WAL-MART AND THE POLITICS OF AMERICAN RETAIL

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Abstract: The current public debate about Wal-Mart and its place in the American economy fits within an historical context of democratic responses to changes in the retail sector. From Sears Roebuck to the various chain stores that emerged in the 1920s, the members of the retail paradigm they displaced fomented public distrust and sought government action to restore their place in the economy. Wal-Mart, as the largest retailer in America and the pioneer of the large discount chain store, is currently experiencing the same protest from grocery chains and retail unions. This paper examines Wal-Mart's business, its effects on the U.S. economy, and provides political and historical context for understanding the current debate over its future.

INTRODUCTION

There is hardly a week in which Wal-Mart does not make national headlines, and most often the news is bad. Sometimes the news is of a rural community agonizing over whether to introduce Wal-Mart into its fragile economy, or a suburban community fighting to keep Wal-Mart out of its neighborhood to preserve its quality of life. The media speaks anxiously of the retailing giant's continually growing influence over the American and global economy, and increasingly legislatures are beginning to focus on Wal-Mart's dominance within their states. From its employment and buying practices, to its remarkable success, America is increasing ambivalent about Wal-Mart. How does a company founded in America's heartland by a folksy, avuncular Oklahoma native, dedicated to customer service, low prices, and innovative retailing inspire this level of enmity and anxiety? Wal-Mart has certainly earned some of its criticism, as any company will suffer setbacks and missteps, but disproportionately so compared with other companies in U.S. retailing today. What drives this ambivalence has less to do specifically with Wal-Mart and more about a process that has repeated itself every time a major change has swept through and destroyed established pathways of American retailing.

Starting with the rise of Sears Roebuck and mail order catalogue houses in the late nineteenth century, continuing during the pioneering of chain store retail under Woolworth and A&P in the early twentieth century, and persisting into today with Wal-Mart's discount "big-box" retailing, Americans have always met changes to their retail economy with fear and loathing. Despite the tremendous benefits in value, efficiency, and service that have accrued to the consumer through the passing of each era of retailing, Americans do not react well to economic change in retail. Judging from history, the creative destruction capitalism imposes on every sector of the economy seems keenly felt in retail. The same story has repeated itself through each major change to retailing: groups mobilize against a vanguard of a new retail paradigm, public campaigns begin to rock the foundations of that enterprise, and eventually legislatures react seeking to restore normalcy and regulate that business's practices in the public interest. The tragedy in each instance is that the American consumer loses most in this drive for control over the forces of innovation and change to retail.

Today Wal-Mart stands at the threshold of the last phase of public reaction: the regulation of its business by government in the public interest. More than any particular aspect of its business, Wal-Mart's challenge in the near future is the effective management of its public image to prevent or at least stave off this interference in their affairs. From its constant innovations to American retail, to its singular dedication to lower prices for customers, Wal-Mart is expanding economic opportunity for millions of Americans and setting the pace for global retail. As it has in the past, government regulation of retailing would drive up costs for consumers and contribute to inefficiencies in the retail sector that would be paid for by higher costs and inflation for the whole country. In Wal-Mart's case especially, government obstacles to the expansion of their business would most hurt American's who rely on discount retailing to increase their buying power.

This report offers some historical perspective on the current maelstrom concerning Wal-Mart and public policy, facts regarding Wal-Mart's impact on the American economy, and lastly a new way of perceiving of economic change in our democratic society. As a corporation, largely due to the influence of its founder, Wal-Mart has sought to remain aloof and hostile to the attentions of a curious and uncertain American public, but they can ill afford to continue this policy given their size and influence. Today's large corporations, especially those who represent entire sectors of our economy, cannot forge ahead to do the business of America without first justifying themselves to the people they serve. Effective communication between American business and the American people will ease the panic and discomfort we all experience as the next phase of economic change destroys the last. At a recent investor's conference, Wal-Mart CEO Lee Scott said that "over the years, we have thought that we could sit in Bentonville, take care of customers, take care of associates and the world would leave us alone. It just doesn't work that way anymore."[1] As the history of American retailing shows, it has never worked that way.

A BRIEF HISTORY OF AMERICAN RETAIL

American retailing in the late nineteenth century was a very localized affair. Small, independent stores predominated at all levels of retail, supplied by a network of wholesale distribution.[2] These independent merchants often ran crowded, unattractive stores that offered few values and little choice.[3] In the 1890s, a new innovation to retail began to emerge in large cities with the founding of several major department stores, which offered an enormous variety of goods attractively presented under one roof. Their appearance was met with outspoken hostility by the legions of smaller merchants who predominated over retail in big as well as small American cities. Groups of small retailers began to organize against the menace department stores presented to their livelihood and to the way of life they represented. Despite the fact that the department store affected the mere selling of goods, and that it promised to bring great benefits to the consumer, the character of the battle against department stores quickly took on a moral character. In the eyes of many, it was not just small business that was in peril, but the

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[1] Ann Zimmerman, "Counterpunch – Wal-Mart Boss's Unlikely Role: Corporate Defender-in-Chief," *Wall Street Journal*, July 26, 2005.
[2] William Leach, *Land of Desire* (New York: Pantheon Books, 1993), 20.
[3] Ibid., 72-3.

American way of life itself was under siege by growing forces of capital in the form of the department store. One independent retailer said of department stores, the "big store removes much in the matter of independence for men and women in small ways, and compels a dependence which, while it may give more money to the fortunate ones, renders them subject to a central power which in time becomes a tyranny which will leave no boundless America offering homes to the oppressed."[4]

The independence and freedom of the consumer were perceived as threatened by the newfangled department store, and legislatures responded to the outcry with states like New York and California proposing new taxes to restrain the burgeoning retail leviathans. In 1897, the Chicago City Council passed a law, at the urging of various groups, to limit the ability of department stores to sell meats and liquors in order to curb their growth and influence. Throughout this period the leaders of these enterprises worked to reassure the public they provided a needed service to their cities, creating spectacular stores with imaginative displays that sought to educate the public as well as entice the consumer. John Wannamaker in particular courted the public's attention in selling his department store as a boon to the city of Philadelphia, making his store a civic centerpiece, hosting concerts and exhibitions of art and architecture.[5] By 1900 the department store was beginning to be accepted by American consumers, the concept having proved itself a benefit to the shopper as well as the economy. After reflection and research, the governments that had at first enabled and ennobled the fight against department stores began to endorse them as a *benefit* to smaller, single-line retailers and that the threat they presented had been "much less than the public [had been] disposed to believe."[6] A 1901 report of the federal government commended department stores for helping to create "a nation of large

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[4] Ibid., 27.
[5] Roland Marchand, *Creating the Corporate Soul* (Berkeley, CA: University of California Press, 1998), p. 11.
[6] Leach, 30.

consumers in the way of comfortable wearing apparel, comforts and decorations for our homes as well as luxuries of all kinds."[7] Many major department stores soon became symbols of civic pride and the promise of prosperity in America.

