

WAL★MART



Wal-Mart's Limited Growth in Urban Retail Markets: The Cost of Low Labor Investment

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Introduction

Expanding Walmart's share of urban markets is becoming increasingly important to the company because of declining sales growth and the over-saturation of suburban and rural retail markets. The company has sought urban expansion, especially outside its home base in the South, for over 15 years, but in recent years their quest has taken on added urgency. During 2009's 16th Annual Meeting for the Investment Community of Walmart, former Vice Chairman Eduardo Castro Wright stated achieving average market share in the most urban areas of the United States would increase annual sales by \$80 to \$100 billion.¹ Over the next six years, Walmart developed an ambitious growth strategy aimed at expanding the company's share of the urban retail market by using smaller store models designed to boost grocery and e-commerce sales in these areas.² Neil Currie, an analyst at UBS Securities LLC, estimated in 2010 that the company's strategy for expanding into urban markets could potentially increase its annual revenue by over 20 percent.³ Despite such bold predictions, Walmart's urban growth has been disappointing. This report explores Walmart's shortfall in city-based growth, and how community and consumer opposition to the company's low labor standards and negative impact on local business has contributed to that shortfall.

Walmart's turn to the cities began in 1998 when the retailer debuted a new and smaller store format called 'Neighborhood Market' which was designed for small urban spaces as a supermarket concentrating on groceries. In fact, at 40,000 square feet, the store is roughly one quarter the size of a typical Supercenter, which sells a huge array of goods such as tires, plants, and clothes, in addition to groceries.. This smaller store format is a major component of Walmart's urban growth strategy. Capturing a larger share of the urban grocery market with this new store model is important for the company since grocery sales account for 55 percent of total revenue.⁴ Despite this emphasis on groceries, the smaller store format is also important for company's expansion into e-commerce, because these stores are utilized as pickup points for general merchandise purchased on Walmart's website. As a result, over the last two years, Walmart has increased the number of Neighborhood Markets by 42 percent while the number of Supercenters has only grown by 5 percent.⁵

Walmart launched its urban expansion program in earnest in late 2003 when the company proposed opening two discount centers in the Westside and Southside neighborhoods of Chicago. While the proposal for the Southside store was ultimately rejected by the city council after facing fierce opposition from local community organizations, the proposal for the store in the Westside

¹ Wal-Mart Stores, Inc. 16th Annual Meeting for the Investment Community - Transcript of Day 2, Session 6, p. 19. October 22nd, 2009.

² Banjo, Shelly. "Wal-Mart Looks to Grow by Embracing Smaller Stores." The Wall Street Journal, July 8th, 2014. Accessed at: <http://www.wsj.com/articles/wal-mart-looks-to-grow-by-embracing-smaller-stores-1404787817>

³ Patton, Leslie and Matthew Boyle. "Wal-Mart Splits Union, Non-Union Workers in Chicago." Bloomberg Business. July 22nd, 2010. Access at: <http://www.bloomberg.com/news/articles/2010-07-22/wal-mart-cracks-chicago-market-by-splitting-unions-from-non-union-workers>

⁴ Leeb, Stephen. "Wal-Mart Fattens Up on Poor America with 25 Percent Grocery Sales." Forbes, May 20th, 2013. Accessed at: <http://www.forbes.com/sites/greatspeculations/2013/05/20/wal-mart-cleans-up-on-poor-america-with-25-of-u-s-grocery-sales/>

⁵ Bania, Kelly. 2014. *Report on Kroger*. BMO Capital Markets

was narrowly approved and supported by the mayor.⁶ This early experience in Chicago is indicative of the general progression the company has made into urban markets. Since the initial opening of the Walmart store in the Westside of Chicago, the company has opened up four additional stores in the greater Chicago metropolitan area. Moreover, Walmart has expanded its presence in other urban retail markets, especially in Dallas, Houston, Atlanta, and recently Washington D.C. However, the company has been less successful in expanding its market share in New York, Boston, San Francisco, Seattle, and other urban areas.

Prior to the economic recession after 2008, the company expanded its market share in the most populated metropolitan retail markets with successful store openings in Chicago, Atlanta, and other urban areas in the South. However, in the aftermath of the economic recession, the average growth rate of the company's market share started to decline precipitously in these areas. During this period, the company continued to experience a decrease in the growth of net U.S. sales and a reduction in their average share of markets in areas with populations smaller than 500,000 residents. While Walmart experienced limited success in some urban markets during the early 2000s, overall the company's growth in these areas remains fairly low. Since 2006, Walmart expanded its average grocery market share in the 25 most populated metropolitan areas from 5.5 percent to less than 12 percent. More importantly, while Walmart possesses an average market share of 25 percent in metropolitan areas with populations smaller than 500,000 residents, the company has failed to reach this level of market share in 43 out of 50 of the most populated metropolitan areas in the U.S.⁷

One of the major barriers to the company's expansion into the most urban areas of the United States is growing community opposition against the company.⁸ Over the last decade, grassroots community organizations in urban areas have mobilized against the company's expansion into their neighborhoods by protesting site openings, lobbying local government, and raising awareness about the company's labor practices and negative impacts on local communities. At the center of these campaigns is the company's poor reputation as an employer. Walmart continues to receive criticism for minimizing investment in its employees by paying them lower wages and relying on mostly part-time workers. As a consequence of these practices, the company's reputation has steadily declined over the last decade. Moreover, the low-cost approach of Walmart not only harms their reputation among consumers, but it hinders potential sales and profits. Many of these campaigns claim the opening of a new store would negatively impact the income of residents while forcing smaller businesses in the area to close. In reaction to this community opposition, city governments have begun to resist pressure from developers to open new stores by enacting ordinances against big box retailers.

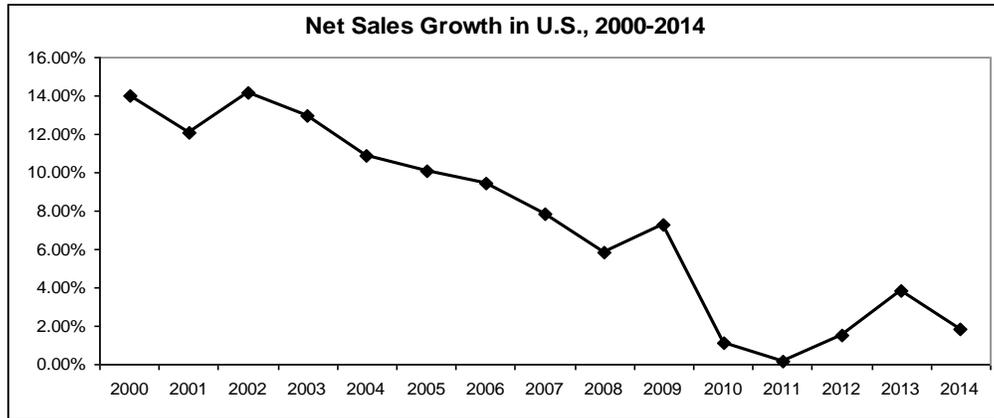
⁶ Gray-Barkan, Tracy. 2007. "Wal-Mart and Beyond: The Battle for Good Jobs and Strong Communities in Urban America." *Los Angeles Alliance for a New Economy and Partnership for Working Families*. Available at: <http://www.forworkingfamilies.org/resources/publications/wal-mart-and-beyond-battle-good-jobs-and-strong-communities-urban-america>

⁷ Author's calculations using the Metro Market Studies database. After analyzing all three types of databases (grocery, merchandise, and pharmaceutical), Wal-Mart possess at or above average grocery market share in 7 out of 50 urban MSA; average merchandise market share in 5 out of 50 urban MSAs; and average pharmaceutical market share in 3 out of 50 MSAs.

⁸ Ingram, Paul, Lori Qingyuan Yue, and Hayagreeva Rao. 2010. Trouble in Store: Probes, Protests, and Store Openings by Wal-Mart, 1998–2007." *American Journal of Sociology* 116(1): 53-92.

In the following sections, I review the economic performance of the company in the most populated metropolitan areas of the United States. Next, I profile a series of community campaigns against the company with an emphasis on how these campaigns have hindered the expansion of Walmart into these areas. In the third section, I review the persistent reputation crisis of Walmart and its impact on the company’s urban expansion. In the last section, I present research on the positive gains of investing in labor and how these practices would benefit Walmart’s urban growth strategy.

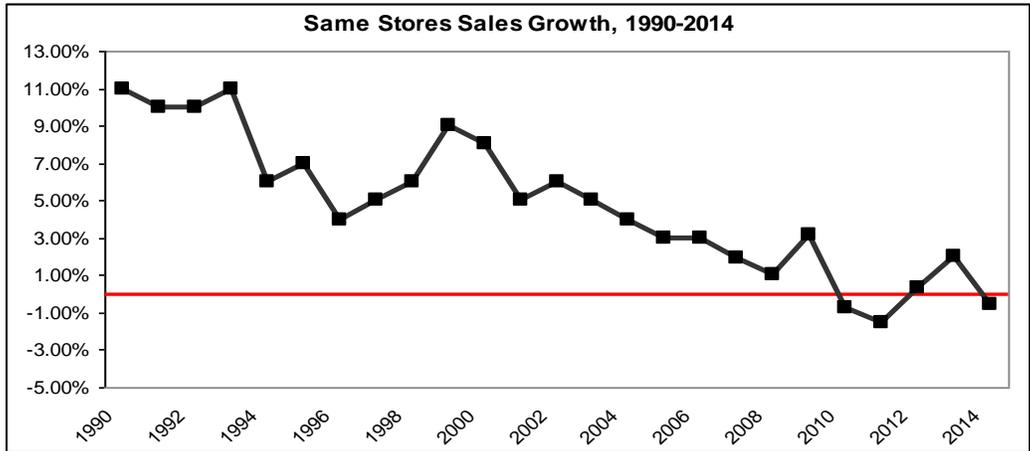
Declining Sales Growth and the Need for Urban Retail Markets



Source: Annual company reports (1990-2014).

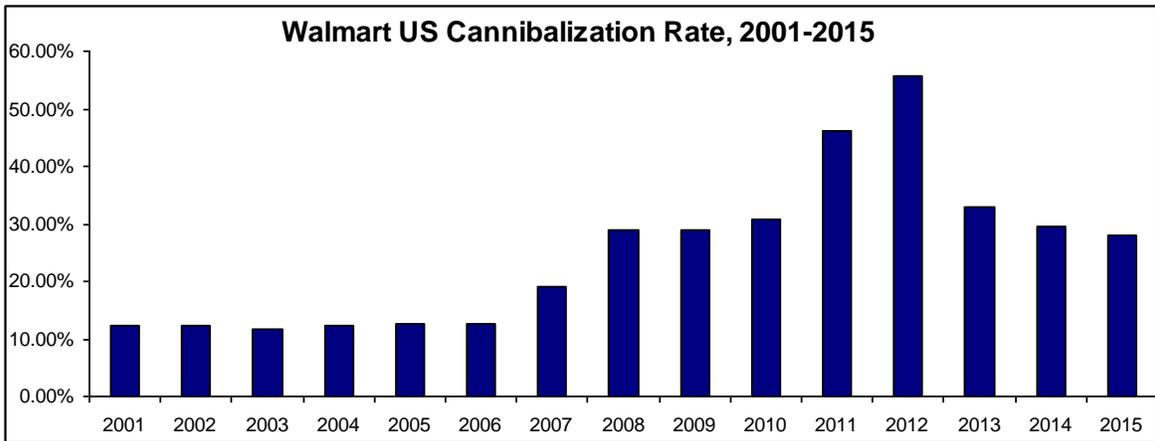
The declining growth of net U.S. sales raises concerns about the long-term health of Walmart and the viability of its growth model. From 2000 to 2005, the company experienced double-digit growth in annual net sales because of their accelerated expansion into rural and suburban markets and the opening of 992 additional Supercenters. During this period, the company averaged an annual growth rate of 12.36 percent in net sales. Since 2010, the company has averaged an annual growth rate of only 1.7 percent, even though the company opened 676 additional Supercenters and 254 additional Neighborhood Markets between 2009 and 2014. The steady decline of annual net sales growth is indicative of the poor performance of Supercenter stores. In 2014, the same-store sales of Supercenters declined by .3% while foot traffic decreased by 1.1%.⁹

⁹ Peterson, Hayley. "Wal-Mart's Supercenters Are Becoming A Major Problem." Business Insider. August 14, 2014. Accessed at: <http://www.businessinsider.com/walmarts-Supercenter-sales-decline-2014-8>



Source: Annual company reports (1990-2014).

