ATTENTION KMART SHOPPERS

The Rise and Fall of
America's First Big Discounter

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LUMINARE PRESS
WWW.LUMINAREPRESS.COM

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Printed in the United States of America

Luminare Press
442 Charnelton St.
Eugene, OR 97401
www.luminarepress.com

LCCN: 2024925104
ISBN: 979-8-88679-745-9

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

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

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

—Talking Heads,
"(Nothing But) Flowers"

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INTRODUCTION

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

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

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

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

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

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

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

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

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

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

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

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

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

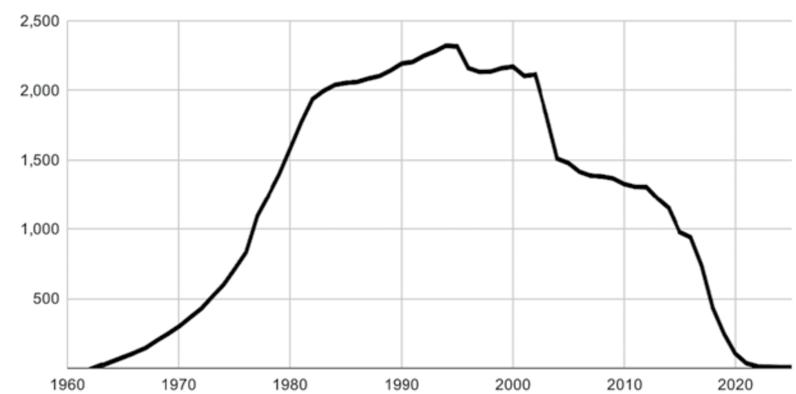
When both of these companies started to emerge as nationwide retailers in the '80s and '90s, the stage was set for an epic clash of competing American identities. The dividing line between Wal-Mart and Target wasn't an exact match for the one between rural and urban, or between poor and rich. But it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

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

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

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

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



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

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

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

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

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

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

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

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

CHAPTER 1

Kresge Before Kmart (1877–1960)

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

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

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

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

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

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

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

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

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

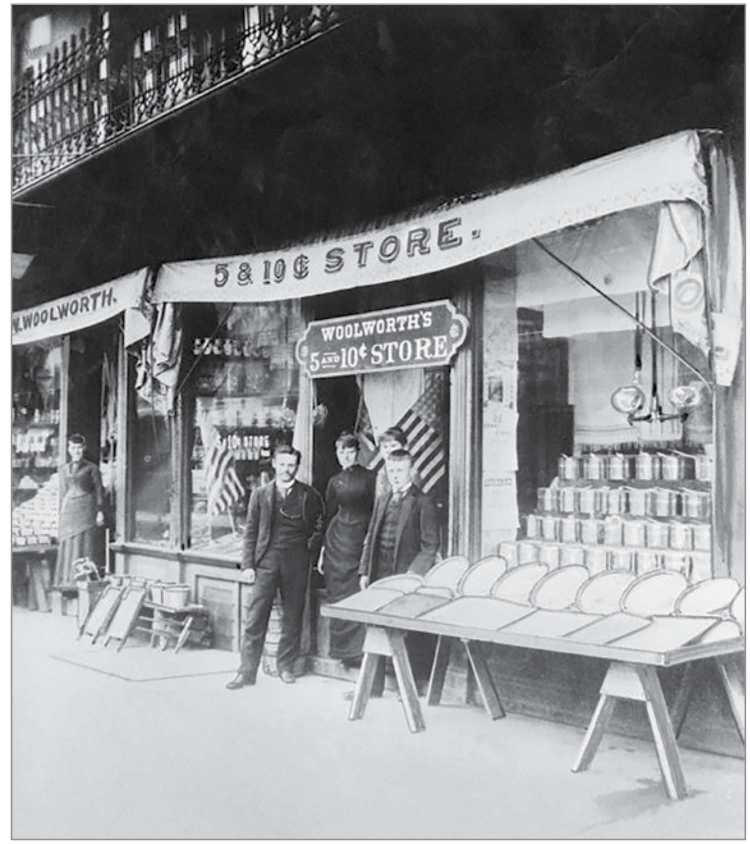
The store soon added a ten-cent section, expanding the range of merchandise that could be sold. Frank Woolworth had created the world's very first five-and-ten-cent store, or "five-and-dime," or simply the variety store. Of course, it's possible that other people had the same idea before Woolworth opened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

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

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

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

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



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

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

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

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

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

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

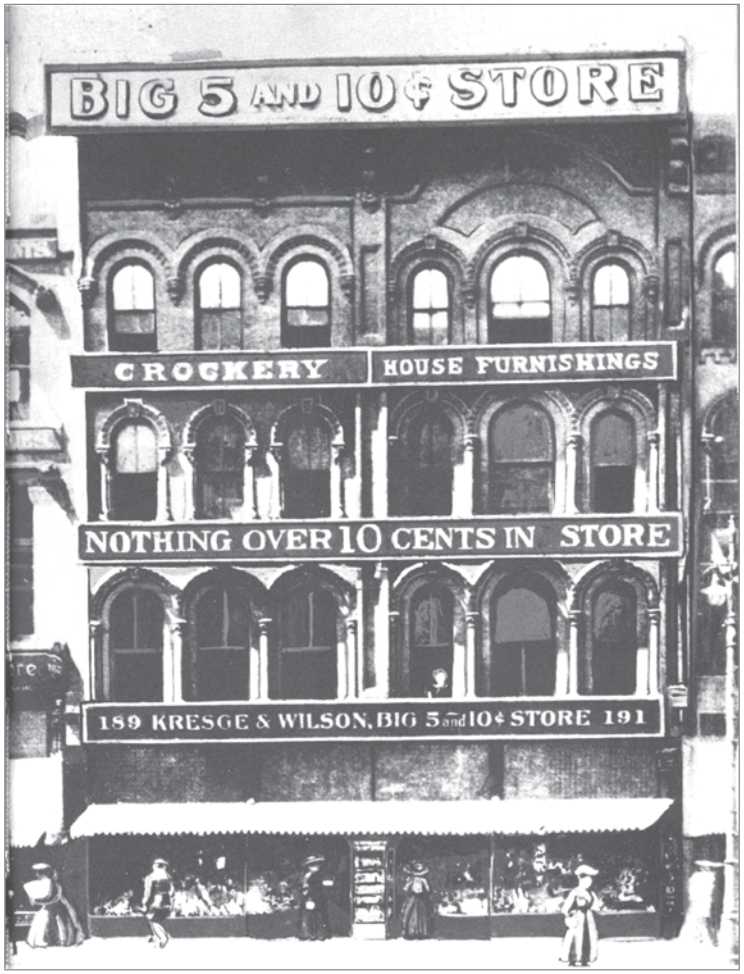
By the time Sebastian Kresge bought in, the savings from that name change hadn't added up to very much: McCrory had only opened eight stores, all in western Pennsylvania. But he was planning an aggressive push into other areas of the country to get a leg up on the competition, and Kresge was

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

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

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

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



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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Sebastian Kresge in 1922.

Map of Kresge locations in the 1920s.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

CHAPTER 2

The Kmart Idea (1958–1961)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Since manufacturers have to consider many complicated factors when setting prices for their merchandise, there were a wide variety of exceptions to the Robinson-Patman Act's rules about minimum prices. With so many possible loopholes, it was incredibly difficult to prove that illegal price discrimination was actually taking place. So those provisions of the Robinson-Patman Act were rarely enforced, regardless of whether the offending party was using a membership gimmick or not.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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