Holleman Business Succession Forum

ALAN L. WURTZEL
Former CEO
Circuit City

Interviewed by Vernon W. Holleman, III

March 2013

THE HOLLEMAN COMPANIES

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INTERVIEW

Mr. Alan L. Wurtzel interviewed by Mr. Vernon W. Holleman, III, March, 2013.

Mr. Vernon Holleman: Alan, welcome to the Holleman Business Succession Forum. I appreciate you joining me as a guest, and you sharing your story and your wisdom for our audience on what you learned in your experience having seen, really from the beginning to the end of, what's best known as Circuit City. And why don't we start with the roots. When was the first time you have a memory of what your father started?

Mr. Alan Wurtzel: I remember right from the beginning. I mean, I was 17 years old in -- or, 16 in 1949, when he started the business. The first -- I mean, he went to Richmond March, April, whatever, and we, my mother and brother and I, moved down when school was out in June. We moved into a tiny little two bedroom, I think, tract house in Richmond, and it was quite crowded. Actually, that summer I spent a good part of the summer in New Mexico, working on a ranch, but came back and worked in the business that summer and then the following two or three summers I worked for him.

Holleman: Okay. And the background -- let me start by noting that you've written a fabulous called *Good to Great to Gone*. So, we'll reference that for our listeners for, you know, significant in-depth history there. Obviously, we've got 60 years to cover, and I try not to go on too long. But help the listeners understand what drew him to Richmond.

Wurtzel: Well, he had sold a business in New York and he had sold it, basically, for the debts. I mean, the business pretty much failed for -- I can explain why, but he needed to start over.

Holleman: Okay.

Wurtzel: And he and my mother were going to take a golfing vacation in North Carolina, and they stopped in Richmond where my mother's sister lived. And they were, they -- the two couples were close, the two sisters and the two husbands. While he was in Richmond he got his hair cut, and the barber told him that the South's first television station had just opened in Richmond, some -- the previous year. And sort of a light bulb went off. We had seen TV. He had seen TV in Richmond -- I mean, in New York. Some rich friends of ours had a TV. I remember wanting a little Dumont, the 13" screen, at some big house nearby. He knew somebody who made TVs, in Long Island City. He didn't do any business with him, but he had an introduction. I don't know exactly the connection. The light bulb went off and he said, you know, I think there's a real opportunity here. I think starting over was an attractive -- in a different place was also attractive, in a place where he had at least, you know, tangential roots of a sister-in-law and a brother-in-law that had lived there for many years, knew their way around. He put it all together, and he moved, you know, within a couple of months. He moved to Richmond, rented a storefront, set up -- I think he had a dozen TVs. He turned the boxes upside down, and those were the display stands. And as I say in the book, he started -- he calls it door to door.

Holleman: Okay.

Wurtzel: But, it really was he put a classified ad, because that's what he could afford. He put $13,000 into the business, to start. And within a year -- less than a year, a partner, a friend from Mount Vernon, close personal friend, joined him and put in another $13,000. And that was the initial capital.

Holleman: And he had never owned a TV himself before opening the store?

Wurtzel: No, no, we had never owned a TV.

Holleman: Yes.

Wurtzel: And nobody in Richmond had even seen TV, unless they traveled to New York or California, you know, Los Angeles, Chicago. There was 15 or 20 cities. I'm not even sure if Washington was one of them.

Holleman: Okay.

Wurtzel: But there were 15 or 20 cities, none of -- not Atlanta, no place else in the South, with TV stations in the beginning of 1949. During the war, the Government had basically stopped the manufacture. Say from '41 to '46, you were prohibited from making TVs because all of those parts and technology were needed for the war effort.

Holleman: And you have one brother?

Wurtzel: I have one brother. He's two years younger.

Holleman: Okay. And were you both asked to come in the business? Encouraged to come? When you talk about those summers as teenagers.

Wurtzel: The answer is it was clear we were expected to work.

Holleman: Okay.

Wurtzel: It was clear -- we didn't have to apply for a job. And as long as, you know, there was something useful to do that's what was expected.

Holleman: Okay.

Wurtzel: But, I mean, my first job was putting antennas on roofs. I mean, you know, with hourly pay people, people who knew more than I did but still it's a low level job. By the time I was in college and driving, et cetera, I drove trucks or did deliveries.

And somewhere along the line, while I was still in college, I managed the warehouse. So, that was sort of my first executive job.

Holleman: And did you stay in the Richmond area for college?

Wurtzel: No, no, I went to Oberlin College in Oberlin, Ohio.

Holleman: Yes.

Wurtzel: So, I only came -- I'd come home Christmas and summers and that sort of thing.

Holleman: Okay. And did your brother also work in the business?

Wurtzel: You know, I don't quite remember. I'm sure he did some, but, but I don't, to be honest with you.

Holleman: Never much, obviously.

Wurtzel: Never much.

Holleman: Yes.

Wurtzel: He, he was -- he's an artist. He was, he was somewhat on a little different planet, and I don't -- you know, he was not particularly interested.

Holleman: Sure.

Wurtzel: I'm sure he worked some in the business, some. But it was nothing that excited him. Not that it excited me either, but it was -- I enjoyed the challenge and it was something to do and I was earning a living and I was -- I particularly learned something about management when I managed a warehouse with, you know, still a handful of people. But anyway, it was interesting.

Holleman: And were you studying business in school?

Wurtzel: No, no.

Holleman: Okay.

Wurtzel: I was a political science major. I never had any intention of going into the TV and appliance business. I remember that my father had, as I told you, a partner. And within a year or two they hired an accountant from New York, and he became -- they gave him each -- each gave him five percent of the business. So, there were three of them that had equity. And every other Sunday night, or something like that, they would meet, generally at our house, and have a business meeting. I mean, they would just -- it's just that there was so much going on during the day that this was an opportunity during the week to have two or three hours of time to think and plan and to go over a backlog of stuff. And I used to sit in and listen to those meetings. I mean, they were discussing basically mundane stuff, like how do we expand the warehouse, do we hire or fire more people or do we -- you know, should we spend the money for a new truck or upgrade this. But, they were planning the business and running the business. And I used to sit and listen in, and I enjoyed that as I was just learning new things about the world that I had no exposure to. But, I never -- but I saw that the TV and appliance business is a rather mundane buying and selling business. I had -- I liked school. I liked academics. I liked, you know, ideas. And I was a political science major at Oberlin.

