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JOHN M. COTTER

COTTER and COMPANY

by

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INTRODUCTION

For the last century, the hardware dealer in the United States has been satisfied with too little for too long. And distribution costs have been too high. - John M. Cotter, 1973

Post World War II America - It was the worst of times for many of the country's small, local hardware stores, for this was the era when the giant chain stores systematically took the hardware business away from the less efficient independent local dealers.

But the post war era was the best of times for the lucky few who joined the dealer-owned wholesaling movement. Leading that movement was John M. Cotter. This is his story.

YOUTH

John Cotter was born on July 8, 1904 in St. Paul, Minnesota. His father worked for the local street car company. His mother grew up on an Iowa farm and had worked as a maid in St. Paul prior to her marriage.

At the age of 12, young John Cotter happened to be in a small hardware store near his home when he spotted a sum of money lying on a shelf. No one else was within sight and it would have been easy for the 12 year old youth to take the money without getting caught. Instead, young Cotter called the store owner's attention to the money. "You ought to put it in a safe place," he said.

Harold Chamberlin, the owner, was impressed by the boy's honesty. A few days later he offered John Cotter a part-time job at the store. The pay was one dollar for that week. Later there were raises to \$1.25, \$1.50, and \$2.00 a week.

Cotter accepted the job. After working several months he became tired and quit. But he discovered that he missed the steady income and soon decided to return to work with Harold Chamberlin. He remained in the hardware business for the rest of his life.

John Cotter learned a great deal about the hardware business while working for Chamberlin. As he recalls those days, "I swept floors, tended the furnace, trimmed windows, threaded pipe, made stove pipe, cut glass and did just about everything else there was to do in a hardware store at that time.

Throughout his school years, John Cotter listened and learned about the hardware business. His teachers were Mr. Chamberlin, his customers and the wholesale hardware salesmen who regularly dropped by. One lesson he learned from those teachers was, in his words:

You've got to talk to people if you want to sell merchandise!

THE FIRST FULL-TIME JOB

John Cotter finished high school in 1922. He felt that he was ready to apply for a full-time job with St. Paul's largest hardware retailer, Raymer's. He applied and was hired.

In his new job Cotter demonstrated a fetish for efficiency that was to become a foundation of his later success. One day, for example, he developed a way to reduce the assembly time for coaster wagons from one and one-half hours to twenty minutes.

Cotter was first hired as a salesman in the sporting goods department. There he met the man he calls his greatest teacher and inspiration, Mr. W..C. "Bill" Hoffman. Hoffman was a department manager.

Eventually John Cotter was made manager of the tool department. There he reduced prices and doubled volume. The store's profit from the tool department soared upward, and young Cotter became a company celebrity.

It was while working for Raymer's that Cotter made a discovery which was to later lead him into founding his own business. The discovery was that hardware wholesalers gave large retailers such as Raymer's a 10 percent discount on all merchandise bought. But small hardware retailers received no discount and were thus put at a competitive disadvantage.

Cotter thought this was unfair. And although he was in no position to change the situation at that time, he did file this feeling of injustice in the back of his mind. Little did he then know that decades later he would right the wrong by founding a dealer-owned wholesale company which would give all hardware stores an opportunity to earn the 10 percent discount and more-much more.

THE FIRST JOB IN WHOLESALING

John Cotter remained with Raymer's for six years. He was well treated, liked and respected by the owners and department managers. And he, in turn, liked them. But he was an ambitious young man. With five people ahead of him for promotions (3 sons, 2 senior employees), he decided that he could get ahead faster by changing jobs.

He decided to take a job as a traveling wholesale hardware salesman. His new employer, the wholesale firm of Kelley-How-Thomson of Duluth, Minnesota, sent him to call on retail hardware dealers throughout central Wisconsin.

HIS FIRST PARTNERSHIP

His travels introduced him to dealer-owned wholesaling and also brought him into contact with an opportunity to become a partner in an Eau Claire, Wisconsin retail store. The offer appealed to him. His constant reading of the hardware trade papers had convinced him that hardware stores did better in towns the size of Eau Claire (approximately 25,000 people).

