

# Neiman-Marcus, A State of Mind

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## Editor's Note:

Mr. Marcus addressed the Business History Conference luncheon on Saturday March 31, 1973. He related the Neiman-Marcus story without the use of prepared text or notes and the following constitutes the transcribed recording of that address with only slight addition. The editor hopes that this adequately conveys the most interesting presentation

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It is a very distinct pleasure to talk to a group of academicians who are interested in hearing about my favorite subject. You know it is not difficult to get someone to talk about his children. People love to talk about their children and anyone who has been associated with a business as long as I has developed some close ties that are almost as tight a relationship as that of a father and his child.

Dr. Brewer said that our business started in 1907. I think that I have been associated with the business almost from its opening day. I was two years old when the business started and my father and mother, unable to afford a baby sitter, brought me down to the store on the opening day and on many days thereafter planted me in women's alteration department to roam on the floor and play with left over spools. I can truthfully say that I started from the floor and worked my way through almost every department in the store, sometimes on all fours. Finally, I did come into the business formally in 1926 following my graduation from Harvard College and one year at Harvard Business School. Prior to that, though, I had had considerable experience in the store during the summer months because my father was a stern man in some respects. He did not really believe in the idea of vacations, particularly for his sons who he felt might get into trouble if they had spare time and went off to things like camp

and idled their time away. He thought it much more fruitful for me to be brought up in the store, working first as what was known as a cash boy, whose job in those days was to answer the summons of sales people and get change for a \$10 bill or deliver a package to a customer and, then as assistant floor man and delivery man and finally as a salesman of women's shoes and other articles in the store, so that by the time I came into the business I had a fairly good idea of what it was about.

As a matter of fact, I really wasn't sure that I wanted to go into the retail business at all. I mentioned that my father was a man of quite decisive judgments and he had made up his mind, probably the year I was born, that I was going to join Neiman-Marcus. Having gone through Harvard, I had a number of other interests which appealed to me, including the publishing business. When I came in to tell him that I was going into the publishing and book business he was aghast at the idea. Then with very firm guidance, he explained his aspirations for me. He made a proposition to me, rather I made a proposition to him because I wasn't quite sure that I could live in the confined political atmosphere of what was then considered correct for retail store operators. I remember having heard my father and his sister, Mrs. Neiman, who co-founded the business with him, say that retailers have no business getting involved in politics. Well that didn't appeal to me very much. I said that if I came into the business I'd have to have a free hand, a free choice

of political activity; I wanted to express myself whether our customers happened to like it or not. And I must say that my father was a good sport and he said, "O.K. as long as you support legal causes, I'll agree to that." So he did and he lived up to his word and we disagreed about almost everything politically from that time on but we had a very happy life together.

I have often said that Neiman-Marcus was founded as a result of a bad judgment by my father Herbert Marcus and his sister Carrie Neiman and her husband, Al Neiman. My father had been a buyer for a leading department store in Dallas at that time, Sanger Bros. He had been made a buyer at the tender age of 25 which was quite unusual during the period when youth was not idolized as it is today. Mrs. Neiman had become a buyer in a competitive store, A. Harris & Company, at the age of 21. Both of them had been quite successful and Mrs. Neiman married a man named Al Neiman, who persuaded them to move with him to Atlanta, Georgia to found a sales promotion business. When they gave notice to Sanger Bros. and A. Harris & Company that they were going to leave, my father was offered a raise of \$1.25 a week. That was quite an evidence of success at that time. They decided to shoot for bigger game than that and they left and went to Atlanta, Georgia where they founded a sales promotion business whose purpose was to create activity for country merchants. They put on barnstorming shows, bands, all sorts of contests to get customers into such small country towns as Athens,

Georgia and Selma, Alabama. They were so successful that at the end of two years they had had two opportunities to sell out. One was an offer of \$25,000 in cash and the other was a franchise from the state of Missouri for a brand new product which had just come on the market called "Coca-Cola." They were too smart to be taken in by something as new fangled as a new patent medicine drink and they took the \$25,000 in cash instead and came back to Dallas to start and run a store the way they had always imagined they would run it if they were the bosses instead of the employees. Well, that's not too unusual. Young people have always, I presume are still doing it today, said "If I were running Neiman-Marcus or if I were running my own ship, I would do it a different way." And some of the people who have had this idea of running it a different way have been successful and I guess a great majority of people who go into business, (you as historians should know), have failed.