When I graduated I got married, and that summer, actually, my new wife and I lived in Richmond. Lived with my folks, actually, for one summer, saved all the money we could, because she worked and I worked, and we took the next year in Europe. I went to the London School of Economics for a year, on sort of what we had saved over the summer. And intellectually, that was probably the best year of my life. I mean the best single year. I mean, I learned more about the United States by living in Europe, and certainly a lot about Europe by living there. And it was a great experience.

I came back, and went to Yale Law School. I got interested in city planning while my dad -- I mean, while I was in England. There was a lot of new towns, they were called, being created in England. It was sort of a new concept, the way a community where you could both live and work, self-contained. I mean, Columbia, Maryland, and Reston, Virginia, were modeled on the same ideas. There are some well-known books on the subject of urban life, or what urban life could be like. And I got intrigued with that, and applied to architecture schools and was accepted at virtually all the schools I applied to. So, I came back and had the choice of Yale, Harvard, Pennsylvania School of Architecture, or the Yale Law School where I had been accepted as a senior in college, and took a deferment basically. It wasn't frequent in those days, that once you got accepted in law school you'd take a year out, but the law school granted me a deferment and so I knew when I came back from London I could go to Yale Law School.

I had a choice to make, and actually I'd say the best advice my dad ever gave me was, because I was thinking of city planning, which is taught in architecture schools, he said a city planner you're limited to city planning. As a lawyer, you could do city planning but you could do a lot of other things. And I took that advice, and went to Yale Law School. I've never regretted it.

<u>Holleman:</u> You did all three years of law school there?

<u>Wurtzel:</u> Yes. Right.

<u>Holleman:</u> And did you work in the business at all during law school, or were you doing normal law school?

Wurtzel: Only maybe the first year. I can't remember, to be honest. Probably the first year. And the second year, I worked at Paul, Weiss, in New York. Maybe -- yes, and in law school there are only two summers.

Holleman: Yes.

Wurtzel: I mean, there is between -- so, one summer, I think -- so, that's the only legal work I did. So, I must have worked at Circuit City the first summer and then at Paul, Weiss the second summer. And I did well in law school . I was on the Law Review and a Norton Common editor and had good grades, et cetera. And two professors at Yale were sort of the recruiters for David Bazelon, who was a Circuit Court judge here in Washington. And they recommended me to Bazelon, and I went to clerk for David. And I loved it.

Holleman: When you were at the London School of Economics, did you harken back to those conversations in the living room, those every other Sundays much?

Wurtzel: Right.

Holleman: Or did you -- sort of had filed that away?

Wurtzel: I think I had filed it away.

Holleman: Yes.

Wurtzel: I was not -- and I never intended to join the business. So, after Bazelon I looked for a job as a lawyer, and was hired at Fried, Frank. This was the Washington office of Fried, Frank, and at that time, it was six lawyers. I was the seventh lawyer in the firm. Two of them did Indian law, for historical reasons which are interesting but I won't bore you with. So, I spent -- and this attracted me to Fried, Frank. I spent three years, four years, traveling to different Indian reservations being a lawyer for tribes of

American Indians. And one of the things we did was we qualified Indian tribes under some Kennedy New Era legislation to qualify for federal grants for various -- including public housing. So, one of the real accomplishments was to build the first public housing on an Indian reservation. And I loved it, and I enjoyed it, but I didn't see myself as an Indian lawyer for the rest of my life. I was interested in politics. Joe Tydings got elected in '66.

Holleman: Okay.

Wurtzel: So, I had joined Fried, Frank the summer of '60. Yes, I graduated in '59 and I clerked for a year and I applied to Joe Tydings, to be his legislative assistant, thinking that I would take a leave of absence. I mean, the firm assured me that I had a leave of absence, could come back after two years. I thought that working on the Hill would be great experience for a Washington lawyer. and it turned out to be. I mean, it was wonderful. It was fun and enjoyable. It was a great Congress, because -- I call it the Goldwater Congress. Lyndon Johnson beat Goldwater so decisively in 1964, that all the Southern oligarchs that had dominated the Senate, and very conservative policies from the second Roosevelt Administration on, had -- nothing much of a liberal nature had passed, and it was all changed and a lot of stuff was bottled up. So, that was the Congress that passed the Voting Rights Act, Federal aid to education, Medicare, the first Medicare legislation. So, it was an exciting place to be.

Holleman: You bet. The business is almost 20 years at that point.

Wurtzel: Sure, it would have started in '49. So, that was right.

Holleman: And how much dialogue would you have with Dad about what's happening and updates, or what -- would you follow it, or --

Wurtzel: I was always interested, and that was a subject of dinner table conversation. I mean, Washington and Richmond are not that far apart. Pretty soon we had some grandchildren. And, so we, you know, would take the kids down to Richmond, or they would come up. I was always interested about the business strategy issues. I was never interested in which TV to buy, and how to price it. But I was interested in, you know, how do we expand, how do we grow, should we go here, should we go there, what are the strategic challenges. So, I talked to my dad on a regular basis and followed it.

While I was practicing law, there was, you know, every six months or something he'd have a legal issue that he said would you research it for me. So, he was a minor client. But, it was, you know -- so, I did some legal work for the company. But, I wasn't anything like their general counsel. I did one-off research pieces, you know, noncompetition agreements, and in an employment contract could you sue the guy for noncompete or that kind of thing.

Holleman: Do you think your dad was giving you some of those assignments just to keep you connected, or just because you were an easy call away?

Wurtzel: That's a good question. I hadn't really thought about that. I think he enjoyed the fact that I was a lawyer, that I had done well at law school. He was very proud of that. Could he have gotten the same advice faster, cheaper in Richmond? Probably. But, there was no significant penalty and I think he just enjoyed throwing me a few bones --

Holleman: Sure. Yes.

Wurtzel: -- as a young lawyer. So, that was fine.

