The Birth of a Billion Dollar Baby:
Implications of Wal-mart on Rural Communities

Professional Paper

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ABSTRACT

There is evidence that suggest that big-box retailers like, Wal-mart, adversely impact rural communities in the United States. Big-box retailers face increasing criticism over the social and economic effects on communities across America. This study examines the implications of the world’s largest retailer and its effects on rural communities. Findings will illustrate Wal-mart’s association with numerous disruptions in rural communities.

How can communities take a stand against this billion-dollar baby? I think the answer is through policies, policies that deal with city ordinances that can prevent big-box retailers from entering into communities. Community ballots are another option; these could actually bypass local government decisions, enabling communities to be the ultimate decision maker.

INTRODUCTION

“Bargain shopping that cost the community its soul is no Bargain,” says Richard Moore, president of National Trust for Historic Preservation (Gillespie, 1995). This is a congressionally chartered nonprofit whose mission is “to foster an appreciation…..of American cultural heritage… and to preserve and revitalize the livability of our communities” (Gillespie, 1995).

Rural communities face many problems that are associated with the introduction of major retail stores in their small family owned and operated business environments. What effects does the world’s largest retailer, with $256.3 billion in sales in 2004 have on the development of rural communities? “The challenge for smaller businesses will be to offer different services and products and more individualized attention (Daniel, 2004). Bill Quinn, the author of “How Wal-mart is Destroying America: And what you can do About It”, adds that small businesses should beware. “Family owned and operated businesses – the first few years Wal-mart will take about 50% of their
business and by five years they are gone” (Quinn, 2000). “During the last 20 years, Wal-mart has moved into communities and destroyed them, wiping out stores, slashing the tax base, and turning downtown areas into ghost towns” (Freeman, 2003).

“Big-Box” retailers like Wal-mart face-increasing criticism over their social and economic effects on communities across the country. Wal-mart doesn’t always receive a warm welcome in large or small communities considering the stores low wages and benefits; worsen traffic problems and sprawl. “Sprawl is the poorly planned, land-gobbling, automobile-oriented development that typically occurs on the outskirts of cities and towns and contributes to the physical and economic decline of many traditional and historic downtown business districts” (Gillespie, 1995). Sprawl results in the wastefulness of “social resources and brings an ugliness that trashes our neighborhoods and threatens our children’s safety” (Gillespie, 1995).

“A Report by Retail Forward INC. projects that Wal-mart’s U.S. grocery sales could top $162 billion by 2007” (Daniel, 2004). What would this mean for the Food Lion, Piggly Wiggly, and Bo’s Food stores that are located in the same vicinity as Wal-mart in rural Pembroke, NC?

These are only a few of the threats that neighborhood businesses and community members face. Pembroke’s Town Manager McDuffie Cummings said, “Pembroke needs a Wal-Mart because the town lacks retail services.” Despite what the Town Manager thinks and what will benefit the community of Pembroke, low costs come at a high price.
HISTORY OF WAL-MART

Sam Walton the father of the billion dollar baby was born March 29, 1918 to a young farming couple living near Kingfisher Oklahoma. Sam Walton’s eagerness to achieve was demonstrated while in the eight grade, where he became the youngest boy in the state’s history at that time to become an Eagle Scout. In 1933 the family uprooted to the largest community between St. Louis to the east and Kansas City to the west Columbia, Missouri. The 1920’s experienced an agricultural depression forcing Sam Walton to help contribute to the family earnings. This meant he was often employed in jobs of milking cows, bottling and delivering the surplus milk, as well as delivering newspapers. In these endeavors Sam Walton later revealed that he learned “how much hard work it took to get your hands on a dollar and that when you did it was worth something” (Scott, 1994). His other financial approach came from his mother and father concerning money: they just didn’t spend it. His senior year in high school he was awarded with “most versatile boy,” because of his numerous involvements with basketball, honor roll, vice president of his junior class, and finally as a senior president of the student body.

Upon Sam Walton’s completion of high school, he then enrolled at the University of Missouri. The University of Missouri also meant financial burdens for Sam Walton. While at the University he managed by waiting tables in exchange for food, served as a lifeguard at the University’s swimming pool, as well as delivering newspapers. His gregarious enthusiasm to work well with others accompanied him through his collegiate career. This enthusiasm was seen in his experiences with his fraternity, being a member of the student senate, the national honor society, an ROTC officer, and the president of the Sunday school class. All of these wonderful accomplishments lead him to be elected as the permanent president of the class of 1940, just another marker demonstrating the exceptional leadership characteristics that Sam Walton displayed early
on. In 1940 Sam Walton concluded his education with a degree in Economics from the University of Missouri. He then wanted to continue his education, but due to lack of financial ability he decided to instead get a job with J.C. Penny’s. Walton’s birth in the retailing world began three days after graduation in Des Moines Iowa, with the J.C. Penny’s company earning $75.00 a month.

Two years later Sam Walton resigned from Penny’s and took a job in Tulsa, Oklahoma, where in an adjacent local town he meet his future wife Helen Robson. Helen Robson was the daughter of a banker and rancher, and also had her list of accomplishments. Along with being the valedictorian of her senior class she graduated from the University of Oklahoma with a business degree. On February 14, 1943 the couple married, and had four children: Samuel, John, James, and Alice.

