

DILLARD DEPARTMENT STORES, INC: 1960-1964

L. Joseph Rosenberg
University of Arkansas, Fayetteville, AR

ABSTRACT

In 1938, William T. Dillard, age 23, opened a dry goods store in Nashville, Arkansas, population 3,000. First year sales were \$42,000. By 1960, sales in his three stores in southwest Arkansas and east Texas were \$6 million. He was introduced to bankers, who were owed millions by Brown-Dunkin of Tulsa. This paper reviews strategy during the crucial years 1960-1964, when Dillard's volume reached \$40 million. In 1984, sales of Dillard Department Stores, Inc. located in eleven states extending from Tennessee to Arizona were \$1.28 billion.

William Dillard was a most unusual ambassador of business from a small Arkansas town, who had sincere characteristics that inspired confidence (1).

While profitably operating Mayer & Schmidt department store of Tyler, Texas, whose stock he controlled, he continuously explored opportunities to expand. Usually, the potential opportunities were problem stores that did not offer a likelihood of future success. However, when John H. Dunkin, president of Brown-Dunkin Department Store in Tulsa died, it appeared a possible candidate for acquisition. Dunkin's brother-in-law, John A. Brown, who had a store in Oklahoma City, as well as an interest in Brown-Dunkin of Tulsa, had died some years earlier (2).

Brown-Dunkin was an outgrowth of Hunt Department Store purchased by John H. Dunkin and John A. Brown in 1924 (3). After Dunkin's death, Brown-Dunkin was managed by W.R. Chappell, vice president and general manager (4). Performance of the store had deteriorated and the First National Bank in St. Louis and several Tulsa banks were owed by the firm.

Early in 1959, Fred Eisman, a director of First National Bank in St. Louis introduced Dillard to its president, a former Arkansan who in turn referred Dillard to the Tulsa bankers. They thought he might acquire and save the failing store. While Dillard was convinced that the future of retailing lay in the suburbs, not downtown, he recognized this as a challenge to make a nationwide reputation in the retailing field (5). When he considered the possibility of buying Brown-Dunkin, he realized that he would have to provide a strong financial statement to the lending institutions. He and Jess Rosenwasser agreed they would dissolve Rosenwasser, Inc., which operated a number of Mayer & Schmidt leased departments, and include them in Dillard's, Inc. Rosenwasser became a vice president, stockholder and employee of Mayer & Schmidt.

Dillard enlisted the cooperation of Paul M. Leird, a Little Rock furniture and lumber executive; and of the First National Bank in St. Louis, and of Peoples National Bank of Tyler. Also, he was supported with liberal credit by Rice-Stix, the wholesale dry goods firm in St. Louis (6). Phillips Van Heusen Corporation, of New York, a major men's furnishings supplier, as well as other vendors who transacted business with Dillard, also assisted him in the acquisition of Brown-Dunkin (7).

The takeover required that he work with the First National Bank of Tulsa, First National Bank in St. Louis, Chemical Bank of New York, and Harris Bank & Trust Co. of Chicago (8). On February 29, 1960, after more than seven months of negotiation, the purchase was announced in Tulsa (9).

Brown-Dunkin Company stock was acquired by Mayer & Schmidt Co. of Tyler, Texas, the majority of whose stock was owned by Dillard's, Inc. The controlling Brown-Dunkin Company stock was purchased from Mrs. John H. Dunkin and Mrs. John A. Brown, widows of the former owners (10).

"The purchase price is not being disclosed," said William Dillard to a reporter from Women's Wear Daily of New York. An article about the purchase continued that control of the Brown-Dunkin Co. "has been acquired by Dillard's, Inc." In response to a further inquiry, Dillard said, "A multi-million dollar estimate would be about right" (11). Brown-Dunkin had sales of approximately \$10 million annually according to the trade. It ranked as the largest volume store in Tulsa, employing about 500 people (12).

