IS WAL-MART TOO POWERFUL? Low prices are great. But Wal-Mart's dominance creates problems -- for suppliers, workers, communities, and even American culture


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Abstract (Article Summary)

With $245 billion in revenues in 2002, Wal-Mart Stores Inc. is the world's largest company. This staunchly anti-union company, America's largest private employer, is widely blamed for the sorry state of retail wages in America. Wal-Mart's marketplace clout is hard to overstate. In household staples such as toothpaste, shampoo, and paper towels, the company commands about 30% of the U.S. market, and analysts predict that its share of many such goods could hit 50% before decade's end. Wal-Mart appears to be in no imminent danger of running afoul of federal antitrust statutes. There is no question that the company has the legal right to sell only what it chooses to sell, even in the case of First Amendment-protected material such as magazines. By most accounts, though, Wal-Mart's cultural gatekeeping has served to narrow the mainstream for entertainment offerings while imparting to it a rightward tilt.

Full Text (3797 words)

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IN BUSINESS, THERE IS BIG, AND THERE is Wal-Mart. With $245 billion in revenues in 2002, Wal-Mart Stores Inc. is the world's largest company. It is three times the size of the No. 2 retailer, France's Carrefour. Every week, 138 million shoppers visit Wal-Mart's 4,750 stores; last year, 82% of American households made at least one purchase at Wal-Mart. "There's nothing like Wal-Mart," says Ira Kalish, global director of Deloitte Research. "They are so much bigger than any retailer has ever been that it's not possible to compare."

At Wal-Mart, "everyday low prices" is more than a slogan; it is the fundamental tenet of a cult masquerading as a
company. Over the years, Wal-Mart has relentlessly wrung tens of billions of dollars in cost efficiencies out of the retail supply chain, passing the larger part of the savings along to shoppers as bargain prices. New England Consulting estimates that Wal-Mart saved its U.S. customers $20 billion last year alone. Factor in the price cuts other retailers must make to compete, and the total annual savings approach $100 billion. It's no wonder that economists refer to a broad "Wal-Mart effect" that has suppressed inflation and rippled productivity gains through the economy year after year.

However, Wal-Mart's seemingly simple and virtuous business model is fraught with complications and perverse consequences. To cite a particularly noteworthy one, this staunchly anti-union company, America's largest private employer, is widely blamed for the sorry state of retail wages in America. On average, Wal-Mart sales clerks -- "associates" in company parlance -- pulled in $8.23 an hour, or $13,861 a year, in 2001, according to documents filed in a lawsuit pending against the company. At the time, the federal poverty line for a family of three was $14,630. Wal-Mart insists that it pays competitively, citing a privately commissioned survey that found that it "meets or exceeds" the total remuneration paid by rival retailers in 50 U.S. markets. "This is a good place to work," says Coleman H. Peterson, executive vice-president for personnel, citing an employee turnover rate that has fallen below 45% from 70% in 1999.

Critics counter that this is evidence not of improving morale but of a lack of employment alternatives in a slow-growth economy. "It's a ticking time bomb," says an executive at one big Wal-Mart supplier. "At some point, do the people stand up and revolt?" Indeed, the company now faces a revolt of sorts in the form of nearly 40 lawsuits charging it with forcing employees to work overtime without pay and a sex-discrimination case that could rank as the largest civil rights class action ever. On Sept. 24, a federal judge in California began considering a plaintiff's petition to include all women who have worked at Wal-Mart since late 1996 -- 1.6 million all told -- in a suit alleging that Wal-Mart systematically denies women equal pay and opportunities for promotion. Wal-Mart is vigorously contesting all of these suits.

Wal-Mart might well be both America's most admired and most hated company. "The world has never known a company with such ambition, capability, and momentum," marvels a Boston Consulting Group report. On Wall Street, Wal-Mart trades at a premium to most every other retailer. But the more size and power that "the Beast of Bentonville" amasses, the greater the backlash it is stirring among competing retailers, vendors, organized labor, community activists, and cultural and political progressives. America has a long history of controversial retailers, notes James E. Hoopes, a history professor at Babson College. "What's new about Wal-Mart is the flak it's drawn from outside the world of its competition," he says. "It's become a social phenomenon that people resent and fear."

