



How the World's Most Powerful Company Really Works — and How It's Transforming the American Economy

The Wal-Mart Effect

THE SUMMARY IN BRIEF

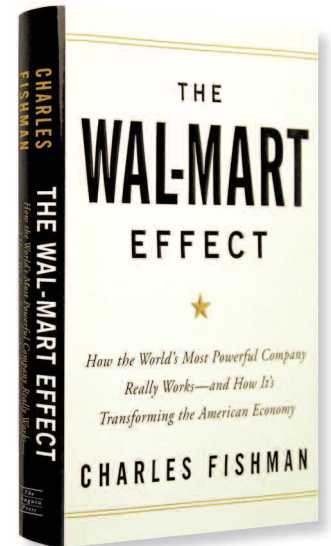
More than 60 percent of all Americans live within five miles of a Wal-Mart store. Ninety percent of Americans live within 15 miles of a Wal-Mart. Every week more than 100 million Americans shop at Wal-Mart — half the adults in the country. Each year 93 percent of American households shop at least once at Wal-Mart.

Wal-Mart is the world's largest company yet we know little about it. Charles Fishman removes some of the mystery about the retail behemoth and its often hidden impact on the U.S. economy in *The Wal-Mart Effect*. Using his award-winning investigative journalism skills, Fishman has gathered inside information from former employees and suppliers, academic studies, government reports and Wal-Mart's own data posted on company Web sites. *The Wal-Mart Effect* explores how the company achieves its mission of delivering “always low prices.” The book reveals the impact those practices have on customers, suppliers and employees around the globe, — even on those who do not buy from or sell to Wal-Mart. Fishman argues that Wal-Mart touches every American, every day.

The Wal-Mart Effect shows, with documented examples, the depth of influence that Wal-Mart exerts on American life and why the company is either revered or reviled. Fishman probes Wal-Mart's place in the world economy, showing how its dominance creates a unique economic system and distorts economic data because of its size. He compares Wal-Mart to competitors and firms in other industries, giving names and validating his findings with solid research. Fishman goes beyond, “Is Wal-Mart good or bad?” to explain the ways Wal-Mart changes the world.

IN THIS SUMMARY, YOU WILL LEARN:

- How the world's largest company forms an economic ecosystem.
- How the “Wal-Mart effect” touches people who don't deal with Wal-Mart.
- Wal-Mart's effect on U.S. inflation data.
- The unintended consequences of “always low prices.”
- How much larger Wal-Mart can grow.



by Charles Fishman

CONTENTS

Who Knew Shopping Was So Important

Pages 2, 3

Sam Walton's Ten-Pound Bass

Page 3

Makin Bacon, a Wal-Mart Fairy Tale

Pages 3, 4

The Squeeze

Pages 4, 5

What Do We Actually Know About Wal-Mart?

Pages 5, 6

Salmon, Shirts and the Meaning of Low Prices

Pages 6, 7

The Power of Pennies

Pages 7, 8

Wal-Mart and the Decent Society

Page 8

THE COMPLETE SUMMARY: THE WAL-MART EFFECT

by Charles Fishman

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Who Knew Shopping Was So Important?

Wal-Mart shapes where we shop, the products we buy and the prices we pay — even for those of us who never shop there. It reaches deep inside the operations of the companies that supply it and changes not only what they will sell, but how those products are packaged and presented, what life is like for the factory workers who make the products — it even sometimes changes the countries where those factories are located.

Wal-Mart reshapes the economic life of the United States — a single company that steadily, silently, purposefully moves the largest economy in history. Wal-Mart has become the most powerful, most influential company in the world.

Unchallenged in Groceries

When Wal-Mart first started nudging into the grocery business in 1990, everyone in the United States already had well-established grocery-buying habits. The supermarket business was dominated by well-established, deeply experienced, well-run national chains. In ten years, at the end of 2000, Wal-Mart was the number-one food retailer in the nation.

In groceries, Wal-Mart is unchallenged. Its prices are about 15 percent lower for exactly the same food sold elsewhere. That translates into seven weeks of free groceries a year.

Wal-Mart didn't just change the lives and spending habits of grocery shoppers, though. It changed the very ecosystem and rhythm of the supermarket business. In the same decade that Wal-Mart has come to dominate the grocery business in the United States, 31 supermar-

ket chains have sought bankruptcy protection; 27 of them cite competition from Wal-Mart as a factor.