Holleman: And then, so tell -- before we dive into your entrance in the business, remind our listeners the Circuit City name is still a few years off.

Wurtzel: Correct.

Holleman: The roots of it was Wards .

Wurtzel: Correct.

Holleman: And until I read your book I didn’t appreciate that that was the last name, and then the first initial of everybody’s first name, is that right?

Wurtzel: Yes, the W for Wurtzel. Alan is me. Ruth is my mother. David is my brother. And Sam is my father. He used to say he didn’t want an apostrophe between the D and S because he didn’t want to be separate from the family.

Holleman: That’s cute.

Wurtzel: But, he claimed that he picked the name Wards because it was fewer letters than Wurtzel. But, it was obviously an easier name, a less Jewish name, and less European name, whatever. So, he was -- it was a good name for the business.

Holleman: And tell, so, when did you come into the business, then?

Wurtzel: I came into the business at the end of my two year stint with Joe Tydings. December of -- I mean, after the ’66 election, in November, and when that was over I left and moved to Richmond, mid-December of ’66. And the way that happened --

Holleman: Yes, describe that.

Wurtzel: -- sometime during, probably, that year, earlier in ’66, I would guess, he came to me and said, look, we’re now a public company and I think we’re ready to make some acquisitions. I need to hire an in-house lawyer, and do you know anybody, any of your classmates, that you would recommend for the job. So, I said, well, what are you looking for. You know, he wasn't very specific, but he wanted a young guy that wasn't too expensive that could do corporate acquisitions. And I said, you know, if you're really serious I'd be interested in doing it for two years. I mean, I left Fried, Frank to spend two years on the Hill because I thought that would be good training for a Washington lawyer. I had never done corporate law. I had done Indian law, which to me was like being in the Peace Corps today.

Holleman: Yes.

Wurtzel: Wonderfully rewarding psychologically, and fun, but not necessarily, for me anyway, a life's work. So, he said fine, if you can come down for two years and we've got some deals to make, and you can be the in-house lawyer. I said I'll hire Fried, Frank or somebody else to do the heavy lifting, and in that process I'll learn some corporate law. But, I can save you money because being the insider I can give them the information, the documents, and we'll work together. And he said fine. And I quickly found in a few -- in a matter of weeks, I think, that I enjoyed business more than law.

Holleman: Okay.

Wurtzel: Which I can -- I guess this is worth putting on this tape, is that the thing -- I mean, I enjoyed practicing law. The intellectual challenges are significant. Law school training is terrific. But, in a sense there's no accountability. You can be the world's greatest lawyer and write the world's greatest brief and still lose the argument in the Court of Appeals or the Supreme Court. You had the wrong client, you had the wrong facts, the law is against you, the judges -- I mean, this may not be true of the Supreme Court, but if you're trying a case and the judge got up on the wrong side of the bed, he's a nasty SOB, he's prejudiced, he's this, that or the other thing -- you can find a lot of reasons. Even if you're dealing with clients, you can give them the world's best advice but they don't have to take it. So, there's no bottom line accountability. People think higher of you as a lawyer. I guess that's the ultimate economic, you know, market test of your skills. But they may -- it may be more a market test of your personality than your legal acumen, because there are a lot of successful guys running around who get a lot of business but at not necessarily good lawyers. But they have good personalities --

Holleman: Sure.

Wurtzel: -- and attract business. The thing I liked about business was that there is a bottom line, and that at the end of the day if you're running a business you know whether you had a good year or a bad year by the bottom line, and you can compare yourself to peers and say, you know, I did better or worse than a similar company. You can explain, and legitimately, that we lost money this year and maybe last year because the market is down, the economy sucks, you know, whatever. But, after a while that's no -- if you're running the business, that's no longer an excuse. Because if the business isn't making money you're in the wrong business. If you're the CEO, you're responsible to get out of a losing business and into a winning business. So, there's that, over about a three or four year period, a fundamental accountability that exists in business. It's a test, if you like. It's a challenge. and the bottom line doesn't lie. So, it's, it's a -- it's different than law, in that you can persuade yourself you're a great lawyer even though you didn't win the case.

Holleman: And when he called and asked you that question, how much time did you think about it before it dawned on you maybe you were that person?

Wurtzel: I don't remember. I mean, that's, you know, 50 years ago. But it wasn't long.

<u>Holleman:</u> Not long. So, you had a light bulb go off and said hey, maybe me.

<u>Wurtzel:</u> Yes, right.

<u>Holleman:</u> But you went in with the idea that just two years. So, did you have much discussion or concern or thought or honest dialogue with him about the father-son dynamics or any kind of plan for, you know, any of those --

<u>Wurtzel:</u> Well, I certainly thought about that. He was a very, very smart man. He was not well-educated. Graduated from high school. The only education beyond that was he went to some night school courses to learn some accounting. But, he was very smart and very observant. And he went into business with my mother's father, with his father-in-law, and my grandfather was a remarkable human being. He was second generation. He was born in 1865. His parents came to Alexandria, I guess, in the mid-nineteenth century. So, he was born here just after the Civil War. grew up in Northern Virginia. He was a good student, went to good schools. I don't think he ever -- he didn't go to college, but he went to -- in those days, a good high school was a good credential. And he went into business, and he was a wise and wonderful man. He basically taught my father a lot -- gave him a lot of polish. My father grew up without a father, because his father abandoned his mother with four young kids. I don't know, my father was six, seven, eight years old. My grandmother, who was an immigrant from Russia, raised those four kids by running a grocery store. So, he did not get a lot of -- I mean, he got a lot of love, I think, from his mother. But his father was absent, and she was busy putting bread on the table and running the grocery store. So, there wasn't a lot of refinement, let's say, intellectual --

Holleman: But those four kids probably got some business training in that grocery store?

Wurtzel: They did, and all four of them turned out to be quite successful in their various ways. They were all smart, hard driving, and somewhat fractious, but ultimately they all became quite successful.

Holleman: So, you get into this -- the business, and you immediately realize, or relatively soon realize, how much you're enjoying the business aspect. Did you then abandon the idea of going back into law and --

Wurtzel: I did.

