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THE WAL-MART EFFECT

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

CHARLES FISHMAN

PENGUIN BOOKS

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INTRODUCTION

HAS WAL-MART FOUND ITS SOUL?

We didn't need to tell our story better. We needed a better story. —*H. Lee Scott, CEO of Wal-Mart, 2000–2009*

DURING THE first five years that Lee Scott was CEO of Wal-Mart—from 2000 to 2005—the company's performance and its reputation were going in opposite directions. Under Scott's soft-spoken leadership, a company that was already the second largest in the world nearly doubled its sales, and did double its profits. During those five years, Wal-Mart opened two hundred new U.S. supercenters a year—four every week for 260 weeks.

But it was also during those five years that the crackling anger at Wal-Mart in the United States seemed to gain focus and volume and momentum. Every move by the company, every policy, every new store, was scrutinized and attacked. Two separate Washington-based organizations—Wal-Mart Watch and Wake Up Wal-Mart—were created to criticize Wal-Mart full-time.

We've never heard what it felt like to be leading a company that was both singularly successful—success built on its popularity with ordinary Americans—and relentlessly vilified.

"It was hard not to be defensive," says Scott. "We were combative. We were of the mentality, 'Show us a little bit of animosity, and we can double it for you.'"

Scott was frankly at a loss how to blunt the attacks. In his frustration, he turned for advice to a leader skilled at moving forward, and remaining popular, despite withering criticism: President Bill Clinton.

"I would call up President Clinton, and I would say, 'This so-and-so did this to us! And I'm going to do this!'

"And he would say"—here Lee Scott does a dead-on, and very funny, impersonation of Clinton's distinctive Arkansas drawl—"'You know, Lee, you may want to think about a different approach.'"

Sitting in the living room of his home on the west coast of Florida, Scott is looking anything but combative. It's a Friday morning in late 2010, eighteen months after he turned over the Wal-Mart CEO job to Mike Duke, and Scott is relaxed, in khakis and an open-collared golf shirt, a day's growth of gray stubble on his face. The floor-to-ceiling glass doors of the living room are open, and you can hear the waves and feel the breeze off the Gulf of Mexico. Scott is reflecting on the central struggle of his nine-year tenure running the largest company in human history: how to reconcile the way Wal-Mart sees itself with the way many outside see it.

The company, for instance, had set up a political campaign–style war room to respond to criticism—to get the facts out. But it slowly dawned on Scott that Wal-Mart wasn't a political candidate, and that responding to every criticism with waves of facts actually fed the attack. The response not only didn't deflate the criticism, it legitimized it.

"It wasn't working, what we were doing, that was pretty obvious," says Scott. "It didn't matter how many facts you told. People like the president said, 'Think differently about it.'"

Scott, whose conversations with Clinton began shortly after Clinton left office in 2001, has never before talked publicly about consulting the

former president on how to transform Wal-Mart. Scott says he found that Clinton in particular "has an incredible ability to understand the issues, and to understand alternative ways of moving forward."

With Clinton's guidance, and with the help of Clinton's lifelong friend and first White House chief of staff, Thomas "Mack" McLarty, Scott did something Wal-Mart's senior leadership had never done before: He decided to stop ignoring the critics, or trying to out-shout them, and to listen to them instead. Scott decided to try to understand Wal-Mart's opponents.

Over more than a year, dozens of people were invited to Bentonville. The meetings were shrouded in secrecy, to allow Scott and Wal-Mart executives to listen to even the company's sharpest critics, or to consult people whose perspectives were not part of Wal-Mart's worldview. Panels of environmentalists and representatives of NGOs met with Wal-Mart managers. Al Gore went to Bentonville, as did distinguished Harvard biologist E. O. Wilson, the scholar Jared Diamond, and the Rev. Al Sharpton.

Mack McLarty, who had arranged an initial lunch between Lee Scott and Bill Clinton at the Clinton Presidential Library in 2002, convened a series of dinners and breakfasts for Lee Scott in Washington, the dinners hosted at McLarty's own home.

"The people involved were not all critics," says McLarty. "They were people of political standing in Washington, former cabinet secretaries, former members of Congress."

What was it like for the CEO of Wal-Mart to sit and listen to hours of dissection of his company's practices?

"To get on a plane, week after week, and fly out and talk to people who dislike you?" says Scott. "It was horrible."

