

The **WAL*MART** Effect

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Brief History

- Walmart was launched by Sam Walton in 1962.
- Walton sought to provide customers with low prices by passing on savings from wholesalers rather than pocketing the money like other retailers.
- This ended up being a cornerstone of the business strategy in the Walmart empire.

- Sam Walton, established many business practices that allowed him to keep prices low for consumers.
- Although he dreaded unions and really didn't like paying his workers anymore than he should, Walton understood that he must keep his workers happy and introduced profit-sharing plans and sold them the notion that working at Wal-Mart meant limitless opportunity.
- And for the most part Wal-Mart had a great reputation due to Sam Walton until his death in 1992.

Sam Walton



WAL★MART®

ALWAYS LOW PRICES.

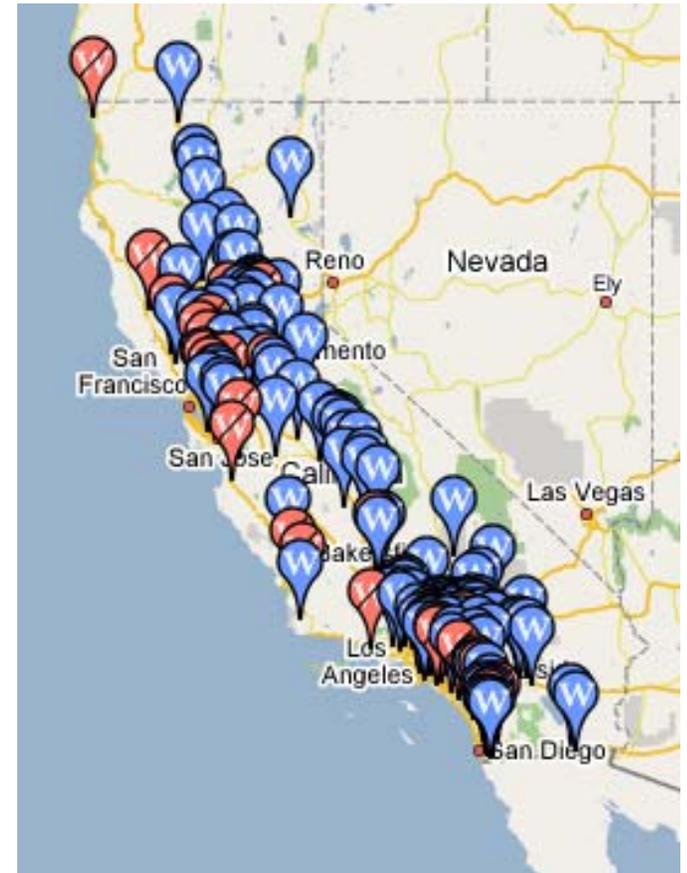
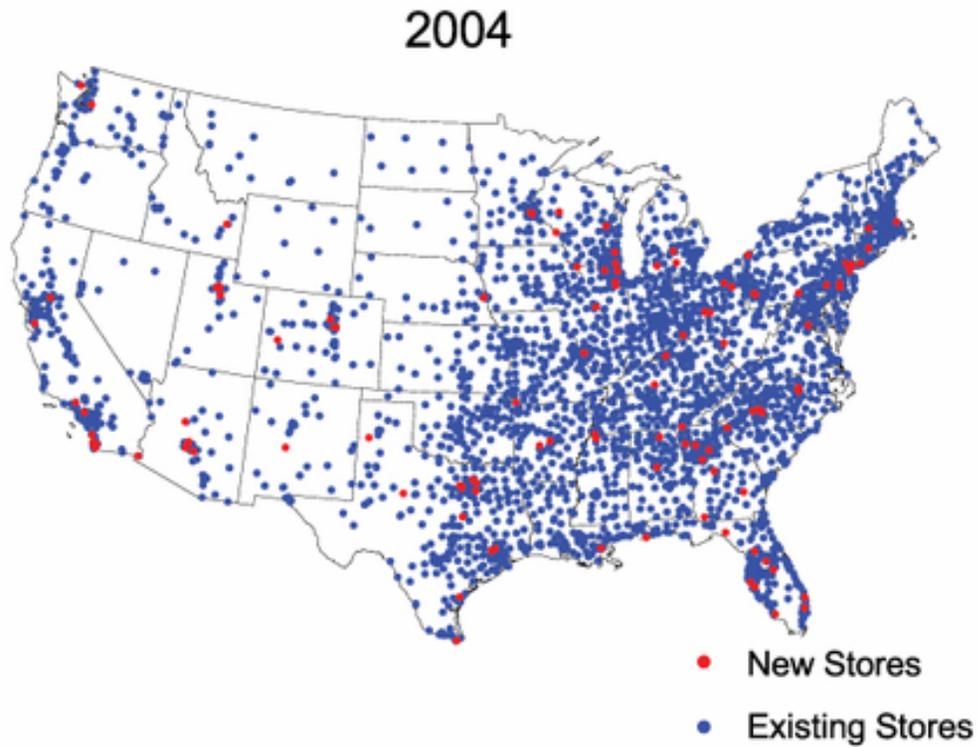
Always.