While pioneering retailers such as John Wannamaker of Philadelphia, Marshall Field of Chicago, and the Rowland Macy of New York brought tremendous selection, quality, spectacle and value to the urban shopper, most Americans lived in rural areas and could not enjoy such benefits. This was soon to change thanks to the innovation of a young telegraph operator and railroad station agent named Richard Warren Sears. Sears saw an opportunity to sell goods through the mail, avoiding the need for a storefront or a wholesaler, passing the savings on to customers through lower prices. Initially selling watches, Sears quickly expanded his business into a full service mail order catalogue that for the first time offered the quality, price, and selection of big city department stores to the rural consumer. The two cornerstones of Sears' business model were his low price policy and his focus on rural farm communities. By offering strong values to an underserved market his business grew at a phenomenal rate, from just over $100,000 in sales in 1891 to over $40 million by 1908.[8]

What should have been seen as a benefit, the mail order trade was quickly derided within rural communities as a threat to their way of life. Small town editors attacked catalogue houses such as Sears and Montgomery Ward as leeches on their economy that drove out local merchants, paid no local taxes, offered no jobs, and gave no civic benefit to the communities they claimed to serve.[9] Rumors were spread by hostile merchants that Sears and his partner A.C. Roebuck were African American in an attempt to repel potential customers. The rumor became

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[7] Ibid.
[8] Boris Emmet and John E. Jeuck, *Catalogues and Counters: A History of Sears, Roebuck and Company* (Chicago, IL: University of Chicago Press, 1950), 172-3.
[9] Ibid., 152.

so effective that the company began to include color pictures of Sears in their catalogues and shipments.[10] The vitriol of small town merchants became so intense that they were able to "compel townfolk to burn their mail-order catalogues in the public square in a grand but ineffective" gesture.[11] Some merchants offered prizes to citizens that brought the most catalogues to burn or a set payment for each book burned; others offered free movie admission to children "who brought a mail-order catalogue for destruction."[12] Despite the outcry, Sears' struggle for acceptance among the rural public managed mostly to avoid the attentions of Congress.[13]

The conflict that had occurred in the big cities in response to departments stores was repeating itself in rural America. The encroachment of the mail order business on retailing was largely interpreted by rural communities as a moral issue. As one scholar noted, "as folkways tend to become mores and thus to become endowed with strong moral sanction, the retail merchants tended… to endow their own system of distribution with the virtues of morality and patriotism, while associating mail order with various evils."[14] Sears understood this, and attempted to communicate directly with his customers through his catalogue to assuage their concerns and convince them of the legitimacy of his business. In many of his folksy editorials that prefaced each catalogue, Mr. Sears indirectly attacked small town retailers by assuring his customers that their local merchants paid exactly the same price as did all Sears' mail-order customers. He went as far as to print a notice to all merchants assuring them of the confidentiality of their orders, despite the fact that very little of Sears' trade came from

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[10] Ibid., 159.
[11] Ibid., 151.
[12] Ibid.
[13] Congress held hearings on extending parcel post rates further into rural areas in 1910, which brought a storm of protest from retailing groups. The rates were extended, but the contentious hearings demonstrated the strong antipathy for mail-order companies among retailers.
[14] Ibid., 150.

retailers.[15] Sears placed a premium on communication with his customers; it was established policy during his leadership of the company that every letter from a customer, or from anyone requesting information, would be answered.[16] The policy of openness with the public and a concern for communicating with customers helped establish Sears and the concept of the mail-order house as legitimate, making the Sears Roebuck Company one of the most successful retailers in American history.

Alongside the rise of mail order and department stores, the chain store also emerged as an innovation that would transform retail. Chains such as the Atlantic and Pacific Tea Company, better know as A&P, and the Woolworth Five and Dime stores began spreading out to all areas of the country by the 1920s. Perhaps unsurprisingly, these chains met with hostility from local merchants for many of the same reasons as department stores and mail order companies. Chains offered lower prices than local retailers, uniform and well-organized stores, and stocked products of consistently high quality. The founder of U.S. Cigar Stores, an early chain store in New York State, commented that the tobacco store of his era "hardly deserved to be called a *store* at all. Certainly it followed none of the fundamental principles of retail merchandising which even the poorest merchant recognizes today. It was inadequately stocked, the fixtures were of the most primitive kind, and little or no attempt was mode at window or inside display."[17] By introducing the chain store concept to tobacco, U.S. Cigar Stores went from about $93,000 in sales in 1901 to over $76 million by 1921.[18]

During the 1920s, as the chain store model spread throughout the country, opposition began to form against them. Local merchants, independent retailers, and many politicians began

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[15] Ibid., 160-163.
[16] Ibid., 150.
[17] Godfrey M. Lebhar, *Chain Stores in America, 1859 – 1962* (New York: Chain Store Publishing Corp., 1963), 108.
[18] Ibid., 110.

to assail the chain store as a menace to their towns and the prosperity of their citizens. The question of the continued existence of the chain store became part of a national debate in the late 20s and early 30s. The Speaker of the Indiana House echoed the sentiments of the anti-chain store movement in writing to his constituents:

> The chain stores are undermining the foundation of our entire local happiness and prosperity. They have destroyed our home markets and merchants, paying a minimum to our local enterprises and charities, sapping the life-blood of prosperous communities and leaving about as much in return as a traveling band of gypsies.[19]

An editorial from the *St. Louis Post Dispatch* attacked the low wages that chain stores offered, wondering if "mothers and fathers realize what will happen to their children when they have to go to work for chain stores at $20 per week, or less?"[20] Senator Royal Copeland of New York referred to chain stores as "parasites," and Senator Hugo Black, later to be a Supreme Court Justice, decried the "wild craze for efficiency in production, sale and distribution" that had "swept over the land."[21]

In the mid-20s, local merchants began to sponsor "trade at home" campaigns that exhorted local consumers to shop only at community stores. Using inflammatory rhetoric, these print campaigns in local newspapers claimed everything from "the future of the children" was being jeopardized by chain stores to their being "a parasite upon legitimate business and a menace to [a] city's prosperity."[22] One criticism that was often repeated was similar to that Sears was accused of: that the chain store did not contribute to the local community, and that their profits were directed back to major cities. By 1930, over 400 cities and towns had "trade-at-home" campaigns.[23]

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[19] Ibid., 159.
[20] Ibid.
[21] Ibid., 160.
[22] Ibid., 168-9.
[23] Ibid., 170.

The agitation of the "trade-at-home" campaigns finally succeed in urging several state legislatures to place a special tax on chain stores to limit their growth and generate tax dollars that some believed were being lost to their expansion. Between January 1929 and October 1930 over 142 anti-chain store bills were introduced in state legislatures.[24] Aided by a Supreme Court decision that found these taxes constitutional in 1933[25], over 45 anti-chain store bills were passed in state legislatures by 1941.[26] The most radical legislative proposition that imperiled the very existence of chain stores was made by Representative Wright Patman of Texas in 1938.[27] Patman proposed a "death penalty" bill that would tax interstate chain stores out of existence. The tax would increase incrementally depending on the number of stores operated to a maximum of $1,000 annually, however the per store tax was multiplied by the total number states in which the chain store did business. For example, the grocery chain A&P, who did business in 40 states and operated over 12,000 stores would owe an annual tax of over $471 million dollars, or over fifty times its earnings in 1938.[28] Over the next two years Patman aggressively pursued putting an end to interstate chain stores, with testimony being heard from both sides in the Committee on Ways and Means in the U.S. House. While Patman was relentless, the bill was never reported out of committee and the industry did much to discredit many of the claims that had been made against it by Patman and others bent on destroying chain stores in America.[29] After the defeat of the Patman bill, the chain store concept in retailing was largely accepted by the American people and the swell of anti-chain store legislation that began in the late 20s was stemmed by 1941.

[24] Ibid., 179.
[25] *Liggett v. Lee,* 288 U.S. 517 (1933).
[26] Lebhar, 142.
[27] Originally designated as H.R. 9464 in 1938, reintroduced as H.R. 1 in 1940.
[28] Ibid., 257.
[29] Ibid., 293.