Holleman: -- let the law firm know --

Wurtzel: Yes, yes.

Holleman: -- I'm going to stick it out here?

Wurtzel: I forget when, but I told them --

Holleman: Yes.

Wurtzel: -- within six months, or certainly a year. I mean, the other thing you asked me is did we talk about family dynamics. And I don't remember an explicit conversation with him, but I know I told my mother, and she was a wise and wonderful woman, that I couldn't have done this -- my father was a dominating -- I mean, not -- he was a dominant, I should -- not dominating. He was a dominant personality. He was strong-minded, and quite persuasive, and people -- his success in life was his ability to persuade people to do a lot of things. And I remember I talked to my mother about it, and said I could never have joined him if I didn't know I could be a success as a lawyer. In other words, having gone to -- joining him right out of school would have been a mistake.

<u>Holleman:</u> Yes.

<u>Wurtzel:</u> But, knowing that I, you know, clerked and had a good job with a first-rate law firm, that if he and I had a falling out I could go back to practicing law, if not -- certainly with Fried, Frank if I wanted, or someplace else, that gave me an independence to debate with him, argue with him, resist, to treat him as -- I mean, not quite a peer. He was teaching me a lot, and I understood it, that I needed -- that I had a lot to learn. But, it gave me a sense of self-strength and independence that I wouldn't have had, had I not been confident that I could make a good living elsewhere. And I think that was critical to the family, to the dynamic between us. Because we disagreed. I mean, we didn't fight but we disagreed. So --

<u>Holleman:</u> So, is it safe to say that if you were advising a family business or a business where there was a, you know, family component that experience elsewhere, whether in that industry or out, so that somebody coming in had what you just described, which I might describe as self-worth or some self-madeness, whatever --

<u>Wurtzel:</u> Yes.

<u>Holleman:</u> -- was the right terminology, you think that's equally critical universally, obviously not just in your experience? Or at least --

<u>Wurtzel:</u> Well, I don't know. Universally it's hard to -- not everything -- but yes. As a general proposition, I think it's healthy if a young person coming into a family business has independently established himself and in his own mind knows that he can be successful if the business relationship with the family were to turn south and sour. And that enables him to be more objective and self-confident in expressing his or her own opinions.

Holleman: Sure. So, describe your working relationship with your dad. Let's start with sort of how many years were you all in the trenches together?

Wurtzel: Well, I came in '66. I became CEO in '73. I became president in, I don't know -- I came in '66. Within a few years, I don't know exactly when, but certainly '68, '69, he said to me, look, this seems to be going well. I'm going to be 65 in 1973, and I will retire. And assuming I still think you're capable of taking over, I'll retire and you'll become the CEO. I'll stay on the board as Chair, but you'll run the business from a day-to-day basis. And, you know, meanwhile my mother had died. He had remarried. His new wife had a lovely home in Westchester. He enjoyed spending time up there. He was making new friends. So, this was mutually beneficial.

Holleman: So, what things did you all do in that interim period that would be good to share with people thinking about that kind of transition?

Wurtzel: Okay. Well, basically, you know, for the first year I sat at his elbow. I mean, you know, I did the legal work. I did some, I don't know -- I wrote the annual report. I mean, I did some writing. But very quickly, and I don't remember exactly how quickly, he turned over to me, it may be within six months, the operation of what we called the carousel stores. He had bought a discount store in Richmond. It was a Two Guys From Harrison store that wasn't doing well. It was a great location. And arranged to buy this store, sort of in the dead of night, because Two Guys didn't want to admit it, that they had a losing store. All of the sudden, he owned his own discount department store while running TV and appliance departments in 60 other discount department stores. That he did just before I joined them. So, within six months of my joining him he turned that store over to me and said okay, you run the carousels, and any questions or you need help -- I mean, he certainly looked over my shoulder, but now the guy who ran that store, and it was a 120,000 square foot store, reported to me. And the negotiations with the licensees, you know, the store P&L, was my responsibility. So, that's -- I learned a lot. And then he turned over the -- he bought a hardware houseware division, which was licensing -- running hardware houseware departments in discount stores. There was seven or eight of them. So, he turned that over to me. And that had a management team, and there were problems with the management team so I had to fire some people and hire some people. We never made any money in the hardware houseware business, but I struggled with turning it profitable.

Holleman: And these you think -- how much of these were -- I mean, I guess, early, maybe, he was giving you some tests and then felt like hey, you're capable, and therefore he had a lot of confidence, do you think, to make acquisitions to turn over to you?

Wurtzel: Well, he had -- he made the acquisitions and didn't necessarily turn them over to me. He went public in 1961, at the beginning of the discount revolution. The first -- I mean, it's in the book. The first discount store, called Ann & Hope, opened in Rhode Island. It was '60 or '61. And the idea -- and it was full of licensees. The guy who -- the store was a former textile mill. Some real estate entrepreneur divided it up into different departments and brought in licensees to run the ladies ready-to-wear, the men's clothing, the health and beauty aids, automotive items, all of the different -- and somebody came to my dad a year or two later and said we're opening a store in, I don't know, St. Louis, and we'd like you to run the TV and appliance department. He said well, St. Louis is too far away. He said well, there's another company out here that runs similar stores in Norfolk and Camden and Atlanta, and would you like to talk to them, because that's closer to home. He said yes. So, they went public. They raised a million bucks, gave away forty percent of the company to do it, and were able to go into the license department business. That was a huge breakthrough.

I mean, it was a big gamble. It was, in a sense, very expensive. But, the conventional TV and appliance stores in Richmond, the Wards stores, Wards TV stores, as I say in the book, you could make a living but you couldn't make a fortune running TV and appliance stores in a place like Richmond. When they tried to go out of Richmond they had not been successful, because managing from afar without the proper tools was a challenge, and they found they had problems and closed the stores.

Holleman: But, he was interested in doing more than making a living, I think you say.

