Wal-Mart and Its Urban Expansion Strategy

Wal-Mart was the world's largest corporation with sales of $256 billion, a $9 billion profit, and 1.3 million associates, as it called its employees. Wal-Mart was the most admired company in *Fortune*'s annual survey. In addition to its traditional merchandise Wal-Mart had expanded to sell pharmaceuticals and groceries. In the United States its strategy had been to locate in small towns and suburban areas. Only 38 of its 3,000 stores were located in cities with populations of at least 1,000,000. With attractive sites in its traditional areas becoming scarce, Wal-Mart embarked on an urban expansion strategy. The company had 53 Wal-Mart and Sam's Club stores in the Chicago metropolitan area, but none in the city itself. In 2004 Wal-Mart sought approval to build two stores in Chicago.[69] The stores would employ 600 workers.

Wal-Mart's market strategy emphasized low prices, low costs, helpful sales people, an efficient distribution system, bargaining power over suppliers, and low wages compensated for by opportunities to advance as the company opened new stores. Although the company paid low wages, those wages were comparable to those paid by its competitors such as Target and K-Mart. Wal-Mart provided health insurance to its employees after 1,000 hours of employment. Wal-Mart also employed many elderly workers who were eligible for Social Security and Medicare.

Wal-Mart had experienced a host of labor incidents that generated criticism. In late 2003 Immigration and Customs Enforcement agents raided several Wal-Mart stores, taking into custody 200 undocumented workers employed by custodial service companies that cleaned the stores. It was also revealed that some Wal-Mart employees had been forced to punch out and continue working, and some minors had worked too many hours. Wal-Mart was also criticized for refusing to sell some magazines and CDs and concealing parts of the covers of some magazines. The media reported that in high crime areas Wal-Mart had a policy of locking night shift employees in the building to prevent "shrinkage" from theft. In many cases there was no one with a key to unlock the doors in the case of an emergency, and employees had to call a store manager to have the doors unlocked. Employees could use the emergency exits, but Wal-Mart had made it clear they were not to do so except in a true emergency such as a fire. Some employees said that they had been told that they would be fired if they used the emergency exits. Wal-Mart was also named in the largest-ever class-action lawsuit on behalf of 1.6 million women alleging job discrimination in promotions.

Activists and union leaders criticized Wal-Mart for its low wages and because its low prices put pressure on other companies, including small retailers. Wal-Mart became a political symbol as Democratic presidential primary candidates Howard Dean and Richard Gephardt criticized the company for its health benefits. Wal-Mart had become a symbol of low pay and was accused of driving down wages across the country.

Wal-Mart had a history of opposing unionization, and its employees had rejected unions on a number of occasions. John Bisio, a Wal-Mart spokesperson, explained that the reason "our associates haven't wanted third-party representation is because they have faith in the company, and it provides them with tremendous opportunity."[70]

In Southern California supermarkets faced increased competition from Wal-Mart superstores that sold groceries. To remain competitive, the supermarkets sought to require their employees to bear a share of their health care insurance costs. The United Food and Commercial Workers (UFCW) struck Kroger, Albertsons, and Safeway for 5 months before agreeing to have employees share in the insurance costs.

Earlier in the year Wal-Mart had sought to open a 60-acre shopping center in Inglewood, California, but local opposition led the city government to reject the changes in zoning rules needed for the project to go ahead. Wal-Mart then campaigned to put the matter before the voters, but in a public referendum voters rejected it by a 60–40 vote.

The Chicago Stores

Wal-Mart planned to open stores on the sites of a closed Ryerson Tull steel facility on the south side and a recently closed Helene Curtis plant on the west side. Both communities were poor and largely African American.

The opposition to Wal-Mart in Chicago was led by the Chicago Workers' Rights Board, which represented a coalition of labor, religious, and civic groups. At a rally an economist from the University of Illinois at Chicago predicted that Wal-Mart's entry would cost more jobs than it would create. He said, "As a rule, Wal-Mart squeezes more sales out of each man hour, so they can generate the same dollars out of fewer workers. So, you'll have a net loss."[71] The unions focused on the specific threat. "The Chicago Federation of Labor has made three demands of the retailing behemoth it called 'Public Enemy No. 1': that Wal-Mart agree not to sell groceries at any of its Chicago stores to avoid driving down the wages of its supermarket competitors, that the company remain neutral in any union-organizing campaign, and that it pays its Chicago employees a 'living wage.'"[72]

[69] Wal-Mart stated that it had no current plans to sell groceries in the proposed new stores.

[70] *New York Times*, May 6, 2004.

[71] *Columbia Chronicle* via U-Wire, May 17, 2004.

[72] *Chicago Sun-Times*, May 26, 2004.

