage, we need a "lean" and "smart" process that creates interest and value to entrepreneurs and their business from the first gathering to the last. Here are three steps we might take.

Step 1 – Know Your Customers' Spending. *We can bring market research to the table that can create an opportunity for your community's entrepreneurs to begin thinking more objectively and strategically about their current and potential customers. Through this activity, we can share some data and create some structured discussions around "knowing your customers spending habits." Remember, most business people are spending most of their time simply running their businesses. In this activity, we want to break that pattern and get them to begin thinking about their customers – positioning them to explore ways to drive more consumer spending from both existing and new customers. This activity would be structured around 90-minute time blocks with 20 minutes of market research presentation, 40 minutes of small group structured exploration and sharing, and then 20 minutes of group feedback.*

Step 2 – Test Ways to Capture More of their Spending. *The second 90-minute session or activity builds on market opportunity discovery (session 1) and helps participants think about how to capture more of the available spending opportunity. This session introduces the "value proposition" concept (next section), how to test market potential and results in a personal game plan to exercise this process of niche market development.*

These first two sessions can be broken into additional sessions to provide more time and space for exploration, discovery, learning, and commitment to action. Additionally, this process can be focused on specific areas like tourism, recreational tourism, downtowns, artisans, and the like.

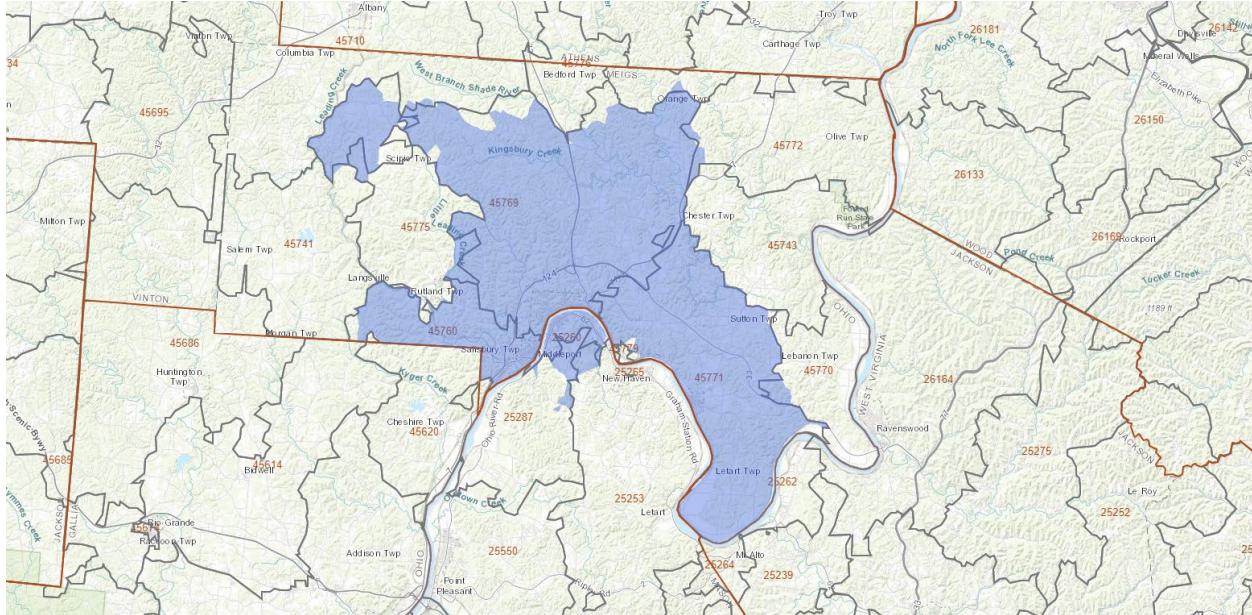
Step 3 – Explore Value Clusters to Capture Even More Spending. *Most of the competition for retail and service related spending is coming from very large companies. They have the advantage of scale which translates to lower costs and greater competitive edge. Local entrepreneurs must consider price but cannot compete alone on price. Scale and size matter. However, by collaborating, a group of smaller businesses (e.g., a main street area or recreational tourism related ventures) can achieve greater scale enabling greater market capture. This final group of sessions could use the [WealthWorks](#) value-chain development to create larger and more competitive micro clusters.*

