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Should We Admire Wal-Mart?

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[Headnote]

Some say it's evil. Others insist it's a model of all that's right with America. Who are we to believe? BY JERRY USEEM

THERE IS AN EVIL COMPANY IN ARKANSAS, some say. It's a discount store-a very, very big discount store-and it will do just about anything to get bigger. You've seen the headlines. Illegal immigrants mopping its floors. Workers locked inside overnight. A big gender discrimination suit. Wages low enough to make other companies' workers go on strike. And we know what it does to weaker suppliers and competitors. Crushing the dream of the independent proprietor-an ideal as American as Thomas Jefferson-it is the enemy of all that's good and right in our nation.

There is another big discount store in Arkansas, yet this one couldn't be more different from the first. Founded by a folksy entrepreneur whose notions of thrift, industry, and the square deal were pure Ben Franklin, this company is not a tyrant but a servant. Passing along the gains of its brilliant distribution system to consumers, its farsighted managers have done nothing less than democratize the American dream. Its low prices are spurring productivity and helping win the fight against inflation. It is America's most admired company.

Weirdest part is, both these companies are named Wal-Mart Stores Inc.

The more America talks about Wal-Mart, it seems, the more polarized its image grows. Its executives are credited with the most expansive of visions and the meanest of intentions; its CEO is presumed to be in league with Lex Luthor and St. Francis of Assisi. It's confusing. Which should we believe in: good Wal-Mart or evil Wal-Mart?

Some of the allegations-and Wal-Mart was sued more than 6,000 times in 2002-certainly seem damning. Yet there's an important piece of context: Wal-Mart employs 1.4 million people. That's three times as many as the nation's next biggest employer and 56 times as many as the average FORTUNE 500 company. Meaning that all things being equal, a bad event is 5,500% more likely to happen at Wal-Mart than at Borders.

One consistent refrain is that Wal-Mart squeezes its suppliers to death-and you don't have to do much digging to find horror stories. But while Wal-Mart's reputation for penny-pinching is well deserved, so is its reputation for straightforwardness-none of the slotting fees, rebates, or other game playing that many merchants engage in. Nor has it ever been accused of throwing around its buying power improperly, as Toys "R" Us (and, long ago, A&P) was for demanding that its suppliers not

sell to rivals.

Another rap on Wal-Mart-that it stomps competitors to dust through sheer brute force-seems undeniable: Studies have indicated a decline in the life expectancy of local businesses after Wal-Mart moves in. But this morality play is missing some key characters-namely, you and me. The scene where we drop into Wal-Mart to pick up a case of Coke, for instance, has been conveniently cut. No small omission, since the main reason we can't shop at Ed's Variety Store anymore is that we stopped shopping at Ed's Variety Store.

Evil Wal-Mart's original sin, then, was to open stores that sold things for less. This was a powerful idea but hardly a new one. The basic discipline of discounting had been around for at least a century-honed by department stores in the 1870s, by the Sears and Montgomery Ward catalogs in the 1890s, and then by chain stores like Woolworth and A&P. Though founder Sam Walton added a twist-a small town, he realized, could support a big store-he didn't invent the rules of discounting. He just followed them better than anyone else.

Not surprisingly, that's how the people running Good Wal-Mart see their story. They cast their jobs in almost missionary terms-"to lower the world's cost of living"-and in this, they have succeeded spectacularly. One consultancy estimates that Wal-Mart saves consumers \$20 billion a year. Its constant push for low prices, meanwhile, puts the heat on suppliers and competitors to offer better deals.

That's a good thing, right? If a company achieves its lower prices by finding better and smarter ways of doing things, then yes, everybody wins. But if it cuts costs by cutting pay and benefits-or by sending production to China-then not everybody wins. And here's where the story of Good Wal-Mart starts to falter. Just as its Everyday Low Prices benefit shoppers who've never come near a Wal-Mart, there are mounting signs that its Everyday Low Pay (Wal-Mart's full-time hourly employees average \$9.76 an hour) is hurting some workers who have never worked there. For example, unionized supermarkets in California-faced with studies showing a 13% to 16% drop in grocery prices after Wal-Mart enters a market-have been trying to slash labor costs to compete, triggering a protracted strike. The \$15 billion in goods that Wal-Mart and its suppliers imported from China in 2003, meanwhile, accounted for nearly 11% of the U.S. total-contributing, some economists argue, to further erosion of U.S. wages.

Where you stand on Wal-Mart, then, seems to depend on where you sit. If you're a consumer, Wal-Mart is good for you. If you're a wage earner, there's a good chance it's bad. If you're a Wal-Mart shareholder, you want the company to grow. If you're a citizen, you probably don't want it growing in your backyard. So, which one are you?

And that's the point: Chances are, you're more than one. And you may think each role is important. Yet America has elevated one above the rest.

The consumer-as an entity with distinct rights and wishes-didn't exist before the first mass retailers called it into being. Even then it met with resistance. Early in the last century, a mayoral candidate in Warsaw, Iowa, proposed to fire city employees caught shopping from a catalog; in the 1930s, 27 states imposed special taxes on chain stores. But as organized labor began its slow decline, a new type of political activity-consumer activism-came to the fore. Other countries passed laws that protected workers and the small businesses that employed many of them. But in America, antitrust laws were designed to protect consumers.

Wal-Mart swore fealty to the consumer and rode its coattails straight to the top. Now we have more than just a big retailer on our hands, though. We have a servant-king-one powerful enough to place everyone else in servitude to the consumer too. Gazing up at this new order, we wonder if our original choices made so much sense after all.

This growing unease with the cost of "low cost" is the No. 1 threat facing Wal-Mart. And the company has begun to get it. "Shoppers could start feeling guilty about shopping with us," says spokeswoman Mona Williams. "Communities could make it harder to build our stores." Hence a flurry of corrective actions. Wal-Mart's new television spots advertise happy employees instead of low prices. It has ramped up its PR and lobbying efforts. And its leaders have begun to take external criticism more seriously. As Robert Slater quotes CEO Lee Scott in Slater's recent book, *The Wal-Mart Decade*, "Instead of throwing [a critical] article in the trash and saying it's inaccurate, we now say, 'Is it possible that this is true?'"

How far Wal-Mart's self-examination will go remains to be seen. A corporation can't be expected to stop growing, as many critics would like. But it can be expected to live up to its own rhetoric. Consider Ford Motor Co. Founder Henry Ford had a mix of motives when, in 1914, he announced the \$5 day-a stunning increase over the prevailing wage. But among them was his recognition that the promise of a car for Everyman would ring hollow if his own workers couldn't afford one. Now Wal-Mart has been brought face to face with its own contradiction: Its promises of the good life threaten to ring increasingly hollow if it doesn't pay its workers enough to have that good life.

It's important that this debate continue. But in holding the mirror up to Wal-Mart, we would do well to turn it back on

ourselves. Sam Wallon created Wal-Mart. But we created it, too.

[Sidebar]

If you're a consumer, Wal-Mart is good for you. If you're a wage earner, there's a good chance it's bad.

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