

Wal-Mart: Staying on Top of the Fortune 500

A Case Study on Wal-Mart Stores Inc.

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**The case study is an examination of how Wal-Mart's Corporate Strategy affects its
Public Affairs and Government Relations Strategy**

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Executive Summary

Wal-Mart Stores Inc. is the largest retail company in the United States and has been ranked number one on the *Fortune 500 Index* by **Fortune Magazine**. Wal-Mart has four parts to their corporate strategy.

1. Dominance in the Retail Market
2. Expansion in the U.S. and International Markets
3. Creation of Positive Brand and Company Recognition
4. Branch Out into New Sectors of Retail

Wal-Mart's public affairs strategy must work to make implementation of these policy goals happen. Its public affairs strategy enables the company to move into other sectors of the marketplace and expand into foreign countries. The public affairs strategy also involves gaining access to politicians who can help Wal-Mart achieve its goals. Wal-Mart has a very active Political Action Committee that gives almost a quarter million dollars annually.

While Wal-Mart's public affairs strategy works well with its corporate strategy. We feel that there are a few recommendations which could make the company work better. Recently, Wal-Mart has been criticized for their opposition to allowing their employees to be unionized. Wal-Mart needs to clarify their reasons for their opposition to unionization. The public affairs strategy must also address the negative feelings harbored by some groups who feel that Wal-Mart is encroaching into far too many other sectors retail than it should. These concerns must be addressed if Wal-Mart is to enjoy continued success in creating positive name recognition.

Wal-Mart will need to implement these recommendations if they are going to remain at the top of the Fortune 500, while simultaneously keeping a good reputation and making their name synonymous with cheap prices and good quality merchandise.

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I. Background

Last year, Wal-Mart had revenues of \$191 billion. Wal-Mart's 2002 sales topped \$218 billion, with sales growth at 13.8 %. Its 2002 net income was \$ 6.7 billion, a growth of 6 %. Wal-Mart has 1,283,000 employees, as of 2002; a growth of 11.2 % (www.fortune.com).

Wal-Mart is the largest retail store in the United States, and is larger than any other retail chain in the world. Currently Wal-Mart operates over 4,150 retail facilities globally. Also, the company is the dominant retail store in Canada, Mexico, and the United Kingdom (www.walmart.com). According to the *Fortune 500* index of the wealthiest and most powerful corporations in the world, Wal-Mart holds the number one spot, ranked by its total sales. The company is ranked as the second most admired company in the world by Fortune (www.fortune.com).

Wal-Mart provides general merchandise: family apparel, health & beauty aids, household needs, electronics, toys, fabrics, crafts, lawn & garden, jewelry and shoes. Also, the company runs a pharmacy department, Tire & Lube Express, and Photo processing center as well (www.walmart.com).

When Sam Walton created Wal-Mart in 1962, he declared that three policy goals would define his business: respect for the individual, service to customers, and striving for excellence (www.walmart.com).

Wal-Mart's corporate management strategy involves selling high quality and brand name products at the lowest price (Vance, 119). In order to keep low prices, the company reduces costs by the use of advanced electronic technology and warehousing. It also negotiates deals for merchandise directly from manufacturers, eliminating the middleman (Vance, 72).

Wal-Mart's community outreach focuses on the goals of providing customer satisfaction, involving itself with local community services, and providing scholarships. Its emphasis is on children and environmental issues (www.walmart.com).

After the Second World War, the style of retailing in the US evolved into discount merchandising. It took the form of departmentalized retail business. A discount retail store such as Wal-Mart can provide lower priced goods for consumers at lower prices by accepting lower margins, while selling greater quantities of goods. The company launched its business in small-towns throughout the South and Midwest, eventually expanding into larger cities (Vance, 69).

During the 1970s, the retail industry became highly competitive, but, at the same time the economy became weak due to inflation. Sears was the leading retailer in the nation, during the 1970s, however, the recession of 1974-1975 and inflation affected Sears adversely. Sears targeted middle class families and expanded its overhead. Wal-Mart's strategy was to compete with its rivals and lower overhead expenses. Compared with Sears, which consisted of more than 6,000 distribution centers, Wal-Mart had only 2,500 comparable units.

Wal-Mart grew rapidly during the 1980s due to diversification of the company. Wal-Mart's fundamental business principles at that time were to provide "high-quality," brand name merchandise at low-prices and to locate stores in small towns (Vance, 113).

Wal-Mart centered on small-towns first, and then tried to move to large cities. This happened while other retailers centered on larger urban centers. However, as the economy faced a downturn, people wanted low price stores. Furthermore, as people became mobile, they moved to small towns and suburbs and were willing to travel further to buy low price products.

During the 1980's, local chambers of commerce supported Wal-Mart because they believed that the company helps a local economy by providing good quality products at low prices (Vance, 148). Unfortunately, critics contend that the success of Wal-Mart hurts the existing local independent merchants. Despite the criticism that Wal-Mart destroys small-town competitors, the local chambers of commerce endorsed Wal-Mart

(Vance, 72). In addition, the chambers of commerce account that the arrival of Wal-Mart provided jobs for people and a more diverse opportunity for local merchants by adapting to the new business environment. They said that Wal-Mart contributes to their local economy (Vance, 149).

Nonetheless, local newspapers began to scorn Wal-Mart because the company did not nurture amiable relationships with local advertisers. Once local competition was eliminated, Wal-Mart began to cut back and eliminate local advertising in favor of direct mailing of a centrally produced circular (Vance, 72).

Today, Wal-Mart has 1,636 retail stores. There are 1,093 Wal-Mart Super centers, 502 Sam's Clubs, 31 Wal-Mart Neighborhood stores and 1,183 international stores (www.walmart.com). Its core retail business can be divided into four retail divisions: Wal-Mart stores, super centers, Sam's Club warehouses and neighborhood markets. Wal-Mart stores and Super centers provide "one-stop family shopping"; combining groceries and general merchandise departments. Sam's Club is the nation's leading members-only warehouse club. Neighborhood Markets offer a convenient shopping experience for customers who need groceries, pharmaceuticals and general merchandise.

