

# Can Wal-Mart Fit Into a White Hat?

After years of ignoring its critics, the giant retailer is embarking on a charm offensive

**I**N AUGUST, SEVEN MEDIA-SAVVY professionals from Edelman, a Chicago public relations firm, flew to Bentonville, Ark., for an unusual assignment. Although they remain on Edelman's payroll, the PR experts, some of them seasoned veterans of political campaigns, now run a new office deep in the headquarters of Wal-Mart Stores Inc. Dubbed "Action Alley," the office, and a similar one in Washington, D.C., acts as the nerve center of the world's largest retailer's campaign to soften its public face. Backed by Wal-Mart's own publicity staff, the team responds within hours to any new blast of criticism.

The troops also try to spin positive stories about the corporate giant. As they sat facing each other around three tables arranged in a U shape one day in mid-September, Hurricane Katrina was still high on the agenda. Action Alley had scored a bull's-eye after just weeks on the job when

**ON THE MARCH**  
Protesting Wal-Mart's labor practices

it garnered widespread national publicity about Wal-Mart's efficient relief efforts following New Or-

leans' devastation. Now the team was deep in follow-up, making press calls guided by talking points scrawled on the felt-marker boards lining the perimeter of the room: "EOC," for emergency operations center, which earned so much praise for coordinating the company's disaster response; "Associate stories," referring to the experiences of individual employees during the storm; and "donation-partnership," meaning stories about Wal-Mart's charity. Already, "we have had some great successes," exults Wal-Mart Corporate Affairs Vice-President Robert McAdam, who heads the new office.

## SPEAKING OUT

H. LEE SCOTT JR., Wal-Mart's tough CEO, is on a charm offensive—and how it plays out could change perceptions of the retailing leviathan at home and abroad. For several years, Scott shrugged off relentless criticism, but he now admits the broadsides on everything from labor practices to suburban sprawl were starting to inflict real damage. In fact, U.S. sales growth at stores open at least a year have fallen by half, over the past four years, to 3% in 2004. So this year Scott decided to speak out. "When growth was easier, this idea of critics simply being ignored was O.K. [But] as the share price slows, you have to get to this point," Scott told *BusinessWeek* at his Bentonville headquarters, where for the first time he discussed details of the company's outreach effort.

The outcome, he says, is the most comprehensive publicity blitz Wal-Mart has ever mounted. Early this year, the retailer launched a



## Q&A

# Lee Scott On Why Wal-Mart Is Playing Nicer

In mid-September, Wal-Mart Stores Inc. CEO H. Lee Scott Jr. sat down with correspondent Robert Berner at Bentonville headquarters to discuss the company's public-image campaign.

**After long ignoring critics, Wal-Mart has started to reach out to them. Why?**

When growth was easier, this idea of simply ignoring critics was O.K. [But] as the share price slows, you have to get to this point: Maybe not all of our critics wish us harm. So you start reaching out, to understand what is it about us that causes them...concern. What is it we need to change? What is it we can't? You can't throw away things that are key to your success. We as a company have to continue to evolve in how we operate and how we interface with society.



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**WAL-MART'S NEW FACE**  
"The expectations of society changed"

having meetings with people who don't have a natural love for Wal-Mart, [such as] former Clinton White House people. Politicians who would meet me only in secret. Just dinners and lunches and private meetings. For the most part [I was] listening. I already know what I think. I want to hear what they think.

**What made you turn outward?**

You have board members who have different perspectives. We were getting nowhere the way we were doing it.

**Tell me about your packaging effort.**

If you are large, every negative attribute that comes with being large naturally accrues to you. That is where something like [environmental] sustainability is a wonderful opportunity. As we do the right thing, we also have an impact across so many industries [and] countries. We are finding tremendous cost savings while doing better things for the environment.

