Globalization and the Wal-Mart Effect – How Wal-Mart Changes the Way Products are Sourced and Sold

Kerby Anderson helps us understand the foundational principles and some the current factors which make Wal-Mart the dominant force in consumer sales in the world. Wal-Mart has fundamentally changed the way products are sourced and sold as shown in the examples presented in this article. Kerby does not take a position for or against those changes but encourages us to consume in ways that consider the impact of our consumption.

Introduction

In this article, we revisit the issue of global trade and the process of globalization. In an earlier article I asked, Is the world flat?{1} I talked about the various things that have made our world flat and used Wal-Mart as one of the examples.

I would like to further develop our discussion by using Wal-Mart as an example of what is happening in our world. Thomas Friedman, in his book *The World is Flat*, says that if Wal-Mart were an individual economy, it would rank as China's eighth-biggest trading partner, ahead of Russia, Australia, and Canada.{2}

Often I will be referring to many of the facts and figures from Charles Fishman's book *The Wal-Mart Effect*.{3} For example, he points out that more than half of all Americans live within five miles of a Wal-Mart store. For most people, that's about a ten- to fifteen-minute drive. Ninety percent of Americans live within fifteen miles of a Wal-Mart. In fact,

when you drive down the interstate, it is rare for you to go more than a few minutes without seeing a Wal-Mart truck.

Wal-Mart has over 3800 stores in the United States. That is more than one Wal-Mart store for every single county in the country.{4} And they don't exactly fade into the landscape. They sit on vast aprons of asphalt parking and stand out because of their sheer size.

Wal-Mart has also become the national commons. Every seven days more than one hundred million Americans shop at Wal-Mart (that's one third of the country). Each year, ninety-three percent of American households shop at least once at Wal-Mart.

Wal-Mart's sales in the United States are a bit more than $2000 per household. And Wal-Mart's profit on that amount was just $75.00.{5}

The size of this company is hard to grasp. Wal-Mart isn't just the largest retailer in the nation and the world. For most of this decade, it has been both the largest company in the world as well as the largest company in the history of the world.

In 2006, Wal-Mart will be bumped from the number-one spot on the Fortune 500 list of the largest companies by ExxonMobil, whose sales will surge past Wal-Mart's because the world price of oil rose so much in the last year.

But if you consider payrolls, there is no comparison. ExxonMobil employs about 90,000 people worldwide. Wal-Mart employs 1.6 million.{6} And there's another difference. ExxonMobil is growing by raising prices. Wal-Mart is growing despite lowering prices.

Put another way, Wal-Mart is as big as Home Depot, Kroger, Target, Costco, Sears, and Kmart combined. Target might be considered Wal-Mart's biggest rival and closest competitor, but it is small in comparison. Wal-Mart sells more by St. Patrick's Day (March 17) than Target sells all year.{7}

The Wal-Mart Effect

Ask people to give you their opinion about Wal-Mart and you are likely to get lots of different responses. They may talk with enthusiasm about the “always low prices.” Or they might talk about the impact Wal-Mart had on small businesses in their community when the first store arrived. They may even talk about the loss of American jobs overseas. Believe me, most will have an opinion about Wal-Mart.

Wal-Mart had its creation in the mind of Sam Walton who promoted a single idea: sell merchandise at the lowest price possible. It began with Wal-Mart working hard to keep the costs of their company as low as possible. This idea moved from their company to their suppliers as they asked them to be as frugal as possible. As the company grew in size, they began looking for every way to wring out the last penny of savings from materials, packaging, labor, transportation, and display. The result was “the Wal-Mart effect.”

Consumers have embraced “the Wal-Mart effect.” As a store moves into a community bringing lower prices, it drives down prices in other stores. And either they compete or close their doors. And it also reshapes the shopping habits of those in the community.

But with “the Wal-Mart effect” comes fears of “the Wal-Mart economy.” This is the nagging feeling that there are social and economic costs to be paid for “always low prices.” Critics talk about low wages, minimal benefits, and little chance for career advancement.

The company has found itself under attack from many quarters. There is a lawsuit on behalf of 1.6 million women who have worked at Wal-Mart that alleges systematic sex discrimination. Add to this the allegations that managers have required employees to work off the clock and even have locked employees in stores overnight.

There is also the constant complaint that Wal-Mart does not provide adequate health care benefits. Last year, for example, the Maryland legislature passed a bill that forces companies with more than 10,000 employees to spend at least eight percent of their payroll on health care or pay the state the difference. Since Wal-Mart is the only employer with over 10,000 employees in the state, it is easy to see that the legislation was only targeting Wal-Mart.

