

Can Walmart Integrate Values with Value?: From Sustainability to Sustainable Business

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Abstract

This article focuses on Walmart's recent setbacks and how those setbacks provide an expanded role for product sustainability in Walmart's business model. Walmart's recent struggles are discussed and brief examples of their sustainable initiatives are given. Sustainability's effect on consumer behavior is addressed. Consumer demand for and loyalty to green brands is one of the main reasons Walmart's sustainability index could revive the company.

Keywords: Sustainability, Public perception, Consumer demand

1. Introduction

Walmart sailed through the recession, but customer-alienating decisions and competition from smaller discount stores have proved troublesome. Can Walmart capitalize on the growing consumer demand for sustainable products while maintaining the low prices and selection consumers expect? In this article, we present a brief overview of Walmart's recent obstacles, including negative public perception and deviation from their successful business model. We also hypothesize that sustainability could play a more significant role in Walmart's future than the company originally intended.

1.1 Early Business Model

Inspired by early discount stores like Korvette, Sam Walton opened the first Walmart in 1962 in the town of Rogers, Arkansas. The mission has been to "save people money to help them live better." The fundamental expectation was about "low prices and a vast selection of products." The approach has been implemented as "Walton purchased the cheapest goods available with any other considerations being secondary" (Hornblower, 2004). And it seemed a winning method. As of early 2011, the Walmart chain consisted of 709 traditional discount stores, 2,907 supercenters, 183 Walmart Neighborhood Markets, a handful of Marketsides, Walmart.com and plans in the works to add hundreds of smaller "Walmart Express" stores to its chain. It appeared that only the top urban cities stood between Walmart and market saturation. However, in early 2010, for the first time in its history, Walmart's U.S. stores reported a quarterly profit drop (Covert, 2010). What can account for Walmart's falling profits at a time when both Target and Dollar General experienced growth? Marketing experts have often cited public perception as one of Walmart's major weaknesses (Associated Press, 2007).

2. Public Perception

Public perception, according to consumer and marketing research, affects profits. One management consulting firm's polling found that landfills, mines, casinos, power plants and Walmart are the least popular types of projects one can propose (Saint, 2011). A 2006 marketing report by Walmart's then-advertising agency described the public's view 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" (Associated Press, 2007; MSNBC, 2007). This is a claim many would deem fair considering Walmart is no stranger to discrimination lawsuits and environmental litigation. Last year, Walmart agreed to pay \$27 million to settle charges that it had violated California environmental laws by mishandling and improperly disposing of hazardous materials (Environmental Leader, 2010). While \$27 million is just a small part of Walmart's annual revenue, Walmart is also facing the largest employment discrimination lawsuit in U.S. history with *Dukes v. Walmart*. Walmart must focus on repairing its damaged image while more than one million women claim that the chain engages in a "corporate policy of discrimination" (Rushe, 2011; The New York Time, 2010). Perhaps the pursuit of sustainable initiatives is a good starting point.

3. Image Repair

Amid the employment discrimination and environmental suits, Walmart managed to place higher than both Target and Whole Foods in Newsweek's annual "Green Rankings" of U.S. companies. The Newsweek rankings consider each company's actual environmental footprint and management of that footprint (including policies and strategies), along with its reputation among environmental experts (Newsweek, 2010). At the same time, environmental advocacy groups were devoting entire columns to praise Walmart's "responsible leadership" (Newsweek, 2010; Browning, 2010). So why the sudden focus on sustainability from the world's largest grocer and private employer? (Clifford, 2010; Barbaro, 2008). According to former CEO Lee Scott, the decision to "go green" was a defensive strategy to avoid criticism, as well as a positive cost-management tool (EPA, 2006). While Walmart's investment in sustainable initiatives is likely a defensive strategy and cost-management tool, the investment also shows the company's recognition of sustainability's impact on consumer behavior. "Going green" could present Walmart with a much-needed opportunity to reconnect with consumers.

