LA-56

The Longest Supermarket Labor Strike in U.S. History: The Impact of Wal-Mart and Rising Health Care Costs on Today's Supermarket Industry

Development Bank of Japan

Representative Office in Los Angeles Office

非組合の波と医療費負担増に揺れる米国労働問題
－スーパーマーケット史上最長のストライキとその背景－

【はじめに】

１． 最近、米国では労働問題が注目を集めている。空前の好景気が持続した90年代所得格差が急拡大したが、今次不況回復期においても格差拡大が続いている。政策当局の機敏な対策もあり、株価は比較的早期に回復し投資家はその利益を享受している。超低金利政策により持ち家層は価値急増の恩恵に浴している。一方、投資する余裕のない者、レイオフされた労働者、非持ち家者等好循環に乗り切れない層は、状況が一層厳しくなっている。生産性上昇、過剰設備の存在、グローバリゼーションによる競争激化等の影響により、雇用回復は進まず労働条件は厳しくなってきている。

追い討ちをかけるのが医療費負担増とそのアロケーションである。年二桁のペースで伸び続ける医療費を背景に医療保険負担が急騰しているが、経営者はこれを負担しきれなくなってきている。2003年秋にデービスカリフォルニア州知事がリコールされシュワルツネッガー新知事が誕生し世界的な注目を集めた。リコール運動の主原因として、デービス前知事が企業に医療保険整備を義務付ける法案にサインし企業の不評を買ったことが上げられている。

２． 以上のような状況を背景に、労働協約更改期に労使紛争が生じ長期化する事例が生じている。ロサンゼルス地区でも、2002年秋に10日間に亘り発生した港湾運送ロックアウト、2003年秋に生じた公共交通機関（MTA）のストライキ、2003秋から2004年初春にかけて生じたスーパーマーケットの労使紛争等が、大きな注目を集めた。特にMTAとスーパーに関しては医療保険の取り扱いが焦点となった。いずれも経営者側に有利な形で決着がついており、労働者にとり厳しい状況となっている。港湾とスーパーは、現状の組合いと新規組合員を分けて、新規に特に厳しい内容となる所謂「組合の2層化（Two Tier System）」にて決着が図られており、今後に課題を残している。

３． 当レポートは、最近のこうした米国の労働環境について、流通業の労使紛争や医療システムに焦点を当てて解説するものである。なお、ロサンゼルス駐在員事務所報告55号（LA－55）「ウォルマート再考」は、Wal-Mart社のビジネスモデルに焦点を当てた内容であるが、スーパーストライキやロサンゼルス近郊都市出店を巡る動向についても触れており、併せて参考頂ければ幸いである。

【要旨】

１． 南カリフォルニア（南カ）地域では昨年から今年にかけて５ヶ月近くの長期にわたり、地元大手スーパーマーケットで大規模なストライキがあり、地域の人々の生活に密着した出来事であっただけに直接生活に与えた影響は大きく、またそれに関連して地域の雇用問題等に様々な議論を巻き起こした。

２． ストライキは地元大手スーパーマーケットである「Vons」と「Pavillion」を運営するSafeway社、「Ralphs」を運営するKroger社、および「Albertson」のAlbertson社に対し、産業別労働組合であるUnited Food and Commercial Workers（UFCW）が起こしたものである。UFCWの南カ地区におけるストライキとしては25年振りとなる今回のストライキの直接的な理由は、人件費がコストの大きな部分を占める小売業にとって上昇し続ける雇用者医療費負担および新規雇用者に対する給与体系の問題であった。

３． 今回のストライキ自体は既存従業員と新規雇用者の給与体系を別建てとするTwo Tier Systemを採用するという妥協により今年２月に終結した。しかし、このTwo Tier Systemは同じ質の労働に対して複数の賃金を適応することになるためにモラルの低下を招くなど、問題を先送りすることが多く、1985年に同様の方法で妥結したAmerican Airlines社もその後このTwo Tier Systemを放棄している。

４． さらに、この歴史上例を見ない長期間ストライキの背景は、単なる一時的なコスト負担の問題だけでなく、米国における小売業界再編の流れが大きく影響しているものと考えられる。そしてその業界再編を促しているのが、新たなビジネスモデルで小売業界の変革をリードしている非組合のWal-Mart社である。

５． 米国において現在のような形のスーパーマーケットが最初にオープンしたのは1930年代のニューヨークであるとされ、その後スーパーマーケットはそれまで小規模な食料品店が占めていた市場を切り崩し、1980年代から1990年にかけてその勢いを増し、1992年以降でも17%の食料品店が姿を消している。

６． さらに現在の食料品店市場では、従来のような食料品スーパーだけでなく、同時にWal-MartのようなSupercenterと呼ばれる大規模総合スーパー、Costcoなどのような会員制のWholesale（Warehouse） Club、グルメや自然食をテーマにしたグルメ食料品店、100円ショップ、などバラエティに富んだ業態からの競争にもさらされており、移り気な消費者を引き留めることは非常に難しくなっている。スーパーマーケットを取り巻く環境は、単なる価格競争だけではなくビジネスモデル全体に関わる競争も巻き込んで、まさにJ.シュンペーターが"Creative Destruction"という言葉で表現した様相を呈している。

７．その中で、現在最もシェアが高くしかもそのシェアを伸ばしつつあるのがWal-Mart社である。Wal-Mart社は1980年代初期にWarehouse Clubを展開し、その後1990年代初期にSupercenterを展開するなど新たな業態に積極的に取り組んできた。現在では日本のコンビニのような近隣市場をターゲットとした小規模店舗の展開、および100円ショップに注目しているという。

８．そのWal-Mart社のビジネスモデルの中核をなすのが、"Everyday Low Price"（EDLP）という米国の中西部地域・中産階級をターゲットとするマーケティング戦略、および"Internet Electric Data Interchange"（EDI）というITを活用した徹底的なコスト削減戦略である。Wal-Mart社では早くも1960年代からコンピューターを使用した在庫管理をおこなっており、その後もRFID（非接触式磁気ID）や衛星通信の活用、そしてサプライヤーと共同の在庫管理システムの構築など、IT活用に関しては常に業界をリードしてきた。

９．他方、Wal-Mart社のビジネスモデルには陰の部分もある。非組合であるWal-Mart社の従業員は概して賃金が低いと言われており、また市場に与える同社の影響力が大きいことから、同社が進出する地域全体の平均賃金が低下することになり、ひいてはコミュニティを破壊することになるという地域問題にまで発展しているところもあるようである。また、同社の労働者からは不払労働や差別賃金などの訴訟を起こされ、さらに政治的には同社が海外メーカーから商品を購入しているとして米国製造業の空洞化の一因との見方もある。

10. Wal-Martが今後も伸び続けるかどうかは、最終的にはWal-Mart社の徹底的な利益追求型ビジネスモデルが地域社会に受け入れられるかどうかにかかっており、専門家の間でも色々と意見が分かれるところである。

11. 今回のストライキのもう一つの背景となったのが、米国において上昇し続ける医療費負担の問題である。米国の医療費は先進国の中でも高コストで、カリフォルニア州は特に高い。その理由として米国では高度先進医療の受診があることもあるが、病院により役割が細分化されていること、スタッフが過剰なこと、などの課題も指摘されている。さらに、薬に対して最も多くの支出をしているのが米国人で、それが製薬企業の大きな利益を支えているわけだが、その割に米国人の平均寿命は長くない、という批判もある。医療費負担に関しては、現在カリフォルニア州では新たな法案が準備されており、今後も誰がどこまで負担すべきかという議論が続くと考えられるが、基本的には色々な段階での高コスト体質をいかに改善していくべきかという点に焦点を当てるべきであろう。

以上

（調査執筆担当：Ellen Nishigaki、はじめに担当：山家公雄、要旨担当：酒巻弘）

The Longest Supermarket Labor Strike in U.S. History:
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1. Introduction

Today, a recurring topic of concern in American society is the labor issue. Declining wages, globalization, competition and rising health care costs are all contributing to the uneasy nature of today's labor market. Across the nation, organized labor is raising the concerns of employers seeking to cut back on labor and health care costs. Labor unions are on the defensive as Corporate America finds ways to push the cost of the economic crisis onto workers. Recently, there have been a number of stories about labor strikes and work stoppages such as those led by the workers of SBC Communications Inc., the train and bus mechanics with the Los Angeles Country Metropolitan Transportation Authority, and the Los Angeles County Sheriff's deputies. In each case, rising health care costs have been one of the key issues of union negotiations. More traditional concerns focus on job security, wages and pensions. There is much speculation that the health care crisis will also be a major topic in the upcoming presidential election in 2004.

This report provides an overview of the Southern California supermarket strike that began in October of 2003 and lasted for 5 months – the longest supermarket labor dispute in U.S. history. The labor conflict involved union workers struggling to preserve what traditionally has been a middle-class occupation while three major supermarket chains fought to regain their competitive footing against low-cost and non-union operators such as Wal-Mart and Costco by demanding contract concessions. In particular, Wal-Mart stands as a national threat to the supermarket industry as its labor and health care costs are about 40 percent lower than those of traditional grocers. The labor movement affected the lives of millions of consumers yet generated widespread labor support and solidarity, including a "stop work" meeting by the International Longshore and Warehouse Union that shut down ports in Los Angeles-Long Beach for a mass rally in front of an Albertsons supermarket.

