Everybody knew grocer Stew Leonard as America’s king of customer service—crowned by none other than Tom Peters. But Leonard went to jail for tax fraud. Now, for the first time, he talks about what everybody didn’t know and what he’s learned from his ordeal.

BACK FROM THE BRINK

BY DAVID WHITFORD

PHOTOGRAPHS BY EVAN KAFKA
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Tew Leonard never expected it would be easy. For founders like Leonard—charismatic, bigger-than-life, take-charge kinds of guys—letting go of the family business rarely is. “Most fathers,” says Leonard knowingly, “even when they are 85 and the kids are 63, are still saying, ‘The kids aren’t ready yet! Someday! But they got a lot to learn!’” Leonard views himself, in the end, as a lucky exception. He’s 72 now, happily relieved of all management duties at Stew Leonard’s supermarket chain, absolutely thrilled by the way things are going there under his eldest son, Stew Jr., and grateful for the peculiar set of circumstances facilitating the handoff. “This was a blessing,” he says, “because it allowed me to do what all the books on family business tell you to do—let go and keep your nose out of it.”

When he says “blessing,” Leonard is referring to the several years during the mid-1990s when he was away at a place he calls “camp,” actually the minimum-security federal prison in Bradford, Pa. He was sent there after pleading guilty in 1993 to conspiracy to impede the Internal Revenue Service. Court papers describe an elaborate scheme to divert more than $17 million in cash register receipts over a ten-year period, resulting in $6.8 million in unpaid taxes. For his role as mastermind, Leonard was sentenced to 52 months, plus three years of supervised probation, and ordered to pay $15 million in back taxes, penalties, and interest, a $650,000 fine, and $97,000 to cover the cost of his incarceration. Two brothers-in-law and a longtime employee received lesser sentences. At the time the IRS called it “the largest such case in the country in which a computer was used.”

With the benefit of hindsight, Leonard calls it for what it was. “Stupid, stupid, stupid,” he says, hanging his big jowly head, shaking his thinning silver puff of TV-preacher hair. “I’ve asked myself a thousand times why.” He has no answer yet. But at least now he’s talking publicly—for the first time since he got out of prison five years ago—and discovering lessons in his story. Lessons he can appreciate now that he’s sleeping in his own bed again, in the mansion he came home to on a picturesque point of land overlooking Long Island Sound. Lessons that he can now see are extremely valuable, though he’s quick to add, “Don’t for a minute think I’m trying to say that it was a good thing.” When he reflects on his time away, he is reminded of what a combat veteran once told him about his experience in Vietnam. “He told me he wouldn’t take $1 million for all he had learned,” says Leonard, “but he would gladly pay $1 million not to have to go back.”

That’s Stew Leonard Sr., see?” says a toothy female customer in culottes and flip-flops, one arm resting on her little boy’s shoulder, the other pointing down the aisle at two grinning, square-built men—plainly father and son—who are having their picture taken for this magazine. “And that’s Stew Leonard Jr.” The child stares blankly. He’s more impressed by the Farm Fresh Five, a band of “state-of-the-art audio animatronic robots who perform original songs about milk” from a stage above the cottage cheese display. He’s also quite taken with Clover, a wall-mounted cow that lets out a thrumming moo whenever children tug a rope they can reach without having to ask their parents for a boost.

They say Wednesday is a slow day in the grocery business, but you’d never know it prowling the aisles at the original Stew Leonard’s store in Norwalk, Conn. Employees in duck suits and cow costumes mingle in a packed procession of wide-eyed shoppers who make their way along a single serpentine aisle that winds through more than 100,000 square feet of thrill-packed, aromatic selling space. Milk and dairy, which is how it all started back in 1969—there’s a bottling plant on the premises, and you can watch all the foamy action through a plate-glass window—but also meat and fish, fruits and vegetables, bread and cookies (baked on site), and a salad bar from vegan heaven. Everybody, it seems, knows Stew Leonard’s—not just the local moms. It’s been written up in sales and marketing textbooks, immortalized in Guinness World Records (most sales per square foot), and Ripley’s Believe It or Not! (world’s largest dairy store), recognized by Fortune’s 100 Best Companies to Work For, and famously featured in A Passion for Excellence, a bestseller by Tom
Peters and Nancy K. Austin, who in 1984 summed up Stew Leonard’s adoringly as a “celebration of imagination and excellence.” (Since then, “Tom Peters abandoned us,” says Stew Jr. For Peters’s side of the story, see box.) Delegations from Fortune 500 companies like Citigroup, Exxon, and McDonald’s make frequent pilgrimages to this swank coastal town one hour outside New York City to study customer service at Stew Leonard’s University. Industry groups pay as much as $15,000 to hear Stew Jr., who handles all the speaking engagements now, about a dozen this year. While court documents make it clear that Stew Jr. played a role in the $17 million skim, his official record is clean. For that he’s in debt to his dad, who admits his own guilty plea was contingent on a pledge by the feds to leave Stew Jr. out of it.