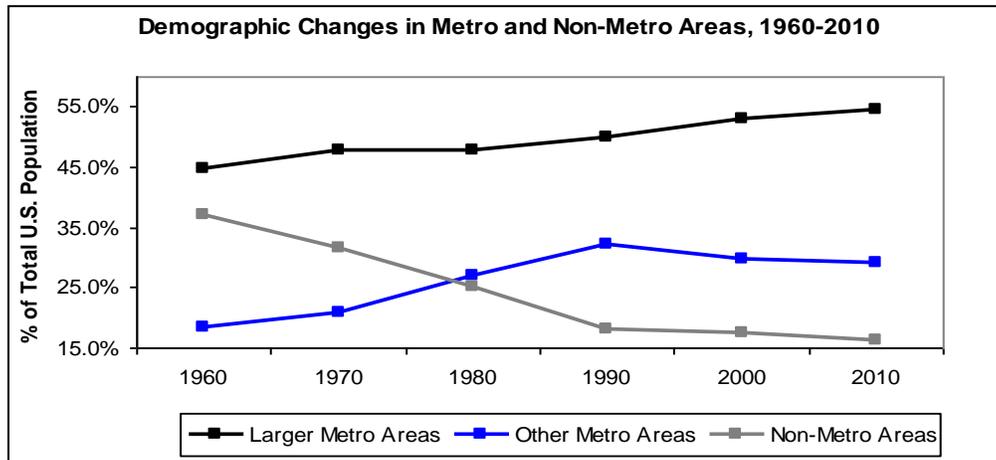
The declining growth rate of net U.S. sales shows the limitations of the company's early growth model. Even more telling is the steady decrease in the growth of same-store sales over the last three decades. Between 1990 and 2000, the company averaged a growth of 8 percent in same-store sales. Since 2006, same-store sales growth has declined to less than 4 percent. More troubling is the *negative* rate of same-store sales growth in 2010, 2011, and 2014. Overall, the trajectory of same-store sales growth mirrors the decline in net sales growth, which suggests Walmart's growth model of opening additional stores in the same markets is not viable in the long-term. As a result, Walmart is actively looking to expand its market share in unsaturated urban areas to revitalize growth in the company.



Source: Annual company reports and SEC 10-K Forms (2001-2015). Fiscal year reported.

The increasing cannibalization rate of Walmart stores in the US is indicative of the company's oversaturation of rural and suburban markets. As the company expanded the number of stores in these markets, new stores siphoned sales from nearby stores. In 2008, new stores caused a 29 percent reduction in the sales of existing store stores, but this rate increased to 56 percent by 2012 only to fall back to 28 percent in 2015. Compared to 2001, the cannibalization rate tripled in 2012. The increasing cannibalization rate of U.S. stores shows the major limit to expanding the number of stores in suburban and rural areas. More importantly, the demographic transition

to more urban areas in the United States since the 1960s and the decline of rural populations suggests the company needs to concentrate their expansionary efforts in metropolitan areas.



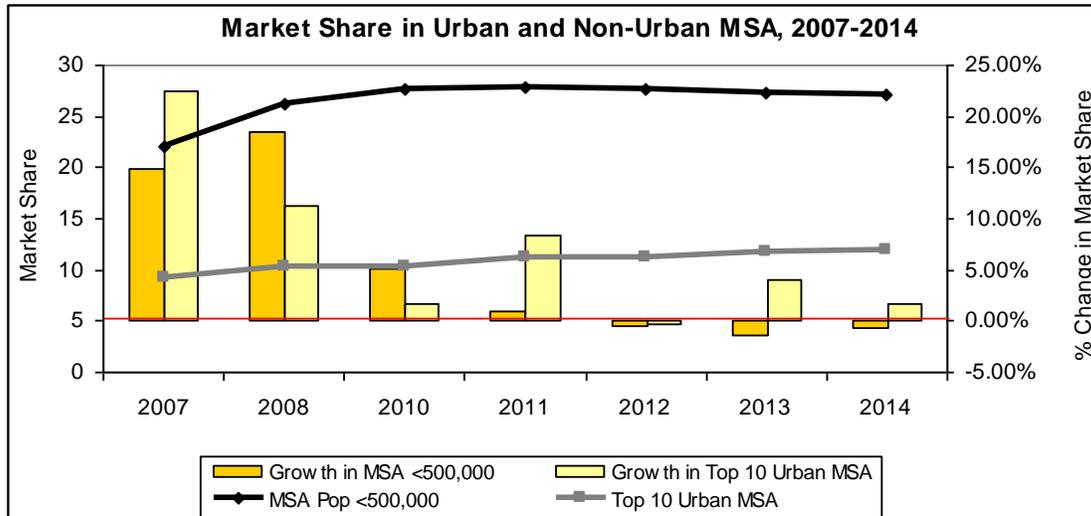
Source: U.S. Census, 1960, 1970, 1980, 1990, 2000, 2010

A major factor behind the declining sales growth and higher cannibalization rates among Walmart stores is the decreasing population of suburban and rural areas. Wal-Mart Supercenters are primarily located in areas outside of metropolitan areas. On average, the population density surrounding a Walmart store is 839.3 residents per square mile, while, in comparison, the average population density surrounding Kroger stores is 2276.5 residents per square mile.¹⁰ In 2008 49 percent of all U.S. Walmart stores were located in areas with populations of fewer than 500,000 residents.¹¹ This concentration of Supercenters in non-metropolitan areas is becoming a major obstacle to growth for the company because the proportion of the U.S. population residing in the largest metropolitan areas increased from 44.7 percent in 1960 to 54.6 percent in 2010. Conversely, the proportion of the U.S. population in non-metropolitan areas decreased from 37 percent in 1960 to less than 17 percent in 2010. This decline of the rural population is partially attributable to the rapid growth of smaller metropolitan areas during 1970s, 80s, and 90s. The expansion of Walmart during the 1990s corresponded to the growth of population in suburban areas located around less-populated metropolitan areas.¹² However, the recent decline in the population of smaller metropolitan areas suggests suburban markets are not suitable for long-term growth. As a result of this demographic shift, Walmart needs to make a concerted effort into expanding their market share in the largest metropolitan areas.

¹⁰ Ellickson, Paul and Paul L.E. Grieco. 2013. "Wal-Mart and the Geography of Grocery Retailing." *Journal of Urban Economics* 75: 1-14.

¹¹ Bania 2014.

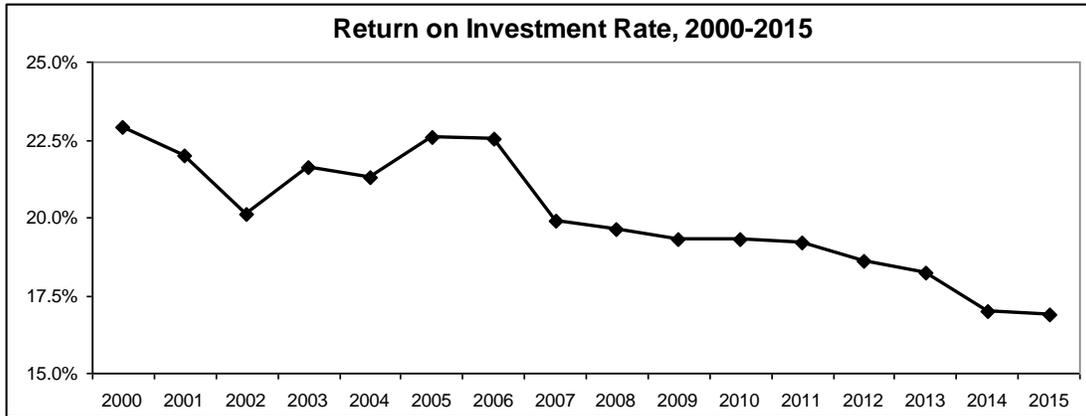
¹² Holmes, Thomas J. 2011. "The Diffusion of Wal-Mart and Economies of Density." *Econometrica* 79(1): 253-302.



Source: Metro Market Studies Database for Grocery Stores (2007-2014)

On average, Walmart holds 25 percent of the grocery market in metropolitan areas with populations less than 500,000 residents, but only holds about 10 percent of the grocery market in the 10 most populated metropolitan areas. In 2007 and 2008, Walmart experienced double-digit growth in both large and small metropolitan markets. However, starting in 2010, the company's growth rates in metropolitan areas drastically decreased. In fact, since 2012, the company lost market share at an average rate of .9 percent per year in metropolitan areas with populations less than 500,000 residents. More importantly, the annual growth rate of the company's grocery market share in the 10 most urban areas declined from over 22 percent in 2007 to 1.17 percent in 2014. While the company expanded its average share of the grocery market to 11.25 percent in the 10 most populated metropolitan areas, Walmart only managed to increase the average grocery market share by less than 1 percentage point from 2012 to 2014. Arguably, part of the reason the company has been unable to recover pre-recession growth rates in grocery market shares is the company's decision to locate stores in less affluent communities. The average income of non-metropolitan areas with Walmart stores is \$16,692 per year while the average income of metropolitan areas with Walmart stores is only \$20,546.¹³ Moreover, as I discuss below, the company faces severe opposition from local communities because of its low investment in labor and negative impact on the local retail sector.

¹³ Ellickson and Grieco (2013).

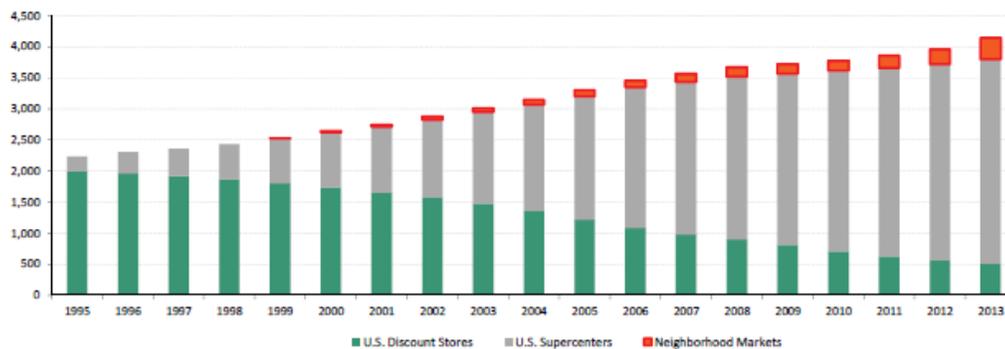


Source: Annual company reports (2000-2014).

Overall, the weak performance of the company over the last decade has impacted the return on investment. While the rate of return remains above 15 percent, it declined from 22.7 percent in 2000 to less than 17 percent in the most recent fiscal year. In fact, weak sales and the decreasing rate of return on investment lead to analysts at Goldman Sachs to predict a slow decline of the retailer.¹⁴ The growing concern over the company’s weak performance is pushing the company to adopt a new growth strategy. To initiate this change, the company recently appointed Greg Foran, the former CEO and president of Walmart China, as new the president and CEO of Walmart U.S. after Bill Simon stepped down from the position in July 2014. Arguably, the change in leadership was directed at resolving the poor performance of the company's U.S. division over the last few years. Accordingly, Foran stated he is committed to improving the customer experience at Walmart, investing more in labor, and continuing the company's expansion into urban markets with smaller-format stores.¹⁵

Walmart’s Expansion into Urban Markets

Total Walmart Stores by Type, 1995-2013



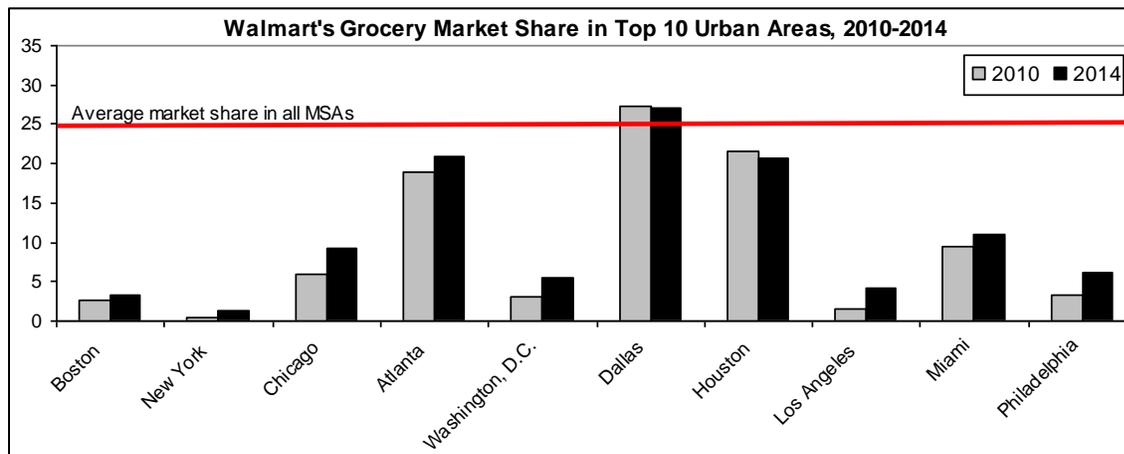
¹⁴ Lutz, Ashley. "Goldman Sachs Predicts the Slow Decline of Wal-Mart and Target." Business Insider. July 30, 2014. Accessed at: <http://www.businessinsider.com/goldman-sachs-on-decline-of-wal-mart-2014-7>

