

WAL-MART: Good or Bad for US?

Wal-Mart offers a case study of a controversial firm in a rapidly changing global industry, whose impact touches all of our lives.



Fortune named Wal-Mart America's **Most Admired Company** in 2003 & 2004. But, it's also targeted by a growing social movement.

Wal-Mart is the subject of many articles and books, four pro- or con-films, "**Big Box Mart.**"

What are your images of Wal-Mart as a retailer and as an employer?
How different from images of Target, K-Mart, Sears?

How did W-M become the world's dominant merchandiser?

How has the global retail industry changed – for better & for worse?

Does W-M have too much economic, political, and cultural power?

What can and should people do about "the Wal-Mart Effect"?

Humble Beginnings

At age 44, Sam Walton opened his first Wal-Mart store in Rogers, AK, in 1962, the same year that K-Mart, Target, and Woolco were launched. Over next 35 years, W-M became world's largest retailer.



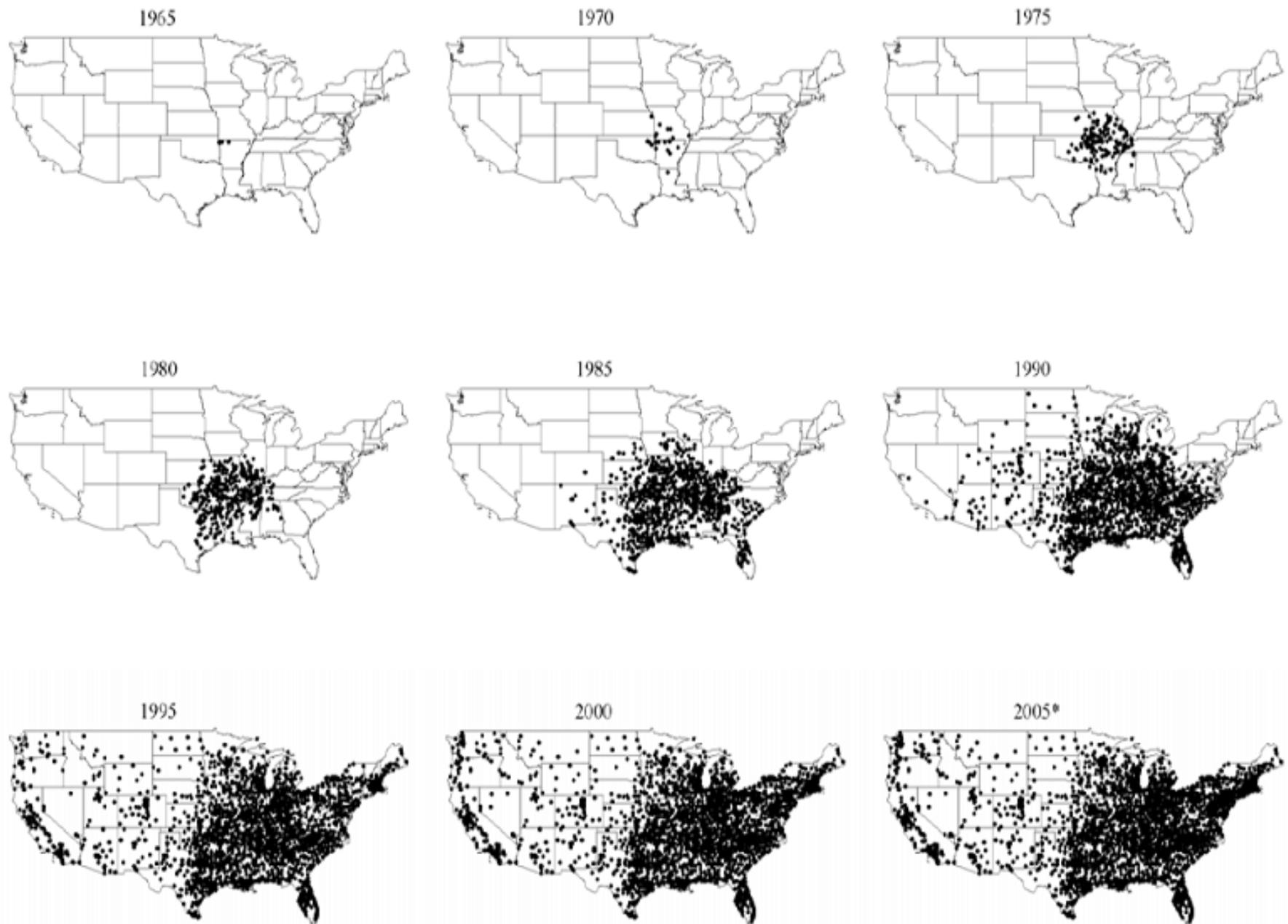
- ✓ W-M 2007 sales revenue expected to top \$351 billion
- ✓ Profits to reach \$11.3 billion (3.2% of sales revenue)
- ✓ Retail market share = 8.9% (20% of top 10 retailers)
- ✓ 1.9 million “associates” = world’s largest employer
- ✓ Each week, 127 million U.S. shoppers @ 5,108 stores