In Tulsa, when the announcement was made, were Merrit Beal, vice president and manager of Mayer & Schmidt; Jack Rosenwasser, vice president of Mayer & Schmidt; Mayer & Schmidt directors Wilton Daniel, president of the Peoples National Bank of Tyler; Zeb Sproul, Tyler attorney; and Paul M. Leird. Also, present were Mac Buckner, New York coat and suit manufacturer; Leon Fruhman, a Dallas businessman; and twelve employees of the Dillard organization (13).

On the occasion of buying Brown-Dunkin, Dillard said he had plans for increasing the store's business. He said that it would carry better lines of merchandise. He added, "An aggressive advertising policy will be undertaken" (14).

"The most valuable asset a business has are its employees," he said. "My efforts here will be to build an efficient and happy employee organization." While Dillard was speaking to Brown-Dunkin employees, his wife, Alexa, stood in the background with tears streaming down her face. "They were tears of joy," she said. As employees walked by to shake her hand, she told them, "You're going to like my husband" (15).

Dillard's acquisition of Brown-Dunkin might be likened to the leveraged buyouts practiced by corporations in the 1980's. That is, a corporation with sales of \$6 million was acquiring a company with a volume of \$10 million, sixty percent larger than its own sales. About \$300,000, plus some operating capital from existing stockholders of Mayer & Schmidt who bought additional stock, enabled Mayer & Schmidt to acquire Brown-Dunkin (16).

"The addition of Brown-Dunkin, a department store more than twice the size of Mayer & Schmidt, will in no way affect the pattern of progress and growth at Mayer & Schmidt," said Dillard (17).

He immediately named Daniel L. Morris, who had been with the organization for a number of years as the new manager of Dillard's of Texarkana. Dillard said he planned to devote the major part of his time to Brown-Dunkin (18), although he would continue to live in Texarkana (19).

Jack Kelley, of the Tulsa Daily World, on March 2, 1960, reported:

Brown-Dunkin Store Stock Sold To Texan

Brown-Dunkin Co., one of the department store "giants" of the southwest was sold Tuesday in a multi-million dollar transaction.

New president and majority stockholder is William T. Dillard, 45 year-old self-made businessman and rancher from Texarkana, Texas.

Dillard completed arrangements to purchase the stock of Mrs. John A. Brown of Oklahoma City and Mrs. John H. Dunkin of Tulsa shortly before 5 p.m.

Dillard is a native of Arkansas and a graduate of the University of Arkansas School of Business Administration. He owns department stores in Texarkana, AR, Magnolia, AR, and Tyler, TX.

Dillard lives in Texarkana, TX, and owns a ranch 45 miles away where he raises Santa Gertrudis cattle. "This is not a hobby," he quickly pointed out. "It is a profitable enterprise."

When Dillard spoke to the employees of Brown-Dunkin on the occasion of the acquisition, he said he planned to increase the inventory of the store and improve its quality. "The first order of business," he added, "will be a complete redecoration of all the store's merchandising floors" (20).

Later in 1960, the inventory and assets of the Texarkana store, which had a sales volume of approximately \$2 million were sold to Alden's retail mail order house of Chicago. As a condition of sale, the purchaser was permitted to use the name "Dillard's, Inc. of Texarkana." The original Dillard's, Inc. of Texarkana changed its name to W.D. Company, Inc. (21). Alden's operated the Texarkana store under the Dillard name until January, 1978. At that time, Dillard's repurchased it to reclaim the name and closed the store (22).

There were questions in the retail industry about Dillard's ability to turn Brown-Dunkin around and earn a profit. Early in 1961, after selling the Texarkana store, the Dillard family moved from Texarkana to Tulsa along with a few key people he brought with him. Dillard was determined to operate Brown-Dunkin at a profit. Otherwise, he had bet his Arkansas and Texas stores and lost (23).

He took a number of steps to stop the losses of Brown-Dunkin:

- (1) He reviewed the operation and consolidated a number of departments in the main store.
- (2) He closed a home center located some blocks from the main downtown store building.
- (3) He reduced various other overhead expenses of the Brown-Dunkin store.
- (4) He studied the operation in detail, determined that there were an excessive number of employees, and reduced the staff.
- (5) After computing the breakeven point, he was adamant that the needed dollar sales should be attained every day. "There was no peace in the store unless the required volume was achieved each day" (24).