Internationally, Wal-Mart has more than 1,000 stores in nine countries. (www.walmartstore.com Retail Division)

Sam's Club provides more discounted prices for members by eliminating the middlemen by buying directly. Founder Sam Walton believed that low-prices and deep discounting would appeal to customers most and beat competitors. (Vance, 115) Further, Sam Walton intended to implement deep discounting which was designed to provide 40- 60 % discounted prices for customers. Thus, he focused on supermarket and super drug store businesses (Vance, 113).

When Wal-Mart first arrived on the scene with their low prices, K-Mart stores was unable to discount brand-name products. Customers wanted to buy good quality brand-name products. K-Mart provides non-name brand goods cheaply, however, it could not maintain constant low prices with its name-brand products (Vance, 160). K-Mart and

Sear could not beat Wal-Mart due to several reasons: First, Sears' prices are higher than Wal-Mart's because the Sears infrastructure gives it higher overhead costs (Vance, 159). K-Mart declined in customer appeal because it neglected its store environment and could not provide satisfactory levels of service for its customers. Widespread complaints of poor customer service at K-Mart began to surface while Wal-Mart placed emphasis on customer satisfaction and neat store environments (Vance, 161).

Today, Wal-Mart's competition in the retail market are K-Mart and Target, which come behind Wal-Mart in the US retail market (Vance, 166).

Wal-Mart is also on top of their game because of the management strategies they employ. The management strategies of Wal-Mart emphasize its workforce and its corporate culture; that being a morally conservative, religious, and family-oriented business (Vance, 163). Wal-Mart emphasizes how it listens to the needs of its workforce so that each employee is able to suggest improvements to company policy and practice. At Wal-Mart, store employees are called "associates." In addition, in order to promote esprit de corps, the company publishes "Wal-Mart World," an internal magazine for its associates (Vance, 74). The company offers generous financial rewards for employees by means of profit-sharing plans such as stock-purchase options (Vance, 74). Furthermore, the company provides comprehensive training programs for all employees (Vance, 75).

It should be noted that most Wal-Mart employees do not get paid "generous" wages. The bulk of Wal-Mart's employee base work at Wal-Mart stores. They are part time workers who are paid the local minimum wage. Most employees are not entitled to any benefits, as it takes a part-time employee over five years to become eligible for benefits, profit-sharing, or other such compensation. There is a high turnover rate among these employees, which means most do not reach the requisite level of seniority. In many cases the local minimum wage is far below the poverty line (Quinn, 35-47).

Timeline

1960s and 70s

1962 Wal-Mart opened the first store In Rogers, Ark.

1970 Wal-Mart opens first distribution center and home office in Bentonville, Ark.

1970 Wal-Mart traded stocks as a publicly held company

1971 Wal-Mart in five states: Arkansas, Kansas, Louisiana, Missouri and Oklahoma.

1972 Wal-Mart approved and listed on the New York Stock Exchange.

1973 Wal-Mart in Tennessee.

1974 Wal-Mart stores now in Kentucky and Mississippi, Texas becomes 9th.

1977 Wal-Mart entered Illinois. 11th state: Alabama.

1980s

1981 Wal-Mart opened at Georgia and South Carolina

1982 Wal-Mart opened at Florida and Nebraska.

1983 First SAM'S CLUB opened in Midwest City, OK People Greeter implemented at all store. Wal-Mart enters Indiana, Iowa, New Mexico and North Carolina.

1984 David Glass named company president. Wal-Mart enters Virginia

1985 Wal-Mart has 882 stores with sales of \$8.4 billion and 104,000 Associates. Company adds stores in Wisconsin and Colorado.

1986 Wal-Mart enters Minnesota.

1988 David Glass named chief executive officer of Wal-Mart Stores, Inc.

First Super center opened in Washington, Mo.

16 Wal-Mart distribution centers in operation.

1989 Wal-Mart is now in 26 states with the addition of Michigan, West Virginia and Wyoming.

1990s

1990 Wal-Mart becomes nation's No. 1 retailer. McLane Company of Temple, Texas acquired Wal-Mart enters California, Nevada, North Dakota, Pennsylvania, South Dakota and Utah.

1991 Wal-Mart enters Connecticut, Delaware, Maine, Maryland, Massachusetts, New Hampshire, New Jersey and New York.

"Sam's American Choice" brand products introduced.

International market entered for first time with the opening of a unit Mexico City.

1992 Sam Walton passes away April 5.

S. Robson Walton named chairman of the board April 7.

Wal-Mart has entered 45 states with the addition of Idaho, Montana and Oregon.

Wal-Mart enters Puerto Rico.

1993 Wal-Mart enters Alaska, Hawaii, Rhode Island and Washington.

1994 Wal-Mart enters Canada by the acquisition of Woolco, and takes over 123 former Woolco stores across Canada. It opens 96 stores in Mexico. Three value clubs open in Hong Kong.

1995 Wal-Mart enters its 50th state - Vermont - and builds three units in Argentina and five in Brazil.

1996 Wal-Mart enters China

1997 Wal-Mart replaces Woolworth on the Dow Jones Industrial Average

2000s

2000 Wal-Mart ranked 5th by FORTUNE magazine in its Global Most Admired All-Stars list.

H. Lee Scott named president and CEO of Wal-Mart Stores, Inc.

Wal-Mart ranked #1 Corporate Citizen in America in the 2000 Cone/Roper Report, an annual national survey on philanthropy and corporate citizenship.

2001 Wal-Mart has the biggest single day sales in history: \$1.25 billion on the day after Thanksgiving.

(www.walmartstore.com. About Wal-Mart)

II. Wal-Mart Company Strategy

This section will examine Wal-Mart's company strategy in several sections. Three elements of successful strategy formulation and a fourth element, which exemplifies the implementation process of company strategy, will be looked at. Followed by this, an analysis of key factors contributing to this strategy will be detailed. These include looking at Wal-Mart's competitive strategy, the CEO's leadership, and company strategy strengths and weakness assessment.

