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Lesson 7: Bernie Marcus – Capitalism’s Ripple Effect

AUTHOR

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OVERVIEW

The son of Russian immigrants, Bernard “Bernie” Marcus was no stranger to the importance of hard work and determination. Even still, it wasn’t until he was unexpectedly unemployed at the age of 50 that he found his path to becoming a self-made billionaire.

This mini-lesson is part of the Economics Arkansas iNSPIRE! series and can be used to start a class on a number of related topics including selling, innovation, or marketing. The included activities will help your students identify practical ways to evaluate new ideas as well as the positive and negative affects of progress.

CONCEPTS

Creative Destruction
Distribution
Merchandising

OBJECTIVES

Students will be able to:

- Recognize the CREATIVE DESTRUCTION process caused by innovation within an industry.
- Discuss the role of DISTRIBUTION in satisfying customer needs.
- Examine and compare the MERCHANDISING efforts of competing products.

TIME REQUIRED (*10 – 35 minutes*)

Bell Ringer: Steps 1 through 4 (*10 minutes*)

Mini Lesson: Steps 5 through 7 (*+20 minutes*)

Extension: Step 8 (*+5 minutes*)

MATERIALS

Visuals

- Visual 1: “Definitions”
- Visual 2: “SWOT Analysis”

Handouts

- Handout 1: “Video Questions” (1 per student)
- Handout 2: “The SWOT Team” (1 per team of 3-4 students)



- Handout 3: “Pardon Our Progress” (1 per student)

Online Resources

- Video “Bernie Marcus: Capitalism’s Ripple Effect”
<https://www.thisiscapitalism.com/bernie-marcus-capitalisms-ripple-effect/> (3 minutes, 59 seconds)

RELATED LINKS

The Home Depot

- Built from Scratch: The Home Is Where Our Story Begins
<https://corporate.homedepot.com/about/history>

PREPARATION

1. Purchase two snack items (competing brands) per team of 3-4 students for the SWOT activity. The more exotic the snacks, the better. Consider items like limited-time chip flavors (e.g., Lay’s Chesapeake Bay Crab Spice, Lay’s Chile Con Queso, Pringles Honey Mustard). As an alternative, have the entire class share the same two items. Just make sure there is enough for everyone to sample both products!
2. Before class begins, print *individual* copies (1 per student) of Handout 1: “Video Questions” and Handout 3: “Pardon Our Progress”
3. Print *team* copies (1 per 3-4 students) of Handout 2: “The SWOT Team.”

PROCEDURES

1. Watch the video “Bernie Marcus: Capitalism’s Ripple Effect”
<https://www.thisiscapitalism.com/bernie-marcus-capitalisms-ripple-effect/> (3 minutes, 59 seconds).
2. Ask students to work in teams of 3-4.
3. Distribute Handout 1: “Video Questions” (1 per student), and have students individually complete the questions. Allow students five minutes to complete.
4. Ask teams (Question 1): “How did Bernie change the standard **Distribution** strategy within the home improvement industry?” Answers will vary but may include comments on how he convinced manufacturers to sell **directly** to The Home Depot (rather than through a salesman or wholesaler) or how he began selling **directly** to homeowners and “DIY” customers rather than just through contractors.
5. Using Visual 1: “Definitions,” review each definition. Explain that teams will be sampling competing products, comparing their **MERCHANDISING** strategies, and discussing how industries experience progress through an often-painful **CREATIVE DESTRUCTION** process.
6. With students still in teams of 3-4, distribute Handout 2: “The SWOT Team” (1 per team) along with the snacks (2 competing items/brands per team). Display Visual 2: “SWOT Analysis” during this activity so teams can see how each category is defined. Allow teams 15 minutes to complete the SWOT charts.
7. Allow a few teams to share the results they wrote for Handout 2: “The SWOT Team.” Emphasize that the goal of this activity was to evaluate and compare the Strengths, Weaknesses, Opportunities, and Threats of each product based exclusively on their **MERCHANDISING** (appeal of packaging) and product quality.



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8. Optional Extension Activity: Distribute copies of Handout 3: “Pardon Our Progress” Display the assignment, and ask students to complete it on their own paper in class or as a homework assignment. Ask students to complete the table by identifying the “winners” and “losers” of innovation as experienced through **CREATIVE DESTRUCTION**. As an example, ask students to consider how expensive it must be to run phone lines to every home and business in a country. In the United States, they are literally everywhere! Due to the creation of the cellphone, however, our usage of landlines is steadily disappearing. This shift represents progress, but it creates winners and losers. The winners include cell phone companies and the former landline customers who are no longer tethered to a house phone and now have a wider variety of products and plans. The losers, however, include the many phone companies who invested in installing and servicing landlines and are now losing customers. In contrast, many rural countries were decades behind the United States in technology and have been able to skip right over the landline era by putting up cellphone towers instead!



