

Wall-Mart: Nonmarket pressure and reputation risk (A)

Written Analysis and Communication I

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Letter of Transmittal

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Lee Scott
CEO
Wal-Mart
Bentonville, Arkansas, USA

Subject: Non-market action for improving company reputation

Dear Sir:

Please find enclosed the recommendation report on the most appropriate non-market action for improving Wal-Mart's reputation. After analysing the environment, it is recommended that the company works on a three-pronged strategy consisting of genuinely addressing the concerns of the distressed groups, countering the negative campaigns of the unions while simultaneously initiating a PR campaign to communicate the company's contribution to the society-at-large.

Please feel free to contact Mohit Garg at xxx-xxx-xxx in case you have any questions concerning the report or the analysis.

Enclosure: Final Report

Sincerely,

Mohit Garg

Executive Summary

Wal-Mart's reputation is at stake due to severe opposition from several groups who are levying allegations against it. The company's lack of focus on the non-market stakeholders has emboldened these protest groups who have stepped up their campaigns to alarming levels having affected state legislations against the company. The company is seeking a non-market strategy to improve its reputation.

Different options are evaluated based on their impact on the non-market stakeholders; impact on company's market strategy; and long term sustainability of the solution. It is recommended that the company works towards simultaneously addressing distressed groups' concerns, countering union campaigns and initiating a PR campaign for image building.

(107 words)

Table of Contents

Executive Summary	iii
Situation Analysis	1
Problem Statement	3
The Options.....	3
Criteria for Evaluation.....	4
Evaluation of Options.....	4
Recommendation.....	5
Action Plan	6
Exhibit 1.....	7

Situation Analysis

Wal-Mart, with revenues of over \$300 billion in 2005, is the largest private employer in the United States with an associate strength of 1.3 million. It touches close to 100 million customers with its focus on delivering customer value through low-prices backed by efficient processes. The company is in a rapid growth phase with a 15% planned increase in its worldwide store strength during 2006.

The scale of Wal-Mart's successful operations has attracted increasing public attention. Out of 300 media articles per day on the company, several are being authored by critics who repeatedly level allegations against it. Their primary areas of concern are Wal-Mart's environment footprint; associate wages and benefits; and the effect of Wal-Mart's rapid expansion on small local businesses.

This opposition is assuming alarming proportions with more than \$26 million being committed to several well-organised coalitions like WakeUpWalMart.com whose sole agenda is to drive public campaigns against the company. They are astute media managers and repeatedly levy allegations of low wages and labour right violations against the company. Wal-Mart has responded by releasing data countering their claims e.g. the company pointed out that its average wage was twice the legal minimum wage and that its associates received considerably higher health-care benefits compared to comparable retailers. Moreover, existing employees are satisfied with their jobs and there is a mad rush of applicants with, e.g. more than 25 applications being filed per job opening in a store in California in 2005.

These agitations have started influencing the government with states like Maryland and California introducing bills against Wal-Mart. These crusades have also begun to hurt the company's market strategy with its entry plans into the banking business being blocked by the Federal-Deposit-Insurance-Corporation pending a public hearing. The reputation loss also reflects in the company's stock price which in spite of the strong financials has declined by 27% since 2000.

Though the company has been waging battles on a case-by-case basis, it has so far refrained from directly engaging with these protest groups. The company focus continues to be solely on its customers and associates. However, Wal-Mart now recognises the need for a non-market strategy to reduce this ominous threat to its reputation and business.

The protest campaigns are primarily spearheaded by unions like Union-of-Food-and-Commercial-Workers and Service-Employees-International-Union who have failed to infiltrate Wal-Mart's employees due to the company's pro-active anti-union actions. Another set of opposition campaigners are allied with the company's business competitors who are threatened by its rapid product and geographic expansion. This suggests that the campaigns could be coloured with an adversarial mindset instead of a well-meaning, sincere critique. The fact that, at times, different protesting organisations have criticised each other's campaigns lends credibility to this vested-interest hypothesis.

Also, most of these campaigns are headed by Democrat operatives explaining the bill passed against Wal-Mart by the Democrat dominated Maryland legislature. Other

opposition groups are NGOs who are campaigning for issues like reduction in the company's environmental footprint and the livelihoods of small business owners affected by the company's operations.

The company supports several education initiatives and saved several lives with its work during Hurricane-Katrina. It is also genuinely addressing some of the concerns e.g. last year the company offered a cheaper health insurance plan for its associates which increased its health benefits costs by 50%. However, the company's reactive stance to the opposition has allowed the protests to continue despite sincere attempts at addressing the problems.

Problem Statement

What should be the most appropriate non-market strategy for improving the company's reputation that would not adversely affect the company's market strategy?

The Options

The following options have been identified:

- 1) Initiate a pro-active Public-Relations (PR) campaign to communicate Wal-Mart's contribution to the society-at-large.
- 2) Agree to the demands of the unions by increasing associate wages and health benefits. Also initiate activities towards addressing concerns of the distressed groups.

- 3) Address the sincere concerns of the distressed groups while pro-actively countering the unions' propaganda exposing the disagreements within their camp. Also initiate a pro-active PR campaign.

Criteria for Evaluation

Reputation measures stakeholder perception (Exhibit 1). The non-market stakeholders are the government and the society-at-large. The following criteria have been identified:

- 1) Impact on the different non-market stakeholders.
- 2) Alignment with the market strategy of the company and financial implications.
- 3) Long term stability of the solution – needs to be sustainable.

Evaluation of Options

Initiate a pro-active PR campaign

- (+) Will enhance Wal-Mart's image in the minds of the government and the society-at-large.
- (~) No adverse impact on the market strategy and would involve costs of the order of the spending by the protest groups (~\$50 million).
- (~) Core of the problem is unaddressed. Hence, long term stability is not clear. The protest groups may continue their campaign.

Agree to the demands of the unions and NGO groups

- (+) Would enhance the company's reputation and would have an overall positive impact on the perceptions of the government and the society-at-large.
- (-) Increased spending on wages and health-care benefits (~ greater than \$6.5 billion). May undermine the core offering of "low prices" for the customers.
- (-) Agreeing to the demands of the vested-interest unions would embolden them further and create more such situations in future.

Address sincere concerns, counter the unions and initiate a PR campaign

- (+) Would enhance the company's reputation. The negative union propaganda would be countered by the PR campaign.
- (~) No adverse impact on the business of the company. Costs would include redressal costs, PR costs and expenses incurred to counter the unions (~ few hundred millions).
- (+) Clearly a long term solution because the company addresses the genuine concerns while countering the adversary vested-interests.

Recommendation

It is recommended that Wal-Mart work on a three-pronged strategy consisting of genuinely addressing the sincere concerns of the distressed groups, countering the negative campaigns of the unions while simultaneously initiating a PR campaign to communicate the company's contribution to the society-at-large.

Action Plan

- 1) Formulate three teams as per the recommendation.
- 2) The first team works towards addressing the sincere concerns which are primarily related to environment, employment practices and livelihoods of affected merchants. Plans for environmental audits, better policies and generating employment for the merchants etc. could be worked out.
- 3) The second team works discreetly to expose the differences within the vested-interest unions which would undermine their campaigns against the company. It could also consider setting-up organisations to counter the likes of WakeUpWalMart.com.
- 4) The PR team focuses on image building by publicising the company's social initiatives, employee satisfaction levels and socio-economic benefits generated out of the company's operations.

(1100 words)

Exhibit 1

Wal-Mart and the External Environment

Non-Market stakeholders are the government, the society-at-large.
Market stakeholders are the customers, the employees and the vendors.
Interest groups are the NGOs, Unions & Others.