¹⁵ Dudley, Renee. "Wal-Mart Taps Asia Chief as New CEO of U.S. Division." Bloomberg Business. July 24, 2014. Accessed at: <http://www.bloomberg.com/news/articles/2014-07-24/wal-mart-promotes-asia-chief-greg-foran-to-head-of-u-s-division>

Source: Bania (2014), Exhibit 1

The saturation and the declining market size of rural and suburban markets have pushed Walmart to seek a larger share of the most urbanized markets in the U.S. As a new growth strategy, the company has sought to expand its market share in large urban markets by opening small-scale grocery stores in high-traffic urban neighborhoods. During the 1990s and early 2000s, Walmart focused on expanding the Supercenter model at the expense of its discount model. As of 2014, Walmart possessed 3,285 Supercenters that varied in size from 180,000 to 230,000 square feet. However, as consumers increasingly prefer quicker shopping trips for a few items, the Supercenter model has become less viable. Based on an analysis of household expenditures in the U.S., researcher Edward Fox and his colleagues find consumers do not prefer to make a single trip to a mass merchandise store over making several trips to smaller retailers.¹⁶ According to their research, consumers prefer shopping at stores that are in close proximity to their residence and which offer an assortment of goods. These findings are especially pertinent to urban consumers who prefer spatial convenience because of high traffic congestion and the availability of many other stores.¹⁷

Additionally, the size of Supercenter stores is unworkable for urban spaces given the limited availability and expense of real estate. As a result, Walmart has made a concerted effort to increase the number of smaller stores in the most urban areas.¹⁸ In 1998, Walmart introduced a new store concept called Neighborhood Market to address this issue. These stores are a fraction of the size of a Supercenter at an average of 43,000 square feet, which makes them ideal for the limited space available in urban real estate. As of 2015, Walmart had 603 of these types of stores. Over the last two years, while the number of discount centers has decreased by 10 percent and the number of Supercenters increased by 5 percent, the number of Neighborhood markets has increased by 42 percent.



Source: Metro Market Studies Database on Grocery Stores (2010, 2014)

¹⁶ Fox, Edward J., Alan L. Montgomery, Leonard M. Lodish. 2004. "Consumer Shopping and Spending Across Retail Formats." *The Journal of Business* 77(S2): S25-S60.

¹⁷ Fox, Edward J. and Raj Sethurman. 2010. "Retail Competition". In M. Krafft and M.K. Mantrala (eds). *Retailing in the 21st Century: Current and Future Trends*. Springer.

¹⁸ Loeb, Walter. "Why Walmart Suddenly Thinks Smaller is Better." *Forbes*. June 6th 2014. Accessed at: <http://www.forbes.com/sites/walterloeb/2014/06/16/why-walmart-suddenly-thinks-smaller-is-better/>

Despite the concerted effort to increase the number of Neighborhood Markets in the most urban areas in the U.S., Walmart has yet to increase its grocery market share in 9 out of 10 of the most populated metropolitan areas to their national share average. While Walmart has grown its market share in most of these metropolitan areas, the overall level remains fairly low. In 2010, Walmart's average grocery market share in the 10 most populated metropolitan areas was 10.38 percent while the company's average grocery market share in all areas was about 24 percent. By 2014, the average grocery share increased to only 11.87 percent even though 78 Neighborhood Markets are located in these areas. In comparison, the regional company Publix holds over 30 percent of the grocery market in Atlanta and Miami. Similarly, Kroger, a national company, possesses an average of 14.57 percent of the grocery markets in five major metropolitan areas (Los Angeles, Dallas-Fort Worth, Atlanta, Washington D.C., and Houston).

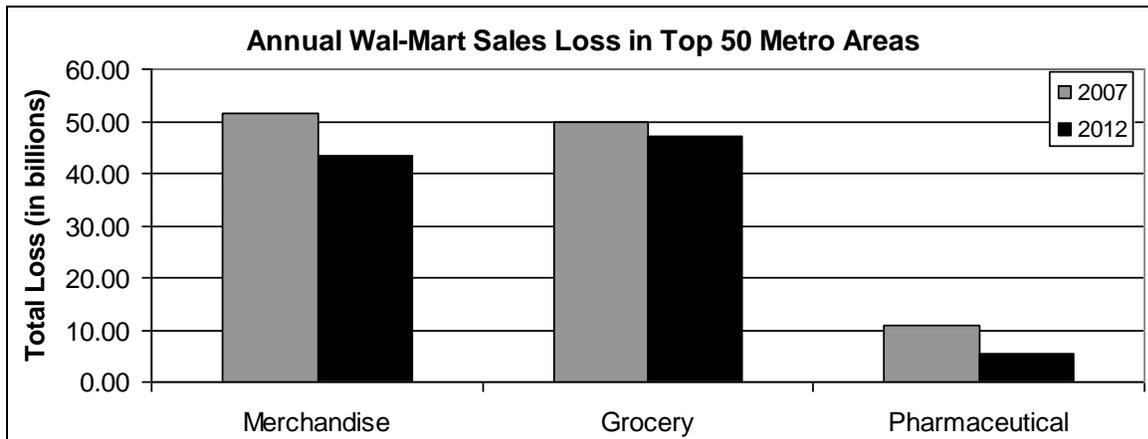
Walmart's low market share in most of the top urban areas is symptomatic of the inability of Walmart to expand into the largest cities in the U.S. For example, in the greater New York City metropolitan area, Walmart possesses less than 2 percent of the grocery market and has been primarily limited to opening stores in the surrounding suburbs of the city. In contrast, Walmart holds 28 percent of the grocery market in the Dallas-Fort Worth area and has been fairly successful in opening stores within the city limits. However, it is important to note the company is experiencing declining market share in the Dallas-Fort Worth and Houston markets because of oversaturation and the growth of competition from other low price retailers and supermarket companies. At this point, the company is concerned with expanding into the core areas of New York City, Washington D.C., Los Angeles, and other populous cities.

The Economic Loss of Low Urban Market Penetration

The gains in potential sales from increasing urban market share are substantial. As noted above, Walmart stated it could increase revenue by \$80 to \$100 billion dollars per year by achieving average market share in urban areas of the U.S.¹⁹ According to new calculations in this report (see Appendix for a review of the methodology), *the low market presence of Walmart in the 50 most populated metropolitan areas cost the company over \$110 billion dollars in potential sales in 2007*, which was about 32 percent of their net sales in the year. Out of this total, general merchandise accounted for a \$51 billion loss while grocery sales accounted for a \$50 billion loss and pharmaceutical sales accounted for a \$10 billion loss in annual sales. The concerted effort to boost market share in urban areas mitigated some of this annual loss. In 2012, the company increased sales in all three categories. However, Walmart has been unable to increase its urban market share to the company's the national average. As a result, *Walmart lost \$93.6 billion dollars in potential sales in 2012*. The reduction in sales loss is primarily attributable to a growth in sales in general merchandise and pharmaceuticals. Compared to 2007, Walmart reduced their general merchandise sales loss by \$8.17 billion and their pharmaceutical sales loss by \$5.41 billion in 2012. Surprisingly, while Walmart has primarily concentrated on growth through expanding their share of the urban grocery market, the company only reduced their annual grocery sales loss in the Top 50 most populated metropolitan areas by \$2.81 billion between

¹⁹ Wal-Mart Stores, Inc. 16th Annual Meeting for the Investment Community, Transcript of Day 2, Session 6, p. 19, 10/22/2009;

2007 and 2012.²⁰ Overall, the shift toward urban expansion as a growth strategy has produced limited success for Walmart. Despite a concerted effort to open new stores in the most populated cities in the United States, the company has only managed to increase its sales by \$16.38 billion between 2007 and 2012 in the Top 50 most populated metropolitan areas, which is less than 20 percent of total sales growth during this period.



Source: Metro Market Studies; Economic Census 2007 & 2012

Urban Campaigns Against Walmart

The push for a greater share of the urban retail market in the U.S. has led Walmart to propose new stores in the largest cities in the U.S. However, Walmart has no stores in 5 of the country's largest 25 cities - Boston, New York, San Francisco, Seattle, and Detroit. The failure of Walmart to penetrate these markets has denied the company 11.23 million potential customers.²¹ One of the most significant barriers to Walmart's expansion into urban markets is the opposition of residents, community organizations, and municipal governments. According to prior research, Walmart utilizes a low-cost expansion strategy by proposing new stores to determine whether local residents will protest the opening and create future problems for the stores' development.²² A number of campaigns over the years have sought to block Walmart's expansion into urban markets because of the company's potential impact on local retailers and the unfair treatment of workers. Several such campaigns have successfully pressured Walmart into withdrawing store proposals. Moreover, these campaigns have at times been successful in convincing local governments to pass ordinances designed to limit the expansion of big box retailers.

Urban campaigns against Walmart engage in a diverse set of tactics to resist the opening of new stores. Based on review of five case studies of urban campaigns against Walmart during the early 2000s, groups primarily oppose Walmart using four general strategies: (1) site protest; (2) ordinance against large retailers; (3) petition for ballot initiative; and (4) civil litigation.²³ During

²⁰ Walmart increased total grocery sales by 47% between 2007 and 2014. However, the size of the total grocery market in the Top 50 most populated MSAs increased by 15%.

²¹ Ausick, Paul. "Eight Largest Cities Without Walmart." 24/7 Wall St. June 16, 2014. Accessed at: <http://247wallst.com/retail/2014/06/16/eight-largest-cities-without-walmart/>

²² Ingram et al. (2010)

²³ Gray-Barkan (2007)

the company's early expansion into Chicago, Atlanta, and central California, campaigns were fairly effective in utilizing these strategies to prevent store openings in their community. More contemporary campaigns continue to mobilize these same strategies to deter Walmart's growth in the most urbanized areas of the United States. The most common strategies of contemporary campaigns are first, to protest proposed sites for new stores, and second, to encourage local government to pass ordinances against retailers. In regard to the first strategy, many campaigns are initiated by holding public rallies, hosting public meetings, and/or going door-to-door to ask residents to sign a petition against the opening of a proposed Walmart store. Once a campaign achieves support of the local community, it pushes city government to enact ordinances either restricting the development of big box retailers or increasing the local minimum wage. Both strategies have proved fairly effective in preventing the development of new Walmart stores.