Free-Market Hero or Insidious Beast?

In the last five years, a national debate about Wal-Mart's impact has escalated into a series of skirmishes being fought in print, in the media, at zoning hearings and in the courtroom. The way the company treats its employees, its suppliers, and communities, as well as its motivation, are all subjects of such bitter contention that it is hard to imagine that partisans are actually describing the same institution.

Wal-Mart's birth in a remote corner of Arkansas is now the stuff of American business legend. The company was the creation of a single man, Sam Walton, who latched on to a single idea that he somehow knew in his gut was singularly powerful: Sell stuff that people need every day just a little cheaper than everyone else, sell it at that low price all the time, and customers will flock to you. That single idea drove Walton to keep the costs of his own company as modest as possible and soon caused Wal-Mart to ask whether its suppliers couldn't be more frugal too.

As Wal-Mart gained in scale, the questions to suppliers became a way of doing business, a culture of looking for every penny of cost savings that could be wrung out of designs, packaging, labor, materials, transportation, even the stocking of stores. It is that cascade of frugality, questions and pressure that creates the Wal-Mart effect.

The phrase, "the Wal-Mart effect," has made its way into the culture, shorthand for a whole range of impacts resulting from Wal-Mart's way of doing business. A second phrase captures the ill-defined fears that the Wal-Mart effect has come to stand for: "the Wal-Mart econo-



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Summary: THE WAL-MART EFFECT

my.” This term describes the nagging sense that there might be some unseen but terrible cost to be paid for “always low prices.”

Is Wal-Mart Good or Bad for America?

In the Wal-Mart economy, consumers buy too much just because it's cheap. We find the pull irresistible. In the last two years, Wal-Mart added more dollars in sales than Target's total sales. It is precisely that scale, built out of our own purchases, \$5 and \$10 at a time, that powers the Wal-Mart effect.

As the Wal-Mart effect has become more obvious and widespread, a new kind of question has arisen: Should I shop at Wal-Mart? It's hard to know even what kind of question it is: political? economic? moral? A values question? The question is really shorthand for the whole set of larger questions, the mystery at the heart of Wal-Mart: Is Wal-Mart good for America or bad? It is possible to get beyond the noise about Wal-Mart, to penetrate the wall of secrecy that Wal-Mart itself has imposed, and get at the truth of the Wal-Mart effect. ●

Sam Walton's Ten-Pound Bass

The bedrock values instilled by Sam Walton were all-American values: hard work, frugality, discipline, loyalty and a restless effort at constant self-improvement. The standard Wal-Mart headquarters staffer is working at least 15 percent more hours than competitors in a routine workweek, even if competitors are logging 50 hours. Vendors are required either to provide a toll-free phone number or to accept collect calls from Wal-Mart buyers. In the offices at headquarters, the furniture is often a hodgepodge of colors and styles, including samples of chairs from suppliers. Most Wal-Mart staffers who travel are reimbursed for tips at no more than 10 percent of the cost of a meal.

From all accounts, Sam Walton truly wanted his workers to be happy. Former employee Lowell Kinder remembers flying with Walton to visit a store in Victoria, Texas. He shooed the manager away, gathered the associates and had some frank talk about how things were going. On the flight home Walton asked Kinder what he did in his spare time. He said that Wal-Mart got his spare time, then added, “I do fish a little.” Walton asked what his goal was with that, and Kinder said, “I'd like to catch a ten-pound bass someday.” Walton said, “When we were fixing to leave the Victoria store and all those people were waving and hugging me, I caught my ten-pound

The Wal-Mart Effect

The Wal-Mart effect: When Wal-Mart starts selling groceries in a new area, bringing lower prices to its own shoppers and driving down the prices of established grocery stores as well.

The Wal-Mart effect: When Wal-Mart comes to town, reshapes shopping habits, and drains the viability of traditional local shopping areas.

The Wal-Mart effect: The relentless downward pressure on the prices of everyday necessities that a single vast retailer can exert on behalf of consumers.

The Wal-Mart effect: The suburbanization of shopping: the downward pressure on wages at all kinds of stores trying to compete; the consolidation of consumer product companies trying to match Wal-Mart's scale; the relentless scrutiny of unnecessary costs that allows companies to survive on thinner profits; the success of a large business at the expense of its rivals and the way that success builds on itself.

bass right there.”