The material used to analyze Wal-Mart strategy consists of the company's annual reports, its Fact Sheets and other information found on the company Internet site. Other information is obtained from outside sources such as Fortune Magazine, and from outside groups who are critical of the corporation. The focus of this analysis will be placed on identifying the resources of the firm, its weaknesses and strengths in terms of its competitive environment. The sections examined will highlight the leadership style of Wal-Mart CEO H. Lee Scott, who inherited the corporate legacy of Wal-Mart founder Sam Walton. Other elements such as the culture, the corporate organization and values of the company come to play.

1. Strategic Goals

This section looks at three successful elements of strategy formulation and a fourth element, where the strategy is implemented successfully. These are as follows:

- Dominate the Retail Market wherever Wal-Mart has a presence.
- Growth by expansion in the US and Internationally.
- Create widespread name recognition and customer satisfaction with the Wal-Mart brand, and associate the retailer with the reputation of offering the best prices.
- Branching out into new sectors of retailing such as pharmacies, automotive repair, and grocery sales.

a. Dominate the Retail Market Everywhere

A key strategy of Wal-Mart is to dominate the retail market. Company founder Sam Walton put in place a retail philosophy the company still follows. Wal-Mart is primarily a discount retailer because they sell their products at the lowest possible prices. By selling at the "lowest price." Walton outlines that the essence of successful discount retailing to cut the price on an item as much as possible, lowering the markup, and earn profit on the increased volume of sales. (Wal-Mart pricing philosophy document, www.walmart.com).

Another subset of this strategy is the competitiveness of every unit. Each store is encouraged to ferociously compete against all other stores in its customer base until the Wal-Mart store gains dominance over its local competitors (Quinn, 2, 115). Wal-Mart is currently ranked as the world's number one retailer and the number one company in the world in terms of sales (over \$200 billion) on the Fortune 500 list (www.walmart.com) (www.fortune.com) The key strategy is to dominate a market. Using its size and volume buying power, the company effectively implements its strategy.

b. Growth by expansion in the US and Internationally.

A strategic goal of Wal-Mart is to expand. It has done so successfully. Looking at the facts and figures clearly shows the corporations dominance and power. Currently the corporation employs over 1.3 million employees, one million in the US alone. The company owns over 4000 stores worldwide. Over 1,200 units (stores) are in operation internationally. Domestically, Wal-Mart is the largest US retailer, employing around 1 million people. It has over 3,000 stores and outlets, and 77 distribution centers. The company serves more than 100 million customers weekly in all 50 states, Puerto Rico, and several nations around the world. (www.walmart.com, Fact Sheet - Wal-Mart at a Glance, 2002).

Internationally, the retailer operates in Mexico, Canada, Argentina, Brazil, China, Korea, Germany, and the United Kingdom. Its expansion strategy internationally has been aggressive and powerful. The latest expansion strategy is for the company to gain entry into a nation by corporate takeover of a national retailer. Once the company is bought,

Wal-Mart converts the stores into Wal-Mart stores. Three countries, all with no previous Wal-Mart stores, became part of the corporation's international presence when domestic retail chains were overtaken. In 1994, Wal-Mart bought 122 Woolco stores in Canada; today there are 196 units in Canada. In 1998 Wal-Mart bought the Wertkauf store with 21 units, now there are 94 Wal-Mart's in Germany. In 1999, Wal-Mart acquired the ASDA chain with 229 units in the UK. Today, the UK has 252 Wal-Mart stores. (www.walmart.com, Fact Sheet on International Operations, 2002)

This particular strategy, of corporate takeover, puts the company at an advantage when it enters into a new market. In one stroke, a large competitor is eliminated, and at once, Wal-Mart has real estate and employees, and a massive presence in its targeted location. This is an effective use of the company's size and wealth, as few if any competitors are able to do this effectively. The company builds up brand familiarity, while retaining the old familiar outlets. Gradually, as the local Wal-Mart stores begin to make money, and local management assess their competition environment, the company begins to redesign the acquired stores to look like "Wal-Mart's, it then begins to build new and larger stores in that new market. Wal-Mart is now the largest retailer in Canada and the UK.

c. Create Positive Brand and Name Recognition

The company aims to create positive impression of customer satisfaction with the Wal-Mart brand. Their goal is to have the customer associate the retailer with the reputation of offering the best prices. The company accomplishes this through television advertising campaigns and newspaper adverts. Characteristic of Wal-Mart advertising is the use of actual Wal-Mart stores and employees in its commercials. Key themes, such as "Low Prices Always" are featured. The company engages in partnerships and co-branding. For example, many Wal-Mart stores have a McDonalds restaurant inside them. Due to the size of the retailer, certain exclusive promotions are made with Hollywood movie companies and music companies, for exclusive in Wal-Mart promotions and distribution (www.walmart.com, 2001 Annual Report, and Quinn 115).

d. Branching out into New Sectors of Retailing

A successful company strategy has been to branch out into new sectors of retailing. Wal-Mart has recently become a major pharmacy, automotive repair shop, and is now moving into grocery sales. This is an example of success - it exemplifies Sam Walton's vision of being the best retailer around. After a store expands physically and geographically, it must then expand in terms of what they sell; branching out and competing with other businesses.

The traditional retail business of Wal-Mart has been selling discount and cheap house wares and plastic goods, clothing, sporting goods, and toys. Other departments include but are not limited to stationary and office supplies, hardware, home improvement, paint supplies, arts and crafts, cosmetics and toiletries, shoes, books and magazines, greeting cards, and confectionery. Wal-Mart has also encroached into home electronics, automotive supplies, pharmaceuticals, jewelry sales, photo finishing, travel planning, and home gardening. More recently Wal-Mart has begun to move into the grocery store business with its new "Neighborhood Markets." Everywhere the store has a department, it competes with those businesses, which specialize in that sector, often putting smaller competitors out of business. Wal-Mart can be judged by the fear it puts into its potential competitors and by the uproar caused by them protesting a Wal-Mart incursion, as is the case with grocers (www.walmart.com, 2000, 2001 Annual Reports, Quinn 89-138).