As two of the largest retail markets in the United States, the cities of Boston and New York are the most desirable urban retail markets for Walmart's expansion, which has led the company to engage in systematic campaigns to gain the favor of local communities and politicians. However, despite this concerted effort to gain local approval, opposition against Walmart persists in these cities because of the company's poor labor practices. As a result, the company has yet to establish a presence in either of these cities. As one recent New York City official stated, "As long as Walmart's behavior remains the same, they're not welcome in New York City. New York isn't changing. Walmart has to change."²⁴

In 2012, Walmart abandoned projects to build a small-scale Neighborhood Market in Somerville, MA and a 90,000 square-foot Supercenter in Watertown, MA. According to the company spokesperson, Steve Restivo, abandoning the projects was a business decision based on the projected costs of the stores exceeding the expected return and not the result of mounting community opposition against the stores.²⁵ However, Watertown council president Mark Sideris contends the residents' negative reaction to the proposed store influenced the company's decision to abandon the project.²⁶ In May of 2012, around 50 residents of Watertown held a public rally against the proposed Supercenter, saying the store would cause increased traffic and noise as well as causing the loss of small business. Similarly, in March of the same year, a coalition of local business and community organizations called Somerville Local First went door-to-door to talk with local residents and business owners about the proposed Neighborhood Market store and their concerns with the company's labor practices and the store's negative impact on local business.²⁷

The concern over the loss of small business shared by both campaigns in Somerville and Watertown is warranted. According to a recent study of U.S. counties, the entry of Walmart into

²⁴ Greenhouse, Steven and Stephanie Clifford. "A Respite in Efforts by Wal-Mart in New York." *New York Times*. March 6, 2013. Accessed at: <http://www.nytimes.com/2013/03/07/business/a-respite-in-efforts-by-wal-mart-in-new-york.html>

²⁵ Leung, Shirley and Erin Ailworth. "Walmart Abandons Plans for Stores in Somerville, Watertown" *Boston.com*. June 15, 2012. Accessed at: <http://www.boston.com/businessupdates/2012/06/15/walmart-abandons-plans-for-stores-somerville-watertown/qxuVe4YamCi8LhUIt8TutO/story.html>

²⁶ *Ibid*

²⁷ Orchard, Chris. "Chamber of Commerce Urges Open Mind on Walmart Grocery Store." *The Patch*. April 2, 2012. Accessed at: <http://patch.com/massachusetts/somerville/chamber-of-commerce-urges-open-mind-on-wal-mart-grocery-store>

a local market results in the net loss of 1 to 11 stores within the first fifteen months.²⁸ Boston city officials raised this issue in 2011 when they declined to endorse a plan to build a Neighborhood Market in the commercial neighborhood of Dudley Square.²⁹ In part, this decision was informed by the campaigning of the We Want Good Jobs Coalition, which included more than a dozen social justice and economic development organizations dedicated to creating decent and sustainable jobs for the Boston area.³⁰ The coalition cited the negative impact of Walmart on the local retail labor force and small businesses in the area as their main concerns with the proposal. Indeed, several studies show Walmart's entry into local retail markets suppresses wages by nearly 12.9 percent, while reducing the full-time retail labor force.³¹

As a result of these opposition campaigns against proposed Walmart stores, the company has potentially lost millions, if not billions, of dollars in annual revenue. In 2012, the Boston metropolitan area contained a \$9.13 billion market for grocery sales, and Walmart only controlled 2.7% of the market.³² According to store type estimates, each Neighborhood Market would have generated at least \$19.4 million dollars in annual grocery sales while the Supercenter in Watertown would have generated \$30 million dollars in annual grocery sales.³³ In fact, the inability of Walmart to expand their shares of the grocery market in the Boston metropolitan area to their average share levels in other areas of the country represents an annual loss of \$2.3 billion in potential sales revenue.³⁴

One of Walmart's main targets for its urban expansion is the greater metropolitan area of New York City. In fact, between 2011 and 2012, Walmart spent over \$4 million on a lobbying campaign in the New York City metropolitan area.³⁵ The campaign utilized high-level political consultants and included heavy media advertising, political polling, and public petitions to improve the company's public image among residents. In addition to this campaign, Walmart made monetary donations and sent truckloads of goods to Hurricane Sandy victims in 2012 while also donating to local charities such as Meals on Wheels and the Eagle Academy.³⁶ Despite the

²⁸ Ficano, Carlena Cochi. 2011. "Business Churn and the Retail Giant: Establishment Birth and Death from Wal-Mart's Entry." *Social Science Quarterly* 94(1): 263-291.

²⁹ Ross, Casey. "City Won't Back a Walmart in Roxbury." *The Boston Globe*. October 4, 2011. Accessed at: <http://www.bostonglobe.com/business/2011/10/04/city-won-back-walmart-roxbury/qM1nQf4KI6Lwd1T3T3worN/story.html>

³⁰ Valverde, Miriam. "Wal-Mart Store Opposed in Roxbury." *The Boston Globe*. September 23, 2011. Accessed at: <http://www.bostonglobe.com/metro/2011/09/23/wal-mart-store-opposed-roxbury-meeting/EP1LZ0s6oqA9nnilVhtqAL/story.html>

³¹ Dube, Arindrajit, William T. Lester, Barry Eidlin. 2007. "Firm Entry and Wages: Impact of Wal-Mart Growth on Earnings Throughout the Retail Sector." Institute for Research on Labor and Employment; Jacobs, Ken, Dave Graham-Squire, Stephanie Luce. 2011. "Living Wage Policies and Big-Box Retail: How A Higher Wage Standard Would Impact Wal-Mart Workers and Shoppers." Center for Labor Research and Education; et al (2011); Neumark, David, Junfu Zhang, and Stephen Ciccarella. 2008. "The Effects of Wal-Mart on Local Labor Markets." *Journal of Urban Economics* 63: 405-430.

³² Data on total sales by industry for metropolitan areas in 2012 is currently unavailable. Estimates based on extrapolation of 2007 data and the regional industry growth rate.

³³ Kellermann, Josh and Stephanie Luce. 2011. "The Walmartization of New York City." Align Research Report. See Page 16.

³⁴ See appendix for discussion on methodology used to derive this estimate.

³⁵ New York State Joint Commission on Public Ethics. 2012 Annual Report on Lobbying Expenditures. Available at: <http://jcope.ny.gov/pubs/POL/2012%20FINAL%20ANNUAL%20REPORT.pdf>

³⁶ Greenhouse and Clifford (2013).

concerted effort to win political and public favor in NYC, Walmart failed to gain any traction in the city because of direct opposition from municipal politicians, local unions, and community advocacy groups.

In 2013, Walmart substantially scaled back its lobbying efforts after plans for a store in Brooklyn were stalled and eventually abandoned due to the growing opposition among Democratic mayoral candidates and local unions.³⁷ Walmart officials said the plans fell through because the company and local developers were unable to agree upon the economic terms of the project. However, Christine Quinn, the City Council Speaker and former Democratic candidate for mayor, stated, “However Walmart wants to spin it, they were up against tremendous political and community opposition that made it impossible for them to open a store in New York.”³⁸ The defeat of the proposed store in Brooklyn echoes other unsuccessful attempts to gain a foothold in the city. In 2005, local developers in the Rego Park section of Queens dropped plans to build a Walmart store after facing intense opposition from unions and community advocacy groups. Similarly, an Ohio real estate company dropped plans to develop a site on Staten Island in 2006 after facing stiff opposition.

Recently, community and political opposition against Walmart have sparked a pre-emptive campaign against the possibility of a new store opening in the Astoria area of Queens. Local councilman Costa Costantinides and the advocacy group Walmart Free NYC initiated a campaign in July 2014 to prevent the company from the waterfront retail complex, Astoria Cove.³⁹ Councilman Costantinides argued the campaign was to ensure Astoria Cove prioritized employers that meet the highest standards for workers, consumers, and other local businesses. The director of Walmart Free-NYC, Audrey Sasson, added, “Whenever Walmart enters a community, it’s a huge loss for the people who live and work there. The retail giant has a history of killing good local jobs, undermining small businesses, restricting consumer choice, and paying workers poverty-wages.”⁴⁰

According to a report by Walmart Free-NYC, the company would need to construct 159 stores to reach 21 percent grocery market share (its national average) in 2011.⁴¹ The report finds a massive expansion in the number of Walmart stores would have severe implications for workers. According to the report, the opening of 159 Walmart stores in New York City would result in 3,980 less jobs and a \$353 million dollar annual loss in wages for retail workers which would result in 4,000 additional workers who must rely on social services.⁴² The perceived negative impact of Walmart stores on the wages and employment of retail workers in NYC remains one of the more important issues for local politicians and advocacy groups.

The continued opposition against Walmart in the NYC area has prevented the company from gaining a foothold in one of the largest retail markets in the United States. In 2012, the New York City metropolitan area’s grocery market was worth \$34 billion dollars, with Walmart only

³⁷ Ibid

³⁸ Ibid

³⁹ Barkan, Ross. “Anti-Walmart Coalition Battling Big Box Store at Astoria Cove.” The Observer. July 17, 2014. Accessed at: <http://observer.com/2014/07/anti-walmart-coalition-battling-big-box-store-at-astoria-cove/>

⁴⁰ Ibid

⁴¹ Kellerman and Luce (2011)

⁴² Ibid: 5-6

possessing 1.2 percent of the market.⁴³ Past estimates show Walmart loses \$1.82 billion annually from its inability to penetrate NYC.⁴⁴ However, this is an extremely conservative estimate based on data from 2007. Based on more recent data for 2012, Walmart is losing close to \$8.21 billion annually from its inability to obtain its average share levels in the NYC metropolitan area.

Walmart has faced severe opposition from local urban communities and governments in numerous other cities as well. For example, despite having 3 stores in the Denver area, residents have opposed recent proposals to open new stores in the area. In 2012, Walmart proposed building a new store on the former campus of the University of Colorado Hospital. Residents of the area strongly opposed the new store because of the potential negative impact on local retailers and the company's unfair labor practices.⁴⁵ Local opposition fought the proposal by circulating petitions, writing letters to local media, posting yard signs, and participating in community meetings. As a result of this grassroots campaign, Walmart decided to pull out of the proposed development plan.

More recently, residents of the Wheatridge area of Denver have organized a pre-emptive campaign against Walmart.⁴⁶ A site plan for a 14-acre parcel in the area was recently submitted for approval and local residents fear that the plans could include building a Neighborhood Market. In reaction to the potential store, residents developed a citizens group called 'No Walmart Wheatridge'. The group has organized a series of community meetings and rallies dedicated to opposing any expansion of the company in the area because of its impact on local retailers and poor worker treatment.

Beyond opposing the expansion of Walmart stores in urban areas, city governments are also looking to divest from Walmart. In October 2013, the city council of Portland, Oregon adopted a resolution banning Walmart from the city's investment portfolio. City officials cited a number of concerns with the company, including low wages, poor health benefits for part-time workers, and potential safety risks associated with low-cost production.⁴⁷ Even though the city of Portland contains two Supercenters, residents and city officials have been vocal about their opposition to the company. In order to improve its public image in the area, Walmart and its foundation have donated over \$9.5 million dollars to state charities including Our House Portland, a charity dedicated to providing meals to residents with HIV and AIDS, and Portland Rescue Mission, an organization that provides services to homeless men, women, and children.⁴⁸ Nonetheless, city officials remain opposed to the practices of the company and opponents contend Walmart is partially responsible for driving down wages in the area. As city commissioner Steve Novick

⁴³ Data on market share obtained from Metro Market Studies. Data on total sales from Economic Census 2012.

⁴⁴ Kellerman and Luce (2011)

⁴⁵ Huspeni, Dennis. "Wal-Mart Pulls the Plug on Colorado Blvd. Store." Denver Business Journal. October 9, 2012. Accessed at: <http://www.bizjournals.com/denver/news/2012/10/09/wal-mart-pulls-the-plug-on-colorado.html?page=all>

⁴⁶ Aguilar, John. "New Fight Against Potential Walmart Bubbles Up in Wheat Ridge." The Denver Post. September 18, 2014. Accessed at: http://www.denverpost.com/news/ci_26556084/new-fight-against-potential-walmart-bubbles-up-wheat

⁴⁷ Merrick, Amy. "The Walmart-Free City." The New Yorker. May 27, 2014. Accessed at: <http://www.newyorker.com/business/currency/the-walmart-free-city>

⁴⁸ Ibid

stated about the divestment, “You have to start somewhere--we might as well start with a company that is openly, notoriously and extravagantly bad to the bone.”⁴⁹

One of the more direct challenges to the expansion of Walmart into urban areas is the enactment of legislation designed to restrict the entry of chain stores. In 2004, the San Francisco Board of Supervisors adopted an ordinance that requires ‘formula stores’ (e.g. franchises) to obtain special authorization from the Planning Commission. An amendment in 2006 increased the stringency of the law by implementing a ‘conditional use’ clause which subjects each application to review and approval on a case-by-case basis. Part of this application process requires the Planning Commission to hold public hearings for local residents to state their opinion and to evaluate whether the good or service is already provided by a local store. As a result, the city contains no Walmart stores. According to Supervisor Scott Weiner, “[The ordinance] makes chains more selective about which locations they approach. Many will do outreach to the neighborhood before they apply. If they don’t find support, they don’t apply.”⁵⁰

Urban opposition against Walmart, in the forms of community protest against store proposals and city officials legislating against the company, has prevented the company from effectively expanding into the most profitable retail markets in the U.S. Until Walmart resolves its reputational problems by providing adequate wages and benefits to workers, the company will face extreme difficulty penetrating urban markets.

Walmart’s Reputation Crisis

Opposition to Walmart does not just come from a few determined foes. Views of Walmart held by the general public and by retail customers are negative, and by some measures becoming more so. According to a recent poll conducted by the Saint Consulting Group, landfills, mines, casinos, power plants and Walmart are the least popular types of proposed developmental projects.⁵¹ A 2006 marketing report by GSD&M marketing agency describes the public’s perception of Walmart as that of a “bad corporate citizen who doesn’t treat employees well and isn’t acting as a good citizen of the planet.”⁵² According to Patricia Edwards, a managing director and portfolio director at Wentworth Hauser and Violich Investments, “Not only is [Walmart’s] battered image having a negative impact on sales and earnings, but on its efforts to build new stores.”⁵³ As a result of their poor reputation among the public, Walmart hired the world’s largest public relations firm, Edelman, and several big name political consultants to initiate a set of comprehensive campaigns to repair its public image in 2007.