Wal-Mart's marketplace clout is hard to overstate. In household staples such as toothpaste, shampoo, and paper towels, the company commands about 30% of the U.S. market, and analysts predict that its share of many such goods could hit 50% before decade's end. Wal-Mart also is Hollywood's biggest outlet, accounting for 15% to 20% of all sales of CDs, videos, and DVDs. The mega-retailer did not add magazines to its mix until the mid-1990s, but it now makes 15% of all single-copy sales in the U.S. In books, too, Wal-Mart has quickly become a force. "They pile up best-sellers like toothpaste," says Stephen Riggio, chief executive of Barnes & Noble Inc., the world's largest bookseller.

Wal-Mart controls a large and rapidly increasing share of the business done by most every major U.S. consumer-products company: 28% of Dial's total sales, 24% of Del Monte Foods', 23% of Clorox', 23% of Revlon's, and on down the list. Suppliers' growing dependence on Wal-Mart is "a huge issue" not only for manufacturers but also for the U.S. economy, says Tom Rubel, CEO of consultant Retail Forward Inc. "If [Wal-Mart] ever really went into a tailspin, the dislocation would be significant and traumatic."

Even so, Wal-Mart appears to be in no imminent danger of running afoul of federal antitrust statutes. The Robinson-Patman Act of 1936 was passed in large part to protect mom-and-pop grocers from the Great Atlantic & Pacific Tea Co., the Wal-Mart of its day. But contemporary antitrust interpretations eschew such David-and-Goliath populism. Giants like Wal-Mart have wide latitude to do as they wish to rivals and suppliers so long as they deliver lower prices to consumers. "When Wal-Mart comes in and people desert downtown because they like the selection and the low prices, it's hard for people in the antitrust community to say we should not let them do that," says New York University law professor Harry First.

CEO H. Lee Scott Jr. and other Wal-Mart executives are aware of the rising hostility the company faces and are trying to smooth its rough edges in dealing with the outside world. But they have no intention of tampering with its shopper-centric business model. "We don't turn a deaf ear to any criticism. We're most sensitive to what the
customer has to say, though," says Vice-Chairman Thomas M. Coughlin. "Your customers will tell you when you're wrong."

Wal-Mart cites customer preferences as the reason it does not stock CDs or DVDs with parental warning stickers and why it occasionally yanks items from its shelves. In May, it removed the racy "lad" magazines Maxim, Stuff, and FHM. A month later, it began obscuring the covers of Glamour, Redbook, Marie Claire, and Cosmopolitan with binders. Why did Wal-Mart censor these publications and not Rolling Stone, which has featured a nearly naked Britney Spears and Christina Aguilera on two of its recent covers? "There's a lot of subjectivity," concedes Gary Severson, a Wal-Mart general merchandise manager. "There's a line between provocative and pornographic. I don't know exactly where it is."

Wal-Mart was the only one of the top 10 drug chains to refuse to stock Preven when Gynetics Inc. introduced the morning-after contraceptive in 1999. Roderick L. Mackenzie, Gynetics' founder and nonexecutive chairman, says senior Wal-Mart executives told his employees that they did not want their pharmacists grappling with the "moral dilemma" of abortion. Mackenzie was incensed but tried to hide it. "When you speak to God in Bentonville, you speak in hushed tones," says Mackenzie, who explained, to no avail, that Preven did not induce abortion but rather prevented pregnancy. Wal-Mart spokesman Jay Allen says "a number of factors were considered" in making the Preven decision, but he denies that opposition to abortion was one of them. "If anybody of any belief reads any moral decision [into] that, that's not right," he says.

CULTURAL GATEKEEPER

There is no question that the company has the legal right to sell only what it chooses to sell, even in the case of First Amendment-protected material such as magazines. By most accounts, though, Wal-Mart's cultural gatekeeping has served to narrow the mainstream for entertainment offerings while imparting to it a rightward tilt. The big music companies have stopped grousing about Wal-Mart and are eagerly supplying the chain with the same sanitized versions of explicit CDs that they provide to radio stations. "You can't have 100% impact when you are taking an artist to a mainstream audience if you don't have the biggest player, Wal-Mart," says EMI Music North America Executive Vice-President Phil Quartararo.