Some of the encounters—particularly as Scott broadened the company's outreach to include Capitol Hill—left an indelible impression.

"One of the senators who was just reelected [in November 2010]—I met with her back then. She looked at me and she said, 'I have advice for you, Mr. Scott.' She slammed her fist into her chest and she said, 'Get a heart.'

"One very famous congressman—I walked into his office and he started swearing at me. He said the only reason I was allowed in was that President Clinton had insisted that he meet with me."

Mind you, this was a moment when Wal-Mart's popularity with customers couldn't have been higher. That's part of the reason it took Wal-Mart so long to take the criticism seriously—half the adults in America were visiting Wal-Mart stores each week. Forget the popularity of the senators and congressmen who were so contemptuous of Wal-Mart—more Americans were shopping at Wal-Mart each week than voted for John McCain and Barack Obama combined.

And yet for all its scale, for all its popularity with ordinary Americans, for all its ability to shape the lives of Americans by what it chose to sell, and what it chose to charge for what it sold, Wal-Mart at the dawn of the twenty-first century had an odd problem: It was insular. More than insular, Wal-Mart was isolated. The culture that Sam Walton had bequeathed of discipline and focus, of not worrying about outsiders, had worked superbly for forty years, but it had not prepared Wal-Mart to be a grown-up corporation.

Wal-Mart was relentlessly self-critical—about merchandise, about presentation, about logistics, costs, and prices—without being the least bit introspective.

Lee Scott realized that especially among people who were both powerful and skeptical of Wal-Mart—those Scott calls "thought leaders," from city council members voting on store zoning approvals to senators and environmentalists—the company was nothing more than a remorseless giant. The outreach started out to be as much about connection as it was about learning.

"For most people, it is so much easier to be critical of things if you don't know the people who are involved," says Scott. "You just

don't have to have a sense of compassion, so you can be blatantly mean.

"When you start meeting with people, and you understand that they are human beings, that they really are not trying to do harm—then all of a sudden, even though you might still criticize them, the edginess of that criticism is lessened.

"If you let us in, the Wal-Mart story is compelling."

Right up until 2004, Wal-Mart had always felt that if it could just sit down and talk with its critics, they would see things clearly.

But two surprising things happened for Scott as he listened to outsiders talk about Wal-Mart. First, he discovered that many of them weren't shrill, irrational Wal-Mart haters. They were thoughtful, and genuinely concerned.

It can sound a little cheesy coming from Scott, but it was a genuine revelation.

"You went to these dinners with Mack, you realized, not every one of these people hates us. . . . The truth is, there were an awful lot of people who had become worried about us because we needed to be a better company. And we could be a better company. Nothing brings your critics up quite so short as saying, 'Huh. You might be right.'"

And, of course, Scott and Wal-Mart's strategy notwithstanding, quiet conversation works in both directions.

"We went out to listen, and to talk, and to help change their minds," says Scott. "In the process, I think what's interesting is, the net result over a long period of time is that those meetings also changed me.

"They made me, they made us, less defensive.

"They also encouraged me to move faster, to do things that were meaningful."

The real insight for Scott, though, was that Wal-Mart didn't have public-relations problems or perception problems. It had real problems.

"We didn't need to tell our story better," he says. "We needed a better story.

"Ultimately, that one statement led to, how do you create a better story? What do you do that makes you a better company?"

THE ORIGINAL *Wal-Mart Effect* describes a revolution—a transformation of retailing, of pricing, of where and how products are manufactured, even a revolution in our own attitudes about what things should cost. That is the revolution Wal-Mart wrought, across the U.S. economy and the global economy. It is the world we live in every day.

What's become clear since 2006 is that we are witnessing a second Wal-Mart revolution, triggered by Lee Scott's decision to listen to Wal-Mart's critics. Scott decided that the way to make Wal-Mart a better company was to focus on sustainability and reducing the environmental impact of capitalism. What's taking hold is no ordinary corporate green campaign.

Because of Wal-Mart's incredible scale and reach—a company that touches the life of every American every day, whether you shop there or not—and because Wal-Mart has not lost any of its iron discipline, or its willingness to use its leverage to achieve its goals, the second Wal-Mart revolution is moving much more quickly than the first. The consequences of Wal-Mart's focus on sustainability are already rippling and roiling through the global economy every day.