⁴⁹ Ibid

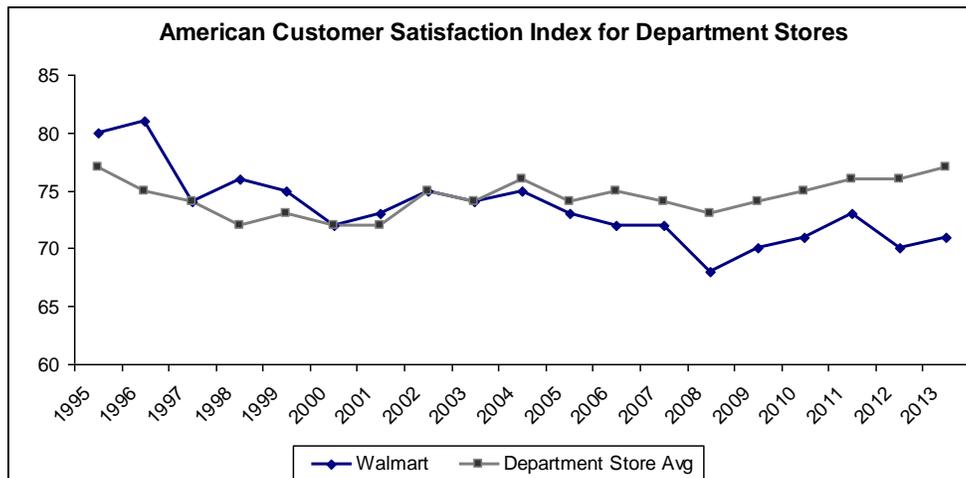
⁵⁰ Mitchell, Stacy. “How San Francisco is Dealing with Chains.” Institute for Local Self-Reliance. August 30, 2012. Accessed at: <http://ilsr.org/san-francisco-dealing-chains/>

⁵¹ “Linear Land Use Projects Hardest to Get Approved By Local Officials”. The Saint Consulting Group. April 7, 2011. Accessed at: <http://tscg.biz/the-saint-report>.

⁵² Associated Press. “Ad Agency Said Wal-Mart Needs Better Image.” NBC News. May 30, 2007. Accessed at: <http://www.nbcnews.com/id/18935076/ns/business-consumer%20news/#.VQhwy47F9Ec>

⁵³ Gogoi, Pallavi. “Wal-Mart Fights for Its Reputation.” Bloomberg. January 09, 2007. Accessed at: <http://www.bloomberg.com/bw/stories/2007-01-09/wal-mart-fights-for-its-reputationbusinessweek-business-news-stock-market-and-financial-advice>

According to the Consumer Reports' 2014 Supermarket Survey, 62,917 respondents rated Walmart as the lowest grocer in the United States despite the fact that 10 percent of the respondents reported Walmart was their primary destination for groceries.⁵⁴ The company earned the lowest marks in all categories except for price satisfaction where it received an average rating. The results of this most recent survey is consistent with previous surveys where Walmart received low ratings among supermarkets. The low rating of Walmart in the most recent Consumer Report survey is also consistent with current survey research from the Reputation Institute which shows only 60 percent of respondents would purchase goods from the store while only 21 percent would consider working for the company.⁵⁵ According to the Reputation Institutes' analysis of the retail industry in 2014, Walmart was one of the lowest rated retailers because of poor labor practices, citizenship, and ethical governance.

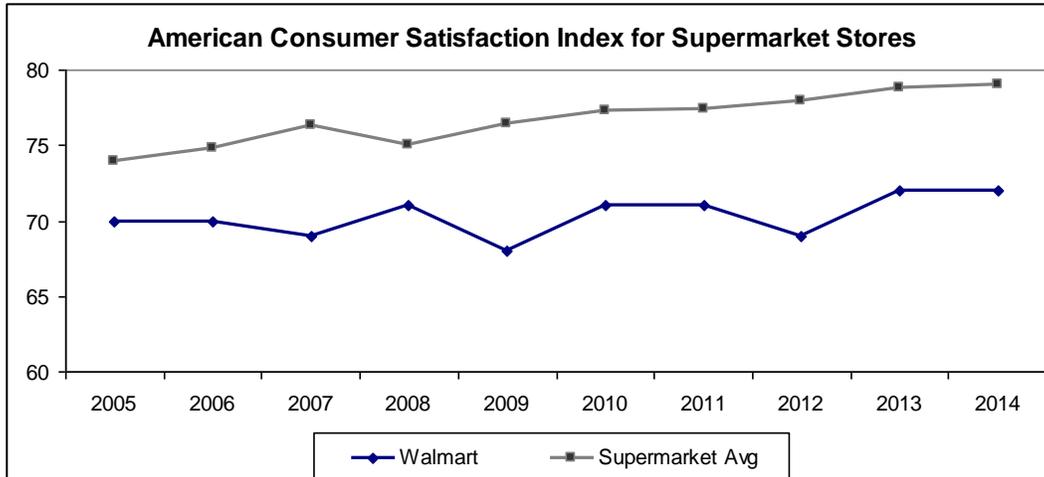


The University of Michigan developed the American Customer Satisfaction Index (ACSI) as a cross-industry metric for evaluating the competitiveness of firms based on customer experience and perception of businesses. In 1995, Walmart was the second highest ranked department store company in the survey, but by 2013 Walmart was ranked last. In comparison to other department stores, Walmart has consistently declined in ranking since 2004. Prior research shows Walmart's low ranking among customers is indicative of poor customer service due to chronic understaffing and low investments in the company's labor.⁵⁶

⁵⁴ April Consumer Report

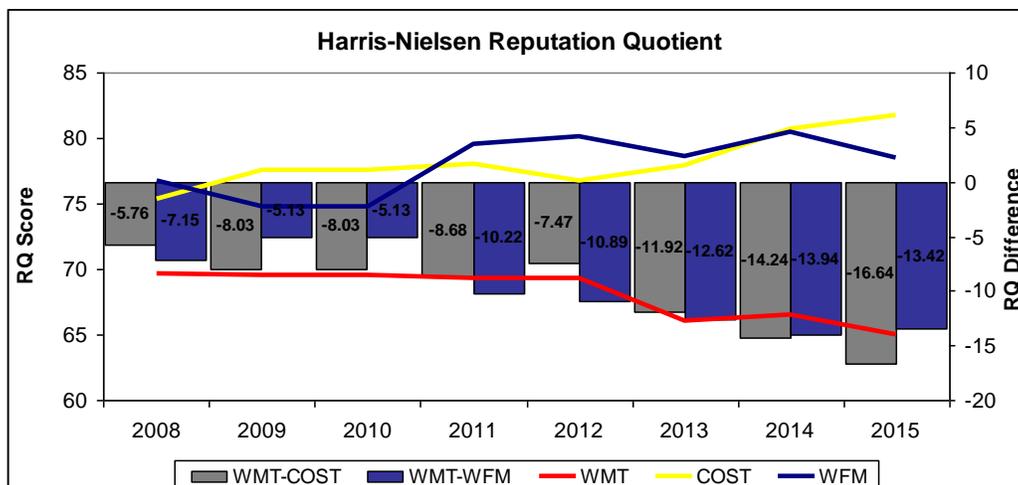
⁵⁵ Reputation report

⁵⁶ Marshall, John. 2011. "The High Price of Low Cost: The View from the Other Side of Walmart's 'Productivity Loop.'" Report for Making Change at Walmart; Marshall, John. 2012. "Wal-Mart's Labor Problem: Limits to the Low Road Business Model." Report for Making Change at Walmart.



Consistent with its customer satisfaction rating among discount and department store companies, Walmart also ranks the lowest in the ACSI for grocery retailers. In fact, since Walmart has been ranked among grocery retailers, it has scored the lowest among all grocery retailers except for one year. Overall, Walmart remains one of the worst companies for customer experience among supermarkets and department stores because of its low-cost labor practices which translates into poor customer service and store operations.

In a recent survey of 27,208 U.S. customers on the best and worst grocery retailers, Walmart was ranked the lowest with a score of 67 out of 100.⁵⁷ Comparatively, regional grocery retailers Wegmans, Trader Joes, and Publix received scores in the high 80s and were ranked as the best supermarkets by respondents. Unsurprisingly, these stores are also known for investing in their labor force by paying higher wages and providing more comprehensive benefits to their employees.

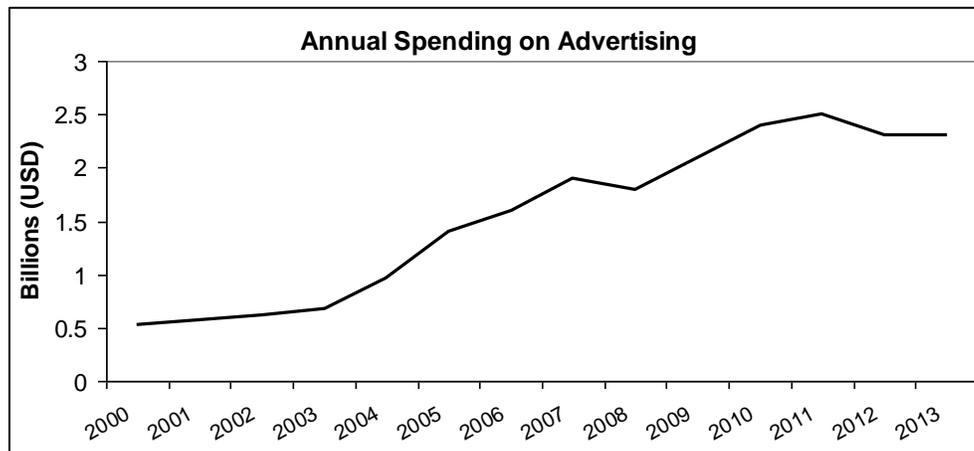


⁵⁷ Cooperstein, Paige. "Consumer Report Reveals the 10 Best Supermarkets in America." Business Insider. March 28, 2014. Accessed at: <http://www.businessinsider.com/best-supermarkets-in-america-2014-3>

A more direct indicator of a company's reputation is the Harris-Nielsen Reputation Quotient which estimates the perceptions of the most visible public companies in the United States. The quotient is derived from interviewing over 29,000 respondents about varying dimensions of corporate reputation including social responsibility and working environment. Similar to the ACSI rankings, Walmart consistently scores in the lowest quartile among public corporations. Between 2008 and 2015, Walmart scored a quotient of 68 which ranks just above most financial and oil companies in the United States. Compared to other retail and grocery retailers, Walmart ranks fairly low. Costco (COST) and Whole Foods Market (WFM) average quotients in the high 70s and have steadily increased since 2008. In contrast, Walmart has steadily declined during this period and remains in the mid to high 60s. Over the last four years, the reputational distance between Walmart and other retailers have steadily grown. Compared to Costco and Whole Foods Markets, Walmart consistently scores 10 to 25 percent lower among customers. Overall, these general indicators of reputation shows the public relations problem Walmart faces as the company tries to expand into more urban markets.

The poor ranking of Walmart among grocery and department store customers shows the need to fix some of the labor practices that create a negative customer experience in Supercenters and Neighborhood Markets. This is especially urgent for the company since its growth strategy is dependent on expanding its share in large urban grocery markets, where service expectations are typically higher and competition is sharper.

Repairing a Poor Reputation



Starting in the early 2000s, Walmart steadily increased its annual spending on advertising from \$523 million in 2000 to \$1.9 billion by 2007. The rapid growth in advertising corresponds to a period where Walmart initiated a series of advertising campaigns aimed at reshaping the company's public image. In these campaigns the company initially emphasized consumer benefits from low prices and more recently promoted the idea that Walmart improves the economic well being of local communities and workers alike by providing jobs and boosting American manufacturing.