After Dillard analyzed the Brown-Dunkin store, he reduced the number of employees from 500 to 400. Total payroll remained the same for the 400 employees as for the 500 who had been on the payroll. "I asked the employees to become more productive," Dillard said.

He took markdowns, eliminated undesirable merchandise, and enlarged and improved the merchandise assortment. He began an aggressive advertising program; the first year he doubled the amount spent on advertising (25).

"Mr. Dillard knew the required sales figures for his stores to breakeven and he pushed to see that they were reached. I have personally taken [midday] sales sheets to him for the Tyler, Texarkana and Tulsa stores," said Thomas Kemp.

"If it appeared that a store might not make the sales goal for a day, he, other executives, and salespeople would get on the telephones and call customers to tell them of special values of the day. He was not satisfied, which meant that no one else could be satisfied, with sales that were below target each day. All executives and employees knew that their sales plans were established goals that must be met" (26).

By 1962, only eighteen months after the acquisition, Brown-Dunkin was earning a profit. Banks and other creditors collected on their notes (27).

During 1962 and 1963, Dillard made a number of friends in the Sears, Roebuck organization. Its Homart division was active in the development of suburban shopping centers, building in Austin, Texas; Albuquerque, New Mexico; and in Ft. Worth. Dillard decided to join Homart properties in their Austin development and open his first suburban store there (28).

After turning around Brown-Dunkin to a profitable operation, Dillard began to consider further expansion. He was interested in acquiring a major store in Little Rock.

During spring, 1963, he became acquainted with George Sirvack, manager of the Fort Worth regional office of Sperry & Hutchinson (S & H) Green Stamp Company. Consumers would make purchases at various retailers such as supermarkets and gasoline service stations and be given S & H Green Stamps based on the dollar amount of their purchases.

They could be exchanged for merchandise at S & H Green Stamp redemption outlets. Sirvack urged Dillard to consider installing the Green Stamp program in his stores (29). To help Dillard acquire a Little Rock store, Sperry & Hutchinson Company agreed to make a long-term loan of \$1,500,000 to Brown-Dunkin Company, a wholly owned subsidiary of Mayer & Schmidt. The National Bank of Tulsa agreed to extend and increase a loan to the Brown-Dunkin Company. Brown-Dunkin Company increased its authorized capital stock by \$300,000. Dillard Investment Co., Inc., a wholly owned subsidiary of Mayer & Schmidt, which financed certain accounts receivables of Brown-Dunkin, increased its capital stock in the amount of \$300,000.

Funds for the additional authorized common stock of Brown-Dunkin Company and Dillard Investment Co., Inc. were to be provided by Mayer & Schmidt. The purpose of the funding was "to accomplish the purchase of Pfeifers of Arkansas through the Brown-Dunkin Company" (30).

In August, 1963, it was reported that one department store in Tulsa was dropping S & H Green Stamps because it said "it couldn't afford them," while another is introducing them with a promotional bang" (31).

In September, 1963, Pfeifers of Arkansas, with department stores in Little Rock and Hot Springs, was purchased by the Brown-Dunkin Co. of Tulsa. Dillard preferred buying the Gus Blass store in Little Rock, but there had been no response to his inquiries (32). Shortly after its acquisition, Pfeifers began to issue S & H Green Stamps to its customers.

A front page story by John L. Fletcher of the Arkansas Gazette announced:

Dillard Group Purchases Pfeifers of Arkansas Stores

After 98 years of growth at Little Rock and 15 at Hot Springs, Pfeifers of Arkansas was acquired yesterday (September 12) by the dominant store at Tulsa.

Heading the buying group is William Dillard, 49, who was born at Mineral Springs and once owned businesses at Nashville, Texarkana and Magnolia.