In summation: Wal-Mart's growth is conducted by expanding stores physically and territorially. Expansion is not limited to the United States, the company is now an international retailer. When a store is in place, its goal is to dominate its local competition in every department of merchandise sold, to become the number one retailer in that sector. Once dominance in a sector is achieved, the company expands by diversifying into new sectors of retail.

2. What is the company's competitive strategy?

The company's competitive strategy is to dominate every sector where it does business. It measures success in terms of sales and dominance over competitors. Its strategy is to sell goods at low prices, outsell competitors, and to expand. Generally, Wal-Mart does everything it can to win over competitors (www.walmart.com, Quinn, 115).

A typical Wal-Mart model is to build more stores, make existing stores bigger, and to expand into other sectors of retail. Every step of the way, it strives to make money and dominate its competitors, to the point of putting some of them out of business.

The corporate mission can be stated as follows:

As Wal-Mart continues to grow into new areas and new mediums, our success will always be attributed to our culture. Whether you walk into a Wal-Mart store in your hometown or one across the country while you're on vacation, you can always be assured you're getting low prices and that genuine customer service you've come to expect from us. You'll feel at home in any department of any store...that's our culture.

The company has three "Basic Beliefs" or core philosophies Sam Walton built the company on. Those beliefs are: (1) Respect for the Individual, (2) Service to Our Customers, and (3) to Strive for Excellence. Respecting the individual is a call for treating their employees well and pushing them to excel in what they do. The commitment to their customers is a goal whereby the stores respect a pricing philosophy to always sell items as low as they can while providing excellent customer service. The third belief is to strive for excellence, that is to expand the store, innovate, and "reach further" in to new markets and to grow. (H. Lee Scott, 2002, www.walmart.com)

Other beliefs include, exceeding customer expectations with "aggressive hospitality" such as using door greeters. The store also features patriotic display and themes in its US stores. Another goal for the company is to support efforts in the local community via

charitable contributions. Wal-Mart identifies several affiliations with charities such as the United Way and the Children's Miracle Network (www.walmartfoundation.org).

The "Sundown Rule" is a corporate directive whereby all Wal-Mart employees, be they store "associates," management, or corporate staff, must reasonably answer a customer or supplier request or question within 24 hours. The "Ten Foot Rule" states that store employees must greet, smile, and attend to a customer in a store when within 10 feet of them. It's a type of aggressive hospitality policy. Wal-Mart also compels its staff to engage in morning "cheers" where they recite company sayings.

A final, yet important rule, which is a strong part of the corporate culture is Sam Waltons' "Pricing Philosophy" which underlines the company strategy of selling items for less than their competitors, "always." (www.walmart.com, corporate culture).

3. How does the strategy relate to the company's strengths and resources?

The company uses its size, financial power, immense resources to dominate retail. That translates into effective use of strategy whether its operating a local store, to acquiring another retail chain in another country. The power and size of the company enables it to realize its goals with ruthless efficiency.

4. How clear and long term is the strategy?

The strategy is very clear and direct. It was put into place in the 1960's by Sam Walton, and refined over the decades. The company is proud of its strategy and even incorporates it within its moniker "Always Low prices, Always."

5. What was the CEO's public message?

The public message of the company is consistent, and has been so over time. Founded by Sam Walton, the company has grown considerably. The core message is that Wal-Mart is a "family friendly" store, and that it is good to its customers, and that it is an

asset to the local community. CEO H. Lee Scott, in the 2001 Wal-Mart Annual report is consistent in repeating the core message of the company, restating the corporate culture espoused by founder Sam Walton. The messages of selling for less, respecting employees and communities, and expanding are all echoed in the report (Wal-Mart Annual Reports, 1998, 1999, 2000, 2001).

6. Company Strengths

The company is the world's number one retailer, the number one retailer in the US, and the number one retailer in various countries. It was recently ranked number one in sales in Fortune Magazine.

7. What are the company's weaknesses?

There are several areas of concern for Wal-Mart. These can be divided up into categories: Extensive labor relations problems, Community Relations Problems, and Miscellaneous PR Problems.

Extensive labor relation's problems are common at Wal-Mart. These are detailed within other sections of this report. Generally, the company is opposed to Unionized labor (Fact Sheet, 2001). Wage issues, shift scheduling, and workplace rights abuses are cited by labor groups. This seems to go against its founding principles of respect for employees. The company is also in frequent legal trouble with regulators and union groups in the courts (Quinn 89-115).

Community relations' problems are bound to exist with a corporation the size of Wal-Mart. Likewise, when a corporation is as successful, many a nay-sayer will challenge and scrutinize the company. Complaints mainly arise from community groups accusing Wal-Mart of destroying the local retail environment in the downtowns of small towns. Those put out of business by the giant retailer are among its most ferocious critics. The

company is accused of monopolistic behavior. It wages aggressive price wars, and uses its power to bully its suppliers (Quinn 89-115)

Other public relations problems vary from zoning violation complaints, to itemized complaints from competitors of Wal-Mart using its power unfairly. Censorship, for example, came up as an issue. Wal-Mart publicly believes in "Family Friendly" products, therefore if a movie or CD contains "mature content" the company will not carry the product for sale. This has caused much criticism from various groups.

In all, the company strategy is that of growth, expansion, and diversification by finding new areas to expand into within retail and the service industry. It is the number one retailer in the US and in the World as a result. The competition is scared of them. Its customers know its brand, and will shop there because of the price, selection, and size.

III. Wal-Mart Policy Issues

Wal-Mart Stores Inc. became the largest company in the world this year, surpassing Exxon Mobil Corp. to become #1 on Fortune Magazines annual "Fortune 500" list. Wal-Mart took in \$220 Billion in revenue last year, and has firmly grasped the spot that it has long aspired to hold: that of the #1 retailer in the world. However, Wal-Mart does not plan to sit on its laurels. There are still several policy issues that they face. These include:

1. Wal-Mart's expansion into the foreign market

Wal-Mart has moved in the past year to further expand into the world marketplace. The retailer already has close to 400 European stores, mostly in the UK and Germany (dir.yahoo.com). Where Wal-Mart wants to grow is in the Asian market. On March 15th of this year, Wal-Mart entered into the Japanese market based on an agreement with partner Seiyu Ltd. Wal-Mart bought 6.1% of Seiyu in an attempt to gain a foothold in the Japanese market (biz.yahoo.com). That market has been notoriously unkind to overseas companies, with most shutting down their operations there and heading home.

