



Woolworths: An Adizes Corporate Lifecycle Perspective

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At its height, Woolworths operated over 1,081 retail stores across the United States, Canada, Mexico, South Africa, Australia, the United Kingdom, and Germany. One of the first multinational retail firms, Woolworths was a pioneer in mass-merchandising techniques and an American icon for the 118 years of its existence. This study utilizes the Adizes Corporate Lifecycle framework to examine Woolworths' history from its origins as a small, single-location retailer to its expansion into a dominant multinational retailer. Additionally, this paper will show that a company must maintain the proper balance of purpose (P), administration (A), entrepreneurship (E), and integration (I) appropriate to the stage in the lifecycle through which the firm progresses. As will be discussed, Woolworths' deviation from this appropriate balance resulted in its eventual demise.

Frank W. Woolworth's initial retailing venture consisted of a small general store based in Utica, New York, that ultimately failed in May 1878. However, in June 1879 he opened a second store known as Woolworths Great Five Cent Store in Lancaster, Pennsylvania, which quickly grew into a large-scale retail corporation and eventually an American icon. The public began to refer to stores such as Woolworths as five-and-dime stores because that was the price of the merchandise they sold.

Much like its Wal-Mart counterpart of today, Woolworths became as much a part of American daily life as the radio, the milkman, and the newspaper. People visited their local Woolworths store regularly to both shop and socialize with one another. Additionally, Woolworths stores participated in community fundraisers, as well as sponsored youth sporting activities. Woolworths was more than a mercantile establishment; it was an essential component of the American community over the better part of a century.

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Woolworths' founder Frank W. Woolworth was an innovative entrepreneur who introduced a new way of presenting goods to people in a retail environment. He created a new customer relationship management (CRM) system that was unique to major retail environments in late nineteenth and early twentieth-century America. He also developed a new form of merchandising that his customers embraced. The model would prove so successful that it would last for the next 118 years.¹

The purpose of this paper is to provide a chronological perspective on the Woolworths Corporation and analyze its history utilizing the Adizes model of corporate lifecycles.² While the company's success lasted for over a century, cycles of creative destruction finally caught up with this powerhouse retailer. Additionally, this paper will show that a company must maintain the proper balance of purpose (P), administration (A), entrepreneurship (E), and integration (I) appropriate to the stage in the lifecycle through which the firm progresses. As will be discussed, Woolworths' deviation from this appropriate balance resulted in its eventual demise. Ultimately, powerful competitive forces and declining profit margins finally led to the end of this legendary merchandising icon in the United States.

Early Photo of the 19th-Century Storefront of F.W. Woolworths



(Source: Wendy Wiolson, www.bloomberg.com, 2012)

The paper begins with a brief introduction to Woolworths's history and the Adizes model. The next section discusses the earlier years of Woolworths' growth, followed by the phenomenal success that Frank Woolworth experienced due to his innovative merchandising techniques. The paper then concludes with a discussion of the Woolworth

¹ John P. Nichols, *Skyline Queen and the Merchant Prince: The Woolworth Story* (New York, 1973).

² Ichak Adizes, *Corporate Lifecycles: How and Why Corporations Grow and Die and What To Do About It* (Englewood Cliffs, N.J., 1988).

Corporation's final years, and how it went through the corporate lifecycle stages of Early Bureaucracy, Bureaucracy, and Death.

Woolworth Summary

In 1878 Frank Winfield Woolworth began the first Woolworths store with a loan of \$300. Although Woolworths grew to be one of the largest retail chains in the world through the early and mid-twentieth century, increased competition from such large-scale, mass merchandisers as Wal-Mart, K-Mart and other big box stores contributed to its ultimate demise beginning in the 1980s.³

A harbinger of this corporate decline can be seen even earlier. In 1963, Woolworths purchased the Kinney Shoe Corporation and operated it as a subsidiary. That strategic choice led to further acquisitions and expansion in the specialty shoe store category, including Stylco in 1967, Susie Casuals in 1968, and Foot Locker in 1974. Woolworths continued to diversify its portfolio of specialty stores in the 1980s, including Afterthoughts, Northern Reflections, and Champs Sports. By 1989, the company was pursuing an aggressive strategy of deploying multiple specialty store formats located within enclosed shopping malls. The business strategy was formulated on the premise that if a particular retail concept failed at a given mall, the company could quickly replace it with a different one. The company's purported goal was to operate ten specialty stores in each major American shopping mall, but this never came to pass as Woolworths never was able to develop that number of successful specialty retail formats.⁴

