

Wal-Mart

World domination, one store at a time

EVEN WELL INTO HIS FORTIES SAM WALTON WAS OUTWARDLY no different from any other moderately successful businessman. As a youngster he had worked stacking shelves for J.C. Penney, learned to manage small stores, and then owned and operated a chain of fifteen variety stores of his own across Arkansas, Missouri, and Oklahoma—typical businesses with typical margins.

Then, in 1962, it was as if a discount bug went around like the flu and everybody caught it. Kmart, Woolco (Woolworths), and Target all opened vast, warehouse-style general-merchandise stores that profited from low margins and high turnover. Sam Walton may have been a small operator from Hicksville, but he knew a good idea when he saw it. In fact, for Walton, discovering discounting was akin to a religious conversion. He opened his first Wal-Mart outside Rogers, Arkansas, in 1962, and was to spend the rest of his life devoted to his creed: “Everyday low prices.”

Wal-Mart is one of the world’s biggest corporations; it is certainly the world’s biggest retailer with 5,200 stores worldwide.

By 2005 it had 1.7 million employees worldwide, making it the world’s biggest private employer. Its sales on a good day are bigger than the gross domestic products of thirty-six countries (by 2005 sales had hit \$285 billion a year). It is the biggest seller of just about any consumer product you can think of, from DVDs to dog food (where it has market share of some 36 percent nationally). Wal-Mart is China’s eighth-largest trading partner. Economists have said Wal-Mart’s low prices are responsible for reducing America’s rate of inflation. If Wal-Mart continues its present rate of growth, it is possible

that by the end of the decade it will become the world's first trillion-dollar corporation and the largest company in United States history as a proportion of GDP. By 2005, the Walton family (Sam Walton's widow, Helen; sons Jim, Rob, and John, who died in a plane crash in mid-2005; and daughter Alice) were the richest family in the United States with 39 percent of Wal-Mart stock worth some \$90 billion.

Unlike the dot-com boom that produced billionaires overnight, Sam Walton's success came one store at a time. Born in 1918, it took Walton so long to become a billionaire that he was still virtually unknown in 1985 when *Forbes* magazine calculated that his stock ownership in Wal-Mart made him the richest man in America. Walton—or “Mr. Sam,” as he liked to be called—enjoyed his anonymity; he created quite a persona as the good ol' boy who drove an old pick-up truck and held picnics for employees on his front lawn.

He may have been socking away billions of dollars in family trusts, but he genuinely had a common touch. He understood the advantages of a workplace that created a family atmosphere. He understood the importance of information that percolated up from the shop floor. He understood the effect he had on the workforce when he just dropped in, unannounced, and took morning tea in the back of the store just like a regular guy. “Nothing else can quite substitute for a few well-chosen, well-timed, sincere words of praise,” Walton once said. “They are absolutely free and worth a fortune.”

He offered small but significant benefits, such as a share plan for long-term employees. He also hated unions.

Walton had the imagination to see very early on that there was enormous potential for growth in rural America. He flew his light plane across the countryside, buying up chunks of farmland at the crossroads between small towns where he would build his stores. He was literally flying under the radar: even as late as the 1980s, the likes of Kmart could not understand how this company based in the rural south could pose much of a threat. Employees still gather together every Friday morning to yell out the ritual Wal-Mart cheer,

which starts, “Give me a W!” and ends, “Who’s number one?” Answer: “The customer!”

Behind the hokey façade, though, Wal-Mart is a technological innovator. As early as 1966, Sam Walton visited an IBM training school with the purpose of hiring somebody to computerize his operation. Today, not only is all stock tracked from factory to purchase, enabling managers to instantly rank the popularity of any item in any store, Wal-Mart is happy to share its information with its suppliers, who can keep tabs on their product through a system called RetailLink. Allowing suppliers to see for themselves how their products fare, hour-by-hour, encourages them to think proactively rather than just waiting to fill orders. After the Pentagon’s, Wal-Mart’s computer system is the largest in the country.

It is not unusual for a single Wal-Mart buyer earning \$50,000 a year to handle \$1 billion worth of business, which helps to explain why around 200 major suppliers have built their own offices in Bentonville and companies such as Newell Rubbermaid rarely launch a new product line without consulting a Wal-Mart buyer first.