As you read the full text of the original *Wal-Mart Effect* that follows, keep one thing in mind: All of the tools Wal-Mart has deployed to achieve low prices, it is now using to improve its own environmental performance, and to insist on the improvement of the environmental performance of its suppliers, and increasingly the performance of the suppliers to those suppliers.

In just five years, Wal-Mart has made sustainability almost as important a value as cost—in its own operations, and in terms of the products on its shelves. In the process, Wal-Mart hasn't just become a greener company or an important force in sustainability; as unlikely as it sounds, Wal-Mart is now arguably the most powerful force for environmental change anywhere.

Wal-Mart: the most important environmental organization in the world.

Who would have imagined? Who *could* have imagined?

Indeed, for almost everyone, the idea that Wal-Mart is now the most potent environmentalist in the world will come not just as a shock, but will seem flatly unbelievable.

There are some companies that are further or more thoroughly down the path to sustainability, of course (Seventh Generation or Whole Foods, for instance). There are environmental groups with significant, sometimes unseen, impact (the Nature Conservancy, the Environmental Defense Fund, the U.S. Green Building Council). And there are national governments with the power to initiate dramatic reform (including a newly invigorated U.S. Environmental Protection Agency).

But no company, no organization, no national government is moving as swiftly, as boldly, across so many categories of environmental impact, with so much power to enforce its priorities, as Wal-Mart.

From the gas mileage of its own trucks to the energy use of toy factories in China, from the way toilet paper and pizza boxes are made in the United States to the way farmers in India raise food and the way supercenter freezer cases are lit, Wal-Mart is turning itself into a laboratory of sustainable practice.

In thinking through how to give Wal-Mart a better story—how to make Wal-Mart a better company—Lee Scott's single decision to focus Wal-Mart on sustainability will turn out to be not just his most important decision, but the most important decision anyone at Wal-

Mart has made since Sam Walton decided to focus on price. The ideas of sustainability, as they take hold in Wal-Mart, are changing not just the company's outlook and attitude and priorities; they are inevitably changing the world.

The Environmental Defense Fund (EDF)—the legendary environmental group founded in 1967 that helped get DDT banned—was one of the first outside groups to take Wal-Mart's potential transformation seriously. EDF had representatives at some of the early meetings Lee Scott convened in 2005. Gwen Ruta, vice president at EDF for corporate partnerships, was at one that spring that had a remarkable lineup of environmental luminaries, including Fred Krupp, president of EDF; Peter Seligmann, head of Conservation International; Frances Beinecke, president of the Natural Resources Defense Council; and Amory Lovins, cofounder of the Rocky Mountain Institute.

That first meeting was held in a typical, windowless Wal-Mart conference room. "We were all sitting around in a circle. I honestly think we were sitting on folding chairs. Maybe they were padded folding chairs," says Ruta.

Lee Scott was there, and Andy Ruben, Wal-Mart's first vice president for sustainability, a couple of other Wal-Mart people, and staffers who would come in and out for portions of the presentations.

As staff members would arrive, Scott would introduce them. "Then Lee would say, 'How are your (sales) numbers today?' Each person would just rattle 'em off. Then Lee would ask a question. I thought, 'Wow, that's just part of the standard greeting.'"

The morning of that meeting was devoted to each environmentalist presenting a big idea about the kind of impact Wal-Mart could have. "I was surprised about how open they were to thinking big," says Ruta. "A lot of companies, they want to green the cafeteria. These guys knew right off they were going to do something important. They

were grappling with what it was. That was a fun environment. They did ask questions—a lot of questions."

The message from the environmentalists to Wal-Mart was clear, says Ruta.

"The big thing was, you cannot do this halfway. First, you're behind the ball. Where have you been up until now? And second, you're the largest company in the world. If you are going to do sustainability, you can't do it a little bit."

After more than a year of working with Wal-Mart in the wake of that initial meeting, EDF ended up so convinced of the company's seriousness about sustainability that it opened an office in Bentonville, a four-minute walk down South Walton Boulevard from Wal-Mart's headquarters, to work with Wal-Mart. The office is a first in two ways: It is the first time EDF has opened an office to deal exclusively with a single company; and EDF became (and remains) the only environmental group with an office in Bentonville. Two people staff the Bentonville office full-time, and a third EDF staffer outside Arkansas also works full-time on Wal-Mart.