According to analysts, Wal-Mart bought its stake in Seiyu to ease itself into the market slowly so shoppers can grow accustomed to the company. Seiyu, a 36-year-old retailer, will school Wal-Mart on Japanese customs to better prepare the retail giant for possible acceptance by finicky consumers (biz.yahoo.com).

Wal-Mart is not the first retailer to try to launch itself in Japan, but it is the first to try and work closely with an already established Japanese company to transition itself into the market. The current retail market in Japan is crowded, but weak. If Wal-Mart learns its lessons well from Seiyu, it will have a good chance of survival. On the first day of the alliance, Seiyu's stock shot up 21%, boding well for Wal-Mart's entry (biz.yahoo.com).

Wal-Mart is also looking towards greater expansion in Europe and South America (Wal-Mart Annual Report, 2001). They will continue to pursue partnerships with retailers in those markets to gain easy access to consumers, and continue their dominance.

2. To expand beyond just retail and move into other sectors

Wal-Mart has shown a definite desire to move just beyond retail shopping. Of the nearly 3000 stores in the US, 475 are Sam's Club warehouses, specializing in bulk sales from food to electronic items (ElBoghdady, Dina, "Washington Post"). Their chief competitor in this area is Costco, another warehouse chain, but Wal-Mart has the advantage of having more stores and the regular Wal-Mart stores to back up their investments. Wal-Mart will often attach a Sam's Club near a regular Wal-Mart store, to give consumers two options to choose from. Since Sam's Club also features fresh food and produce, it is also a competitor for supermarkets. Although the cost of obtaining membership in Sam's Club and the sometimes long distance between stores has kept many, especially urban dwellers, from shopping at Sam's Club, Wal-Mart is continuing to expand into areas where Costco's and supermarkets already exist in an attempt to drive them out of business. As long as Wal-Mart can offer low prices on food and other bulk items, they will continue to grow and compete at the warehouse and supermarket level.

Wal-Mart has also shown a definite desire to move in on gas stations. Several situations have emerged where Wal-Mart has run out local gas stations by dropping their prices dramatically (ElBoghdady). These stations are not that many at this time, but they are looking for a definite "in" in that market as well.

Wal-Mart is also making a run at large discount electronic retailers like Best Buy and Circuit City. While they do not yet offer computers, they now sell a wide variety of music and movies, and enter into partnerships with certain companies for promotion. For instance, Wal-Mart is offering an exclusive "Special Edition" of the Star Wars: Episode II film soundtrack that has an extra audio track (Finney, Daniel P., Omaha World-Herald). It is available only at Wal-Mart. This is just one example of the partnerships Wal-Mart has made. They did a similar promotion with Shrek (Wal-Mart Annual Report, 2001).

They are also lowering their prices and advertising a "huge" selection of DVD's. While they in no way rival Best Buy in selection, they are catering to a different demographic. Their selection is much more sanitized, as is their music collection. You cannot purchase a CD with "offensive" lyrics at Wal-Mart. They sell specially made "clean" versions of the songs, and occasionally the cover art (Hoffman, Hank, www.metroactive.com).

How people listen to the watered down versions of some records, some with a full 30 seconds of dead air on them, is a mystery. This makes them attractive to young families, but has brought up censorship issues, especially in towns that have Wal-Mart as their only source of music. In this way, Wal-Mart has gained the admiration of several high-profile members of Congress, including Conservatives and former Vice-Presidential candidate and Senator, Joseph Lieberman (Hoffman). The praise coming for Wal-Mart's "protection of families", helps them in their next policy goal.

3. Dominance in Labor Relations

Wal-Mart has long tried to hold the upper hand over its work force. They have consistently fought attempts by several segments of their work force to unionize. A recent example is Wal-Mart's battle against the United Food and Commercial Workers (UFCW) (Bernstein, Aaron, www.businessweek.com). There have been several disagreements between the Union and Wal-Mart, as Wal-Mart will not allow its workers to unionize. Several battles have been fought in court and in the U.S. Congress over Wal-Mart's questionable labor practices. Wal-Mart's policy has been one of delay and "terror" in the words of one union representative who has accused the company of old-fashioned union-busting tactics.

Currently, Wal-Mart is almost entirely non-union, and wishes to remain that way. Their thinking seems to be that going union would hurt their bottom line, and take them out of the number one retailer spot they so dearly covet. All of Wal-Mart's competitors are unionized. They simply decided to avoid all the trouble. Wal-Mart has decided to go up against labor laws to keep its overhead lower (Bernstein).

The Wal-Mart line on this is that their employees are actually happier this way, but from a quick glimpse at some articles on various web sites, it is obviously not that simple. Wal-Mart employees in Iowa are less than pleased with the refusal of the company to allow them to unionize. They have enlisted the help of the AFL-CIO and labor lawyers to allow them to form a union (www.ufcw.org).

Wal-Mart continues the fight to keep its workers non-union through connections on Capitol Hill and in various government agencies. One of Wal-Mart's biggest advocates is Sen. Tim Hutchinson (R-AR), often referred to as "The Senator from Wal-Mart" by labor leaders. In November of 2001 he attempted to create an exemption in existing labor laws for companies that allow non-profit solicitation on their property, which was a pretty blatant use of September 11th as a way to change the law in Wal-Mart's favor (www.union-network.org). The attempt was voted down by a large margin, but Wal-Mart continues its campaign against unionization through lobbying efforts.

Wal-Mart has been relentlessly pursuing these three policy goals for several years. It all boils down to their corporate strategy: What does a company do when it becomes the number one retailer in the world? It goes after other markets. It protects itself from losing market share. Their fight against labor has been going on since the company was founded. They continue their expansion and are fighting anyone who gets in their way.

IV. Stakeholder Analysis

In determining the public affairs strategy of Wal-Mart, there are many groups and individuals who have a stake in what Wal-Mart does. These stakeholders can be divided into two groups: the market and non-market stakeholders. The market stakeholders are those groups and individuals who have an economic stake in what the company does. The non-market stakeholders are those groups and individuals who have a non-economic stake or political stake in what course the company takes.