Packaging is one of the simple ones, and shame on us for not having done it earlier. We just changed the packaging on 16 private-label toys. It saves 230 [cargo] containers [per shipment] coming from overseas, and we didn't change any of the product inside. I think we are going to find a lot of low-hanging fruit. In our energy management of our stores we have a number of things we will be talking about publicly over the next month or two.

**Would you consider joining an anti-sweatshop organization that conducts independent monitoring of labor conditions in foreign factories?**

We are actually looking at that now. We would like to make sure it's someone whose focus is really on those workers and not some other agenda.

**When did you step up the contact?**

We really started it last year, the visible part. But way, way before that I started

**In Wal-Mart's history, you have never had an outreach program like this?**

No. We always believed that if we sat here in Bentonville and took care of our customers and associates, the world would leave us alone.

**So what changed?**

The dot-com bust occurred, and companies weren't as celebrated as in the late '90s. Also, we got stronger in food, and it became apparent to people in the food business that Wal-Mart was going to be a capable competitor. The expectations of society also changed. At the same time, politics changed. Things became more bitter and divided. And Wal-Mart, because of our size, was in the middle.

**Didn't the labor practices you were accused of add to that?**

I think being in food and being so successful raised the profile of our labor expectations [i.e., the lawsuits over work hours and immigrants].

**You mean with the food workers union's interest in organizing Wal-Mart as it moves onto unionized turf?**

Right. We had a CEO of a \$30 billion company here three weeks ago talking to our management team, and he said: "There isn't anything you are faced with, from a class action to the rest of the stuff, that we are not dealing with.

The only difference is that yours is played out on the front page of the paper, and you never read about ours."

**You are dealing with environmental and anti-sweatshop groups. Why not set the standard in higher wages and benefits?**

I think in many ways we are.

**But you are always accused of paying rock-bottom wages and benefits.**

Sure. On the other hand, at Wal-Mart you can, without a high school degree, start as a cart pusher in the parking lot and end up being a regional vice-president. That is a model. We are not building cars. We work in an industry where we compete with Target Corp. and Dollar General Corp. And we cannot [have] employment practices that set the standard for worldwide employment and forget the industry we are in. The jobs we provide are [the kind] people [take] to enter the workforce.

**Why couldn't you pay above-industry wages, as warehouse club Costco Wholesale Corp. does?**

The Costco model and their sales per square feet and revenue per store allow them to do the things they do. They have a different model—fewer people, a different customer base. That model doesn't work at Wal-Mart against Dollar General, Target, the Gap.

**If you are forging ties with environmental and anti-sweatshop groups, why not reach out to unions?**

I don't see any benefit to it. What I found in reaching out to other groups is that in most cases they would like Wal-Mart to be successful. I can learn from those people and learn where Wal-Mart can change to be a better company.

**Will steps to be more environmentally sound and protect the rights of foreign factory workers change your low-cost business model?**

That is what you have to be careful about. There are things that change your business costs. When it comes to the environment, there is so much we can do as a company that actually lowers our costs. This is the appropriate place to start because you are not trading off higher prices for this or that.

**BusinessWeek** [online](#) For an extended Q&A with Wal-Mart CEO H. Lee Scott Jr., go to [businessweek.com/extras](#)

national ad campaign about its corporate citizenship, sensing that bad press was undercutting the lure of low prices. Now, in addition to Action Alley, Wal-Mart has opened eight community relations offices nationwide to answer local criticism (table). It also has approached two environmental groups and will soon announce a major initiative to curb waste by reducing packaging. And it hired a nonprofit group to reach out to anti-sweatshop groups and improve monitoring of overseas factories. "We have to continue to evolve in how we operate and how we interface with society," says Scott.

What's not yet clear is how far-reaching the changes will be. The company lost a lawsuit alleging that supervisors forced employees to work off the clock and settled another about its contractors using illegal immigrants. But responding to other complaints could require costly changes to Wal-Mart's core low-cost, low-price business model. For instance, the company is still battling a massive class action alleging that it discriminates against female employees in pay and promotions. At this stage, Scott is adamant that Wal-Mart continue to focus on low costs to remain competitive with other discounters. "You can't be throwing away things that are the key to your success," he says. But Scott is all for image-enhancing efforts to broaden its appeal to affluent customers. And observers say that environmental and anti-sweatshop plans could help deflect criticism of other areas that are harder to alter, such as low wages and benefits.