The rapid success of chain stores in the drug and grocery sectors of retail also harried manufacturers. One of the last major obstacles to chain store retailing developed out of their practice of discounting brand name goods below their manufacturer's retail price. Many drug manufacturers in particular made agreements with wholesalers that they would only sell to retailers that would agree to sell at a set price, putting discounters at a disadvantage. To be competitive, chains would purchase goods from manufacturers at wholesale, enticing them to break their manufacturer agreements by purchasing in high volume, and then sell below the manufacturer's retail price. The federal courts upheld the manufacturers' agreements with wholesalers not to sell to discounters, rejecting the claims of chain stores that the practice restrained competition under the Sherman Anti-Trust Act.[30] Soon after the courts ruled these price fixing agreements could apply only to products that were protected by a patent or copyright, thus allowing discounting on a number of brand name products.[31]

Under the strains of the Great Depression and the resulting losses in profit, large chain stores began to combine with independent druggists in attacking discount retailing to protect their bottom line. Many chains like Walgreens and People's Drug, who had earlier promoted discounting, came out for price fixing and a nationwide campaign was begun for petitioning state legislatures to legalize these agreements. The proposals became known as "Fair Trade" laws, and 42 states would enact these laws by 1937. That same year Congress gave its blessing to the practice on an interstate basis through passage of the Miller-Tydings Act.[32] Under these Fair Trade laws, all retailers, whether or not a party to an agreement with a manufacturer to fix prices, had to abide by that manufacturer's retail price. After repeatedly losing on the federal level to repeal or invalidate Fair Trade laws, discount retailers began to realize success on a state-by-state

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[30] *Dr. Miles Medical Co. v. Jaynes*, 149 Fed. R. 838 (1906).
[31] *Dr. Miles Medical Co. v. John D. Park & Sons Co.,* 220 U.S. 373 (1911).
[32] Lebhar, 113.

basis by suing on the basis of state constitutions. By 1962 over 24 state courts had invalidated Fair Trade laws, opening the way for the next revolution retailing, that of the discount store.

THE RISE OF DISCOUNTING AND THE WAL-MART REVOLUTION

After serving in the Army during World War II, Sam Walton started out as a merchant as a franchisee of Ben Franklin chain stores in Newport, Arkansas in 1945. By this time, the chain store had become the dominate source of retail goods in rural areas, especially in the south. Walton quickly became discontented with the business model imposed by Butler Brothers, the parent company of Ben Franklin stores, which asked franchisees to purchase at least 80 percent of their goods from them at a 25 percent markup.[33] Walton began looking to small manufactures in Tennessee and New York that could sell at wholesale prices, sometimes traveling by car and trucking items back to his store in Arkansas. He found that if he put a small markup on these items that he purchased at wholesale that, while he would earn less per item, he could sell several times as many items. Walton described his stumbling upon what would be the core of retail discounting while operating his first store, that he could lower his markup "but earn more because of the increased volume."[34]

After moving to Bentonville, Arkansas to open a new store, and opening several chain store franchises in northwestern Arkansas, Walton became convinced discounting was the future of retail. In the 1950s several discount chains began to spring up in different parts of the country, and Walton followed the trend with interest, closely monitoring their successes and failures, and visiting their stores to find out what made them a success. In 1962 Walton decided to build his first discount store in Rodgers, Arkansas. It didn't go well at first. David Glass, who

[33] Sam Walton, *Made in America* (New York: Bantam Books, 1993), 30-32.
[34] Ibid., 33.

was later to work for Wal-Mart, described the scene of the opening of one of the first Wal-Marts in Harrison, Arkansas:

> It was the worst retail store I had ever seen. Sam had brought a couple of trucks of watermelons in and stacked them on the sidewalk. He had a donkey ride out in the parking lot. It was about 115 degrees, and the watermelons began to pop, and the donkey began to do what donkeys do, and it all mixed together and ran all over the parking lot. And when you went inside the store, the mess just continued, having been tracked all over the floor. He was a nice fellow, but I wrote him off. It was just terrible.[35]

While presentation and quality were not initially hallmarks of Walton's strategy, offering the lowest prices was, and customers would flock in from miles away to take advantage of the incredible prices Wal-Mart offered.

1962 was to prove to be a pivotal year for discount retailing as two other retailers decided to begin their own discounting chains. The S.S. Kresge Company, a large variety store chain, opened their first K-Mart in Garden City, Michigan, and the Dayton-Hudson department store chain opened their first Target store in Minneapolis.[36] These chains focused on low prices, but were located mostly in the suburban north. After initial small-scale successes in the rural southern communities in and around Arkansas, Missouri, and Oklahoma, Walton's business began to take off in the early 1970s after he took the company public. Using a strategy that R.W. Sears pioneered through mail-order, Walton focused on having the lowest prices, and in building his customer base in the underserved rural south; Wal-Mart sales grew from $32 million in 1970 to $1.2 billion in 1980.[37]

In Wal-Mart's first three decades, Sam Walton focused on constant growth and innovation. Wal-Mart led the way in computerizing their inventories and pioneering on-time delivery distribution that helped to further cut costs. Walton was famous for carrying around a yellow legal pad and looking at the competition's stores to find out their best practices to bring

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[35] Ibid., 58.
[36] Ibid., 63.
[37] Ibid., 153.

them to Wal-Mart. His constant expenditures on technology and innovations in management allowed Wal-Mart to routinely keep operating expenses at an incredibly low level. Wal-Mart's modest corporate headquarters in Bentonville, Arkansas epitomize the company's focus on the bottom line, which is always having low prices. By January 2005, 13 years after the death of Sam Walton, Wal-Mart's sales totaled $288 billion, placing it far above any other retailer in the world.

As one scholar noted in his study of the history chain stores in America, "the history of retailing reveals that every innovation in distribution methods has been opposed by those fearful of the impact on the existing order."[38] This phenomenon, as has been demonstrated, has become axiomatic in American retail and applies with full-force to the current campaigns against Wal-Mart. While the sources of discontent have shifted somewhat, the same progression from local unrest to national campaigns to legislative action is evolving in the case of Wal-Mart. Organized labor is leading the charge against Wal-Mart, but local anti-sprawl advocates and local businesses are also currently agitating for something to be done about the spread of Wal-Mart's influence in retail. Wal-Mart has led the latest revolution in American retailing, that of the "big-box" discount store, offering a wide selection, low prices, and relying on a business model that promotes efficiency and low costs. And like its predecessors, it has become a lightening rod for criticism from those it has displaced.

While the Wal-Mart Corporation has benefited greatly from of the retail genius of Sam Walton, it also inherited many of his peccadilloes regarding public scrutiny. Walton, while an eager and public representative of his stores, was wary of public interest in the policies and prerogatives of the company. Moreover, Walton rejected the idea that Wal-Mart should spend its corporate resources on public or government relations. Walton stalled on the creation of a media

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[38] Ibid., 125.

unit until 1989, which he ensured was kept small.[39] Wal-Mart, despite being the largest retailer in America since 1990, only established a government relations department in 1999; as of 2002, its staff consisted of four people.[40] Overall, Walton's attitude against managing Wal-Mart's corporate image has carried over in the period since his death and has contributed to the rise of public misunderstanding, resentment, and the building protests over its business. Walton himself recognized this shortcoming, writing in his autobiography, "[the Wal-Mart family] have always pretty much kept to ourselves; we've been very protective of our business dealings and our home lives, and we still like it that way. … as a result, a whole lot of misinformation and myth and half-truths have gotten around about me and about Wal-Mart."[41] The company has been very slow to change the bad public relation habits it learned early on from Walton. In the earlier epochs of retail change, a key ingredient to public acceptance has been an active campaign of public information and openness. R.W. Sears, John Wannamaker, and other retail entrepreneurs all took public relations seriously as a means of gaining the acceptance and trust of the public and in staving off governmental interference in their business. While Wal-Mart does an incredible job of selling goods to the public, it is much less adept at selling itself.

IS WAL-MART GOOD FOR AMERICA?

In order to place Wal-Mart in the same category as retail innovators of the past, some analysis of how their business has impacted the American economy is necessary. Early department, mail order, and chain stores were eventually accepted as a boon to consumers and the economy, but all were initially distrusted and feared by those workers and businesses that were displaced by them. Wal-Mart is still in the early stages of transforming how retail operates

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[39] Robert Slater, *The Wal-Mart Decade* (New York: Penguin Group, 2003), 110.
[40] Slater, 111-112.
[41] Walton., xii.

in the United States and a discourse among media, academics, consumers and elected officials is intensifying regarding whether or not Wal-Mart is good for America. The volume of stories in the media devoted to Wal-Mart has grown dramatically: in 2001, the company was the subject of 950 articles a week; in 2004 the number grew to 2,165 a week.[42] Wal-Mart has inspired a recent academic conference at the University of California Santa Barbara, and has been the sole subject of seven books in the last five years. In 2004, the Democratic staff of the Education and the Workforce Committee in the U.S. House of Representatives produced a report attacking Wal-Mart's labor practices calling the company the "lowest common denominator in the treatment of working people."[43] The report concludes by charging that "Wal-Mart's success has meant downward pressures on wages and benefits, rampant violations of basic workers' rights, and threats to the standard of living in communities across the country."[44] What has been Wal-Mart's effect on the U.S. economy and is it as dire as some of its critics suggest?