But these young people came back with their \$25,000, to which they added some \$10,000 in savings of their own and some borrowed capital from uncles, aunts, and cousins and they went into business with about \$50,000 total, in Dallas, in 1907. The day they opened was almost concurrent with the bank panic of 1907. Mrs. Neiman was in the hospital having undergone serious surgery and my father was laid up with typhoid fever. This was a very good and auspicious beginning for a brand new store.

The store they were opening was only 50 by 100 feet. There

was no advertising manager, my father was it; there was no personnel manager, my father was it; there was no buying staff, Mrs. Neiman was it; and they wore these multitude of different caps in order to take their bankroll as far as it could go in the establishment of this dream business. The most interesting thing, I think, in the history of Neiman-Marcus is to be found in the opening days advertisement which appeared in the Dallas Morning News on September 10, 1907, in which they set forth the principles on which they were going to operate the new store. In these days as our ears have become so accustomed to the hyperbole of television advertising, no claims written in 1907 are as impressive today as they must have been then. In this opening advertisement they said "we propose to bring to the women of the southwest the finest assortments of fine merchandise to be found anywhere in the world." That was a pretty broad statement for three young kids to make in 1907 in the thriving metropolis of Dallas which had a population of about 85,000, no automobiles, no electric tramways, no Cotton Bowl, and no Fairmont Hotel. It was just a little growing town of dirt streets, with a wealthy agriculturally dominated community of business people, coming from the east, and cattle people coming from the west. But here they proposed to bring to this market the finest ready-to-wear merchandise to be found in the world.

The second interesting thing was that they laid emphasis on the work "ready-to-wear." Because in 1907 the word "ready-to-wear"

was just about as brand new a term as space exploration is today. Until the beginning of the century all good clothes for men or women were made to order; if a woman had a lot of money she went to New York or Chicago; if she didn't have that much money she went to St. Louis; if she didn't have that much money she went to her country dressmaker right at home and had her dress made out of some silk she had bought at a department store. But they had the vision to recognize that "ready-to-wear" was new and hot on the market and it was going to become a permanent factor in the development of the retail business.

They said we propose to bring a new standard of taste. Here again are three 21 and 30 year old youngsters talking about a new standard of taste. They had the courage to go to their manufacturers, who had recently passed the bridge from being custom tailors to becoming manufacturers, and didn't know too much about the manufacturing of ready-to-wear as a process. They had the courage to propose that their taste in selection of colors and fabrics was better than that of the manufacturers, but the manufacturers listened and found they were right and they helped many manufacturers get started in successful manufacturing production.

They went on to say in this advertisement that "we propose to sell this merchandise with an assurance of complete satisfaction to the customer." Well, today that is something that goes with a bar of soap or a razor blade or anything else that is not

satisfactory, you can return it and get your money back. But in 1907 most retailing was still operating under the dictum of "caveat emptor," and particularly in the southwest when many of the customers were cattle traders to begin with. It was her responsibility as a buyer to be sure that she didn't buy a lame horse, not the responsibility of the seller. If she bought a horse without taking the blanket off and later discovered he had a sore under the blanket that was her tough luck. About the same time there was a fellow in Philadelphia named John Wanamaker who expressed a somewhat similar theory, "the customer is always right," something that has plagued every retailer ever since, because every retailer knows that every customer is not always right. But, Mr. Wanamaker and my father and another man called Marshall Field, who expressed the same thing by saying "give the lady what she wants," recognized that if you want to build a business you have to build it on the basis of satisfaction. Satisfied customers are better advertisements for you than all the pages of ads you take in magazines and newspapers, and satisfaction is not what you think the customer should have, but it is what the customer thinks, with all of her inexperience that she is entitled to when she makes a purchase.

And so they opened this business with those basic principles and despite the panics and despite their own physical conditions the business took off to a good start. People were amazed and surprised at the selection of merchandise offered, the actual new

standards of taste they had brought in, their courage in bringing in anything that was beautiful and fine and the personalized service which they extended to the sale of every piece of merchandise. They were not office managers but they were floor managers. The only thing that was important to them was the customer who was in the store shopping. So very quickly people started coming from Fort Worth and from the west into Dallas to visit this new little store and it made a profit in its first year of operation. And over this whole period of time Neiman-Marcus has made a profit every year with the exception of 1933. In 1914 this business which had had, I would say, very good success, caught fire and the fire burned them out and they had to suddenly find a new location. They moved way up town where we are presently located in Dallas and took a gamble on a new location, borrowed more money from everybody they could tackle including some of their vendors and they build a new building just before their money ran out and just in time for the beginning of World War I when the price of cotton dipped to an all time low. Since cotton was the main money crop of this part of the country, the opening of a new store was under the most adverse conditions.