The danger, of course, is that detractors will be inflamed all the more if they perceive Wal-Mart to be better at talk than action. "Their reputation in the area of trust has been slipping, and trust was probably their greatest asset," says Chris Ohlinger, president of Service Industry Research Systems, a market research company. He says consumer surveys show that the accumulation of negative publicity has contributed to sluggish sales growth.

Yet already, Wal-Mart is being prompted to change more than Scott expected when he started down the kinder, gentler path. When the company reached out to the Natural Resources Defense Coun-

cil and Conservation International, talks centered on generally reducing its impact on the environment. But they quickly led to a concrete goal: Cut paper and plastics and save fuel by shipping more items on one truck. By reducing the packaging of 16 toys, Wal-Mart eliminated 230 cargo-ship containers.

This follows the July opening of an eco-friendly store in McKinney, Tex., soon to be followed by another in Aurora, Col. The experimental supercenter gets electricity from solar panels and wind turbines and heat from burning the motor oil left after lube changes and the fat used to fry chickens. The environment, Scott says, is where Wal-Mart, with its massive market size, can make a real difference. A greener Wal-Mart could also be helpful when facing opponents in places like California, notes Patrick McKeever, a retail analyst at SunTrust Robinson Humphrey.

## WEAVING IT OUT

WAL-MART may find it a lot tougher to make progress on the sweatshop front. Last year it began working with Business for Social Responsibility (BSR), a San Francisco nonprofit, to reach out to groups active in monitoring overseas plants. The move came a year after Wal-Mart brought in a labor expert to expand its in-house global factory inspection program. The expert, Rajan Kamalanathuan, won respect from anti-

## PR to the Rescue

Wal-Mart has launched a major campaign to improve its sullied public image:

<b>OUTREACH</b>	Opened offices in eight cities, including New York, Los Angeles, and Chicago to improve community relations and counter local critics.
<b>SHADES OF GREEN</b>	Has held talks with two activist groups about adjusting its environmental impact. Is working with suppliers to cut down on packaging to slash paper and plastic waste and fuel costs.
<b>WAR ROOMS</b>	Set up quick-response teams in Washington and at Wal-Mart headquarters, each with half a dozen Edelman public relations firm staffers to respond to public criticism.
<b>SWEATSHOPS</b>	Hired Business for Social Responsibility, a nonprofit group, to help it establish relations with anti-sweatshop advocates and to bolster its global labor monitoring program.

Data: BusinessWeek

sweatshop groups by setting up such a system at Asda Group Ltd., a British grocery chain with suppliers in low-wage countries that Wal-Mart bought in 1999.

Kamalanathuan says the company hasn't yet decided how far it will go. For years, critics have asked Wal-Mart to follow Nike, Gap, and others by opening suppliers' factories to independent inspectors. Wal-Mart currently uses in-house monitoring, which, critics say, leaves outsiders unable to verify reforms.

Wal-Mart's campaign bears striking similarities to those undertaken by companies such as Nike Inc. A decade ago, when the sneaker maker was first hit by sweatshop allegations, for example, it tried to quickly burnish its image and reach out to moderate critics. But the dialogue soon forced Nike to take steps management had long resisted, such as submitting suppliers' factories to random inspections by independent labor monitors.

Wal-Mart may well follow a similar course. The difference is that it has so many more issues to deal with, from sweatshops to big-box criticism to labor unions. Still, "Wal-Mart is at an early stage," says BSR President Aron Cramer, "and it's likely that they, like most companies that engage in these processes, will adapt their approach over time." ■

—By Robert Berner in Bentonville, Ark.

**BACK TO SCHOOL** A consumer mecca that's under fire