Walmart's attempt to repair its public reputation began with a multi-million dollar advertising campaign in 2007 directed at countering opponents' claims that Walmart negatively impacted

local communities and under-paid employees.⁵⁸ The campaign utilized a series of national television commercials focused on Walmart's health insurance program, American job creation, consumer savings, and charitable contributions.⁵⁹ According to the ads, Walmart is responsible for creating tens of thousands of jobs each year while offering employees low cost health insurance and saving customers more than \$2,300 a year. Critics of the campaign contend the ads are misleading and cite research showing that the introduction of Walmart to an area depresses local earnings by 1.3 percent, mostly among minority workers, and Walmart employees earn 20 percent less than the average retail worker.⁶⁰ Moreover, the company enrolls less than half of its employees in its health insurance plan which is about 20 percent below the average large employer.⁶¹ Other studies confirm opponents' claims that Walmart depresses local retail wages and causes a net loss in full-time retail positions.⁶²

Part of Walmart's campaign to reshape its public image was changing the company slogan in later part of 2007 to appeal to middle-class consumers. In consultation with The Martin Agency, the company changed its slogan from "Always Low Prices" to "Save Money. Live Better." As part of this change, Walmart ran a series of 30-second television commercials about the company's new mission during day and evening programming as well as the Fall premiere of the most popular network shows.⁶³ The purpose of the new slogan was to emphasize Walmart's positive impact on consumer lives. For example, in one commercial, the company depicts a middle-class family using their savings from shopping at Walmart to take a vacation to Florida. In another commercial, a father and son are bonding while shopping for a car using their savings from shopping at Walmart. At the end of each commercial, Walmart claims shopping at its stores saves the average family \$2,500 per year and asks what customers "will do with your savings." According to Stephen Quinn, Executive Vice President and Chief Market Officer of Walmart, "The [commercials] tell the same story we've told since Day One, how we're working hard to save people money so they can live better."⁶⁴ However, Harold Kassarian, a professor emeritus at the UCLA Anderson School of Management who specializes in consumer behavior, contends "This has nothing to do with bonding or vacations. This is about saying that if you're middle class and upwardly mobile, it's OK for you to go to Walmart."⁶⁵

The timing of the new campaign and slogan change in 2007, just as the recession started to take hold, proved disastrous, with the company experiencing a sales growth slump between 2007 and

⁵⁸ Barbaro, Michael. "Wal-Mart Counters Criticism with a Political-Style Ad Campaign." The New York Times. August 29, 2006. Accessed at:

http://www.nytimes.com/2006/08/29/business/media/29walmart.html?pagewanted=print&_r=0

⁵⁹ Associated Press. "Wal-Mart to Air Ads Countering Attacks." NBC News. January 8, 2007. Accessed at: http://www.nbcnews.com/id/16514307/ns/business-us_business/t/wal-mart-air-ads-countering-attacks/#.VQhPWY7F9Ec

⁶⁰ Gogoi (2007)

⁶¹ Ibid

⁶² Dube et al (2007); Jacobs et al (2011); Neumark et al (2008)

⁶³ Kiley, David. "Walmart is Out to Change Its Store with New Ads." Bloomberg. September 12, 2007. Accessed at: <http://www.bloomberg.com/bw/stories/2007-09-12/walmart-is-out-to-change-its-story-with-new-ads>

⁶⁴ Lazarus, David. "Ad Slogan is a Subtle Shift for Walmart." Los Angeles Times. September 14, 2007. Accessed at: <http://articles.latimes.com/2007/sep/14/business/fi-lazarus14>

⁶⁵ Ibid

2010.⁶⁶ In 2011, Walmart re-focused its advertising efforts on its commitment to low prices by changing the slogan to “Low prices. Every day. On everything” and initiating a media campaign. The purpose of the new advertising campaign was to draw attention to the company’s new efforts in re-establishing one-stop shopping convenience and its leadership in low pricing. Price competition with Amazon.com and dollar stores was one of the main motivators for the return to advertising on price competition and one-stop shopping.⁶⁷

Critics of this new shift contend Walmart contributes to higher unemployment and stagnant wages because of its low price strategy.⁶⁸ According to a 2011 report by the public policy think tank Demos, Walmart’s low price strategy is made possible by lowering employee wages and purchasing bulk items from foreign sources.⁶⁹ The report contends that Walmart’s rise has accelerated the decline of manufacturing employment while increasing the prevalence of low-wage retail occupations. In fact, according to a 2007 report from the Economic Policy Institute, Walmart’s trade with China eliminated 133,000 U.S. manufacturing jobs between 2001 and 2006.⁷⁰ Moreover, according to the report by Demos, Walmart exerts considerable buying power over domestic manufacturers and pressures them into moving abroad.⁷¹ As a result, critics argue Walmart facilitates the relocation of manufacturing jobs abroad while replacing them with lower paying sales associate positions.

More recently, Walmart has begun two advertising campaigns to address the renewed criticism of their discount retail model. In 2013, Walmart initiated a new campaign called “The Real Walmart” which attempts to profile how consumers depend on Walmart products, how the company offers career opportunities for employees, and how the company works with suppliers to guarantee low prices.⁷² The campaign features a series of TV commercials and digital ads where store consumers discuss their occupation and the savings they receive from shopping at Walmart, while other commercials feature store employees discussing the possibilities of career advancement within the company. In the campaign, Walmart returns to the slogan of “Save Money. Live Better” to showcase consumer savings and the positive impact of Walmart. In another campaign, Walmart makes a commitment to increase domestic sourcing by \$250 billion over the next ten years. As part of this campaign, Walmart recently aired a controversial

⁶⁶ Tuttle, Brad. “Walmart Goes Old School, Promises Low Prices. Every Day. On Everything.” Time. April 11, 2011. Accessed at: <http://business.time.com/2011/04/11/walmart-goes-old-school-promises-low-prices-every-day-on-everything/>

⁶⁷ Associated Press. “Wal-Mart Ads Try to Woo Shoppers with ‘Low Prices. Everyday.’” NBC News. April 11, 2011. Accessed at: http://www.nbcnews.com/id/42535261/ns/business-retail/t/wal-mart-ads-try-woo-shoppers-low-prices-every-day/#.VQhr_Y7F9Ec

⁶⁸ Wiederman, Adam J. “How ‘Everyday Low Prices’ are Costing Americans Their Jobs.” Daily Finance, August 10, 2012. Accessed at: <http://www.dailyfinance.com/2012/08/10/how-everyday-low-prices-are-costing-americans-their-jobs/>

⁶⁹ Ruetschlin, Catherine. 2012. “Retail’s Hidden Potential: How Raising Wages Would Benefit Workers, the Industry and the Overall Economy.” Report for Demos. Available at: <http://www.demos.org/publication/retails-hidden-potential-how-raising-wages-would-benefit-workers-industry-and-overall-ec>

⁷⁰ Scott, Robert 3. 2007. “The Wal-Mart Effect.” Report for the Economic Policy Institute. Available at: <http://www.epi.org/publication/ib235/>

⁷¹ Fishman, Charles. “The Wal-Mart You Don’t Know.” Fast Company. December 1, 2003. Available at: <http://www.fastcompany.com/47593/wal-mart-you-dont-know>

⁷² Walmart Press Release. “Walmart Launches National Advertising Campaign to Show “The Real Walmart””, May 4, 2013. Available at: <http://news.walmart.com/news-archive/2013/05/04/walmart-launches-national-advertising-campaign-to-show-the-real-walmart>

commercial featuring Mike Rowe during the Sochi Winter Olympics. Following the commercial, Rowe received heavy criticism from myriad different groups and individuals over his involvement with the company.⁷³

The poor reputation of Walmart has resulted in an extensive series of public relations campaigns to repair its image as an unethical company that mistreats workers and negatively impacts local communities. Over the last decade and a half, Walmart has substantially increased its advertising budget and hired several agencies and consultants to orchestrate intensive media campaigns. However, the limited success of these campaigns shows the continued opposition the company faces as it attempts to expand into more urban areas. In order to overcome its poor reputation among urban communities, Walmart will need to increase investment in its labor force by providing higher wages, comprehensive benefits, and opportunities for full-time work.

Walmart and Labor Investment

The Organization United for Respect at Walmart (OUR) is one of the most vocal critics of Walmart's working conditions and wages. With support the United Food and Commercial Worker union, the organization is dedicated to advocating for better pay and working conditions for Walmart associations. Starting in June 2011, OUR Walmart initiated a campaign to improve wages, working conditions, and the general treatment of employees at Walmart by sending 100 associates to the company's headquarters in Bentonville, Arkansas to present a 12-point declaration on these issue.⁷⁴ Over the next few years, OUR Walmart continued to systematically campaigned for these issues by holding annual Black Friday protests, lobbying investors at the company's annual meetings, circulating petitions, and disseminating information on the rights and status of Walmart workers. As a result of these efforts, Walmart is slowly beginning to improve their investment in labor.

In February 2015, Walmart announced a minimum wage increase to \$9 per hour by April 2015 and \$10 per hour by February 2016 for a half-million employees. Additionally, the company announced a new policy to provide workers with more control over their schedules, but the details of the new policy remain unclear.⁷⁵ According to the company, the wage increase and new scheduling plan are directed at ensuring employees receive adequate wages and training. In a recent press release by Executive Vice President of Walmart U.S. Kristen Oliver, she states "As [Walmart has] grown over the years, we've made some changes aimed at making us more productive, but some of these changes undermined the ownership and pride our people have long felt for our business. So we took a step back, and we listened to what our associates were telling us."

According to Brian Yarbrough, an analyst at Edward Jones & Co. in St. Louis, the pay increase by Walmart is an attempt to reduce the workforce's turnover and improve employee morale and

⁷³ Peterson, Hayley. "'Dirty Jobs' Host Mike Row Is Getting Death Threats Over a Wal-Mart Ad." Business Insider. February 25, 2014. Accessed at: <http://www.businessinsider.com/dirty-jobs-host-mike-gets-death-threats-2014-2>

⁷⁴ Berfield, Susan. "Walmart vs. Union-Backed OUR Walmart." Bloomberg Business. December 13, 2012. Accessed at: <http://www.bloomberg.com/bw/articles/2012-12-13/walmart-vs-dot-union-backed-our-walmart>

⁷⁵ Lobosco, Katie. "Wal-Mart's Other Promise to Workers: Better Schedules." CNN Money. February 19, 2015. Accessed at: <http://money.cnn.com/2015/02/19/news/companies/walmart-wages-schedules/index.html?iid=EL>

store quality while also gaining positive publicity about its wages.⁷⁶ Others argue the mounting criticism from labor organizations and municipal governments; the declining unemployment rate which gives current and prospective employees more job options; and higher wages in other retail positions caused the company to increase wages in order to retain workers and to minimize the costs associated with hiring and training new workers.⁷⁷

It is also possible that the company is pre-empting the movement toward higher city and state minimum wages by pursuing an internal change in its pay structure. The recent push by the Obama administration to raise the federal minimum wage to \$10.10 an hour has faced considerable opposition from Republicans. However, in 20 states and Washington D.C., governments have increased the local minimum wage.⁷⁸ As a result, Walmart would have been liable to increase the wages of thousands of employees regardless of its wage policy change.

Critics of the company have pointed out that Walmart's wage increase doesn't go far enough. Holly Sklar, chief executive of Business for a Fair Minimum Wage, a group of business leaders advocating for a higher minimum wage, brought up another important point when she stated, "It's important that our nation's largest private employer is finally beginning to follow many other companies in raising starting pay. But given that the buying power of the 1968 federal minimum wage is nearly \$11 adjusted for inflation, Walmart should be setting higher targets than \$9 in April 2015 and \$10 in 2016."⁷⁹ Based on the average reported wages of full-time and part-time employees, an increase to \$10 per hour is fairly meager, only amounting to an average of less than a dollar more an hour for most employees.⁸⁰ In fact, a full-time worker (34 hours a week for Walmart associates) at \$10 per hour would only earn \$17,680 per year, which is below the national poverty threshold for a family of three. According to a recent report by the advocacy group, Americans for Tax Fairness, many Walmart employees with children qualify for most public assistance programs even with the pay raise to \$9 or \$10 per hour.⁸¹ Emily Wells, a part-time worker at Walmart and member of employee advocacy group OUR Walmart, stated "As a soon-to-be-mom making only \$9.50 an hour, it's very difficult to make ends meet with my part time schedule, which gives me only about 26 hours per week... Without a guarantee of getting regular hours, this announcement still falls short of what American workers need to support our

⁷⁶ Dudley, Renee. "How Wal-Mart's CEO Came to Support a \$1 Billion Wage Hike." Bloomberg Business. February 19, 2015. Accessed at: <http://www.bloomberg.com/news/articles/2015-02-19/wal-mart-s-1-billion-wage-hike-spurred-by-customer-service-woes>; Ramakrishnan, Sruthi and Nathan Layne. "Wal-Mart, Under Pressure, Boosts Minimum U.S. Wage to \$9 an Hour." Reuters News. February 19, 2015. Accessed at: <http://www.reuters.com/article/2015/02/19/us-walmartstores-results-idUSKBN0LN1BD20150219>;

⁷⁷ Worstall, Tim. "The Fed Knows Why Walmart Raised Wages." Forbes. March 5, 2015. Accessed at: <http://www.forbes.com/sites/timworstall/2015/03/05/the-fed-knows-why-walmart-raised-wages/>

