Fall of the House of Hechinger

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Highlight: The Big Hardware Chain Was One of Washington's Great Success Stories. Here's Why It's Now One More Local Company Going Up in Flames.

Body

IN THE LATE 1980S, JOHN HECHINGER SR., patriarch of Washington's hardware dynasty, asked if he could meet with executives at Giant Food, the region's homegrown supermarket chain.

At the time, both local companies seemed invincible. Giant had emerged from a bruising price war and planned to expand beyond the region. Hechinger would report record-breaking sales of $ 1.4 billion. The stock prices of both companies were up. But Hechinger, the man, was worried. Earnings were slowing, and sales at some stores were down.

John Hechinger drove to Giant's headquarters in Landover and lunched with public-relations chief Barry Scher and consumer-affairs director Odonna Mathews.

"How does Giant do such a good job catering to its customers?" Hechinger asked.

Scher and Mathews thought it an odd question from the bushy-browed corporate leader whose business had trumpeted its reputation for service for 80 years. They discussed the basics: well-stocked shelves, clean stores, friendly clerks, quick response to complaints.

After the meeting Scher walked into the office of Israel Cohen, longtime chair of the company, and said, "Isn't it amazing that they're asking us how to serve customers? They've been in business longer than we have."

Now, less than ten years after that lunch, Hechinger's home-improvement empire is on the ropes; in September the family was forced to give up control in a fire sale. The loss leaves Giant Food as Washington's last major hometown retail company.

THE FALL OF THE HOUSE OF HECHINGER has raised painful questions within the family.

"You wonder if someone who really loved the company would let it go the way it did," says Richard England, John's brother-in-law, who worked at the company for 45 years before retiring in 1990.

And Hechinger's demise raises questions about the state of retailing in the region and the disappearance of other local businesses.

"Washington used to be a retail haven," says Kenneth Gassman, an analyst for the Richmond investment firm Davenport & Company. "Seems like, short of Giant Food, there are no local retailers left."

Why has almost every trademark area chain died or been merged into a bigger company? Is there a common thread in the demise of Garfinckel's, Woodward & Lothrop, Raleighs, Peoples Drug, American Security Bank?

The view from inside Hechinger -- described here for the first time by John Hechinger Jr. -- is a tale about the Darwinian nature of retailing in our times. It shows how what Hechinger calls a "predatory" retailing chain, in this case Home Depot, felled a local firm weakened by its own lack of discipline and will.

THE YEAR IS 1984. J. PETER GRACE, THE gruff head of W. R. Grace Company, strides into a Hechinger store south of Alexandria. Nervous, note-taking aides trail behind. Mr. Grace is not happy. Channel hardware, a subsidiary of his Fortune 500 conglomerate, has invaded Hechinger territory. Grace wants to know why his Channel store down the road is empty while this Hechinger is busy.

In a counterattack, John Hechinger himself has gone on the air with radio advertisements: "If Hechinger doesn't have it," he says in his gravely voice, "you don't need it." His name is over the door, and he says nobody will beat him on price.

Channel had attacked with five stores and threatened to open more. It was the first skirmish in the retailing war to come. There would be consolidations and leveraged buyouts and brutal price wars. This time the Hechingers sent Grace packing.

"We're a household word here, and we are not about to have that diminished," John Sr. said at the time to *Regardie's* magazine. "It's a matter of personal pride. I live here. Nobody, but nobody, is going to take that away."

Sidney Hechinger would have been proud. John Hechinger's father started the home-improvement business in 1911, and he was a scrappy entrepreneur. A college-educated engineer, Sidney started a demolition and salvage company, discovered there was a market for the used materials, and opened up a store that sold "Lumber at Unheard-of Low Prices." By the 1950s he had opened four retail stores catering to do-it-yourselfers.

Sidney Hechinger's Washington was a small town. Retailing was a local affair. This was before credit cards and computers, and most customers paid cash.

Garfinckel's was the posh clothier. Woodward & Lothrop and Raleighs were the successful middle-class department and clothing stores. They competed in a gentle fashion with Hecht's, Lansburgh's, and S. Kann's department stores.