In the fall of 1945 with Sam Walton’s $5,000 he had saved and $20,000 he borrowed from his father-in-law, he bought a 5,000 square foot store and relocated his family to the small town of Newport, population 5,000 and 80 miles northeast of Little Rock. This store was considered a franchisee of Butler Brothers so Walton had to agree to pay a fee that was based on the volume of sales as well as to purchase the bulk of his merchandise from the wholesaler. In return Butler Brothers would provide assistance with the management of the store.

The early stage of Walton’s vision for the future was seen in the viability of early 5 & 10 or dime stores. Because of the type of inventory sold, location was vital to the success of a variety store. Considering the inexpensiveness of variety goods, customers wouldn’t go out of their way to find a store, and once inside shoppers usually bought on impulse. This reasoning led to the development of 5 & 10 or dime store,s where the store was easily accessible to the largest number of people.
Sam Walton’s astute retailing skills and a willingness to use unorthodox sales techniques were revealed in his local newspapers. These offered weekly sales in addition to his promotional event of “Trade Days”, which was the reduction of prices on specified items that were done in the summer months. The previous store’s owner had only gotten half as much business as Sam Walton’s. This began Walton’s admiration for the business abilities of store managers. He started making numerous visits to the store’s competitors to observe methods of marketing and pricing, so then he would set his goal to surpass that store’s sales volume. Walton’s second major innovation in the retail world came when he decided to sell goods at a lower price than competitors. For example, he purchased ladies panties from Butler Brothers at a price of $2.50 a dozen and sold them at three pairs for $1.00. He found that when he bought from the wholesaler directly he could buy a similar product for $2.00 a dozen and sell it four pairs for $1.00. He concluded that by lowering the price per item he could sell a greater quantity of goods, which would increase his sales volume and profits. Unbeknownst to Walton he started experimenting with discount merchandising.

“Walton’s ……overwhelming desire to succeed, his determination to beat his competition, his boundless capacity for hard work, and his willingness to experiment with new retailing methods made his store astonishingly successful” (Vance, 1997). His volume in sales was $105,000 the first year and then by year five it was $250,000 and $30,000 to $40,000 in profits, this made it the leader in 5 & 10 stores in the six-state region.

Beyond all of the trials that Sam Walton experienced in the marketing of his 5 & 10 store he left out one very important aspect of his growing success, he was leasing the building without a renewal clause. This seriously affected Walton because when the time came for his renewal the landlord refused. The owner saw the success that Sam Walton had with his store and he wanted it
for his own. Instead of choosing to relocate the business Sam Walton sold the business in January 1951 for a profit of more than $50,000.

Sam Walton found himself going down a well-remembered road of looking for a new variety store to purchase. In May of 1950 a store was purchased in Bentonville, Arkansas because it was affordable and Sam Walton believed it was an excellent place to raise a family. Its population was an astounding 3,000 in a remote and rural area. The previous year before Walton purchased this variety store and its sales volume had been a meager $32,000, this was a result of the competition of two other variety stores in the area. His first objective was to obtain a long-term lease on this building to prevent any situations in which he wasn’t able to renew a lease. The variety store in Bentonville was called Walton’s 5 & 10; also like the previous store it was a member of the Butler Brothers chain. Walton’s total expenses totaled a mere $55,000, which included the purchase of the building, and the remodeling that took place.

With the success of the store in Bentonville Walton decided to open a second store in Fayetteville, 20 miles of Bentonville, also the home of the University of Arkansas. The stores grand opening took place on the 30th of October 1955. It was also name Walton’s 5 & 10, but was not a member of the Butler Brother’s franchise. This store additionally had great success with earnings of $90,000 its first year in business. With the opening of the second Walton’s 5 & 10 he slowly began to realize the importance of management. He understood that in order for his second store to prosper he would have to have a manager able and willing to devote the work required to succeed. In order to find good management staff Sam Walton took a non-conventional approach, he would search other stores for those willing and able. Walton strategy for winning over employees can from his willingness to offer perspective employees a percentage of the store’s profit.
Sam Walton was always exploring options of how to make his business more successful. In one of his readings Walton came across a concept referred to as “self service”. The idea of “self service” meant that cash registers were strategically placed at counters throughout the store which were located near the checkout registers at the front of the store, so customers would pay for all of their purchases at one time. This concept was currently being utilized at two other 5 and 10 stores, so Walton visited these two locations to see its implementation. Pleased with the outcome of the effects of “self service” he immediately implemented it into his store in Fayetteville, this store happened to be one of only a few in the nation with the “self service” technique.