They managed to keep their heads above water, made money during that period, expanded their lines of merchandise to include childrens clothes, shoes and accessories and when the post war boom of 1921 following the end of the war came, they found themselves reaching a new pinnacle of volume. They did so well that

about 1926 they decided to double the size of the store, build a large building and add some phases of mens wear as well. Now it was at this time that I had to make my decision to leave the business school and forego the second year in order to get into the store before the new structure had jelled. I would consider this one of the better decisions that I made in my business career. I did get into the business and I did get myself firmly entrenched so that two years later when Mr. Neiman decided to retire from the business and to sell his interest, I was about the only person on whom my father could rely. I was given a responsibility that was far beyond my years simply because I was there and had been when it started when I was two years old. As a result, I was able to speed up my own growth in the business immeasurably.

The business finished its new building just in time for the market crash in 1929. It seems that all of our expansions have been so well timed that they have occurred at some regular coincidence of cyclical dislocation, but we weathered the depression and we maintained a standard of quality that had been established. My father was strongly against ever adulterating the product and ever opposed to doing anything that would make the business less fine. He was a man who had great courage in many ways, great courage about merchandise. He had great courage in investing in anything that was fine. He was not impressed by price nor was he a snob about price. If an article sold for \$3.00 he was perfectly willing to sell it for \$3.00 provided it was good enough

for \$3.00. But, if the article had to sell for \$30,000, he also insisted that it be good enough for \$30,000. The fact that it was \$30,000 was not a virtue in itself, but he never shrank from putting his money into anything that he thought was fine enough.

Early in my career I had an experience which proved to me that he really meant what he said about selling satisfaction. You know it is one thing to make a great deal about principles as long as those principles don't cost you anything. You can be a hero without having to face gunfire. It is a pretty cheap way of being a hero. At the time when I first came into the business, we had a very small fur department so one of my first assignments was to level up this very small fur department. My father came down one day and went through the stock with me and he said, "You know you have a very expensive coat in your stock that has been here almost a year, it is time that you move that out as we can't carry a thing that is over a year old, so you will have to mark it down if you don't sell it." So a couple of weeks later, I found myself a customer and I was in the process of selling it to her when my father came on the floor and he called me aside and said, "What are you doing?" I said, "I am doing what you told me to do. I found a customer for this coat and I am selling it to her." He said, "You are making a mistake." I said, "What do you mean a mistake. You told me to sell it, and I am selling it." He said, "Yes, but you are selling it to the wrong person." I said, "You didn't say anything about what person

to sell it to." He said, "Well you know this woman is a business woman. She is an insurance salesman and if you have ever noticed her coming in the store, she always carries a big wallet of policies she is delivering. And, when she walks in the store, her arm is rubbing back and forth and that wallet will wear out that fur coat in a months time." I said, "But, Oh, I have taken care of that, I have explained to her that it is a very fragile fur and she understands it." He said, "Yes, she understands it today, but she won't understand it when the coat is worn out. You just better sell her another coat," So, I then went in and probably did the hardest sale I have ever had, of unselling a \$5,000 coat and substituting in its place a \$795 coat which was a very sturdy fur and which gave this woman seven years of very satisfactory wear. A few months later we marked that first coat down from \$5,000 to \$2,500 and sold it to another woman who had several other fur coats and a chauffer driven car and she wore her coat for seven years with great satisfaction. My father knew that he was facing a \$2,500 loss and in those days a \$2,500 loss in a small business was a pretty important loss. In a business of our size today, it wouldn't take 10 seconds to think about a \$2,500 or a \$25,000 loss. But to the small entrepreneur any loss sale, any excessive costs can be the difference between eating well and not eating at all. But, it demonstrated to me that my father really meant what he said, when he said we want to sell satisfaction and not just merchandise itself. I lay

emphasis to that because this has been the basic principle that we have tried to carry on in the tradition of Neiman-Marcus. We have taken the opening days advertisement and we have very assiduously tried to live by the principles that the founders expressed in that advertisement. Not through any sentimentality, but purely because we think they represented a very sound program, not only for the establishment of the business but for the continuity of the business.