In the postwar boom and into the 1950s, many local retailers began to expand. As population moved to the suburbs, the stores followed -- though some, like Lansburgh's, never made it out of downtown DC and closed. The era of growth would continue through the 1970s.

"There was a smugness, not only with respect to retail but to financial," says R. Robert Linowes, a zoning attorney who saw the deals from the inside: "'We're here, we have the market, no one can compete with us.'"

Says Jerry Knight, a *Washington Post* columnist who's covered local business for two decades: "It was easy to make money. You didn't have to be good."

BUT HECHINGER WAS GOOD, BECAUSE IT followed the "principles of retailing" that Sidney Hechinger set down in 1952 for *American Lumberman* magazine.

Three of the six applied directly to customer service: Find out what the customer wants and supply it; stock quality items; and train your salesmen to sell quality.

The founder began to hand the company down in the 1950s to his son, John Sr., and his son-in-law, Richard England, who married Sidney's daughter, Lois. Both men started after the war and learned the lumber business from the bottom up. They were in control by the 1960s when both were in their mid-forties.

Some think John Hechinger Sr. didn't inherit his father's entrepreneurial instincts. Either that or he was more interested in politics and public policy than in selling hammers and nails.

"I think of John Hechinger as a community leader, not as a retailer," sayss Laurence Siegel, chair of Mills Corporation, the developer that built Potomac Mills.

"The Hechinger family made a wonderful contribution politically and philanthropically," says Max Berry, an attorney who serves on many corporate and cultural boards. "But not as businessmen."

In the 1960s civil-rights era, Hechinger became a name-brand liberal. He hired blacks, promoted them through the ranks, and made some of them store managers. He refused to join the Board of Trade because of its opposition to DC home rule. He became friendly with President Lyndon Johnson while their daughters attended National Cathedral School together.

When President Johnson appointed the District's first city council, he made John Hechinger its chair. Hechinger would remain active in Democratic politics and social causes. He was the perennial committeeman at national conventions, and many believed he harbored a desire to be the District's first US senator if it became a state.

Dick England was the merchandiser of the two. While Hechinger became a pillar of the community and handled corporate financing, England stuck to buying, selling, managing.

"I take that as a compliment," England says when told of his reputation.

Hechinger and England hit on a formula in 1970 that would make their company the hardware powerhouse of the region and a darling of Wall Street. With the help of retailing expert Philip Mansfield, they created the first hardware and lumber store in a department-store style. They started to build 60,000-square-foot outlets with 40,000 items on the shelves.

"In truth," says analyst Kenneth Gassman, "Hechinger was the first 'big-box' home-center retailer."

With the formula in place, Hechinger and England took the company public in 1972. Their sales that year were $ 34 million with profits of $ 1 million. Twelve years later, sales reached $ 309 million with profits of $ 16 million. The stock price was $ 16 a share in 1972; a decade later it was flirting with $ 30.

The Hechinger family was wealthy, and everyone in Washington, it seemed, had bought something at a Hechinger store.

WHILE HECHINGER ENTERED THE MID-1980s with steady growth, other local businesses were disappearing, mostly through buyouts that merged them into national chains.

The May Company had taken over Hecht's years before. Then, in 1984, Woodward & Lothrop executives engineered a leveraged buyout. The money came from Detroit's Taubman Investment Company, a big shopping-center developer. Woodies then bought the old-line John Wanamaker chain in Philadelphia. By 1992, both collapsed under the weight of debt and competition.

In 1987 Garfinckel's merged with Raleighs. Both soon went under because of too much debt, too much competition, and too many merchandising mistakes.

A similar series of sales and consolidations overtook the local drugstore chains. Herb Haft, the king of discounting, built Dart Drug from a corner pharmacy to a major discounter. He sold it to its employees, but they took on too much debt. They sold out to Bud Fantle, a well-known local businessman, who changed the name to Fantle's. It failed, leaving Peoples Drug as the only local chain.