As a small-town merchant, Walton located his initial discount stores mostly in rural areas and small towns. Information control deploys a vast computer system at W-M’s HQ in Bentonville, AK. W-M relentlessly seeks price- & cost-cutting efficiencies through sophisticated logistics (just-in-time delivery) to keep inventories low.

W-M’s early slogans were “Everyday Low Prices,” “Buy American,” and “Bring It Home to the USA.”



Figure 1: Location of Wal-Mart Stores, 1965-2005

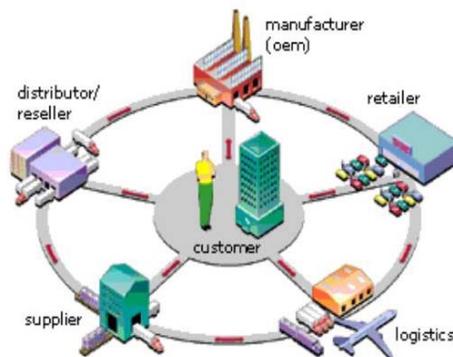


Supply Chains Transformed

Although Walton pioneered new management and information-control techniques, he rode a rising wave of **supply-chain changes** – “Internet plus globalization” – that accelerated structural transformation of retailing.

Traditional supply chain (e.g., autos, steel) was a **push model**: time-consuming paperwork linearly linking raw materials supplier to manufacturer, distributor, wholesaler, retailer, & end customers.

Pull model: Nonlinear E-commerce networks shift control from the suppliers to retail managers, who try to meet customer demands for low-prices.



The new breed of “category killer retailers” (Home Depot, Best Buy, Carrefour) puts intense pressures on their suppliers to reduce costs to the retailer.

Quickest solution is to slash the high labor costs involved in manufacturing, storage, transportation.

Thus, easiest route is moving production overseas.

The China Connection

Wal-Mart abandoned its “Buy American” pledge by 1995, as imported products zoomed from just 6% to 60% – eventually to reach 90%? Its network has > 10,000 suppliers, from Honduras to Bangladesh.



- ❖ If Wal-Mart were a nation, its \$15 billion annual trade would rank it as China’s 8th largest trading partner, accounting for 1% of China’s GDP.
- ❖ Fully 12% of China’s exports to the United States end up on Wal-Mart store shelves.
- ❖ Next slide shows a typical product cycle.

