

CHARLES WALGREEN

by

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What is now Walgreen Co. began with a single drug store purchased by Charles R. Walgreen in 1901. From that humble beginning Walgreen slowly expanded his business. He acquired two more stores in 1909, and a fourth in 1913. An additional 16 stores were opened over the next seven years. An era of more rapid growth then began in the nineteen-twenties. By 1929, the company operated 397 stores. Like other pharmacy chains, Walgreen suffered sales declines during the Great Depression. But the firm remained profitable and emerged from the 1930 s in good position for expansion after World War II. Founder Charles R. Walgreen did not live to see that happen. He died in 1939 at the age of 66.

Walgreen s life was recently reviewed by Herman Kogan and Rick Kogan in their book Pharmacist to the Nation [1]. Following is a synopsis of their findings.

YOUTH

Charles Rudolph Walgreen was born on October 9, 1873 on a farm near Galesburg, Illinois. His parents were Swedish immigrants.

In 1887, the family moved to Dixon, Illinois where Charles older brother had gone to attend the new Northern Illinois Normal School. His father sold the farm and invested the money in real estate which became the family s source of support.

In Dixon Charles attended high school until the age of 16 and then entered the Dixon Business College. One year later he took a job in the bookkeeping office of the largest general store in Dixon. Not finding the work or the pay to his liking, he resigned and took a job doing piece work at a local shoe factory.

That job was also of short duration. One day Walgreen's hand got caught in a stitching machine and the top joint of his middle finger was cut off. The physician who treated him suggested he take a new job at a drug store. Walgreen was not interested, but the doctor called him for several days offering to help Walgreen get a job. Walgreen finally agreed and accepted an offer at the largest of the town's five drug stores.

That job began with a \$4-a-week apprenticeship and lasted a year and a half. Then he was fired for forgetting to clean the snow and ice off the sidewalk.

EMPLOYMENT IN CHICAGO

That failure convinced the 19-year old Walgreen that it was time to leave Dixon. Borrowing \$20 from his sister, he took a train to Chicago and looked for a new job. Scouring the classified ads in the Chicago Tribune he found an opening for a drug store clerk at Samuel Rosenfeld's store at Quincy and Wells Streets. He applied and was hired immediately at a salary of \$5 a week. After a short time there he moved to Max Grieben's drug store in a German neighborhood on the North Side. To keep the job he had to learn German. He did, but after two years he grew restless and moved to yet another pharmacy.

This pattern of short stretches of employment followed by a move continued through several more employers with no sign of career progress. Then Walgreen took a job at Valentine's drug store on the corner of Cottage Grove Avenue and Thirty-ninth Street. The pay was \$35 a month for a 79-hour work week. Valentine was prone to scold his employees when they made mistakes. Walgreen received his full share of scolding and decided to leave. But before doing so he wanted to so impress Valentine that the drug store owner would regret losing a good clerk when Walgreen finally announced his departure.

Walgreen was so successful that Valentine rewarded him with two successive \$10 a month pay raises. In addition, Valentine began to train Walgreen to take on more management duties and encouraged his clerk to study the pharmacy texts kept at the store in preparation for becoming a registered pharmacist.

That was a major turning point for Walgreen. He rose to Valentine's challenge, set a goal of becoming a registered pharmacist, and passed the state examination in 1897.

FOUNDING THE BUSINESS

Walgreen's ultimate purpose in becoming a pharmacist was to be able to have his own store. But before he could do so the United States declared war on Spain and Walgreen decided to enlist in the Illinois National Guard. His unit was sent to Cuba where Walgreen contracted yellow fever. The illness weakened him to the point that upon his return to Chicago he did not feel able to return to work for Valentine where the pace of work would be too much for him to handle physically. Instead he took a job as a pharmacist at a smaller, more sedate drug store at Cottage Grove and Bowen Avenue.

In 1901, at the age of 27, Walgreen bought that store from his employer, Isaac Blood, borrowing most of the down payment from his father.

Walgreen's first store was small (20 feet wide and 50 feet long) with modest volume (\$20,000 per year) and minimal profits. Running it required Walgreen to arrive at 7:30 every morning and stay until 11:00 almost every evening. While running his business in 1901 Walgreen was also courting Myrtle Norton, a young lady from Normal, Illinois who had moved to Chicago and whom Walgreen had met at a druggists excursion. The two were married in 1902. Because Norton had close relatives in Seattle, Walgreen investigated the possibility of moving there and starting a business. But no attractive opportunities could be found and the newly married couple settled in Chicago.