"The way Wal-Mart works, somebody gets an idea to do something, and they go do it," says Ruta. "They would call me up and say, 'We're having this meeting on Tuesday, with this team to do this.' And it's Thursday of the week before—I don't work in an environment where I hop on a plane on four days' notice.

"And yet, we've learned that if we are in the room, we get a different outcome. And we've also learned that at Wal-Mart, so much happens informally—one of our staff people is walking down the hallway, she passes someone she's not there to see that day, and that person says, 'Oh, when you're done, I want to ask you about something.'"

Wal-Mart's size—largest company in the world by revenue, largest company in the world by number of employees—has not slowed its instinct for nimbleness. Ruta remembers being part of a team looking at packaging, and touring a Sam's Club store. One of the reasons products like small electronics and printer cartridges are packaged with so much bulky plastic is to reduce their easy theft—they are small, high-value, high-demand items, and retailers have decided that a cheap way to keep them from being stolen is to surround them with plastic shells. But the environmental impact of that kind of packaging is absurd.

During the walk-around, the idea came up to put the items—without the excess packaging—in an in-store vending machine. The items would be easily visible, but to get them, the customer would have to pay with a credit card.

"That way," says Ruta, "you wouldn't have to worry about loss prevention anymore. So we went to have lunch, and we came back, and the store manager said, 'I called two vendors over lunch to ask about that vending machine idea.'"

The question about Wal-Mart and sustainability has become, is it just a PR effort, or is it serious? And if it's serious, how serious is it?

Elizabeth Sturcken is EDF's managing director of corporate partnerships and another staffer who started working with Wal-Mart early on. She has been struck by the evolution in Lee Scott's own thinking as she has observed him over the past few years.

"He was looking out on the horizon, trying to figure out what things were going to bite Wal-Mart in the ass, like health care did. He thought the environment was going to be one of those things."

Beyond the secret meetings in Bentonville, Scott put himself through something of an environmental education program, including climbing Mt. Washington in New Hampshire and visiting sustainably run farms.

"To start," says Sturcken, "the sustainability was a purely defensive maneuver. That changed for him, I think. He started to realize that this could be a great business opportunity.

"I also think that Lee Scott, personally, became somewhat of a

true believer. He came to understand the deep environmental challenges we face today."

For those skeptical of Wal-Mart's turn toward sustainability, in fact, EDF opening an office in Bentonville was a signal not so much of EDF's commitment, but of Wal-Mart's. If you were watching, it was an early sign that Wal-Mart was taking its new environmental push very seriously.

"When I take a step back and think about what I could be doing as an individual to try to create environmental change," says Sturcken, "I am absolutely convinced that I am pulling the biggest lever I could pull by working with Wal-Mart."

Indeed, Wal-Mart's sudden, sometimes startling, new openness to outsiders has wrought some mind-boggling changes in the company's daily operations. Michelle Harvey is one of EDF's two people on the ground in Bentonville. She wears what's called a "green badge" Wal-Mart ID that—while it expires every few months and needs to be renewed—gives her free access to come and go to any Wal-Mart facility as if she were an employee.

That is as revealing as anything. Wal-Mart is so renowned for secrecy that routine meetings with suppliers take place in austere cubicles just as you enter the Home Office, so vendors aren't wandering the halls—*that* Wal-Mart has given unfettered access to its headquarters and facilities to a woman who works for an environmental group.

BY THE END of 2010, Wal-Mart Supercenters in the United States were routinely bundling their cardboard cartons and shipping them directly to a manufacturer to be re-pulped and turned into cardboard pizza boxes for Wal-Mart's store-brand deli pizzas. The recycled pizza boxes are just one of dozens of changes, driven by the focus on sustainability, starting to quietly transform every aspect of Wal-Mart's stores and operations.

Wal-Mart stores in the northeast United States in late 2010 launched a new product from Kimberly-Clark: Scott brand toilet paper with no cardboard tube in the center, dubbed "tube-free" toilet paper. Inspired in part by Wal-Mart's drive to reduce packaging, Kimberly-Clark developed new technology to wind the rolls of toilet paper without the cardboard tube, while still leaving a neat open core for us to hang the rolls at home. It turns out that the cardboard tube—which Kimberly-Clark claims to have been the first company to put into the toilet paper, sometime in the 1890s—only exists to facilitate spinning the finished product into a tight roll as quickly as possible at the factory. To launch "tube-free," Kimberly-Clark gave Wal-Mart an exclusive on the product. The company calculates that if every roll of toilet paper used at home is ultimately sold without the tube, that will eliminate 160 million pounds of cardboard a year, cardboard manufactured just to be discarded—an amount equal to all the garbage generated by a hundred thousand Americans a year.