Furthermore, he wanted to settle down, marry a girl he had met working at Raymer's, and raise a family.

And so, in 1932, John Cotter became a partner in his own store in Eau Claire. Then, on May 25, 1932, in the depth of the Great Depression, he married Alice Germain.

It was an old-fashioned wedding and marriage. They remained married for the rest of their lives. They had four children-2 boys and 2 girls, all college graduates. The two boys earned masters degrees-Dan, who later became the President of Cotter and Company earned an M.B.A., and Mike an M.F.A.

The stay in Eau Claire was short. In 1934 Cotter's old employer, Kelly-How-Thomson asked him to move to company headquarters in Duluth, Minnesota and become a housewares buyer and department manager.

The money and challenge were irresistible. As Cotter recalled, years later, "I thought this was the most important job there was in the business."

In that statement we have a clue to one of the keys to John Cotter's success. He had an ability to dedicate himself totally to most jobs which he took on. He was able to do so because he could convince himself that whatever he was doing was important and worth doing well.

In Duluth, Cotter quickly established an enviable reputation. He turned around the sickly housewares department by obtaining new merchandise at the right price and the right time. Sales doubled during his first year. He then moved on to the stove department where he repeated that success. Then he became head buyer for four years.

Things were going well for John Cotter at Kelley-How-Thomson. And for a while he thought he would spend the rest of his life working there.

A NEW PARTNERSHIP IN CHICAGO

Unfortunately, John Cotter's boss, R.W. Higgins, President of Kelley-How-Thomson developed the same belief. Cotter began to feel that he was being taken for granted by the company. He became dissatisfied, looked for a more congenial environment, and, in 1942 was offered a job by L.L. "Red" Oakes as a partner in the Tru-Test Marketing and Merchandising Organization.

Cotter learned a lesson from this experience, a lesson which he would later apply in his dealings with his own talented employees at Cotter and Company. The lesson, in his words, "You can't take people for granted."

When Cotter joined Oakes, he expected the fifty wholesaler members of Tru-Test to adopt the group buying and advertising concept. Cotter saw this as the salvation of the small hardware dealer.

But Tru-Test did not develop as expected and John Cotter, after five years, finally decided to establish his own dealer-owned low-cost wholesaling organization.

COTTER AND COMPANY IS FOUNDED

Cotter left Tru-Test in June, 1947 with the blessings of his good friend and partner, Red Oakes. In a way Oakes could take pride in the fact that Cotter would forever after say that Red was the best man he ever worked for and that Red had helped him more than any other person in the hardware industry.

On his own at last, John Cotter set to work to build a business. Money to support his family was not an immediate problem because over the years he had deliberately saved a part of every salary check in anticipation of the day when he might want to go into business for himself. Here, too, there is a message for today's young people. In Cotter's words, "Young people need to be money managers. I had enough to live on for two years. I had the money to do what I wanted to do."

The pressing problem in 1947 was finding hardware retailers who would put up \$1,500 and join the newly formed Cotter and Company. Cotter and his co-founder, Ed Lanctot mailed a proposal to 2,000 retailers. Ten percent responded and representatives of 10 stores finally showed up at the pre-organizational meeting held at the Fargo Hotel in Sycamore, Illinois. The date was July 17, 1947.

After listening to Cotter's presentation, four agreed to join. It was a disappointing response, but John Cotter wasn't about to quit. He told the remaining dealers, "I'm going to start and I'll keep calling on you as the Company develops."

By persistently seeking out prospects and telling them the story, Cotter signed up 25 hardware members (fully paid-up) before the end of 1947.

The Company was chartered on January 15, 1948, and actual warehouse operations began on June 1, 1948. There were about forty members and four employees at that time.