Peoples then sold out to Imasco, a Canadian retailer, which finally sold Peoples to CVS, a big national chain based in Rhode Island. The drugstore wars are far from over, with CVS battling Rite Aid and newcomer Eckerd, while Giant fights to maintain its position.

The Haft family put its profits from the Dart Drug sale into Dart Group, a holding company. From that they financed Crown Books, the first big book-discount chain; Trak Auto; Shoppers Food Warehouse; and Total Beverage. But with the bitter breakup of the family, the Hafts are losing control of these companies.

In the early 1980s some bankers talked about creating a financial empire in Washington; by 1990 most local banks had merged with outsiders. NationsBank become dominant in the region, along with its North Carolina neighbor First Union. National Bank of Washington imploded. The savings-and-loan crisis helped wipe out Perpetual. Riggs National is the last bank from that era.

"With the collapse of the local banks, there was no capital for the retailers," says Franklin National Bank president Robert Pincus. "There was no local capital, and there was no culture."

But there were Hechinger and Giant -- the last local companies standing tall.

By the late '80s, Hechinger's weaknesses were beginning to show.

IN 1987 JOHN HECHINGER SR. invited Wall Street analysts to celebrate his company's purchase of Home Quarters, a chain of warehouse home-improvement stores in Virginia. After dinner in downtown DC, the analysts were treated to a show by the Capitol Steps. The featured singer was John Hechinger, who got up onstage and crooned for the brokers.

Hechinger's son John Jr. was there, and the father's performance pointed out a difference between father and son.

"You would never see John Hechinger Jr. do that," says Ken Gassman.

Generational change was part of the Hechinger story. The late 1980s was a time of rapid expansion and bruising competition. If there's one thing that analysts agree on, it's that retail leadership must be visionary and aggressive.

John Hechinger Sr. gradually turned the company over to his oldest son. Another son, S. Ross, would also hold executive positions. And Dick England brought in his daughter Joan. John Jr. would become chief executive in 1990.

John Jr., or Johnny, as he was called in the company, recalls working in the Hechinger stockroom for $ 2 a day when he was ten. As a teenager, he spent summers delivering plywood and mulch. He graduated from Boston University in 1972 and came to work for the family business.

"There was no pressure from Dad," he says. "It seemed like a good opportunity."

By his own account, John Hechinger Jr. was more of a brooder and a thinker than his father. An unassuming man, he would walk through the Hechinger stores with a metal nametag to make sure that employees knew he wasn't another customer.

"Living in the shadow of such a charismatic father must be difficult," says one analyst. "It must be particularly difficult in a high-profile Washington family."

John Jr. says he's well aware that family business is "hazardous territory with a lot of egos." But he says his father and uncle had developed a cadre of professional managers as buffers.

Lennie Zallar, who worked at Hechinger for 30 years and left as treasurer in 1993, says: "I don't think there was a hindrance because family members were at the top."

WHEN JOHN HECHINGER Jr. became president in 1986, he took a year to study the retail landscape.

"That's when my palms started to sweat," he says. "I came to the conclusion that despite our success, we were in serious trouble."

What he saw was Home Depot and the coming of the megastore revolution that was about to decimate the cozy hardware-retailing world.

When Hechinger fought off Channel in 1984, Home Depot was just an upstart out of Atlanta. It had started in 1979 with one store run by Arthur Blank and Bernard Marcus, a former standup comedian in the Catskills. Their simple approach echoed Sidney Hechinger's six principles, with one exception: Instead of just training salespeople to "sell quality," in Sidney's words, Marcus and Blank taught their employees to help educate customers in home repair and refurbishing.

Home Depot follows a focused formula of big-box warehouse stores of 100,000 square feet or more. It cuts costs by buying directly from producers, and it uses the latest information technology to control inventories. It constantly surveys customers for their preferences.

But the crucial difference between Home Depot and its competitors is the way it motivates employees. Home Depot pays salespeople 20 to 25 percent more than its rivals do -- and ties them into the company's success through stock-purchase plans. Just as there are Microsoft millionaires who work for the computer-software firm, there are Home Depot millionaires as well.