In Mexico, 348 of Wal-Mart's stores now rely on electricity completely supplied by the wind. The wind power not only produces no greenhouse gases, it's also cheap, saving Wal-Mart $1 million a year on its Mexican electric bill.

In the United States, every new supercenter that opened starting in 2009 uses 30 percent less energy than a similar store from 2005 or earlier. When Wal-Mart opens three new stores, it gets the fourth store "free," at least in terms of energy use.

Wal-Mart committed to reducing the packaging of the products it sells by 5 percent—that is, it committed to compelling its suppliers to reduce their packaging by 5 percent—between 2008 and 2013. General Mills redesigned the shapes of the pasta in Hamburger Helper in order to get the noodles to pack a little tighter, so the Hamburger

Helper boxes could be made 20 percent smaller. But the change isn't just about saving packaging material—ultimately, shipping Hamburger Helper in smaller boxes is so much more efficient that it has taken five hundred 18-wheel trucks off the road a year—ten trucks a week. General Mills changed the shape of its noodles, and changed the world.

That ripple of unintended, positive consequences often follows in the wake of sustainability changes. Wal-Mart pioneered "double-concentrated" liquid laundry detergent, working with the big three detergent makers: Procter & Gamble, Unilever, and Church & Dwight. The new liquid detergents—half the volume, same number of washes—significantly reduce the shelf space required in stores, but also reduce shipping weight and cargo space on trucks, along with cutting the plastic required for the bottles. All for simply taking water out of the detergent formula, water we were paying a hidden cost to buy, package, and ship, for absolutely no benefit. But the really interesting thing is that P&G was able to get 20 percent more production out of its Tide factory in St. Louis without a major capital investment—because a big part of how much Tide the factory can produce is how fast it can fill bottles, and it's much quicker to fill bottles that are half the size they used to be.

The packaging reduction effort involved another signal of Wal-Mart's determination: Within months of announcing the 5 percent reduction goal (at the Clinton Global Initiative), Wal-Mart's sustainability team had developed an online tool called the "packaging scorecard" to allow suppliers to register their products and track the progress of their packaging improvements. The real muscle of the packaging scorecard is that it is designed not so much for suppliers as for Wal-Mart's own buyers. As they choose what products to put on shelves, they can now use a company's track record for reducing packaging—they can use a supplier's support of Wal-Mart's sustainability push, in other words—alongside the classic Wal-Mart criteria like price and on-time performance.

Although the sustainability effort started slowly—and was not without internal resistance, according to Scott—it has gathered so much momentum that no part of the company's supply chain is untouched. Concerned about the efficiency of Indian farmers, Wal-Mart sponsored a trip in 2010 in which it took agricultural officials and farmers from India to visit more productive, and more sustainable, farmers in Costa Rica—to try to seed the Costa Rican farming techniques quickly back to India. That's the kind of idea even Sam Walton might have needed a few minutes to absorb—Arkansas-based Wal-Mart facilitating the education of farmers in India by introducing them to their colleagues in Costa Rica.

Says Mike Duke, Lee Scott's replacement as CEO: "We have a unique responsibility, because we are the world's largest grocer. We sell more food than anyone in the world."

Wal-Mart has committed to reducing its own greenhouse gas emissions by 20 million metric tons by 2015—which would mean that, even accounting for growth, Wal-Mart would be emitting a smaller volume of greenhouse gases in 2015 than it did in 2010.

And Wal-Mart has launched several quiet but stunningly ambitious programs in which it uses its leverage over suppliers to pry open both the supply chain and the environmental impact of the supply chain. As part of an effort called GreenWERCS, Wal-Mart is asking every company that sells household cleaning and chemical products through its stores to provide a list of every ingredient in those products, and is working to assess the toxicity and impact of those thousands of chemicals, and urge suppliers to use ingredients less dangerous to both the environment and human health.

One of the most radical things that Lee Scott inspired with his

own openness is a swift end to Wal-Mart's bunker mentality. "Yes, we used to pile the sandbags up," says Andy Ruben. "And we would shoot out, but we didn't want to get hit. Cracking open the organization has been huge, massive." Sam Walton was always in favor of innovation, and of shopping competitors for good ideas. But ideas always flowed only one way—in. There was none of the exchange—not just with suppliers, but with outsiders of all kinds—that really inspires new approaches. Sam wasn't interested in giving competitors even the slightest bit of help in chasing Wal-Mart.