For the next few years Walgreen tended his drug store and dabbled in a variety of other business ventures. He became interested in the Chicago commodities market for a while. He invested in an Idaho mining company and wrote a sales booklet for it. He entered into drug store partnerships in Dixon (1904) and in Hot Springs, Arkansas (1904). Both were of short duration, but they did get Walgreen to think about expanding the number of stores he operated in Chicago.

EARLY EXPANSION

An opportunity to do just that was presented to Walgreen in 1909 when his old employer, William Valentine, offered to sell his store. Walgreen raised part of the needed capital by selling a half-interest in his first store to another pharmacist, Arthur Thorsen. Thorsen then managed the first store while Walgreen bought and managed the Valentine store.

The major source of profit from those drug stores was the prescription department. Walgreen, himself, spent some of his time filling prescriptions. But his stronger interest was in the marketing and management sides of the business. A particular source of pride was his periodic innovations. One was the introduction of products with the Walgreen brand name. One early example was Buz Pizen which was designed to combat bed bugs. Another was the introduction of Walgreen's own home made ice cream, made in the basement of the second store. A third was a major expansion of the space devoted to the soda fountain. One problem with the soda fountain was that patronage disappeared in the winter months. Walgreen solved that problem by introducing soup, sandwiches and desserts in the winter months. Myrtle Walgreen agreed to help her husband with this new venture. She did the cooking for all three stores for the first five years of the new service.

At this time he also opened a third store at Michigan Avenue and 55th Street. Then, in 1913, he leased a fourth store at Calumet Avenue and Forty-third Street. And in 1915, a fifth store was opened at Cottage Grove and Thirty-fifth Streets.

This expansion caused Walgreen to hire several new people who would end up becoming valuable executives in later years. In 1910, Roland Schmitt was hired as a part-time apprentice in pharmacy and James Ward was hired as a general utility boy. Years later Schmitt would become vice president of store operations and Ward director of purchasing of the huge Walgreen chain. In 1912, Al Starshak was hired as a pharmacist and Harry Goldstein as a clerk. Years later both men would become vice presidents.

In hiring new people, Walgreen looked for:

1.

A penchant for organization

2.

A willingness to work long hours without complaint.

3.

A desire to increase sales and profits.

4.

An ability to confront problems without undue stress.

5.

A zeal for customer service.

6.

An ability to maintain good personal relations with other employees at all levels.

A BUYING COOPERATIVE

In 1911, Walgreen organized a buying cooperative of other South Side independent druggists. The group called itself the Velvet Club (later changed to the Federated Drug Company). Walgreen served as president. The group successfully achieved its objective of giving the members lower prices on goods purchased in volume. It continued until the 1930s when it disbanded because most of its members had become members of the Walgreen chain.

GROWTH STRATEGY

The early expansion was motivated by Walgreen's belief that in order to keep good employees had had to give them opportunities for growth and personal profit as store managers. So his strategy was to be constantly alert for opportunities to add new stores at key locations (busy intersections) on Chicago's South Side.

By 1916 there were nine such stores doing a total sales volume of \$270,000 per year. Each was operated as a separate unit with differing names and

with the store managers responsible for net profit. In 1916 the name for all stores was changed to Walgreen Co. But Walgreen continued to give the store managers full responsibility and ample freedom of action. He encouraged each of them to, think of themselves as independent retailers with a large and worthwhile organization behind them.

THE FIRST CENTRAL OFFICE

It was also in 1916 that the first central office was established. Two vacant stores were leased to provide warehouse space, a small laboratory, ice cream making facilities, a commissary for the soda fountains, and desk space for Walgreen. Three years later a suite of four rooms was leased close to one of the stores. There Charles Walgreen occupied one room, the buyer for the buying cooperative a second and the company accountant a third. And there, in December, 1919, was launched the company's first newspaper, the Pepper Pod. The twelve page inaugural issue claimed a circulation of 50,000 and was aimed at both customers and employees of the 19-store chain.

One major objective of the Pepper Pod was to advertise Walgreen's low prices on such leaders as Gillette razor blades and the company's own brand of coffee.