Unions are showing a renewed bargaining clout and aggressiveness since the 1970s, as seen by the recent escalating number of work stoppages. The 2003 supermarket strike is an example of a local strike that gained national attention and serves as a precedent for future labor movements.

Researcher
Ellen Nishigaki

2. The Issue: The Union Workers versus the Big Three Supermarket Chains

The last supermarket strike occurred in 1978 when members of the United Food and Commercial Workers (UFCW) in Southern California walked off the job for five days in an attempt to win wage increases. Now 25 years later, three major supermarket companies - Safeway Inc.'s Vons and Pavillions, Kroger Co.'s Ralphs Grocery Co. and Albertsons Inc. and workers of the seven locals of the UFCW union endured a grueling five-month long strike and lockout. The question of how much employers should subsidize workers' health care coverage and the issue of pay scales for new employees were at the heart of the labor strife. In a sector where labor costs account for a major part of a typical company's total expenses, the chains contended that in order to stay competitive in the market, they could no longer absorb all the costs coming from soaring insurance premiums and intense pressure from nonunion retailers – low cost operators, which make up 40% of the Southern California market. However, the unions were not about to relinquish their living standards in California, where union wages and prices are relatively higher than in most of the country.[1] It was the longest running campaign for union workers in supermarket history, disrupting the shopping patterns of millions of consumers. In the end, the bitter dispute inflicted losses on the grocers of almost $1.5 billion in sales.

Figure 1: When They Walked

When they walked

Southern California grocery clerks have gone on strike four times since 1947.

Year	Duration	Outcome
1947	14	Won sick pay
1959	28	Improved pension and health benefits
1969	19	Improved wages and benefits
1978	5	Won raises to keep up with inflation

Source: LA Times Research, UFCW Local 770

In today's hyper-competitive segmented retail market, the traditional grocery companies say they are facing cut-throat competition from nonunion rivals, including mass discount merchandiser Wal-Mart Stores, Inc., warehouse club chains such as Costco and other supermarket operators that pay less toward employee benefits. Safeway, the leader of the campaign, along with Ralphs and Albertsons, claim Wal-Mart, the world's largest private employer and largest retailer, in particular, poses a major threat to their market share with the entry of supercenters – one-stop outlets that sell products, services and grocery at rock-bottom prices – a concept launched by former CEO David Glass.

1 Steven Greenhouse. "Wal-Mart, Driving Workers and Supermarkets Crazy," The New York Times. October 19, 2003.

Photo: La Quinta Supercenter.. Taken by DBJ Associate.

Wal-Mart is expanding rapidly and planning to roll out 40 massive all-in-one supercenters in California over the next few years beginning in 2004. With 1,504 supercenters, Wal-Mart already has a 79% share of the U.S. supercenter market and is the nation's largest grocer with a 10% market share. Blessed with a small pool of discounters in the region, California had been the most profitable market for major supermarket chains. Despite the 60% Southern California market share held by the Big Three supermarket chains, Retail Forward, a global management consulting and marketing research firm, warns that a supercenter's entry will result in the closure of two rival supermarkets.[2] This translates into hundreds of lost UFCW jobs leading to less union bargaining power at the table. Yet some analysts question the impact of supercenters on the supermarkets' regional market share. Mark Husson, a supermarket analyst for Merrill Lynch, a financial management and advisory company, predicts that if forty supercenters were opened throughout California, "Wal-Mart's plans might gain it 1% of the state market over the next four years."[3] According to Kent Wong, Director of the Center for Labor Research and Education at UCLA, "Wall-Mart doesn't pose a current threat. They were very much used as an excuse for the supermarket industry. However, they do pose a national threat in relation to the retail industry and in their race to the bottom in relation to wages and benefits."[4]

This report introduces a brief overview of the recent labor dispute between three major supermarket companies and union workers and examines the broader effects of a combination of factors which may have triggered and prolonged this conflict. Two potential reasons are proposed: the changing grocery industry including a brief assessment of the business model of the world's biggest discount retailer and America's largest grocer, Wal-Mart, and the rising health care costs in the United States.

2 Melinda Fulmer and Abigail Goldman. Los Angeles Times. "Cornered Grocers May Need To Be What Wal-Mart Isn't.". October 27, 2003.

3 Michael Hiltzik. Los Angeles Times. "Supermarkets Can Blame Themselves". October 16, 2003.

4 Telephone interview with Kent Wong, Director of Center for Labor Research & Education at UCLA. March 4, 2004.

The following is a brief timeline of the strikes and lockout based on information obtained from the Los Angeles Times and other media sources.

08/05/03	Prior to contract negotiations, Albertsons, Ralphs and Safeway sign a mutual-aid pact.[5] All agree to share revenues and costs in the event of a strike.
10/05/03	A four-year contract signed in 1999 covering 852 Albertsons, Ralphs, and Safeway stores in California expires at midnight.
10/10/03	UFCW members of Southern California (7 locals - affecting about 59,000 union workers and 11,000 employees at other chains who signed an agreement in which they stood on the sidelines but promised to abide by the new contract) reject the contract offered by the chain stores and authorize a strike.
10/11/03	UFCW union strikes Safeway Inc.'s Vons and Pavillions stores.
10/12/03	Albertsons and Ralphs, which are bargaining jointly with Safeway launch a lockout as a defensive move.
10/31/03	UFCW removes its pickets from all 300 Ralph's stores to focus pressure on Albertsons, Vons and Pavillions and to give frustrated customers the option of shopping at one of the three chains in the contract battle.
11/24/03	Teamsters' 8,000 drivers and warehouse workers at 10 warehouses in Southern and Central California honor picket lines by refusing to work at distribution centers. Teamsters are not on strike, so they cannot legally join the picket lines.
12/02/03	The stores make an offer – proposing of a two-tier benefits system, which the union refuses to accept. The two-tier system will be discussed in detail in section 2.1.
12/19/03	In an effort to reopen negotiations, the UFCW announces that its local unions would remove picket lines from distribution and warehouse facilities at Safeway/Vons, Ralphs and Albertsons. Picketers from warehouse for Albertsons and Kroger's Ralphs chains are pulled as planned. However, picket lines remain active at Safeways' Vons and Pavillions distribution centers.
12/19/03	UFCW make an offer to accept the two-tier system as long as it would be temporary and new hires could eventually receive higher wages and more benefits.
02/03/04	The California attorney general files a lawsuit against the employers, alleging

5 Labor experts note that car manufacturers and airlines involved in multi-company negotiations with labor unions have signed similar pacts in the past.

antitrust violations.

02/26/04 Negotiators reach an agreement. UFCW members ratify a new three-year contract that covers about 59,000 people idled at 852 stores in Southern and Central California and an additional 11,000 employees at other chains. The terms will allow the supermarket companies to significantly cut their labor costs, mainly because the pact institutes a two-tier system under which new hires will receive a lower wage and benefits package than veterans.

2.1 The New Contract [6]

For decades, major supermarket chains in Central and Southern California have covered premiums rates for their employees. The new agreement puts veteran workers and newcomers in separate pay and benefit tiers. Under the two-tier system new hires will receive much less in wages and benefits than veterans. Some of the highlights of the new contract are as follows:

- Veterans will receive two lump sum bonuses (one in 2004 and one in March 2006) instead of raises. The bonus will total $1,000 for the average worker.
- Employer contributions to the health care plan is capped monthly.
- Both are responsible for co-payments for medical services under the expired contract.
- Veterans are not responsible for coverage in the first two years and not in the third year (last year) if contributions from the companies are enough to cover the costs. If not, the estimated cost is $5.00 a week for individual coverage and $15.00 a week for family coverage.
- For veterans, company contributions to medical plans will be $4.60 per hour effective March 2006.
- New hires are eligible for medical benefits after one year; dependents are eligible after thirty months.
- New hires are required to pay premium rates, adjusted annually "in an amount that is sufficient to cover approximately twenty percent of the expected cost of the benefits."
- For new hires, company contributions to medical plans will drop to $1.10 per hour effective March 2006.

This twenty-year old system, popular during the era of deregulation and globalization in the 1980s, is not a new concept for the supermarket industry. According to Kroger's CEO David Dillon, the chain had been using this system since 1978. Yet, its fractious structure suggests unequal pay for equal work. It generally hurts worker morale by creating divisions in the workplace and companies unsuccessful with this approach generally return to unified pay scales. For instance, in 1985, two years after American

6 Tentative Agreement For a Successor Collective Bargaining Agreement Between Albertson's, Ralphs, and Vons and UFCW. February 26, 2004.

Airlines instituted the dual class structure in its contracts with pilots, the union threatened to strike due to a 50% wage gap between old and new workers. The gap was eventually eliminated after a decade.