Sustainability appears to have, quite literally, reinvigorated the creativity of Wal-Mart's own staff, encouraged not just by success, but by enthusiasm from outside.

Wal-Mart's new energy-saving store designs involve all kinds of innovations: capturing waste heat from refrigerator cases, for instance, to use in heating the building, or using long-life LED lighting in freezer cases to dramatically reduce energy and maintenance costs. As Wal-Mart has successfully rolled out the design changes, it has invited its competitors—Best Buy, Publix, Office Depot, Food Lion, even Target—to tour the stores and see how the technology works, and how much money it saves. That's Wal-Mart, literally giving away a bit of competitive edge.

"It's really simple," says Charles Zimmerman, Wal-Mart's vice president of international store design and construction. "It reduces our cost to have others buying this technology. We're going to get it first, we're going to buy a lot, we're always going to get it cheaper—but having other people buy it brings the costs down."

Still, even the competitors were a bit surprised to start. "We sent out invitations to the first store tour," says Zimmerman with a grin. "And the folks at Target came back to us and said, 'You know that we're Target, the *retailer*, right?'"

. . .

IT IS EASY to get caught up in the fresh energy of Wal-Mart's new environmentalism and its new openness. You can lose track of the fact that while Wal-Mart is changing in ways that are dramatic and important, the new Wal-Mart is in most ways the same as the old Wal-Mart.

In November 2009, for instance, at the start of what officials feared would be a dangerous swine flu season, it came to light that Wal-Mart's sick leave for its employees has an unusual quirk: Although employees receive paid sick days, they can't use sick leave for the first day they are out sick. To be paid for the first day of an illness, they must use either a personal day or a vacation day. The result, said the National Labor Committee, is that Wal-Mart's store workers frequently go to work sick—endangering both their own health and the health of Wal-Mart's 140 million weekly U.S. customers. Wal-Mart defended the policy as a reasonable way of discouraging workers from simply calling in sick when they want a day off—and didn't change it despite public criticism.

In advance of the 2009 holiday shopping season, Wal-Mart announced that it would be selling ten of the hottest hardcover books, online, for $10—books from major authors like John Grisham, Stephen King, Barbara Kingsolver, and Michael Crichton. Amazon.com quickly matched Walmart.com, and a price war resulted, with the cost for some new hardcover books dropping to $8.99—lower than the typical cost not just of paperbacks, but of e-books. The price-cutting sent a shiver of panic through the book publishing world, which feared that Wal-Mart was preparing to do to the pricing of books what it has done to the pricing of everything from microwave ovens and lawn mowers to pickles. Said John Grisham's literary agent: "If readers come to believe that the value of a new book is $10, publishing as we know it is over." Wal-Mart's book prices returned to more normal levels after the holidays.

Before the 2010 holiday shopping season, Wal-Mart announced that it would provide free shipping for sixty thousand items sold at Walmart.com, about a quarter of the products for sale, with no minimum purchase required through the holidays. The free-shipping promotion was a competitive shot at Amazon.com, which offers free shipping on orders of $25 or more, and at Target, which had its own holiday promotion of free shipping on orders of $50 or more.

Wal-Mart hasn't gone soft in the last five years. Most of what follows in *The Wal-Mart Effect* about how Wal-Mart operates and thinks about the world remains as true today as it was in 2005. The DNA of Wal-Mart hasn't changed—the company is still brilliantly disciplined, relentlessly focused on both its own costs and the prices it offers, and ruthlessly competitive.

What's remarkable is the degree to which sustainability—the ideas, the goals, the practice—turns out to mesh so perfectly with Wal-Mart's existing culture and mission.

Wal-Mart is all about being as efficient as possible, in order to deliver the things people need every day at the lowest possible cost. That means being efficient with its own buildings and staffing and logistics—and it means there's no reason to make blue jeans or televisions in the United States if you can make those very same products in China at a lower cost.

In exactly the same way, running a supercenter that requires 30 percent less energy is just eliminating pure waste. If the cardboard tube inside the roll of toilet paper does nothing for the customer's toilet paper experience, then it too is nothing but waste: Find a way to get rid of it. Teaching farmers to be more efficient, to use fewer chemicals and less water, reduces their costs, which ultimately reduces Wal-Mart's costs, and the cost for green peppers and apples.