Wal-Mart's relative isolation in Bentonville, Arkansas, and its disregard for outside opinion go a long way toward explaining the gap between how the public sees the company and how the company insists on seeing itself. That Sam Walton's core values seem to have become inverted is a sign that even worthwhile cultures need to question themselves constantly.

The Wal-Mart effect only starts with Wal-Mart employees. For the companies that supply Wal-Mart and their employees the impact is, if anything, even more dramatic. ●

Makin Bacon, A Wal-Mart Fairy Tale

When retailers showed no interest in Jonathan Fleck's Makin Bacon microwave dish, he talked his way into the offices of bacon-seller Armour, which decided to put a coupon offering the dish on the back of 15 million packages.

By the time Wal-Mart reached out to Fleck, after *Good Housekeeping* magazine ran an item on Makin Bacon, he couldn't keep up with the coupon's “4- to 6- week” delivery promise. Wal-Mart buyer Cheryl Knight told him they could only sell the item for less than the price on the Armour coupon. Fleck said, “Sorry, I can't do

Summary: THE WAL-MART EFFECT

that.” Knight told him he was crazy. Fleck said when the promotion ran out he would come back. A guy whose entire company was running out of a mail-order fulfillment house in Grand Rapids, whose R&D adviser was a fifth grader (his daughter, who came up with the idea of a microwave bacon cooker) — that guy told the largest retailer in the United States to wait.

Many things go unappreciated about Wal-Mart. One is this: The company often is willing to wait to get what it wants. Six months later, the Armour promotion ended and the Wal-Mart deal was done over the phone.

Fairy Tale or Nightmare?

It was a great order — 200,000 Makin Bacon dishes — and it was a great day for Fleck. Except for one problem. “As soon as you get the order, you start to do the math,” says Fleck. “Financially, going into Wal-Mart puts you on the brink of bankruptcy.”

The Armour promotion was self-financing. Money came in with the orders to pay for production. For Wal-Mart, Fleck needed more than \$100,000 in advance. He had to buy 60,000 pounds of plastic and have a package designed and manufactured in addition to the dishes.

Fleck went to his parents with his Wal-Mart blue strippers, the paper purchase orders used in the mid-1990s, and his father arranged a credit line for his son. It was the first time in the elder Fleck’s life that he had borrowed money.

The loan was paid off in 60 days and Jon Fleck’s business has never had to take another. He has sold about 1.25 million Makin Bacon dishes through Wal-Mart and more than 4 million nationwide. Makin Bacon world headquarters still occupies about a third of Fleck’s basement, sharing the rest with a game room and sitting area. ●

The Squeeze

Wal-Mart is a genius at shifting work and costs that have traditionally been handled by retailers back to manufacturers. The company’s own administrative costs and overhead are parsimonious compared to its competitors’, and that gives Wal-Mart a real competitive advantage and, increasingly, a small image boost.

A significant reason Wal-Mart is able to keep its own costs down is not just basic frugality, but strategic cost — shifting to suppliers. The Wal-Mart effect means suppliers manage a chunk of Wal-Mart’s business for Wal-Mart; it also means doing it smartly, and without self-interest, because Wal-Mart retains the power in the relationship.

Wal-Mart cascades data about its sales out to its vendors giving companies a remarkable window on the preferences of their own customers, but it gives those vendors the responsibility of analyzing those waves of data and reporting the insights back to Wal-Mart. That’s what most of the thousands of Wal-Mart team members in hundreds of vendor offices in Bentonville are doing: poring over data, trying to understand why something is or isn’t selling and how to help it sell better.

Chinese Send-out

To survive in the face of Wal-Mart pricing demands, some consumer products companies have had to lay off employees and close U.S. plants in favor of outsourcing products overseas. Of course U.S. companies have been moving jobs offshore since long before Wal-Mart was a retailing power. But there is no question that the chain is accelerating the loss of American jobs to low-wage countries such as China.

Wal-Mart, which in the early 1990s trumpeted its claim to “Buy American,” doubled its imports from China between 1997 and 2002. In the next two years, Wal-Mart increased Chinese imports again by 50 percent.