Wurtzel: He was a very ambitious person. Not so much financially. I mean, he never lived high on the hog. But, the idea of building a big business and leaving a legacy, regardless of the dollars in his estate, was something he really cared about. He wanted to prove to the world he was a first-class businessman. His partner, who was ten years older, and a wonderful man with a twinkle in his eye, and very smart and jolly and affable, capable guy, he just wanted to make a good living. He didn't want to leave a legacy. So, in the end they sort of split over that, because my father's ambitions outran his partners. So, when I entered --

Holleman: And did you overlap with that partner?

Wurtzel: I did, but by a year or two.

Holleman: Just a short time.

Wurtzel: After -- the time I came in the business, his partner was tired of this go go expansion. I mean, I didn't understand that at the time but I think, looking back, I'm sure that's what happened. He said I'm cashing my chips, and he took his stock and they had a secondary offering and he walked away with, I don't know, three, four, five million bucks. My father was happy to now have control of the business. The accountant they had hired, this guy Marty Ross, he quit at the same time. I don't know exactly why, but I assume he thought he would be the next CEO. Hecht was 10 years older than my dad, and Marty Ross was 10 to 15 years younger. Assumed he would succeed, and when I came into the business and my father made it clear that he wanted me to succeed, you know, after a few years Marty left too. So, it was just the two of us to run the business.

Holleman: So, you've got the discount store revolution going on, and how did you all work from that shift as he started to go to the board Chair and you took over more responsibility?

Wurtzel: Well, I mean, gradually I just got in on all of the big decisions. I mean, when we had to renegotiate a new license agreement, I mean, I would be running the carousels and I would be running, let's say, the hardware houseware division, but that wasn't a full-time job. If we were adding a new licensee, I might not make the business decision but I would negotiate the agreement. If we were getting out of stores I would do that. But, I know, on the acquisitions, and as the book explains we made, I don't know, eight or ten, mostly foolish, acquisitions shortly after I joined, he made the business judgments, and I made the -- I did the legal work. I mean, I did the legal work and, I mean, I wasn't just a lawyer but I wasn't making the judgment as to this is a business we should acquire and what we should pay, and this is how we should structure the relationship. He had that all in his head, and he was the CEO. I didn't know enough to argue with him, to be honest with you. I mean, in retrospect I should have, but anyway.

<u>Holleman:</u> But, most of that relationship was pretty healthy? I mean, you would --

<u>Wurtzel:</u> Yes, yes, yes. You know, he didn't like to be crossed or disagreed with. I mean, most of the time when it was just the two of us we could have a respectable discussion. You know, he was often right and I backed down. I was often right and he would back down. But sometimes, we would lock heads. The great thing -- the great advantage, I think, for both of us was that, hey, we didn't let it spill over, by and large, into our family relationship. I think we went -- my wife and kids and I would go to their house every Friday night for dinner, and he was very close to my kids and that sort of thing. So, we didn't let that spill over. I might complain to my mother once in a while, but it was --

<u>Holleman:</u> And was she a sympathetic ear?

<u>Wurtzel:</u> She was a wonderful person.

<u>Holleman:</u> Yes.

<u>Wurtzel:</u> And she was sympathetic to both of us.

<u>Holleman:</u> Okay.

<u>Wurtzel:</u> I mean, she was an honest broker. Clearly, her loyalties laid with, if push came to shove, with him. But she understood. But the point I was making is when it got more serious and I thought he was being obtuse or obstinate or short-sighted, he had built a board basically of two, three of his closest friends. One was a former friend from New York, who was one of the most outstanding human beings I've ever known. He had graduated from Hotchkiss first in his class. He went to Yale, was first in his class. He went to Yale Law School, was first in his class, and went to Sullivan and Cromwell, the

first Jew that Sullivan and Cromwell ever hired, and rose quickly at Sullivan and Cromwell. Anyway, he came on the board.

There was another guy. There was a guy in Richmond named Hyman Meyers who ran a chain furniture business called Heilig-Meyers, a family business. And he had all these problems. He had a brother and a brother-in-law, and the brother-in-law was a pain in the rear end. But, he managed this family business. He taught me a lot about how to navigate family businesses. But, he was a very smart guy and built a wonderful chain store, credit furniture in the South. So, I would go to Sam Winnacker or Hyman Meyers or both of them and say, look, my father and I are at loggerheads. He thinks this and I think that, and give me some judge and counsel.

I probably remember it favorably to myself, but I don't remember any instance where they didn't say Alan, we agree with you. I mean, by this time I was the president, if not the CEO. I said well, if you think that's -- talk to Sam, and see if you can turn him around. And they did, and they turned him around. It was easier for him to agree with them than it was to, you know, lose an argument to me. Which you can understand that.

Holleman: Sure. That's natural.

Wurtzel: So, it was a wonderful relief valve. They were fabulous, and he really admired and trusted them and that's how it worked. So, it didn't happen all that often, but when it got to be difficult that's the route I took.

Holleman: And once he became chairman and you were fully entrenched as CEO, did that change dramatically, the relationship, or did he --

Wurtzel: Well, I'd say -- first of all, he remarried, spending more time in New York with his new wife. You know, I was CEO. He understood that I made the ultimate decisions. That doesn’t mean we didn’t argue and debate over business issues. And if it was serious I would still take it to the other two directors that I just mentioned, to smooth the waters and get us aligned.

<u>Holleman:</u> But he respected the general role? Because oftentimes when we talk in these forums people will want to continue to have control, even if they’ve given responsibility --

<u>Wurtzel:</u> You know, he understood. He understood that he gave up the CEO role. Like I say, he didn’t always believe it. And I think he thought on some occasions that even though he was not the CEO as the founder he should make the decisions. And that’s when I would take it to the board or to these two key board members, and I’d do it privately. I wouldn’t do it in a board meeting. He would back down.

<u>Holleman:</u> You talk in the book about the importance of governance and board transitions and finding successors. So, let’s sort of move in that direction.

<u>Wurtzel:</u> Okay.

<u>Holleman:</u> What are your key takeaway thoughts from your experience in those key decisions for a board or for a CEO? In other words, how soon -- how many years should they be grooming somebody? Should they have several people they’re keeping an eye on?