4. Sustainability and Consumer Behavior

The more consumer behavior reflects a growing value for sustainability, the more companies should respond. According to Frei (2008), Walmart thrives by identifying the areas of service that customers value the most and catering to those preferences, even at the expense of other areas. Walmart recognized that ambience and salespeople are least valued by its customers, while low prices and wide selection are most valued. Walmart behaved accordingly (Frei, 2008). Where does sustainability fit in among these values? Responding to the aforementioned negative marketing report, Patricia Edwards, a portfolio manager and retail analyst at Wentworth, Hauser & Violich, which in 2007 managed \$9.6 billion in assets and held about 42,000 Walmart shares, said the report highlights a growing concern for Wal-Mart. "Reputation really does matter," Edwards said. "It's more and more important, especially as you get to the younger crowd (of consumers). They are less about the money and more about values" (Associated Press, 2007). The Bemporad Baranowski Marketing Group (BBMG), a marketing firm specializing in values-driven branding programs, views today's consumers not as passive marketing targets, but as brand advocates (<http://www.gbb.org/business/bbm/g/>; Cahill, 2011). BBMG is currently working with Seventh Generation, the leading brand of green cleaning products, as the brand begins its partnership with Walmart. As a 2011 BBMG study found, today's consumers are interested in sustainability and, in turn, are more likely to reward or punish brands based on corporate practices (Cahill, 2011). Foreshadowing the 2011 findings, a 2009 GMA-Deloitte study on the behavior of consumers choosing sustainable products found that sustainability considerations either drove or influenced the buying decisions of more than half the shoppers interviewed in the study (GMA/Deloitte, 2009). These shoppers were from different levels of income, education and age groups. That being said, the study observed that the typical green shopper is less price-sensitive than the average consumer and is less concerned with bargain hunting --two characteristics central to Walmart's business model. The challenge for Walmart will be tailoring its sustainability initiative to bargain-hunting shoppers.

5. Walmart's Sustainability Initiatives

According to BBMG, fewer than 4 percent of consumers trust company advertising to verify product claims (Cahill, 2011). Once consumers find a product they believe in, they are extremely loyal to that brand (Cahill, 2011). Perhaps in anticipation of this, a large part of Walmart's sustainability initiative is the development of a worldwide sustainability measurement and reporting system (sustainable product index) that will provide consumers with a product's life-cycle information. The index poses 15 questions in four broad categories (energy and climate; material efficiency; natural resources; and people and community) to 100,000 of its suppliers worldwide. Walmart says that once the index is finalized, it will be the single source of data to evaluate the sustainability of products. "The customer of tomorrow will seek more information about the products they buy, and providing more information will make manufacturers more competitive in the future," says Matt Kistler, Walmart's Senior Vice President of Sustainability (Yarret, 2010).

Joel Makower, chairman and executive editor of GreenBiz, appreciates that Walmart includes social issues under the sustainability umbrella (which often focuses exclusively on environmental concerns). However, Makower expresses concern that the five questions in the "people and community" bucket "barely scratch the surface" (Baue, 2009). "For example, they don't address most worker issues, like wages, health care, and the right to air grievances," Makower says (Baue, 2009). By comparison, "GoodGuide," a leading sustainable product index, includes workplace diversity, working conditions and benefits, along with labor and human rights in their product analysis. Despite his misgivings, when the time came to release GreenBiz's "State of Green Business Report 2011," Makower and the editors of GreenBiz did not hesitate to credit Walmart's efforts (Makower,

2011). The report noted that Walmart was responsible for setting up the Sustainability Consortium, a research group formed in part for the purpose of quantifying and communicating the sustainability of products to achieve informed decision-making (Makower, 2011). Joining Walmart in the Sustainability Consortium's 60-plus membership are McDonalds, Best Buy, Coca Cola and Disney.

For the most part, the environmental community has cautiously welcomed Walmart's efforts (Linn, 2007). Walmart's influence on manufacturers and producers is unquestionable. As the *New York Times* points out, Walmart's size means that many manufacturers and producers are willing to tailor their products to meet Walmart's needs (Clifford, 2010). In fall 2010, Walmart announced its plans to address the food supply chain, beginning with the goal of selling \$1 billion in food sourced from one million small and medium farms while providing training to one million farmers and farm workers in such things as "crop selection and sustainable farm practices" (Makower, 2011). Walmart's plan also includes increasing the income of the small and medium farmers it sources from by 10 to 15 percent and increasing its purchase of locally sourced produce to 9 percent by 2015 in the United States. Walmart also intends to flex its supply chain muscle by reducing food waste in the supply chain (Makower, 2011). Walmart recently announced its goal of eliminating 20 million metric tons of greenhouse gas emissions from its global supply chain by the end of 2015. With so many initiatives under way, has Walmart deviated from the path of success?