Well, the war came along and some million people came to Texas, many of whom never in the world thought they would ever come to Texas and the only two things they knew about Texas were the Alamo and Neiman-Marcus. And they visited both of them and they found Neiman-Marcus much less dusty and I think to their general liking, and as a result our business expanded terrifically under this war-time boom. We were faced with many problems; a shortage of staff and a shortage of supplies. I think that one of the most important problems we had to face were a war-time operating philosophy and I think this was probably the second most important decision that I made in my career. Just as every merchant we were taking big gambles on merchandise. But, I decided to take even bigger gambles, because I found that there was a terrific demand for the quality of product that we had and that by working very hard and pulling every string legally possible we could get larger supplies than some of our competitors. My father took a different position. He said, "You know, you

are paying 90% taxes. What's the use of exposing yourself. All you are going to do is do more business and wear out your carpet. You are better off doing less business and not taking the gamble." I disagree with him. I said that I didn't think that a business ever has the opportunity of deciding how big or small it is going to be if it wants to stay healthy. I think that is something that is beyond the control of the business because a business like a human being or a plant either has to grow or die. If you try to hold back growth you will force a premature death. I said that if we are willing to operate the store on the basis of having a closed door and only allowing those customers to come in whom we know will buy white shirts or stockings or whatever was in short supply then we can control the business with a limited supply of goods. Unless we are willing to do that, we are going to have to open the doors to everybody who wants to buy whether we happen to know them or whether they have a social pedigree or not and as long as they have the money or credit to buy, we must be in a position to supply them. So my position did prevail and he finally agreed and we did take huge risks, they did pay off and we did build a substantially larger business which to our surprise stuck with us after the war.

We didn't lose it as we had thought possible following a war-time period. Then we faced additional expansion. We built a larger store and finally came to a third critical decision and that was to build a store outside of Dallas. It had been a long

family debate for many years as to whether a fine speciality store dealing in fine quality merchandise with highly personalized service could succeed if it were two instead of one. Finally, basing the decision on the same principle that had determined the decision on war-time inventories, I felt we had no choice but to enlarge in order to protect ourselves against possible competition. And so, we built our first suburban store in Dallas in 1950. We bought a store in Houston, Texas in 1954 or 1955. We built our store in Fort Worth in 1963 and I think contributed in some way to the healing of the wounds between our two cities. As a matter of fact, I talked to the late Amon Carter at one time about carrying Neiman-Marcus advertising in his newspaper, and in his customary gruff manner, he said, "Hell no, I won't take any of your money until you open a store here. In the meantime, I'll boycott you and do everything I can to keep people from Fort Worth from going over to Dallas to buy from you." Well, we opened a store here and he accepted our advertising and I think that Neiman-Marcus having a very strong interest in both cities may have been some small contribution towards helping the development of this one large major metropolitan-metroplex as we now call it.

In 1964, we had a disastrous fire that struck us one week before Christmas in our downtown Dallas store. It occurred in the early hours of the morning and by 4:30 or 5:00 the fire was under control; by 6:00 we had ordered barracades to be built up

around the outside of the store so that we could start demolition work. By 7:00 we had made a decision and I think this was probably the most critical decision that I ever made. We were going to rebuild the store. But not only rebuild it we were going to redesign it as we rebuilt it and we were going to get back into operation as quickly as possible. Well, normally, redesigning a store would require a year and it would take another year to build it but we grabbed a designer (a scenic stage designer) who was on his vacation on a cruise ship. We pulled him off at Granada and flew him back to New York and got him back to Dallas that night. We had our New York architects in Dallas by late afternoon setting up drafting rooms, and 21 days later we had created a theatrical decor in the store that permitted us to go back into operation on a temporary basis. Eleven months and twenty days after the fire, we reopened the store completely, with a completely redesigned up to date modern interior as compared with what we had just before the fire. During this period the thing that we were concerned with was not the loss of volume or the loss of profits because we were protected by use and occupancy insurance that would have allowed us to have taken our time and to have done the thing in two years and been fully compensated. But we were concerned about the loss of customers. Because in the course of two years people can form lots of new habits and we didn't want them to form new bad habits.

A few years later, as a matter of fact about four and one half years ago, we had been thinking of expansion outside of Texas. We were faced with the problem of finding the capital necessary to take care of a broad expansion program. We envisioned a group of Neiman-Marcus stores in the major cities of the country, the major sophisticated cities of the country that would understand our kind of operation. We had a couple of choices. One was to go to the capital markets and sell part of our equity because up until this time the business had been completely a family controlled business and if we sold equity, we put ourselves in the danger of having someone come in and raid the company and possibly subsequently tossing us, the management out. The other alternative was to merge with another company that had the financial capacity to do what we wanted to do without the necessity of weakening our stock position. So, we considered a number of possible grooms and we were close to having philosophically accepted the idea that we could take a family business and bring it to the marriage bed. I called a friend of mine who had been through 86 mergers himself and I said, "I want your judgment." I told him the story and said that it seems to me that we would be wise to merge and he said "Yes, I think you would be faced with the other alternative." I said, "I have this analysed out to factors, first price, second the quality of the stock we would exchange for a tax free transaction and third the compatibility of the people that we

would merge with." He said, "Well, do you plan to stay on with the business?" I said, "Oh yes, my brothers and I fully intend to stay on." He said, "Well in that case I think your factors are all correct but you have them in the wrong order. Price really is unimportant, because everybody is going to pay you within a dollar of the same price. You wouldn't be talking to any of them if the quality of stock wasn't any good. So really the most important and really the only important thing is can you get along with them. Can you live with them after you get married?"