Walmart★com

Current Facts

- Wal-Mart is the largest corporation in the world. Their revenues equal 2% of US GDP.
- Wal-mart operates over 5000 stores worldwide and employs 1.6 million people, 1.3 million people in the U.S. Only the US government employs more people than that in the U.S.
- Serves more than 138 million people weekly worldwide.
- Wal-Mart plans to open up 225 supercenters this year alone

Wal-Mart Locations



- Four of the five Walton heirs are the top 10 richest people in America, whose net worth in one year alone increased from \$94 billion to \$102 billion.
- Supercenters on average take up 186,077 square feet while discount stores average 98,079 square feet.
- The average wage of the Wal-Mart worker is approximately \$10/hour.

Wal-Mart Distribution Center



Wal-Mart SuperCenter



The Story behind Wal-Mart's success

- Wal-Mart can attribute their success to two very important factors
- Supply chain efficiency
- Control of Payroll

Supply Chain Efficiency

Ever since the 1970s Wal-Mart used computers to keep track of inventory and sales data between their stores and warehouses.

- Wal-Mart was so efficient that it was believed that they had a three day turnaround, not from the store to the warehouse but from the store to the manufacturer.
- This allowed them to keep low inventories and not lose money to fad items, which go in and out of style quickly.

- Along with efficient control of their supply chain, Wal-Mart also finds its savings by getting 85% of their products from foreign manufacturers, mainly from China.
- Due to this outsourcing Wal-Mart has been accused of supporting sweatshops in order to keep its low prices.
- Wal-Mart's "Made In the U.S.A" Campaign in 1985, which guaranteed that Wal-Mart would choose the U.S. supplier over the foreign supplier if they were within 5% of the price, was ineffective due to the overwhelmingly cheap prices that they could obtain products from other countries with lax policies on labor.

Control of Payroll

- Wal-Mart always kept wages down by fighting off unions and limiting health benefits, overtime and bonuses.
- Studies have shown that where Wal-Mart's average wage was below \$10/hr, other large retail-employees have average wages of around \$11/hr.
- Full Time employees have health benefits but the package is so expensive (35% almost double the national average) that less than half opt to buy it.
- **Wal-Mart's statement on unions:**
At Wal-Mart, we respect the individual rights of our associates and encourage them to express their ideas, comments and concerns. Because we believe in maintaining an environment of open communications, we do not believe there is a need for third-party representation.

