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15.992 S-Lab: Laboratory for Sustainable Business
Spring 2008

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Wal-Mart

S-Lab
Spring 2008

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Wal-Mart

- **Market Cap: \approx \$200 Billion**
- **Sales: \approx \$375 Billion (FY ending 1/31/08)**
- **Net Income: \approx \$13 Billion/Year**
- **Sales Q1 08: $>$ \$106 Billion**
- **Number of Stores: 4141 (US only)**
- **Operations in 15 countries**
- **Customers/week: 127 million (US only)**
- **Employees: 1.3 Million (US only); 1.9 Million worldwide**
- **Average hourly wage (full time): \$10.83**

Wal-Mart Stores

2004



Source: Thomas Holmes, U. Minnesota
http://www.econ.umn.edu/~Eholmes/research_wal-mart.html

- New Stores
- Existing Stores

Courtesy of Thomas J. Holmes. Used with permission.

US Population Living Within

| | |
|-------------------------------|------------|
| 5 miles of a Wal-Mart: | 53% |
| 15 miles: | 90% |
| 25 miles: | 97% |

**93% of Americans shop at
Wal-Mart at least 1/year.**

(as of 2005. Source: Fishman, 288)

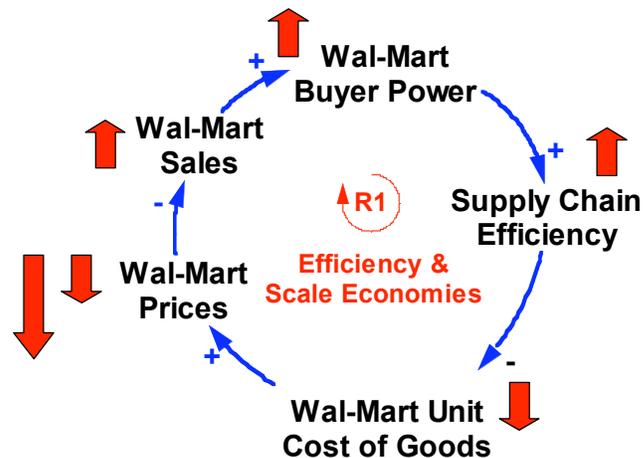
#1 in the Fortune 500 (2007)

| | | Competitors | |
|---------------------|-----------------------|--------------------|-----------------------|
| <u>Name</u> | <u>Sales (\$B/Yr)</u> | <u>Name</u> | <u>Sales (\$B/Yr)</u> |
| 1. Wal-Mart Stores | 351 | 17 Home Depot | 91 |
| 2. Exxon Mobil | 347 | 26 Kroger | 66 |
| 3. General Motors | 207 | 32 Costco | 60 |
| 4. Chevron | 200 | 33 Target | 59 |
| 5. ConocoPhillips | 172 | 38 Sears | 53 |
| 6. General Electric | 168 | Total | 329 |
| 7. Ford Motor | 160 | | |
| 8. Citigroup | 147 | | |
| 9. Bank of America | 117 | | |
| 10. AIG | 113 | | |

Buyer Power Wal-Mart and Procter & Gamble

- **Prior to Gillette acquisition, Wal-Mart was 16% of P&G's sales**
- **Equal to the total sales of P&G's next 9 largest customers**

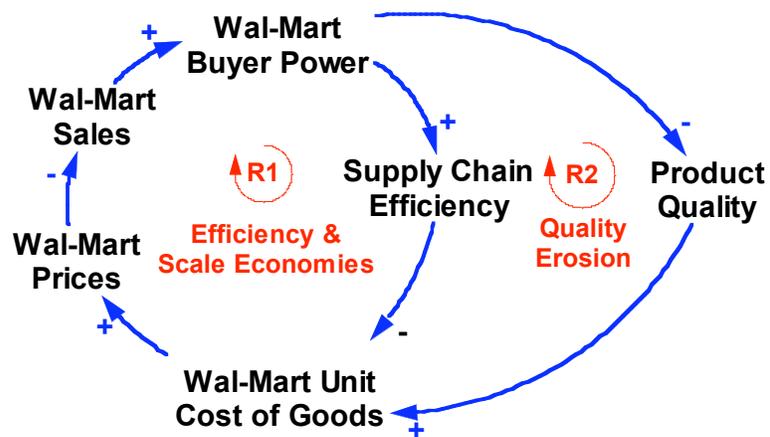
Wal-Mart Growth Engine: Supply Chain Efficiencies, Scale Economies