The Home Depot formula started increasing sales -- so rapidly that John Hechinger Jr. says the numbers were hard to believe.

"People said it would pass," he recalls. "Some said they were phony in the books. Others said that we were already doing what everyone wants."

As Home Depot continued to rack up ever-higher revenues and profits, there was a sense of "Oh my God, this is a problem," Johnny recalls.

"It was clear to me that if we had to compete with Home Depot, our existence would be threatened."

IN 1987, HECHINGER RESPONDED WITH A two-pronged strategy.

First, it continued to expand from its home base and to enlarge its existing Hechinger stores. Its first moves from the Washington-Baltimore base were north into Pennsylvania and south into Virginia and North Carolina, where it already had four stores.

Second, instead of building its own brand of warehouse discount stores, Hechinger acquired the Home Quarters franchise for $ 66 million. Sales shot up. The company also added another chain, Triangle Building Centers in central Pennsylvania. Hechinger stores soon stretched from Connecticut to the Carolinas and west into Ohio.

The financial figures looked rosy when the company reached a peak in 1989. It was operating 128 stores in 24 states and earning $ 50 million a year.

But the expansion was haphazard. Rather than one big corporation that could buy in volume, distribute with efficiency, and depend on one management model, Hechinger was three occasionally conflicting companies: Hechinger, the enlarged model of its 1960s stores; Home Quarters, a warehouse discounter; and Triangle, an expanded lumberyard.

Each had a separate computer ordering-and-tracking system. Each had its own product lines and inventory. And in 1991, when Hechinger started to redesign its stores as Home Products Centers, it added another layer.

"The company lost its focus," says Larry Siegel of Mills Corp. "It went from being a high-quality home-improvement store to an eclectic mix of many things."

IT IS RETAILING LORE THAT EVERY TIME Home Depot opened a store in Hechinger territory, the Hechinger manager would receive a bouquet of black roses.

Home Depot says that's not company policy, but John Hechinger says he got a personal taste of what he calls the "predatory" spirit one day when the manager of a Home Depot in Virginia recognized him in the aisles.

"Hey," the manager yelled, "when we run you out of town, come over and you can apply for a job."

Home Depot didn't enter the Virginia market until 1993. But riding its formula of warehouse prices and solid service, the chain had exploded out of the deep South in 1985. By 1992 it had 185 stores in 17 states. Its sales climbed from $ 118 million in 1982 to more than $ 7 billion in 1992.

Hechinger and Home Depot went hammer-to-hammer in Pineville, a suburb of Charlotte. It was home turf for Lowe's, another warehouse home-improvement chain, but the war between Hechinger and Home Depot was fierce.

"That's where the showdown began," says Ken Gassman. "It was the price war to end all price wars."

Hechinger blinked in 1991 when it closed four stores in the Carolinas. In a diversionary move, it opened a Home Quarters warehouse in Raleigh in 1992. But in 1993 it shut all of its Triangle Building Centers and started to draw down an $ 83-million "strategic reserve" to cover the costs of its store closings.

Even this early in the war, Hechinger started to look for help in the form of a buyout or a merger.

HOW COULD A STRONG COMPANY BE brought to its knees so quickly?

John Hechinger Jr. says Home Depot came gunning for Hechinger, but he also acknowledges a weakness within.

"In the mid-'80s we were asleep at the switch about external phenomena," he says. "Like many businesses in which a revolution takes place, there was a lot of denial and not much impetus for change."

The company was still growing, and profits were still good. "It's hard to take a successful company and change it before the threat is at the door," he says.

The nature of the family control, with its collegial process of making decisions, contributed to what Hechinger calls "the lack of resolve to change the course of the company."

Making decisions by committee was slow, he says, and adds: "To make a significant change in a business, you need a single leader to put his foot down and say, 'This is the way it's going to be.'

"We were not that kind of culture," he says.

But was anyone willing to make the major changes?

"Yes," he says. "I was."

IN 1994 HECHINGER WAVED THE WHITE flag. It signaled its retreat with corporate doublespeak in its annual report: "In the fourth quarter of 1994, we announced plans to strengthen the company's competitive position by closing fourteen Home Quarters Warehouse stores, primarily in the North and South Carolina markets."