Wal-Mart recently settled a federal investigation of its use of illegal aliens to clean its stores. The company made a record-setting payment to the federal government.

Sam Walton's goal from the beginning was an unrelenting focus on controlling costs in order to provide "always low prices." He instilled in his employees core values like hard work, frugality, discipline, and loyalty.{8}

In his book *The Wal-Mart Effect*, Charles Fishman says these values have become inverted. He points out how the company has changed. When Sam Walton died in 1992, Wal-Mart was a $44 billion-a-year company with 370,000 employees. The number of employees has now grown by 1.2 million, and sales have grown by $240 billion. "Wal-Mart is not only not the company Sam Walton founded, it is no longer the company he left behind."{9}

Out of the Box

You probably never thought about the packaging around deodorant, but Wal-Mart did. Until the early 1990s, nearly every brand of deodorant came in a paperboard box. Most consumers opened the box, pulled out the deodorant container, and tossed the box into the garbage. Some of us recycled them, but we were a very small minority.

In the early 1990s, Wal-Mart (along with a few other retailers) decided the paperboard box was a waste. The product

came in a can or plastic container. These were at least as tough as the box. The box took up wasted space, and it wasted cardboard. Shipping the weight of the cardboard added weight to trucks and wasted fuel. And the box itself cost money to design and produce. It even cost money to put the deodorant into the box.

Wal-Mart began to apply pressure on the suppliers to eliminate the box. Deodorant manufacturers calculated that the box cost about a nickel for every consumer. Wal-Mart split the savings. Deodorant makers keep a few pennies, and Wal-Mart passed a couple of pennies savings on to the consumers.

Walk into Wal-Mart today and look at the deodorant aisle. You will probably find eight shelves of deodorant, sixty containers across. In this sea of nearly five hundred containers of deodorant, not one box.

Consider the impact of this one decision. First, there is the environmental impact. Whole forests were not cut down to provide a box that consumers did not use. A few recycled them, but the vast majority threw them away seconds after they removed their deodorant. Was Wal-Mart's pressure to unbox deodorant a good thing? It certainly was, if you are concerned about environmental issues. And Christians should be concerned about our stewardship of the environment.

The economic impact was also considerable. A savings of one nickel might seem trivial until you multiply it by the two hundred million adults in the United States. If you just account for the container of deodorant in every American bathroom, you have a savings of $10 million, of which consumers got to keep half. But don't forget that the savings is recurrent. Americans are saving $5 million in nickels about five to six times a year.

But there is also a third impact. The impact this decision had on jobs. So far the decision looks like a win-win. But you

might not feel so excited about the decision if you work in the forestry industry or are in the paperboard box business.

This story illustrates only so well the problem with providing a clear, unambiguous analysis of consumer behavior in American markets and, even more so, the ethics of corporations in a global market. And this story is probably easier to analyze if your first priority is the environment. But the ethics of other situations that arise from globalization aren't quite so easy to evaluate.

Wal-Mart illustrates the world in which corporate entities significantly influence our decisions and even transform an economy. While we might like the outcome of saving paperboard boxes, we certainly don't like other aspects of "the Wal-Mart effect." The company has grown so large and evolved in unexpected ways that it is difficult to predict what the future holds. And when we begin to ask moral questions, it isn't so easy to always determine whether the outcomes are good for us or the country.

Salmon

Americans love to eat salmon. In fact, we eat more than 1.75 million pounds of salmon a day.{10} We eat it at home and when we go out to a restaurant.

And Americans buy lots of cheap salmon from Wal-Mart. But they are probably unaware of the impact their purchase has on the environment. Most of the salmon served in the United States is Atlantic salmon (which is a species that is not only found wild but is also the species of choice for salmon farmers).

The salmon that you buy in Wal-Mart is "a factory product." In other words, they are hatched from eggs, raised in freshwater hatcheries, and then grown to maturity in open-topped ocean cages in cold coastal waters.{11}

Wal-Mart sells more salmon than any other store in the country. Wal-Mart also buys all its salmon from Chile. In fact, they purchase about one-third of the annual harvest of salmon that Chile sells. Wal-Mart sells the salmon for $4.84 a pound. It seems incredible that they can sell it for so little, but there are hidden costs.

Atlantic salmon are not native to Chile (its coastline runs along the Pacific). It's an exotic species that is literally farmed and processed by thousands of Chileans. The labor conditions are certainly a concern (long hours, low pay, processing of salmon with razor-sharp filleting instruments).