This year alone, Wal-Mart hopes to open as many as 335 new stores in the U.S.: 55 discount stores, 210 supercenters, 45 Sam's Clubs, and 25 Neighborhood markets. An additional 130 new stores are on the boards for foreign markets. Wal-Mart currently operates 1,309 stores in 10 countries, ranking as the largest retailer in Mexico and Canada. If the company can maintain its current 15% growth rate, it will double its revenues over the next five years and top $600 billion in 2011.

That's a very big if -- even for Wal-Mart. Vice-Chairman Coughlin's biggest worry is finding enough warm bodies to staff all those new stores. By Wal-Mart's own estimate, about 44% of its 1.4 million employees will leave in 2003, meaning the company will need to hire 616,000 workers just to stay even. In addition, from 2004 to 2008, the company wants to add 800,000 new positions, including 47,000 management slots. "That's what causes me the most sleepless nights," Coughlin says.

At the same time, Wal-Mart will have to cope with intensifying grassroots opposition. The company's hugely ambitious expansion plans hinge on continuing its move out of its stronghold in the rural South and Midwest into urban America. This year, the company opened what it describes as "one of its first truly urban stores" in Los Angeles, not far from Watts. Everyday low prices no doubt appeal to city dwellers no less than to their country cousins. But Wal-Mart's sense of itself as definitively American ("Wal-Mart is America," boasts one top executive) is likely to be severely tested by the metropolis' high land costs, restrictive zoning codes, and combative labor unions -- not to mention its greater economic and cultural diversity.

A ZERO-SUM GAME?

Certainly, Wal-Mart will be hard pressed to continue censoring its product lines using the justification of customer preference. The market for profanity-laced hip-hop may be tiny in Bentonville, Ark., but it is big in Los Angeles. Overseas, the company does not presume to impose a small-town, Bible Belt moral agenda on shoppers. "We adopt local standards," says John B. Menzer, CEO of Wal-Mart's international division. Why, then, should Los Angeles be any different?

The fact is, Wal-Mart doesn't know for certain how the majority of its customers feel about Maxim, or any other
magazine, for that matter. It appears that the company makes no scientific attempt to survey shoppers about entertainment content but responds in ad hoc fashion to complaints lodged by a relative handful of customers and by outside groups, which are usually but not always of the conservative persuasion.

On the other hand, the company seldom submits to community groups that oppose its plans to build new stores. The number of such challenges has increased steadily and is now running at about 100 a year. Wal-Mart's "biggest barrier to growth is...opposition at the local level," says Carl Steidtmann, Deloitte Research's retail economist. The Stop Wal-Mart movement has been bolstered of late by a series of academic studies that have debunked the notion that a new big-box store boosts employment and sales and property-tax receipts. "The net increases are minimal as the new big-box stores merely capture sales from existing business in the area," concludes a new study of Wal-Mart's impact in Mississippi. "I see it pretty much as a zero-sum game," says co-author Kenneth E. Stone, an economics professor at Iowa State University.

The most hotly contested battleground at the moment is Contra Costa County, near San Francisco. In June, county supervisors enacted an ordinance that prohibits any retail outlet larger than 90,000 square feet from devoting more than 5% of its floor space to food or other nontaxable goods. Wal-Mart promptly gathered enough signatures to force a referendum, scheduled for March. Complains County Supervisor John Gioia: "Local planning should be done by our locally elected board and not by a corporate office in Bentonville, Arkansas." Robert S. McAdam, Wal-Mart's vice-president for government relations, says corporate-sponsored referenda, which Wal-Mart has promoted elsewhere in California, are "a perfectly legitimate part of the process."

SUPERCENTER NATION

Meanwhile, the United Food & Commercial Workers union is stepping up its long-standing attempts to organize Wal-Mart stores, with current campaigns in 45 locations. For UFCW locals that represent grocery workers, the issue is nothing less than survival. The Wal-Mart supercenter -- the principal vehicle of the company's expansion -- is a nonunion dagger aimed at the heart of the traditional American supermarket, nearly 13,000 of which have closed since 1992.