Clearly, the contract is a major setback for California workers who have been paid at the high end of the pay scale and makes other regional unions in the supermarket sector vulnerable to concessions in future contract negotiations. This precedent will push the compensation and benefits benchmark even lower for labor unions in the grocery sector, where the trend represents low margins, meager wages and deflation in certain food categories. As more two class structures are adopted in the industry, experts predict that there will be a major shift from workers in the higher tier to those in the lower tier. This system threatens to lower the living standards of union workers and undermine the employer-based health insurance system.

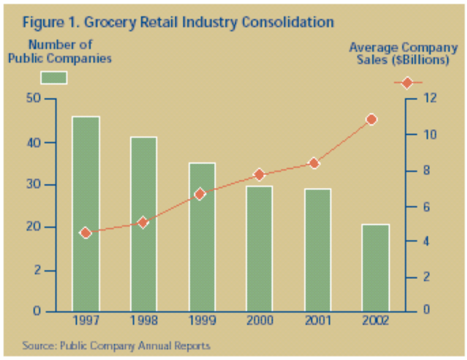
Like outsourcing jobs in the manufacturing sector, labor union concessions in the supermarket sector exemplify current national trends of lowering operating costs in the service industry. The groundwork of the Southern California contract will be the precursor for upcoming contract negotiations such as the one to take place in Northern California in 2004. Kent Wong summed up the strike in the following quote: "The supermarket chains banded together at a national level to share profits and squeeze labor costs. Likewise, the key thing the unions have to do is they really need to look at the industry-wide approach to organizing and to bargaining and that also means they have to break out of a local or regional perspective."[7]

7 Wong.

3. The Changing Grocery Industry

According to history, the first self-service supermarket was opened in New York in 1930. A grocer consolidated 15,000 small stores into supermarkets seven years later, dominating the retail food sector. It began losing business by the 1950s and by 1975 it lost its position as a dominant player. During the 1980s and 1990s, major grocers such as Safeway, Kroger, Albertsons, and Ahold acquired other chains. Retail Forward says, since 1992, the industry has experienced a net loss of 13,500 grocery stores, or 17% of the total. The decline in the number of grocery chains due to consolidation has decreased competition, increased pricing power and improved scale among the survivors.

Figure 2: Grocery Retail Industry Consolidation



Sources: Deloitte Research, Public Co Annual Reports

Today's competitive grocery industry is a hybrid of the old food sector and emerging new formats. Decreasing margins and price deflation threaten the outlook of an industry where grocery stores are not just battling other supermarkets and Wal-Mart, but other warehouse discounters and alternative shopping venues. Consumers are shifting to other retail formats such as Wal-Mart and its supercenters, big-box discounter Costco Wholesale Corporation, and gourmet grocers, such as Trader Joes and Whole Foods. Despite Wal-Mart's growth, some experts argue that it still will not dominate the grocery business due to the current share held by major supermarkets and competition from other formats. Raymond Bracy, Vice-President of Wal-Mart's International Affairs Department says, "Fewer than 20% of store associates will work in grocery – about 80 or 90 associates per store. In fact, Wal-Mart will employ fewer than 4,000 non-union grocery workers to compete with the more than 250,000 existing UFCW employees."[8] However, an analyst with William Blair & Co warns that supermarkets' share of the market could decline from its current 53% to just 34% by 2011. The variety of shopping choices and consumers' search for shopping efficiency today makes it difficult for supermarkets to maintain loyal customers. In Redefining Retail, a joint effort of retail magazines and research companies, among the types of non-supermarket format competitors are:

- Supercenter: A full-line supermarket and a full-line discount merchandiser under one roof. Examples: Wal-Mart Supercenter, Meijer Supermarket
- Wholesale Club: Membership club stores selling packaged and bulked foods and general

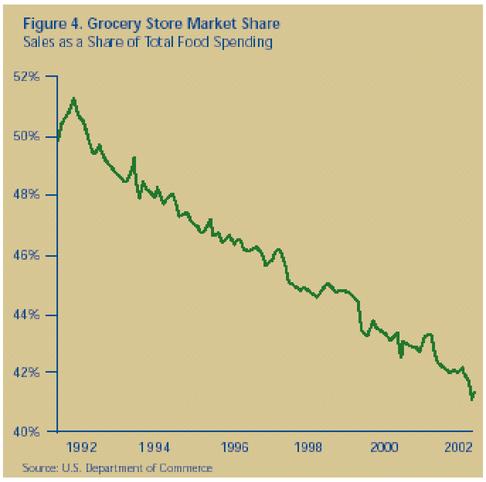
8 Email from Mr. Raymond Bracy. Vice-President, International Corporate Affairs. Wal-Mart. January 14, 2004.

merchandise. Examples: Sam's Club, Costco

- Limited Assortment/Gourmet: A limited selection of items in a reduced number of categories such as gourmet and natural products. Examples: Trader Joe's Market, Whole Foods
- Dollar Store: Basic assortment of everyday general merchandise such as household items and toys. Examples: 98 cents store, Family Dollar
- Mass Merchandiser: Discounters that sell items from household goods to food in a departmentalized format. Examples: Wal-Mart, Target
- Drug Store: Offers prescription pharmacy items, general merchandise and some grocery. Examples: Drug Emporium, Rite Aid

While established supermarket companies still account for the largest shares of sales in the *Top 100 Retailers Worldwide 2002* compiled by Retail Forward, they continue to lose share to mass retailers. Consumers are scaling back trips to the grocery store. According to ACNielson, a marketing information company, in 2002, the average consumer made 73 trips to the grocery store, down from 83 trips in 1999.[9] However, the average number of yearly trips to supercenters increased from 15 to 21. Retail Forward predicts that by 2006, supercenters will hold about one-third of the national increase in spending on food.[10] Wal-Mart has grown to become a major player in transforming the food industry with its different formats. It has developed a variety of formats since its early days as a traditional discount department store. In the early 1980s it rolled out its warehouse club business. It later introduced supercenters in the early 1990s. It is now experimenting with neighborhood market – small grocery stores - gasoline and convenience store businesses. Dollar stores are next on the agenda. Cutthroat competition from companies with different models is upsetting major supermarket chains with outdated business models and cost structures. In *Getting Your Fair Share*, Deloitte Research reported

Figure 3: Grocery Store Market Share



Source: Deloitte Research, U.S. Department of Commerce

9 ACNielsen Homescan Study. March 4, 2003. listed at http://www.acnielsen.com/news/american/us/2003/20030304.htm

10 Retail Forward. "Wal-Mart's Likely Growth Strategies Detailed in New Retail Forward Report". August 14, 2002. listed at http://www.retailforward.com/freecontent/pressreleases/press47.asp

that since 1992, grocer's share of the food business has witnessed a drop from 51% to 41%.[11]

The consensus among analysts suggests that old school supermarket stores need to determine what their niche in the industry is, or they risk being left behind. Supermarkets need to explore alternative strategies in order to face these changes. Instead of focusing on how to lower prices, grocers may want to consider alternative formats to the traditional grocery store. Another challenge for major chains is a growing demographic mix and changing consumer tastes which indicate that the market will shift to new players like the ethnic and specialty markets. According to Retail Forward, the supermarket industry is trying to make changes by experimenting with new formats, store sizes, brand sharing, and non-food products. For example, more supermarkets are integrating "dollar concepts," (items that sell for about a dollar) and natural and organic products into their stores. The store-within-a-store concept is expanding – for example, stores featuring full-service shops like Starbucks. The idea of joining forces with other types of retailers and services is also becoming mainstream – for example, offering Krispy Kreme doughnut stands and financial services within supermarkets. Deloitte in *2004 Global Powers of Retailing* reported that Albertsons plans to introduce Toys "R" Us in its stores under its "Toy Box" concept.[12] Ultimately, entities such as banks, utilities, health care companies and media organizations could become either competitors or partners of retailers, predicts McKinsey & Co., in the article, "From Products to Ecosystems: Retail 2010."[13] The bottom line is that supermarket chains face challenges that involve more than just rock-bottom prices and shifting the burden of labor costs.

Professor Alan Stone, former professor of political science at the University of Houston, refers to the current state of food retail as an example of "creative destruction" a phrase coined by economist Joseph Schumpeter. The results from a capitalist nation are not primarily from price competition but rather from "the new consumer goods, the new methods of production or transportation, the new markets, the new forms of industrial organization that capitalist enterprise creates."[14] Conventional ideas replace traditional ones. While this concept is more evident in technology-driven industries it has also been

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11 Deloitte Research. "Getting Your Fair Share: Seven Strategies for survival in the grocery industry". listed at http://www.deloitte.com/dtt/research/0,2310,cid%253D35804,00.html

12 Deloitte Research. "2004 Global Powers of Retailing". listed at http://www.deloitte.com/dtt/research/0,2310,sid%253D2240%2526cid%253D35913,00.html

13 McKinsey & Company. "From Products to EcoSystems: Retail 2010," 2000. listed at http://www.mckinseyquarterly.com/article_abstract.asp?ar=936&L2=20

14 Professor Alan Stone. Orange County Register Editorial. December 28, 2003.

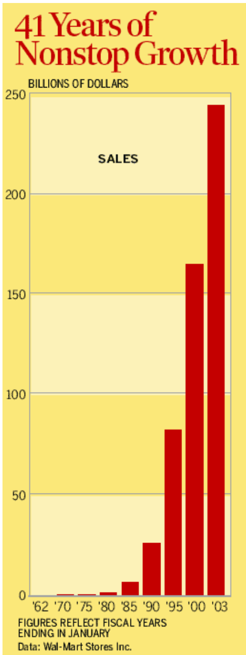
manifesting in the food retail industry.