GROWTH OF COTTER AND COMPANY

Cotter's original concept was patterned after several other dealer owned wholesaling firms which he had observed in Minnesota, Pennsylvania, California and Texas. The Company would be entirely owned by the retail hardware dealers who ordered by mail from Cotter and Company. As a result, the owner-members would earn the profit that the old-line wholesalers kept for themselves. The lower prices were expected to be equal to approximately 10 percent of sales and would thus offset the discounts which the larger retailers were getting from the old-line, higher-cost wholesalers.

The savings would go directly to the dealers. Cotter himself would simply be a hired manager with an operating contract.

Cotter and Company would provide the dealer-member with the right goods at a low-cost and back this with direct-mail advertising. The dealer would do the rest. Cotter's explanation of the logic was:

Our Philosophy? Let the dealer do what he does best. We provide him with the right goods at the lowest cost and back it up with advertising.

John Cotter's original dreams for the new Company were modest enough. He hoped to build Cotter and Company's sales volume to about \$7 million a year. With his salary tied to sales volume that would give him a comfortable income and would make the Company large enough to induce manufacturers to offer their merchandise at favorable prices.

In 1955 John Cotter achieved his goal when sales reached seven and one-half million dollars. There were 344 member-owners of Cotter and Company at that time. But the growth did not slow down then as Cotter had originally expected. The soundness of Cotter's concept and the excellence of its execution by Cotter set in motion an inexorable growth process which culminated in 1979 when Cotter and Company's sales volume passed the \$1 billion mark and the number of actual members totaled over 5,000.

KEYS TO SUCCESS

How did it happen? What accounts for the unprecedented growth of Cotter and Company?

There were five keys to the Company's success.

1. Benefits Attract New Members

First, the benefits of membership attracted a steady stream of independent hardware dealers. They were attracted by the fact that a share of the profits was returned to them in the form of a Patronage Dividend. This was made possible by Cotter and Company's lower operating costs. The statistics here are staggering. Between 1950 and 1976 Cotter and Company's operating costs fell from 10.5 percent of sales to 5.7 percent of sales.

During the same period old-line hardware wholesalers showed a slight increase. Their costs represented 15 percent of sales in 1950 and 17.6 percent in 1976.

New members were also attracted by Cotter and Company's impressive selection of merchandise. Cotter offered popular branded items that were priced right and his merchandising personnel were expected to provide a steady flow of new goods.

Finally, independents were attracted to Cotter and Company because of the cooperative advertising program. The heart of this program was direct-mail catalogs. Fifty thousand of the first 32-page catalogs were mailed in 1948. In 1979 over 100 million copies were mailed and they came in several different editions. Supplementing direct-mail was newspaper advertising (started in 1948), national magazine advertising (added in 1972) and national television advertising (launched in 1975).

If the right merchandise, patronage dividend, cost savings and cooperative advertising weren't sufficient incentives, Cotter and Company could offer other services to independent retailers who joined the organization. There were promotional merchandise items available monthly, store display materials were available, store planning assistance was available as were pre-printed in-store location tickets, inventory control assistance, a low-cost insurance program, a retail employee training program and

several other services.

And there was the speedy delivery of merchandise once ordered. Members could order directly from manufacturers or from the warehouse of Cotter and Company. John Cotter made sure that warehouses were strategically placed around the country.

But the benefits of membership in Cotter and Company were not for every hardware store. Membership imposed upon the retailer a requirement of paying promptly and of ordering frequently in response to mailings from Cotter and Company. The discipline required of the retailer was more than a majority of them could handle. In fact, over the years John Cotter developed a one in seven rule—most retailers who considered joining Cotter and Company would find they did not have the will or ability to abide by the system. Approximately one in seven had the discipline needed.

2. Cotter Motivates Existing Members to Excel

The attraction of new members was one source of growth. Encouraging existing members to excel and expand was another source. John Cotter used two methods of motivating members to excel.

First, a steady stream of semi-weekly mailings was sent to members urging them to order merchandise regularly. Cost-saving order forms were included with the mailings. Thus, Cotter eliminated the use of salesmen who the old-line wholesalers would send to the retailer to take orders.