Another concern is the environment. Salmon farming is already transforming the ecology of southern Chile "with tens of millions of salmon living in vast ocean corrals, their excess food and feces settling to the ocean floor beneath the pens, and dozens of salmon processing plants dumping untreated salmon entrails directly into the ocean."{12}

When we buy salmon from Chile are we contributing to this environmental damage? Charles Fishman asks, "Does it matter that salmon for $4.84 a pound leaves a layer of toxic sludge on the ocean bottoms of the Pacific fjords of southern Chile?"{13} After all, these salmon are raised in pens (with as many as one million per farm). They are fed antibiotics to prevent disease. As a result, you have quite a mess. One million salmon produce about the same amount of waste as 65,000 people. And add to that additional waste from unconsumed food and antibiotic residue. In essence, the current method of salmon farming creates a toxic seabed.

So how do we change this? The answer is simple: by changing consumer behavior. If shoppers won't buy salmon until Wal-Mart insists on higher standards, Wal-Mart will insist on them. The same company that created this huge market for salmon can also change it. But this will only happen if consumers voice their concerns and back it up with their behavior.

Consumer Behavior

As I said earlier, mention the name Wal-Mart and you are likely to get lots of varied reactions. While shoppers love the “always low prices,” critics point to the impact that the company has had on the economy and the environment.

In fact, it is a bit misleading to think of Wal-Mart as merely a company. In reality it’s a global market force. Without a doubt it is one of the most efficient entities at improving its supply chain not only in this country but around the world. Most of us just shop at the store and don’t think of the implications of what we buy and where we buy it.

The size of Wal-Mart gives it the power to do many positive things. It recently announced fuel-savings plans for its stores and trucks. This could provide a model for the nation.

Wal-Mart also provided a model of how to deal with a disaster like Hurricane Katrina. Even though they had 171 facilities in the path of the storm, they were able to recover and reopen eighty-three percent of their facilities in the Gulf area within six days.{14}

One key to Wal-Mart’s success was associates who were dedicated to their communities. The local connection helped it deliver goods when the government failed. Wal-Mart sprang into action even before the hurricane hit. Whenever there is a possibility of a hurricane, its supply chain automatically adjusts and sends in plenty of non-perishable food and generators.

What is Wal-Mart’s effect on the local economy? One famous study found that the arrival of a Wal-Mart store had a dramatic impact. “Grocery stores lost 5 percent of their business, specialty stores lost 14 percent of their business, and clothing stores lost 18 percent of their business—all while total sales were rising 6 percent, mostly due to Wal-

Mart."{15}

Critics of Wal-Mart say that it forces small businesses into bankruptcy. But if you think about it, it is the consumers who put people out of business. We vote with our wallets. Shoppers are the ones who have made it possible for Wal-Mart's phenomenal growth. And we are the ones who need to pay attention to what we buy and where we buy it.

In this article, we have identified a few economic and environmental issues that result from "the Wal-Mart effect." Previously, we have produced articles discussing the Christian's responsibility towards economics{16} and the environment.{17}

Our consumer behavior can have a positive impact on our world. As individuals, we have a minimal impact, but collectively we have an impact on our lives and our economy every day when we spend money. For too long, Christians have been willing to separate ethics from economics. Yet in earlier centuries theologians asked important questions about the relationship of morality to money.

It is time to return to that moral reflection, especially in this age of globalization. Christians should be alert consumers in this global economy.

Notes

1. Kerby Anderson, "Is the World Flat"? (Probe Ministries, 2005) http://www.probe.org//faith-and-culture/society/is-the-world-flat.html.
2. Thomas Friedman, *The World is Flat: A Brief History of the Twenty-First Century* (New York: Farrar, Straus and Giroux, 2005), 137-138.

3. Charles Fishman, *The Wal-Mart Effect* (New York: Penquin, 2006).
4. Ibid., 6.
5. Ibid.
6. Ibid., 7.
7. Ibid.
8. Ibid., 27.
9. Ibid., 48.
10. Ibid., 169.
11. Ibid., 170.
12. Ibid., 171.
13. Ibid., 172.
14. Edwin J. Feulner, "Learning from Wal-Mart," Townhall.com, 24 Feb. 2006, www.townhall.com/opinion/columns/edwinfeulner/2006/02/24/187795.html.
15. Fishman, 156.
16. Kerby Anderson, "A Biblical View of Economics" (Probe Ministries, 2001), www.probe.org/a-biblical-view-of-economics.
17. Ray Bohlin, "Christian Environmentalism" (Probe Ministries, 2005), www.probe.org/christian-environmentalism/.

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