america's corner store

Walgreens' Prescription for Success

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preface

Late one night, Sean Smith, an eight-year-old boy living in Wilmette, Illinois, called his mom to his room to tell her he had a sore throat.

"I think I need a prescription," he informed her, then opened wide.

"I don't know, honey," she said, gazing into his open mouth. "It depends on what kind of sore throat you have."

"What kind needs a prescription?" he asked.

"Well, strep throat is one kind that needs a prescription."

"Then that's the kind I have," he concluded, with complete confidence in his self-diagnosis.

"How do you know?" his mom asked.

"Whatever kind needs a prescription," he said, "is the kind I have."

It happens every time. Whenever Sean Smith gets sick, he informs his mom that he needs a prescription. No, Sean is not a junior lobbyist for the pharmaceutical industry. But he knows that when he needs a prescription, he gets to go to Walgreens. His mom acquiesces because she knows she can fill his prescription, pick up some chicken soup, and grab a knit hat, all in just a few minutes. And Sean, of course, knows Walgreens has one of the best selections of toys around, which is enough to make young Master Smith one of Walgreens' most loyal customers—despite the fact that the Smiths live three miles from Walgreens, but just across the street from an Osco-Jewel Pharmacy.

A lot of history went into that little transaction—more than a century's worth. It's easy to take such convenience and selection for granted now. But before Walgreens came along, pharmacies didn't have wide aisles, bright lighting, or economical store brands; they didn't provide self-service, allowing customers to roam the store freely without waiting for a clerk; and they certainly didn't have Intercom, a computer network connecting the pharmaceutical databases of all 4,000-plus Walgreens stores, making Walgreens the world's second-largest satellite user behind only the U.S. government itself.

Other stores, of course, pioneered customer-friendly innovations, too. However, unlike so many of Walgreens' long-time retailing peers—Kmart, Montgomery Ward, and A&P, for example—Walgreens is not only surviving, it is thriving.

Walgreens was born when Charles R. Walgreen Sr. used all his savings plus a loan from his father to buy his first store on the South Side of Chicago in 1901. Today Walgreens' 150,000 employees in 44 states run more than 4,000 stores—and will run more than 6,000 stores by 2010 (all in the United States). Walgreens sells more merchandise—$33 billion worth in 2002—than CVS.

Walgreens' 600,000-some shareholders have been rewarded many times over for their investment—over 125 times, in fact, over the past three

decades, a performance that trails only that of Southwest Airlines and Wal-Mart.

Charles Sr., however, would be heartened to learn that the company he started over a century ago has succeeded by sticking to the basic values he established in his first store: Put the pharmacy first, even when it's not making the most profit; hire people on character and promote internally based on performance; treat your employees like family; and, most important, treat every customer "like a guest in your home," as he said.

From the beginning, Walgreens combined these basic values with a surprisingly bold sense of adventure that prompted the company to invent the milk shake, expand the lunch counter, introduce self-service, and launch an unprecedented expansion program it is riding to this day. Walgreens' chief executive officers have gambled the company's future more than once; and so far, their calculated risks have paid off enormously.

Walgreens' formula, if it can be called that, has survived depressions, recessions, boom times, and wars, while countless business trends—and the superficial, often unethical companies that trumpeted them—have come and gone, falling by the wayside, wave after wave. Walgreens prides itself even today on being a "boring company." But when you compare it to once-proud concerns like Kmart who've lost their way and to the Enrons of the world who've taken thousands of innocent employees and investors down with them, you gain a renewed appreciation for the Walgreens Way.

This book tells the story of how it started and why it has thrived.

JOHN U. BACON

Ann Arbor, Michigan
March 2004

acknowledgments

When I set out to research and write this book about America's greatest drugstore chain, I quickly realized I faced more obstacles than the average author might have. This is primarily a business book and secondly a historical work, subjects that I enjoy and understand. But it's also a biography of a pharmacy, something I knew little about. To put it bluntly, I didn't know my mortar from my pestle.