Supermarkets' management must seek new innovations and implement national campaigns to lower costs to respond to the modern trends before the chains become a minority. So far the most obvious tactic has been lowering labor costs.

3.1 Wal-Mart: The Big and Quasi Friendly Retailer

Boasting $256.3 billion in sales for the twelve months ended January 2004, or a stunning 2% of the total U.S. Gross Domestic Product, Wal-Mart is the world's largest company based on revenues alone. In 2003 it ranked No. 1 on the Top Ten list of the largest U.S. businesses, surpassing such industry giants as Exxon Mobil and General Motors, ranked No. 2 and No. 3, respectively. It is also three times the size of the No.2 retailer, France's Carrefour in terms of sales. It is no wonder that economists suggest the U.S. economy has improved because of Wal-Mart. In "Retail: The Wal-Mart Effect," The McKinsey Quarterly, 2002 Number 1, reports Wal-Mart alone accounted for nearly 25% of the U.S. retail productivity growth from 1995-1999.[15] This may come as a surprise to foreigners who oftentimes assume growth is driven by Silicon Valley and may impact their thinking on economic policy realizing that retail industry is just as important as semiconductors and communication sectors.

Figure 4: 41 Years of Nonstop Growth



Source: BusinessWeek

The McKinsey Quarterly explains that the "Wal-Mart effect"[16] is attributed to the retailer's own innovations – such as the large-scale or "big-box" format, its slogan, "everyday low prices" (EDLP), "private label" and Internet Electric Data Interchange (EDI) – a platform used by suppliers and Wal-Mart to send and receive data over the Internet.

In the mid 1990s, competitors such as Sears and Target began to emulate some of Wal-Mart's innovations. Smaller general merchandisers such as Tuesday Morning and Meijer adopted the "big box" format. As a result, some competitors experienced a jump in their productivity by 28% from

15 Bradford C. Johnson. The McKinsey Quarterly. "Retail: The Wal-Mart Effect". 2002 Number 1.

16 Wal-Mart effect. A term used loosely by economists – a broad effect that has suppressed inflation and rippled productivity gains through economy year after year.

1995-1999. At the same time, Wal-Mart boosted its own productivity by an additional 22%.[17]

In a nutshell, this section will examine and focus on three key factors contributing to the continuing success of the business model – the EDLP philosophy, technology advantage – its early commitment to technology - and its buying power with suppliers.

Philosophy

Wal-Mart's Spartan culture is driven by its slogan, "everyday low prices," a philosophy the company's late founder Sam Walton put into place. One source in the retail business – a supplier who chose to do business with Target over Wal-Mart – asserts that understanding its origins helps explain the rationale behind its culture. The corporate ethos of Wal-Mart comes from its roots in "Middle America", a term that has both geographic and cultural meaning. Geographically, Middle America is the entire region between the east coast and west coast of the U.S. Culturally, Middle America constitutes traditional American values such as the importance of family. In addition, it represents the simple and plain lifestyle in rural and urban areas in which the trend for large families is shopping at malls and one-stop discount stores and attending church – the simple life.

To deliver low prices Wal-Mart has to be a low cost operator in the market. Wal-Mart recruits leaders in the industry with the know-how and pricing knowledge in order to cut costs, which is why Wal-Mart is keen on pricing from the cost of an item to doing business with a supplier and factory – down to the penny. Hence, it delivers this concept across the board: logistics, merchandising, store design, and advertising.[18] New England Consulting, a retail consulting company, told *BusinessWeek* magazine that Wal-Mart created roughly $20 billion in savings for its U.S. customers in 2002.[19] Consequently, the "Wal-Mart effect" on its competitors increased total savings for U.S. customers to about $100 billion. With such substantial savings, economists credit Wal-Mart with pushing down America's inflation rate. According to a 2002 study by UBS Warburg, a global firm dealing with securities, investment banking, and wealth management, on average, prices at Wal-Mart supercenter are 14% below those of its competitors. This super-efficient company allows customers to enjoy rock-bottom prices. Wal-Mart operates a "best price, no deal" business: no markdowns, no allowances, and no promotional money

17 Johnson. "Retail: The Wal-Mart Effect".

18 Deloitte Research. Carl Steidtmann. "Retail Tsunami? Wal-Mart Comes to Japan". 2003. listed at http://www.deloitte.com/dtt/research/0,2310,sid%253D2226%2526cid%253D15736,00.html

19 "Is Wal-Mart Too Powerful?" BusinessWeek. October 6, 2003.

according to Carl Steidtmann in *Retail Tsunami – Wal-Mart Comes to Japan*, a Deloitte Research Publication.[20] Inventory and store layout remain untouched even during special promotions. With its tech advantage Wal-Mart works closely with its logistics management and with its suppliers to achieve cost advantages. The organization's frugality in its austere design and construction also keeps costs down. Wal-Mart's minimal advertising strategy is also a competitive cost advantage. *Retail Tsunami – Wal-Mart Comes to Japan* reports that the retailer spends less than one percent of sales on advertising while its competitors spend six or seven percent.[21] This simple yet difficult pricing strategy is the backbone of the low-cost leader's overall operating structure.

Tech Advantage

Former CEO David Glass spearheaded Wal-Mart's heavy investment in its highly sophisticated IT – the envy of the world. As a result, Wal-Mart operates a super-efficient supply chain management and logistics system. Through trial and error it capitalized on the advantages by investing in IT earlier and more aggressively and extensively than did its competitors: In 1969, it was one of the first to use computers to track inventory. In 1980, it was one of the leaders to adopt bar codes. In 1985, it took a head start in using the Electric Data Interchange. During the late 1980s, it was one of the first to use wireless scanning guns.[22] Clearly, its tech advantage supports its innovative supply chain practices. Bain & Co., a global business consulting firm, reported that the annual capital expenditures (IT budget included) exceed those of Target, Sears, Costco and K-Mart combined.[23] In terms of productivity, retail and financial analysts say that the company's "key role in the 1995-1999 economic boom came partly because of its legendary use of technology to analyze costs and speed delivery of goods from its 30,000 suppliers to dozens of warehouses."[24]

There are four technological innovations that Wal-Mart relies on to significantly reduce its inventory, while increasing capital productivity and labor efficiency: Radio Frequency Identification (RFID),

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20 Deloitte Research. Carl Steidtmann. "Retail Tsunami? Wal-Mart Comes to Japan". 2003. listed at

http://www.deloitte.com/dtt/research/0,2310,sid%253D2226%2526cid%253D15736,00.html

21 ibid.

22 Johnson. "Retail: The Wal-Mart Effect".

23 Baine & Company. "The Big Three Compared". January 9, 2004. listed at

http://www.bain.com/bainweb/publications/publications_detail.asp?id=14647&menu_url=publications_results.asp

24 Jim Hopkins. January 29, 2003. "Wal-Mart's influence grows". USAToday. listed at

http://www.usatoday.com/money/industries/retail/2003-01-28-walmartnation_x.html

Retail Link, Satellite Network and Vendor-Managed Inventory (VMI).

- **Radio Frequency Identification (RFID)** A real-time inventory tracking technology – no hassles with paperwork and bar codes. It automatically tracks the pickup, movement and delivery of the material and updates the inventory database. It displays product code, manufacturing date, contents, origination point, expiration date (perishable goods). Retailers plan to use RFID to track items from the manufacturer to the store, helping to control inventory and reduce theft. The information is available to manufacturing, accounting and warehouse management and corporate decision makers. Wal-Mart is taking a head start in experimenting with the pricey technology while other retailers take the wait-and-see approach for RFID to be free of bugs and glitches. Wal-Mart has mandated its top 100 suppliers to use these tags by 2005 and plans to mainstream it among all of its suppliers by 2006.

- **Retail Link** A just-in-time system emulated from JIT pioneered by the Japanese auto manufacturers. With this system, Wal-Mart shares information – customer demand on a store-by-store basis, purchase orders and so on - with everyone (its merchandisers, inventory managers, sales team and suppliers) on a real-time basis, creating a system in which items are rarely out of stock.

- **Satellite Network** It is the largest private satellite communications system in the U.S. It links stores to headquarters by voice, data and video. Suppliers tap directly into Wal-Mart's computers to track sales of items which improve inventory control and cuts costs. [25]

Figure 5: Retail Link

Through Retail Link, suppliers can:

- Download purchase orders from Wal*Mart.
- Check the status of their invoices to Wal*Mart.
- Determine how many of their products were sold at Wal*Mart the previous day.
- Examine the effects of markdowns or returns on their inventory.
- Access reports on sales over a period of up to two years.
- Access sales forecasts for their products for up to one year.
- Upload reports and updates for Wal*Mart.