Perhaps Wal-Mart's chief benefit to the American economy derives from its incredible productivity and the resulting low prices it is able to offer. A study done by McKinsey Global Consulting finds Wal-Mart alone accounted for 4% of the growth in U.S. productivity from 1995 to 1999 "through ongoing managerial innovation that increased competitive intensity and drove the diffusion of best practice."[45] Something that many studies fail to recognize about Wal-Mart's impact on local economies is that much of the value they offer is in lowering the cost of living for consumers in the areas they enter. A recent study finds that "when Wal-Mart enters a

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[42] Zimmerman, ibid.
[43] Democratic Staff of the Committee on Education and the Workforce, U.S. House of Representatives, *Everyday Low Wages: The Hidden Price We All Pay for Wal-Mart*, report prepared by Rep. George Miller, 108th Cong., 2nd Sess., February 16, 2004: 3.
[44] Ibid., 21.
[45] "Retail Sector" in *U.S. Productivity Growth, 1995 – 2000,* report prepared by McKinsey & Company, October, 2001: 1.

market, prices decrease by 8 percent in rural areas and 5 percent in urban areas."[46] Pankaj Ghemawat, a professor at the Harvard School of Business, and Ken Mark a Toronto business consultant, estimate that Wal-Mart saves its consumers about $16 billion a year. They contented that "the costs that Wal-Mart supposedly imposes on society … wouldn't add up to anything like $16 billion."[47] Moreover, Wal-Mart's cost cutting mostly benefits the poorest and most rural consumers in America. Ghemawat and Mark's research shows that "Wal-Mart operates two-and-a-half times as much selling space per inhabitant in the poorest third of states as in the richest third. And within that poorest third of states, 80 percent of Wal-Mart's square footage is in the 25 percent of ZIP codes with the greatest number of poor households."[48] Both authors contend that the rural poor would pay much more for retail goods if Wal-Mart didn't exist.

One of the criticisms most often levied against Wal-Mart is it destroys small businesses, especially in rural communities, and monopolizes retail in the areas it settles in. Since the 80s, citizen groups and city councils have challenged Wal-Mart's move into their area fearing traffic, increased suburban sprawl, and the perception it would close down local merchants and eclipse retail diversity within their area. One of the first major challenges to Wal-Mart's entry into a community occurred in 1989 when residents of Steamboat Springs, Colorado sued their city council and won a referendum barring the building of a store.[49] That same year citizens in Iowa City, Iowa organized to prevent the building of a Wal-Mart on the outskirts of the town. In both circumstances Wal-Mart was eventually permitted to build, but the volume of rejections and challenges continues to increases. Sprawl-Busters, an anti-development group, offers consulting services to towns attempting to keep out Wal-Mart and other big-box retail enterprises.

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[46] Pankaj Ghemawat and Ken A. Mark, "The Price Is Right," *New York Times,* August 3, 2005.
[47] Ibid.
[48] Ibid.
[49] Sandra S. Vance and Roy V. Scott, *Wal-Mart: A History of Sam Walton's Retail Phenomenon* (New York: Twanye Publishers, 1994), 153.

According to their website, 270 communities in the United States have successfully prevented Wal-Mart and other big-box retailers from locating in their area. Their founder, Al Norman, described by the CBS news magazine *60 Minutes* as "the guru of the anti-Wal-Mart movement," started out by successfully preventing a Wal-Mart opening in his hometown of Greenfield, Massachusetts in 1993.[50] Wal-Mart increasingly faces opposition as it expands into more urban centers from labor unions, anti-development activists, and local merchants.

A handful of academic studies have analyzed at the impact of Wal-Mart and other large discount retailers' effects on the communities they enter. One of the first studies, by John Ozment and Greg Martin, used U.S. Economic Census data to determine the effects of what they called discount retail chains (DRCs) on rural business environments in three southern states.[51] Considering the years 1977 – 1982, and looking at county level data, they determined that overall DRCs benefited the communities they entered by increasing wages and employment, and strengthening other businesses that did not compete directly with the new DRC. Counties that did not have a DRC experienced an overall decline in per capita retail sales and payroll.[52] And while counties with DRCs experiences a -3.5% reduction in the number of retail establishments over five years, counties without a DRC experienced a -10.9% loss.[53] The authors conclude that the presence of DRCs "may create alternative opportunities for businesses that are unable to compete with large discount retail chains," and "new businesses emerge that provide either services or products that complement the DRC's offerings."[54] The picture of rural business

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[50] www.sprawl-busters.com/victoryz.html
[51] Arkansas, Oklahoma, and Missouri.
[52] John Ozment and Greg Martin, "Changes in the Competitive Environments of Rural Trade Areas," in *Journal of Business Research* 21 (1990): 282-3.
[53] Ibid., 284.
[54] Ibid., 286.

implied by their research is a much more adaptable one, where instead of shutting down retail activity, the presence of DRCs actually stimulates dynamic growth within local retail.

Kenneth Stone, a professor at Iowa State University, has written several articles regarding the specific effects of Wal-Mart on the health of rural and urban business. He has turned his experience into a consulting business where he instructs businesses and civic leaders on how best to adapt to the entry of Wal-Mart into their communities. Using retail sales tax data from the Iowa Department of Revenue and Finance, Stone analyzed the effects of Wal-Mart after entering into a town in Iowa from 1988 to 1993. Stone is unable to isolate Wal-Mart sales figures as all retail establishments are consolidated into one category in the Iowa data, but he attempts to extrapolate the effects of Wal-Mart alone by measuring the overall change in retail sales before and after their entry into a specific town. The study found that certain retail categories such as home furnishings and eating and drinking establishments improved their sales over five years in towns with a Wal-mart, with overall sales figures increasing 6%.[55] Businesses that were in direct competition with Wal-Mart, such as building supply, apparel, and specialty stores all experienced an average 15% decline in sales over five years. Non Wal-Mart towns fared much worse over the same five years, losing sales in every major category except food stores for an overall loss of 10.4% in retail sales.[56] Stone points out that small towns within a 20 mile radius of a Wal-Mart lost almost 8% more in sales than similar towns farther away. This would suggest that towns with a Wal-Mart draw in consumers from a larger area and help consolidate retail markets within larger towns. The largest losses in retail states sustained within the state occurred in towns with less than 5,000 inhabitants. The overall conclusions of the study indicate a huge change in the retail habits of Iowa consumers from 1983 to 1993. Statewide, every single retail

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[55] Kenneth E. Stone, "Impact of Wal-Mart Stores On Iowa Communities: 1983 – 1993," *Economic Development Review* 13 (Spring, 1995: p. 61-4.
[56] Ibid., 64.

category selected by Stone lost market share over those ten years except department stores, which include large discount retailers such as Wal-Mart.[57] During this period, department stores gained over 31% of the overall market share statewide.