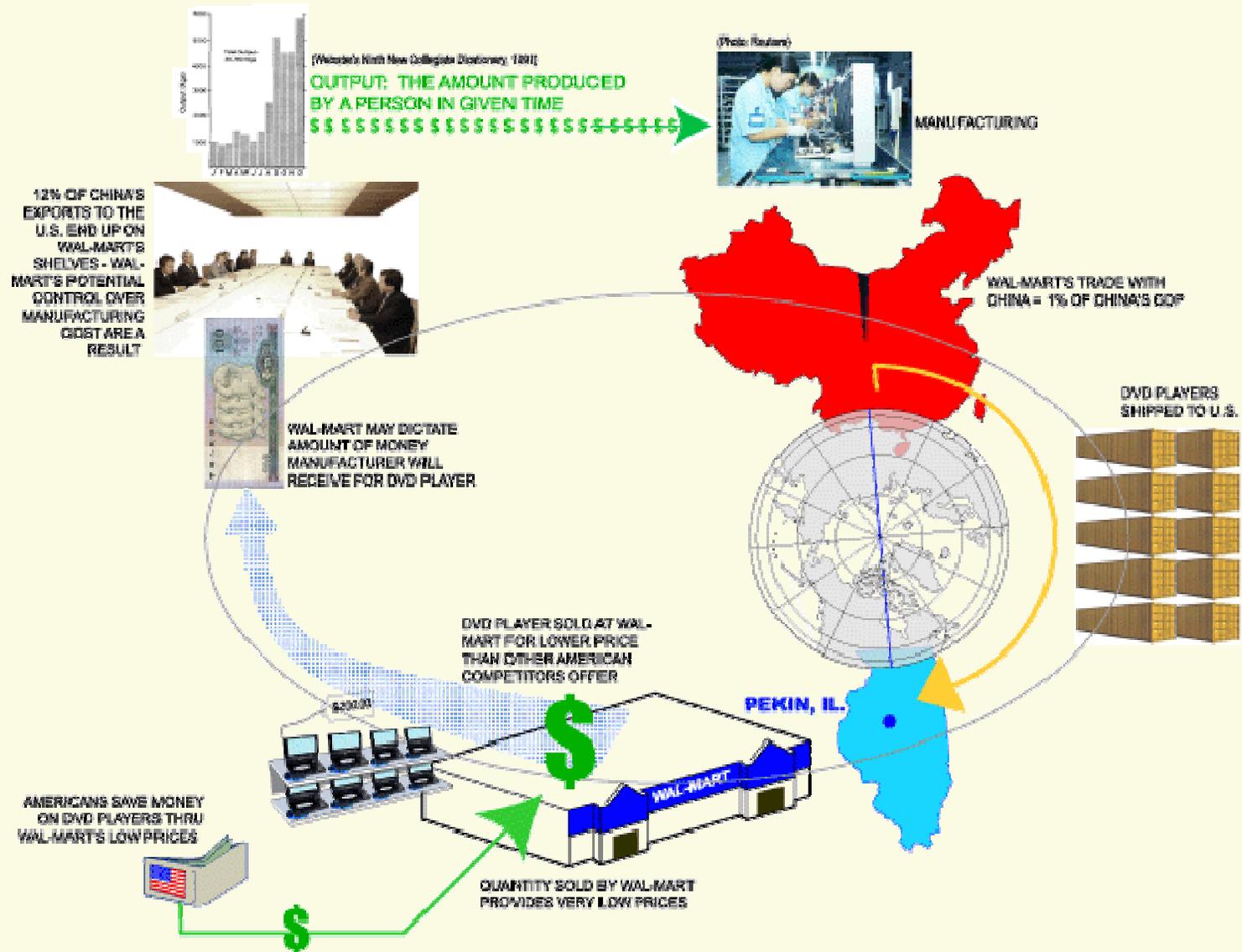
W-M is also aggressively expanding its retailing activities inside China:

Since 1994, W-M increased to 56 Supercenters in 25 cities, hiring 30,000 “associates”

It plans to employ 150,000 in next 5 years



How to Sell a DVD Player for < \$200



SOURCE: Ted C. Fishman. 2004. "The Chinese Century." *New York Times Magazine* July 4.

Is Wal-Mart Good for America?

Watch online* chapters from Hedrick Smith's 2003 Frontline video, showing (3) how Wal-Mart, growing dependent on low-cost Asian imports, pushes its U.S. suppliers also to relocate overseas; (4) Wal-Mart's China connection fuels the widening U.S. trade deficit.



1. Wal-mart's Revolutionary Power
2. Muscling Manufacturers
3. The Strategy: Low Costs and Go Global
4. China's View of Wal-Mart -- Big Partner
5. Taking the Hits

Does Wal-Mart exert monopsony power, or just pure market capitalism?

In what ways is the Wal-Mart-China joint venture's domination of the U.S. economy **beneficial**? How might it be harmful to both societies?

How should **quality** and **value** enter into the **low-cost** equation?

* <<http://www.pbs.org/wgbh/pages/frontline/shows/walmart/view/>>

On the Plus Side of the Ledger

Wal-Mart has defenders in governments and the business community. It brings merchandise variety to neglected rural areas and small towns. By forcing all merchants to cut their prices, Wal-Mart reduces inflation.



W-M households save average \$2,500/yr!

“Wal-Mart is the greatest thing that ever happened to low-income Americans. They can stretch their dollars and afford things they otherwise couldn’t.”

**W. Michael Cox, chief economist
Federal Reserve Bank of Dallas**

“I think Wal-Mart is good for America. Wal-Mart is doing what America is all about, the American market economy is all about, which is producing things consumers want to buy. And Wal-Mart is offering consumers a wide range of goods at rock-bottom prices, and therefore, it is meeting the market test.