Eventually, there are no more pennies to be saved with smarter distribution or reduced packaging or cheaper plastic. Eventually, the only way to lower costs is to manufacture products outside the United States, in countries with lower labor costs, fewer regulations and less overhead. This element of the Wal-Mart effect remains largely hidden from public view.

Wal-Mart benefits from the impression that globalization is some kind of unmanageable economic weather system out of the control of everyone. That posture avoids the challenging discussion about why the world is suddenly so flat economically and what role a globe-straddling company like Wal-Mart plays in the flattening.

The Job Defense

Wal-Mart has taken to aggressively defending its own business practices by pointing out the number of jobs it creates. Here’s a completely unaccounted-for facet of the Wal-Mart effect: More than 70 percent of all new retailing jobs in the United States in the last seven years came just from the growth of Wal-Mart. The remaining new retail jobs amount to just 540 new retail jobs in each state, each year. Wal-Mart created new retail jobs for itself, while its scale and vaunted efficiency were sucking the oxygen away from job creation in the rest of the retail trade.

Summary: THE WAL-MART EFFECT

The connection to the elimination of manufacturing jobs is less direct but equally striking. While Wal-Mart was adding 480,000 jobs between 1997 and 2004, U.S. manufacturing jobs during those years fell by 3.1 million, a loss of 37,000 factory jobs a month, on average, for 84 straight months.

America's Addiction to Cheap

A remarkable milestone has passed all but unnoticed: In 2003, for the first time in modern U.S. history, we have more people working in stores than we do making the merchandise to put in them.

We find the abandonment of U.S. factories unnerving; we find cheaper stuff on store shelves addictive. And we don't connect the two.

Consumer spending accounts for two-thirds of the U.S. economy, and Wal-Mart's influence across the consumer economy is unrivaled, unprecedented and Wal-Mart's priorities unwavering. During the same period that U.S. manufacturing jobs fell by almost 20 percent, Wal-Mart's imports of inexpensive products from China alone increased 200 percent. ●

What Do We Actually Know About Wal-Mart?

If there is one place to turn for an understanding of the impact of Wal-Mart, one place where the many variations of the Wal-Mart effect on the businesses, wallets and behavior of Americans would be dissected with scholarly enthusiasm, it is the economics departments of the nation's universities.

Hiding in the Open

Emek Basker, an economist with a Ph.D. from MIT, wanted to answer two of the simplest questions you can ask about Wal-Mart. What effect does the opening of a Wal-Mart have on prices in the immediate area? What effect does the opening of a Wal-Mart have on the availability of jobs in the immediate area?

Basker needed a list of every Wal-Mart in the nation (3,811 stores) and the month each one opened in order to isolate and analyze the impact of Wal-Mart stores on prices and jobs by comparing data before and after the openings. Bentonville houses one of the two or three largest private databases in the world. In a footnote Basker writes, "Requests for store-opening data from Wal-Mart Corporation were denied." It took her one year to compile data on 2,382 stores using Wal-Mart annual reports, Wal-Mart editions of Rand McNally road

atlases and annual editions of the Directory of Discount Department Stores.

Lower Prices, More Jobs?

Basker proved — proved! — that Wal-Mart lowers prices. "I find price declines of 1.5 percent to 3 percent for many products in the short run," she writes. "Long-run price declines tend to be much larger, and in some specifications range from 7 percent to 13 percent."

Her calculations on jobs show: In the first year after a Wal-Mart store opens, it adds 100 new jobs to the typical county. Basker immediately writes, "Recall that the typical Wal-Mart store employs 150 to 350 workers." Even at the low end of that range, 50 people who had retail jobs in that county before Wal-Mart arrived immediately lost their jobs (or went to work for Wal-Mart). Five years after Wal-Mart's arrival, there are only a total of 50 new retail jobs, again despite the fact that the new Wal-Mart store typically employs hundreds.

Basker also looked at jobs at companies that supply goods to retailers. She found that on average, a county lost 20 wholesale jobs after five years, lowering the total average county job gain five years after the opening of a new Wal-Mart to just 30.