Source: Deloitte Research

- **Vendor-Managed Inventory (VMI)** A system in which the supplier generates orders for its distributor based on demand information sent by the distributor. It was pioneered in the grocery industry between companies like Proctor and Gamble (supplier) and Wal-Mart (distributor). The distributor sends sales and inventory data to the supplier on a prearranged schedule and the VMI system determines what should be ordered. The supplier monitors the inventory status to ensure the distributor always has stock. Both parties are better able to monitor demand in the market. Lower

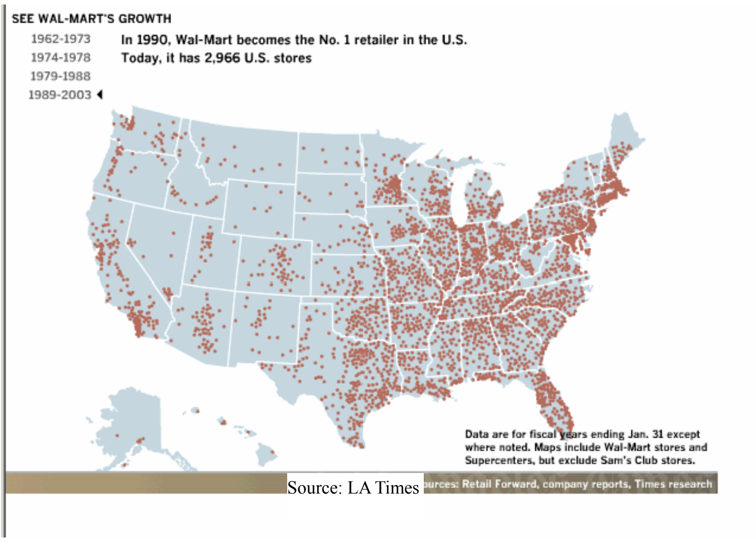
25 ibid.

inventories, in-stock items and increased sales are benefits for the distributor. Suppliers benefit from smoother demand and consistent orders.[26]

As Wal-Mart refines the retail environment, businesses are forced to implement better practices and upgrade technological capabilities to stay competitive. Its system offers more precise forecasting and helps reduce inventory throughout Wal-Mart's supply chain. As one writer noted, the bottom line is that cutting-edge technologies are cost saving and in a Marxist scenario, sophisticated tech edge translates into a benefit for the capitalists in the system, inadvertently serving the biggest consumer of tech advantage - Wal-Mart.

Purchasing Power

Figure 6: Unrivaled Expansion



Source: LA Times

Wal-Mart has grown aggressively by expanding stores both physically and territorially – tapping into and stealing share away from other sectors of retail at an alarming pace. Although it has conquered rural and Middle America, Wal-Mart plans to saturate urban markets such as New Jersey, New York and California as well. A managing director at Wharton noted that Wal-Mart has the power to dominate the lower end of the market with its nearly 5,000 stores worldwide and a shopper base of 100 million customers daily and counting. According to a Director and Chairman of the McKinsey Global Institute, an independent economics think tank, Wal-Mart would be frowned upon in Europe where "anti-competitive retail policies are enforced restricting real estate use, store hours and what can be sold by whom."[27] Despite its near-monopoly

26 Carl Hall. CEO, Enterprise Data Management. "Vendor Managed Inventory- Promising Value for the Truck Parts Industry" 2002.

27 Virginia Postrel. The New York Times. "Economic Scene: Lessons in keeping business humming, courtesy of Wal-Mart U". February 28, 2002.

position, the unregulated environment of the retail industry in the U.S. helps the big-box retailer in growing its empire. In Figure 7, Wal-Mart prevails as a major customer for a number of large U.S. suppliers ranked according to the percentage of net revenues for the year ended December 2003.

The presence of Wal-Mart in retail sales (online/offline shopping) is overwhelming with a command of 8%.[28] According to one economist, eight out of ten American households shop at Wal-Mart at least one a year.[29] In 2003, the average American spent $760 in Wal-Mart stores. Retail Forward projects the retailer's grocery and drug sales will generate $162 billion by 2007 giving the company a 35% share of supermarket industry sales and 25% drug store industry sales.[30] In consumer staples such as toothpaste and paper towels, the company holds about 30% of the U.S. market and analysts forecast that its share could hit 50% before 2010.[31] In the late 1990s, it became the No. 1 toy seller with 22% of the market, passing Toys 'R' US. It also owns 15% to 20% of all music and video sales playing a role in determining what gets sold.

New York Times reported that "Wal-Mart sells 32% of the nation's disposable diapers and it is the largest customer for Walt Disney and Procter & Gamble."[32] It has also served to narrow the mainstream for entertainment goods by censoring its product lines. For example, its marketplace clout has influenced music companies to issue sanitized versions of CDs.

Figure 7: Biggest Customer for Large Businesses

Supplier	% of Net Revenues
Dial	28
Hasbro	21
Procter & Gamble	18
Rubbermaid	16
Gillette	13
Kimberly-Clark	13
Kraft	12
Fruit of the Loom	10

Source: Company reports

Wal-Mart is also developing more of its own goods, called, "private labels." In the mid 1990s, it expanded into vitamins, bathroom tissue and so on. Its Great Value grocery line has 1,475 items, up from 194 two years ago. In general, profits from sales of private labels are roughly 30% versus 15% on brand-name items, according to Burt Flickinger, managing director of retail consulting

28 "Wal-Mart's Mega-Growth Continues, But Is its Image Getting a Bit Tarnished?" April 21, 2004 listed at http://knowledge.wharton.upenn.edu/index.cfm?fa=viewArticle&id=965

29 "How Big Can It Grow?" The Economist. April 17, 2004.

30 Retail Forward. September 17, 2003. listed at http://www.retailforward.com/freecontent/pressreleases/press74.asp

31 "Is Wal-Mart Too Powerful?" BusinessWeek. October 6, 2003.

32 Steven Greenhouse. October 19, 2003. "Wal-Mart, Driving Workers and Supermarkets Crazy". NY Times. listed at http://query.nytimes.com/gst/abstract.html?res=F30E10FD385A0C7A8DDDA90994DB404482

firm Consultant Reach Marketing.[33]

Abroad, it has ventured into Britain, Canada, China, Germany, Japan and Mexico – spearheaded by former CEO David Glass. As Wal-Mart continues to expand, some experts predict that it will revolutionize global retail markets where consolidation among retail and supply industries will become the norm. As its procurement clout grows, suppliers will be forced to reorganize globally, maintain high performance, increase inventory efficiency and invest aggressively in information technology to keep in sync with Wal-Mart.

Surveys have consistently reported that Wal-Mart offers consumers lower prices on groceries than established supermarket chains. The implementation of the above factors has proven to result in a cost-saving advantage for Wal-Mart and considerable savings for its consumers. To stay abreast of the industry, Wal-Mart will have to outsmart emerging players, continue to raise the bar with its edge in productivity and consistently develop newer models. At the present, it seems to be doing just that with its managerial and technological innovations.

3.2 Wal-Mart: The Corporate and Neighborhood Bully

On the flip side, Wal-Mart's success in Corporate America does not exactly translate into a picture perfect retailer. Employee wages and benefits packages and the quality of working conditions have been hot topics in the retail industry. Like the antitrust violations hovering above Microsoft, Wal-Mart has been the frequent target of complaints, lawsuits and government investigations. Furthermore, analysts repeatedly confirm that Wal-Mart plays a major role in determining wages and working conditions worldwide. For the purpose of this paper, this section will briefly examine and provide a snapshot of the weaknesses of the business model. It will focus on the wages and benefits package **-** downward pressure on wages, working conditions and aggressive pricing pressure.

<u>Downward Pressure on Wages</u>

For the economy, Wal-Mart plays a convincing role in depressing wages as one economist tells *USA Today* that Wal-Mart's impact on slowing wage growth in retail began in the South and Midwest before

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33 Jim Hopkins. January 29, 2003. "Wal-Mart's influence grows". USAToday. listed at http://www.usatoday.com/money/industries/retail/2003-01-28-walmartnation_x.htm

spreading nationwide.[34] From 1990 to 2001, pay for retail workers rose 43% compared to 50% for non-retail workers according to the Bureau of Economic Analysis.[35] As it gains control in categories such as toys, electronics and groceries – its buying clout is undermining already-meager retail wages. The staunchly anti-union company's wage rate is lower than the best-paid unionized grocery employees. Pending lawsuit documents exhibit that on average, Wal-Mart associates were paid $8.23 an hour or $13,861 a year in 2001. The federal poverty line for a family of three was $14,630 in 2001.[36] Some experts agree that its wage and benefits package keep costs low, and, with the economic and market share influences, it drives down the prevailing wage rate in the communities it enters. And because Wal-Mart created more jobs than any other company in the 1990s, it can be partially credited with the slow wage growth in the economy. In terms of benefits, its contribution toward health care for its employees falls below industry average and U.S. employer-spending average. According to a Harvard Business School case study, in 2002, the average spending per worker in the wholesale/retail sector was $4,800.[37] In general, U.S. employers spent on average, $5,600. In comparison, Wal-Mart spent an average of $3,500 per worker. On average, Wal-Mart employees pay about a third of their plans' total costs, compared with nationwide averages cited in the latest Kaiser Family Foundation annual health care survey of about 25% for family plans and 15% for individuals.[38]

In contrast, archrival Costco Wholesale Corp's philosophy is "in order to reward the shareholder in the long term, you have to please your customers and workers,"[39] says its President and CEO to *Wall Street*

Figure 8: Clocking In

CLOCKING IN

Comparing some workplace statistics from Costco and Wal-Mart

	Costco	Wal-Mart
Employees covered by company health insurance	82%	48%
Insurance-enrollment waiting periods (Full-time)	3 mos	6 mos
Insurance-enrollment waiting periods (Part-time)	6 mos	2 yrs
Portion of health-care premium paid by company	92%	66.60%
Employees who work part-time	43%	30%
Annual worker turnover rate	24%	50%

Source: the companies

Source: The Wall Street Journal, the companies

34 ibid.