Benefits of Buyer Power

- Wal-Mart passes lower unit costs of goods on to customers
- Tradition of keeping margins low
- Creating huge consumer surplus and benefits to customers
- But, lower prices lead to more consumption and material impact on the environment.
- And, what happens after inefficiencies in supplier operations and the supply chain are eliminated as pressure for lower prices continues?

Product Redesign to Lower Costs



Externalities from product redesign

- Decline in product durability
- Decline in product reparability
- Increased discard rate, material impact of consumption

Wages

- Average wage \$10.83/hr (2007)
- Assume full time (40 paid hrs/week, 52 wks/yr)
≈ **\$22,526**/year (many are part time)
- Federal poverty level, family of 4 (2007)
\$20,650/year

(SOURCE: *Federal Register*, Vol. 72, No. 15, January 24, 2007, pp. 3147-3148)

Health Insurance

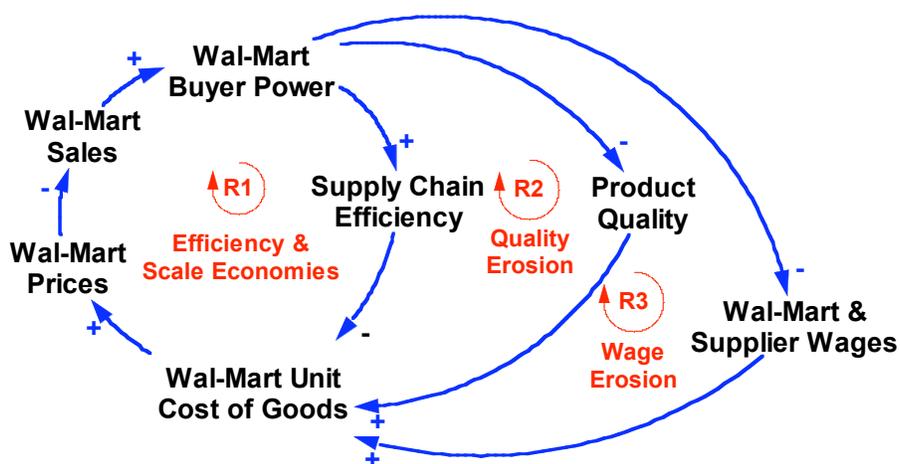
- As of 2005, associates eligible only after 2 yrs service & only for themselves (not family members). Now 1 year; children eligible.
- 2005: in Georgia, 10,261 children of WM employees were enrolled in the state health insurance program for the indigent (1 child/4 WM employees in GA) (Fishman, p. 240-241)
- WM opposed 2005 bill in MN legislature requiring employers to disclose how many employees were on public assistance
- “There are government assistance programs out there that are so lucrative, it’s hard to be competitive, and it’s expensive to be competitive”
— CEO Lee Scott, April 2005