He and his associates, some of them Arkansans, operate the 10-story Brown-Dunkin store at Tulsa and the 74 year-old Mayer and Schmidt retail establishment at Tyler, Texas. They are engaged in a \$7,500,000 expansion in shopping centers in Tulsa and Austin, Texas.

The exact purchase price of Pfeifers was withheld. But the trade agrees that it probably was the largest involving a well established department store in this area of the nation since another Arkansas merchandiser, the Boston Store's Jerome Ney bought Daniels and Fisher of Denver, in 1955.

Dillard said he contemplated no personnel changes except at the highest level. A new manager will be named to succeed Sam B. Strauss, Sr., who has been president since he replaced Preston Pfeifer in 1935 (33).

for the common capital stock of Mayer & Schmidt, Inc. a Delaware corporation. The plan also provided that additional capital stock of the Delaware corporation be sold in an amount sufficient to give adequate available capital to the new corporation for additional acquisitions.

2. That the Board of Directors consider a proposal to acquire Gus Blass Department Store in Little Rock, Arkansas which has a book net worth of \$4,934,759. Purchase of 100% of the Blass stock, if accepted by all its stockholders, would represent a purchase price of \$3,377,450."

After receiving the report and recommendations of the Chairman and the officers of Mayer & Schmidt, it was moved "that there be a special meeting of the shareholders of Mayer & Schmidt, in Tyler, Texas, on January 18, 1964, for the purpose of obtaining the consent of the shareholders to sell all of its assets to Mayer & Schmidt, Inc., a Delaware corporation, and accept in payment therefore _____ shares of the Class B common stock and _____ share of Class A (non voting) stock.

"The officers are also authorized to take necessary steps to acquire Blass Department Store" (42). The sale was consummated on February 14, 1964.

The announcement in the Arkansas Gazette said:

Blass Firm Sold to Group Headed by Pfeifers Owner

The Gus Blass Co. confirmed its sale Saturday to a group of Little Rock investors headed by William Dillard, recent purchaser of Pfeifers of Arkansas.

The investors with Dillard in the purchase included Raymond Rebsamen, C. Hamilton Moses, Dave Grunsfest, Jack East, Sr., Paul M. Leird, John Collins, Leonard F. Levy, E. Ray Kemp, Jack East, Jr., W.H. Bransford, Gus Blass II, C.A. Woosley, Robert M. Goff, Phillip G. Back and Max A. Heiman.

Dillard became Board chairman succeeding Hugo Heiman who resigned. Leird is Board vice chairman and Max Heiman will be assistant to the president.

The sale, with no price mentioned, involved the main store, a seven story building with basement at Fourth and Main Streets, an appliance, sporting goods and toy store across Main Street from the main store and the Pine Bluff store. The Little Rock properties cover 192,000 square feet, that at Pine Bluff, 61,000.

The sale was handled by attorney Charles Eichenbaum of Little Rock with Fred Rogers and Co. handling accounting procedures.

Blass was founded by Gus Blass and Max Heiman, grandfather of the new assistant to the president, in 1871.

Pfeifers of Arkansas had begun as a one-man operation in 1865, in Little Rock and was family owned until sold to the Dillard group (34). E. Ray Kemp, who was to play a major role in the firm for many years, joined Dillard's on Thursday, September 12, 1963, the day of the Pfeifer purchase (35).

When Dillard's acquired Pfeifers, it was a professionally operated store with loyal employees. Pfeifers faced a decision involving movement to the suburban area of west Little Rock. Pfeifers, Gus Blass Co., and M.M. Cohn, Little Rock's leading speciality store, were fierce competitors, but all recognized that if any moved from downtown, central Little Rock would rapidly lose volume. All were aware that the population was moving out to the suburbs.

Pfeifers had many longtime older employees, a substantial number of whom should have been retired prior to its acquisition by the Dillard organization. However, Pfeifers had no substantial retirement plan. Since some elderly employees had few resources at retirement age other than Social Security, Pfeifers had permitted a considerable number to work long past a normal retirement age.