6. The Path of Delivery

Walmart's sales have been low for the past seven consecutive quarters (Love, 2011). And although sales show signs of improvement, Walmart is not growing as quickly as the overall market (Update, 2011). Expensive store remodeling has made it difficult to keep prices as low as in the past, and an attempt to streamline their shelves at the expense of variety has alienated many customers (O'Donnell, 2011). Competition from smaller variety stores like Dollar General and Family Dollar has become an issue (Wohl, 2011). Dollar stores have attracted customers by offering lower prices for smaller quantities, an appealing alternative for customers who run out of money towards the end of the month (Wohl, 2011). According to a study by marketing research company America's Research Group, 33 percent of U.S. consumers shop at dollar stores while 40 percent shop at Walmart (Wohl, 2011). Also, these dollar stores have been successful at infiltrating urban areas, an area where Walmart struggles (Wohl, 2011). In the meantime, comparisons suggest that Target is outperforming Walmart in the low-price arena. Two recent price comparisons on groceries and household goods found that Target, not Walmart, is delivering everyday low prices (Kavilanz, 2011). One comparison matched up 35 brand name products carried by both Walmart and Target. The items consisted of 22 common grocery items such as milk and cereal, 10 general merchandise items such as home furnishings, and three health and beauty items. In the end, Target beat Walmart's prices by \$1.94. The retail consulting firm that administered the price comparisons points out that Target is not beating Walmart on all items; just those that really matter to consumers (Kavilanz, 2011). In response to the threat of dollar stores, Walmart is planning to open smaller 15,000-square-foot stores called "Walmart Express" (Bustillo, 2011). And CEO Bill Simon says Walmart is focused on returning to their strategy of "having the lowest price by having the lowest cost" (USA Today, 2011).

On November 28, 2008, the National Bureau of Economic Research announced that the United States was officially in a recession (Nagle). Between 2008 and 2009, Walmart's total revenue increased by 7.22 percent compared to Target's 2.49 percent and Dollar General's 10.1 percent increase. With the economy recovering between 2010 and 2011, Walmart's total revenue increased by only 3.37 percent, while Target's total revenue increased by 5.74 percent and Dollar General increased its total revenue by 10.5 percent. In comparison to earlier years, both Target and Dollar General experienced an increase in growth while Walmart faced a decline (Table 1). However, improvements in sales and recent stock performance suggest Walmart may be recovering.

(insert Table 1 about here)

7. Sustainability Saves the Day?

According to Walmart's 2011 Global Responsibility Report, Walmart is committed to providing more sustainable products. The report acknowledges that sustainability is an integral part of providing consumers with the most value for their money. The report highlights Walmart's accomplishments since 2009, noting that from their top suppliers, 69 percent who use wood products in their operation are using products certified by the Forest Stewardship Council; 96 percent are using recycled materials; and 33 percent of food suppliers offer organic products. Further, Walmart continues to work with more than 70 organizations, including NGOs, government agencies, academic institutions, suppliers, retailers and food service companies to conduct research and develop data, tools and protocols for their sustainable product index. Considering that the typical green shopper purchases more and demonstrates more brand and retailer loyalty, the release of Walmart's sustainable

product index may benefit the company in more ways than anticipated (GMA/Deloitte, 2009). At a minimum, the index will likely provide the expected boost in public perception and help repair the chain's bruised image. However, if Walmart can incorporate the highest-ranking products into its restored, vast assortment of products and can price those products competitively, it might be able to capitalize off the brand and retailer loyalty of today's green shopper.

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Table 1. Trends of Total Revenues (2007-2011)

	Total Revenue				
	2007	2008	2009	2010	2011
Target	59.490	63.367	64.948	65.357	67.390
Walmart	348.368	377.023	404.254	408.085	421.849
Dollar General	9.170	9.495	10.458	11.796	13.035

Values are displayed in Billions (Source: Markets, The New York Times)