Market Stakeholders

1. The Stockholders

The first group that has an economic stake in what Wal-Mart does is its shareholders. These are the people who actually own shares of Wal-Mart and therefore are interesting in seeing a return on their investment. They hope the value of their stock will rise and they will see dividends. According to the 2001 Annual Report, last year, Wal-Mart paid out \$.24 per share in dividends (Annual Report 2001, 45).

2. The Wal-Mart Executives

The top executives of Wal-Mart also have an economic stake in the company just as the regular stockholders do. Many of the top executives received stock options as part of their salary. Obviously, they want their stock value to rise because a large part of their compensation comes from how well the Wal-Mart stock is doing.

3. The Employees

While some of the employees may have stock in the company, many of them have an economic stake in the company just because their job is their primary source of income. They want Wal-Mart to do well because then they will keep their job and their

source of income. Their financial compensation from Wal-Mart sustains them. Wal-Mart employs more than 885,000 people nationwide (Reid, 1)

4. The Communities where Wal-Mart is located

Each of the communities that has a Wal-Mart located in it has a stake in how well the company is doing. Many of these communities rely on Wal-Mart not only for jobs but also for a place to purchase many of their day to day necessities at a low price. Without Wal-Mart in these communities, there would be people without jobs and families paying higher prices for the goods that they need.

5. Consumers

Consumers have a stake in how well Wal-Mart is doing. According to the 2001 Annual Report, Wal-Mart is the country's largest grocery retailer (Annual Report 2001, 7) and therefore many people rely on Wal-Mart for their groceries.

6. Non-profit Organizations

Many non-profit organizations have an economic or market stake in how well Wal-Mart is doing. The Wal-Mart foundation provides many non-profit organizations with funding and if the company is not doing well, the Foundation is not going to do as well either. According to the Wal-Mart Good Works Foundation, 97 percent of their funding goes to non-profit organizations in the communities where their stores are located. The Wal-Mart Good Works Foundation provides funding to programs that deal with community, education, environment and children. Therefore, if a Wal-Mart is located in a certain community, the non-profit organizations can look to the Wal-Mart foundation as a possible source of funding. (www.walmartfoundation.org)

7. Other Retailers

Other retailers have a stake in how well Wal-Mart is doing and how much they are expanding. If a Wal-Mart moves into a community, changes for the other retailers in that community, especially if they are privately owned, are going to lose money and may

even be forced to close down. Because Wal-Mart is the largest retailer in the United States and number 1 on the Fortune 500 list, they have the ability to lower their prices and therefore can force other retailers out of business because they can not match Wal-Mart's low prices.

8. Online Retailers

Like other retailers in communities where there is a Wal-Mart, online retailers also have a stake in how well Wal-Mart is doing. Wal-Mart totally revamped their website in 2000 in order to make it a more profitable part of their retail empire. Wal-Mart, unlike many other e-tailers closed down their website in September 2000 in order to revamp their site. While Wal-Mart's online sales only represents a small portion of their overall sales, the website is a low cost way for Wal-Mart to deliver goods to consumer who live in communities without Wal-Mart stores. (Business Week 11/6/00, 2).

9. Gasoline Retailers

In 1996, Wal-Mart made its first partnership with the gasoline industry. Today, Wal-Mart has contracts with companies such as Murphy Oil USA, Sunoco, and Tesoro Petroleum. Wal-Mart contracts with these companies and leases real estate on their lots in order for the company to offer gasoline at Wal-Mart stores. Both the oil companies who have contracts with Wal-Mart and local gas stations have a stake in this. The local gas stations often cannot compete with Wal-Mart in either price or convenience. Over the next year, the oil companies that contract with Wal-Mart plan to expand to offer cheap gasoline at more Wal-Mart locations. For example, Murphy plans to expand to 600 Wal-Mart sites by 2003 and the other gas retailers have similar plans. (Reid, 5)

Non-Market Stakeholders

1. Labor Unions

Labor unions have a political stake in Wal-Mart has a strict policy about not having their workers unionized. Wal-Mart takes the position that they are better able to take care of their employees and provide them with the best benefits and compensation plans. Wal-

Mart does not want interference from unions. Recently, Wal-Mart was charged by the National Labor Relations Board with violating federal law by keeping employees from holding elections and joining the United Food and Commercial Workers International Union. (NY Times, C2)

2. International Retail Stores

One of Wal-Mart's key policy issues has been to move into the international retail market and open stores in other countries. Last year, Wal-Mart's International Division's sales increased by 41 percent (Troy, 47). Currently, Wal-Mart has stores in China, Korea, the United Kingdom, Brazil, Argentina, Germany, Canada and Mexico (Thau, 9). Wal-Mart must work closely with Public Relations firms in those countries in order to make sure there is no backlash against them moving into other countries. They must also be careful to follow the laws of each of those countries when they open new stores. Wal-Mart has been careful in moving into the international markets. They have acquired companies already well established in those countries and have made sure that 90 percent of their international products are locally sourced (Thau, 9).

3. Politicians

Politicians have a non-market stake in Wal-Mart for several reasons. First of all, politicians may or may not want Wal-Mart opening in their district. On one hand, it may be good for the community. However, if it is a district with a large union presence, the politician may not want Wal-Mart in that area. Also, politicians may rely on Wal-Mart for campaign funding. Last cycle, Wal-Mart's political action committee, Wal-Mart Stores Inc PAC for Responsible Government contributed \$752,500 to various committees and candidates during the 2001 cycle.

V. Political/Public Affairs Strategy

1. Public Affairs

Wal-Mart's power position relative to the key policy issues and stakeholders is one of domination. The size, wealth, and financial power of the company is impressive. It is the largest retailer in the United States. It is the largest political donor in the retail sectors. This dominance, and the company's finances, coupled with retaining the top lobby shops in the US give the company an advantage in Washington.