In 1953 Sam Walton remodeled his Bentonville store and reopened it with the concept of “self service”. He continued to follow the Butler Brother’s philosophy on managing a store, but during this time his business style started to materialize. Some of these styles integrated the idea of having the store stocked with a large array of staple goods and an emphasis on promotional merchandise. The promotional merchandise was placed at the end of the isles on tables and racks. Sam Walton maintained his relationship with Butler Brother’s but also began to acquire goods that were bought directly from wholesalers in Tennessee. Shortly after Sam heard that a shopping center was going to open in Ruskin Heights. Sam Walton wanted to be a part of the action, but realized he would need an investment partner. He asked his brother Bud if he would consider the investment. Bud was helpful in that he had been trained with J.C. Penney’s, had helped manage one of Sam’s stores, and at that time had his own variety store in Versailles, Missouri. In 1954 the store had its grand opening and shortly after experienced great success, generating a sales volume of $250,000 and a profit of $30,000 followed by sales of $350,000 the next year. By 1957 Sam came to the conclusion that he was spending too much time traveling back and forth to his stores. With the consideration that his brother Bud had been a pilot during World War II Sam Walton purchased
his first several airplanes and utilized them as his preferred choice of travel. Air travel allowed more time to oversee and manage his stores; with this venture he was able to open stores in Little Rock, Springdale, and Siloam Springs, Arkansas. Other stores were also opened in Neodesha and Coffeyville, Kansas. Another insightful business tactic that Sam Walton embarked on was the addition of permitting store managers to share in the ownership of the expanding chains. The managers were allowed the opportunity to become a limited partner if they would invest $1,000 in new outlets as they were opened. The manager’s investment would ensure that the store’s management would have competent oversight to run the business. The manager of the Bentonville store was quoted saying “The thing that fascinated me more than the salary was the opportunity to buy an investment in the other stores as we put them it” (Vance, p. 14). Sam Walton’s business ventures eventually led to the expansion of larger variety stores, which he called Walton’s Family Centers, the first of which was opened in 1962 in St. Robert, Missouri. It had a square footage of 20,000 and an annual sales volume of $2 million. This was followed by a Family Center in Berryville, Arkansas, then one in Bentonville. By 1962 Sam Walton and his brother owned and operated 16 variety stores between Arkansas, Missouri, and Kansas, these were the largest independent variety store chains in the nation. All of Sam Walton’s successes in the business world were forged during the time of the Ben Franklin era, which would later show in the tremendous success of Wal-mart. One of the major advantages of the stores was their location as Vance states.

“The use of small town locations would be an undeniable outgrowth of the variety-store years, as would less obvious yet imminently relevant personal qualities: his enthusiasm for expanding his business interests; his willingness to experiment with new and different business techniques; his eagerness to investigate at every opportunity the operations of worthy competitors, such as Woolworth, Kress, Newberry, TG&Y, and Sterling variety
outlets, and to copy their successful business practices; and his willingness to allow his employees, at least at the management level, to share in the profits of their own labor and in the company as a whole- a simple process with the Ben Franklin managers, and yet a practice that would form the basis of personnel policy at Wal-mart, engendering great loyalty among employees and becoming one of the defining characteristics of the firm” (Vance, 1997 pg 15).

These stores weren’t just triumphant because of Walton’s business mind, but also because variety-chain stores were an amazing retailing concept in the United States during the late 1940’s and 50’s in small towns. The Ben Franklin operation also bought out TG&Y Company in 1957; at that time it included 153 stores.

Sam Walton’s keen sense of business would not allow him to not monitor the latest developments in the retail industry. He watched the expanding market of discount merchandisers and knew it would only be a matter of time before his businesses would feel the impact. Years later he would be quoted as saying “I could see that the variety store was gradually dying because there were giant supermarkets and then discounters coming into the picture” (Vance, pg 39). During 1960 and 1962 Walton began to create his counter attack plan. This plan included traveling across the country to examine the major discounters. He came to the conclusion that the world of discounting could be extremely profitable if one had modest overhead expenses, low retail prices, and efficient distribution. After being shot down by two companies Sam Walton knew he had to do one of two things: 1) stay with the variety store that he knew would experience a negative impact of discount stores or 2) open a discount store. After researching suitable areas with his banker, Sam Walton whom had been impressed with the business climate of Rogers, Arkansas decided it would be the
best possible location to get his Corporation started. The first Wal-mart opened on July 2, 1962 and located on the front on the store were two slogans that continue to be the guiding principles of the company, “we sell for less” and “satisfaction guaranteed”. By 1969 Sam Walton had 18 Wal-marts; they ranged in size from 18,000 to 44,000 square feet.

**WAL-MART NOW**

“Wal-Mart is not just the world's largest retailer, it’s more than that, and it is the world's largest company: larger than ExxonMobil, General Motors, and General Electric” (Fishman, 2003). To better understand their size, Wal-Mart sold $244.5 billion worth of goods last year. “It sells in three months what number-two retailer Home Depot sells in a year” (Fishman, 2003). This major retailer can be categorized by its self; they no longer have rivals to compete with. Combining the business of Target, Sears, Kmart, J.C. Penney, Safeway, and Kroger can’t compete with Wal-mart; they are an entirely a different entity of a corporate being.

Wal-mart has come a long way since its first store in Rogers, Arkansas in 1962. Now it is a global retailer with $256.3 billion in sales in 2004 according to Wal-mart’s 2004 fiscal report (Wal-mart Fact Sheet). This is a company that is committed to growing by improving the standard of living for their customers throughout the world. Its founder Sam Walton’s hope was to acquire the trust of customers by providing a broad assortment of quality merchandise and services at “every day low prices” (EDLP), which is their pricing philosophy.