As a mechanism for delivering cheap consumer goods, Wal-Mart is unparalleled. It has driven out of business the traditional mom and pop store and regional chains and now has the national brands such as Kmart and Target on the ropes. Even the Toys“R”Us chain, which has itself killed off countless smaller toy chains, suffered at the hands of Wal-Mart, which has the flexibility to shrink or expand its stock of toys with the seasons, while Toys“R”Us was stuck with aisles of Barbies and Legos year-round.

When Sam Walton died in 1992, some commentators believed Wal-Mart would lose its drive, but Walton had groomed his successor, David Glass, well. Glass may not have had Walton’s down-home charisma, but he built on the company’s strong foundations and expanded the chain’s reach dramatically. A decade ago, pundits scoffed when Wal-Mart started selling food. Now, it is the biggest

grocer in the country. Glass took Wal-Mart's revenues from \$16 billion in 1987 to some \$165 billion in 1999; in 2000, he was succeeded by chief operating officer Lee Scott, a twenty-year Wal-Mart veteran who stepped into the role of weekly cheerleader with barely a hiccup—"Give me a W! . . ."

Some analysts believe there is room for another 2,000 more stores by 2011. Wal-Mart also has operations in eight other countries, including ownership of the British supermarket chain Asda and a large stake in a Japanese chain. It is the largest retailer in both Mexico and Canada.

Enormous growth has not come without its hiccups, though. Attempts to export the Wal-Mart culture wholesale into Germany in 1997 lost the company money, thanks to uncooperative suppliers and unions. Back home, some employees complain that the old-time family atmosphere, which relied on managers' occasional goodwill, has eroded since Sam Walton's death and the introduction of twenty-four-hour trading. Some towns, particularly in the northeast and California, have fought hard against Wal-Mart opening nearby, fearing it will suck the life out of their commercial centers. Anti-globalization campaigners have criticized the chain for buying goods made cheaply in developing nations. In 2001, six current and former employees filed a sex-discrimination lawsuit against the company, which became a class action in 2004, alleging that Wal-Mart paid its female employees less than males ones and promoted them less often. In 2004, Wal-Mart ran a series of ads designed to combat its eroding public image after unsavory revelations about its labor practices and immigration raids that uncovered hundreds of illegal employees. It has been mercilessly lampooned on both *The Simpsons* (where Homer gets a job as a lowly paid greeter) and *South Park*. Despite its history of technological prowess, Wal-Mart's online presence is not yet a patch on that of Amazon.com, which can also afford to cut prices since it has no stores to run, and is way ahead in the experience it offers online shoppers.

It's unlikely any of these issues will make much of a dent in the bottom line, though. All empires crumble eventually. But, if you are one of Wal-Mart's competitors, that's not much consolation.

NOTES

“Nothing else can quite . . .” Neuborne, Ellen. “Sam’s Rules: Listen, Share, Control Expenses,” *Money*, *USA Today*, 7.16.92, p. 18.

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The Business 2.0, *BusinessWeek*, *Daily Telegraph*, *Economist*, *Fast Company*, *Financial Times*, *Fortune*, *Slate.com*, *Sunday Telegraph*, *Telegraph*, *Time*, *USA Today*

Warren Buffett, Berkshire Hathaway

“Price is what you pay, value is what you get”

THE ANNUAL GENERAL MEETING OF WARREN BUFFETT’S company, Berkshire Hathaway, each spring in Omaha, Nebraska, is unofficially known as Woodstock for capitalists. Here, up to 15,000 investors in Buffett’s \$129 billion company come to pay homage to the man they call the Oracle of Omaha and listen to his thoughts on investment. His lengthy speeches are typically injected with his ideas on everything from the evils of corporate greed to the worthlessness of dot-coms and the wisdom of Dolly Parton (“If you want the rainbow, you gotta put up with the rain”). To many, he is more than the world’s greatest investor; he is a folk hero.

There is good reason for the rapt attention. Buffett is unquestionably the most influential investor in the world. A \$10,000 investment in the Buffett Partnership in 1956 which was then reinvested in