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Visual 1: Definitions

Creative Destruction

The *process* in which something new *replaces* whatever existed before it

Distribution

The *steps* and *methods* used to *deliver* a product or service to customers

Merchandising

The *activities* involved in promoting and selling a product once the customer is *at* the store



Visual 2: SWOT Analysis





Handout 1: Video Questions

*"First of all, we bought direct from manufacturers, which wasn't done in those days. It took a lot of arm bending to convince them we were the future."
– Bernie Marcus*

After watching the video "Bernie Marcus: Capitalism's Ripple Effect," work in teams to answer the following questions. The video can be found at <https://www.thisiscapitalism.com/bernie-marcus-capitalisms-ripple-effect/>.

When Bernard "Bernie" Marcus was almost 50 years old, he and his friend Arthur Blank were fired from their jobs at a Southern California home improvement center. Although they didn't realize it at the time, this would turn out to be a huge blessing in disguise. A fresh start, combined with their years of experience in the industry, enabled them to successfully launch The Home Depot the following year. Once just a dream in Bernie's head, The Home Depot has since become one of the largest private employers in the United States and is now valued at more than \$200 *Billion!*

So, how did this son of Russian immigrants go from unemployed to a self-made billionaire? Bernie wasn't young and trendy like most of the technology entrepreneurs admired and presented by the media. No, he was already well into his career in retail. Through his years of work experience, however, he saw an opportunity and gained the knowledge that he needed in order to be a success.

Review Visual 1: "Definitions" if needed.

- 1) How did Bernie change the standard ***Distribution*** strategy within the home improvement industry? Consider both how he sold his products as well as how he bought them from his suppliers. Be ready to report your results back to the class.

- 2) If you knew that ***you*** would be 50 years old before you found your path to "self-made billionaire" success, how would you invest your time until then? List at least three specific examples of what you would do to prepare for your opportunity.

1. _____

2. _____

3. _____

4. _____



Handout 2: The SWOT Team

"We believed from the start that if we brought the customer quality merchandise at the right price and offered excellent service, we could change retailing in the United States."

– Bernie Marcus

When the first Home Depot store opened, there weren't enough products to fill the shelves. Buying inventory, it turns out, is *very* expensive. Instead of leaving the shelves partially filled, they contacted their suppliers and requested enough *empty* product boxes and cans to create the illusion of endless supplies stacked all the way up to the ceiling. This was a brilliant effort in **Merchandising**, enhancing the customer's visual experience in hopes of encouraging purchases. It worked. Bernie understood that, for his customers, the purchasing process often starts with the eyes. While the store itself was meant to feel like a warehouse, forklift tire marks and all, product presentation still needed to be attractive in order to make the sale.

Merchandising is big business. It includes numerous marketing elements like product packaging, product placement, and in-store promotional efforts. The goal is simple—make *your* product stand out enough to be noticed, picked up, and bought instead of a competing product.

The Challenge

Sample and compare two competing products using the following SWOT Analysis charts. These SWOT charts will help in the evaluation of each product's Strengths and Weaknesses as well as any external Opportunities and Threats. Assuming that both products were found next to each other on the same shelf, use only what you can determine from the product itself. Be ready to report your results back to the class.

Product 1: _____

Strengths	Weaknesses
Opportunities	Threats

Product 2: _____

Strengths	Weaknesses
Opportunities	Threats



Handout 3: Pardon Our Progress

"People used to believe that only a professional could do tiling or install track lighting. That's utter nonsense."

– Bernie Marcus

Before The Home Depot existed, home improvement stores sold directly to contractors like plumbers, roofers, electricians, and carpenters. If you were the **DIY** ("do-it-yourself") type, you shopped at your local hardware store where options were limited. To the founders of The Home Depot, the home improvement industry was ready for a change. They didn't want to just provide a wider variety of supplies and tools to a broader audience. They also wanted to provide everyone the necessary DIY skills and knowledge.

The result was a type of **Creative Destruction** within the market, reducing the dependency on contractors by equipping the customer. Though necessary for progress, Creative Destruction is often a painful process with real winners and losers. The Home Depot's winners included their customers who, for example, now had the option to fix their own sinks. The losers included contractors and plumbers who depended on those jobs.

- 1) Consider the following examples of Creative Destruction, and fill in the blanks. Identify at least one Winner and one Loser for each of the provided examples. In The Home Depot example, "contractors" can be listed under both columns due to lost customers (Loser) and access to more supplies and lower prices (Winner).

Examples of Creative Destruction	Winners	Losers
The Home Depot	Customers, suppliers, contractors	Small hardware stores, contractors
Invention of cell phones		
Netflix		
Uber		
Invention of Email		

- 2) What is another product or industry that you think is currently experiencing Creative Destruction or will soon? Be ready to report your results back to the class.