Patterned after the European hypermarket, the supercenter is a combination supermarket and general merchandise discounter built to colossal scale. Wal-Mart didn't introduce the supercenter to America, but it has amassed a 79% share of the category since it moved into food and drug retailing by opening its first such store in 1988. Today, Wal-Mart operates 1,386 supercenters and is the nation's largest grocer, with a 19% market share, and its third-largest pharmacy, with 16%.

Wal-Mart plans to open 1,000 more supercenters in the U.S. alone over the next five years. Retail Forward estimates that this supercenter blitzkrieg will boost Wal-Mart's grocery and related revenues to $162 billion from the current $82 billion, giving it control over 35% of U.S. food sales and 25% of drugstore sales. Market-share gains of such magnitude in a slow-growth business necessarily will come at the expense of established competitors -- especially the unionized ones, which pay their workers 30% more on average than Wal-Mart does, according to the UFCW. Retail Forward predicts that for every new supercenter that Wal-Mart opens, two supermarkets will close, or 2,000 all told.

To the low-price, low-cost operator go the spoils. Isn't that how capitalism is supposed to work? Certainly, the supercentering of America can be expected to result in huge savings at the cash register. On average, a Wal-Mart supercenter offers prices 14% below its rivals', according to a 2002 study by UBS Warburg.

However, those everyday low prices come at a cost. As the number of supermarkets shrinks, more shoppers will have to travel farther from home and will find their buying increasingly restricted to merchandise that Wal-Mart chooses to sell -- a growing percentage of which may be the retailer's private-label goods, which now account for nearly 20% of sales. Meanwhile, the failure of hundreds of stores will cost their owners dearly and put thousands out of work, only some of whom will find jobs at Wal-Mart, most likely at lower pay. "It will be a sad day in this country if we wake up one morning and all we find is a Wal-Mart on every corner," says Gary E. Hawkins, CEO of Green Hills, a family-owned supermarket in Syracuse, N.Y.

For suppliers, too, Wal-Mart's relentless pricing pressure is a mixed blessing. "If you are good with data, are sophisticated, and have scale, Wal-Mart should be one of your most profitable customers," says a retired consumer-products executive. Unlike many retailers, the company does not charge "slotting fees" for access to its shelves and is unusually generous in sharing sales data with manufacturers. In return, though, Wal-Mart not only
dictates delivery schedules and inventory levels but also heavily influences product specifications. In the end, many suppliers have to choose between designing goods their way or the Wal-Mart way. "Wal-Mart really is about driving the cost of a product down," says James A. Wier, CEO of Simplicity Manufacturing, a lawn-mower maker that decided to stop selling to Wal-Mart last fall. "When you drive the cost of a product down, you really can't deliver the high-quality product like we have."

Critics also argue that Wal-Mart's intensifying global pursuit of low-cost goods is partly to blame for the accelerating loss of U.S. manufacturing jobs to China and other low-wage nations. "It's hard to tease out, but Wal-Mart is definitely part of the dynamic, and given its market share and power, probably a significant part," says Jared Bernstein, a labor economist at the liberal Economic Policy Institute. The $12 billion worth of Chinese goods Wal-Mart bought in 2002 represented 10% of all U.S. imports from China.

For obvious reasons, Wal-Mart has de-emphasized the "Made in America" campaign that founder Sam Walton started in the mid-1980s to great promotional effect. "Where we have the option to source domestically we do," says Ken Eaton, Wal-Mart's senior vice-president for global procurement. However, he adds, "there are certain businesses, particularly in the U.S., where you just can't buy domestically anymore to the scale and value we need." In recent years, Wal-Mart increasingly has sought additional cost advantages by bypassing middlemen and buying finished goods and raw materials from foreign manufacturers. By contracting directly with a handful of denim manufacturers in Southeast Asia, the company has driven down the retail price of the George brand jeans it sells in Britain and Germany to $7.85 from $26.67. Says Eaton: "The mind-set around here is, we're agents for our customers."