The company manages its relationship with its key stakeholders in a way that maximizes the tactical advantage of Wal-Mart. With groups that the company perceives as hostile, such as labor unions, complaining former employees, or even local ad hoc opposition groups, who are fighting to keep Wal-Mart out of their community, the company uses every means available to it in order to win. The company applies its retail philosophy, of being the best, and winning, into its political and public affairs strategy. Using tools at its disposal, such as the top law firms, and top PR firms, the company does battle in court with those who challenge it. In public, Wal-Mart uses top of the line Public Relations strategy firms to produce commercials for its stores and to portray the best possible image. Another way the company is successful is its ability thus far to keep out of the headlines any significant negative publicity. The company has also avoided being probed by regulators for some of its aggressive retailing and competition practices. In the case of Wal-Mart and government relations, the goal is to have a low profile, and to keep government regulators away.

Its relationships with key stakeholders are maintained as well by the communication of corporate statements on its Internet site and through other paper based corporate communications. It keeps contact with the US Congress through its DC office and retained DC lobbying staff.

The strategic and tactical advantage of Wal-Mart when pursuing a political and public affairs strategy is the use of its financial resources. It can buy an army of the top lobby

firms, lawyers, and public relations specialists should it need to. Since the company has a history of fighting back, and winning, when it is challenged, that may be keeping larger groups away from fighting the retail giant.

From a scan of recent headlines, the company does not appear to be involved in fighting any major federal legislation. In terms of its government relations strategy, the company does fight many local and state battles. Notably, Wal-Mart is involved in numerous municipal zoning disputes across the US. At the state level, there are several lawsuits pending due to labor relations issues. The company's strategic and tactical activities are more apparent at the state and municipal levels. Mainly, the company fights legislation through the courts. Top issues are municipal zoning regulations. At the federal level, it is worth noting that Wal-Mart gives heavily to Republican candidates, who happen to be generally pro business in their voting.

Wal-Mart has a small Washington DC Office presence at 1201 NY Ave NW, Suite 200 Washington DC. Its main headquarters are in Bentonville Arkansas. Its top Federal lobbying issue is taxation. In terms of state and local lobbying, the company contracts out local lobbyists, lawyers, and PR experts as needs warrant. It's in house DC-area staff is headed by G. Norm Lezy, VP Federal and International Government Relations. Federally, it has on retainer as an outside council and consultants the lobby and law firm of Miller & Chevalier, registered to lobby for Wal-Mart on taxation issues. The company is also represented by Leonard Bickurit Jr. and Patton Boggs, LLP. This is a huge DC law firm. The large and notable public relations firm of Stevens Reed Curcio & Co. is also retained by Wal-Mart. This firm specializes in political advertising. They worked on the John McCain presidential ads.

(Source: National Directory of Corporate Public Affairs, 2000, 2001).

2. PACs and Giving Strategy

Wal-Mart has a Political Action Committee: *Wal-Mart Stores INC PAC for Responsible Government*. In 2001, up to February 2002, Wal-Mart has contributed \$461,000 to federal candidates. The donations are distributed roughly 75% to Republicans, and 25% to Democrats. The total donations by PACs in the retail sector in 2001-2 thus far

totaled \$1.5 million. Wal-Mart is the top political contributor among all retail sector PACs, totaling \$600,000 in total contributions. In 2000, a Presidential election year, Wal-Mart PAC gave \$457,050. (FEC and www.opensecrets.org) The giving strategy to political campaigns is substantial. Mostly to the Republicans. This may be done because Republicans tend to favor legislation that is useful to business in general. Republican candidates are less likely to vote for legislation that raises the minimum wage or impose extra regulations or taxes on business. That is the smart bet to make when donating to a party.

Wal-Mart does not generally employ a grassroots campaign strategy, as it has no established infrastructure to do this. However, Wal-Mart is the single largest service sector, public employer in the US. It has over 1 million employees. Should the company wish to tap its "associates" to become active on an issue, such as trade, for example, they would have a large base of people to draw upon. Quinn noted that Wal-Mart sometimes stages grassroots efforts to oppose local groups who are rallying against a store opening. Wal-Mart will send in professionals and staff from its headquarters to form business development and revitalization committees, and use these fronts to challenge the anti Wal-Mart groups (Quinn, 33)

In terms of consistency, the company has much to improve in the way of dealing with communities and groups. The company chooses to cut costs and push the boundaries of existing regulations. Then it falls victim to lawsuits and is sued for millions of dollars. The company has a goal of keeping out unions. Yet, the company by its frugal employee wage compensation practice, the reliance on part-time workers, and unfair shift scheduling practice, is creating discord among its employees. These conditions foster the development of labor unions. If the company were to improve its payment and treatment of employees, perhaps it can avoid future problems and issues such as turnover.

The company is well positioned to tackle any obstacle. While not maintaining a large government relations department, the company retains top lobbyists, making it ready and capable to deal with issues as needs warrant.

VI. Alternative Strategies for Wal-Mart

Wal-Mart is currently enjoying a record year in which they have vaulted to the top of the Fortune 500 listing. However, they have not implemented their strategy in the best possible way; especially in regards to public relations. Many in retail see the company as a bully and a tyrant. They present the impression of a corporate bully that destroys communities and clamps down on workers rights (www.walmartwatch.com). Alternative strategies available to Wal-Mart are to adopt a friendlier corporate attitude. While they display a cheery attitude in public, off camera they are quite aggressive. Coming to an understanding with organized labor is needed. They must ease their way into foreign markets, instead of barging in and buying up companies. If these strategies are used, Wal-Mart will not only be the largest retail chain in the world, it could become one of the most popular stores in history.

The first area that needs to be addressed is Wal-Mart's aggressive corporate strategy. Surely, there is nothing wrong with being aggressive in the marketplace. However, Wal-Mart has gone about it in such a way as to seem ruthless. Countless grassroots, anti-Wal-Mart groups have sprung up to keep the retail giant out of their communities. The public perception is that Wal-Mart can destroy a community. Wal-Mart does not help this perception when it comes in and shuts down all the local businesses and then proceeds to move in on other areas. Wal-Mart boasts that it provides jobs for the people in a particular area it moves into. The underlying reality is that they have to work at Wal-Mart because the local stores were shoved out. To fight this negative image, Wal-Mart must stop trying to circumvent laws when building new facilities. It must demonstrate precisely how it can be a good neighbor.