The company currently employs 1.6 million associates worldwide through more than 3,600 facilities (Wal-mart Fact Sheet). In North Carolina Wal-mart has about 46,232 employees that make an average rate of $9.85 an hour (Wal-mart Fact Sheet). The average estimates of Wal-mart
attendants are 138 million per week. In 2002, Wal-mart became No. one on the “Fortune 500” list. In 2003 and 2004, Wal-mart was named “Most Admired Company in America” by Fortune Magazine (Wal-mart Fact Sheet). Today Wal-mart has 2,000 stores all across the United States (Figure 1), adding about 150 each year (Wal-mart Fact Sheet). Worldwide Wal-mart has more than 1,570 stores in Mexico, Puerto Rico, Canada, Argentina, Brazil, China, Korea, Germany, and the United Kingdom (Figure 2). “Wal-mart dictates, through its demand for low prices, that its suppliers outsource their production to foreign nations, further ripping down America’s battered domestic manufacturing and agricultural capability, in a self feeding process (Freeman, 2003).

OPPOSITION LARGE AND SMALL

Opposition to Wal-mart has been seen in large U.S cities such as Los Angeles and Chicago, as well as rural communities. In large cities unions have put large amounts of manpower and money behind efforts to keep Wal-mart out. “The opposition of Wal-mart and other superstore Goliaths has been fiercest in New England, the part of the country most prideful of its solidarity and its quaintness” (Gillespie, 1995). In 1993, the Massachusetts towns of Greenfield and Westford kept Wal-mart out after highly publicized and bitterly contested fights. There are over a dozen similar fracases that have cropped up in Connecticut, Maine, Winston-Salem, Los Angeles, and Rhode Island, as well. “By the estimate of one anti-Wal-mart activist, the mega retailer is currently involved in more than one hundred fights in the United States, Puerto Rico, and Canada, and is creating a political protest phenomenon in diverse corners of small-town America” (Walters, 1995).

Many towns and cities around the country are trying to have some control of the store sizes in their communities. Creating county ordinances that put caps on the square footage of these big box developers communities are better equipped to deal with the retailers. The Winston Salem
Journal cites that “Calvert County in Dunkirk, Maryland passed an ordinance limiting the size of commercial retail buildings to 75,000 square feet” (Winston-Salem Journal, March 2005). Wal-Mart usually builds stores that range from at least 100,000 square feet to more than 200,000 square feet for Super centers. Wal-Mart being the Mega Corporation that it is has circumnavigated the ordinance by proposing a 74,998 square foot store that would be next to a 22,689 square foot garden center.

Winston Salem, North Carolina already has two super centers, and they don’t feel the need for any more. The planning board and the city council of Winston Salem insist on “Wal-mart’s relatively poor record on contributing to their community’s low wages for its workers and the company’s track record of causing small businesses operating near its stores to fold”. The other issue in Winston –Salem is the concentration of the two Wal-marts. Stone concluded that “Wal-mart sales declined because of its stores were too close together, causing a predatory effect” with the study in Iowa (Stone, 1997).

Los Angeles also adopted an emergency ordinance to keep out large retailers. This ordinance says that before a retailer can build they must provide a proposal on how the super center will affect the local community. Other instances in California have also occurred in communities like Oakland and Contra Costa where the County has passed zoning laws to keep out the mega retailer. Bakersfield as well, homeowners argue that superstores will destroy the prosperity of local businesses (Winston Salem Journal, April 2004). In the Contra Costa situation Wal-mart, “promoted a series of voter initiatives to overturn local ordinances that would block its expansion” (Winston Salem Journal, April 2004).
According to the “Los Angeles Time” voters in the Los Angeles suburb of Inglewood rejected a Wal-mart ballot (60.6% to 39.3%) initiative that would bypass local government and allow a Wal-mart anchored shopping center to be built. The plan was to construct the store without an environmental review or public hearings. The community members of Inglewood objected to the lack of consideration of their feelings and the environment, in the event Wal-mart would be built. “Inglewood activist believed that Wal-mart would replace good union jobs with low-wage, low-benefit Wal-mart jobs” (Frontline, 2004). “Results show in the long run there is a loss of local businesses, which reduces employment and tax base” (Stone, 1997).