Labor Practices Under Fire

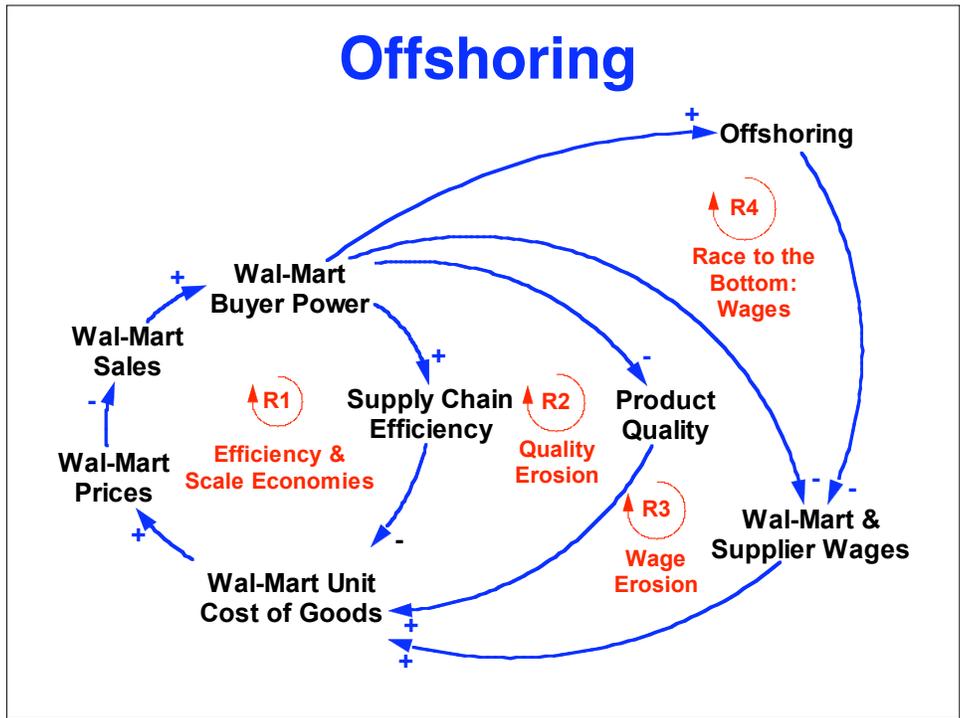
- Militantly anti-union (closed Quebec store that certified a union)
- By 2005, > 40 lawsuits alleging abusive/illegal labor practices:
 - Forcing employees to punch out and keep working
 - Forcing employees to through scheduled breaks
 - Using illegal immigrants to clean stores
 - Locking employees in stores overnight
 - Systematic discrimination against women (class action suit with 1.6 million current/former female associates)
 - Etc.