Wal-Mart's Take on Basker's Study

Wal-Mart cites the study, to reporters and on its wal-martfacts.com Web site, as "the most definitive look at this issue," noting the creation of the 50 new store-based retail jobs after five years. The very paragraph that cites Basker's study approvingly also asserts, "Studies show that new businesses spring up near Wal-Marts and existing stores flourish as they take advantage of the increased customer flow to and from our stores." No other studies are referenced, and Basker's study proved the opposite: that the arrival of Wal-Mart typically closes four existing businesses, and has little or no effect on at least some nearby businesses.

Wal-Mart and the Consumer Price Index

Each month the government issues the much-watched and much-relied-on Consumer Price Index (CPI). Modest as inflation was from 1998 through 2001, it may be overstated by 15 percent per year. That miscalculation comes to \$6.6 billion that someone thinks we're spending on inflation-adjusted groceries that we're not in fact spending.

MIT economist Jerry Hausman and U.S. Department of Agriculture economist Ephraim Leibtag concluded that the government gets it wrong because the CPI

Summary: THE WAL-MART EFFECT

fails to take into account the impact of Wal-Mart's lower prices.

Such a striking and systematic failure to get a vital economic statistic correct shows two things. It shows the incredible hidden power of Wal-Mart across the entire economy and it also shows how hard it is to keep up with the range of the Wal-Mart effect, even for people who spend all their time and energy trying to do just that.

The folks at the Bureau of Labor Statistics (BLS) who compile the CPI follow this procedure: As Wal-Marts roll out in communities, they are substituted for other chain stores so that the market mix between Wal-Mart and competing supermarkets remains balanced city by city. Hausman and Leibtag say, "The BLS procedure does not recognize any price difference between the stores." They found, across 20 categories of food, that supercenter prices were on average 27 percent lower than at traditional groceries, an astonishing discount.

The Poverty Effect

The most surprising, and in some ways the most disturbing, conclusion from an academic study of the Wal-Mart effect was the result of idle curiosity on the part of Penn State University professor Stephen Goetz and a postdoctoral student. While finishing an analysis of poverty rates, Goetz was hearing about the battles in local communities over whether to allow a Wal-Mart store in or to actively woo Wal-Mart with tax breaks.

Goetz and his colleague examined changes in family poverty rates in every U.S. county from 1989 to 1999, a period that "coincides with the booming 'New Economy' decade." They controlled for a spectrum of known causes of poverty. According to Goetz's study, the New Economy lifted nearly one in five poor families out of poverty.

What the study discovered is so startling, it's hard to absorb: They found that once you control for everything else, U.S. counties that had a Wal-Mart just before 1989, or that added one during the decade, had higher poverty rates than counties that were Wal-Mart-free. In counties with a Wal-Mart, the rate of poverty fell 10 percent more slowly than it would have without a Wal-Mart during that decade. Goetz clarifies, "We're not explaining the poverty rate, we're explaining the change." He says it comes to roughly 20,000 American families in poverty because of Wal-Mart. The remarkable thing is how well that number matches up, at least in scale, with the results of Emek Basker's research on jobs and local businesses.

Wal-Mart's Reaction

One reporter asked Wal-Mart for a reaction to Goetz's poverty study, and Wal-Mart spokeswoman Mia Masten offered a glib defense: "Oftentimes, a study can say what you want it to say." Marketing studies do sometimes say what the companies want them to say. But peer-reviewed academic studies don't work like that.

"'You can show anything with the numbers,' that was the response," says Goetz. "Is that what they do when they tell us about their stores? About what their workers are earning?" ●

Salmon, Shirts and the Meaning of Low Prices

If prices are not just a way of judging whether something is affordable but also contain signals about supply, demand, prestige and even the conditions under which products are made, then salmon for \$4.84 a pound is a new, unintended Wal-Mart effect. It is a price so low that it inspires not happiness but wariness.

Most of the farm-raised salmon we eat comes from Chile. The Atlantic salmon doesn't appear naturally anywhere south of the equator but more salmon are harvested in Chile now than anywhere else in the world.

Rodrigo Pizarro, a Chilean economist, studies the impact of salmon farming on Chile. "The issue is not the health conditions of the fish. It's the labor conditions of the workers," he says — long hours, a demanding pace using razor-sharp filleting implements, low pay. Farming also does environmental damage. The fish are packed close together and given a lot of antibiotics to prevent disease. The concentrated fish waste creates dead areas in the ocean around the pens.