Enter Dr. Ara Paul, Dean Emeritus of the University of Michigan Pharmacy School. He was as patient teaching me about his favorite subject as he was educating thousands of students over his long career. Because he is also a trusted friend of three generations of Walgreens, two of whom graduated from Michigan's College of Pharmacy, Dean Paul also served as my ambassador to this very private but friendly family. Without his help, I don't think I would have had the opportunity to talk with either

Charles Jr. ("Chuck") or Charles III ("Cork"), both of whom were affable, insightful, and vital to the production of this book.

Although this is not an "authorized" history sponsored by the company, the people from Walgreens were gracious and helpful, particularly current CEO Dave Bernauer, retired CEO Dan Jorndt, archivist Donna Lindgren, divisional vice president of corporate communications Laurie Meyer, manager of media relations Michael Polzin, and former general counsel Bill Shank. (In classic Walgreens' style, they've asked me to list them in alphabetical order.)

I've done my best to report as objectively as possible on Walgreens, but I can't deny I admire the company very much—a view shared by virtually every reporter and researcher who has studied the company over its 103-year history. One of the company traits I admire most—its institutional aversion to publicity, even as less deserving companies do flips to grab the headline—made it difficult to find enough primary sources to create a comprehensive account of Walgreens' triumphs and tribulations. I had to rely more than I anticipated on three internal publications—Myrtle Walgreen's *Never a Dull Day,* Herman and Rick Kogan's *Pharmacist to the Nation*, and Marilyn Abbey's *Walgreens: Celebrating 100 Years*, for access to old interviews, company newsletters, and newspaper and magazine articles. Walgreen Company graciously provided permission to quote from all three books, as did James Collins from his groundbreaking best seller *Good to Great*.

Outside the company, the staffs of the American Institute for the History of Pharmacy in Madison, Wisconsin, the Chicago Historical Society, and the graduate and pharmacy libraries of the University of Michigan directed me to more good material than I thought existed on this subject. Financial advisor Brian Weisman patiently walked me through the LIFO-FIFO accounting systems and did it again when I decided to overhaul the section. Pete Uher, currently enrolled in the Michigan MBA program, was as efficient as he was tireless in finding all manner of information on the economic history of our nation, Walgreens, its competitors, and the retail industry itself by digging through countless

books, articles, and Internet web sites and then helping me boil it all down to its essence.

I owe my greatest debt to Debra Englander, my editor at John Wiley & Sons, who not only conceived the idea for this book but also asked me to write it and provided exceptional guidance and patience throughout. Her assistant, Greg Friedman, handled endless issues, large and small, with grace and good humor. Production editor Mary Daniello, production manager Jamie Temple, and copyeditor Judy Cardanha all performed with consummate skill under serious deadline pressure, for which I am grateful. My agent, Carol Mann, is one of the best in the business and one of the most responsive, too; and she proved to be both throughout this process.

Most of all, though, I want to thank Walgreens itself. Not only is it a very good company, but for almost two years, it was, for me, very good company.

J. U. B.

CHAPTER 1

from humble beginnings

the apple and the tree

There was little about Charles Walgreen's childhood that would have led you to believe he would become a success story, let alone a multimillionaire who would transform an entire industry. Walgreen never seemed cut out for the pharmacy business—and there was no shortage of pharmacy owners ready to tell him this. They might have been right. Charles never longed to become a pharmacist or a businessman (as confirmed by his checkered career bouncing around at least a half dozen stores in his twenties). But his fastidious attention to detail, coupled with his

engaging personality, commitment to customer service, and surprising willingness to defy conventional wisdom on how to run his business, proved to be an unusually potent combination—a combination to which his son and his grandson have adhered, even as the industry did several flip-flops over the decades.