As far as its workers are concerned, everybody that’s working at Wal-Mart, none of them were drafted. All of them chose to work at Wal-Mart, presumably because the opportunity they had at Wal-Mart was better than any other opportunity they had. ... Wal-Mart’s a big plus for America.”

Brink Lindsey, VP Cato Institute

Watch Charlie Rose’s 2006 show with CEO Lee Scott on You Tube
<http://www.youtube.com/watch?v=KQk2TTad_Hk>

Working Families for W-M

Wal-Mart strikes back at critics from its “war room” in Bentonville, where political consultants issue press releases, call reporters, and post Web pages targeting “swing voters” – consumers not yet soured on Wal-Mart.

In December 2005, Wal-Mart launched a public relations / advocacy group:



Rev. Andrew Young, civil rights leader and former Atlanta mayor, chaired its steering committee. He appeared at store openings and wrote op-eds supporting W-M. Young resigned in 2006 after a disparaging remark about Jewish, Korean & Arab shopkeepers “ripping off” black communities.

“All my life I have tried to fight poverty,” he said in a telephone interview from New York. “Jesus told us to feed the hungry, clothe the naked and heal the sick. Well, Wal-Mart is feeding the hungry good fresh food. ... To have a Wal-Mart in your neighborhood means you can live a middle-class lifestyle,” he said. “Wal-Mart has done extremely well in small rural towns, but the most lucrative market is in the inner city. It is a trillion-dollar economy and it is definitely underserved.”

Los Angeles Times, March 25, 2006

Is Wal-Mart Bad for America?

Wal-Mart's critics have been effective in painting it politically incorrect. Labor unions created **Wake Up W-M** (UFCW) and **Wal-Mart Watch** (SEIU) to damage Wal-Mart's public image for its anti-union actions.



“The truth is that Wal-Mart has let America down by lowering wages, forcing good paying American jobs overseas, and cutting costs with total disregard for the values that have made this nation great. Wal-Mart has needlessly exploited illegal immigrants, faces the largest gender discrimination lawsuit in history, forced workers to work in an unsafe environment, and – **incredibly** – broken child labor laws.” <www.wakeupwalmart.com/change>

Environmentalists attack W-M for polluted construction sites, taking prime farm land, CO₂ emissions from stores & parking lots.

In response, in 2005 W-M started a green campaign: higher truck fuel mileage, less energy use in stores, reduced greenhouse gases, cut solid waste, ...



A Bad Neighbor & A Bad Employer?

Wal-Mart's pursuit of low-cost, low-price, low-wage efficiencies triggers many conflicts with local communities and employers.

- Wal-Mart demands and receives tax subsidies, infrastructure built by local governments.
- It uses real estate shelters to cut state taxes in half
- Its low prices allegedly drive many Main Street, locally owned stores out of business
- It damages environments, while its architecture contributes to urban sprawl, blight, traffic snarls



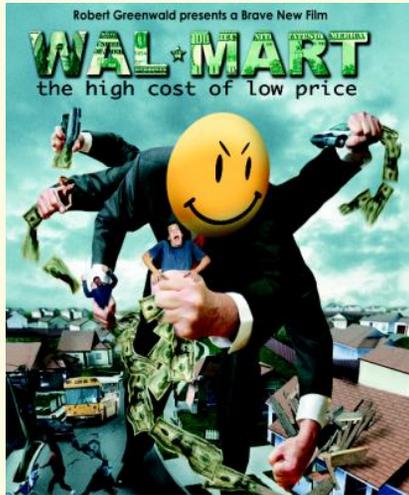
Wake Up Wal-Mart claims W-M exploits workers:



- ❑ Poverty wages: in 2001 sales associates got \$8.23/hr for 34-hr week (\$12.28 industry avg.)
- ❑ Half of kids in W-M families are on Medicaid
- ❑ Limited, costly health insurance & pensions
- ❑ Sex harassment and racial discrimination
- ❑ Subcontracted cleaning to illegal immigrants
- ❑ Ruthless anti-union, violates Fair Labor Act

Wal-Mart: High Cost of Low Price

Robert Greenwald's film gives a very one-sided, anti-corporate view of the Wal-Mart Effect on communities and employees.