Hechinger shut 22 stores in Ohio, New York, Maryland, Virginia, and the Carolinas. While Home Depot was racking up earnings, its rival had to write off $ 62 million for closing stores.

The closings and cost-cutting took a toll on employees.

While Home Depot's aisles were full of salespeople working hard to keep company stock going up, Hechinger's workers were becoming bitter. Ironically for a company built on racial harmony, nearly 100 employees, many of them African-Americans, filed a series of lawsuits in 1994 charging age and race discrimination.

"Hechinger used us to get where it wanted to go," a former warehouse manager told the *Wall Street Journal*, "and then disposed of us like garbage."

Hechinger's settled the case in 1995. Though it denied wrongdoing, it paid dearly. The terms of the settlement were confidential, but attorney John Hermina, who represented some of the claimants, said they were "extremely satisfied."

WITH THE BENEFIT OF HINDSIGHT, RETAIL analysts are quick to see reasons for the Hechinger defeat: It reacted too slowly, it grew too fast and too haphazardly, John Jr. was a brooder and not a mover and shaker, and so forth.

But the verdict from Harry and Harriet Homeowner was more basic: Customer service at Hechinger was horrible, so bad that it drove some of them almost screaming from the stores and into the arms of Home Depot or neighborhood marts like Strosniders in Bethesda.

Says Peter Manos, president of Giant Food: "At Home Depot, the salespeople will take you to the product. At Hechinger, you're lucky if they know where it is."

"Customer service is the driving force behind our company," John Jr. wrote to stockholders in the 1991 annual report. In truth, bad customer service was killing it.

Take last year's grand opening of the new store at DC's Tenley Circle. John Hechinger Sr., then retired and nearing 80, greeted customers on that first day, and smiling salespeople escorted customers down aisles stocked with new merchandise. Six months later at the same spot, customers found clueless salespeople, picked-over shelves, and surly loaders.

Barry Wells, a contractor and cabinet-maker in Hyattsville, got tired of Hechinger. "When I finally found where the items I needed should be," he says, "they were often out of stock."

When customer Janet Sumner tried to exchange blinds at the Tenley store last summer, she was met with clerks who made her sign a battery of forms. In contrast, Terry Merrifield went to a Home Depot in Virginia to exchange an expensive extension cord that had come apart. The store no longer carried the item, so the manager returned Merrifield's $ 74 in cash.

"I was a big shopper at Hechinger," says attorney Max Berry. "I go there now and get lost. Will I get help? No. They weren't what you'd call a customer-friendly store."

HECHINGER NEVER RECOVERED FROM THE 1994 retreat and store closures.

Sales and profits continued to plunge in 1995. The company's stock stood at $ 13 a share early in the year; by November it had dropped to $ 4. Hechinger bonds were reduced to junk status.

Even though the corporation lost $ 25 million in 1996, executives awarded themselves bonuses. John Hechinger Jr. received a raise, from $ 483,333 in 1994 to $ 600,000 in 1996. In one of the company's worst years, his total compensation --salary plus bonus -- was $ 918,000, up 70 percent from its 1995 level.

When the stock fell toward $ 1 a share earlier this year, some family members started to unload. Rumors of a bankruptcy or sale circulated among retailers. Finally, the investment firm Leonard Green & Partners bought the company last summer for $ 3 a share, ending the Hechinger family's 86-year reign.

While the stock market was booming, the loss in stock value to the family was put at $ 375 million.

"At $ 3 a share," says Ken Gassman, "they didn't make out like bandits."

But neither did they make out like spoiled rich people.

"As a family," says Johnny, who seemed relieved shortly after the sale, "we are blessed by a very close-knit, supportive group of people that understood what was going on. Perhaps it's hard to imagine, but money just wasn't an issue.

"I can't remember one phone call or one discussion having to do with stock price," he says. "The family was more important than business at all times."

It was the family, through the Hechinger Foundation, that contributed millions of dollars to local charities. The foundation, says John, "will not be continuing."