But the fact is Walgreen was a solid but uninspired student and a positively desultory employee. Another twist: Walgreen did not descend from a line of Walgreens but was the first Walgreen born, by name, a Walgreen. Because Swedes traditionally took the first name of their fathers for their last names (adding the familiar "son" as a suffix, as in Johannson), military units suffered endless confusion with so many people sharing the same surname. In the 1780s, Charles's great-great-great-grandfather, Sven Olofsson, adopted the surname "Wahlgren" during his military service, a family fact passed down over the generations. When Walgreen's father, Carl Magnus Olofsson, arrived in America, he decided—for reasons lost to us now—to change the family name to Walgreen. (The original name would resurface years later when Charles Walgreen decided to give his company's "Pure Norwegian Cod Liver Oil" the fictitious family moniker, "Olafsen's.")[1]

Carl Magnus Olofsson grew up in Bola, Morlunda, Sweden, in a solidly middle-class family. Nonetheless, Olofsson decided to leave home for the New World in 1859, changing his name to Carl Walgreen when he arrived. He started a family with Anna Louise Cronland, but after bearing two children, she died from complications in childbirth. In 1871 Walgreen married the former Ellen Olson, who grew up in a small town north of Stockholm. Although Olson's family lived comfortably there, her father, like Olofsson, decided the future lay in America. So he led his wife and nine children on an arduous four-week trip across the Atlantic to find out if he was right. Since the family never returned, we can safely conclude their father's belief in America's future was vindicated. Ellen raised Walgreen's first two children and two more of their own, including Charles, who was born on October 9, 1873.

Walgreen grew up on a farm near Rio, Illinois, 14 miles north of

Galesburg—in other words, in the middle of nowhere. But it made for a safe, contented childhood. When Charles first met his future wife, Myrtle Norton, as she recounted in her autobiography, *Never a Dull Day*, he told her that he had had "a happy home"; and all signs suggest it was true.

Walgreen's parents were typical Swedes—stoic, with an understated sweetness. They spoke Swedish at home—a language Charles spoke and wrote his entire life—"but never in anger," he said. His father was firm but fair, unquestionably the family patriarch. He might have admired his adopted country's democratic form of government, but he made no pretense of practicing it at home. What Carl said, went. Carl's authoritarian streak—hardly uncommon for the era—might explain why Charles so often bristled years later when taking orders as a store employee.

In the 1870s, the entire "educational system" of Rio, Illinois, consisted of a one-room schoolhouse. But for at least one year, it was lead by a special teacher named Maggie Phillips. Walgreen never forgot her. And as a result, Walgreens' employees never did either. Every day, Miss Phillips would write an inspirational quotation on the blackboard and have the students memorize the phrase.

Her methods worked. Some five decades later, during the Great Depression, Walgreen shared one of Miss Phillips's quotes with his thousands of employees through the company newsletter, *The Pepper Pod*.

> True worth is in being, not seeming,
> In doing each day that goes by
> Some little good—not in dreaming
> Of great things to do
> By and by.[2]

It is safe to say that Walgreen, and the vast majority of his employees, took those words to heart. The company has been characterized by an almost religious devotion to substance over style, to this day.

Miss Phillips's tutelage aside, however, Walgreen's father believed his son would need a bigger, better school system to reach his full potential;

and he felt he found one 60 miles northeast in Dixon, Illinois. Walgreen's older half brother Edwin was attending classes there at the five-year-old Northern Illinois Normal School and told his father, "This was the place."

When the Walgreens moved there in 1887, Dixon still had muddy roads and wooden sidewalks, but its location on the Rock River guaranteed continued growth. Established in 1830 when John Dixon set up a ferry service there, the spot became known as "Fort Dixon" during the Black Hawk War of 1832, which started when Chief Black Hawk roused the local Potowotami and Winnebago tribes to take back the land. The war drew hundreds of Union troops, including a host of future famous Americans, among them Jefferson Davis and Abraham Lincoln—the presidents involved in the Civil War. The outnumbered and overpowered tribesmen stood little chance; and after just a few months of fighting, they were forced to surrender. "The Rock River was a beautiful country," Chief Black Hawk said. "I loved it and I fought for it. It is now yours. Keep it as we did."[3] (Chicagoans honored the warrior a century later when they named their NHL hockey team the Blackhawks.)