Elizabeth Drea of the UFCW said, "Wal-Mart has a well-documented history of violating workers' rights and devastating communities with its predatory practices."[73] She added, "Wal-Mart usually comes in and pays the minimum wage, which forces all other workers' wages downward. That means there's a long-term impact many people may not be willing to explore."[74]

The NGO Good Jobs First produced a study reporting that Wal-Mart had received over $1 billion in state and local tax subsidies during its decades-long expansion. The study was financed in part by the UFCW.[75] A Wal-Mart spokeswoman responded that in the past decade "Wal-Mart has collected $54 billion in sales taxes, paid $4 billion in local property taxes, and paid $192 million in income and unemployment taxes to local governments. 'It looks like offering tax incentives to Wal-Mart is a jackpot investment in local government,' she said."[76]

Mark Brown, writing in the *Chicago Sun-Times,* said, "Of course, if Chicagoans prefer to keep their tax dollars closer to home, they can shop at Target or Lowe's or Home Depot or any of numerous other discount retail stores operated with nonunion workers, all of which have opened new locations in the city in recent years without a peep from organized labor that I can recall. . . . Labor's main concern seems to be in protecting its workers in the grocery business, because some Wal-Mart stores operate full-service groceries, although the company says that's not part of its initial plan here."[77]

Alderwoman Emma Mitts, who represented the West Side ward in which a store would be located, explained her support for the stores, "For a lot of people, this will be their first job of any kind. This is where they'll learn that in the world of work, you have to show up on time, you have to look good, you have to be helpful and courteous. Our young people are going to learn how to stock shelves, how to answer customers' questions, how to make change. Don't underestimate what it will mean to our community to have a place where young people can learn skills like these."[78] She estimated that the unemployment rate in her ward was 60 percent. In response to the criticisms of Wal-Mart, Mitts said, "We want to take the worst retailer in the world, the worst, as they say, and make it the best. But you know something? To make them the best, you've got to have them inside."[79]

Wal-Mart's average compensation for its associates in the Chicago area was $10.77, which it argued was not low relative to small retailers or large retailers, including Home Depot and Target. "A February 2004 report from U.S. Representative George Miller (D-CA), a senior member on the House Committee on Education and the Workforce, says that the average Wal-Mart employee nationally earns $8.23 an hour, below the average supermarket employee's wage of $10.35 an hour."[80] Bisio said, "As far as having an impact on the overall economy, if you talk to the Chambers of Commerce in any town where we're present, they'll tell you that we not only create jobs, but we also help attract revenues for ourselves and neighboring retailers, which generates taxes that pay for law enforcement jobs and roads and everything else."[81]

Alderman Howard Brookins, Jr., in whose South Side ward the Ryerson Tull facility was located, said, "I don't understand any opposition. Target and Home Depot aren't unionized and they're in the city."[82] Brookins added, "When [Wal-Mart] said they were interested in coming, there was interest from other businesses. Restaurants such as Red Lobster and Applebee's, that weren't interested in coming into the inner city before, signed onto the project."[83]

After Wal-Mart opened a store in Los Angeles, local merchants did not experience the disaster critics had predicted. "'The traffic is definitely there. We're seeing more folks,' says Harold Liecha, a cashier at Hot Looks, a nearby clothier. . . . But the larger picture is that many [shops] that were there before the big discounter arrived are still there. There are new jobs now where there were none. And a moribund mall is regaining vitality. In short, Wal-Mart came in—and nothing bad happened."[84]

Wal-Mart had worked to build support for the stores in both the communities and Chicago more broadly. Approval of each store required 26 votes from the 50-member city council, and the council usually deferred to the wishes of the relevant alderman. This, however, was not business as usual, and despite support from Mayor Richard Daley, the city council postponed a vote on the stores.

Mr. Bisio observed, "In Chicago, you have to be willing to step out of your so-called comfort zone and what you're used to doing. We recognize that there are experiences there that are different from other places. Organized labor is very strong there. We know we're going to be subject to great scrutiny, and we really want to adhere or conform to the spirit of how things are done in Chicago."[85] ■

Source: This case was prepared from public sources by Professor David P. Baron.

[73] *USA Today,* May 26, 2004.
[74] *Columbia Chronicle via U-Wire,* May 17, 2004.
[75] Good Jobs First also lobbied for a living wage.
[76] *New York Times,* May 24, 2004.
[77] *Chicago Sun-Times,* May 6, 2004.
[78] *New York Times,* July 6, 2004.
[79] *New York Times,* May 6, 2004.
[80] *Columbia Chronicle via U-Wire,* May 17, 2004.
[81] *New York Times,* May 6, 2004.
[82] *Crain's Chicago Business,* April 5, 2004.
[83] *Columbia Chronicle* via U-Wire, May 17, 2004.
[84] *BusinessWeek,* May 10, 2004.
[85] *New York Times,* July 6, 2004.

Preparation Questions

1. Should Wal-Mart give up on entering Chicago?
2. If not, should it agree to the demands of the Chicago Federation of Labor?
3. What should it do to build a majority in the city council?
4. Formulate an integrated strategy for Wal-Mart's urban expansion.