

Safeway CEO M.B. Skaggs Led The Chain Gang

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The first family of American merchandising is not the one you think.

It doesn't even start with a W.

Beginning in the early 1900s, members of Idaho's Skaggs clan founded, merged with or acquired some of the top chains in U.S. retail history, including Albertsons, Osco, Payless, Sav-On and Longs, plus dozens more whose names have been lost to time.

Still other Skaggs ventures live on as parts of CVS (CVS), SuperValu (SVU) and Rite-Aid (RAD).

But the family's most enduring enterprise — Safeway (SWY) — owes its success to Marion Barton Skaggs (1888-1976), who built the company from a 576-square-foot dry goods store to what was, for a time, the third largest American retailer and the largest grocer on the New York Stock Exchange.

Westward

M.B., as he was called, was the third son of Samuel Skaggs, a Baptist minister who moved the family from Missouri to American Falls, Idaho, around 1908. As the family swelled to 17, the Rev. Skaggs opened a grocery store to supplement his meager church salary, building the business, his son recalled, "with his own hands, on rented land, with borrowed money."

Its hallmark was a cash-only policy that eliminated the risk of bad debt and let the family significantly lower prices. "It's important to understand that at the start of the 20th century you didn't walk into a grocery store and pay money," supermarket historian Emanuel Halper told IBD. "You walked out with groceries, but you paid when you could. Skaggs was against credit — and he believed God was, too."

In 1915, after the store's fortunes had "doubled, trebled and doubled again," according to an early newspaper ad, 27-year-old M.B. bought out his father for \$1,088, worth \$25,100 today. Expansion was an almost immediate goal.

"I saw that opportunity lay in doing the same basic things as my father had done," he later told a reporter. "But I think I also realized, even then, that if I would be content with a very small margin of profit I could build a correspondingly larger business."

An older brother named Oscar — he went by the initials O.P. — started his own grocery business at that time, and the two were soon embroiled in a friendly rivalry to see who could grow the fastest.

O.P.'s outlets, orange-fronted and known for their scrubbed floors, were called Skaggs Cash Stores, with each additional store bearing an even number.

M.B.'s Skaggs United Stores, with blue fronts and merchandise-jammed aisles, used odd numbers.

Although they never agreed on which brother was ahead of the other, the Skaggs boys were in lock-step when it came to credit.

Like their father, they would offer none.

This Protestant ethic ran so deep, O.P. once fired a store manager who was discovered buying a car on time payments.

By the mid-1920s, M.B. had bought out his brother and Skaggs United boasted 428 stores in 10 Western states.

Additional expansion followed a simple formula: Each new store had to produce a profit while developing the capital and staff necessary for the next one in the chain.

While the firm attracted top-flight managers through an inventorying system that paid bonuses every 60 days, it was the family work ethic that impressed workers most.

"It was always comforting to know that the Skaggs brothers were working the same long hours as their managers," one worker noted. "Their hearts were really in the business."

The chain achieved national prominence in 1926, when Skaggs United merged with a 322-store Southern California chain built by Sam Selig, a retailer with equally low regard for extending credit to customers.

Soon before the merger, Selig changed the name of his stores to Safeway, reminding customers that paying cash was the safest way to fiscal prudence.

The merger, spearheaded by Charles Merrill of Merrill Lynch & Co., created the largest retailer west of the Mississippi, with 750 grocery stores, 114 meat markets and five bakeries, and annual sales of \$50 million.

Wealthy Way

M.B. received \$1.5 million in cash — almost \$20 million today — plus 30,000 shares of the combined company, which was headquartered in Oakland, Calif.

He was also named CEO, and Merrill agreed he would be unencumbered by a board of directors for the first five years.

The firm, initially called Skaggs-Safeway, was shortened to Safeway in 1928.

Rapid expansion followed via mergers and acquisition, including Kansas City's Bird chain, Eastern Stores of Baltimore, the New Way stores of West Texas and the Sanitary brand of Virginia.

Pay'n Takit, a chain launched by M.B.'s younger brother L.J., was also folded in, as were parts of the Piggly Wiggly company.

By the end of 1928, Safeway had almost 2,400 stores in 20 states and Canada and was ringing up sales of \$100 million (worth \$1.3 billion now) — and more than double that the following year.

The chain continued to grow as the Depression hit, with a giant leap in 1931 via a merger with the MacMarr chain, another run-up pieced together by Merrill.

The deal added 1,400 stores and an additional \$86 million in sales and made Safeway the No. 3 retailer in the country, behind only Sears (SHLD) and privately held A&P.

Despite his company's burgeoning size, M.B. kept a firm hand on operations, chanting his mantra of long hours, no credit and small margins on big volume.

Weight And Date

He also introduced such innovations as pricing produce items by the pound and dating perishables to ensure freshness.

Another Skaggs enhancement of the period: parking lots.

M.B. turned over the CEO title to Merrill protege Lingan Warren in 1934, but stayed chairman of the Safeway board until his retirement in 1941, helping preside over the push to fewer, but larger, stores.

He would live to age 88, focusing the remainder of his life on philanthropy, hunting and fishing, much of it from a country home and sprawling game preserve outside Branson in his native state.

He would not live to see a hostile takeover attempt that forced Safeway out of the equity markets in the 1980s, then a new IPO in 1990.

Company shares jumped almost 550% from 1992 to 1999, but have been in a downtrend since 2001.

Today Safeway Inc. operates almost 1,700 stores, including the Vons, Randalls, Tom Thumb and Carrs brands.

The company also owns a financial service company, assorted online vendors and a growing stake in the Mexican grocery industry. Safeway sales in 2011 hit \$44 billion.

David Gwynn, founder of the supermarket site Groceteria.com, said: "What Charles Merrill saw in Skaggs that was most valuable was his adaptability and his ability to absorb information quickly. He was in the middle of a lot of important changes in the grocery business — not just cash sales, but branded foods and the self-service concept that encouraged impulse buying.

"He was a defining figure, and there should have been a biography written about him. Sadly there never was."

<https://www.investors.com/news/management/leaders-and-success/marion-barton-skaggs-sparked-safeway-grocery-chains/>