The Black Hawk War literally put the tiny settlement of Dixon on the map and, having introduced the soldiers from around the country to the area, served to spread the word about the area's appeal. Lincoln returned to Dixon's Nachusa Hotel, where he had boarded during the war, for business trips and campaign stops decades later. (A century later, another U.S. president, Ronald Reagan, grew up in Dixon, serving as a lifeguard on the Rock River and as a caddy for Charles Walgreen Sr. on the Dixon Country Club golf course, which Charles Sr. saved from bankruptcy in the 1930s by purchasing 100 memberships. Like Lincoln, Reagan returned as an honored guest while campaigning for president, staying at the Walgreen family's Hazelwood estate.)

Dixon looked pretty good to Carl Walgreen, so he sold his two farms in Rio to set up a real estate office in downtown Dixon in 1887, when Charles was 14. The community might not have been much by today's standards, but it must have been exhilarating to young Charles, moving

from miniscule Rio to Dixon, a town with 5,000 people, electric lights, and even, in a few prosperous businesses and homes, telephones, "the lazy man's friend," in the words of the *Dixon Evening Telegraph*.

Dixon also had what Carl Walgreen most wanted: a good high school for his son, with a planned, new, state-of-the-art building. Charles did well in his studies, but it was sports, not school, that thrilled him. He played baseball and swam all summer, hunted in the nearby woods each fall, and skated on the frozen Rock River in winter.

Charles thrived on the freedom that came with growing up but chafed under the additional responsibilities. At age 16, at his parents' urging, he entered Dixon Business College but stayed only a year. "When I asked him how he liked business college," Myrtle Walgreen wrote in her autobiography, "he just shrugged."[4] In his early years, indifference marked Walgreen's reaction to work in almost any form.

Fortunately, "Accuracy was a kind of passion with him," Myrtle wrote, so Walgreen was able to find work as a bookkeeper for the I. B. Countryman General Store, Dixon's largest. He performed passably well, but once he recognized that his daily duties would hardly change before he died an old man, he quit again. "He didn't think it'd be too good to run a bookkeeping operation the rest of his life," Chuck recalled.[5]

(Walgreen might have ditched the bookkeeping job, but he remembered the lesson: If you don't give your employees a chance to advance, you'll lose them. Providing its employees opportunity for growth based on ability, not merely on longevity, has been a pillar of Walgreens' policy to the current day.)

Leaving the white-collar world for a job at the Henderson Shoe Factory in town, Charles Walgreen soon learned that manual labor also had its downsides, especially in 1889. As he toiled at one of the stitching machines one day, he caught his left middle finger in a sharp steel tool and watched the contraption chop the top joint off. A local doctor named D. H. Law treated the wound and told him he wasn't even to hold a book until it healed. But Charles was not about to put off his love of sports just

because of a little finger injury. When Law caught him playing baseball with his buddies the very next day, he scolded the young man. He then asked Charles if he would like to work in a drugstore instead of the factory.[6]

"Charles did not care for the idea at all," Myrtle recalled, simply because he preferred playing baseball to any job you could name. But Dr. Law persisted, asking Charles every day he saw him playing outside if he wanted to reconsider his offer. Finally, albeit grudgingly, Charles agreed to take the job that Dr. Law had set up at the biggest of Mr. David Horton's five drugstores, which sold the "finest perfumes, pure drugs, medicines, toilet articles, shoulder braces, homeopathic remedies, cigars, soda water, and lamp goods," according to the ads in the local paper.

Not surprisingly, the work at Horton's didn't appeal much to Charles, but the princely sum of four bucks a week was certainly attractive. More important, however, unlike the factory, the drugstore offered the amiable young man lots of social contact. Although Charles was initially apprehensive about waiting on customers, he quickly discovered he had a knack for it, the one part of the job he actually enjoyed. (Genuinely friendly customer service has also been a Walgreens' hallmark from the start.)