IMPACT ON RURAL COMMUNITIES

Why do we need to evaluate the alternatives, because of the impact of the introduction of big box retailers? Bill Quinn says “that small family owned and operated businesses – the first few years Wal-mart will take about 50% of their business and by five years they are gone” (Quinn, 2000). “Studies in Iowa have shown that small towns lose up to 47% of their retail trade after 10 years (Stone, 1997). Bonnie Neisius, owner of a UPS in Las Vegas, Nevada has described how she has watched surrounding businesses close in addition to the decline in sales in her own business. “She averaged that her business was down about 45 percent” (Frontline, 2004). Hardware stores typically lose over 40% of their market shares, as a result of Wal-mart (McGee & Gresham, 1995). “Lindsey Locklear, the sales manager at Pembroke Hardware, said he expects to lose a few customers to Wal-Mart, but there should be enough business for everyone, He said the chain can't compete with businesses like his for providing selection or service” (Robesonian). Wal-mart has had a “tendency to locate themselves on the outskirts of towns, combined with its lower price and drawing power raise the specter of downtown areas devoid of retail establishments” (Kethcum and Hughes). Wal-Mart strategically positions themselves in areas that will draw consumers from
surrounding rural communities, using lower prices, which is a great incentive for shoppers who are from poor, rural areas. “One of the important aspects of these stories is the concern of the impact of the location of a big box retailer not only on the host communities but as well as the communities adjacent to it” (Boyina, 2004). According to Ken Stone, the greatest impact in Iowa has been in towns that do not have a Wal-Mart and have a population of less than 5,000 because of location (see figure 5). Manager Kurt Locklear’s Pembroke Hardware location is considered the downtown area in Pembroke, and Wal-mart’s is strategically placed on the outskirts of Pembroke going west. “One of the frequently lamented consequences of this migration to larger retail outlets is the loss of personal service offered by the friendly and informative salespersons found in small retail establishments,” like Pembroke’s Hardware (Boyd, 1997). Research provides evidence that shows that by the five-year mark retail sales in the rural communities decline drastically.

There were ten small Ohio communities that first began studies that addressed the impact of discount stores in rural communities. “The number of local independent merchants decreased by approximately eight percent during the ten-year study period, while the number of chain store outlets increased by nearly eleven percent” (McGee & Gresham, 1995).

The Retailer has recently been put under pressure in Vermont, where people say that issues such as character, culture, and economy of the state is threatened by the introduction of Wal-marts. “Once Wal-mart built in the town of Williston in January of 1997, it was soon followed by other “Big Box” retailers: Home Depot, and Bed Bath and Beyond” (Frontline, 2004). President of the National Trust for Historic Preservation, Richard Moe told the New York Times, “We know the effects that these superstores have; they suck the economic and social life out of downtown areas” (Frontline, 2004). The introduction of a “Big-Box” retailer creates a highly competitive environment for local businesses, resulting in few local merchants who are able to compete against
a 100,000 square-foot store. “Opponents of mega-retailers charge that, far from providing cheap

goods and Services, discount chains such as Wal-mart and category killers such as Home Depot

actually destroy communities by hounding local merchants out of business, Building stores far

beyond “the human scale” and promoting a shallow “drive by Culture” (Gillespie, 1995). The only

way that local merchants are able to survive is by offering broader selections at lower prices.

“Economists have developed three concepts that are helpful for studying the effect of big-

box stores on local communities. These concepts are as follows, externalities, the economic or

export base, and monopoly power,” (Network04, December, 2004).

Externalities refer to the costs that a business or individual imposes on others without

compensation. An example of this would be the shifting of pollution costs to society by a private

firm is an externality. “Firms and industries that make up the economic base of a community are

responsible for the export of goods from the region, thus bringing new income into a community,”

(Network04, December, 2004). For example the local hardware store may lose long-time customers
to a new national chain store selling the same or similar products, like Pembroke’s Hardware. The

important consideration here is what to consider as the boundary of an area.

“If a retail store brings in shoppers (and new money) from outside this area, then it is part of
the economic base,” (Network04, December, 2004). “These shoppers are merely drawn away from
other retailers outside of the area, who consequently lose a source of income, and there is no net
change in regional economic activity in the broader region” (Network04, December, 2004). Then
there is monopoly power, which arises when a seller (such as a retailer) has no other local
competitors within a given driving distance who offer the same set of products. The introduction of
“a Wal-mart store may reduce any monopoly power held by existing retailers, who often are forced
out of business because they are unable to match the scale of economies of the discount chain”
Not like home-grown, locally based retailers, Big-Box retailers have minimal incentive to invest their profits in the local community.

**EVERY DAY LOW PRICES**

“Critics, meanwhile, allege it’s a labor nightmare, biking workers of due over Time pay, firing employees for discussing unionization, discriminating against female staffers and paving over America’s small business foundations” (Grimm, 2003). Wal-mart doesn’t have the best of reputations when it comes to personnel policies. There have also been numerous “charges that older workers are laid off to bring in younger and cheaper employees” (Brownstein). “Accusations have also been made of widespread sex discrimination to keep a class of employees - women - at lower wages” (Brownstein). Wal-mart has also been attributed to pulling down wages and benefits in other grocery stores, lowering the area standards. “While consumers may save money on their purchases, they also incur higher cost on publicly-supported welfare programs as taxpayers” (Basker, 2005).

Another issue that communities face with Wal-mart is their inadequate benefits and the slack that the local taxpayers have to pick up because of the insufficient benefits. Studies have shown that “employees of Wal-mart go without coverage because it is so expensive; instead they opt for state coverage” (Frontline, 2004). A New York Times November 2004 issue found “in Georgia that 10,000 children of Wal-mart employees were participating in state healthcare coverage at an average of $10 million a year from taxpayers” (Frontline, 2004). This same article stated that in North Carolina a hospital found 31% of its 1,900 patients were Wal-mart employees on Medicaid. It also remarked that 16% were Wal-mart employees that had no insurance whatsoever. A similar situation also occurred in California where the “healthcare cost of uninsured Wal-mart employees
was costing the state an outstanding $32 million a year in taxpayer funds” (Frontline, 2004).