As new competitive threats continued to emerge, F. W. Woolworth Company in 1997 converted itself into a sporting goods retailer and closed its remaining retail stores, which had been operating under the Woolworths' brand name. The resulting retail organization renamed itself the Venator Group. By 2001, the company focused exclusively on the sporting goods market, again changing its name to the present Foot Locker, Inc. This reorganization evolved into the development of the successful Foot Locker and Northern Reflections apparel shops as well as Best of Times, a timepiece retail store.

Adizes' Corporate Lifecycles Model

Ichak Adizes developed a model of corporate lifecycles that provides a useful lens for examining the rise and fall of Woolworths. Adizes compares the lifecycle of a company to that of a living organism, employing anthropomorphic terms such as "infancy" and "adolescence" for some of the labels of the lifecycle stages. Adizes notes that some dynamics are normal at certain lifecycle stages but are abnormal at other stages. For example, a six-year-old child who has facial hair is abnormal, whereas facial hair on a forty-year-old man is normal. Likewise, a company that attempts to decentralize during the early stage of Go-Go is abnormal. One that decentralizes at the Prime stage is normal.⁵

Stages in the corporate lifecycle are differentiated by a change in emphasis in the performing of the purpose (P), administration (A), entrepreneurship (E), and integration (I). The earliest stage of Courtship (Paei) is one in which the entrepreneurship function must be front and center. In this stage the founder must be passionate regarding the idea of the company, build out the idea, and test his or her commitment to see it through. The

³ Karen Plunkett-Powell, *Remembering Woolworths* (New York, 1999).

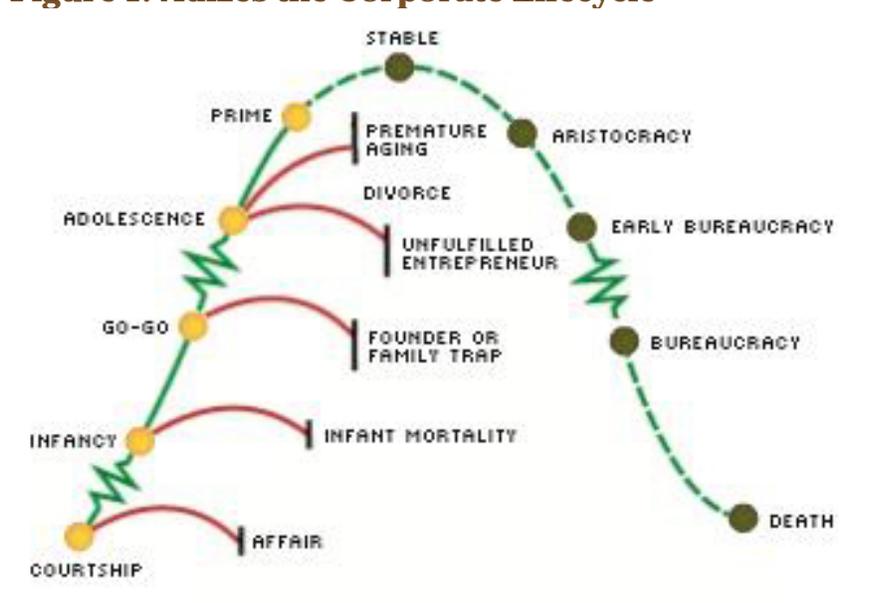
⁴ Ibid.

⁵ Adizes (1988).

company becomes an Infant (Paei) when the risk of the startup has been undertaken and the need for cash comes to the fore. If the “p” doesn’t move from being a secondary consideration to the primary one, the company will die in the earliest stage. The Go-Go (PaEi) point of the lifecycle is what those involved at this stage will often describe as the most fun. Revenue is growing at an accelerated pace. The people in the company all know each other. There are few policies and procedures in place. Adolescence (pAEi) is when administering first becomes dominant and some policies and procedures are enacted. Companies often learn in Go-Go that they are charging dramatically different prices to different customers, and this gets straightened out in Adolescence.