The Value Proposition. Most small and rural entrepreneurs have not really spent much time exploring the consumer’s “value proposition.” The following table summarizes some of the reasons why people spend money and where they spend it:

<p>Product or Service Are we offering the products or services that our target or potential customers desire? Part of the opportunity through marketing is to let consumers know of other products/services they may want.</p>	<p>Price – Maybe Value Price is important. Wal-Mart Stores found that being the lowest cost provider was hugely important with rural consumers who are very cost conscious. Other consumers may be more driven by “value” (e.g., quality) or “values” (e.g., local products).</p>
<p>Service For some consumers, offering services – ranging from friendly wait staff to a commitment to service what you sell – can be a competitive advantage. Discount competitors often lack this service advantage.</p>	<p>Convenience Convenience ranging from commuter friendly hours to front door parking is increasingly important. E-commerce has introduced an entirely new level of competition related to convenience. Just shop at home and everything is delivered in a brown box at your front door!</p>
<p>Entertainment or Social Value - Experience Some consumers are looking for an experience. The simple act of being in a store with an attentive clerk has value. Playing to entertainment or social value can help position rural ventures for greater consumer success.</p>	<p>Marketing Every person who patronizes our business is an opportunity for market research. Creating systems and taking time to learn from your consumers can help you evolve your game plan and increase your competitive advantage.</p>

Bring Data into Your Discussions. Most entrepreneurs love data. The use of data can create a fun and interesting environment for strategic reflection and exploration. One of Esri’s lines of business is helping companies like Starbucks find locations for new stores. While we do not pay for higher level Esri data, we can use affordable data to provide your entrepreneurs with windows into their markets and consumers. In this section of Strategy One, we overview and illustrate how the various “affordable” Esri reports can be used to understand opportunities by using Pomeroy, Ohio data as an example.

Defining the Community. It is critically important to slow down and have a thoughtful discussion on defining one’s community. Initially our Development Opportunity Profile looked at Pomeroy through the lens of its host county. Like Goldilocks and the three bears, the county level data was too large. Then we pulled data for the immediate zip code area where the city of Pomeroy is located. In this case, further discussion resolved that this geography was too small. Finally, leaders in Pomeroy studied the zip code maps we provided and self-defined the Pomeroy community as a four-zip code region (just right!). Lesson learned – taking time to be thoughtful about defining the community really can matter.



Using Esri Market Research Reports. With the community defined, we can use a range of Esri market research profiles offering from “broad to narrow” perspectives. These profiles are described below, and the embedded hot links connect to the actual reports for the four zip code community of Pomeroy.

Retail MarketPlace Profile. In our Development Opportunity Profile, we share the Esri Retail MarketPlace Profile that details estimated retail demand, supply spending leakage or surplus. [This report](#) is high level and a great place to start. Supporting the Retail MarketPlace Profile are two other reports that can be used in an introduction and at a higher overview level: [Market Profile](#) and the [Tapestry Segmentation Area Profile](#) (e.g., kinds of households residing in the community). The Market Profile provides a “census type” overview of the households residing in the community. The Tapestry Profile identifies those household types that are resident in the community. Within this Profile there are hot links to four-page descriptive summaries of the attributes (as consumers) of these household types. This can be great information in thinking about your consumers and their likely preferences. We also suggest the use of the [Household Disposable Income Profile](#). This profile can be used to estimate total potential community consumer spending for households only (does not reflect business, non-profit or governmental consumers).

Market Potential Profiles. Esri produces several more detailed and granular market potential profiles including:

- ⇒ [Retail Market Potential](#)
- ⇒ [Electronics and Internet Market Potential](#)
- ⇒ [Finances Market Potential](#)
- ⇒ [Health and Beauty Market Potential](#)
- ⇒ [Restaurant Market Potential](#)
- ⇒ [Pets and Products Market Potential](#)

These profiles are very detailed and estimate likely consumer behavior. Take a look at the [Restaurant Market Potential Profile](#) as an illustration. It estimates the number of adult consumers who have spent less than \$11 in the last six months at fast food/drive in. For Pomeroy, it is 663 consumers or 5.3% of all consumers and this group is above average when compared to the U.S. benchmarks. This level of detail can become a distraction for some entrepreneurs so keeping them focused will be a challenge of the community engagement process.