“Studies in California and Georgia suggest that Wal-mart creates significant costs for society by passing the health care costs of its employees and their children on to the public sector” (Network04, December, 2004). The healthcare premium for employees of Wal-mart is also very high considering their salary. They must pay 33% of the costs. ‘This averages about $30.50 a month for people whose checks are around $132.20 and $230.50 each month, usually for a family” (Frontline, 2004). California decided to take action in this matter, and in November of 2004 Proposition 72 was created. Proposition 72 required big employers (like Wal-mart) to offer adequate healthcare coverage to all of their employees, or face contributing funds to a state insurance fund. “On November 2, 2004 voters in California discarded the proposal 50.9% to 49.1%” (Frontline, 2004).

“Wal-mart supercenters, carry groceries, they are also eating away at the grocery market in North Carolina” (Daniel, 2004). “According to the Shelby Report-trade publication, the state’s top five supermarket chains for the past three months were Food Lion with 30.82 of shares, Wal-mart super centers with 17.84 of shares, Harris Teeter with 13.03 of shares, Lowers Foods with 7.3 shares, and Winn-Dixie with 6.93 shares” (Winston Salem Journal). “A Report by Retail Forward INC. projects that Wal-mart’s U.S. grocery sales could top $162 billion by 2007” (Winston Salem Journal). That would give it 35% of the supermarket industry’ sales. Studies also conducted in Mississippi show “that in some of their small towns, five years after the opening of a Wal-mart, the dollar volume of grocery store trade had collapsed 17% “(Freeman, 2003). “Business Week estimates for every Wal-mart super center that opens, two other supermarkets will close” (Brownstein).
Then there is the issue of Collapsing Tax Revenue. “In 1999, it was reported that in Olivette, Missouri, a developer received a tax incentive of up to $38.9 million for a construction project including a Wal-mart and a Sam’s Club – more than a third of the projected total cost of the project” (Freeman, 2003). Another incident like this also occurred in Chesterfield, Missouri where there was “$25.5 million tax incentive toward the construction of a $100 million-plus mall, anchored by a Wal-mart” (Freeman, 2003). The main positive everyone associates Wal-mart with is all the new jobs that the company will create. Mike Miller, the manager of Pembroke’s Wal-mart says, “325 employees have been hired from 2,000 who applied and about 60 percent of the jobs are full-time positions with benefits, insurance, 401k's, stock purchase options and paid vacations” (The Robesonian). “The jobs created at Wal-mart are alleged to involve more part-time work, with lower wages and fewer benefits” (Ketchum and Hughes). Even with the creation of jobs “five years after the entry of a Wal-mart store into a county, total employment in the county remains the same” (Basker, 2005). “The average hourly wage for full-time employees is $9.85 an hour” (The Robesonian). Wal-Mart pays low wages and appears to aggressively seek to keep wages down. ”On average, Wal-Mart workers earn an estimated $8.00/hour with a 32-hour workweek. This equals $256 a week or $13,312 a year” (Brownstein). The Federal poverty level for a family of three is $14,630. Just to have a comparison, “union grocery workers earn on average 30% more” (Brownstein). “American’s can’t live on a Wal-mart paycheck, “says Greg Denier, Communication director for the United Food and Commercial Workers International Union” (Olsson, 2003). “If the presence of a discount chain store like Wal-mart indeed results in poverty rates above what they would e in the absence of the chain, then the chain is creating externalities; it is passing on the cost of higher poverty to the community” (Basker, 2005). “Two thirds of Wal-mart workers can’t afford to participate in the company health insurance plan, which costs about 20% of a worker’s paycheck.
Since 1993 Wal-mart has increased the premium cost for its workers by 200%, well above the rise in cost of health insurance. Figure 5 illustrates a few comparisons of Wal-mart to the Costco retailer.

INEQUALITY IN BULK

Wal-Mart is a large contributor to the formation of an economy that is distinguished by enormous numbers of people trapped in low pay, no benefit, dead-end service jobs. “During the 1980’s and 1990’s, with the exception of the very top of the boom, at the same time that the US economy was generating great wealth, it was also producing wage stagnation or declining wages, unprecedented inequality, and spreading poverty” (Brownstein). This was referred to as the hourglass economy. Since then, there has been more growth of the bottom of the service sector plus the outsourcing of higher paid service and hi tech jobs, the hourglass scenario is no longer accurate. Now we are experiencing the “Victorian gown economy” (Brownstein). It has a smaller group of high paying jobs at the top, a corseted, thin middle class, and an enormous hoop skirt of low wage, no benefit service jobs at the bottom. With this scenario, upward mobility both within generations and between generations is becoming increasing rare.

“In a recent Business Week article, titled “Waking Up from the American Dream,” Business Week offers the following data: In 1978 --- among adult men whose fathers were at the bottom 25% of the population as ranked by social and economic status, 23% had made it to the top 25% in their lifetimes. In the first years of the 21st century, this figure has dropped to 10%” Business Week attributes this to the “Wal-Martization” of the economy” (Brownstein).
“With the introduction of big-box retailers, consumers "fundamentally change" their shopping habits -- purchasing more at mass merchandisers and less at local business (Stone, 1995). “Further, though small towns with Wal-Marts increased their total sales by inducing neighboring consumers to shop at the Wal-Mart, small towns without Wal-Marts suffered heavy losses in sales, ranging from 16 to 46 percent over the ten-year period that Professor Stone studied” (Stone, 1995).