Like all of Walgreen's jobs, however, this one would be short-lived, lasting only a year and a half. "One nasty winter day, [Mr. Horton] told me to get the snow and ice off the front sidewalk while he was out to lunch," Charles recalled about 10 years later. "I thought he ought to have a porter for such jobs when we were busy, but I really did intend to shovel the snow." After Walgreen's boss left for lunch, a friend stopped by to chat, which interested Walgreen far more than shoveling snow. The time flew by, and Mr. Horton returned to find the snow and ice still stuck to the sidewalk and his clerk inside with the shovel in his hand, chatting up his friend.

"I caught the look on his face," Walgreen said, "and remembered the ice fast enough to blurt out, 'I've quit!' Mr. Horton said I couldn't quit; I was fired!"[7]

Thus began the single greatest career in the pharmacy business.

sweet home chicago

Having been unceremoniously let go from a decent job by a decent man, another 18-year-old might have felt guilty or dejected, but Charles Walgreen took his untimely dismissal instead as a long-awaited invitation to see the world beyond Dixon, Illinois. He borrowed a $20 bill from his sister Clementine, who worked as a stenographer in the Dixon Circuit Clerk's office, then hopped on the Chicago and Northwestern railroad line for Chicago.

His timing could not have been better. When he arrived at the Northwestern station in the winter of 1893, the architects and organizers were working furiously to put the final touches on the World's Columbian Exposition just a few blocks away in Jackson Park, on the city's South Side, in time for the May opening.

The stakes were enormous, for both the city and the country. Chicago's 1893 fair followed Paris's incredibly impressive 1889 World's Fair—which introduced the Eiffel Tower, among other attractions—and had to redeem the United States for its embarrassing, half-baked displays in Paris. Chicago also had to wow its countrymen to prove that it was no longer a vulgar, Western outpost fit only for doomed cattle.

It is impossible to talk about the history of Walgreens without discussing the history of Chicago. The two have been intertwined since Chicago's eighty-sixth year and Walgreens' first. Their personalities are very similar. They share a hard-working, no-nonsense mindset, yet both are utterly unafraid of great challenges.

For the company's first 10 years or so, Walgreens was based almost entirely in Chicago, and the values of that city and its people have stamped the company, even as Walgreens has spread across the United States. In a real sense, Walgreens remains a Chicago company that happens to have outposts in 44 states in the country. As former chief executive officer (CEO) Dan Jorndt said in 1981, when Walgreens had a mere 150 stores in Chicagoland (compared to today's 350-plus), "We know Chicago better than anyone. This is our home, where it all started."[8]

Eastern capitals like Boston and New York were already major cities in the seventeenth century, and even "Western" enclaves like New Orleans or St. Louis were established outposts by the early nineteenth century. But Chicago didn't even exist on any map until well into the nineteenth century. What this utterly forgettable landscape did have, however, was a seemingly minor river running through it—and that made all the difference. Columbus left the Old World to find a passage to the Orient—and failed. Lewis and Clark left the East Coast to find an easy waterway to the Pacific Ocean—and failed. But when French missionary Jacques Marquette and his traveling partner, explorer Louis Joliet, set out on the last leg of their North American journey from the Great Lakes to find the Mississippi River in September 1673, they succeeded. The answer to their riddle was traveling the tiny Chicago River (*Chicago* being a bastardized version of an Indian word for skunkweed, or wild onion, which covered the river banks), followed by a short portage into the Des Plaines River, which runs into the Illinois before joining the Mississippi.

Marquette and Joliet's discovery went largely ignored for 157 years, however, because it was too impractical to exploit. That changed dramatically in 1830, when government planners working for the 12-year-old state of Illinois decided to dig a canal between the Chicago and Des Plaines rivers, ending the need for the troublesome portage, with two small towns—Ottawa and Chicago—planned for either end of the canal.

In August 1833, settlers signed papers at the rustic—some reporters called it rancid and wretched—Sauganah Hotel, incorporating the village of Chicago as a town, with a standing population of 150 people. Milwaukee, Wisconsin, and Michigan City, Indiana, had a big head start on the nascent hamlet; but after the pioneers finished cutting the canal between the Chicago and Des Plaines rivers, the clot in the waterway broke, allowing easy travel from the Atlantic Ocean to the Gulf of Mexico. There was now at least a reason to travel through this wasteland.