There is little clear and convincing evidence that Wal-Mart itself blighted Iowa retail, and in fact it appears Wal-Mart served as a bulwark against retail losses in the rural areas they entered. What is clear is that Iowa consumers changed their buying habits dramatically over ten years, preferring to shop at discount retail chains in cities rather than upon small rural merchants. If one considers this change in preference to be a sign of consumer satisfaction, rural consumers vastly preferred spending at discount chains. The overall scenario the data describes seems to be the gradual displacement of one mode of retail practices with another, much like mail order catalog companies displaced rural general stores in the late 19th century. This is not to say that there wasn't collateral damage done to the outmoded retail order. According to the U.S. Economic Census, within Iowa from 1982 to 1992, adjusted for inflation, sales for general merchandise increased by 37%, all other categories rose by 5%. From 1992 to 2002 all categories of retail except general merchandise lost 27% of their workforce and the number of stores shrank by 31%. Within the general merchandise category, which includes Wal-Mart, Wal-Mart Supercenter, Sam's Club, Costco, Target and others, the number of stores rose 3%, adding 16% to their workforce. These stores may seem destructive to their competition, but they are a boon to consumers and the economic areas they serve. While the benefits of discount retail may seem cold comfort to displaced small businesses, it is part the cycle of retail change that has brought better prices and convenience to consumers. Alan Zaremberg, president of the California Chamber of Commerce, commenting on Wal-Mart's entry into California, tells a story that sums up this idea: "I grew up in Pennsylvania, my father had a corner market there. When I

[57] Ibid., 68.

was 3 or 4, the A&P moved in and put him out of business. That was tough, but I don't think anyone would go back and say we shouldn't have supermarkets."[58]

Another major criticism levied against Wal-Mart is that it offers low wages, poor benefits, and limits its number of full time employees. In terms of wages and full time employment, the company is in line with the rest of the retail sector. According to the Bureau of Labor Statistics (BLS), the average wage for the retail industry as of 2004 was $10.25 per hour; Wal-Mart reports its overall average hourly wage to be $10.[59] In 2004, retail cashiers earned $8.25 per hour; as of 2003, Wal-Mart paid cashiers an average of $8.50.[60] The company maintains 74% of its workforces as full time, which it defines for the purposes of benefits as 34 or more hours per week.[61] According to the BLS, 80% of workers in non-agricultural industries were considered full time in 2004; this number is most likely lower when considering the retail sector alone.[62] While it cannot be said that Wal-Mart distinguishes itself from the rest of the retail sector in terms of wages and full time employment, it is very close to the average.

Where Wal-Mart distinguishes itself from the rest of retail is in healthcare benefits. At first glance it would appear that the company offers much less to their employees than other retailers. For instance, in 2003 retailers spent an average of $4,400 per employee on healthcare; Wal-Mart spent $3,100.[63] Company employees can pay as little as $31 per month for individual coverage or $66 for families, but the annual deductible is $1,000. Deductibles, which are the amount that have to be paid before coverage initiates, are available as low as $350, but the cost

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[58] Nancy Cleeland and Abigail Goldman, "Grocery Unions Battle to Stop Invasion of the Giant Stores," *Los Angeles Times*, November 26, 2003.
[59] "Wal-Mart's First Media Day Refutes Criticism," *DSN Retailing Today* 44, Iss. 8, Apr 25, 2005: 3; U.S. Bureau of Labor Statistics at www.bls.gov/oes/current/naics3_452000.htm.
[60] Steven Greenhouse, "Wal-Mart, Driving Workers and Supermarkets Crazy," *New York Times*, October 19, 2003.
[61] Amy Joyce, "Wal-Mart Is Focal Point of Democrats' Health Bill," Washington Post, June 23, 2005; *DSN Retailing Today*, Ibid.
[62] U.S. Bureau of Labor Statistics at http://www.bls.gov/webapps/legacy/cpsatab5.htm.
[63] Andy Miller, "Wal-Mart Stands Out On Rolls of PeachCare," *Atlanta Journal-Constitution*, February 27, 2004.

per month is higher.[64] What is represented in these numbers is not necessarily stinginess, but rather a philosophy of cost containment that seeks to encourage economization of healthcare usage. Wal-Mart offers affordable coverage at a high deductible in order to encourage economization of lesser healthcare needs. This logic is borne out by considering the fact that the company has no lifetime benefit limits on cost, and pays 100% of costs over $1,750 per year, something only 42% of other retailers offer.[65] Also, a deductible that requires $1,000 in out of pocket medical expenses is not out of line: the average out of pocket medical expense per person in the United States was $791 in 2003.[66] Another cost containment method Wal-Mart employs is a $100 surcharge if a spouse is covered under the company's plan that is also able to receive coverage from another employer.[67] 86% of Wal-Mart employees have healthcare insurance. Of those, 60% opt to use Wal-Mart's plan, compared to a 72% sign-on rate for the entire retail sector.[68] Overall, 52% of Wal-Mart employees are directly covered under their plan. The bottom line consideration of Wal-Mart's healthcare plan: if an employee has an illness or condition that would be financially ruinous, the plan covers all costs. The trend in retail healthcare has been one of cost containment. The retail sector cut healthcare spending per employee by 9% in 2003, and only 44% of employees in the retail sector have employer provided healthcare insurance.[69] Target Corporation, a major competitor to Wal-Mart, cut all

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[64] Ibid..
[65] Bernard Wysocki, Jr. and Ann Zimmerman, "Bargain Hunter: Wal-Mart Cost-Cutting Finds A Big Target in Health Benefits," Wall Street Journal, September 30, 2003.
[66] Smith, C., C. Cowan, A. Sensenig and A. Catlin. "Health Spending Growth Slows in 2003." Health Affairs 24:1 (2005): 185-194
[67] Wysocki and Zimmerman, ibid.
[68] Wysocki and Zimmerman, ibid.; Chuck Bartels, "Wal-Mart Opponents' Campaign Uses Maryland Legislature As Model," *Assoicated Press,* June 1, 2005.
[69] Nancy Cleeland and Abigail Goldman, "An Empire Built on Bargains Remakes the Working World," *Los Angeles Times*, November 23, 2003.

healthcare benefits to part time employees who work twenty or less hours per week.[70] Wal-Mart continues to offer healthcare to part time workers who have worked at least two years.[71]

On balance, considering the evidence, Wal-Mart seems to be good for America. When Wal-Mart enters a town, the tendency is toward economic stabilization and growth in the local retail economy. While not going above and beyond, its wages are on par with the rest of the retail sector. And while its healthcare spending seems behind the rest of the industry, Wal-Mart has been very successful in containing healthcare costs while ensuring employees are protected from financially ruinous medical bills. Many will still criticize the company's healthcare plans as stingy and mean, but it may turn out, given the trends in retail, that Wal-Mart's policy is the future of private health insurance plans. Wal-Mart's plan presents a compromise on cost that sacrifices minor medical costs to protect the physical and financial health of employees. The trend is toward healthcare cost containment in all sectors of the economy. From Medicaid programs breaking state budgets to Fortune 500 corporations weighed down by providing benefits, out of control spending on healthcare is turning some companies and states into HMOs. Despite the fact that Wal-Mart is mostly in line with the rest of American retail, the ire felt by labor unions, consumers, and politicians about low wages and benefits is focused primarily on Wal-Mart. Much of the reason for this focus is of course because of Wal-Mart's size and success, but some of the reason is due to the company's late and half-hearted recognition that in addition to selling goods it has to sell itself to the American public.

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[70] "Target Cuts Benefits for Part-Time Workers," *Assoicated Press*, May 10, 2003.
[71] Wysocki and Zimmerman, ibid.

MISMANAGING AN IMAGE

In the early twentieth century, the General Electric Company was considered by many Americans to be an enormous, powerful and completely impersonal corporation. After a contentious battled with federal antitrust charges in 1911, an informal survey undertaken by the head of the legal department found GE had left an impression on the American public as being "the owner and master of most of the public utilities of the country," and the "head and front … of a 'power trust.'"[72] These impressions among the public reinforced an attitude among GE's management of reserve and distance from the public eye. One executive remarked GE did not buy any newspaper advertising because "we were then constantly on the defensive and anything and everything we said in pubic print was apt to be misconstrued and made the basis of unfriendly, and in many cases vicious, criticism."[73] As Roland Marchand observed in his work on the birth of American corporate public relations, *Creating the Corporate Soul,* the attitude GE's chairman Charles Coffin in the early 1920s represented much of why GE was perceived this way. Coffin was "a paragon of the old school of management, which concerned itself greatly with production and very little with 'image,' … Coffin defined the GE agenda succinctly: 'A company's job is simply to make goods and sell them.'"[74] But as GE's size outstripped its perceived use to the American public, its ability to do business was handicapped.