THE BIG ETHICAL SQUEEZE

The giant retailer's low prices are often followed by a high cost. “Wal-Mart's relentless pressure can crush the companies it does business with and force them to send jobs overseas” (Fishman, 2003). This means we as consumers could be shopping our way straight to the unemployment line. “Having saturated the American Market, the company now sees growth coming from overseas, hoping to emulate other American global brand-names Such as Coca-cola and Marlboro” (Rowell, 1999).

Here is the perfect example, a gallon-sized jar of whole pickles that weighs 12 pounds and is the size of a small aquarium. “This is the product that Wal-Mart fell in love with: Vlasic's gallon jar of pickles” (Fishman, 2003). Wal-mart suggested a price of $2.97 for the year’s supply of Vlasic’s pickles. This seems to be a rather large amount of a product for less than $3.00.

“Therein lies the basic conundrum of doing business with the world's largest retailer. By selling a gallon of kosher dills for less than most grocers sell a quart, Wal-Mart may have provided a ser-vice for its customers. But what did it do for Vlasic? The pickle maker had spent decades convincing customers that they should pay a premium for its brand. Now Wal-Mart was practically giving them away. And the fevered buying spree that
resulted distorted every aspect of Vlasic's operations, from farm field to factory to financial statement” (Fishman, 2003).

This is the part of Wal-mart that isn’t seen or heard. This is the secret story of the “pressure the biggest retailer relentlessly applies to its suppliers in the name of bringing us "every day low prices" (Fishman, 2003). This illustrates the effect Wal-mart has to companies they do business with, to U.S. manufacturing, and to the economy as a whole. All of this is shown swimming in a gallon-sized jar of Vlasic’s pickles.

“The retailer has a clear policy for suppliers: On basic products that don't change, the price Wal-Mart will pay, and will charge shoppers, must drop year after year” (Fishman, 2003). Wal-mart the “super-power” has the ability to “squeeze profit-killing concessions from vendors” (Fishman, 2003). Companies have had to lay off employees and close plants in the U.S. to favor the outsourcing of products from overseas. Yes, jobs have been moving overseas for some time now, but there is obviously help from the retailer to accelerate the loss of American jobs to low-wage countries, like China. “It pressures suppliers to make products more cheaply, putting pressure on wages, causing jobs to be moved overseas, and just last year, it imported 12 billion in goods from China, 10% of US imports from that nation” (Brownstein).

"One of the things that limits or slows the growth of imports is the cost of establishing connections and networks," says Paul Krugman, the Princeton University economist. "Wal-Mart is so big and so centralized that it can all at once hook Chinese and other suppliers into its digital system. So--wham!--you have a large switch to overseas sourcing in a period quicker than under the old rules of retailing” (Fishman, 2003).

The president and CEO of Carolina Mills, Steve Dobbins whose 75-year-old North Carolina company that supplied thread, yarn, and textile finishing to apparel makers. Carolina Mills
experienced positive growth in its business until 2000, but in the last three years, as its customers have gone either overseas or out of business. Carolina Mills has shrunk from 17 factories to 7 and from 2,600 employees to 1,200. Imported cloth is sold so drastically inexpensive that no competition exists.

The giant retailer is at least partly responsible for the low rate of U.S. inflation, and a McKinsey & Co. study concluded that about 12% of the economy's productivity gains in the second half of the 1990s could be traced to Wal-Mart alone” (Fishman, 2003). By doing business with the Corporate giant suppliers will enjoy a fast rush of sales and market shares, but can encounter long term results for the health of a brand and the livelihood of a business.

The gallon jar redesigned Vlasic's pickle business: It devastated the profit margin of the business with Wal-Mart, and of pickles generally. Now the company had to find enough pickles to fill the gallons, but the volume gave Vlasic strong sales numbers, strong growth numbers, and a position in the world of pickles at Wal-Mart, which accounted for 30% of Vlasic's business and 25% of the company's profits shriveled. This amounted to millions of dollars the Vlasic lost.

The companies that Wal-Mart does business with are made more efficient, focused, leaner, and faster. This is largely due to Wal-marts continuous improvement in its ability to handle, move, and track merchandise, and it DEMANDS the same of its suppliers.

“For many suppliers, the only thing worse than doing business with Wal-Mart may be not doing business with Wal-Mart. Last year, 7.5 cents of every dollar spent in any store in the United States (other than auto-parts stores) went to the retailer. That means a contract with Wal-Mart can be critical even for the largest consumer-goods companies. Dial Corp., for example, does 28% of its business with Wal-Mart. If Dial lost that one account, it would have to double its sales to its next nine customers just to stay even. "Wal-Mart is the
essential retailer, in a way no other retailer is," says Gib Carey, a partner at Bain & Co., who is leading a yearlong study of how to do business with Wal-Mart. "Our clients cannot grow without finding a way to be successful with Wal-Mart."(Fishman, 2003)

This is the Wal-mart squeeze, vendors that to be as persistent and as microscopic as Wal-mart is at administering their own costs. In order for a vendor to be successful and thrive they need to mimic Wal-mart. Companies realize that they aren’t able to maintain margins with growth in their Wal-mart business without reconfiguring their distribution system.