Prime (PAEi) is the next stage, and the place that all leaders want a company to reach and remain. Performing, administering, and entrepreneuring are all present at high levels and integration is not dominant. This configuration allows an organization to maintain enthusiasm, nimbleness, and innovation. If integrating ever becomes dominant, the company will begin to decline as in the Stable (PAeI) stage. Aristocracy (pAeI) is reached when rule and centralization are more dominant than performance and creativity. The final stages are Early Bureaucracy (pA-i), Bureaucracy (-A--), and Death (----). After a brief description of Frank Woolworth’s upbringing, this paper begins the narrative of Woolworths at the Courtship stage. Figure 1 presents a graphic illustration of the lifecycle stages, including the most common ways that entrepreneurial efforts derail before reaching Prime.

Figure 1: Adizes the Corporate Lifecycle



(Source: <http://www.adizes.com/>)⁶

The Early Years

Frank Woolworth spent the first twenty-one years of his life on a farm in rural upstate New York. Woolworth and his younger brother completed their local education at age 16 and then reluctantly went to work on their father’s farm. A great opportunity occurred

⁶ Ibid.

when Woolworth's mother gave him the money to take two courses at Watertown Commercial College. For Woolworth, this was the break of a lifetime. Simultaneously, his mother had invited Jennie Creighton to live and work at the Woolworth farmhouse because she was unable to find steady work as a seamstress in Watertown, New York. During her stay at the Woolworth's farmhouse, a courtship ensued.⁷

After his course of study at Watertown Commercial College, Woolworth began looking for work. His dream was to work behind the counter at a retail store.⁸ He began seeking employment by asking for work at various shops in the town of Carthage, New York, but, unfortunately, no one wanted to hire him and eventually, he had to return home to the farm. The job market was weak because of the ongoing Civil War, which had caused the economy to remain stagnant. However, after several false starts, he was finally able to secure a position at Augsbury & Moore, later known as Moore & Smith, the leading dry goods store in Watertown, New York. In March 1873, at almost 21 years of age, Woolworth started his business career. This event was to prove the turning point in F.W. Woolworth's work life.⁹

Woolworth made his next career move in September 1875. He took a job with A. Bushnell & Co., a competitor to his present employer. The new job at Bushnell required him to leave his boarding house and sleep in the store. This translated into very long hours and in February 1876 he collapsed from exhaustion. He was carried by sleigh to his mother's house where she provided around-the-clock care for him until he was better. After his recovery, Frank Woolworth and Jennie Creighton married in the Woolworth family farmhouse. Somehow Woolworth obtained enough money, \$300, for a down payment on a \$600 mortgage for a four-acre farm near his home in Great Bend. Woolworth was reluctant to return to the farming occupation and in June 1877 the couple relocated to Watertown, New York, and leased out the farm. Woolworth accepted employment at a salary of \$10 a week in the dry goods store owned by Moore & Smith, where he had worked previously. The owners appreciated the value of Woolworth's display skills and were willing to pay him good money to return. Opportunity arose when the Moore & Smith business began to experience financial difficulty. With an excessive inventory and a great many bills pending, Moore & Smith believed that they could resolve their inventory problem by opening an additional store in Great Bend, New York. Woolworth accepted the opportunity to manage the new store and painstakingly organized the 20 x 60 square feet of floor space in a manner in which the excess merchandise was displayed as attractively as possible.¹⁰

Even though Woolworth put all his energy into this new store location, it subsequently failed and closed. Woolworth returned to the original Watertown store where the business continued to struggle. At this point, a customer recommended that Woolworth adopt a pricing strategy similar to that employed at a small store located in Michigan by advertising a counter of select items for the fixed price of 5 cents each. The central focus of the strategy was to entice the customer into the store with the low price goods while hopefully convincing them to gravitate toward the more expensive

⁷ Nichols (1973).

⁸ John K. Winkler, *Five and Ten: The Fabulous Life of F.W. Woolworths* (New York, 1970).

⁹ Ibid.

¹⁰ Jean Maddem Pitrone, *F.W. Woolworth and the American Five and Dime: A Social History* (Jefferson, N.C., 2003).

merchandise. The more Woolworth listened to this new idea the more excited he became. Woolworth began to develop a plan to implement this discount pricing concept in the store. This incident represents the initiation of the Courtship (paEi) stage.