Expenditure Reports. Complimenting the Market Potential Profiles are a series of Consumer Expenditure Reports focusing on the following areas:

- ⇒ [House and Home Expenditures](#)
- ⇒ [Retail Goods and Services Expenditures](#)
- ⇒ [Automotive Aftermarket Expenditures](#)
- ⇒ [Financial Expenditures](#)
- ⇒ [Medical Expenditures](#)
- ⇒ [Recreation Expenditures](#)

Again, these reports are detailed and provide benchmarking to U.S. averages, estimates of average amounts being spent by category and total estimated expenditures by category. For example, the [Recreation Expenditures Report](#) estimates that Pomeroy consumers (per household values) spend \$78.04 per year on “toys, games, crafts and hobbies.” Total 2017 estimates spending for this higher-level group (there are five sub-categories) is estimated at \$497,585. Pomeroy consumers when compared to the U.S. spend on 64% on goods and services in this consumer spending category.

Competitors. Esri also produces information about shopping centers. The link is a [map](#) of the commercial space concentrations in the Pomeroy area. The map is telling. There are no adjacent major box stores or concentrations of shopping center real estate within the four zip code area.

Strategy #2 – Supporting Growth-Oriented Entrepreneurs

The research is clear: locally rooted and growth-oriented entrepreneurial ventures create the overwhelming share of net new jobs in America. If it would be helpful as you engage your communities, we could pull together research-based information supporting this point. Additionally, our Development Opportunity Profiles provide localized information supporting this point.

By first helping your entrepreneurs capture more local spending – with the data and engagement process described above – you can identify and engage your entrepreneurial talent. In helping some of this talent become more competitive, we are growing more capable, rooted entrepreneurial talent. It is not unrealistic in this scenario that 5% to 15% of these local entrepreneurs may evolve both the potential and desire for growth.

Sam Walton did not know he and Walmart, Inc. would become the world’s largest retailer. There beginnings were humble and their rise to scale and impact typical of most growth entrepreneurial ventures. While Sam Walton’s and Walmart, Inc.’s accomplishments are unique, we constantly find the seed stock for other growth entrepreneurs in every community we visit and explore. Most of these

entrepreneurs will achieve more moderate growth and success. But they are there and can recharge our local and area economies and societies if we take the time to find them and support them. We have a thought paper focused on [Growth-Oriented Entrepreneurs](#) that can provide more insight on this important community development opportunity. The neat thing about supporting growth-oriented entrepreneurs is they tend to create three important community impacts:

1. **Small Corporate Headquarters.** Growth-oriented entrepreneurs typically create small- to medium-sized corporate headquarters. These headquarters create not only jobs, but better jobs and a wider variety of career offerings. Within most corporate headquarters there are managers, marketing departments, logistics, finance, development and a wider range of job offerings. This kind of venture positions a community to be more competitive in retaining and attracting skilled and talented people.
2. **Economic and Social Diversification.** In today's environment it's possible to live almost anywhere and pursue business opportunities. With sufficient broadband even the most rural communities can host ventures that are regional, national and even international. Growth-oriented entrepreneurs tend to choose where they want to live and pursue business based on their opportunities. Supporting growth-oriented entrepreneurs can grow, over time, a more diverse economy and society.
3. **Community Brand and Example.** Growth ventures create positive identity for communities and contribute to a community brand. Having successful people and ventures in our communities also creates an example of what is possible. These successes can motivate and educate others in a community to pursue their dreams. Successful entrepreneurial ventures also can be tapped to mentor others seeking to grow.

Our Strategy #1 – Growing Stronger Locally Rooted Entrepreneurs hopefully meets local entrepreneurs where they are developmentally. Working with these folks positions the community for shorter term success. But it also creates the opportunity to identify and engage with that smaller subset of local entrepreneurial talent with the motivation and the capacity for greater growth and larger longer-term impact, setting the stage Strategy #2 – Supporting Growth-Oriented Entrepreneurs.

Some Final Thoughts...

Every community in America, from my childhood hometown of Mullen, Nebraska (population 459 - 2017) to my current home of Lincoln, Nebraska (population 273,000 – 2018), is responsible for its own development. We believe that fostering entrepreneurial behavior is foundational to community success in the 21st Century. We hope this thought piece, rooted in Sam Walton's attention to what local consumers want, can help your community pursue a brighter future.

Join the search for solutions and add your thoughts to this conversation. Share your insight with me at don@e2mail.org.