Wal-Mart loves to throw money at charities and say it does good work. They need to be more active in this work, and not simply provide cash to organizations such as the United Way. Also, the company boasts raising over \$150 million in 2001. That money, however was raised from the contribution of employees, rather than from company coffers (www.walmartfoundations.org).

Wal-Mart needs to send its store managers and executives into local communities to give their time in the community in a meaningful way. It would also be a plus if salaried store managers were permitted to work on community projects on company time, rather than being encouraged to do things on their own time (Quinn, 35-47).

This cheapness reflects badly on the company. The public loves to see people in positions of power helping out the little guy, President Jimmy Carter being the perfect example. He is wealthy, and he is a former President of the United States; yet he goes out with everyday people to help the poor build homes through the "Habitat for Humanity" project. People love this, and if Wal-Mart could do something along those lines every so often and get local media to cover it; they would deflect a lot of the negative press that says they hurt communities. The story would change from "Wal-Mart Behemoth Rolls Into Town" into "Local Wal-Mart Workers Donate Money, Time to Help the Local Poor". Wal-Mart could continue to expand at its current pace, but could shift the focus away from its local dominance to all the good it is doing. This would raise its profile immensely.

Secondly, Wal-Mart needs to relax its anti-unionization policy and allow its employees to freely choose to organize themselves in a union. They are getting walloped on every front for their commonly known unfair labor practices. Many in the public are sympathetic to the rights of workers to unionize and have a collective voice in the workplace. Wal-Mart, like any corporation, is driven by profit. Many American companies, which are unionized do well in business. A current issue involves workers in Wal-Mart's automotive division, who want to unionize. Wal-Mart is using serious political capitol to keep that from happening. This is a giant mistake that will hurt the corporation in the long run. They are being sued by the National Labor Relations Board and several unions. This fight will end up costing Wal-Mart more than allowing its workers to unionize in that store. In addition to litigation costs, Wal-Mart loses credibility and reputation (Fortune, March 18, 2002). Wal-Mart's fight to keep out unions forces the company to do battle with its employees, fight legal battles with local regulators, and to look bad in the media. Expansion into foreign markets, especially left leaning European nations will mean that Wal-Mart will increasingly confront the

unionization issue. Their reaction to that confrontation could land the company into trouble not only with European regulators, but with angry European customers.

Finally, Wal-Mart must better utilize its political capital and learn from the experience of local retailers when attempting to expand overseas. The stores must be willing to bend their uniformity and consider the reaction of the local culture. They have begun to adopt this posture in their dealings with Japan and the deal with Seiyu, a Japanese retailer. However, some of their other ventures thus far have not run as smoothly. In Canada, for example, stores in the province of Quebec had some initial cultural difficulties. The over patriotic style of Wal-Mart does not work well with the culture in Quebec, which shuns overt patriotism. Flying a Canadian flag in a Quebec store can become an embarrassing political issue due to heightened francophone Quebec nationalism in some regions of Quebec. Yet to fly only a Quebec flag and not the national flag of Canada is a symbol of supporting separatism. The company learned quickly to tone down its use of patriotism in Quebec. Another mistake the company made in Quebec was to publish its circular in the English language, to a mostly French speaking population. This illustrates the larger point, that Wal-Mart has much to learn about the various cultures it is dropping its superstores into (Canadian Business, 1996)

Germany, England, and stores in South America have all not performed up to speed, and in fact Wal-Mart has had to close stores in all these locations because it was not ready to meet the needs of its new clientele. The world is not yet-ready for full-on, US Wal-Mart style retail, especially in the current anti-American climate in Europe. Wal-Mart must consult with business leaders in the various countries they are growing into, and find out the best way to attract business and not upset the local populace.

Wal-Mart experienced problems in Germany, where they attempted to drop all their prices below their competitors. This is against the law in Germany, where price-fixing by the government is commonplace. Wal-Mart eventually circumvented the law, but this did not make people in Germany happy. Wal-Mart needs to work better with governments, not against them, to adjust to the various markets and achieve success overseas (Quinn 134-5)

Wal-Mart might have to spend more money and more time to implement the aforementioned strategy ideas. Bad press is simply not good for the bottom line in the long term, and it can't get much worse than it has regarding labor relations. A friendly corporate image is more than a smiley face that slashes prices. Putting ones own people out helping the public is what makes a company visible. Working with governments and being sensitive to local cultures instead of working against them will benefit the company in the long term. By implementing these suggestions, Wal-Mart would not only expand into foreign markets at a quicker pace, they would also be better positioned to defend themselves against their critics.

Conclusion

In conclusion, Wal-Mart is the number one retailer in the United States and is at the top of the Fortune 500 listing. Wal-Mart operates in many countries world-wide and is moving into new countries every year.

Wal-Mart is also expanding as a retailer. They have expanded into many other sectors of the marketplace, including groceries, gas stations, electronics, and auto maintenance. Each year, Wal-Mart finds new ways to grow and offer more services to their customers.

Each year, the number of people who have a stake in Wal-Mart also grows. Each year, more claims are made against Wal-Mart by the unions and other businesses that have been forced out of business. Wal-Mart is often able to uncut many other local industries and more and more local businesses are shutting down when Wal-Mart moves into town. The unions are filing more court claims against Wal-Mart because they encourage their workers not to join unions.

As a result of Wal-Mart's ever growing size and variety of services they offer, their public affairs department is going to become more and more important. As Wal-Mart att ectors of the marketplace, there is going to be more regulation against them and their public affairs department is going to have to work harder to make it possible for Wal-Mart to continue to grow.

And as the animosity against Wal-Mart becomes more widespread, here and in foreign countries, Wal-Mart is going to have to work harder to maintain their good reputation. Wal-Mart's foundation will become increasingly more important for giving things back to the community.

In order for Wal-Mart to stay at the top of their game and follow the company strategy and achieve their key policy goals, they are going to have deal better with their stakeholders and make sure they guard their reputation well.

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