Most Admired or Most Despised?  
Wal-Mart Stores, Inc.

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Wal-Mart started as a discount store in a small town in Arkansas, but today it is the world’s largest company. In 2002, its sales were $245 billion, and it replaced Exxon Mobil at the top of the Fortune 500 list. Wal-Mart now has a huge impact on the US economy because of its tough cost-cutting business strategies as well as its huge size. It is the biggest private sector employer in the US (1.4 million employees), but its wages are below poverty level. It is responsible for much of the improvement in productivity achieved in the US recently. It has forced many companies to either close or change their ways of doing business. Furthermore, Wal-Mart’s global influence is growing as well. It is the largest private employer in Mexico, and the largest purchaser of Chinese products, and it is trying to export its business model worldwide.

Sam Walton

Sam Walton, the founder of Wal-Mart, developed his entrepreneurial skills while growing up in Missouri during the Depression. He worked at several jobs while attending high school and university. While a student at the University of Missouri, he worked part-time in a store, waited tables, and also became the number one salesman of the university newspaper. In 1940, he took a job at J. C. Penney’s, the department store chain, and began to learn about retailing. Penney’s called employees “associates” and told them to put customer satisfaction ahead of profit. Later, Walton borrowed (or stole) some of J. C. Penney’s business practices for his own businesses.

He borrowed money to buy a store in a small town in Arkansas in 1945, and he soon tripled the store’s profits. He lost control of the business, but moved to another small Arkansas town, Bentonville (5,000 people), and turned another store into a big success. He was successful because he worked hard and kept prices low. He lowered prices in part by keeping costs as low as possible. He used a tiny loft in the store for his office. To get into the office, he had to climb a ladder. Even in the 1980s, when Walton had become one of the world’s richest men, he flew economy class and refused to rent expensive cars or eat in nice restaurants.

Walton continued to borrow money to buy other stores in Arkansas and Missouri. He had to spend a lot of time going to the stores, so, to save time, he learned to fly. He often visited 4 or 5 stores a day. Walton was a careless flyer. He never checked the plane properly, and once he
crashed a plane when he tried to take off in thick snow.

By 1960, Walton owned fifteen stores, but he was not satisfied with his profits. Then Walton had two ideas. First, he would make the stores larger, and second, he would discount all items. At that time, there were few discount stores in the US, although several other entrepreneurs were about to begin large-scale discounting. However, most discount stores were in big cities. The distinctive feature of Wal-Mart was that its stores were located in small towns.

The first Wal-Mart opened in 1962. The store was an immediate success, and Walton continued to open stores in small and mid-sized towns in Arkansas, Missouri, and Kansas. Low prices made Wal-Mart popular, and it faced very little direct competition, since other discount stores were almost always located in larger cities.

Wal-Mart grew slowly until 1970, but then began to open new stores rapidly. Walton liked to look for locations for new stores by plane. If he saw a site that he liked, he quickly landed the plane and tried to find the owner of the land so that he could make a deal immediately. In 1971, there were 51 Wal-Marts. By 1980, there were 276. Later, the company would once open 47 stores in one day. Today, there are 4,700 Wal-Marts world-wide.

In 1985, *Forbes*, a business magazine, named Sam Walton the richest man in the US. When he died in 1992, he was the second richest man in the country, after Bill Gates. Wal-Mart was often praised as one of the best managed companies in America - but it started to draw strong criticism as well.

**Business Strategy**

The company's basic business strategy, as well as its slogan, is "everyday low prices." Wal-Mart tries to buy large volumes from suppliers at low prices, then sell large volumes to customers by discounting prices sharply. The chain has always specialized in selling large volumes of ordinary products like snack foods and underwear. In addition to buying cheaply, it holds down prices by holding down costs and paying low wages.

Wal-Mart spends very little money on advertising, and it does not try to be trendy. The company's emblem is a simple happy face. The stores' displays are very plain. The stores themselves are unattractive.

Although the business strategy is simple, Walton also created a distinctive company culture. He stressed his "small town" values and his concern for customers and employees. He encouraged people to use first names, and employees called him Sam. Walton always called the employees "associates" and insisted that they were partners in the company.

Many employees admired the boss, who was known for visiting stores constantly. They were free to talk to managers, and they often contributed ideas. The store provided promotion and profit-sharing opportunities. "Mr. Sam" still dominates the company culture, even though he died in 1992.

Despite its informal culture, Wal-Mart is aggressive. Unions are not allowed. The headquar-
ters has a provocative poster that says “Who is taking your customers” along with pictures of CEOs of competitors like Target on the walls. They are the enemy.

Cutting Costs

Wal-Mart has several ways of reducing prices. First, the company ruthlessly holds down operating costs. Wal-Mart’s operating costs are 16.6 percent of sales, below the retail industry average of 20.7 percent. At Wal-Mart headquarters, the offices are small and the furnishings are cheap, although there are lots of pictures of Mr. Sam.

Second, like Toyota, Wal-Mart puts strong pressure on suppliers to become more efficient. It then passes the savings to customers in the form of lower prices.

Third, Wal-Mart uses advanced technology effectively. It even forces major suppliers to use the same technology. Its databases are said to be second in size only to the Pentagon’s.