When a new president and chairman were installed in 1922, the company hired advertising wunderkind Bruce Barton of the firm of Barton, Durstine, and Osborn (BDO), to improve the company's image.[75] Owen Young, the lawyer who had worried in 1911 about the public's perception of GE, had become chairman, and was still concerned about how image was

[72] Marchand, 150.
[73] Ibid., 151.
[74] Ibid.
[75] Ibid., 152-3.

affecting GE's bottom line. As Young related to Barton, and Barton related to GE's management, "the one danger… is that your growth will outrun public appreciation of the necessity for that growth."[76] Marchand writes:

> A business as immense as GE, Young had warned, could not remain a "purely private" business if it expected to endure and grow. It had to become an "institution," with its leaders serving as trustees. As late as 1925 Young was still worrying that GE had not done enough to cultivate a favorable impression as "a public service concern" and looked ahead wistfully to a day when the company would enjoy such public goodwill as to stand "invulnerable to the attacks of politicians."[77]

Barton undertook to give GE an institutional character and "soul" by portraying GE's business as freeing women from domestic toil and their efforts as force for progress and freedom from labor. By the late 1920s, GE was a much more recognized and trusted brand name, and their profitability and stock price had appreciated greatly. When GE entered into the refrigerator business in 1927, they quickly captured 34% of the U.S. market within two years.[78] While this success could not be attributed entirely to Barton's reworking of GE's image, Marchand contends that "it is difficult to imagine that same degree of success of GE had enjoyed no greater public visibility in 1927 than it had back in 1922."[79] Marchand's example of GE's early success with molding a corporate image stands as an example of how many big corporations such as General Motors, AT&T, DuPont, and others weathered government regulation and public distrust by garnering support through public relations. This is a lesson that Wal-Mart is slowly and painfully learning.

In making decisions for the company, Wal-Mart executives often ask themselves and others "What would Sam do?" Sam's Choice products still serve as Wal-Mart's house brand, and its wholesale discounting division is still called Sam's Club. At the opening of a new Wal-Mart in Shenzen, China, Walton's smiling picture has a place of honor, and his rules for business

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[76] Ibid., 156.
[77] Ibid..
[78] Ibid., 160.
[79] Ibid.

are displayed in both English and Chinese. It is undeniable that Sam Walton's philosophy and personality continue dominate the direction and focus of the company he founded. Since Walton's passing in 1992, Wal-Mart has continued its incredible growth and expansion within the U.S. and overseas based on his vision, but the poor public relation habits it inherited from Walton are presenting obstacles for the company as it attempts to expand its dominance of discount retail. As the experiences of previous innovators in retail have borne out, the success of a new retail paradigm is predicated both on its profitability and its acceptance by the public. Wal-Mart has been inattentive to the latter, and the growing skepticism among the American public is starting it down the road to government intervention in its business.

Wal-Mart is a shock to the system of American business, both within and without retail. Some business consultants devote their entire focus to helping current businesses survive when Wal-Mart enters into a town. The company is a force to be reckoned with: each week Wal-Mart stores draw 138 million shoppers into its over 5,300 stores in the U.S. Revenues last year topped $288 billion dollars, or 2.5% of the U.S. gross domestic product, more than any other company. In 2002, 82% of American households purchased at least one item at Wal-Mart.[80] As the largest private employer in 25 states, and the largest overall in the United States, the policies it adopts affect the whole of the American economy. The landscape of American retail is much different today than it was ten or twenty years ago due to the continuing expansion of Wal-Mart.

As much as Wal-Mart's everyday low prices have attracted legions of American consumers, their size and new ways of doing business are beginning to inspire fear among the American public and creating enemies among the workers and businesses it displaces. In reaction against these sentiments, a siege mentality reigned in the head office during the 90s that has made Wal-Mart seem insular and combative. Wal-Mart has often seemed intransigent and

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[80] Greenhouse, ibid.

unreasonable in how they deal with opposition. Under the leadership of the current CEO Lee Scott, attitudes have moderated somewhat, but undoubtedly much damage has already been done. At the insistence of company directors, CEO Scott undertook a survey to find out what the public's attitude was toward Wal-Mart. Directors were worried about the public's perception of the company based on the negative comments they were hearing from their friends. The survey found that, while within the company employees were very positive about Wal-Mart, ten percent of all consumers hated it. Thirty percent of consumers responded they had "sincere questions about Wal-Mart" based on their perceptions of how it treated its workforce.[81] Scott and others are waking to the realization that they need to do much more to improve the public face of Wal-Mart. In recent interviews Scott has expressed his regret that "we've let someone else define our reputation" and that "we were so busy minding the store we didn't realize we had become a political symbol."[82]

Wal-Mart has earned some of its bad reputation through an excessively suspicious and combative attitude toward opposition. Its litigation practices have been particularly severe: in the past Wal-Mart has refused to settle most cases and has earned a reputation in the courts as a hostile and difficult plaintiff. And more often than not, their attitude has not brought legal success, nor has it stemmed the tide of cases brought against them. In the early 1990s, Wal-Mart had about 2,000 lawsuits pending against it in U.S. courts; by 2002 the number had grown to 8,000.[83] The majority of these cases were not necessarily related to business practices: of these 8,000 cases, 5,100 related to personal injury claims such as customer slips in the parking lot or damages for crimes occurring on Wal-Mart property.[84] After being made CEO in 2000, Lee

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[81] Zimmerman, ibid.
[82] Slater, 178; Zimmerman, ibid.
[83] Slater, 201.
[84] Slater, 203.

Scott took steps to reform Wal-Mart's legal operations, hiring Tom Hyde, former general counsel from Raytheon Corporation, to reform Wal-Mart's legal culture.[85] Before Hyde's arrival, the company was often saddled with fines and sanctions by judges for the way it conducted itself in court. Scott was being told the reason was because of "all the liberal judges that had been appointed," but Hyde's finding was that most of these sanctions had been deserved.[86] Three years after Hyde's arrival, there were no sanctions or fines levied against the company by the courts. The legal department has taken on a more conciliatory attitude toward some cases and has demonstrated a willingness to mediate or settle more of their disputes. Many of the past losses Wal-Mart has accrued through their aggressive litigation have cost the company dearly, both in reputation and in resources, but the stakes were raised significantly in 2004 when a U.S. district judge in San Francisco approved a gender discrimination class action suit against Wal-Mart on behalf of 1.6 million past and present female employees. The case could potentially cost Wal-Mart billions of dollars; how they choose to respond will be a test of Hyde's ability and the new attitude of the legal department.

Wal-Mart's severe and combative attitude is not limited to its legal disputes. A core principle of Wal-Mart's business practices, which Sam Walton outlines in his autobiography and which are displayed in many Wal-Mart offices, is one of always seeking to control costs. Wal-Mart is extremely good at controlling healthcare costs, but sometimes extremely poor knowing where to draw the line in order to maintain both its image and the good will of its workforce. For example, the Wall Street Journal reported in 2003 on the plight of Mittie Funderburk, a 52-year-old employee who claimed to have injured her back in 2000 while lifting goods at San Angelo, Texas Wal-Mart. She failed to report the incident until two months after she sustained

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[85] Slater, 206.
[86] Zimmerman, ibid.

the injury. Her doctor, and a second doctor appointed by Wal-Mart, recommended surgery, but the company refused arguing the surgery was unnecessary and that she did not report it in a timely fashion. After a year, Wal-Mart finally agreed to pay, but Mrs. Funderburk continued to suffer debilitating pain after her surgery. They refused to pay for further surgeries despite the recommendations of two doctors. After three judgments against it by the Texas State Workers' Compensation Commission, Wal-Mart appealed the commission's ruling in state district court. Wal-Mart fired Mrs. Funderburk in 2002 because she had been out of work for over a year. Eventually, the state of Texas agreed to pay for a spinal-fusion surgery and to pursue Wal-Mart for the cost.[87] In saving the healthcare plan $30,000, Wal-Mart's intransigence earned it the contempt of the state of Texas, several doctors, a former employee, and potentially several others. The cost to Wal-Mart's image would seem to add to up significantly more than was saved.