So, I re-evaluated all of our prospects and I decided to recommend to our board that we merge with a company called Broadway Hail in California. There were several things that made me feel that we could get along with them. First, the heads of the business were men with broad civic and cultural interests. They were interested in the San Francisco Opera, the Los Angeles Philharmonic and Museums. They took a broad humanitarian point of view about the involvement and responsibility of retail business in the community. Secondly, they had money. And, third, they didn't know a thing about operating our kind of business, whereas some of the other people were really experts. I finally decided there was nothing worse than being married to another expert, because you could have a difference of opinion, but if you got married to somebody that didn't know anything about your business, you would have a much better chance for

success. We merged four and one-half years ago and I must say that this, I think, was one of the happiest decisions that I have ever made. The only thing I would do over again, if I were doing it over again, I would have it, as is, five years sooner.

I think it is probably unique in the history of American industry, that after almost five years of marriage, both parties are completely satisfied with the deal and both would willingly go back and do the same thing over again. There has been no disillusionment on the part of either the acquirers or the sellers. We increased the dividends to our stock holders by some 100%; we gave them a New York Stock Exchange base stock with a much broader base than that of a single group of specialty stores. We have turned in a fine performance for the parent company of which our family happens to be the second largest stock holding group in the company and we have adhered to the mandate given by the president of the company, Ed Carter, when I said, "What are the strings attached. Will we have autonomy?" He said, "Absolute autonomy. There are only two things that I would like to lay down as a predicate for this deal. One, that you make your business finer, if possible. Secondly, that you build more stores." Aside from that, they have not interfered in our operation the slightest bit and I am just as much a free entrepreneur as I was prior to the sale of the business except that I have a big bank account behind me now that makes it much

easier for me to operate on than previously. They have not in anyway, at anytime tried to dictate to us or influence us or eliminate anything or add anything or do anything at all that was not our own decision and our own style of doing business. So, they have lived up to their assurance that we would have complete autonomy. In turn we have increased our profits through better operations and through the fruitions now of the efforts we have made in building more stores which have now come on stream and have added to the profitability of our operation.

Today, we are operating two stores in Dallas, one store in Fort Worth, one store in Houston. We opened our first store outside of Texas in Bal Harbour, Florida, about 3 years ago. We opened in Atlanta, Georgia last September. We have going into construction this summer a store in St. Louis and shortly after that a store in the surburban area of Chicago and possibly very shortly after that a store in the near northside of downtown Chicago. By that time, a slight cloud of inhibition from the Federal Trade Commission may have passed over our heads and we will be able to look with longing eyes to the setting sun of the Pacific and move to California. But at this moment I can't talk about California unless I talk about lower California which is Mexico, and not effected by the FTC ruling.

Throughout the Neiman-Marcus history we have attempted to bring to our markets, just as I said at the beginning, the finest

merchandise in the world. We have tried to exploit it always with a deep sense of integrity and a sense of responsibility for customer satisfaction. I think we have learned how to do this job with a certain degree of flair which was won for us a national and international acceptance of the Neiman-Marcus name. People often ask, "Why is it that your store is better known in Europe than any other store in America?" And, I think the answer is very simple. We take advantage of every situation that has news worthiness; we try to make capital of anything that is news worthy to any part of the world. We have a mailing list of 4,000 people associated with different branches of the press-radio-tv throughout the world, and we keep them informed of what is happening at Neiman-Marcus. We have never given them a phony story so when they get a press release from Neiman-Marcus, they are more inclined to print it.

We have tried to create what some writers have called "Neiman-Marcus is not a store, but Neiman-Marcus is a state of mind." Well, it is a state of mind in part, a state of mind that every employee has to have, if he is going to be successful with us. He really has to understand and really want to be a participant. If he isn't then he is in the wrong store and he won't be happy with us and we won't be happy with him. Our customers believe us because we told the truth to them and we have stuck by what the founders said, "The most important thing to sell is satisfaction."