The key to managing the impact of salmon farming, to making the business sustainable for Chile and its environment, isn't self-regulation or government regulation. It's the big corporations who buy salmon by the ton. Wal-Mart buys so much salmon that if it imposed and enforced a set of standards on how salmon were to be raised, and how salmon workers were to be treated, salmon farming and processing companies would comply, either to keep Wal-Mart's business or to stay competitive.

A Shirt Like Dad's

One of Wal-Mart's house brands in boy's clothing is a blue Oxford-cloth button-down shirt. It's a perfect miniature of Dad's. The label says "Made in Bangladesh." And the price is \$5.74. How is it possible for Wal-Mart

Summary: THE WAL-MART EFFECT

to produce such a lovely shirt and sell it for less than the price of a child's movie ticket? If you could see a video of the factory where it is made, of the people who sewed it, would you still be able to button your two-year-old boy into it and smile?

Clearly, one of the ways companies are saving money isn't simply in wages. Factories in developing countries are cheaper because the whole superstructure of rules around those factories in the United States — the workplace, safety and pollution rules — can be left behind. In many countries, the factories don't even follow their own rules. S. Prakash Sethi is an expert on global factory conditions. "Because of the pressure of cost," Sethi says, "factories do everything possible to save on the third decimal of a penny. Wal-Mart is one of the primary, if not the most important, engines that pushes those costs down."

The Consumer Solution

From the outside, the changes look easier to impose than they actually will be. For Wal-Mart, it's not simply about adding a few new bullet points to the existing list requiring companies to deliver products on time, on price, packaged the way Wal-Mart demands. Using Wal-Mart's purchasing power to improve the environment and the working conditions under which those products are produced requires a radical shift in thinking at the home office, a willingness to admit that not every cost squeezed out is good.

Pizarro knows one point of leverage that Wal-Mart never ignores: shoppers. "I wouldn't think American parents would want to feed themselves or their children with something being produced by a worker who is miserable, and who works in terrible conditions," says Pizarro.

The Man Who Said No to Wal-Mart

The Snapper lawn-mower factory has been in McDonough, Georgia, for 50 years, and every Snapper lawn mower sold anywhere in the world is made in this factory. The Snapper lawn-mower factory hums with discipline and focus and urgency. It operates, literally, in Wal-Mart time. It must. It lives in the Wal-Mart ecosystem. But it does so in defiance of Wal-Mart. Because three years ago the then-CEO of Snapper's parent company pulled all Snapper products from Wal-Mart.

That CEO, Jim Wier, looked into a future of supplying Snapper lawn mowers to Wal-Mart and saw a whirlpool of lower prices, collapsing profitability, offshore manufacturing, and the gradual but irresistible corrosion of the

very qualities for which Snapper was known.

But Shane Summers, Snapper president, has to spur his factory on with the same tirelessness as if it were supplying Wal-Mart — with the efficiency of every factory worker measured every hour of every day — because Wal-Mart is setting the pace, even if you're not working for them.

Snapper was already selling lawn mowers through Wal-Mart when Wier's company, Simplicity, bought Snapper in November 2002. Almost immediately on taking over, Wier stopped shipping Snapper mowers to Wal-Mart, a move that instantly cut Snapper's sales by almost 20 percent.

One serious hazard to Wier's strategy is whether the independent lawn-equipment dealers can really survive all the same pressures that have hurt small, independent hardware stores. Says Wier, "I think we have a part in that outcome. Can Snapper, as a major supplier, continue to supply [the independents] with great product, and a product different than you can buy at Wal-Mart?"

One of the ways to compete with Wal-Mart, in fact, is not head-on but aisle by aisle — that is, category by category. The other way is to focus, even in the mass market, on things besides price: design, fashion, quality, cachet, the feel of the shopping experience and service. ●

The Power of Pennies

The average product we buy from Wal-Mart costs something less than \$3. In fact, the real power of Wal-Mart doesn't come from selling the average consumable at \$3. The magic of Wal-Mart has always been in selling the \$3 item for \$2.97 — that's the genius of Sam Walton. He realized that Americans would change their habits to buy a \$3 item for \$2.97, especially if it was \$2.97 every day. And he figured out how to run a business that could be profitable giving up those three pennies.

How Much Does Wal-Mart Save Us?