WHAT DOES THE DOWNFALL OF HECHinger say about local business?

"Part of the problem is that there's less customer loyalty in the Washington market than there might be in places like Boston, Philadelphia, and Chicago," says Mills Corp.'s Larry Siegel. "Our population is more transient. It's tougher for a retailer to keep a loyal following. People come from other places, so large chain stores are quickly accepted."

And the pressure on local businesses is growing more intense as the next wave of consolidation -- under what's called the roll-up strategy -- swallows more regional firms. Entrepreneurs like Jonathan Ledecky, who developed U.S. Office Products, are raising millions of dollars to "roll up" locally owned companies into big national chains. Ledecky has done this with office-supply stores and now is moving against florists and other small businesses.

Robert Pincus, a locally born banker who survived the banking wars and remains a champion of the Washington economy, thinks a lack of local capital has hurt area companies. "There was no group of business leaders set up to save the retail community," he says. "We let them fail --we being the Board of Trade and the Federal City Council."

Says a top executive with a suburban construction company: "One can say that Washington suffered from being too genteel in a business world that became dominated by carnivores."

But there are meat-eaters left in the Washington business community.

In the financial sector, B.F. Saul's Chevy Chase Bank not only has survived the round of collapses and consolidations but is expanding its franchise and services.

"Frank Saul has a vision," says Emanuel Friedman, chair of Friedman, Billings, Ramsey, a hot investment-banking and brokerage firm in Rosslyn. "He'll be a tough competitor over time."

Friedman's firm is itself becoming a powerhouse by raising millions for businesses looking to expand, mostly in the high-tech sector. Many are located in the region.

"I view Washington as extremely vibrant," Friedman says. "In some ways it's exploding. Washington over time is becoming an important financial center, too."

EVEN DOWNTOWN DC IS POISED FOR A REtail rebirth, in the eyes of Richard Bradley, president of the new Business Improvement District. It's been clear for decades, he says, that downtowns can no longer compete by selling things like shoes, shirts, and sofas. The new downtown retail entrepreneurs must marry shopping with entertainment.

"Abe Pollin comes closest to being the new retailer," says Bradley. "His sports teams are the product that will go into the MCI Center. That whole arena, in some respects, is retail. Discovery Channel's first retail outlet will be the anchor there."

Taking the idea one step further, Bradley says the MCI Center could anchor a retail boom in downtown, just as Nordstrom might anchor a mall. The next phase could be an entertainment-and-retail complex built by Sony or Disney.

But back to retailing reality: Giant Food continues to face tough competition. Food Lion is moving into Giant territory from the south. Safeway remains a strong national chain. And more shoppers are turning to discount or gourmet stores.

"Food Lion is a concern," says Giant president Pete Manos. "Everybody is a concern. But we feel we can compete very well with Food Lion and Safeway."

One reason Giant may survive and prosper, where Hechinger failed, is that Giant is battle-tested. It has been fighting for market share for decades against local chains and intruders. "Giant is a superb operator," says Gary Vineberg, who follows food retailing for Merrill Lynch.

Manos acknowledges that Giant's market share recently dipped, but he says, "It's turned itself around. We think we're back where we were."

Where they are, he says, is where the company started, when Israel "Izzy" Cohen laid down the cardinal rule: "The customer is the most important person to the company. Once you forget that, you're in trouble."

With the death of Izzy Cohen, the company is no longer in family control, though it remains firmly grounded in the region economically and philanthropically. Will Giant now lose out to bigger and smarter and tougher competitors, as Hechinger did?

"As long as we have the current group of officers," Manos growls, "it will be over our dead bodies."

Graphic

Illustration, no caption, BY JOAN HALL; Picture 1, John Hechinger Sr. became a DC political leader and largely left management of the family lumber and hardware business in the hands of brother-in-law Richard England and son John Jr. BY BRETON LITTLEHALES;Picture 2, John

Hechinger Jr. spent his first year as company president studying the local retail landscape: "That's when my palms started to sweat. Despite our success, we were in serious trouble."

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