When you grab hold of sustainability—when you start to look at transportation costs, at packaging and energy and the cost of raw materials (not to mention the amount of raw materials in the first place)—the whole concept feeds the natural Wal-Mart pricing cycle.

Increase efficiency. Reduce costs. Reduce prices. Attract more shoppers. Gain market share. Which allows you to once again increase efficiency and lower prices.

Matt Kistler, who just finished a stint as Wal-Mart's senior vice president for sustainability in the fall of 2010 (and is now senior vice president for marketing for Wal-Mart in the United States), says, "Sustainability is reinvigorating the productivity loop. If we operate for less, we can buy for less, we can sell for less, and you grow your sales.

"It fits our DNA. It fits our culture. It's the right thing to do."

Sustainability isn't just a value or a goal inside Wal-Mart—it's a tool for helping Wal-Mart be a better Wal-Mart.

And it isn't just that sustainability is reinvigorating Wal-Mart's productivity loop, as Kistler puts it. Sustainability appears to be literally reinvigorating Wal-Mart's own headquarters staff, and the company's sense of relevance, especially in a U.S. market that it has come to dominate.

There is a sense that because Wal-Mart's growth has slowed so dramatically in the United States—the growth rate for sales at U.S. stores in the 2000s wasn't even half what it was in the 1990s—that Wal-Mart's grip on the retail ecosystem is somehow fading. Wal-Mart and its U.S. customers did struggle to shake off the recession in 2009 and 2010. During the Christmas 2009 quarter, Wal-Mart's U.S. sales actually fell—the drop-off amounted to just $1,000 per store per day, but it was the first time U.S. quarterly sales had ever fallen.

It is easy to forget Wal-Mart's size and influence—especially because of the frequent, facile comparisons to rivals like Target or Amazon.com. The scales are hardly comparable. Wal-Mart does more business by March 3 than Target does all year. Target doesn't have a single store outside the United States; Wal-Mart's international stores alone generate almost twice Target's total revenue.

The five years since *The Wal-Mart Effect* was published have been the slowest growth period in Wal-Mart's history. And yet since 2005, Wal-Mart has grown by $110 billion in sales. In that "slow" period, Wal-Mart *added* the equivalent of all of Target's business plus all of Amazon.com's business.

Even in the larger arena, Wal-Mart is a giant. In the first one hundred days of 2010, Wal-Mart generated more revenue than Google has had in its entire ten-year history.

Inside Wal-Mart, the focus on sustainability has given the staff a whole new strategy and approach with suppliers, and a whole new way of asking questions about the company's own operations. Wal-Mart associates—allowed to talk to reporters now in ways they never were for the first forty years of Wal-Mart's history—light up when they describe new sustainable products, environmental improvements, and Wal-Mart's far-reaching corporate environmental goals. Grinding away at prices gets tedious, even if you're Wal-Mart.

Sustainability is, quite literally, a fresh way for Wal-Mart to look at the world, and it is inspiring a new wave of creativity, and a renewed feeling of pride, in a company that by 2005 was tired of being pummeled.

Speaking to Wal-Mart associates at a sustainability meeting in late 2010, CEO Mike Duke said, "It's the right thing to do, but it's also right for our business."

For Lee Scott, who managed to engineer both a critical strategic change and a significant cultural change inside the world's largest company, what's amazing is how potent sustainability is not just at helping Wal-Mart see the world differently, but at helping the world see Wal-Mart differently.

"You can't argue against the things our people are doing," says Scott. "You cannot possibly stand up and say, 'No! You need more packaging, not less!' 'You need more bad chemicals in the infant products!'

"We're eliminating packaging. We're eliminating the use of imported oil. We're eliminating bad chemicals. We're eliminating the cutting down of rainforests.

"If you look backwards, you think, 'Why did we ever have any meetings about this being controversial? Who in the world thought sustainability was going to be controversial?'

"What we're doing, what our buyers are doing," says Scott, "is making sustainability affordable. We're democratizing sustainability."