<u>Wurtzel:</u> Well, in the Wards -- there are four transitions that I cover in this book. The first was my father and me, and we just described that. It was a five, six year transition. When I became CEO, it went well. I mean, he had taught me well. We had come to agree on most things. Where we disagreed, we continued to have arguments or debates but it wasn’t -- we didn’t have any fights. I then decided, actually when I was in

my late forties, in 1981 -- so, I had been there 15 years and I was getting a little bored, to be honest with you. The nitty-gritty of business was not intellectually -- I mean, buying TVs and selling TVs for more than you paid for them is not all that interesting.

What I enjoyed was new challenges. So, the first time I bought a piece of land to build a superstore, and hired architects and designed and built the store, I mean that was really heady and exciting stuff. The second one was new challenges, things I hadn't thought about and mistakes we had made, and the fifth and the eighth one. But by the twentieth, it was sort of routine. And the same is true if, you know, we built a warehouse. We actually bought a vacant warehouse and redid it, and that was interesting. We made a number of mistakes, and learned it's better to build from the ground up.

I was going to weekend seminars -- I mean, not weekend, weeklong seminars. I did a lot of executive education, because I was a lawyer and I didn't know much about business. So, this is something I would recommend to somebody who comes into a business that doesn't have a business background, from business school. So, I went to Harvard and UVA and other business schools and took, you know, a week -- an executive seminar, Monday through Friday typically, on personnel matters, on financial matters, on the use of computers, on warehousing and distribution, on sales training and sales development and sales management. I enjoy learning, and I enjoy putting something -- you build a warehouse, the first one you're scared to death. You know, I mean, I bought this 20 acre parcel and I'm building 200,000 square feet, there's a lot of mistakes you can make. You get good advice and whatever, but it's a big decision. And then the next one, you know, there are other issues.

But again, it's like anything else, you do it over and over again. Developing a pension plan for employees or some kind of benefit package, or sales training, or any of the multiple things that you need to do to run a retail business, the first two, three, five times you're in a learning curve. But, the learning curve begins to flatten out. That's sort of what happened to me. And I decided that I wanted to do other things with my life, both more interesting or new challenges and that in some way would make the world a better place. Where selling more TVs at a low price was a public service, in a sense --

Holleman: Sure.

Wurtzel: -- but it was not a -- it wasn't philanthropic, let's put it that way. It wasn't making the world a better place in a direct way. So, I decided to move on. I told my board in five years -- I'll find a successor, and train them, and in five years I plan to be gone. I said I want to find a successor, and they said to me that's impossible. It will be very challenging. Nobody is going to want to come to work for Wards when you're 50 years old and you tell them you're leaving and they'll be your successor, because they won't believe you. There's no contract. There's no assurance. They'll think you'll change your mind. And you can think of lots of business stories where people have said they're going to retire and then they -- Armand Hammer, who ran Occidental Petroleum, was going to retire ten times before he died at 92, or whatever he is. So, they said to me it will be hard to recruit somebody, because they'll never believe at your age you're going to retire.

A year or so later I had lunch with a guy. I said I'd like you to join the board. He was the kind of guy that would be a good board member. And he said well, I can't do it now. I can do it in 1982, in November of -- let's just say this was '78. So, I said oh, my gosh, how do you know that three and a half years from now -- he said that's when I'm going to be 60 or 65, and he said I've told my people, it was a private company, that I'm going to retire at, let's say, at 60. So, that's the date and I've got to prepare everything so that when that day comes they're ready to take over. So, we're working towards a date certain. And a light bulb went off, and I said that's what I need to do to find a successor. So, I came back to the office, wrote the board a letter, and said these musings I'd had about, you know, retiring and doing something else, you all advised me that with that it would be hard to recruit somebody. I've got a plan, and that is I'm going to -- five years from now I'm going to retire, period, and recruit somebody to be -- and I'll train them. It will take me a year to find them, four years to train them or whatever. And if I miss -- if I pick the wrong guy, I'll do it again. I said but after that, you guys are on your own. So, I certainly had a gun to their head. They had no choice but to say okay, we'll support you, because they couldn't leave the business unattended. And that made it then possible for me to recruit somebody.

Belaboring the point, I hired one of the smartest guys I've ever known, Rick Sharp. He was a computer consultant. He was -- he created a new computer program or system for us, a point of sale system. I decided in that interaction that he would be a good guy to succeed me. I had headhunters. I had interviewed a bunch of people. I came close to hiring somebody with good experience. But in the end, I hadn't found anybody I was really comfortable with. And so I told Rick if you work here for four more years, or you come join me and I'll turn it over in four years and you'll be the CEO, assuming I think over the next four years that you're the right person. And he agreed.

And, you know, I did think he was the right guy and I kept my word and he became the CEO.

I think that's a good transition, the same as my father did with me, trained me -- he said he would retire when he was 65. I told Rick I would retire at a time certain. There was four or five years in both cases, that -- of overlap. I kept giving him increasing responsibilities as my dad kept giving me increasing responsibility. I think it's a good model.

Holleman: Any of your children old enough to have come in the business at that point?

Wurtzel: No, and none of them were interested. The three kids -- the boy is an artist and the two girls just weren't interested. All of them smart. The two girls went to Yale, and one became a lawyer and one went to business school. But neither of them were interested in running the business, and my son, he was an artist, wasn't interested either.

So, the next two transitions at Circuit City, when Rick retired, he appointed a guy that was hired just about the time I left. He was hired in '86, and Rick retired in 2000. It was 14 years. So, he had been there a long time and had increasingly --

Holleman: So, you stayed on as chairman?

Wurtzel: Right.

Holleman: And for about four years, or --

Wurtzel: No, 14. From '86 to 2000.

Holleman: Okay.

Wurtzel: So, I was there when they made McCollough -- Rick made McCollough president.

Holleman: Okay.

Wurtzel: What happened -- I think this is an interesting tale. About two years before that McCollough came to him and said Rick, I have another job, I've been offered this, that and the other, it's a lot of money, I'll be the CEO. And Rick sort of panicked. He said oh, my gosh, I can't lose you. He said I'm going to retire in two years, or a year. I mean, it was -- and I will make you -- see that you become the CEO, and McCollough agreed to stay on with the understanding that -- but he didn't really run that through the board. I mean, he told the board about it. And I don't know that the board fought him, or I can't say the board wasn't aware. But, the board never had an upfront discussion, as when Rick retires is he the right guy. They never considered anybody else, never hired a headhunter, never looked elsewhere. Not that there was necessarily anybody better, but it was a transition that was sort of precooked a year or two in advance by McCollough's decision to leave. The board accepted the recommendation without serious independent investigation or thought, certainly without looking.