Woolworth convinced Mr. Moore to try the idea and was tasked with the assignment of making the cut-rate counter a reality. Two big wooden tables were set in the middle of the room. Woolworth did a great job of exhibiting the goods in a way that would encourage customer browsing. He placed the most attractive item in the front and created a large sign that read, "ANYTHING ON THIS TABLE 5 CENTS." The idea became a great hit among customers. The success of the 5-cent, cut-rate sales gave Woolworth another; he was going to establish his own 5-cent store. Now the flickering of the Courtship (paEi) stage grew into a flame. Woolworth had it all figured out. A penny or two profit from each item was the key to making the concept work. The only barrier to establishing his own store was financial capital. Woolworth asked his uncle for the start-up funds but was turned down. He finally succeeded in obtaining the start-up capital from Mr. Moore based on the condition that he find a promising location. As all of this was happening, Woolworth learned that his father would also sign the note, providing him with all the support that was needed. Woolworth was excited and eager to become an entrepreneur. He knew consumer lifestyles were changing and the change would create more opportunities in the retail industry.¹¹

While the potential retail locations in and around Watertown and Rome, New York, were disappointing, he had a hunch that the town of Utica, New York, might offer a great opportunity. His insight proved correct. The five-cent craze had somehow missed Utica and a location-based opportunity emerged. Woolworth identified a small retail space in Utica and worked diligently to clean and fix it up. He purchased merchandise from his former boss and was also able to acquire the materials to restore and upgrade the store location. Woolworth still lacked sufficient capital to operate the firm and negotiated an arrangement with the prospective landlord to pay the rent at the end of the month when profits from the sale of merchandise would become available.¹²

On Saturday evening at 8:00 p.m. on February 22, 1879, Frank Woolworth opened his first 5-cent store. A tin fire shovel was the initial sale. The five- and ten-cent items proved to be consistently popular. With the resulting profits, the loan from Moore was retired in three weeks. In addition, Woolworth was also able to pay his landlord, his workers, and buy a present for his wife. However, the store's success was short-lived due to the economic downturn of 1879. Woolworth sent all his merchandise back to Moore & Smith and closed the Utica store in May 1879. Nevertheless, the experience in starting and managing a new retail store proved invaluable.¹³

After a month of thoughtful discussion, Woolworth decided to try again to open a store of his own in Lancaster, Pennsylvania. Again he asked Moore for additional credit, booked a train, and ventured to Lancaster to find a store site. Woolworth left Utica with \$30 but it was in Lancaster where his permanent commercial success began. This time frame represents Woolworths' move to the Infant (Paei) stage. If the business's growth is excessive, it will not be able to generate sufficient internal cash flow to fund further

¹¹ Ibid.

¹² Ibid.

¹³ Ibid.

growth. However, if the growth rate is more stable, the company is more likely to be able to generate the type of cash flow necessary to fund continued operations.¹⁴

Woolworth opened the Lancaster location in June 1879 to great success. Together with his brother, they opened additional locations, often in partnership with other business associates. The Woolworth brothers also entered into strategic alliances with competitors to maximize inventory efficiency and purchasing power for both parties. Twenty-two years later, Frank Woolworth would be a multi-millionaire and control one of the largest retail merchandising chains in the history of the United States.¹⁵ At this point, Woolworths seems to have reached the Go-Go (PaEi) stage of the Adizes model where “suppliers are repetitive and stable and cash flow is secured because [customers] have started to repeat their orders.”¹⁶ Go-Go is often characterized by rapid geographical expansion.