EXPANSION IN THE 1920 s

The first major expansion of Walgreen Co. occurred in the 1920 s. When the decade began the chain had 20 stores; by the middle of the decade the number was 65; and by the end of 1929 there were 397. Annual sales volume rose from \$1.55 million in 1920 to \$47 million in 1929.

For the first four years that expansion was confined to the Chicago area with the exception of one store in Milwaukee. Then, in August, 1925, Walgreen purchased the 5-store Jude and Dolph group in St. Louis. And later that year he acquired ten Public stores in Minneapolis, St. Paul. The first New York City store was opened in 1927. (That same year Walgreen was listed on the New York Stock Exchange.) Entry into California, Idaho, Nevada, Utah and Wyoming occurred in 1929 when Walgreen bought the 28-store Schramm-Johnson chain operating in those states.

Walgreen's expansion strategy was very simple. He would duplicate his basic store model whenever and wherever the company's cash flow would permit. There were some advantages to having a group of stores in a common geographical location—access to the central commissary and advertising were the two most important. But the critical factors for success were finding a good location, negotiating a good lease, and staffing the store with a good manager who would do a good job of managing by the so-called Walgreen Creed. Consequently, when opportunities for a favorable lease opened up in distant locations, Walgreen had no hesitation in making the move.

There were constraints. It was decided that no stores would be acquired or opened in cities with populations of less than 20,000. It was decided that, with some exceptions, the emphasis would be on neighborhood stores at intersections. It was decided that land or buildings would be leased rather than purchased and that the terms of the lease would call for payments which varied with the volume of sales done by the store. And it was decided that the rate of expansion would be governed by the rate of profit of the existing stores. During the decade virtually all of the company's profit was reinvested in the business.

Walgreen was an active participant in the selection of new locations. Not only did he review the data, but he also inspected the sites. In making his decision, he relied heavily on past experience. But he was also an innovator. In 1921, for example, he broke with his policy of choosing residential neighborhood locations and opened a store in Chicago's commercial center (the Loop). Appropriate modifications in the product line were made to cater to the somewhat different clientele (for example expensive perfumes not found in the neighborhood stores were offered at the Loop location).

Variations in product offerings were common among Walgreen stores. After all, Charles Walgreen wanted each store manager to manage as if he were an independent retailer, constantly looking for ways to meet the needs of his neighborhood customers. But all stores were required to have a well-stocked prescription department, whether it paid or not.

The key to getting managers in the Walgreen mold was recruitment and training. Both were given high status in the evolving Walgreen organization. In

addition, Charles Walgreen began to look for methods of constantly calling manager s attention to the basic success principles they were expected to follow. He had already turned the Pepper Pod into an employee publication for this purpose. Then in the early twenties he began promoting what he called, The Walgreen Creed. This statement of company principles began to be posted in company offices and stores and was constantly referred to with great enthusiasm by the company founder (see Exhibit 1).

It was also in the 1920 s that Walgreen s love affair with newspaper advertising began. Charles Walgreen had always believed in advertising. By 1920 he was using widely-distributed circulars which included photographs of all stores and promotional merchandise. Featured prominently in those circulars were the slogans Drugs with a Reputation and You re Always Welcome at Walgreens.

Then on November 16, 1922, Walgreen placed its first full-page advertisement in the Chicago Tribune. The ad touted all of the bargains that Walgreen s would be offering at a three-day sale. The success of that ad and others that followed convinced Charles Walgreen that newspaper advertising was a valuable sales tool. He adopted a policy of devoting 2 to 3 percent of the sales dollar to advertising. Most of the ads dealt with sales promotions and focused on product descriptions and price bargains.

Supplementing the newspaper advertising was a commitment to billboard advertising and the use of concentrations. The latter were special in-store displays featuring a product offered at a special price for a limited time only. The displays were unusually lavish and if they involved an outside supplier, that manufacturer would have to give a special discount to get the special attention.

The net effect of the effort to increase the volume of sales per store was impressive. The number rose from \$30,000 per store in 1909 to \$138,000 per store in 1925. That success led to a lead story on the company in Chain Store Age in 1925. In the article Charles Walgreen argued that the company s success was due to its ability to maintain a high level of customer service. That ability he attributed to the quality of the store managers, the freedom they had to run their stores, and the existence of a central authority (Charles R. Walgreen) who established the basic principles of operation. In discussing customer service Walgreen placed special emphasis on making regular customers think they were special, on turning the casual shopper into a regular customer and on the handling

of customer complaints.