⁷⁸ Isidore, Chris. "Walmart Ups Pay Well Above Minimum Wage." CNN Money. February 19, 2015. Accessed at: <http://money.cnn.com/2015/02/19/news/companies/walmart-wages/>

⁷⁹ Tabuchi, Hiroko. "Walmart Raising Wages to at Least \$9 per Hour." The New York Times. February 19, 2015. Accessed at: http://www.nytimes.com/2015/02/20/business/walmart-raising-wage-to-at-least-9-dollars.html?_r=0

⁸⁰ Ibid

⁸¹ Americans for Tax Fairness. 2015. *The Wal-Mart Tax Subsidy: Walmart's Pay Hike to \$10/Hour Still Requires Large Public Subsidies*. Available at: <http://www.americansfortaxfairness.org/files/Taxpayers-and-Walmart-ATF.pdf>

families.”⁸² Anthony Rodriguez, another employee of Walmart, stated that the wage increase was a great victory for his colleagues, but he was hopeful the company would eventually provide a living wage of \$15 per hour.⁸³

The Benefits of High Labor Investment

The low-cost labor model of Walmart is not the only viable managerial strategy for maintaining low prices. Both Costco and Trader Joe’s are low price competitors that pursue high-investment labor models. At Trader Joe’s, the average full-time employee earns \$40,000 to \$60,000 per year, which is more than twice as much as the average full-time employee at Walmart. At Costco, employees start at \$11.50 per hour and the average employee earns about \$21.00 per hour.⁸⁴ In addition to paying their employees well-above the industry average, both companies utilize more full-time employees and offer their workers comprehensive benefits. As a result of their investment in labor, both companies experience below average employee turnover. At Walmart the employee turnover rate is 44 percent, which is about the industry average, but the rate at Costco is 5 percent and the rate at Trader Joe’s is less than 10 percent.⁸⁵

Employee retention is important for reducing labor costs in the retail industry. The cost associated with replacing employees in skilled and semi-skilled occupations is typically 1.5 to 2.5 times the worker’s annual salary, excluding the lost productivity during the search process.⁸⁶ More conservative estimates put the average the cost of replacing low-wage employees at \$4,000 per employee.⁸⁷ At 1.3 million employees in the United States, Walmart’s potential loss from high turnover is substantial. Assuming the average annual salary is \$20,000 for a full-time Walmart employee, a turnover rate of 44 percent and a replacement cost of 60 percent of total salary⁸⁸, the annual cost of turnover for the company may be in the area of \$6 billion. At the more conservative estimate of \$4,000 per employee, the annual cost of turnover could still be around \$2.28 billion per year. In fact, according to a recent statement from the CEO of Walmart U.S., Greg Foran, the increase in hourly wages of employees is directed at employee retention and greater engagement.⁸⁹

⁸² Jacobs, Peter. “A Huge Wal-Mart Worker Group Isn’t Entirely Pleased About the Company’s Big News About Raises.” *Business Insider*. February 19, 2015. Accessed at: <http://www.businessinsider.com/our-walmart-worker-raise-falls-short-2015-2>

⁸³ Gittleson, Kim. “Walmart to Raise Wages for 500,000 Workers.” *BBC News*. February 19, 2015. Accessed at: <http://www.bbc.com/news/business-31540472>

⁸⁴ The Teamsters represent about 10% of Costco employees and most of the other employees receive wages and benefits patterned off the Teamster contract.

⁸⁵ Ton, Zeynep. 2012. “Why “Good Jobs” are Good For Retailers.” *Harvard Business Review*.

⁸⁶ Cascio, Wayne F. 2006. “The High Cost of Low Wages.” *Harvard Business Review*.

⁸⁷ Reich, Michael, Peter Hall, Ken Jacobs. 2003. “Living Wages and Economic Performance: The San Francisco Airport Model.” *Institute for Industrial Relations*.

⁸⁸ Cascio, Wayne F. 2006. *Managing Human Resources: Productivity, Quality of Work Life, Profits* (7th ed.). Burr Ridge, IL: Irwin/McGraw-Hill. Mitchell, Terence R., Brooks C. Holtom, and Thomas W. Lee. 2001. “How to Keep Your Best Employees: Developing an Effective Retention Policy.” *Academy of Management Executive* 15(4): 96-108.

⁸⁹ Weber, Lauren. “One Reason Wal-Mart is Raising Pay: Turnover.” *The Wall Street Journal*. February 19, 2015. Accessed at: <http://blogs.wsj.com/atwork/2015/02/19/one-reason-wal-mart-is-raising-pay-turnover/>

In addition to reducing the costs associated with employee turnover, higher employee retention improves sales and productivity. Over the last decade, several studies have documented the negative relationship between employee turnover and productivity.⁹⁰ This research consistently shows higher employee turnover reduces store productivity and sales growth across various types of companies in the retail sector. According to this research, greater employee retention enhances store performance by increasing the firm-specific skill and knowledge of operational processes in the workforce. Additionally, higher retention cultivates social capital amongst store employees resulting in more effective management and team-based work. Overall, reducing turnover not only decreases the costs associated with hiring and training new employees, but also contributes to higher productivity and sales.

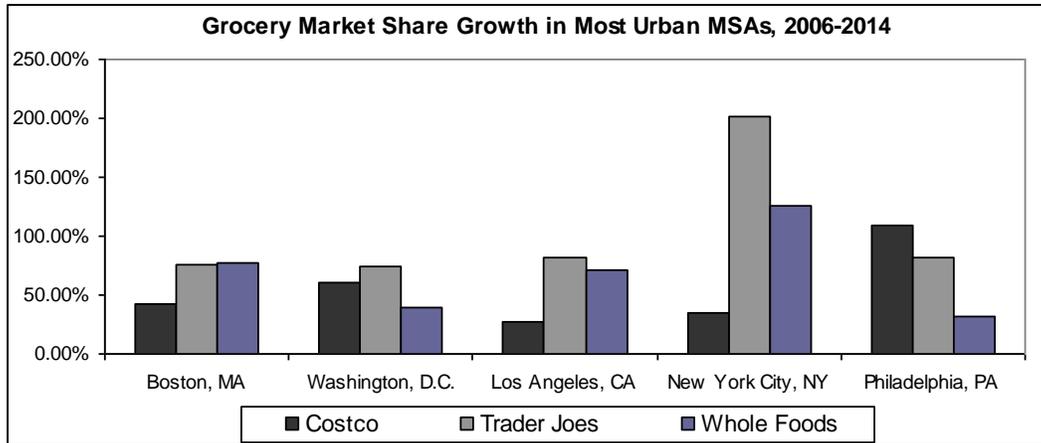
Employee engagement is also critical for business performance. Based on a meta-analysis of 263 research studies across 192 organizations in 49 industries and 34 countries, researchers at Gallup find companies with high employee engagement outperformed other companies with low employee engagement.⁹¹ Companies ranking in the top-quartile of employee engagement show 22 percent higher profitability, 21 percent greater productivity, 28 percent less shrinkage, and 65 percent lower turnover than companies ranking in the bottom-quartile of engagement. Moreover, this research shows the relationship between engagement and these indicators of business performance are highly generalizable across different types of companies and industries. In sum, the costs of improving employee retention and engagement may be offset by improved store performance in addition to saving the company from the costs of high turnover.

In the grocery retail sector, investment in labor produces substantially higher sales. For example, Costco's sale per square foot is twice as much as Walmart's, while Trade Joe's sale per square foot is three times larger than the average supermarket.⁹² Moreover, companies with reputations for high labor investment are succeeding in urban markets. In 5 of the most populous metropolitan areas in the United States, Costco, Trader Joe's, and Whole Foods significantly increased their grocery market share between 2006 and 2014. In particular, Trader Joe's, which was predominately located in Southern California, has spread to other major urban areas over the last eight years and increased its market share by over 50 percent in the most populated areas during this period.

⁹⁰ Batt, Rosemary. 2002. "Customer Services: Human Resource Practices, Quit Rates, and Sales Growth." *The Academy of Management Journal* 45(3): 587-597; Shaw, Jason D., Nina Gupta, John E. Delery. 2005. "Alternative Conceptualizations of the Relationship between Voluntary Turnover and Organizational Performance." *The Academy of Management Journal* 48(1): 50-68; Shaw, Jason D., Michelle K. Duffy, Jonathan L. Johnson, and Daniel E. Lockhart. 2005. "Turnover, Social Capital Losses, and Performance." *The Academy of Management Journal* 48(4): 594-606; Kacmar, Michele K. Martha C. Andrews, David L. Van Rooy, R. Chris Steilberg, and Stephen Cerrone. 2006. "Sure Everyone Can Be Replaced...But At What Cost? Turnover as a Predictor of Unit Level Performance." *The Academy of Management Journal* 49(1): 133-144.

⁹¹ Harter, James K., Frank L. Schmit, Sangeeta Agrawal, and Stephanie K. Plowman. 2013. *The Relationship Between Engagement at Work and Organizational Outcomes: The 2012 Q12 Meta-Analysis*. Gallup Inc

⁹² Ton (2012)



The benefits of high labor investment are directly linked to the execution of retail operations. Zeynep Ton, an operations professor at MIT, shows investment in payroll and maintaining adequate staffing levels boosts store profitability by increasing *conformance quality* - how well employees perform the prescribed processes of the business.⁹³ Ton argues that minimizing payroll expenses may yield short-term gains in profitability, but produce long-term strains on sales and profit by reducing the available labor force for proper inventory management, shelving, and aiding customers.⁹⁴ Additionally, low investment in labor is likely to reduce labor productivity while increasing inventory shrinkage.⁹⁵



Source: Ton (2012)

⁹³ Ton, Zeynep. 2009. "The Effect of Labor on Profitability: The Role of Quality." *Harvard Business School Working Paper 09-040*.

⁹⁴ Ton, Z. and A. Raman. 2008. "The Effect of Product Variety and Inventory Levels on Retail Store Sales: A Longitudinal Study." *Harvard Business School Working Paper*; Fisher, Marshall L., Jayanth Krishan, Serguei Netessine. 2006. "Retail Store Execution: An Empirical Study." *Wharton Business School Working Paper*.

⁹⁵ Ton (2009). P. 7

In a review of four retailers, Ton shows optimal operational execution requires adequate staff levels and investment in employees.⁹⁶ To illustrate the efficacy of labor investment, Ton contrasts retailing's "vicious" and "virtuous" cycles of labor investment. The former approach emphasizes low payroll costs by reducing training and staffing levels which results in worse operational execution and lower sales. The latter approach takes on higher payroll costs by increasing spending on training and higher staffing levels which enhances operational execution, leading to greater sales and profits. Indeed, according to a recent study on 17 months of sales data from a large retailer, for every additional \$1 invested in payroll, store sales could see \$4 to \$28 increase in monthly sales.⁹⁷ Overall, the success of retailers with higher labor budgets shows the benefits of investing in the labor force and shows the potential harm in Walmart's low-cost labor model.

Walmart and the Virtuous Cycle?

The recent improvement in wage rates for Walmart associates is a step in the right direction, but falls short of providing employees a living wage in most urban areas of the United States. For example, in New York City, San Francisco, and Boston, a Walmart store employee would need to earn at least \$12.75 an hour to earn a living wage for a single person.⁹⁸ In order to meet the needs of urban workers, Walmart needs to make a further efforts to increase wages of employees. According to a 2011 report, Walmart could increase its minimum wage to \$12 per hour without reducing profits by passing on the additional costs directly to consumers at the expense of \$0.49 per shopping trip.⁹⁹ The marginal growth in wages would make Walmart jobs an economically viable option in the most urban areas of the United States. More importantly, as shown above, improvements in the relative wages of workers create productivity gains large enough to offset the additional labor cost.¹⁰⁰ Higher productivity and sales from greater wages would allow Walmart to continue its price leadership by not externalizing the additional labor cost onto consumers.

A continual improvement in wages is a necessary strategy for Walmart's expansion into urban areas because municipal governments are taking the initiative to increase the minimum wage. While Chicago and Washington D.C. are two recent success stories for Walmart's urban campaign, both cities have recently enacted ordinances to improve wages in the city.¹⁰¹ In January 2014, the city council of Washington D.C. passed an ordinance to increase the minimum wage to \$11.50 an hour by July 2016 (\$1.50 per hour higher than Walmart's planned minimum wage in April 2016).¹⁰² Prior attempts at increasing the minimum wage led Walmart to threaten to withdraw plans to build new stores in the area, but it is unclear how the company will react to

⁹⁶ Ton (2012)

⁹⁷ Fisher et al. (2006).

⁹⁸ Calculations based on <http://livingwage.mit.edu/places/3608151000>

⁹⁹ Jacobs et al. (2011).