So McCollough became the CEO. And it turns out -- I mean, Alan is a wonderful man, a human being. He's as nice a guy as you could meet, and smart. But it turns out he didn't have the balls. He didn't have the backbone. I think he understood the problems the company was having, the competitive problems with Best Buy. But they required radical surgery, and he was into fingernail clipping and not major surgery. Maybe that's an unfair way to put it But he was into appendix removal and not heart surgery, and the business needed heart surgery. So, we never did it. And, now I'm being a psychiatrist and way out of my depth, but I think he was probably frustrated. I don't know that he was, but I think he was.

Circuit City had a terrible tragedy in that one of the private -- we had a couple of small private planes. We moved people around the country. It was an appropriate thing to have two or three jets, with stores all over the country. And one of the planes crashed, with seven people on board. And McCollough who, as I said, was a lovely human being, was really heartsick over that tragedy. And whatever starch he had that, I think, took the starch out of him. And he decided to resign. So, he made his merchant, a guy he had hired a year or two -- a year previously, 16 months or something, less than two years, the new CEO. His background was Best Buy. He didn't understand the company. He didn't understand the company culture.

The culture was a big -- I spent a lot of time at the beginning of the book, as you know, talking about the culture that my father basically created, I continued, I think I modestly enhanced it, but the basic ground rules or the way of dealing with suppliers, customers and particularly associates was something that was groundbreaking and fundamentally important to the business, and that understanding -- I imparted that to Sharp and Sharp understood the Circuit City culture. He may not have handled the competition as well as I would like him to, but he handled the people extremely well. But the next guy -- and McCollough understood the culture but didn't always have the starch to do it right. But the next guy didn't understand it at all.

Holleman: And he had come from a competitor?

Wurtzel: Right. Well, there's nothing wrong with coming from a competitor, but he didn't -- it was a competitor that didn't value people and treated people as objects, not as precious resources. And he mistreated the people. The turnover was incredible. I think of the 15 senior officers when he -- when the company went down, none of them had been there more than, I don't know, a year and a half.

Holleman: And what role did you see the board play that either could have been improved, or what are the lessons there?

Wurtzel: Oh, there's a lot. My father built a fabulous board, these two guys I described, a Richmond banker, one of the finest nicest guys I've ever known and a wonderful businessman, and I continued them on "my" board. Added some other people with relevant experience, an investment banker, not -- had retired from Goldman Sachs, was doing other things. A commercial bank. We had a good board. The board had a lot of dialogue. There was a lot of discussion. It was a very unconventional board, both in my father's day and mine, in that board members spoke up. They said what they thought. There was debate and discussion. They could challenge the CEO. They didn't challenge to the point that they would say, okay, this is what you have to do. But generally, once in a while, they said to the CEO, look, you can't do that, we won't agree with it. But, basically it was persuasion and discussion and the CEO made the decision, whether it was my dad or me.

Rick began to build a big business board. I mean, sitting CEOs of Fortune 500 companies, none of which knew or understood retail. And I think that was a huge mistake. He didn't want any talkback. He didn't want any debate or dialogue. He wanted people that would raise their hands and say yes. So, that was the biggest mistake. I mean, he had some distinguished people, including John Snow, who became Secretary of the Treasury. He was running the railroad in Richmond. He had a guy from Textron. I mean, people who had -- a guy who ran a big private business that made a huge -- you know, gave $50 million or something to the University of Richmond. A smart, capable guy, but he was a big businessman whereas the people on my dad's board and my board were small business. I mean, multimillion dollars but not Fortune 1000, much less Fortune 100. And none of them knew anything about retailing, and so that was a problem. After Rick retired, McCollough put a lot of second-rate people, in my opinion, on the board, with peripheral interest, knowledge or experience of retail. Not universally, of course.

<u>Holleman:</u> And that was -- that started roughly around 2000?

<u>Wurtzel:</u> Yes. I mean, the people while Rick was there were big business.

<u>Holleman:</u> Yes.

<u>Wurtzel:</u> And by then Circuit City was a big business, and he could attract people. It was doing 10, 12 million bucks. That was not inappropriate, to be able to attract those kind of people. But they weren't retired, so they were busy with their own things. They didn't know anything about retailing or consumer electronics. Maybe they weren't the right people.

<u>Holleman:</u> And you talk -- there's a great line in here, I'm looking for, about beware, essentially, of success.

<u>Wurtzel:</u> Yes, and about hubris.

<u>Holleman:</u> Yes.

<u>Wurtzel:</u> You know, don't think you know the answers.

<u>Holleman:</u> And that, you think, would apply both to strategy --

<u>Wurtzel:</u> Right.

Holleman: -- and business execution, as well as leadership transitioning. Is the lack of hubris as important a quality in somebody running a business as any?

Wurtzel: There are three or four of the habits of mind that I would say are critical. First and foremost, don't think you know all the answers. The second, I would say, is confront the brutal facts. You've got to be honest with yourself and with your company and with your peers. What's the reality, including the -- you've got to look at your own warts. The first business plan I made was very critical of my father and me. But, it's we had a lot of warts. And if you don't know you have warts, then you can't cure the warts. So, it's confront the brutal facts, be humble, run scared, which is the first one we're taught, and don't think you know all the answers.

I think curiosity is an important trait. Curiosity sustains the cat, I say, because in making strategy -- strategy, to me, is the art and science of aligning the assets of the organization, both financial and human resources, and the culture, et cetera, with the external environment. Which it's always changing, the competition, the economy, technology, whatever. Aligning the assets and resources of the organization with the external environment in a way to attract customers and make a profit. If you're not-for-profit, it's the same thing. It's to attract customers, satisfy customers. So, looking around and being curious and seeing what others are doing.