35 ibid.

36 "Is Wal-Mart Too Powerful?" BusinessWeek. October 6, 2003.

37 Representative George Miller (D-CA), Senior Democrat. "Everyday Low Wages: The Hidden Price We All Pay For Wal-Mart". A Report By The Democratic Staff Of The Committee on Education And The Workforce. p.8, February 16, 2004. listed at http://edworkforce.house.gov/democrats/WALMARTREPORT.pdf

38 Michael Hiltzik. Los Angeles Times. "Supermarkets Can Blame Themselves". October 16, 2003.

39 Ann Zimmerman. The Wall Street Journal. "Costco's Dilemma: Be Kind To Its Workers, or Wall Street?" March 26, 2004.

Journal. It is no wonder that it is reputable for its benefits package as shown in Figure 8. In terms of wages, Costco pays new hires at least $10 an hour with the potential of earning $40,000 annually within 3.5 years. Cashiers are paid $10.50 to $17.50 an hour. On average, U.S. companies pay 80% of their employees' health care premiums. This ranks above the coverage percentage offered by Wal-Mart and below that of Costco. A loyal workforce is reflected in the 24% employee turnover rate at Costco unlike Wal-Mart's rate of 50%, which is in line with the retail-industry average. It goes to show that some companies can meet the needs of consumers and workers alike.

Rampant Violation Woes

Wal-Mart has made headlines for conducting poor labor practices, from discrimination to hiring undocumented workers. According to *BusinessWeek*, as of December 2002, Wal-Mart was facing 40 lawsuits charging it with forcing employees to work overtime without pay and a sex-discrimination case in 2001 alleging that Wal-Mart denies women equal pay and opportunities – promotions, training and job assignments – compared to their male counterparts.[40] Its labor grievances reached a peak late in 2003 – after a 5-year probe, Immigration and Custom Enforcement agents raided 61 stores in 21 states, rounding up more than 200 undocumented janitors hired by subcontractors.[41] Some of the janitors have filed a class action suit alleging the discounter of violating federal racketeering laws by conspiring with cleaning contractors to pay its illegal workers low wages. While a grand jury is investigating whether the executives knowingly hired undocumented workers, history reveals that the immigration agency has never proved in court that executives of big companies conspired to hire undocumented employees in a country of 8 million illegal workers. In January 2004, *The New York Times* reported that the retailer had been locking in late-shift workers for security reasons.[42] An internal audit also found instances of 1,300 minors working during school hours or later than what labor laws permit and 60,000 instances of workers not taking scheduled breaks.

Labor unions of factory workers contend that Wal-Mart has played a major role in the outsourcing of manufacturing jobs, a politically controversial topic, to low-cost countries such as China, Bangladesh and Honduras. It imported $12 billion in goods from China in 2002, which accounted for one tenth of U.S. imports from China that year.[43] Some economists say that Wal-Mart's market share and power

40 "Is Wal-Mart Too Powerful?" BusinessWeek. October 6, 2003.

41 Jeanne Cummings. The Wall Street Journal. "Wal-Mart Opens for Business in Tough Market: Washington". March 24, 2004.

42 Amy Tsao. "The Two Faces of Wal-Mart.". BusinessWeek. January 28, 2004.

43 Steven Greenhouse. October 19, 2003. "Wal-Mart, Driving Workers and Supermarkets Crazy". NY Times. listed at

show that it plays a significant part in the accelerating loss of U.S. manufacture jobs to China and other low wage nations. While the data are sketchy, most estimates suggest that about 25,000 service jobs a month are going overseas. Unlike other retailers, Wal-Mart refuses to open its suppliers' factories to independent inspections. This stance has also created much controversy. In its defense, Wal-Mart insists that it enforces its code of conduct by sending its workers unannounced to 300 plants a week. The company says it will not open its factories to independent inspections for competitive reasons.

As one author told *BusinessWeek*: "There are scant economic, legal, or political restraints on Wal-Mart."[44] However, with all the negative media publicity, public awareness of Wal-Mart's labor practices is growing.

Clearly, the controversies have yet to dissuade consumers from taking advantage of Wal-Mart's low prices. Time can only tell before more anti-Wal-Mart campaigns against the discounter come forward. Kurt Barnard of *Barnard's Retail Trend Report* best sums up the goliath's future when he says, "sooner or later such bad publicity can keep even a powerful retailer from continuing to grow and can begin to erode shopper loyalty."[45] The world can only wait and see if Wal-Mart's business model's weaknesses will bring a heavy toll to the retailer.

Aggressive Pricing Pressure

With Wal-Mart's labor costs 20% less than those at unionized supermarkets, local grocery stores and major supermarket chains most likely will be forced to reduce their costs to compete with it. According to a 2002 study by UBS Warburg, when a supercenter opens, its prices are about 20% lower than local supermarkets. However, price differential drops to about 8% after the supercenter becomes established.

In addition to past consolidations in the supermarket industry, more consumer products companies are merging to achieve economies of scale. Wal-Mart's penny-pinching demands played a role in Kellogg's acquisition of Keebler in 2001 and the merger of Kraft and Nabisco in 2000, say analysts.[46] Wal-Mart uses its aggressive near-monopoly position in retail-pricing pressure, partly fueled by its growing

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http://query.nytimes.com/gst/abstract.html?res=F30E10FD385A0C7A8DDDA90994DB404482

44 Jeffrey E. Garten. "Wal-Mart Gives Globalism a Bad Name". BusinessWeek. March 8, 2004.

45 Greg Schneider. Washington Post. "Wal-Mart's Damage Control". January 24, 2004.

46 Jim Hopkins. January 29, 2003 "Wal-Mart's influence grows". USA Today. listed at

http://www.usatoday.com/money/industries/retail/2003-01-28-walmartnation_x.htm presence in electronic, grocery and other categories, to threaten already-meager wages. According to company reports, it is the biggest sales-generating customer for many leading consumer products companies, including Dial, Hasbro and Proctor & Gamble. This suggests that a company cannot be commercially viable unless it can work with Wal-Mart and its low-price-at-any-cost-strategy. Doing business with Wal-Mart is hardly a quid pro quo business relationship. Wal-Mart generally has the final say when dealing with suppliers' operations. Things are usually done the Wal-Mart way, which is achieving the lowest cost for a product. In the end, suppliers generally have little influence in matters such as delivery schedules and product design and end up tweaking their products. History has shown that suppliers that run afoul of Wal-Mart face a situation like that of Rubbermaid, which raised its prices in the mid 1990's due to an 80% jump in the cost of a main ingredient in its plastic containers. Wal-Mart responded by allowing more shelf space to other suppliers. This drove Rubbermaid into a merger with rival Newell.[47] Wal-Mart generates such substantial sales of major corporations that it has a major influence and impact on the wages of workers employed by others. Clearly, Wal-Mart is the vanguard in determining prices among its suppliers and its regional competitors.

Wal-Mart's relentless pricing pressure and buying power create so much pressure on its competitors, that some are driven out of business. Typically, its market clout forces local rivals, small retailers and the little guys to close first, soon followed by less efficient larger competitors. A supercenter wipes out about 200 UFCW jobs.[48] This translates into less power for others at the bargaining table and less money to hire organizers – leading to the erosion of the union's clout. As a result, Wal-Mart's competitive edge tends to disrupt communities. Since 1992, nearly 13,000 supermarkets have closed with the arrival of supercenters. Furthermore, suppliers will be forced to reorganize on a global basis, create a more efficient supply chain and invest in advanced technology to get in sync with Wal-Mart's Retail Link System, predicts Retail Forward.[49] Its clout is further strengthened by its pro-active anti-union measures that make it almost impossible for its workers to organize a union as seen in the phasing-out of its Texas meat cutting department a week after it successfully formed a union.

Wal-Mart is at a critical stage in its evolution. An empire with more than 3,000 stores in the U.S. almost 1,300 international operations and more than 1.3 million workers worldwide is not easy to manage.

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47 ibid.

48 Abigail Goldman and Nancy Cleeland. Los Angeles Times. "An Empire Built on Bargains Remakes the Working World". Novemeber 23, 2003.