The town's rapid growth was driven by sheer utility, a place where grain, cattle, and immigrants came in and flour, meat, and migrants went out. But in Chicago's first decades, it still wasn't much to look at. An early his-

torian reported the place suffered from "a most woe-begone appearance, even as a frontier town of the lowest classes."[9]

The townspeople built their homes, businesses, and even corduroy roads out of the acres of virgin forests that Michigan's lumber barons logged and shipped to Chicago daily. There seemed no end to the raw building materials the Great Lakes state could provide, but that would prove to be a shortsighted solution at best.

On October 7, 1871, George Francis Train, who was "a popular lecturer on moral themes," according to Donald Miller, gave a speech in a Chicago hall that went unrecorded, except for his final caveat: "This is the last public address that will be delivered within these walls! A terrible calamity is impending over the city of Chicago! More I cannot say; more I dare not utter."[10]

We will never know what Train knew or how he knew it; but 24 hours after delivering those fateful words, he would be proven right beyond anyone's imagination, perhaps including his own.

On October 8, 1871 (two years before Charles Walgreen was born), at about 9 P.M., Mrs. Patrick O'Leary's cow knocked over the infamous lamp in her barn on the West Side of the city, igniting some loose hay. By the next morning, over 300 people had been killed, and almost a third of the city's 300,000 people were suddenly homeless, comprising the greatest single disaster in the United States to that date. One witness said he thought he was witnessing "the burning of the world."[11]

The hyperbole was understandable. A modern reader looking at the photos of Chicago that week is reminded of Hiroshima or Dresden, with the landscape covered as far as the eye could see in rubble and smoldering coals, with just a few chimneys and bewildered onlookers left standing. As stunning as the event was, the recovery was even more incredible—and almost as fast—a testament to Chicago's character.

Instead of feeling defeated, "Chicagoans were convinced they had survived a biblical test," Miller wrote, "a terrible but purifying act that had cleared the way for a vast regeneration that would transform their ruined city into the master metropolis of America."[12] By the end of that horrible

week, the resilient Chicagoans had already built 5,000 temporary structures and started 200 permanent ones, which inspired *Chicago Tribune* editor Joseph Medill to write, "In the midst of a calamity without parallel in the world's history, the people of this once beautiful city have resolved that CHICAGO SHALL RISE AGAIN."[13]

And rise it did, perhaps like no other city in the world. In contrast to Tokyo and Berlin, which lost much of their ancient charm during their similarly massive rebuilding projects, Chicago had little of lasting value to lose in the bargain. Chicago happily began to replace its seamier sides in favor of stone buildings, planned streets, and an infrastructure built to last.

This ability to adapt to sudden changes (which gerontologists tell us is one of the most common traits of those who live to be 100 years old) plus the capacity to surmount daunting obstacles and take on great challenges with complete conviction have long been central to Chicago's identity—and, not coincidentally, Walgreens', too. As recent chief executive officer (CEO) Dan Jorndt wrote to his minions, "Don't be afraid to bite off more than you can chew: You'll be amazed how big your mouth can get."[14] It's no accident that Walgreens has drawn its trademark resilience, grit, and understated confidence from the city that gave it birth.

In addition to possessing more than a little moxie, Chicago had all the raw materials it needed to fuel a roaring renaissance after the Great Fire, including Lake Michigan's endless supply of fresh water to the east, Wisconsin's vast acres of lumber to the north, the Midwest's fertile fields to the west and south, and the all-important shipping channels running through it. By the time a young architect named Louis Sullivan took the train from Philadelphia to Chicago in 1873, his new city was home to the largest livestock, lumber, and grain markets in the world, with the biggest rail system to distribute all of it around the country. As Sullivan noticed, *biggest* was the most popular word in the Chicago lexicon. "I thought it all magnificent and wild," Sullivan said of Chicago at the end of the nineteenth century. "A crude extravaganza; an intoxicating rawness."[15]

"No large city," Miller wrote, "not even Peter the Great's St. Petersburg,