Large settlements paid to plaintiffs and US Gov't

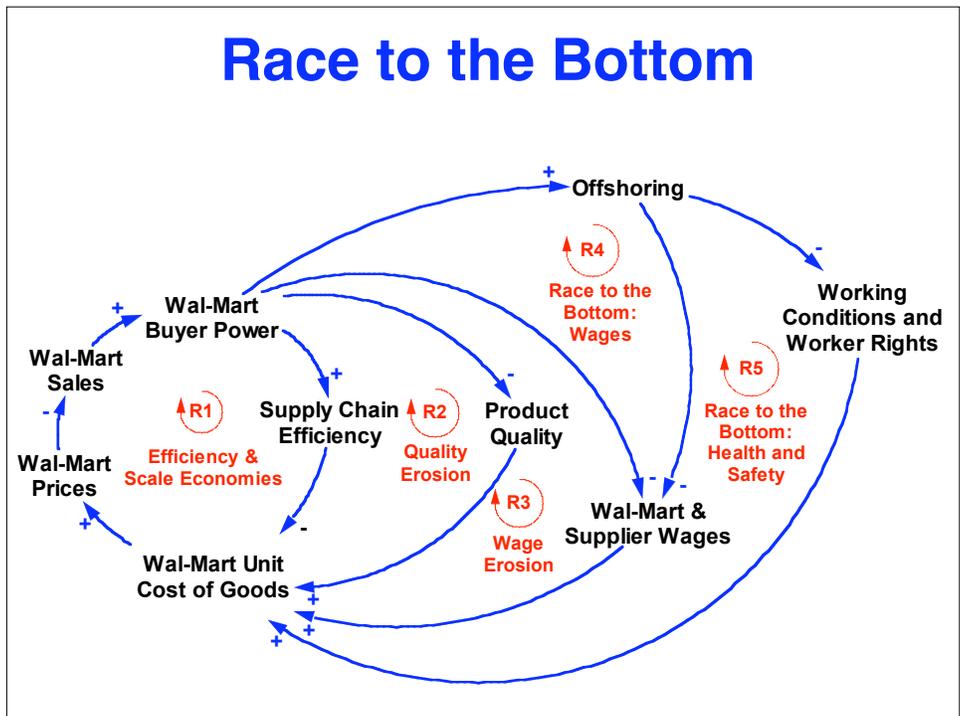
Employer Power Over Wages and Benefits



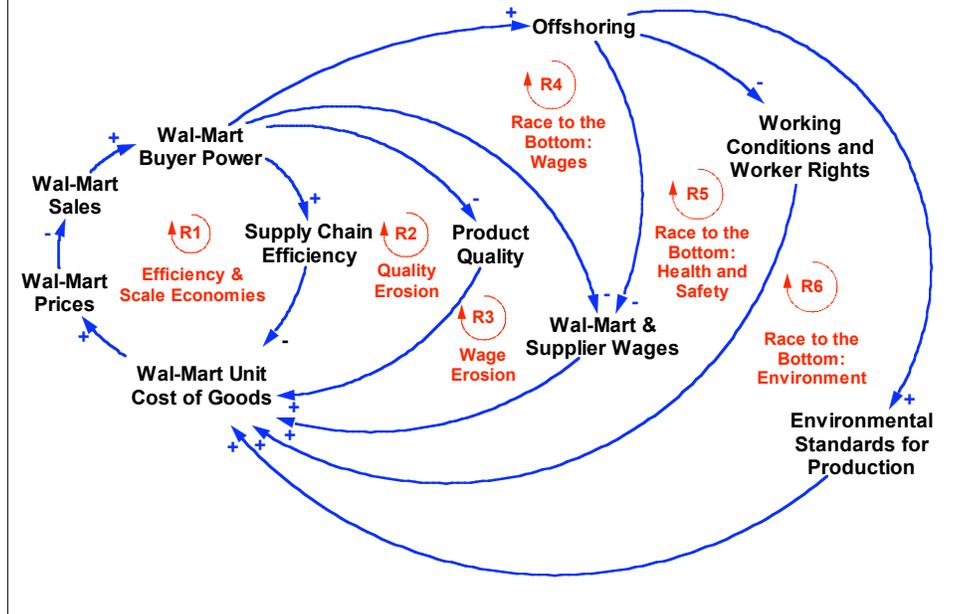
Offshoring



Race to the Bottom



Race to the Bottom: Environment



Environmental issues, 2005

Wal-Mart had paid millions of dollars in fines to state and federal regulators for violating air and water pollution laws [Gunther, 2006. "The Green Machine," *Fortune*, July 31]

Wal-Mart had huge environmental impacts simply because of the scale of its operations:

- biggest private user of electricity in the U.S.
- emitted more than 19.1 million metric tons of carbon dioxide annually (equals roughly 2.8 million households)
- Including emissions of Wal-Mart's suppliers, the quantity was estimated to be more than 10 times greater
- Above *underestimates* WM impact: e.g.,
 - increased customer driving to get to WM rather than local stores
 - increased sourcing from China rather than more local suppliers
 - increased consumption and waste from lower prices, larger quantities & accelerated product discards

Lee Scott, October 24, 2005

New sustainability strategy: to become “the most competitive and innovative company in the world” via dramatic changes in:

- Environment
 - products
 - waste
 - stores
 - trucks
- Product sourcing
- Healthcare
- Wages
- Community involvement
- Diversity

<http://www.walmartstores.com/Files/21st%20Century%20Leadership.pdf>

Three goals

“Our environmental goals at Wal-Mart are simple and straightforward:

1. To be supplied 100 percent by renewable energy.
2. To create zero waste.
3. To sell products that sustain our resources and environment.