Why has Wal-Mart become such a negative symbol of our troubled economy, which delivers a rising GDP but stagnant or falling living standards for most working Americans?

Despite its huge economic size, isn't Wal-Mart forced by the basic laws of supply-and-demand to pay poor wages and benefits to its workers?

Everyone complains, but what realistic options do both employees and employers have in the highly competitive global economy?

Could legislation make any difference in how workers are treated?

In 2005, the Democrat-controlled Maryland Legislature required that all companies with 10,000+ employees (i.e., You-Know-Who) spend at least 8 percent of payroll on health benefits – or put the money directly into the state's health program for the poor. **Was that a just law?**

How Communities Can Respond

William Beaver analyzed news reports on community opposition to W-M



- **Traffic congestion, road construction**
- **Pollution: noise, air, water, light**
- **Sprawl & aesthetics**
- **Loss of small-town image**
- **Harmful to local businesses**

Wal-Mart plays hardball in negotiating incentives (subsidies, tax breaks) with local civic leaders. W-M even organizes pro-W-M citizen groups.

Why must Wal-Mart seek expansion into cities, where resistance is stronger?

What coalition successfully blocked a ballot initiative to approve construction of a W-M Supercenter in Inglewood, CA?

Should direct democracy – such as referenda – be used to make community decisions about Big Box stores? Why or why not?



Your Town Fights Over Wal-Mart

Wal-Mart wants to build a 200,000 square-foot Supercenter in Your Town. Promising 750 jobs, it asks the City Council for a \$2M tax break.



Working Families for Wal-Mart welcomes a boost to the local economy, urges the subsidy.

Wake Up Wal-Mart opposes the building permit, for all the usual reasons cited by other community activists who fought successfully to keep Wal-Mart Supercenters out of their towns.

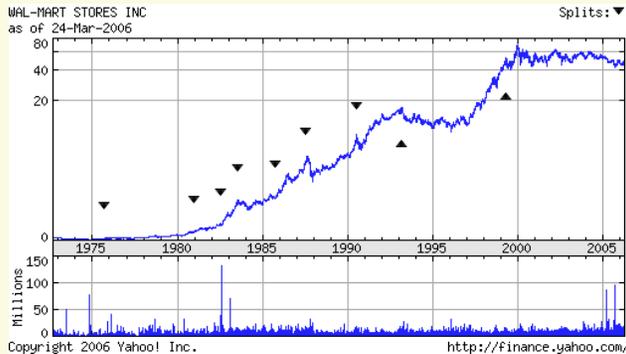


Class divides into opposing WF4WM & Wu-WM coalitions.

Each group must formulate the most effective arguments, strategies, and tactics that might persuade City Council to vote for its preferred policy decision about the Supercenter.

Is the Writing on the Wal?

Wal-Mart's glory days seem to be waning. Growth rate – measured by existing-store sales, not new store openings – probably peaked in 2000. Its stock price also peaked that year, then fell -27% by 2006.



- Rising gas prices are hurting rural W-M stores
- Young, affluent hip shoppers prefer Costco, Kroger, Target service & quality products
- Europeans scorn W-M culture of one-price-fits-all; Germans' refusal to patronize drove it out

Wal-Mart response is to push technologies that cut supply-chain costs. But, suppliers' complaints forced W-M to drop required RFID tags.

Disgruntled investors demand Wal-Mart change its business plan to compete with sleeker specialty retailers and vast Internet offerings.

“Today, near half a century since Sam Walton opened the first Wal-Mart Discount City in Rogers, Ark., it is far from certain that even Wal-Mart can thrive in a Wal-Mart world.”

Anthony Bianco. 2006. *The Bully of Bentonville*. Currency Books.

Shorter Writing #6

The readings, videos, lectures, & discussions expose the controversy over Wal-Mart's business practices. Choose one side in this debate & discuss some evidence supporting one of the following propositions:



(A) Wal-Mart's practices are a legitimate response to the globalization of markets. On balance, their benefits to employees, customers, communities, and countries outweigh any harms they may cause.

or

(B) Although Wal-Mart's practices are legal, they are illegitimate, bringing more harm than benefit to the company's employees, customers, communities, and countries where W-M operates.

DUE in class Thursday, November 29

PAPER SPECS: Maximum word limit = 500, typed double-spaced with one-inch margins, 12-point Times Roman font. Include your name and student ID, Assignment #, and "Word Count = 000"