In its relations with the press, Wal-Mart management could be considered once bitten, twice shy. Robert Slater, in his book *The Wal-Mart Decade,* describes an event that would make the company wary of the press's interest in Wal-Mart. After years of remaining mostly aloof from the press, Sam Walton agreed shortly before his death to allow the NBC news magazine *Dateline* to interview Wal-Mart management and film inside its operations.[88] Being assured by Jane Pauley that the story would be complimentary toward Wal-Mart, Walton and then CEO David Glass felt the experience would be good a public relations move. When the story aired in December 1992 it proved to be a public relations disaster which Glass and others considered a betrayal. The story focused on Wal-Mart's "Buy American" campaign that started in 1985, where Sam Walton had committed the company to buying American goods rather than relying

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[87] Wysocki and Zimmerman, ibid.
[88] Slater, 187 – 192.

on foreign imports. *Dateline* went to factories in Bangladesh and accused Glass of using overseas child labor, showing him video footage from factories alleged to produce clothing for Wal-Mart stores. After several denials, the interview was abruptly called to an end by a company vice president. Two weeks later, Glass invited NBC back after an investigation by Wal-Mart to say that the company's representatives were not able to substantiate NBC's claims. Glass and NBC reporter Brian Ross entered into a contretemps about whether the child labor depicted in the *Dateline* video was authentic, with NBC taking a few more shots at Wal-Mart's "Buy American" campaign. The entire incident left Glass and others in the company embittered and chary of further contacts with the press. Glass said in a 2002 interview with Slater regarding the *Dateline* debacle, "we sort of got blindsided about things that we didn't know about. We were naïve. We hadn't been attacked before. Sam and I always said that if you do the right thing and if you have integrity, everything you do in business will work out all right. You don't have to spend a lot of time doing p.r. work or being active in Washington." Echoing the convictions of General Electric's former president Charles Coffin, Glass concludes "our business is to buy and sell merchandise to customers, and we'll ignore all the outside distractions. That will take care of itself if we do the right thing."[89]

Even back in 1992, Wal-Mart had grown too big to simply go about its business. A slow recognition of this has made public relations a priority for the current CEO Lee Scott, who spends a great deal of his time dealing with the various controversies, attacks, and disputes over Wal-Mart's business. But Scott does not enter into this world of public relations willingly or with much enthusiasm. Asked by a reporter if he was having fun in his new role as the public defender of his company, Scott responded "No, not at all. Fun is walking stores and seeing what

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[89] Slater, 192.

is selling, seeing how we're taking care of customers. The rest is the lot I've drawn."[90] The corporate culture Sam Walton developed continues to fuel a retail juggernaut, but enthusiasm for running an efficient operation and serving customers has not translated well to understanding public relations. Remembering the experience of General Electric, the chief danger to a large corporation is "growth will outrun public appreciation of the necessity for that growth." Wal-Mart seems to be outrunning the public's appreciation of its size and continued dominance of retail.

A DIFFICULT LABOR

Sam Walton did not like unions. He felt that the logic of organized labor was to create divisions between management and labor, which made it difficult to communicate with employees directly. Walton thought unions "by breaking down direct communication, [make] it harder to take care of customers, to be competitive, and to gain market share."[91] As a consequence, Walton fought every attempt to unionize his stores, and during his tenure, no Wal-Mart ever unionized. The first moves for unionization came in the early 1970s, after the openings of Wal-Mart #20 Clinton, Missouri and #25 in Mexico, Missouri. In both cases, Walton thought the employees had a legitimate reason to be dissatisfied because their managers "weren't as open with their folks as they should have been. They didn't communicate with them, they didn't share with them, and consequently, we got in trouble."[92] In fact, Walton remarks in his autobiography that "anytime we have ever had real trouble, or the serious possibility of a

[90] Zimmerman, "Counterpunch – Wal-Mart Boss's Unlikely Role: Corporate Defender-in-Chief," ibid.
[91] Walton, 166.
[92] Ibid., 167.

union coming into the company, it has been because management has failed, because we have not listened to our associates, or because we have mistreated them."[93]

Shortly after preventing unionization at the Missouri stores, the company decided to start a program called "We Care," which initiated an open door policy where employees were encouraged to approach management with complaints. Walton also initiated a change to how Wal-Mart's employees were to be called: from then on, they would be referred to as 'associates.' Walton felt this better represented an idea of partnership between employees and management in making the company a success. Walton also started a profit sharing plan where any associate who had worked at least a year and 1,000 hours received a percentage of their wages in cash or Wal-Mart stock, and a stock purchase plan were employees could buy Wal-Mart stock at a 15% discount.[94] Stores post the share price of Wal-Mart stock to let them know how the company is doing and to encourage a spirit of shared enterprise. Overall, the company became focused on treating all their employees as partners in their enterprise, and ever since, Wal-Mart has focused on building a corporate culture that attempts to reinforce this idea. At the company's spectacular shareholder meetings, where in addition to shareholders 'associates' are flown in from stores around the country to represent their coworkers, the meeting proceeds more like a rally for a major sports franchise than a sober recounting of the year's business for the largest retailer in the world. Morning employee meetings at Wal-Mart stores, where employees are encouraged to exchange ideas and individual achievements are recognized, always end with a loud rendition of the Wal-Mart cheer. The success of Wal-Mart's partnership culture may be reflected in the high opinion their employees have of the company, as reflected in the survey Lee Scott undertook in 2003. Also, the 1992 *Dateline* exposé on Wal-Mart served to rally employees to the company's

[93] Ibid., 166.
[94] Ibid., 172.

defense. David Glass received one hundred thousand signatures of support from employees in his office, and *Dateline* received the largest reaction to any show it had aired up until then: seven thousand calls and letters mostly from Wal-Mart employees complaining about the program.[95]

Largely the company has been very successful at keeping unions out of its stores, but there have been a few slips. Meat cutters at a Jacksonville, Texas Wal-Mart voted to unionize with the United Food and Commercial Workers (UFCW) in February 2000. Wal-Mart subsequently switched to pre-packaged meat in all stores, eliminating all need for meat cutters, and rendering the union election moot. A Wal-Mart in Quebec voted to unionize in 2004, and the company subsequently decided to close the store, citing its future unprofitability as a union shop. Despite a sustained union campaign against it in 2002, Wal-Mart successfully expanded into the Las Vegas area, driving out some unionized grocery chains, and forcing other area retailers to cut prices. The strongest union opposition Wal-Mart has yet faced began with its expansion into California as many unionized grocery stores recognized they were unlikely to be able to compete with Wal-Mart's low prices. According to a 2002 study by UBS Warburg, a cartful of groceries purchased at a Wal-Mart Supercenter is 17 to 39% cheaper than at a unionized supermarket.[96] At Safeway, a supermarket chain based in California, labor costs account for 15% of sales, whereas at Wal-Mart the figure is 9%.[97] Wal-Mart clerks earn \$8.50 an hour, near the average of \$8.25 for all clerks employed in retail. In California, unionized grocery clerks earn an average of \$17.90 an hour after two years on the job, plus benefits.[98] It is easy to see why unions are choosing California as a battleground. Since its entry into grocery in the early 1990s, Wal-Mart has contributed to the closing or bankruptcy of over 25 regional

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[95] Slater, 191.
[96] Cleeland and Goldman, ibid.
[97] Ibid.
[98] Greenhouse, ibid..

grocery chains across the U.S., eliminating 12,000 mostly union jobs, and forcing a fundamental reshaping of the grocery business.[99] It is estimated that each Wal-Mart Supercenter that opens eliminates about 200 UFCW jobs.[100] The looming threat of Wal-Mart's expansion into California helped to precipitate a five month strike, starting in October 2003, by UFCW workers over attempts by the major grocery chains to renegotiate labor costs in order to be more competitive.