However, John Cotter did employ a group of District Supervisors whose jobs was to visit the members and encourage them to use Cotter and Company services.

Second, there were twice-yearly markets. On these occasions retailers would stream into Chicago headquarters for two to three days of looking at new merchandise and listening to motivational speeches. John Cotter would always deliver a hard-hitting speech challenging his owner-members to grow and excel.

3. Other Wholesalers Are Acquired

Attracting new members and motivating existing members to expand were two explanations of Cotter and Company's growth.

A third source of growth was the acquisition of other wholesalers mostly dealer-owned, some of which were having financial problems. In 1963, for example, Cotter and Company acquired Hibbard, Spencer and Bartlett, a 100-year old Chicago hardware wholesaler. This action added 400 new members and also gave Cotter the True Value name which Hibbard had been using.

Other examples are the 1966 acquisition of Walter H. Allen Co. of Dallas, a dealer-owned wholesaler which added 320 members, and the 1968 acquisition of Great Western Hardware in Los Angeles, also dealer-owned, which added another 250 members.

4. Vertical Integration Is Practiced

A fourth source of Cotter and Company's growth was vertical integration. There was backward integration into the manufacture of paint in 1967 and into the manufacture of power lawn mowers in 1975. In both cases Cotter thought that he could provide his members with better products and lower costs by providing a controlled brand.

There was also a successful effort at introducing controlled brand Master Mechanic Hand Tools. The Master Mechanic line of tools was manufactured by other companies but marketed as a True Value Hardware Store exclusive brand.

There was forward integration into trucking when Cotter decided that transportation costs could be cut if the Company owned and operated its own trucks. In 1980, 250 tractors and 500 trailers were on the road.

Many True Value members also sold variety merchandise so Cotter and Company moved into the variety wholesale business. In 1973 a V & S Variety Division was established. By 1979 it was accounting for \$25 million in annual shipments.

5. Cotter's Leadership Maintains the Competitive Edge

The fifth and final source of True Value's growth was John Cotter's leadership. He set tough but achievable goals and with the help of hundreds of dedicated employees they were attained. Foremost among these was the goal of constantly reducing operating costs. "We have to if we want to remain competitive," he kept saying. Cost reduction included strict assessment of all

services. As Cotter put it:

Almost any service is “possible,” but is it practical in the light of the absolute necessity for continued low-cost operation.

Cotter preached the need to constantly find new merchandise lines and new merchandising techniques. “You have to be constantly learning if you want to stay in business,” he said. And then he added, “The most important thing young people learn in school is how to learn. That is a skill that they will need for success for the rest of their lives.”

John Cotter encouraged healthy competition among his department managers by means of such techniques as a weekly staff meeting where the heads of all departments reported on their past week’s experiences and future plans.

Cotter maintained tight “hands on management” controls in all aspects of the business by means of several committees that met on a regularly scheduled basis. And he himself, or his son Dan, sat in on most of the important meetings. As John Cotter put it:

We have control of this business. We do it through meetings and through a relentless watch on key variables.

One interesting aspect of his system of controls was his view of labor unions. Cotter believed that in a business as large as his and involved with distribution and manufacturing, he had to accept unions. But he also believed that even with unions, management had to retain control of the business. In this, of course, he succeeded.

Finally, John Cotter gave the business his total dedication. A long list of civic activities and directorships of other companies have been offered him; however, this was not for him. As he put it, “I couldn’t afford to take the time away from this business.”

CONCLUSION

When John Cotter started his hardware business the long run future for retailers was not bright. For a majority of small retail hardware owners the business could only provide a modest living. But those who subsequently joined the Cotter organization were able to make a very comfortable living for themselves and build a business sufficiently successful to attract their children. This is perhaps John Cotter's greatest source of satisfaction. As he one put it, "Youngsters are seeing their parents make more money in the business than ever before and they want in. It's not like the old days when the kids saw their elders barely eking out a living and existing from hand to mouth."

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