But that was almost ten years ago. Since then, under Stew Jr.’s leadership, the company has prospered and grown dramatically, reaching that most perilous stage in the life cycle of any family-owned business—when the founder gives way to the second generation; two out of three don’t make it, experts say—and really, that was the least of its problems. Besides the founder, the vice president for operations was also in prison. The general manager was serving two years’ supervised probation. Also, Connecticut had just gone public with its own investigation into charges that Stew Jr.’s was skimming customers with faulty weights and measures. (The Leonards deny any wrongdoing, and the charges were later dropped.) And Martha Stewart—who lives nearby—thinks she has problems. That was unlikely as long as he remained a milkman. But after his father had died and left him the business, the state announced plans to build a highway through Clover Farms. He vowed to make $1 million. Instead it focuses on perishables. Think of Stew Leonard’s as a supermarket with the center aisles removed to make more room for all the items normally sold on the perimeter. “Most of the things that we sell,” says Tom Leonard, who has plans to open a spiffy new business, called Tom Leonard’s, in Virginia, “you will eat up within three days.” What makes Stew Leonard’s so special is its über-top customer service, including entertainment for the kids and speedy (gum-free) checkout for the shoppers. Employees routinely hand out warm cookies and punch to the shoppers. Employees routinely hand out warm cookies and punch to shoppers. If you spend $100, you get a free gumball. And should you be unhappy for any reason, the store will refund you. Early on, Stew took the first rule of retail—to the customer is ever wrong, reread rule 1.” Upon entering Stew Leonard’s, customers see Stew’s famous rules, protected by copyright, carved in stone like the commandments themselves. One aspect of Stew Leonard’s operation that Peters had singled out for praise was his sophisticated use of technology. “His customer orientation, through people, is matchless.” Peters wrote in 1987’s Thriving on Chaos. But he was also one of the first grocers, small or large, to do daily computer analysis of the profitability of every item he sold. True, but what Peters didn’t know was that as early as 1981, Leonard was using those same computers—running a custom-designed program dubbed Equity—to skim a portion of every day’s receipts without creating a paper trail (at least not one that was visible to Stew Leonard’s accounting firm, which was no kidding—Arthur Andersen). The deception had began, according to Leonard, with an innocent request from a longtime

“This was a blessing,” says Stew Leonard Sr., “because it allowed me to do what all the books on family business tell you to do.” later started his Clover Farms Dairy, delivering milk door to door. He used to bring his sons on his early-morning rounds, all the while dispensing advice freely. “You gotta claw your way to the top,” he used to say, and “Be a nice fellow; yeah, you’ll end up with a seat on the park bench.” Young Stew Leonard took his dad’s stark aphorisms to heart. In his high school yearbook he vowed to make $1 million.

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The Leonards, reunited (from left): Tom, Jill, Stew Jr., Stew Sr., Marianne, and Beth

T he original entrepreneur in the Leonard family was a man Stew Sr. pegs, sympathetically, as “a dirty Irish Catholic no-good son of a bitch”—in other words, his father. Charles Leonard was a hatter in a sweatshop, and...
employee who had injured himself on the job. He needed more than he was getting from workers’ comp. “I just went in the register and gave him the cash,” he claims. Over time, the undocumented withdrawals grew larger and more frequent. Stew Leonard’s was always remodeling, adding a new wing here, a new garden center there. When contractors offered to do the work for 20% less if Leonard paid cash, he paid cash, and saved money on both sides of the transaction. Equity examined which items were the day’s biggest sellers—at one point the cutoff was 200 units, later it was lowered to 50 to spread the skim more widely throughout the store—and wiped out, for the record, a percentage of those sales. According to court documents, “The program left no audit trail or any trace that it had been run. It did not create a second set of data, but rather wrote over the existing data.”