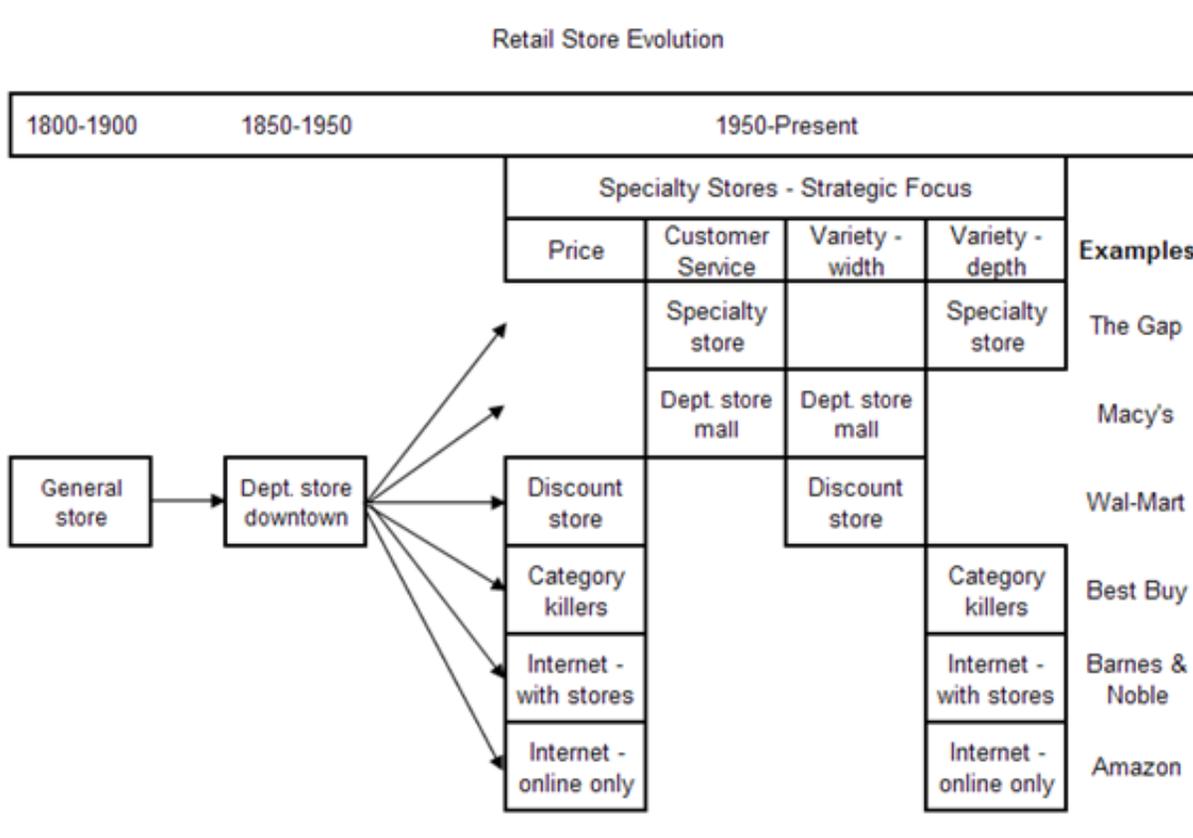


Figure 2. Retail Store Evolution (Source: Crandall, Crandall and Chen, 2009)¹⁷

In his initial Lancaster retail venture, Woolworth had opened what could be described as one of the first discount store concepts in the United States. F.W. Woolworth Co. was among the first five-and-dime stores, which sold discounted general merchandise

¹⁴ Ibid.

¹⁵ Ibid.

¹⁶ Adizes (1988).

¹⁷ Richard E. Crandall, William R. Crandall, and Charles C. Chen, *Principles of Supply Chain Management* (Boca Raton, Florida, 2010).

at fixed prices, usually five or ten cents, undercutting the prices of other local merchants. Woolworths, as the stores popularly became known, was one of the first American retailers to put merchandise out for the shopping public to handle and select without the assistance of sales clerks. Previously, retailers had kept all merchandise behind a counter, and customers had to present the clerk with a list of items they wished to buy.¹⁸ The transition from the Go-Go (PaEi) to Adolescence (pAEi) phase is significant.

Company Growth

By 1911, there were six chains of affiliated Woolworths stores operating in the United States and Canada. That year, Frank and Charles Woolworth incorporated the F. W. Woolworth Company and through a series of mergers brought all 596 stores together under one corporate entity.¹⁹ These actions are reflective of the transition into the Adolescence (pAEi) stage. Performing the purpose temporarily takes a backseat as administrative procedures and processes are put into place to allow for further growth. A company with 596 stores must have a sophisticated and established organizational infrastructure or it will simply be unable to manage the scope and scale of its operations.