Fourth, Wal-Mart holds down worker pay and benefits. According to one source, the average Wal-Mart employee earned $8.23 an hour, or $13,861 a year, in 2001. That was less than the official poverty line of $14,630 for a family of three.

In addition, Wal-Mart combines scale, scope, and speed to hold down prices and launch new products. It uses low prices to create high demand. But it also has great scope. Wal-Mart stores can expand their toy sections before Christmas, and then shrink them later, whereas Toys’R’Us has to sell toys all year round. Wal-Mart can also use products like gas and cola as loss leaders to attract people to stores.

Product turnover is very fast. 70% of Wal-Mart’s goods are bought by customers before Wal-Mart itself pays for them.

Market Power

Wal holds about 30% of the US market in many household goods like toothpaste and shampoo. Many analysts believe that its share will soon increase to 50%. It is the US’s biggest seller of toys, guns, diamonds, apparel, dog food, detergent, jewelry, sporting goods, video games, and socks. It is also the country’s biggest film developer, optician, private truck-fleet operator, energy consumer, and real estate developer.

Wal-Mart is Hollywood’s biggest outlet, accounting for 15% to 20% of all sales of CDs, videos, and DVDs. Wal-Mart helped turn Shrek into the biggest-selling DVD in 2001. This market influence gives Wal-Mart strong influence over the media and culture. It has contributed to the recent growth of Christian music and books.

Wal-Mart started its grocery business in 1993. Many people laughed at the plan. But today Wal-Mart is the world’s biggest grocer. It drives down prices an average of 13% in the markets it enters, according to one study. It has forced other grocery chains to start new cost-cutting strategies.
Wal-Mart is presently trying to enter several new businesses. These include financial services, vacation planning, internet access, flower delivery, and used car sales. It even sells computers for $199. The operating system is by Lindows, a new competitor of Windows.

Suppliers

Wal-Mart's huge market share gives it great leverage over suppliers, including major corporations like Proctor and Gamble (P&G). It often has great influence over product design. Sometimes it vetoes products that it does not like.

Bentonville is still a small town, but about 200 national corporations have established offices around the Wal-Mart headquarters. The area is now called Vendorville. There are no direct flights from New York to Little Rock, Arkansas' capital, but there are two every day from New York to Bentonville. The movement of suppliers has created an economic boom in northwestern Arkansas.

Wal-Mart uses tough negotiating practices to get very low prices. Often Wal-Mart simply refuses to pay higher prices. However, many suppliers praise Wal-Mart. One reason that it gets low prices is that it eliminates all special fees and allowances from contracts. For example, Wal-Mart refuses to pay for extras such as golf fees or Super Bowl tickets.

Cooperative suppliers can get major benefits. Wal-Mart can provide huge sales volume. The volume is also predictable, so factories can work steadily. In addition, Wal-Mart shares information and product ideas with suppliers. Rubbermaid, for example, has gotten hundreds of product ideas from Wal-Mart.

However, there are costs. Business partners are expected to provide information and advice. P&G, for example, agreed to share information with Wal-Mart in 1987, and it taught the company a lot about the laundry business. In 2001, however, Wal-Mart began to market its own detergent. That undercut P&G's main product, Tide. As Wal-Mart continues to produce its own products, its closest business partners will increasingly become its competitors.

Controversies

Wal-Mart is not a good place to work. Its wages are low and its turnover is high. Wal-Mart estimated that 44% of its 1.4 million employees would leave in 2003, and that it would have to hire 616,000 new employees. (Turnover in 1999 was 70%.) Although many "associates" are loyal, many others are bitter about the low pay. Wal-Mart currently faces many lawsuits regarding unpaid overtime and other labor violations. Wal-Mart is also facing a major lawsuit charging gender discrimination.

Wal-Mart has forced many competing stores and companies out of business. Small businesses in small towns are vulnerable, because they are too small to match Wal-Mart's scale efficiencies. As a result, jobs are lost and consumer choice is reduced. Many local groups now strongly oppose
the establishment of new Wal-Mart stores in their communities. The web is full of anti-Wal-Mart sites.

Wal-Mart also has a history of bad business practices. In 1998, for example, it sold fake Tommy Hilfiger merchandise, even after a court ordered it to stop. It also launched a "Buy America" campaign in the 1980s even though its cost-cutting pressures were forcing many suppliers to locate manufacturing in low-wage countries. Cost-cutting pressures from Wal-Mart and other discounters have worsened the already poor wages and working conditions in many Chinese factories.

Conclusion

Wal-Mart has grown rapidly for twenty years, and it could double in size in just five or six years. However, its power and its aggressive practices are generating stronger opposition. As a result, Wal-Mart greatly increased advertising spending and political donations in 2003. Undoubtedly, more business, labor, and political struggles lie ahead.

Study and Discussion Questions

1. Why were Walton's early businesses successful?
2. What was innovative about Wal-Mart?
3. What is (are) Wal-Mart's basic business strategy (ies)?
4. What are the continuities between Walton's early businesses and today's Wal-Mart?
5. What are Wal-Mart's competitive advantages?
6. What is Wal-Mart's corporate culture like?
7. How does Wal-Mart hold down prices?
8. What problems and/or controversies does Wal-Mart face?

Main sources