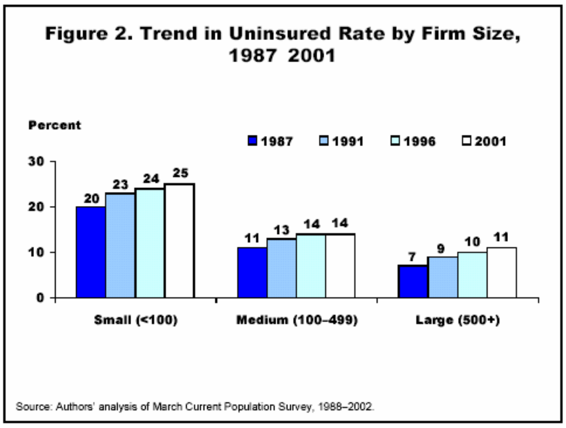
49 Retail Forward. "Wal-Mart's Global Growth Challenges Explored in New Retail Forward Report". November 12, 2003. listed at http://www.retailforward.com/freecontent/pressreleases/press78.asp

Consequently, Wal-Mart's success is also a challenge. The retailer will need to keep its damage control in check so that its reputation is not tarnished by negative publicity from its adversaries. After all, for the moment, it is indeed the most feared and powerful global retailer. In spite of its success, it will need to tread cautiously to avoid federal antitrust laws like the Robinson-Patman Act of 1936, which was passed to protect local grocers from the Great Atlantic & Pacific Tea Company.

4. Escalating Health Care Costs

As the country with the most expensive health system in the world, the U.S. has been in a predicament facing the need for affordable health care, a major national social issue and policy challenge for the past decade. A 2003 survey by Kaiser Family Foundation, a nonprofit research group, reported that more than 90% of American workers pay part of their premium, the national average being $42/month for individual coverage and $201/month for family coverage.[50] In the U.S., workers are facing corporate threats to cut or eliminate health benefits due to burgeoning health care costs. A researcher at the UC Berkeley Labor Center told the *LA Times*: "The public and private sector, small and large employers, skilled and unskilled workers have been affected – including mechanics in Northern California, and union workers such as wireless technicians and autoworkers nationwide."[51] According to the Employee Research Institute in Washington, while close to 44% of employees in the retail sector have employer-provided health coverage, among large companies in all industries, the figure is 66%.[52] Outpacing the rest of the nation, California's health insurance premiums rose to 15.8% in 2003 compared with the national average of 13.9%, according to a 2004 study by Kaiser Family Foundation.[53] Unsuccessful negotiations between employers and their workers have prompted protests and other actions such as the supermarket strike and lockout in Southern California. If the employment-based health care system continues to be abandoned by employers such as Safeway, Ralphs and Albertsons, the health system that protects the majority of Americans could collapse.

Figure 9: Uninsured Rate by Firm Size



Source: The Commonwealth Fund

50 Debora Vrana and Vicki Kemper.. Los Angeles Times. "More Workers Are Likely to Retire Without Company Health Benefits. January 15, 2004.

51 Nancy Cleeland. Los Angeles Times. "Rising Health care Costs at Heart of Labor Strife". October 14, 2003.

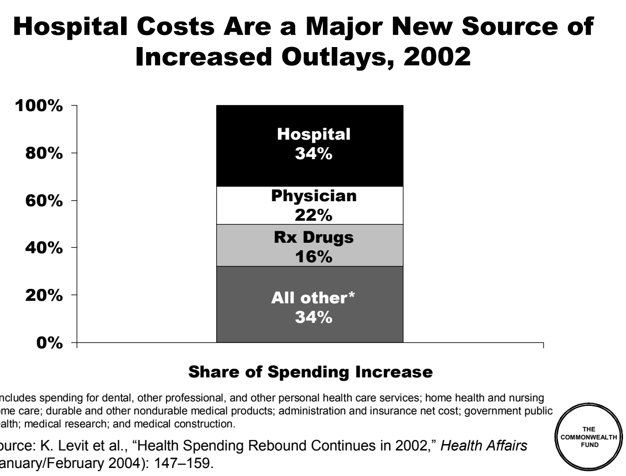
52 Abigail Goldman and Nancy Cleeland. Los Angeles Times. "An Empire Built on Bargains Remakes the Working World". Novemeber 23, 2003.

53 Don Lee. Los Angeles Times. "State Health-Premium Costs Outpace Nation's". March 17, 2004

Uninsured/Underinsured

For the purpose of this report, this section will focus on large firms in the retail industry, as their size[54] is comparable to that of the major supermarket chains. This section as well as the sections following will capture findings based on research conducted by The Commonwealth Fund, a private foundation that supports independent research on health and social issues and makes grants to improve health care practice and policy. In 2002, the number of employees who lacked insurance jumped 5.7% to 43.6 million people, the largest jump in a decade according to the U.S. Census Bureau.[55] The uninsured rate for workers in large firms has risen, suggesting that there have been several changes in the labor market, such as an increase in low-income workers and a decrease in unionization rates.[56] The workers in large firms represent a faster-growing segment of the uninsured labor force. The Fund's analysis of the March Current Population Survey, 1988-2002, suggests that large firms have been shifting toward a lower-income workforce. In the private sector, the rate of workers who belonged to unions declined by one-third in large firms between 1987 and 2001 – a greater decline than in small to mid-sized firms. This means that fewer workers today have access to the health benefits that many labor unions have traditionally secured for their members. In terms of work patterns, uninsured employees of large firms were more likely to work part-time than were those working in small firms (32% vs 29%). In terms of type of employment, uninsured workers in large firms were more concentrated in retail jobs, compared with those in small firms, (34% vs 23%).[57]

Figure 10: Hospital Costs



Source: The Commonwealth Fund

54 Firms are generally divided into 3 groups: small (fewer than 100 workers), mid-sized (100 to 499 workers) and large (500 or more workers).

55 Nancy Cleeland. Los Angeles Times. "Rising Health care Costs at Heart of Labor Strife". October 14, 2003.

56 Sherry Glied, Jeanne M. Lambrew and Sarah Little. The Commonwealth Fund. "The Growing Share of Uninsured Workers Employed By Large Firms". October 2003. listed at http://www.cmwf.org/programs/insurance/glied_largefirms_672.pdf

57 ibid.

Host of Factors

The Commonwealth Fund reported the U.S. population has fewer hospital visits per capita than those of other countries and about the same number of physician visits. Yet, reasons for higher costs in this country are because the "U.S. pays higher prices for the same services, administrative costs are higher, and Americans receive far more specialized services, such as MRIs and invasive heart procedures."[58] For 2003, analysts of the Kaiser Family Foundation say various causes contributed to the jump in health premiums in California compared to 13.9% for the nation due to changes in managed care plans in California: For example, patients have access to a larger selection of doctors, such as specialists, as well as choice of hospitals such as research hospitals, which can drive up the cost of care. Rising hospital expenses such as nurse staffing and seismic retrofit requirements contribute as well. In addition, increasing consolidation in the health care industry, gives medical providers more leverage in negotiating prices with employers and insurers. Still, health insurance is still relatively cheaper for employers in California - $3,102 for single coverage, compared with $3,383 nationally and family coverage - $8,504 versus $9,068.[59]

Figure 11: Pharmaceutical sales

Pharmaceutical sales per capita (2001)		Average life expectancy
U.S.	$654	77
Japan	$421	81
France	$294	79
Switzerland	$269	80
Germany	$217	78
Italy	$209	79
Britain	$197	78
Spain	$190	79
Source: Time		

Based on research conducted by the Commonwealth Fund, hospital spending is a leading source of health care services expenditure growth.[60] Some of the increase is attributable to technological advances and some is a catch-up from low rates in the mid-1990s. In 2002, hospital costs accounted for more than one-third of overall spending growth, physician expenditures for one-fifth, and prescription drugs for one-sixth. Administrative costs are the fastest-rising component of national health expenditures. In 2002, the nation spent $105 billion on private insurance and public administrative costs, up 16.2% from 2001.[61]

58 The Commonwealth Fund. "Making Health care Affordable For All Americans". Karen Davis. January 28, 2004. listed at http://www.cmwf.org/programs/quality/davis_senatehelptestimony_714.pdf

59 Don Lee. Los Angeles Times. "State Health-Premium Costs Outpace Nation's". March 17, 2004

60 The Commonwealth Fund. "Making Health care Affordable For All Americans". Karen Davis. January 28, 2004. listed at http://www.cmwf.org/programs/quality/davis_senatehelptestimony_714.pdf

61 Ibid.

U.S. Spending on Drugs

A February 2004 issue of Time magazine reported the disparities in drug prices for U.S. residents and those for citizens in other developed countries. U.S. residents spend far more on drugs than their counterparts, yet do not live longer – the Institute of Medicine reports that the U.S. ranks 25th in male life expectancy and 19th in female life expectancy among 29 developed countries. Nor does the U.S. provide health insurance coverage for all, unlike its industrialized counterparts. Unsurprisingly, the U.S. pharmaceutical industry tops the list as the most profitable of all businesses since Americans pay top-dollar for drugs. The reasons for the boom in spending vary from cost hikes on drugs to an increase in prescribed drugs for children and multiple drugs for an aging population. In addition, in almost every other developed country, Canada, being a prime example, the government regulates low prices with suppliers, whereas the U.S. government avoids intervention mainly due to political resistance to price controls and industry lobbying. However, one government department, the Veterans Affairs (VA) program – operates under a 1992 law that mandates low cost prescription drugs for the nation's veterans, as well as for Defense Department personnel.[62]