Another example of the big squeeze and the most recent supplier to Wal-mart is Levi Strauss. Levi Strauss became an item on the shelf in all 2,864 stores in the United States. This company’s launch into Wally World came the summer they celebrated its 150th birthday. For a century Levi Strauss, one of the most recognizable names in American commerce had survived without the retail giant. In October of 2002 the merger was announced. Without this engagement the brand made not have been able to continue. “Between 1981 and 1990, Levi closed 58 U.S. manufacturing plants, sending 25% of its sewing overseas” (Fishman, 2003). Sales for Levi Strauss in 1996 reached $7.1 billion, with a rapid decline of $4.1 billion in the following years, and the first six months of 2003 sales dropped another 3%. Wal-mart was the company’s savior; the company was going to live again with this merger. This was a huge step for Levi Strauss, considering Wal-Mart sells more clothing than any other retailer in the country, along with that more pairs of jeans than any other store. As Levi Strauss becomes a member of the Wal-mart family its business may be saved, but for what. The Wal-mart line that Levi Strauss has created is an odd departure for the American icon. The jeans have the look and fell that they must, given their price of around $23.00. With this comes the final Levi Strauss news, it was closing its last two U.S. factories, both in San Antonio, and laying off more than 2,500 workers, or 21% of its workforce. A company that thrived
for 22 years and had 60 clothing plants in the U.S. does not make clothes anymore, it imports them.

“Wal-Mart has also lulled shoppers into ignoring the difference between the price of something and
the cost” (Fishman, 2003). “Its unending focus on price underscores something that Americans are
only starting to realize about globalization: Ever-cheaper prices have consequences” (Fishman,
2003).

CONCLUSION

Given the growing importance of Big-Box retailers we have little science-based knowledge
about their overall impact on local communities and long-term economic development. Additional
research is needed to observe and fully understand the economic impact of Wal-mart on rural areas.
Individuals who own small businesses could benefit from this information on the force of Wal-mart.
More educational programs and discussions should occur where public officials and administrators
are made aware of the implications of the mega retailer to rural communities. Although I found
numerous sites and references that document the effects of the Big-Box retailer “statistical evidence
of the alleged destructive effects of Wal-mart is surprisingly scant” (Ketchum and Hughes).

“Wal-Mart is not just a threat to the standard of living of its own employees; it damages the
standard of living of numerous others in the economy” (Brownstein). Both of my suggested
alternatives should be considered where the future impact of Wal-mart could eventually devastate
the local economy in rural communities, like Pembroke, North Carolina.
RECOMMENDATIONS

The main goal of this research is to discuss the issues of the implications of Wal-mart on rural communities and make aware of any possible impact on the local economy. This can be done by analyzing the data collected from numerous resources on the effects of the introduction of a “Big Box” retailer. One alternative to this situation is the creation of city ordinances that would prevent “Big Box” retailers from entering into communities. Another alternative would result with a community ballot that would bypass local government’s decisions. I think it is in the best interest of rural communities to pursue the option of alternative two, as well as some of alternative number one. These alternatives will help to address the process, so that concerns of community members are adequately identified.
### RESULTS

(Figure 1) Wal-marts in the US

<table>
<thead>
<tr>
<th>State</th>
<th>Discount Stores</th>
<th>Supercenters</th>
<th>Sam's Clubs</th>
<th>Neighborhood Markets</th>
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Utah        5  19  7  4
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Virginia    22  55  13  0
Washington  23  12  3  0
West Virginia  8  20  3  0
Wisconsin   41  31  11  0
Wyoming     2  7  2  0
U.S. TOTALS 1478 1471 538 64

(Figure 2) Wal-marts Abroad

INTERNATIONAL

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<th>Country</th>
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<th>Sam's Clubs</th>
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(Figure 3)
Figure 4
Sales Change For Average Wal-Mart Town of 15,141 Population After 3 Years

Figure 5 (Comparision of Costco Vs. Wal-mart) information provided by: http://www.ucc.org/ucnews/nov05/walmart.htm
## References


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<th>Costco</th>
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<td><strong>2005 average full-time hourly wage</strong></td>
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<td>$9.68</td>
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<td><strong>Retention of Employees</strong></td>
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<td>21% leave after first year, Sam’s Club</td>
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<td><strong>Health Insurance Eligibility</strong></td>
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<td>After two years on the job</td>
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<td><strong>Percentage of those with health Insurance</strong></td>
<td>85%</td>
<td>&lt; 50%</td>
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<tr>
<td><strong>Stock price from August 2004 to July 2005</strong></td>
<td>Rose &gt; 10%</td>
<td>Slipped to 5%</td>
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<tr>
<td><strong>CEO Salary in 2004</strong></td>
<td>$2.7 million</td>
<td>$17.9 million</td>
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*Sources: BusinessWeek (April 12, 2004), The New York Times (July 18, 2005), Bloomberg News (Aug. 24, 2005)*


Network04. A Quarterly Newsletter of Northeast Rural Development Volume 19, No.4, December 2004


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