"THE WAL-MART PHENOMENON"

Wal-Mart's philosophy doesn't cut any ice with Wilbur L. Ross Jr., a financier and steel tycoon who soon will close on the purchase of beleaguered textile manufacturer Burlington Industries Inc. Ross contends that Wal-Mart is costing Americans jobs "not only as a business strategy, but as a lobbying strategy" -- that is, by using its influence in Washington to oppose import tariffs and quotas and promote free-trade pacts with Third World countries, including the Southeast Asian countries that supply Wal-Mart with denim. "Everybody is now scurrying around trying to find the lowest price points," Ross complains. "It's the Wal-Mart phenomenon."

High on a wall inside Wal-Mart headquarters is a paper banner with a provocative question in big block letters: "Who's taking your customers?" Beneath it, "Wanted" poster style, hang photos of the CEOs of two dozen of America's largest retailers -- Target, Kroger, Winn-Dixie Stores, Walgreen, and so on. None looks very happy, perhaps because they know that the only way to get off the wall is to fail utterly. Although Kmart is reorganizing under the federal bankruptcy code, a photo of its CEO continues to hang in Wal-Mart's rogues' gallery and no doubt will remain there for as long as Kmart operates even a single store.

Growth will only add to the clout that the Bentonville colossus now wields. There might well come a time, though, when Wal-Mart's size poses as much of a threat to the company itself as it does to outsiders. "Their biggest danger is just managing size," observes a longtime supplier. Adds Babson College's Hoopes: "The history of the last 150 years in retailing would say that if you don't like Wal-Mart, be patient. There will be new models eventually that will do Wal-Mart in, and Wal-Mart won't see it coming." Right now, though, Wal-Mart's day of reckoning seems a very long way off.

(available online)

The Long Arm of Bentonville, Ark.

For better or worse, Wal-Mart is one of the most powerful companies in history. Here's how it flexes its muscles:

THE WAL-MART ECONOMY

It's the largest company in the world, with $245 billion in sales last year. McKinsey estimates that an eighth of the productivity gains in the late '90s came from Wal-Mart's drive for efficiency, and the discounter has been at least partly responsible for the extraordinarily low inflation rate of recent years. Its $12 billion in imports from China last year accounted for a tenth of total U.S. imports from that nation.

http://proquest.umi.com/pqdweb?index=8&retrievemap=0&srchmode=5&vinst=PROD&
LOWERING WAGES

With a global workforce of 1.4 million, Wal-Mart plays a huge role in wages and working conditions worldwide. Its hard line on costs has forced many factories to move overseas. Its labor costs are 20% less than those at unionized supermarkets. In 2001, its sales clerks made less, on average, than the federal poverty level.

DISRUPTING COMMUNITIES

Wal-Mart's huge advantages in buying power and efficiency force many local rivals to close. For every Wal-Mart supercenter that opens in the next five years, two other supermarkets will close. And because the chain often extracts tax breaks, some economists believe that Wal-Mart's entry into a community doesn't result in any net increase in jobs and tax revenue.

POLICING THE CULTURE

In the name of protecting customers, Wal-Mart has forced magazines to hide covers it considers racy and has booted others off its racks entirely. It won't carry music or computer games with mature ratings. Record companies sell Wal-Mart sanitized versions of CDs. Elsewhere in the store, the chain declines to sell Preven, a morning-after pill. Most locations do offer inexpensive firearms.

DOMINATING SUPPLIERS

In its relentless drive for lower prices, Wal-Mart homes in on every aspect of a supplier's operation -- which products get developed, what they're made of, how to price them. It demands that every savings be passed on to consumers. No wonder one consultant says the second-worst thing a manufacturer can do is sign a contract with Wal-Mart. The worst? Not sign one.