With medical inflation, the U.S. system of employer-based health care is in desperate need of reform. Since 1939, presidents and legislatures have argued over the costs and benefits of universal health coverage. Proposed health insurance plans have been dismissed in the past, including the Clinton administration's proposed health care overhaul in the early to mid-1990s. Incremental steps, such as targeting discrete population groups have brought health insurance to seniors through Medicare, and to poor adults and children through Medicaid and State Children's Health Insurance programs, according to the Institute of Medicine.[63] Despite these initiatives, in 2002, Census Bureau figures showed that 43.6 million Americans were uninsured.[64] This reflects a 9.5% jump between 2000 and 2002, from 39.8 million uninsured Americans. The Commonwealth Fund proposes that the nation should target the sources of high costs, not shift costs from employers to workers or from government to beneficiaries of public programs. Long run solutions to achieve economies in health care include: rewarding health care providers that demonstrate better quality and efficiency, improving costly patient care management and

62 Donald L. Barlett and James B. Steele. "Why We Pay So Much for Drugs. Time. February 2, 2004.

63 The Institute of Medicine. "Insuring America's Health: Principles and Recommendations" January 2004. listed at http://www.iom.edu/report.asp?id=17632

64 The Commonwealth Fund. "Making Health care Affordable For All Americans". Karen Davis. January 28, 2004. listed at http://www.cmwf.org/programs/quality/davis_senatehelptestimony_714.pdf

simplifying insurance practices.[65]

As Kate Davis of The Commonwealth Fund explains: "If the U.S. government were to negotiate prices for medical services and prescription drugs, it could probably achieve lower prices. However, the nation seems committed to a pluralistic system of many private insurers and public programs, each attempting to get the best deal. Other countries are more willing to use supply constraints – for example, limiting the number of physicians of different types who are permitted to practice – and to use salaried payment systems for specialists, which eliminate incentives to provide unnecessary services to generate income."[66]

As long as health care spending continues to rise – it topped 9.3% in 2002, the largest jump in 11 years, according to the policy journal for health care, *Health Affairs* –waves of protests between employees and employers in all industries will continue to spread. Members of grocery unions argued that if nonunion competitors like Wal-Mart offered better health care packages, competitive pressures would lessen on employers like the major supermarket chains. This prompted organized labor in California to lobby for a long-term solution through legislation – The Senate Bill 2.

4.1 Governor Gray Davis Signs the Senate Bill 2

Along with the recent gubernatorial recall election, businesses face much uncertainty in the Golden State with ongoing issues encompassing high taxes, elevated energy prices, exorbitant real estate prices and red tape regulations. As a result, companies have been looking to more business-friendly states extending from Arizona to Wyoming. According to a 2003 survey by the California Business Roundtable, about 20% of 400 California businesses are planning to relocate or expand out of state.[67]

Another uncertainty for employers rests with the fate of the Senate Bill 2, a California Health Insurance Act that was signed by Governor Gray Davis on October 5, 2003, but is currently in limbo due to a referendum effort. Come November 2004, California voters will determine the fate of the Senate Bill 2, an expanded health care legislation that is currently a major labor issue. The act is co-sponsored by California Medical Association (CMA) and the California Labor Federation and supported by companies

65 ibid.

66 ibid.

67 Steven Vames. "Business Ponder Leaving California".The Wall Street Journal. August 20, 2003.

such as Blue Shield, Safeway, Kaiser-Permanente, and Genentech.[68] According to a spokesperson for Health Access and the Service Employees International Union, a major impediment to the effort is a federal law that prohibits states from regulating employee benefits, yet empowers them to regulate health care insurers. A solution would be to bypass the federal prohibition and impose the program through regulation of the insurance industry. If this measure is approved, beginning in 2006, employers will be required to provide insurance coverage to one million uninsured Californians. Businesses with 200 or more employees must provide coverage for uninsured workers and their families or pay fees into a statewide pool that would purchase policies and pay the premiums. At present, the U.S. Census data reports about seven million Californians have no health insurance and roughly 43 million people are uninsured nationwide.

The timing of the supermarket strikes and lockout conveniently coincided with the signing of this legislation. With the outcome of the labor strife brings concessions for unions yet also yields leverage on the playing field for future negotiations for organized labor. In a way, the entire labor ordeal could prove as a positive turning point and a model for future unions and movements. While the effort began at the local level, it eventually gained national attention - from all levels of society, including local and national communities, media, and government officials. And while the labor dispute may be over, the focus on health care coverage is in its next stage with the pending passage of the Senate Bill 2 legislation. The Senate Bill 2 and the supermarket strikes were both launched at the local level, yet, their aim was to gain national cooperation. If passed this landmark health care legislation will set a precedent by building on the existing system of job-based coverage. Some have suggested the bill might set the beginning of a trend to address the debate over public health care on a national level for the first time since Former First Lady Hilary Clinton's failed attempts to establish a national system in the early to mid-1990s. Nonetheless, California will be at the forefront of a national debate over how to provide affordable coverage to all Americans.

68 California Medical Association. Press Release. "Governor Davis Signs Law Expanding Health care for Working Californians". October 5, 2003. listed at http://www.cmanet.org/publicdoc.cfm/702/207/PRESS/276

5. Conclusion

The supermarket employers will soon have to face the bargaining climate in the upcoming Northern California negotiations that will get underway later this year. Since the Southern California labor strife, organized labor has taken further action to strengthen their campaign on a national level. Although the U.S. government recently rejected a petition by the American Federation of Labor-Congress of Industrial Organizations (AFL-CIO) to penalize China for its workplace practices and currency policies, which the AFL-CIO claims give China an unfair competitive advantage when battling for market share and have contributed to the large number of lost jobs in the U.S., organized labor is headed in the right direction by mobilizing and adopting political maneuvers such as this one in an effort to bring reform to the nation. Another effort underway by the labor movement is to unionize Wal-Mart. One organizing director of the AFL-CIO told *BusinessWeek*, "In essence, Wal-Mart is a third-party negotiator at every bargaining table."[69] Like most retailers, Wal-Mart has a "large part-time, transient workforce; that's one reason retail has one of the lowest rates of unionization of any sector of the economy, hovering just under 5%."[70] Also, many of its employees work in Southern states where unionism is not widely understood or embraced.

Across the country, as competition increases in other industries and as the system for financing health care benefits deteriorates, other employer and employees will eventually encounter similar labor conflicts. Clearly, future initiatives that involve the government, health insurance and pharmaceutical companies, physicians and hospitals will be instrumental in bringing about a national solution to the health care crisis. Otherwise, health care costs, which are one of the fastest growing components of the nation's economy, will continue to rise at a feverish rate.

Clearly, work stoppages across the nation depict that a capitalist system's endless drive for profits inevitably leads to concessions for Working America. While organized labor continues to challenge the profits-at-all-costs agenda of big businesses, a hike in unionization could boost union workers' leverage at the bargaining table. The rule of thumb used to be that union workers earn about one-third more than do nonunion workers. However, the differential has ballooned with the collapse of pay scales at the bottom. At present, blue-collar workers in a union make 54% more than unorganized workers and are more likely to have health insurance and pensions, according to research. Today, labor law reform is in a political deadlock with employers blocking attempts to alter the laws governing unionization. Employers

69 Cora Daniels. "Up Against The Wal-Mart". Fortune. May 17, 2004.

70 ibid.

have held their stance since the late 1970s, arguing that such reform could lead to the suffering of profits and economic growth.

Will the global capitalist model of Wal-Mart, a symbol of the American economy of the 21st century, threaten other industries with its economic power and political savviness? At present, it is difficult to gauge the retailer's influence on both macroeconomic and microeconomic levels and reach a consensus. However, some experts assert that from an economic and policy perspective, Wal-Mart's near-monopoly gives it the opportunity, if unchecked, to move its position into any neighboring markets. In the right conditions this can occur and whether such a scenario fosters or retards the market is a growing concern.

Wal-Mart's foray into the overseas market will also be an important test of whether consumers will respond favorably to its strategies and whether the retailer will adapt its merchandising mix and practices to local tastes and customs. For example, its pilot supercenter in Numazu, Japan will show whether Wal-Mart's mantra, "everyday low prices" – also emulated by companies such as Jet Blue, Costco and Home Depot – is enough to win over shoppers by offering consumers savings rather than gimmicky sales, which are used to attract consumers to buy mass quantities of items. This strategy of high/low incentives or fluctuating prices is practiced by most retailers. The real challenge for Wal-Mart is to be able to succeed in other countries with its business model and to overcome maximum saturation of its stores in the U.S and continue to generate significant market shares.

Researcher
Ellen Nishigaki

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