The Wal-Mart effect: Local Economy: Direct Effects

- Regardless of these facts people continue to work for Wal-Mart due to the number of jobs it creates when it enters a local economy. An estimated 500 jobs are created from a Wal-Mart supercenter. These earnings translate to a positive effect on the economy
- Because Wal-Mart provides almost all needs for a low price, lower income families benefit from the cheap prices.
- But local businesses do suffer due to competition.
- The overall effects directly appear to be positive

The Wal-Mart Effect: Local Economy: Indirect Effects

- Positives: Due to increase in retail consumption, there are spillover effects to other local businesses such as restaurants. And increased local retail activity from Wal-Mart employee earnings.
- Negatives: Lost local retail activity with competing businesses, loss of local white collar firms that provide business to local businesses.
- Overall appears to be a negative impact.

The Wal-Mart Effect: Local Economy: Fiscal

- Positives: Increased sales tax and property tax revenues.
- Negatives: Increased demand of local services such as waste management, police and fire services.
- Overall positive effect

Legal Issues

- Wal-Mart, due to its labor policies and business practices has faced many legal issues concerning its conduct.
- Wal-Mart faces class action lawsuits due to work off the clock issues. Managers give out unreasonable tasks to complete in a certain time and ask that workers don't log in the extra hours in order to stay under payroll standards, or else they'll receive a penalty from headquarters.

- In 2000, Wal-Mart paid \$50 million to settle an off-the-clock issue with 69,000 employees in Colorado.
- In 2002, a federal jury in Oregon ordered back wages to be paid to 83 workers.
- Last December, a California jury awarded \$172 million to thousands of Wal-Mart employees who had been illegally denied lunch breaks.
- Approximately 40 of these class action lawsuits are still pending

Sexual Discrimination

- Wal-Mart has had issues concerning the lack of women in higher positions throughout Wal-Mart stores
- On average women managers get paid \$90,000 while men on average are paid over \$100,000
- Now Wal-Mart faces a class action lawsuit with up to 2 million current and former Wal-Mart employees concerning sexual discrimination

Wal-Mart vs. Unions

- While most companies don't make it easy to form unions, Wal-Mart has gone above and beyond to prevent unions from forming. Sam Walton prevented unions by caring and giving personal attention to employees (calling them "associates"), now they use the strong arm approach
- In 2000, when workers in a Jacksonville, Texas, meat-cutting department successfully voted to unionize, Wal-Mart announced two weeks later that it would be closing its meat-cutting departments nationwide and switching to pre-cut meat. Four of the employees who voted in favor of the union were fired.

- A year ago, employees at a Wal-Mart tire and lube shop thought they had enough votes to unionize, but the company fired one of the likely yes-voters and transferred in six likely no-voters. Again, an administrative judge ruled that Wal-Mart's conduct had been illegal, but the goal of blocking the union had been achieved.
- And in February 2005, the company announced that it would be closing a Wal-Mart in Quebec, one of only two unionized Wal-Marts in North America (the other is also in Quebec). Wal-Mart claimed the store was losing money, but it refused to release numbers.

Wal-Mart vs. Costco

- Why all the bad publicity when Costco and Target appear to be the same type of store?
- First of all size - In terms of annual revenue, Wal-Mart is nearly four times the size of The Home Depot, the country's second largest retailer, and almost twice the size of Target, Costco, and Sears (which includes Kmart) combined.
- Costco pays on average \$17/hr to their workers, resulting in less turnover, and have unionized workers.

- Costco's business and labor practices are overall considered to be the "high-road" approach, paying their workers more to be happier with less turnover and thus spending less on areas such as job training, while at the same time providing customers with cheaper goods.
- The counter argument- The mean income of a Costco shopper is \$74,000, which is substantially higher and appears to support the idea that Costco supports the rich. A possible explanation could be the number of small business owners that shop there.

Conclusion

- Wal-Mart and its economic effects are debatable, but the presence and effect of Wal-Mart as an economic actor can definitely be felt.
- Anti-Trust practices? As Wal-Mart continues to outgrow its competitors when do we draw the line on how much market power Wal-Mart is allowed to take?