(available online)

King Kong in Diapers

WAL-MART dominates sales in a number of categories:

Disposable diapers 32%

Hair care 30%

Toothpaste 26%

Pet food 20%

Home textiles 13%

U.S. market share based on 2002 data; excludes Sam's Clubs

Data: A.C. Nielsen, Retail Forward, Home Textiles Today

(available online)

Wal-Mart by the Numbers

The world's largest company generates some amazing statistics

30 Supermarkets closed since Wal-Mart saturated Oklahoma City
Data: Retail Forward Inc.
44% Turnover rate for Wal-Mart's hourly workers per year

Data: Wal-Mart Stores Inc.
4 Number of Wal-Marts in Vermont, the fewest of any state

Data: Wal-Mart Stores Inc.
14% How much lower average grocery prices are where Wal-Mart competes

Data: UBS Warburg
82% Percentage of U.S. households that made a Wal-Mart purchase last year

Data: Retail Forward Inc.
71% Price drop for George jeans at Britain's Asda since Wal-Mart bought it in '99

Data: Wal-Mart Stores Inc.

[ILLUSTRATION]
Illustration: Chart: 41 Years of Nonstop Growth; Photo: WELCOME TO L.A. The company recently opened an inner-city store near Watts PHOTOGRAPH BY ALANLEVENSON.COM; Photograph: PACKING HEAT Some Wal-Marts ban gun sales. But not in Texas PHOTOGRAPH BY NANCY NEWBERRY; Photograph: EXTRA LARGE Wal-Mart has a 79% share of the U.S. supercenter market PHOTOGRAPH BY NANCY NEWBERRY; Photograph: ROUND FIGURES Wal-Mart denies that its wages are substandard PHOTOGRAPH BY NANCY NEWBERRY; Photograph: MINOR MATTERS Wal-Mart has eliminated titles it considers bad for kids PHOTOGRAPH BY NANCY NEWBERRY; Photograph: SMILE Wal-Mart needs to replace 616,000 workers this year PHOTOGRAPH BY NANCY NEWBERRY

Credit: Anthony Bianco and Wendy Zellner; With Diane Brady, Mike France, Tom Lowry, Nanette Byrnes, and Susan Zegel in New York; Michael Arndt, Robert Berner, and Ann Therese Palmer in Chicago; and bureau reports
Wal-Mart is already the biggest retailer in Canada and Mexico. It bought itself the number three position in Britain with its Â£6.7 billion ($11 billion) acquisition of Asda in 1999, and it is now pushing into China. But its ventures in Argentina, Indonesia and Germany have been flops, accompanied by heavy losses. Wal-Mart is also becoming more culturally astute, even importing good ideas from overseas into its domestic business. And things are looking up in Germany. Buying even part of Metro, which controls a third of Germany’s retail space, would bring Wal-Mart huge clout with European suppliers, and also some more experienced European managers. But Wal-Mart has another problem: its image. Wal-Mart has made some giant leaps forward in its sustainability journey. But how far do old habits die hard? Wal-Mart is the world’s biggest company in terms of both revenue ($47bn in 2013-14) and workforce: about 1.3 million people in the US, 2.2 million globally. Some 250 million customers visit 11,000 stores and websites each week in 27 countries. Its 71 brands include Asda in the UK. How this US-based retail giant pays and treats the majority of those employees (or “associates”) is one of several issues that have stirred protesters and NGOs to mount a series of high-profile campaigns in recent months, including strikes in the US. One issue regarding Wal-Mart is that the company needed to find enough workers that could be used to fill the various positions in the company. The company had already been seen as an “antiunion company,” which is known as American’s largest private employer that is privately blamed for its “sorry state in retail wages in America.” (Anonymous, 2008, paragraph 3). Some people opposed the development of the towns that are around the Wal-Mart. (October 6, 2003). Is Wal-Mart too Powerful? Low Prices are Great. But Wal-Mart’s Dominance Creates Problems for Suppliers, Workers, Communities, and even American Culture. Retrieved on March 30, 2011 from http://www.businessweek.com/magazine/content/03_40/b3852001_mz001.htm. The power Wal-Mart has in the business world is clear and their low prices are great, but this dominance may have created problems for suppliers, workers, communities and even the American culture. According to the latest economic results, Wal-Mart would be China’s eighth largest trading partner if it were a country. Importing expensive products and passing that discount on to the customer is one tactic that is driving the profits for Wal-Mart higher. This approach may seem beneficial for the consumer in the short-term, but may have grave results in the long-term. Greg Denier, spokesman for the United Food and Commercial Workers, which represents grocery workers, states that the “Walmartization of America has a broader impact than just retail workers.