One other factor to which Walgreen attributed the increase in sales per store was his use of the soda fountain. From the beginning he had believed that this was one of the best sources of building traffic. And so he was always looking for ways to give the Walgreen soda fountain a competitive edge. In the mid-nineteen-twenties that effort led to the discovery that customers preferred a mild bittersweet chocolate to all other flavors. The Walgreen chain responded by standardizing the chocolate taste at all of its stores and launching an advertising campaign with the slogan, This is Chocolate Year at Walgreens.

At the end of the decade Charles Walgreen hatched yet another scheme to fuel the chains expansion. Called the agency system, the plan was to contract with independent drug stores in small communities that had no other Walgreen store. The independents would purchase a stipulated minimum amount of Walgreen products each year and in return would be able to use the Walgreen name (clearly identified as an agency store), Walgreen signs and Walgreen merchandising advice. The plan was launched with experimental arrangements in California, Washington and Oregon. Those were successful and the agency plan was launched throughout the country. By 1934 there were 600 agency stores in 33 states. They contributed \$1 million to the \$53.7 million sales volume reported by Walgreen Co. in 1934.

THE KNIGHT STUDY

In 1925 the academic public was given an in-depth look at Walgreen thanks to a study done by University of Chicago graduate student Robert Knight. Knight was working on his Master of Arts degree in the university s Department of Commerce and Administration under the direction of accounting and marketing professor James O. McKinsey. McKinsey suggested the Knight s master thesis consist of a study of Walgreen s organization and control methods. Knight agreed after receiving assurances that the company would cooperate and in 1925 the 127-page thesis was completed.

Knight judged the Walgreen chain to be unusually successful. He was particularly impressed by the steady increase in per-store sales.

Knight credited the success in part to the firm's policies. He noted in particular its clear sense of mission as a seller of merchandise. But he also credited the success to the fact that all store managers were licensed pharmacists who still shared the ideals of the professional druggist. Knight was quite complimentary about Walgreen's continued emphasis on the key role of store managers. He noted that this emphasis on individuals was less likely to be found in other chains where the emphasis was on methods.

But Walgreen did provide some central direction of which Knight approved. Overall merchandise selection was done at the central office, selection and training of store personnel was directed by a central personnel office, store operations were monitored through sales and inventory reports and through a system of traveling agents who regularly visited the stores. Nevertheless, Knight found Walgreen to have a healthy concern about too much centralization. In the language of the 1980's Walgreen was found to run a lean and mean central office.

Knight did find various opportunities for improvement. The biggest was organizational. He recommended that central office activities be reorganized along functional lines and that a general manager be appointed to relieve Charles Walgreen of some of the work he was doing. His thought was that Walgreen should devote his time to planning. Walgreen, however, rejected that advice for the time being, arguing that making such a move abruptly would run the risk of damaging company morale or, as Walgreen put it, the family feeling.

Many of Knight's other recommendations were adopted. These included eliminating a variety of cumbersome accounting procedures.

In the process of conducting his research, Knight impressed Charles Walgreen. He offered Knight a job as head of the accounting area and de facto company treasurer. Knight turned down offers from Stanford University and a New York accounting firm to begin what became a long and successful career as a Walgreen executive.

A LISTING ON THE NEW YORK STOCK EXCHANGE

In 1927, Walgreen Co. was listed on the New York Stock Exchange. The ticker tape code was WAG. The listing made more valuable an employee motivational tool which Charles Walgreen had used from the beginning providing managerial employees with equity in the business. In putting the stock on the New York Exchange, Walgreen had to ask each stockholder to surrender 7 percent of his or her stock holdings. One manager's share amounted to \$68,000 and a soda fountain manager's 7 percent share was worth \$24,000. Charles Walgreen, himself a millionaire, was delighted with the proof that his managers were doing well. As he put it, I regard it as a pleasant obligation and also as the soundest business policy to be constantly creating conditions such that any man with the necessary capacity can advance to millionairehood within the organization as readily as if he were in business for himself alone if not, more readily. [1, p. 102].

THE 1929 NICKERSON AND COMPANY REPORT

At the end of 1929 a leading New York investment house, John Nickerson and Company issued a bullish report on Walgreen. The report said [1, p. 112]:

Among all the chain stores of the country, the one which we regard as outstanding at this time as an attractive medium for investment is the Walgreen Co. It operates in the most favorable of all the major chain store fields and has a management which has proved itself competent and experienced. As chains go, it is comparatively young, but already owns nearly 10 percent of all chain drugstores of the country. Its growth has been little short of phenomenal, exceeding even the rate of growth of the most outstanding chains in other fields.