When Pfeifers sold out, Dillard management made the necessary decision to open a suburban store on University Avenue, in west Little Rock. It eliminated non-profitable departments and free services. It analyzed Pfeifers executive and non-executive personnel. It made the painful decision to eliminate non-productive people as part of an overall effort to change Pfeifers to a modern, profitable, progressive store. While these actions may have appeared ruthless, in retrospect they were undoubtedly necessary if Pfeifers was to remain a viable organization (36).

After purchasing Pfeifers in 1963, Dillard's owned four downtown stores located in Little Rock, Tulsa, Hot Springs and Tyler, Texas, with a total of 400,000 square feet (37).

Dillard said he viewed the family unit as the "backbone of the country, and Alexa and I devote as much time as we can to the children." Speaking about his wife, Dillard said, "She knows as much about shopkeeping as I do and has always worked with me" (38). "When we bought Pfeifer it was because of the opportunity. At the time, I preferred to buy Blass. The opportunity to buy Blass presented itself a number of months after we bought Pfeifers" (39).

Shortly after purchasing Pfeifers, Dillard received word that Blass would sell (40). To raise funds, Paul M. Leird, a major shareholder and member of the board of directors of Mayer & Schmidt, told Dillard that he would help sell stock to Little Rock investors (41).

On December 14, 1963, a special meeting of Directors of Mayer & Schmidt, a Texas corporation, was held in the executive offices of Pfeifers of Arkansas, Little Rock. The purposes of the meeting were:

- "1. To authorize the officers to take such action as appropriate to sell to a new corporation to be organized under the laws of the State of Delaware, and to be named Mayer & Schmidt, Inc., all of the assets of Mayer & Schmidt, a Texas corporation, in exchange

The founder died in 1919 and was succeeded by his oldest son, Julian, who served as president until his death in 1939. Noland Blass, Sr., succeeded him, remaining until his retirement in 1950. Hugo Heiman became president, served a decade and was elected Board chairman in 1960, to be succeeded as president by Julian Blass, Jr. (43).

"The oldest written records we have date from 1871, but my father often talked to us about selling goods here in the late 1860's," said Nolan Blass, Sr. "When he came to Little Rock and opened his small store, Little Rock was occupied by Federal troops. He told us he had two prices on his goods - one for Confederates and another, a higher price for the Federals" (44).

The Gus Blass store's original site was near a steamboat landing on East Markham Street. Merchandise for the store was transported down the Mississippi River, then up the Arkansas River by steamboat to Little Rock. Completion of a railroad to Little Rock spurred the economy and the original store proved inadequate. Blass chose as his new site a lot between Third and Fourth Streets on the west side of Main Street. There they built a four story structure with 75 frontage feet (45).

Last year Blass had announced plans to build a branch in Park Plaza Shopping Center. Leonard F. Levy, spokesman for the Dillard organization said there would be a branch store.

Dillard said Blass and Pfeifer would be operated as "two highly competitive units. Eventually Blass's billing will be done through the IBM billing center Dillard has established at Little Rock." Levy said Blass would not follow Pfeifers lead in offering trading stamps with purchases (46).

One may note that Dillard was, in 1964, planning the establishment of a centralized billing center. The centralized control of accounting and billing functions continues in 1985.

Leonard F. Levy, former general manager at Pfeifers, was transferred to Blass, where he was elected president and chief executive officer of the Gus Blass Company (47). Paul M. Leird, secretary-treasurer of Dillard Department Stores, Inc., briefly managed the newly acquired downtown Blass store (48). David Bluthenthal, son of an early Pine Bluff merchant (49) was hired from M.M. Cohn Company, leading Little Rock speciality store, and elected president of Pfeifers, Inc. (50).

The 1964 annual meeting of the stockholders of Dillard Department Stores, Inc. was held in Little Rock. Among those making a report was William E. Heaton, president of Brown-Dunkin Company, of Tulsa. He presented a projection of the possible increase in volume to be reflected by the opening of the Southland Shopping Center Store, expected to open in fall, 1964. In the absence of the manager of the Austin, Texas store, located in the Sears Homart property, William T. Dillard reported that the recently opened Austin suburban store was meeting its anticipated schedule of volume growth (51).