Typical Downtown Woolworths Location



(Source: <http://aipetcher.wordpress.com/tag/f-w-woolworth/2012>)

This is the timeframe in which Woolworths can be said to have reached Prime (PAEi). The firm was able to take full advantage of ongoing demographic trends and deliver on the company purpose, have appropriate administrative procedures in place, and be entrepreneurial. However, even as downtown chains such as Woolworths proliferated, the underpinnings of these firms' strategy were being threatened by demographic and socio-cultural changes in the environment. In the 1950s and 1960s America's suburban population grew by more than 40 million, lured out of the cities by inexpensive housing developments in the suburbs and a massive federal highway construction program.²⁰ These trends worked against Woolworths' longtime strategy of

¹⁸ Pitrone (2003).

¹⁹ Paul Gaffney, "Dime Stores/Woolworths" in *St. James Encyclopedia of Pop Culture*; viewed 15 Sept. 2015. URL: <http://sociology.sunimc.net/htmledit/uploadfile/system/20100825/20100825043545415.pdf>.

²⁰ Joshua Zeitz, "Why Woolworth Had to Die" *American Heritage*. July 17, 2007; viewed 15 Sept. 2015. URL: <http://www.americanheritage.com/articles/web/20070717-woolworth-business-retail-five-and-ten-urbanization-suburbanization-walmart.shtml>.

situating stores downtown and resulted in a decline in performing the firm's purpose and entrepreneuring, resulting in a drop to the Stable stage (PAeI).

According to the Adizes framework: "When a Prime organization starts losing its entrepreneurship, the organization begins to move out of Prime."²¹ The presence of entrepreneurial competition and Woolworths' lack of response to changes in the external environment eventually led to the firm's inexorable decline. Woolworths' management at this point can be characterized by the following passage from Adizes:

It's easier to be an administrator than an entrepreneur, because it's less risky and less demanding. If people are asked only to follow rules and not to try to change them, when they eventually are asked to be creative and take risks, their past experience with the reward system works against this change. New reward systems must be introduced, and a change in style and culture is required.²²

Woolworths was clearly in Early Bureaucracy (pA-i).

Decline

The failure to react to change in the business environment often leads to the failure of the firm. This loss of focus is indicative of the Bureaucracy (-A--) stage in which the company is no longer putting forth a concerted effort in performing its purpose. On July 17, 1997, Woolworths declared that it would shut down its more than 400 five-and-dime stores in the United States, lay off about 9,200 Woolworths' workers (about 11 percent of the company's workforce), and take a \$223 million charge for the discontinued operations.²³ For all intents and purposes, the dominant retailer in the United States for most of the twentieth century had reached Death (----). To conclude the exit from department store retailing in the United States, the successful subsidiary Woolworths chains in Germany and Mexico were sold to their local managements for nominal sums in 1997. Woolworth remained a household name in the United Kingdom as the former "cheap and cheerful" image was slowly shed and a more contemporary positioning was adopted. Woolworths was still a substantial business in the United Kingdom in 2005, and announced a profit of £73.1 million based on sales of £2.9 billion. However, in November 2008, the trading of shares in Woolworths Group plc was suspended and its subsidiaries were taken into bankruptcy. All 807 Woolworths' stores in the United Kingdom were closed resulting in job losses in excess of 29,000. The Woolworths name survives today in the United Kingdom in the online company woolworths.co.uk affectionately known as Woolies.²⁴

Viewing Woolworth through an Organizational Lifecycle Lens

Every organization grows and develops according to a natural lifecycle, facing predictable problems at each stage along the way. Knowing where an organization is on the corporate cycle of life can be critical to its success. The transition from one stage of the lifecycle to

²¹ Adizes (1988).

²² Ibid, 203-204.

²³ Jay P. Pederson, "Woolworth Corporation" in *International Directory of Company Histories* (Detroit, Mich., 1988), 20: 528-532.

²⁴ Ibid.

another presents both expected and unexpected struggles and difficulties. Generally responsive organizations learn to deal with these episodes at each stage of the lifecycle. However, there are occasions when the organization does not respond positively and this causes it to move in a downward spiral earlier than anticipated and earlier than is normal for an organization.²⁵ Table 1 includes a chronology of each of the approximate stages of the company lifecycle for Woolworths.