And yet, a core piece of the Wal-Mart sustainability philosophy is that sustainability doesn't require increasing costs—even when it does. Kimberly-Clark spent millions of dollars to roll out tube-free toilet tissue—retrofitting a factory in South Carolina with equipment so proprietary, there are employees in the factory itself who don't know how the tube-free toilet paper is produced. But Kimberly-Clark absorbed the capital cost as a long-term investment in a new kind of manufacturing technology: The price of toilet paper on the shelf at Wal-Mart didn't go up.

It doesn't cost much to account for the chemicals in your cleaning products—but it might turn out that substituting different chemicals in your bathroom cleaner or your window cleaner or your dishwasher detergent, substituting "greener" substances, does cost more. Yes, simply reducing unnecessary packaging seems like an easy way to reduce costs. But selling organic shampoo in a biodegradable plastic bottle, instead of a standard plastic bottle, might increase the cost of packaging—and perhaps with good reason. Will Wal-Mart allow companies to pass on those costs, and help explain them?

Andrea Thomas took over from Kistler as senior vice president for sustainability at Wal-Mart. Ask her the simple question, "What if sustainability doesn't always cost less?" and she answers: "It can!"

Thomas immediately launches into a story about energy savings at factories in China. In fact, at the first few hundred factory audits Wal-Mart has sponsored in China, simple walk-throughs have re-

sulted in almost instantaneous ideas for cutting energy costs by an astonishing 25 to 50 percent.

That's huge. But where will the sustainability drive be in five years, or fifteen? Lee Scott himself said in 2007, "We're not picking the low-hanging fruit. We're picking up fruit off the ground."

The idea that sustainability is always about efficiency, about reducing costs, has taken firm hold inside Wal-Mart. At a meeting in October 2010, where Wal-Mart rolled out a series of impressive new goals to help drive more sustainable agriculture, senior vice president of global food sourcing Pam Kohn said, "How do we do it while keeping prices low? We are doing it right now. Sustainability doesn't have to cost more. It can improve quality and improve efficiency."

That very attitude is why the book that follows remains so important. Back in the 1970s and 1980s, who would have thought that Wal-Mart's obsessive effort to keep prices low would have had unpleasant consequences? Who could argue against low prices?

That most of Wal-Mart's potential environmental impact comes not from changing its own operations, but from once again reaching back into its supply chain, into the operations of the companies whose product it sells, means that Wal-Mart's influence in the United States and around the world is likely to increase, not stagnate or fade. Sustainability isn't going away, and neither is Wal-Mart. But with sustainability as a mission, Wal-Mart is on familiar territory—a classic instance of the Wal-Mart effect, the company using its power to change the world.

We will all benefit from Wal-Mart taking sustainability seriously—we are all benefiting already. As it did with prices, Wal-Mart is already resetting the metabolism and the expectations of the retail ecosystem when it comes to the environmental impact of products. You don't make the Hamburger Helper or the Tide in the efficient factory for Wal-Mart and use the inefficient factory for everyone else. Even if you never shop at Wal-Mart, Wal-Mart is already reducing the impact of the products you use.

But now that everyone knows the inexorable logic of the Wal-Mart effect, we have an obligation to watch for the winners and the losers as Wal-Mart pushes sustainability forward. The one thing that is different is that the Wal-Mart of 2011 is more likely to pay attention to criticism.

In the last five years, Wal-Mart has discovered for itself a new source of innovation. It turns out that sometimes there is competitive advantage to be found in what your critics have to say.

As Lee Scott says, "You have to start out listening."

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Pricing for Profit: Wal-Mart's Unrelenting Growth

	2005	2010
Total sales	$312 billion	$419 billion
Sales per hour, 24 hours a day	$36 million	$48 million
Profit per minute, every minute of every day	$21,309	$30,363
Average annual pay, for an hourly Wal-Mart worker (40-hour week)	$19,760	$24,440
Profit per employee	$6,200	$7,600
Total employees	1.8 million	2.1 million
Number of Americans who shop at Wal-Mart each week	127 million	140 million
Total U.S. stores (Discount, Supercenter, and Sam's Club)	3,856	4,413
New U.S. stores opened per month, 2005–2010		9
Total stores outside the United States	2,285	4,556
New international stores opened per month, 2005–2010		38
Stock price, July 1	48.28	48.34

Statistics are current as of the end of the fiscal year. Wal-Mart's fiscal year is always one year ahead—Wal-Mart FY 2011 is equivalent to calendar year 2010. Some international store growth between 2005 and 2010 comes from acquisitions. Source: www.walmartstores.com