Later in 1964, Dillard moved from Tulsa to Little Rock. He immediately became active in community activities. In December he was appointed chairman of the Big Gifts Section of the 1965 Cancer Crusade for Pulaski County (52). When asked why he moved from Tulsa back to Arkansas he said, "I'm from Arkansas, and I know someone in every town in the state" (53).

NOTES

1. Eichenbaum, E. Charles (1984); Eichenbaum, Scott, Miller, Crocker, Dan & Hawks, PA, Attorneys Interview, July 17 (author's files).
2. Kemp, E. Ray (1984), Vice Chairman, Chief Administrative Officer, Dillard Department Stores, Inc., Little Rock, Interview, March 18 (author's files).
3. Tulsa Daily-World (1960), March 2.
4. Ibid.
5. Hear, There & Everywhere (1981), January, A Newsletter for Retail Executives, Harrison Services, Inc., 521 Fifth Avenue, New York, pp. 2, 3.
6. Kemp, Thomas J. (1984), President, Tom Kemp & Associates, Inc., Interview, July 12 (author's files).
7. Veirs, Stephen D. (1984), Retired Executive, Dillard Department Stores, Inc., Little Rock, Interview, July 12 (author's files).
8. Tulsa World (1971), Don Bachelder, September 12.
9. Tyler Morning Telegraph (1960), March 2.
10. Kemp, E. Ray (1984), March 18, Interview.
11. Women's Wear Daily (1960), March 3.
12. Women's Wear Daily (1960), March 2.
13. Tulsa Daily World (1960), March 2.
14. Tulsa Tribune (1960), March 2.
15. Tulsa Daily World (1960), March 2.
16. Kemp, E. Ray (1984), March 18, Interview.
17. Tyler Courier-News (1960), March 2.
18. Texarkana Gazette (1960), March 5.
19. Texarkana Daily News (1960), March 4.

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22. Kemp, E. Ray (1984), March 18.
23. Ibid.
24. Ibid.
25. Tulsa World (1971), Don Bachelder, September 12.
26. Kemp, Thomas J. (1984), July 12.
27. Kemp, E. Ray (1984), March 18.
28. Ibid.
29. Kemp, Thomas J. (1984), July 12.
30. Minutes (1963), Special Meeting of Directors, Mayer & Schmidt, a Texas Corporation, Peoples National Bank, Tyler, Texas, August 17.
31. Home Furnishings Daily (1963), August 6.
32. Kemp, E. Ray (1984), March 18.
33. Arkansas Gazette (1963), September 13.
34. Arkansas Democrat (1972), July 30.
35. Kemp, Thomas J. (1984), July 12.
36. Veirs, Stephen D. (1984), July 12.
37. Arkansas Democrat (1974), June 30.
38. Arkansas Democrat (1963), September 22.
39. Dillard, William T. (1984), Chairman, Chief Executive Officer, Dillard Department Stores, Inc., Little Rock, Interview, February 3 (author's files).
40. Kemp, E. Ray (1984), March 18.
41. Kemp, Thomas J. (1984), July 12.
42. Minutes, Special Meeting of Directors (1963), Mayer & Schmidt, a Texas Corporation, Little Rock, December 14.
43. Arkansas Gazette (1964), February 16.
44. Arkansas Democrat (1972), July 30.

45. Arkansas Gazette (1972), July 30.
46. Arkansas Gazette (1964), February 16.
47. Minutes, Annual Meeting of Stockholders (1964), May 2.
48. Kemp, E. Ray (1984), March 18.
49. Pine Bluff Graphic (1927), April 20.
50. Kemp, E. Ray (1984), March 18.
51. Minutes, Annual Meeting of Stockholders (1964), May 2.
52. Arkansas Gazette (1964), December 7.
53. Norman, Oklahoma Transcript (1976), July 19.