That does not have to be -- we would study Disney sometimes. They were terrific at handling crowds and handling -- keeping people happy. You know, it would be at Christmas and long lines at the cash register. There are things to learn from almost every business that could be apt, even if it's an entirely different field. So, those are -- you know, another one of my favorites is what I call chase the impossible dream. That is, it's possible to do two things that appear to be contradictory. Have the lowest prices and the best service, and if you make that your goal and inculcate that in your people, they won't always have the lowest prices and the best service but they're striving to have both the lowest prices and the best service. And that's infectious, both within the organization and with the customers. It's a theoretically impossible dream, but it's an important component of a successful business strategy. And there are other -- I mean, Boeing wants to have the safest airplane and the most profitable airplane business, or something. There's tension between a lot of business strategies, and trying to do both/and rather than either/or, I think, is an important component. So, that's -- I mean, those are the kinds of habits of mind that I talk about.

Holleman: When you look back, do you feel like there were things that you wish you had done or decisions in retrospect that you think would have allowed the company to still be here today, or do you think that it was beyond your control?

Wurtzel: No, I don't think -- it was beyond my control. I tried -- well, I -- in the last three or four years I was on the board, to change the course of the company to compete more effectively with Best Buy, and I couldn't. Rick, despite his brilliance, and he's still a friend and still a -- one of the smartest guys I've ever known, he just wasn't persuaded. And when I brought this up in board meetings, they weren't persuaded either. I think most of them -- a few of them were retailers and they agreed, but the -- I spoke out for change and it didn't happen. Once I was off the board, there was nothing then. Frankly, I think, the best -- the Amazon model, which is what is now swallowing up Best Buy, is almost impossible for a bricks and mortar retailer to overcome.

Holleman: Do you still follow the trends in the electronics industry with interest?

Wurtzel: Yes. I mean, not in detail but yes, with interest.

Holleman: And so what is -- are you seeing what's happening to Best Buy --

Wurtzel: Yes.

Holleman: -- happen -- to what happened to you all? You think it's --

Wurtzel: I think Best Buy is smart. What happened to us is we didn't change. We thought we had the answers. The model that I built in the eighties was the right model for the nineties and beyond. That was a mistake. The world had changed and we had to change, or should have changed. Best Buy understands they need to change. But I think for a commodity type big ticket business the ability to deliver product at a lower price is almost insurmountable. Because if a customer can save 50 bucks and the sales tax by buying online, on, let's say, a $300 item, it's going to be hard to lure them into the store. Or if they come into the store, to see the TV or to see the refrigerator or whatever, they can then turn around and order it. I mean, they can do it in the store. They can take their cell phone and swipe the bar code, and the cell phone will look up the item and tell you where else you can buy it and for how much. They are sitting in a Best Buy store, and the item is $425 and you can order it from Amazon for $375, or $10 cheaper and you don't pay a five percent sales tax. I mean, most people are going to say thank you very much. And Amazon will have it to your house in two days.

Holleman: That begs the question, where did you purchase, or how, your last television?

Wurtzel: Me? I purchased from Amazon, the last three.

Holleman: Yes.

<u>Wurtzel:</u> My theory is Best Buy ought to have salespeople that will show you where the stuff is and be civil, but if you really want an explanation or you want some assistance in deciding which of 35 TVs best suits your needs they should have a checklist and a program and dress up a research report for you, on these different -- based on some questions that you answer about what you're looking for, and charge you $25 for that. And if you buy it from them, it's applied to the purchase price. If you use their knowledge, their information, their research, and you go buy it from Amazon they pocket the $25. Unless they do something like that, I don't think they can compete.

See, right now, the one thing Amazon can't do is come into your house and repair it. Best Buy's Geek Squad does that, and that's a very profitable part of their business. But it's $3 billion out of $50 billion. It's not a big enough piece. No matter how much it makes in gross profit, it can't offset the loss that the rest of the business in generating in having to compete. I mean, Amazon has nothing but warehouses, and high technology. The technology is very expensive. But, it's a lot less than 500 retail stores in prime locations, 500 managers, 100,000 salespeople and an inventory scattered all over, rather than concentrated in a handful of warehouses. It's an economic model that I think is almost impossible. So, I don't think any -- I or anybody else running Best Buy can find a way to compete with Amazon in their present format.

People, they're talking about maybe instead of 700 or 800 big stores you might have 1,000 neighborhood stores. There may be -- I mean, I haven't studied it and looked at all the permeations. But, I don't think Best Buy can continue to exist in their present. If they could learn to sell advice, and give good advice, that would lengthen their days.

Holleman: Well, I can't think you enough for your advice. Are there any final thoughts you have about family businesses, family transitions, board transitions, et cetera?

Wurtzel: I mean, I would say for a family business it's important to keep the discussion open, honest and above board, and try hard on all sides not to let family issues get mixed up with business issues. You've got to have two hats and two heads, and keep them separate. Boards, I think you want to attract people that have independent judgments, that are willing to speak up, and you need to take them -- you need to listen and take them seriously. If you just want yes men, then you don't need a board.

This board made a lot of mistakes, the last ten years. Put out a billion dollars in stock buybacks to support the price of the stock. When 2008 hit, and Lehman Brothers, you know, went down and credit dried up, Circuit City had no meat on its bones and no money in the bank. And the suppliers, being nervous, withdrew their credit. Without credit, they couldn't stock the stores for Christmas. And without stocking the stores for Christmas, they couldn't survive. A lot of foolish decisions, but the biggest one was, from a financial statement, a billion dollars worth of stock buybacks in a struggling company. At best, it was struggling. I would say it's a failing company, that needed desperately to reinvest in its own business and not buy back stock. It should have gone private, in my opinion, and used that money to remodel the stores and to change the business model.

Holleman: Well, there's tons of wisdom in this book and I appreciate you enhancing that with this interview. We thank you for sharing.

Wurtzel: Well, I enjoyed it.

Holleman: Thank you, Alan.

Wurtzel: Okay.

(Whereupon, the interview was concluded.)

CERTIFICATE

I hereby certify that the foregoing is a true and accurate transcription, to the best of my skill and ability, from a digital recording.

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Jane W. Gilliam, Transcriber