

Starmount Life – A Remarkable Journey from Retail to Insurance

Anyone growing up around Baton Rouge, Louisiana will have fond memories of Goudchaux's Department store. The store was famous for their incredible customer service and is the source of anecdotes that have become legend even to this day. The internet is littered with stories from past customers and employees reminiscing about how Goudchaux's always treated them like family and always put the customer first. These fairly common sense notions, although simple to say, remain extremely elusive for most companies to execute even today.

The growth of Goudchaux's over the years provides testimony to the value of building an enterprise upon a foundation of customer service. In fact, the initial store was expanded so many times over the years that it was even featured in *Ripley's Believe it or Not* as the longest building built as a department store in the world. In 1982, the company acquired another famous Louisiana landmark -- Maison Blanche department store in New Orleans -- and embarked upon a journey of expansion and acquisitions that would result in the largest family owned department store chain in the country, employing more than 8,000 employees and nearly half a billion dollars in annual revenue.

In a fascinating book titled [We Were Merchants](#), Hans Sternberg, Chairman of Starmount Life, graciously chronicles how his father, Erich Sternberg, immigrated to the United States in 1936 to escape Nazi persecution and entered into an agreement to lease the men's department of Goudchaux's. Building upon a two hundred year family tradition as merchants in Germany, Erich's sons Hans and Josef continued growing the business after their father's death in 1965 and the Goudchaux's/Maison Blanche brands really took off.

When Hans Sternberg sold the department store chain in 1992, he retained their insurance subsidiary, Starmount Life (Starmount is the English translation of Sternberg) and has devoted his full attention -- along with some of the next generation of Sternbergs -- to the insurance business. The prospect of an insurance company putting into practice some of the same policies that made a department store extraordinarily successful is an intriguing concept.

[We Were Merchants](#) is a remarkable book for a number of reasons. First, anyone growing up with any memories of downtown department store shopping will wax nostalgic, as this book clearly captures the elements of an era that has passed. Second is the intriguing story of the Sternberg family as they negotiate the challenges of establishing roots in a new country and the dynamics of transitioning a family business to the next generation. Third are the lessons of loyalty and goodwill that resulted from putting customers and communities first -- the book is filled with quotes from former customers and anecdotes of marketing campaigns and community events that were tried and tested over the years. Fourth is the fascinating story of the business itself. Hans is generously candid and impressively insightful as he recounts the evolution of the company as it grew from a single department to a multiple state empire. And lastly, the business lessons discussed in the book are as germane to insurance companies as they are to department stores -- and hence the primary purpose of this article.

As consolidations continue to rule the day in the insurance industry, the ability to successfully execute a merger or acquisition has been elevated to an art form. The same holds true in the retail business and the competency in this area derived from experience is clearly chronicled in [We Were Merchants](#).

Goudchaux's initial growth came from carefully and strategically opening additional stores, but as the company grew, so did their appetite for acquisitions. When the opportunity arose to purchase Maison Blanche, the Sternbergs jumped at it. Hans provides fascinating details about negotiations that began in

June 1981 and culminated with a \$13.8 million dollar deal that was hammered out in January 1983 after a brutal all night session. Contrast this experience with a subsequent opportunity to buy the Robinson Department store chain for \$121 million in 1987 and the Sternbergs' elevated level of proficiency is clearly evident. Despite being nearly ten times larger, this acquisition was negotiated in less than two weeks and consummated within two months!

Equally interesting are the deals that the Sternbergs turned down. For example, in 1984 New York City developer Mort Olshan was buying the B. Altman department store chain primarily for the real estate. He offered the entire B. Altman retail business (valued at around \$15 million) to the Sternbergs for free, because he needed someone who could effectively turn their business around. Hans and Josef turned him down because of the capital that would have been required to improve the stores and because they didn't want to dilute their effective working partnership by having one of them move to New York.

Although We Were Merchants is filled with numerous practical business lessons, one key example is the story of Goudchaux's credit card experience – an inspiring illustration of innovation that ultimately led to the company's creation of an insurance company.

Lay-away was an important aspect of Goudchaux's customer service. In fact, at one point this accounted for 10% - 15% of their total sales. However, this was an expensive benefit due to the multiple handling of inventory and the aging of merchandise that wasn't always redeemed. The company had another weapon: the unheard of practice of offering interest free credit. Normal terms required customers to make equal payments on their outstanding balance over five months – if a customer paid less than 20%, the missing balance would be added to the following month's 20%. Eventually, the company developed a sophisticated computer software program to monitor the accounts and automatically increase or decrease credit lines in response to a customer's payment history. Although this is common today, back in the 1970's when Goudchaux's implemented this, practice it was unheard of. Now that the company had the means to identify and recognize their best customers, they began sending them annual letters thanking them for being "Gold Card" customers. This ultimately led to the creation of the first "Gold Card" program where customers would pay an additional \$30 fee in return for receiving special benefits from a premium card. This original (and untested) strategy resulted in \$1 million in annual fees the first year.

The interest free aspect of the Goudchaux's credit system became an incredibly valuable marketing tool, especially as a means to distinguish their ownership after an acquisition. Whenever Maison Blanche acquired another chain, their new customers were always intrigued and excited about the unique opportunity for interest free credit. Although it was common for department stores to charge as much as 19% annual interest on their cards, Goudchaux's never felt that they were losing money by not gouging their customers, even though it was an accepted industry practice. Instead, between the passionately loyal customer base they created, along with the enviable credit history (curiously, their customers would pay their Goudchaux's card FIRST rather than last, because they didn't want to risk losing it), the company made more money overall by not charging interest than they would have charging even a high amount.

Another interesting aspect of this program was the sophistication of Goudchaux's computer systems and the importance of developing -- and acting on -- good data. Although it is clearly remarkable that a small company was able to develop such cutting edge technology back in the 1970's, today there is no excuse for companies of any size to not actively monitor and manage the activities of their customers and their agents. The additional revenue that came about as a result of Goudchaux's interest free policy

and its “Gold Card” program would never have happened if they didn’t have a means to identify their best customers in the first place. Furthermore, they would not have been able to quantify the value of not charging interest without access to good data – which is probably why so many companies today merely copy what their competitors do rather than innovate.

One additional benefit that arose from Goudchaux’s credit experience was the identification of a well defined customer base in need of life insurance to protect those balances. Hans attempted numerous times to engage a variety of insurance agencies to open a branch within his stores and market insurance products through Goudchaux’s staff. In frustration by their lack of enthusiasm for his idea, Hans vowed to start his own insurance company and finally did so in 1983 – and thus Starmount Life came into being.

The Sternbergs created a remarkable enterprise with Goudchaux’s and Maison Blanche and have left a legacy of customer service and community involvement that will continue for generations. It’s intriguing to consider how those same lessons of success from a retail business can be applied to create an equally remarkable life insurance company. While Starmount Life continues to thrive under the direction of the next generation of Sternbergs, it’s worth reading [We Were Merchants](#) for a wealth of information about how those same lessons can be applied to your company.

For more information about the book, check out Amazon.com
http://www.amazon.com/Were-Merchants-Sternberg-Goudchauxs-Department/dp/080713449X/ref=sr_1_1?ie=UTF8&s=books&qid=1266344329&sr=8-1.

For an autographed copy of the book check out <http://www.weweremerchants.com/>

For another example of building a successful business model on a foundation of customer service, check out my article on ImageRight and their Raving Fans strategy:
http://www.loma.org/LIArticle_June09.asp