The Nickerson report went on to note the growth of Walgreen's net earnings from \$191,634 in 1923 to \$4 million in 1929. It noted with approval that this growth had been accomplished by reinvesting earnings in expansion rather than paying dividends to stockholders.

THE GREAT DEPRESSION

The Great Depression delayed the rosy future predicted by Nickerson. Walgreen remained profitable throughout the Depression years. But net earnings in 1930 fell sharply below the 1929 high (sales volume was higher). As the Depression continued, Walgreen adjusted by cutting costs and slowing expansion. Costs were cut by closing marginal stores and by cutting wages and salaries by 10 percent.

Charles Walgreen cut his own salary by more than that as a show of solidarity. Costs were also cut automatically because of the farsighted leasing procedures Walgreen had used for his stores. Walgreen's leases were short term agreements which allowed the firm to react relatively quickly to negative turns of events.

But Walgreen's major response to the Depression was to increase efforts to boost labor productivity. Those efforts bore fruit relatively quickly. By 1935, even though average sales per store had dropped to \$110,000 (compared with \$120,000 in 1931), earnings per store were up to \$5,300 compared with \$4,450 in 1931. Sales subsequently began a long term increase as the company began to grow again.

One interesting result of the expansion slowdown in the 1930's was the company's decision to start paying quarterly dividends. Walgreen had not paid any dividends since the company was listed on the New York Stock Exchange. Earnings had, instead, been used to finance expansion. With the opportunities to expand temporarily unavailable, the company had earnings available to distribute to stockholders and that is what was done. Quarterly dividend payments of 25 cents per share began in February, 1933.

SUCCESSOR MANAGEMENT

Throughout the nineteen-thirties a major issue on the mind of Charles Walgreen, Sr. was that of management succession. By then it had been determined that his son, Charles, Jr., would eventually succeed the founder. Junior had been required to earn a degree in pharmacy and to work at a variety of jobs to learn the business from the ground up. In 1933 Junior was elected a vice president of the company. During the 1930's he undertook a variety of central office executive jobs and demonstrated to his father's satisfaction that he would function effectively as a chief executive officer.

There was another relative with some claim to the top spot. Justin Dart had married Charles Walgreen's daughter and after graduating from Northwestern University had gone to work for the company as a stock boy in 1929. Dart was bright, hard working, effective, and, of course, a close relative. Within three years he rose to the position of director of store operations. In that position he participated in and claimed full credit for a number of

innovations including new larger stores dubbed Super Stores. Dart did not openly lobby for consideration as Charles Walgreen, Sr.'s successor. But it was no secret that he regarded himself as fully qualified for the job. And because of a sharp difference in temperament between him and Charles, Jr., it was clear that the two of them might have difficulties working together in the absence of the company founder.

In late 1938, Charles Walgreen addressed what was to be his last stockholders meeting. Even though that was a recession year, he was able to report that the company was in excellent financial condition, poised to expand as the national economy resumed its expansion. And he pointed with pride to the fact that more than 25 percent of all employees held stock in the company.

Later that year Walgreen began to feel chronically tired and weak. He was eventually diagnosed as having cancer. On August 10, 1939, he resigned as president of the company while retaining the position of chairman of the board of directors. Charles, Jr. was appointed president and Justin Dart was named General Manager.

On December 13, 1939, Charles Walgreen, Sr. died.

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REFERENCES

1. Kogan, Herman & Kogan, Rick. (1989). Pharmacist to the Nation. Chicago, IL: Walgreen Co.

EXHIBIT 1

THE WALGREEN CREED

We believe in the goods we merchandise, in ourselves and our ability to render satisfaction. We believe that honest goods can be sold to honest people by honest

methods.

We believe in working, not waiting; in laughing, not weeping; in boosting, not knocking and in the pleasure of selling our products. We believe that we can get what we go after and that we are not down and out until we have lost faith in ourselves.

We believe in today and the work we are doing, in tomorrow and the work we hope to do, and in the sure reward the future holds. We believe in courtesy, in kindness, in generosity, in cheer, in friendliness and in honest competition.