The low estimate is that Wal-Mart saves its shoppers 15 percent on a typical shopping cart of food. In 2004, Wal-Mart shoppers spent \$124 billion on groceries. That food, purchased at other supermarkets, would have cost \$146 billion. So, Wal-Mart grocery shoppers alone saved \$22 billion. If the rest of the merchandise Wal-Mart sells is just 5 percent cheaper than at competing stores, that's another \$8 billion. A conservative estimate is that the people who shopped at Wal-Mart last year saved \$30 billion — not accounting for the money saved as other

Summary: THE WAL-MART EFFECT

retailers lowered their prices to compete.

Low Price Trade-off

Shopping at Wal-Mart is not a delight. The only thing likely to make you smile at Wal-Mart is the price. It isn't really a place to shop; it's a place to buy things.

One ratio perfectly captures and contrasts the shopping experience across stores: how much merchandise a store sells for every employee. Wal-Mart sells \$178,125 worth of stuff per employee. Target sells \$156,506 worth of stuff per employee. Whole Foods sells \$121,875 worth of stuff per employee. As those numbers go down, the pleasurable-ability of the shopping experience goes up.

Wal-Mart sells so much more per employee because we buy more and because of the frugality. At Wal-Mart there just aren't that many workers. That's why you often can't find someone to open the jewelry cases. That's why half the checkout lanes are unstaffed.

American Attitude About Money

There is in the American character a deep strain of frugality going back to colonial and frontier times and sharply refreshed during the Depression and World War II rationing.

But we are also the country where the average credit card balances being carried by a family from month to month, excluding those who pay their balances in full, is \$14,400. Despite all the money we save shopping at Wal-Mart, the family savings rate in the last year is below 1 percent. Our spending is growing faster than our income.

Waning Interest

The power of "always low prices" is waning. Since 1998 the growth rate of same-store sales has steadily decreased. Target, meanwhile, has been trouncing Wal-Mart in same-store sales. The reason is simple: style versus price.

Wal-Mart ads in *Vogue* magazine show happy and fashionable women, but the idea that you can assemble a style in a Wal-Mart women's wear department is at odds with the actual shopping experience.

Same-store sales growth is a sign of another problem. The nation simply doesn't need to buy much more from Wal-Mart than it already does. With only 16 percent of the nation's grocery business, Wal-Mart could one day have 30 percent. A few areas have growth potential: California has only 91 stores and based on population could support 460, New York City has not a single Wal-Mart. But that's all fill-in growth. America is nearly

"full up" with Wal-Marts.

Growth Opportunities

The rest of the world, however, is mostly empty of Wal-Marts. So the company can continue to grow, even dramatically. It has fewer stores in China than in Alabama and no stores in India. Wal-Mart could easily be a half-trillion-dollar-a-year company by 2010.

Wal-Mart may well continue to dominate American retailing for years, or decades, to come. But it's likely that 20 years from now we'll look back on the early 21st century as the moment when Wal-Mart's real struggles began.

Low Price Addiction

The idea that Wal-Mart will somehow shake off its low-price soul, that it will gradually infuse style and other intangibles into a culture that measures how many items each cashier scans each hour — that kind of transformation runs counter to every instinct on which Wal-Mart has been built. ●

Wal-Mart and the Decent Society

With its dominance across a huge range of merchandise and geography, Wal-Mart is increasingly beyond the control of the market forces that capitalism relies on to enforce fair play. Wal-Mart isn't subject to the market forces because it is creating them.

In his letter to America printed in 100 newspapers in January 2005, Wal-Mart CEO Lee Scott wrote, "The question of how to assure that American capitalism creates a decent society is one that will engage all of us in the era ahead." He also said, "Our critics seem to have a broader, and, I believe, more troubling aim: to warp the vital debate the country needs in the years ahead about the proper role of business and government in assuring that capitalism creates a decent society." The most certain way to avoid a warped debate is for everyone to have a wealth of data, an openness Wal-Mart resists.

Wal-Mart mirrors our own energy, our sense of destiny, our appetite for bigness and variety and innovation. And Wal-Mart is not just a reflection of American society and values. It is a mirror of us as individuals. The Wal-Mart effect derives all its vast power from us and our spending. Both as individuals and as a society we have an obligation to answer the unanswered questions about Wal-Mart. Otherwise we have surrendered control — of our communities, of our economy, of some measure of our destiny — to decisions made in Bentonville. ●