“These goals are both ambitious and aspirational, and I’m not sure how to achieve them.....at least not yet. This obviously will take some time.”

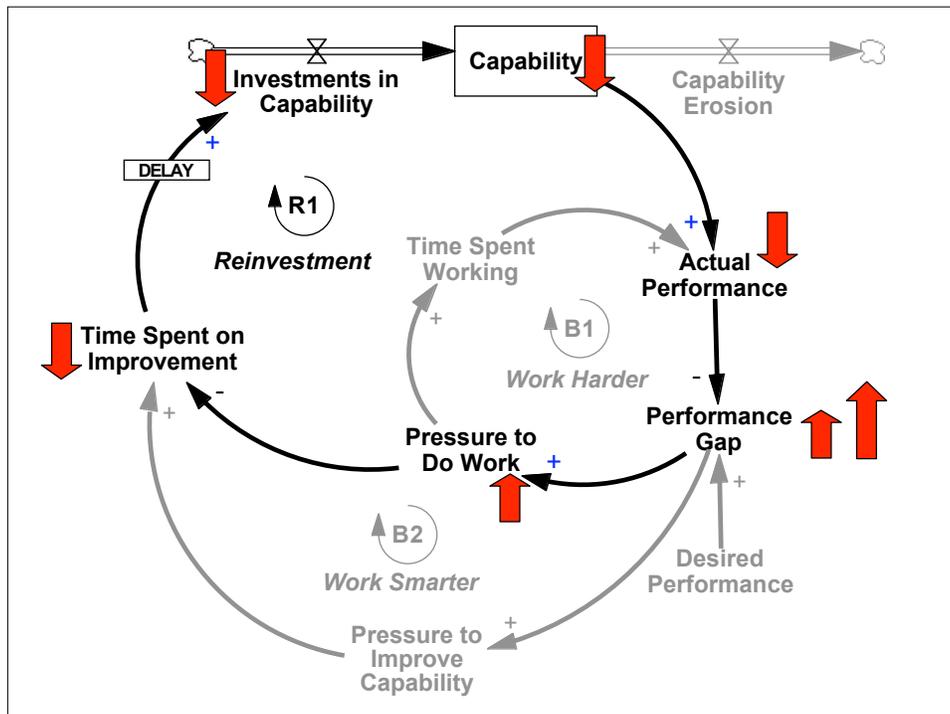
<http://www.walmartstores.com/Files/21st%20Century%20Leadership.pdf>

Graphic removed due to copyright restrictions.

"Exhibit 5, How Networks Drive Sustainability Goals" in Plambeck, Erica, and Lyn Denend.

"Walmart's Sustainability Strategy." Stanford Graduate School of Business Case.

Stanford, CA: Stanford Graduate School of Business. Case: OIT-71, April 17, 2007.



Resources for Change?

- WM decided to make sustainability a new responsibility for people in their existing positions rather than creating new jobs or building a separate sustainability-related organization.
- Aside from a small core team of five dedicated staff members, which included Ruben and Elm, no Wal-Mart associates were assigned to work on sustainability on a full-time basis (with only a few exceptions in textiles and global logistics).
- Elm explained the approach: “Business sustainability isn't something you're doing in addition to your job. It is a new way of approaching your job.”
- Ruben concurred: “People are absolutely stretched thin, but there's incredible power that comes from keeping sustainability within the business.”

—Plambeck and Denend 2007

Challenges

- Recognizing Worse-Before-Better dynamic in process improvement
- Who provides initial resources to implement sustainability? Walmart? Suppliers?
- Harvest or reinvest savings? Is reinvestment of savings from “quick wins” consistent with Wal-Mart culture, routines?
- Conflict between business imperative and community, environment
- Wal-Mart as enabler, not perpetrator, of overconsumption