By Equity skimming often thousands of dollars a day, the conspirators were constantly on the lookout for large bills, the easier to conceal and transport the loot. One way they got them was by requiring organizations buying batches of Stew Leonard’s gift certificates—such as schools and churches, who bought them for 90 cents on the dollar and fundraised to pay cash. Usually that meant $50 and $100 bills.

Some of the money they took went to pay contractors, presumably. Some of it was hidden in the wall by the fireplace in Stew Leonard’s office. Nearly half a million dollars was later found in Frank Guthman’s basement (which was news to Stew Leonard; he hadn’t known that his own brother-in-law was later found in Frank Guthman’s basement (which was news to Stew Leonard’s wife, Marianne). Guthman’s White House picking up awards. It’s just that I felt personally let down by you and I’m not going to hold it against you— as long as you don’t hurt me.

One Dissatisfied Customer

Tom Peters was the first to buy Stew Leonard’s story. He wants his money back. You don’t think Stew’s tax-avoidance scheme was an aberration? You think it somehow underlies everything Stew Leonard’s does? Look—when you steal seven million bucks, it ain’t random. When he went down, it was the biggest federal computer-based fraud conviction at that time. Stew Sr. says his conviction benefited the business because it gave his son here for family-run businesses?

Endless Mountains. Not the main building—he was glad of that—but the one next door, a minimum-security unit in which the inmates wore khakis, not neon jumpsuits, and there were no walls or fences, everybody including the guards, called the prison “camp.” Leonard slept in a “bathroom-sized cube” with a roommate. Visits by family and friends were closely monitored, and anything they brought with them, including Stew Jr’s latest pile of snapshots taken at the store, had to be examined first by the guards. Phone calls were permitted, but they weren’t private. Knowing that, and afraid that his wife, Marianne, might say something they would both regret, Leonard made up a cautionary poem for her, which she taped next to the phone at home. Leonard can still recite it from memory:

When we’re on the telephone
You and I are not alone.
Someone else that we can’t see
Is Listening to you and me.
So please don’t ever say a word
Or I might end up in the hole!

Many of his fellow inmates were men with whom Leonard felt an entrepreneurial affinity, including Melvin Paisley, an assistant secretary of the Navy under President Reagan who had ac-
cepted favors from military contractors. "They were mostly chance takers, risk takers," Leonard says approvingly. But not the guards. "The opposite!" he says. "Guys who were looking for security. Up there in the mountains of Pennsylvania. They just wanted a job." He liked the new warden, though, who turned out to be Dennis Luther, of all people, another of Tom Peters’s discoveries. "I don’t think prison has to be a constant negative experience for staff and inmates," Peters quotes Luther as saying. He spoke of inmates as "constituents" and often reminded Leonard, "You are here as punishment, not for punishment!"

It was enough, Luther was saying, that Leonard was at a place he couldn’t leave, separated from his family, cut off from his business, with nothing but time to replay his mistakes. "You say to yourself, 'Boy, was I stupid!' " Leonard recalls. "'Boy, did I make a dumb mistake. Boy, did I learn from that mistake! Boy, am I sorry!' That’s not a speech, that’s sincere." Family visits just sharpened the pain. "There’s a thing that some of the fellas called PVD. The visiting hours would get over at three on a Saturday afternoon, and the first count wasn’t until four. So after your wife would leave, the guys would go back to their rooms and kind of lie in their bunk. PVD was post-visit depression. You couldn’t talk to those guys, they were so depressed."

Leonard didn’t feel all that well himself, even after he got his freedom back. "He was used to such small spaces," says his son Tom. "I think it took a while for him to grow into it." Plus, he was timid at first, unsure of how he’d be perceived. "I was worried I was going to have a stigma," he says.

These days—it’s been five years, after all—the kids agree their dad is really back, unafraid of the public, feeding on attention, energized by the hum of commerce. A “favorite day for the two of us,” says Stew Jr., might start with lunch at a little Italian place where the waitress sits down at the table “and he starts giving her advice.” Then over to the Danbury store, where Stew Sr. grabs a yogurt cone at the door and plunges into the crowd of shoppers, working his way up the aisle against the flow of traffic, the better to meet and greet. “It takes him about an hour to do that.” Then on down to the newest Stew Leonard’s, in Yonkers (exit Stew Leonard Drive off the New York State Thruway) for a repeat performance. "And by dinnertime, he’s like, 'Wow, that was fun!'"