The recent split between Service Employees International Union (SEIU), UFCW, and other unions from the AFL-CIO was partly over their differences on what to do about Wal-Mart. Led by the UFCW and SEIU, some unions have switched tactics from attempts to unionize particular stores to fighting Wal-Mart's expansion. In 2003, the UFCW ran their own candidate for city council in Inglewood, California to influence the council's vote on allowing Wal-Mart to open a new Supercenter in a vacant parking lot. Their candidate won with 70% of the vote, but Wal-Mart battled back with a city initiative to overturn the council and allow the Supercenter to be built.[101] The initiative failed to pass in a March 2004 vote that was heavily influenced by union political organization and spending. In 2004, unions helped to place Proposition 72 on the California ballot that would have required employers like Wal-Mart to provide healthcare to all their workers. The initiative narrowly lost thanks in part to the aggressive political spending of Wal-Mart. That year Wal-Mart spent over $2.4 million in California political races, more than it had in any other previous year.

Another more recent strategy unions have adopted is promoting bills in state legislatures that would place a fee or tax on Wal-Mart to pay for state Medicaid programs. In May 2005, Maryland's Republican Governor Bob Ehrlich vetoed the Fair Share Health Care Act passed by

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[99] Cleeland and Goldman, ibid.
[100] Ibid.
[101] Cleeland and Goldman, "Grocery Unions Battle to Stop Invasion of the Giant Stores," ibid.

the legislature and heavily promoted by the UFCW and Maryland's largest grocery chain owner, Ahold. The act would have required Wal-Mart to spend at least 8% of its payroll on healthcare coverage or else contribute to the state's Medicaid budget. Similar proposals are being made in New Jersey, Pennsylvania, and recently, in the U.S. Congress. In June 2005, Senators Edward Kenney, Jon Corzine, and Representative Anthony Weiner introduced the Health Care Accountability Act, which would require companies to report to the federal government that have 50 or more employees on state Medicaid programs. Most of these proposals are based on the belief that Wal-Mart is a drain on state resources because so many of its workers belong to state funded healthcare plans. In Tennessee, Wal-Mart has more employees than any other business signed up for TennCare, the state's Medicaid program, or about 25% of its employees in the state.[102] In Georgia, a 2002 survey of the state's new childrens' insurance program, PeachCare, found that Wal-Mart topped the list of employees who signed on to the program with about 24% of its workforce enrolled. Tennessee officials warned about the accuracy of their survey because of high turnover rates at many of the companies in the report, and that it did not count employees at company franchises. Nonetheless, the numbers are difficult to argue with. Senator Kennedy remarked at the press conference introducing the employee reporting bill that "every worker in America is paying a part of their taxes to pay for Wal-Mart."[103] The problem is a difficult one, and glib answers do not suffice. But some of the answers to why there are so many Wal-Mart employees on state programs may have more to do with the state of healthcare in America than Wal-Mart's policies. Being the largest private employer, Wal-Mart seems a good target, but the question of what counts as adequate healthcare, who should be provided with it, and at what cost to the taxpayer is one that American policy makers have been deferring for

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[102] John Commins, Dave Flessner and Ashley M. Heher, "On the Job and On TennCare," *Chattanooga Times Free Press*, January 1, 2005.
[103] Joyce, ibid.

years. Perhaps Wal-Mart can participate in helping to find a solution to America's dawning crisis over healthcare costs, but reflecting on their healthcare policies, they do not seem to be the ones to blame for it. The company intends on continuing its battle, against hostile legislation and union agitation against its business in state capitals. Bob McAdam, vice president of corporate affairs for Wal-Mart, states: "Many of our opponents are trying to use the political system to stop our growth, and we are not going to sit back and take it without responding. We will respond."[104]

LESSONS FROM RETAIL HISTORY

Wal-Mart's aggressive battles against unions and others that attempt to limit its growth will continue to rise for the foreseeable future. While Wal-Mart seems to be holding its own, their aggressive tactics and fighting spirit have yet to yield many friends, and there is little hope their strategy will win them acceptance from the American public. Now that Wal-Mart has entered into the final phase of retail change, the outcry for government intervention, it should concentrate more on creating public acceptance if it wishes to avoid regulation. While Wal-Mart has a right to fight its battles anyway it chooses, perhaps they could take a lesson from a group of innovative retailers fighting a ballot proposition attempting to limit their business in California when Sam Walton was just graduating high school. In 1936, a referendum was sent by the legislature and the governor to the people that would tax chain stores at an increasingly higher rate depending on the number of stores they operated.[105] The legislature was bowing to small retailers demands that something be done about the unfair competition chain stores presented. Godfrey Lebhar, former editor and publisher of *Chain Store Age*, observed that "legislators could

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[104] "Wal-Mart Political Spending Hits New Levels in California," *Dow Jones News Wire*, October 27, 2004.
[105] Lebhar, 239.

hardly have failed to be impressed by the claim that 80,000 California independent merchants demanded its passage—frankly admitting that the purpose of the tax was to drive the chains out of California."[106] This referendum couldn't have come at a worse time for the chain store trade: Wright Patman was in the midst of decrying chain stores in Congress, several state legislatures had passed special taxes to limit their growth, and the whole industry was on trial in the court of public opinion. The California Chain Stores Association knew they would be unable to deal with the kind of public campaign required to defeat the referendum, so they hired Don Francisco, a vice president for the advertising firm of Lord & Thomas.[107]

Francisco immediately set about a designing a campaign of cooperation and education, both for the voters and for the chain store operators themselves. Francisco wanted chain store operators to recognize that just because a business was successful and people shopped there, this didn't necessarily mean they liked the company: "Motorists may buy at your service station but damn you because they think you are a monopoly. They may go out of their way to save a few pennies at your chain store and then denounce you for paying low wages. Making friends and making customers are two different jobs—separate but related."[108] Francisco understood the peril the chain stores had been put in and how much it needed public understanding in order to survive: "Without friends, without enlightened public opinion based upon self-interest, a business with a million customers can be crucified by a militant minority."[109] Francisco believed the chain stores had not done a good job of telling their story to the people of California, the story of why they were a benefit to the community. He set about telling the story that chain stores possessed many virtues useful to the public: "prime outlets for the farmers' produce, the

[106] Ibid.
[107] Ibid., 242.
[108] Ibid., 243.
[109] Ibid.

opportunity offered to deserving employees to climb to positions of responsibility, and the service performed for the average family by providing convenience, cleanliness, better merchandise and lower prices." Francisco felt the referendum had passed because chain stores, "in the face of abuse" had been "singularly inarticulate, or, at most, had contented themselves with defensively debating the damaging thrusts of their opponents."[110]

The campaign against Proposition 22, led by Francisco, lasted almost a year, starting with a "practical farm relief" initiative that helped distribute surplus California produce and beef throughout the country through the chain stores distribution system. Previously, food producers in the state were wary if not hostile to the chain stores, but the initiative showed "in a concrete way the important part the chain-store system played" in the economy. Many friends were won and profits made for both producers and the chain stores through this cooperative effort. The second phase was one of public education. The campaign employed the slogan "22 is a tax on you!" and through various mediums, the chain stores told their story of how they benefit consumers. The campaigned proved a great success, the proposition losing with only 44% voting in favor. 57 out of 58 counties voted against it.[111] While the chain stores were under siege they were given an opportunity to publicly defend their business. Through education and cooperation they managed to turn the tide of public opinion, appealing to the self-interest of the voters and producers of the state. Wal-Mart may one day face a similar challenge, and could learn something from Don Francisco and the chain stores' battle over Proposition 22. The lessons seem as useful and relevant today as they were in 1936.

[110] Ibid., 245.
[111] Ibid., 249.