¹⁰⁰ Levine, David I. 1992. "Can Wage Increases Pay For Themselves? Tests with a Productive Function." *The Economic Journal* 102(414): 1102-1115; Reich et al. 2003; Ton 2009

¹⁰¹ The living wage for a single person household is \$13.75 an hour in Washington, D.C. and \$10.75 an hour in Chicago.

¹⁰² DeBonis, Mike. "D.C. Minimum Wage Hike Signed Into Law." *The Washington Post*. January 15, 2014. Accessed at: <http://www.washingtonpost.com/blogs/mike-debonis/wp/2014/01/15/d-c-minimum-wage-hike-is-signed-into-law/>

the recent passage of the minimum wage ordinance.¹⁰³ In December 2014, the Chicago city council passed an ordinance to increase the minimum wage to \$13.50 per hour by July 2019.¹⁰⁴ With the new ordinance, the city is looking to increase the wages of 400,000 employees, including retail workers at Walmart. In the past, Walmart was successful in stopping efforts by the city council to pass a wage ordinance with a veto from former Mayor Richard M. Daley.¹⁰⁵ As more than 20 states and cities increase the local minimum wage, it is increasingly necessary for Walmart to follow suit and continue to expand minimum wages within the company. In Seattle and San Francisco, city governments approved ordinances to increase the minimum wage to \$15 per hour. In Massachusetts, the state government enacted legislation to increase the minimum wage to \$11 per hour by 2017. Overall, the push for increasing the minimum wage by city and state officials could increase the wages of employees in 1,400 Walmart stores.¹⁰⁶

More importantly, increasing labor investment and providing better working conditions of Walmart associations would improve the company's reputation among consumers, especially communities located in the most urban areas of the United States. According to a 2014 poll conducted by Lake Research Partners, 9 percent customers who shop at Walmart weekly and 21 percent of customers who shop at Walmart monthly stated they have been visiting the store less. Among the weekly shoppers who are visiting the store less, 25 percent stated poor worker treatment was the main reason while only 13 percent of monthly shoppers visiting the store less cited the same reason.¹⁰⁷ The same poll also found 59 percent of respondents support requiring large retailers to provide full-time hours and minimum annual salary of at least \$25,000 a year (about \$12 per hour) while 36 percent of respondents stated they would shop more frequently at Walmart if the company improved their labor practices.

In addition to improving its reputation, higher investment in labor would enhance the customer experience at Walmart by ensuring stores maintained adequate staffing levels and increasing employee engagement. Will McKitterick, a retail industry analyst for IBISWorld, notes that one of the main reasons many customers are dissatisfied with Walmart is that they have trouble locating goods because "some shelves aren't stocked [correctly], items are missing, shelves are messy, merchandise may be in a different spot than last time [you shopped there]."¹⁰⁸ In fact, prior research shows the declining sales growth and the general under-performance of the company is attributable to the company's low-cost labor strategies.¹⁰⁹ In order to boost short-

¹⁰³DePillis, Lydia. "Wal-Mart's Threatening to Pull Out of D.C. If It Has to Pay a Higher Minimum Wage: So What?" The Washington Post. July 10, 2013. Accessed at: <http://www.washingtonpost.com/blogs/wonkblog/wp/2013/07/10/wal-marts-threatening-to-pull-out-of-d-c-if-it-has-to-pay-a-higher-minimum-wage-so-what/>

¹⁰⁴ Press release from Chicago's Mayor Office. December 2, 2014. Available at: http://www.cityofchicago.org/city/en/depts/mayor/press_room/press_releases/2014/dec/mayor-emanuel--city-council-approve-ordinance-to-increase-minimu.html

¹⁰⁵ Davey, Monica and Michael Barbaro. "Chicago Minimum Wage Ordinance Fails." The New York Times. Available at: <http://www.nytimes.com/2006/09/14/us/14bigbox.html>

¹⁰⁶ Isidore, Chris. "Minimum Wage Bump at 1,400 Walmart Stores." CNN Money. December 24, 2014. Accessed at: <http://money.cnn.com/2014/12/24/news/companies/walmart-minimum-wage/>

¹⁰⁷ Lake Research Partners Poll in 2014.

¹⁰⁸ Hill, Catey. "4 Reasons Walmart is the Most-Hated Retailer in America." Market Watch. February 21, 2015. Accessed at: <http://www.marketwatch.com/story/4-reasons-walmart-is-the-most-hated-retailer-in-america-2015-02-18>

¹⁰⁹ Marshall (2011, 2012)

term profitability, the company has increasingly relied on cutting labor hours which has led to poor operational performance, including longer lines at registers, mismanaged inventory, and improperly shelved merchandise.

Investing in a higher labor budget by improving the working conditions, compensation, and benefits of employees is the main pathway for Walmart to expand into urban centers. The reliance on reducing labor hours to improve profitability produces short-term profits at the expense of long-term growth and the company's public image. Customers are increasingly dissatisfied with the shopping experience at Walmart and view the low-cost retailer as a detriment to the prosperity of their local community. As a result of their low-cost labor model, Walmart failed to saturate urban markets. The recent increase in the minimum wage of store associates is a step in the right direction, but the pay raise does not go far enough, especially in urban areas. To grow its urban market share and same-store sales, it is necessary for the company to further increase its investment in labor.

Conclusion

The weak performance of U.S. sales over the last decade raises concerns about the long-term growth of Walmart. In the past, the company was overly dependent on expanding stores into suburban and rural markets to sustain growth in U.S. sales. However, the demographic shift toward more urban areas and the over-saturation of non-urban markets has led to a situation where the company needs to increase its share of the largest urban retail markets in the U.S. in order to return to prior levels of growth.

The major barrier to the company's expansion into urban markets is the resistance of local communities and city governments. While Walmart has experienced moderate success in Southern metropolitan areas, Chicago, and Washington D.C., the company has yet to penetrate the cities of Boston, New York, Seattle, Detroit, or San Francisco. A consequence of this limited urban growth is the perpetual loss of potential sales in the largest consumer markets in the country. Since Walmart is unable to achieve its national average market share in the most urban areas of the U.S., the company is losing \$95.8 billion dollars annually in potential sales revenue, roughly 30 percent of its current US sales. Expanding into urban markets is necessary for the company to sustain high growth in the long-run. Walmart needs to implement a new high-investment labor model to repair its reputation among urban communities that are fiercely opposing the company's entrance into local markets.

Walmart's reputation for providing low-wage jobs and harming local businesses is the main issue among urban community organizations and city governments opposing the company's expansion. From New York and Boston to San Francisco and Portland, community organizations are actively protesting proposed store openings while city governments are enacting ordinances against the development of big box retailers as well as ordinances increasing the minimum wage. Until Walmart is able to overcome its reputational issues, community opposition will continue to deter the company's expansion into the more lucrative urban consumer markets.

Walmart's substandard wage and employment practices have also harmed its standing with current and potential customers, both through reputational effects and through deficient customer

service, out-of-stock and out-of-place inventory, and other operational problems, making the company one of the lowest ranked stores in customer satisfaction and business reputation. Walmart recently increased wages to \$10 per hour by next year in order to reduce employee turnover and deflect criticism of its low-wage policy. This increase of the company's minimum wage is a step in the right direction for repairing the company's public image and improving customer satisfaction. However, Walmart will need to continue to increase wages and opportunities for full-time employment in order to overcome its poor reputation. While the wage increase will benefit over 40 percent of Walmart's labor force, these wage levels are still inadequate for a decent standard of living in the most urban areas of the United States. Moreover, the company still needs to commit to expanding its full-time labor force to solve operational problems associated with chronic under-staffing, such as poor inventory and shelving management. Instead of spending billions of dollars on added advertising to try to repair its damaged reputation, the company should make a concerted effort to implement high-cost labor models that require investment in the wages, benefits, staffing, and training of employees.

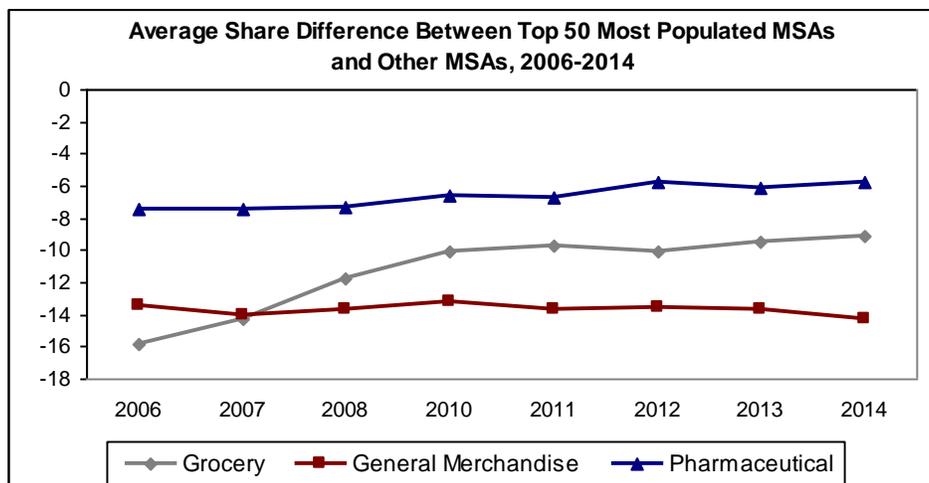
The recent success of Costco, Trader Joe's, and Whole Foods Markets shows that companies that invest heavily in labor have better reputations, better customer experience, and higher growth in the most urban areas in the U.S. And, in the case of Costco and Trader Joe's, can still compete on price with Walmart and other low-price retailers. In order for Walmart to effectively compete against these companies, it must implement its own version of a higher-investment labor model. The mounting community opposition against the company requires Walmart to rebrand itself as a company that re-invests in the local community by paying above average wages, providing benefits, and creating economic opportunity for workers. The sustainability of Walmart's urban expansion is dependent on the willingness of executives to alter its low-cost strategy to improve its reputation and customer experience.

Appendix: Estimating Lost Sales Revenue

Lost Sales Revenue

Data on total grocery (NAICS 4451), pharmaceutical (NAICS 44611) and general merchandise (NAICS 4521) sales were drawn from the 2007 & 2012 Economic Census. The 2007 Economic Census contained information about total sales by industry for each major and minor metropolitan statistical area (MSAs) in the United States. The 2012 Economic Census only contained information on total sales by industry for the United States.¹¹⁰ Total sales estimates for each industry and MSA in 2012 were imputed using the average growth rate in the industry between 2007 and 2012. It is important to note that this imputation strategy for the average growth rate may overestimate the sales growth in smaller MSAs while underestimating growth in larger MSAs.

Data on Walmart's market share of the grocery, general merchandise, and pharmaceutical sales industries were extracted from the Metro Market Studies database for the years of 2007 & 2012. The Metro Market Studies database provides comprehensive market share and population data for over one hundred companies in all major and minor MSAs. Data on the population of MSAs were utilized to demarcate the 50 most populated MSAs in the United States.¹¹¹



Annual lost sales revenue was estimated as the difference between the MSA market share and WMT's average market share in MSAs outside of the Top 50 most populated MSAs in a given year. The value of the market share difference was estimated by multiplying the share difference by the total sales in the MSA. After obtaining the value of the share difference for each MSA in

¹¹⁰ The Census expects this data for MSAs will be available by February 2016.

¹¹¹ The following MSAs are the Top 50 most populated areas: Atlanta, GA; Austin, TX; Baltimore, MD; Birmingham, AL; Boston, MA; Buffalo, NY; Charlotte, NC; Chicago-Naperville-Joliet, IL-IN-WI; Cincinnati, OH; Cleveland, OH; Columbus, OH; Dallas-Fort Worth, TX; Denver, CO; Detroit, MI; District of Columbia; Hartford, CT; Houston, TX; Indianapolis, IN; Jacksonville, FL; Kansas City, KS & MO; Las Vegas, NV; Los Angeles-Orange, CA; Louisville, KY; Memphis, TN; Miami, FL; Milwaukee, WI; Minneapolis, MN; Nashville, TN; New Orleans, LA; New York, NY; Oklahoma City, OK; Orlando, FL; Philadelphia, PA; Phoenix, AZ; Pittsburgh, PA; Portland, OR; Providence, RI; Raleigh-Cary, NC; Richmond, VA; Riverside-San Bernardino, CA; Sacramento, CA; Salt Lake City, UT; San Antonio, TX; San Diego, CA; San Francisco, CA; San Jose, CA; Seattle, WA; St. Louis, MO; Tampa-St. Petersburg, FL; Virginia Beach-Norfolk-Newport News, VA.

the Top 50 most populated MSAs, the values were summed by industry. Below is the average share difference for each industry in the Top 50 most populated MSAs.