Table 1- Summary of Lifecycle Stages and Significant Chronological Events

Lifecycle Stage	Date	Event(s)
Courtship	1873 -1878	Retail experience
Infancy	1879 - 1890	Opens store in Utica
Go-Go	1890 -1910	Active in expanding business
Adolescence	1911 -1920	Incorporation and acquisitions
Prime	1920 -1950	Business flourishes
Stable	1950 -1962	Business grows slightly
Aristocracy	1962 -1967	Target, Kmart, Walmart become the cutting edge
Pre-Bureaucracy	1967 -1979	From first net income decline
Bureaucracy	1979 - 1993	Takeover by Branscon
Death	1993	\$500 million loss, 572 stores closed

While descriptive history is important to understand, the chronology of events that lead to the success or failure of an organization may be brought into sharper focus using organizational lifecycle analysis. This theoretical framework may provide a clearer perspective on how and why the organization was born, peaked and declined. Such an analysis is important for understanding the key events and times associated with a company's history. The chronology of events and the lifecycle concept provides a framework for understanding the rise and fall of Woolworths.

Transition to a New Era of Mass Merchandising

The growth and expansion of the company contributed to its downfall. Woolworths moved away from its five-and-dime roots and placed less emphasis on its department store chain as it focused on its specialty stores. However, the firm was unable to successfully compete with other chains that had eroded its market share. There is little doubt that if Frank Woolworth were starting out today it would be on the Internet, with its low costs and mass reach. But that is little comfort for those shoppers who enjoyed and

²⁵ Adizes (1988).

appreciated the stores in Britain, Canada and the United States. The German Woolworths Company continues, along with some former British subsidiaries overseas in Zimbabwe, Barbados and the West Indies and a small chain in Mexico.²⁶

Conclusion

Woolworths provided generations with life milestone memories. The stores were more than just somewhere to shop, find bargains, or stock up. They were gathering places. The signature Woolworths stores eventually incorporated lunch counters after the success of the counters in the first store in the UK and served as general gathering places, a precursor to the modern shopping mall food court. People went there to meet friends while at the same time have lunch or coffee. By the time of his death in 1919, Frank Woolworth was a multi-millionaire. He died just before the emergence of the prosperous 1920s at a time when his stores were rapidly expanding in the marketplace. At his death at the age of 67, there were 1,081 stores in the organization. Woolworth had created a retailing empire through determination, creativity, and the courage to try something new. Although he had a progressive and a reliable board of directors composed of lifelong friends and relatives, Frank Woolworth was the essential leader. The history of F.W. Woolworths is not only interesting but also instructive in how an organization transitions through various lifecycles. The Woolworths retail chain lasted over 118 years from 1879 until 1997. The evidence suggests that Woolworths passed through all of the stages of a corporate lifecycle. During the 1910s through the 1940s Woolworth moved through the Adolescence and Prime stages of its lifecycle. As information technology became more sophisticated in the 1980s, Woolworths began to enter an era of significant organizational decline. The trend began to accelerate as new ideas of mass merchandising were introduced, coupled with the power of information technology. While Woolworths was an innovative retailer from the turn of the twentieth century until the end of the twentieth century, competitive forces and macro-environmental change began to erode the power of size and moved the organization to the stage of decline. With the implementation of modern mass merchandising practices and big box discount houses, Woolworths' original innovations simply became less attractive to the buying public.

The original Woolworths Company is currently recognized as Footlocker Inc. It is the largest athletic shoe distributor in the world with more than 3,000 locations across the globe. Ironically, in the United Kingdom there are some locations, such as Brixton, South London, where the present Footlocker operates from the very same location that was once a Woolworth store. The former parent company, Kingfisher, remains the market leader in do-it-yourself retailing in the United Kingdom and France, with many interests around the world. In addition, an independent F. W. Woolworths remains in Bridgetown, Barbados, while the store in Harare, Zimbabwe still trades as Woolworths from its original premises as part of the larger department store chain of the same name in South Africa. The Woolworths brand also continues successfully in Mexico as part of a larger convenience store group.

²⁶ Woolworth Museum, viewed 15 Sept. 2015. URL: <http://www.woolworthsmuseum.co.uk/aboutwoolies.html>.