



Jon Lehman, a former store manager who worked at Wal-Mart for 17 years, left to join union organizers.

WAL-MART'S NASTY LABOR WAR

By Anthony Effinger and Rachel Katz

◀ As a supervisor of the cashiers in Wal-Mart store number 589 in Hillview, Kentucky, Brent Rummage, 27, was required to report to his manager any mention of labor unions. He did so, until his mother, who worked in the women's clothing department, ventured that unions weren't as bad as Wal-Mart said. "I wasn't going to report my mother," he says.

Rummage, a former youth minister in the Church of God of Prophecy, had worked hard to keep unions out of Wal-Mart Stores Inc., the company with the world's largest sales, at \$244.5 billion annually. He barged in when workers talked among themselves—a sign of union activity, according to his bosses. He'd learned the tactic via training in a mall conference room across the Ohio River in Clarksville, Indiana. After the session, "I thought, 'What are these guys going to do, rob us?'" Rummage says.

Far worse, from Wal-Mart's perspective: The United Food and Commercial Workers union is trying to organize the U.S. and Canadian stores of Wal-Mart, which has 1.5 million nonunion workers worldwide, so the workers can bargain in groups for higher wages and benefits. Success by the UFCW would upend Wal-Mart's business strategy, which is to cut costs so it can cut prices.

The clash with the union comes as Wal-Mart pushes for a more substantial presence in the grocery business, which employs more than half of the union's 1.4 million members.

Wal-Mart is muscling into food with supercenters: 170,000-square-foot megastores that sell everything from leaf blowers to lettuce by putting a supermarket and a regular Wal-Mart discount store under the same roof. Wal-Mart built the first one in 1988 and had 1,430 in the U.S. as of Dec. 31.

H. Lee Scott, the third chief executive officer in Wal-Mart's 42-year history and a 25-year company veteran, must build

more supercenters for Wal-Mart to keep boosting profits. Emme Kozloff, an analyst at Sanford C. Bernstein & Co., says about half of Wal-Mart's profit growth in the next four years will result from supercenters.

As the world's biggest company pushes into groceries, its antiunion fervor is escalating. At stake are 'always low prices' and the quarter century of sales growth that investors love.

Wal-Mart's stock performance suggests some investors are skeptical about whether a company whose sales are almost equal to the gross domestic product of Switzerland can sell enough groceries to keep growing at almost 16 percent a year. "The question is, Where do they go next?" says Tim Ghriskey, president of Ghriskey Capital Partners LLC, who doesn't own Wal-Mart stock because, he says, the path to growth isn't clear.

Wal-Mart shares rose 5 percent in 2003, one-fifth of the 26 percent gain for the Standard & Poor's 500 Index. During the past 20 years, Wal-Mart shares have risen almost 43-fold compared with six-fold for the S&P 500.

Wal-Mart, the biggest seller of everything from dog food to jewelry, has increased sales each year since selling shares to the

public in 1970, helping push other discounter retailers—such as Ames Department Stores Inc., Bradlees Inc. and Caldor Corp.—into bankruptcy. Wal-Mart draws 138 million customers a week with “always low prices,” the slogan displayed outside all of its stores. Prilosec OTC antacid costs \$21.69 at the Bruno’s supermarket in Alabaster, Alabama. It sells for \$17.86 at the Wal-Mart 2 miles away. At 6 p.m. on Dec. 11, Bruno’s parking lot was almost empty. Wal-Mart’s larger one was two-thirds full.

The differences come from Wal-Mart’s fanaticism about costs. It charges employees 35 cents for coffee at the remodeled

deeply into the grocery business, in which profit margins are slim. Kroger Co., the largest U.S. supermarket chain, made \$4,160 per employee in the year ended on Feb. 1, 2003. Kroger’s after-tax profit margins averaged 1.6 percent during the past five years compared with 3.2 percent for Wal-Mart, Bloomberg data show. Albertson’s Inc., Safeway Inc. and Kroger all are unionized, and their growth is slower than Wal-Mart’s. Sales at Safeway rose an average of 7.8 percent annually during the five years through 2002, for example, compared with 15.7 percent for Wal-Mart. As a result, Wal-Mart already sells more groceries by dollar value than any of them.

The Wal-Mart-union battle heated up in 1999, when the UFCW started a 12-person team for recruiting Wal-Mart workers to unionize their stores. Six members are Wal-Mart veterans. Rummage is one of the team’s success stories. After a promotion to the accounting office in a new supercenter in Fern Creek, Kentucky, he got into Wal-Mart’s management training program this past April. The move put him on track to run his own supercenter one day, a job that can pay more than \$200,000 a year. Rummage says much of his training dealt with keeping the union from organizing associates, as employees are called.

Over lunch in the back room of Jolly Mon’s, a local Jamaican restaurant, a store manager told trainees how to spot “salts”—union organizers on the payroll who organize from inside. One clue: They’re always dissatisfied. “They said our jobs would be on the line if we let the union in,” Rummage says.

After his training, Rummage was picked to manage all clothing at store number 1246 in Louisville, Kentucky. When he arrived at 8 a.m. on Aug. 4, the manager told him he would instead be supervising the cash registers and the Radio Grill, Wal-Mart’s in-house diner. Then the manager

Wal-Mart workers make an average of \$14,144 a year, according to UFCW calculations.

warehouse in Bentonville, Arkansas, that serves as corporate headquarters. Next year, it plans to require big suppliers to tag products with radio-emitting chips that will automate inventory counting.

Wal-Mart spokeswoman Mona Williams says paying union wages would mean the end of Wal-Mart as customers know it. In the fiscal year ended Jan. 31, 2003, the company made less than \$6,000 in profit per employee, an amount that would vanish if salaries rose, she says. “Being the low-cost leader is the core of our business model,” Williams says. “Changing that model would make our business less successful, our jobs less secure.”

Scott and other Wal-Mart executives declined to be interviewed for this story.

Keeping the UFCW out is crucial as Wal-Mart moves more

This supercenter in Reno, Nevada, is one of 1,430 Wal-Mart has opened in the U.S. since 1988.



made him stay until 11:30 p.m. arranging merchandise.

Rummage held meetings in the training room with associates from the clothing department, expecting to end up there, as planned. That infuriated his manager, Rummage says. Their rapport soured, and Rummage agreed with the manager's recommendation to leave the store. He learned there were no assistant manager jobs at area stores, so he returned to accounting at his old one, where he still works. Irked by his treatment, he called the UFCW. He and a representative had lunch in a town 40 miles away to avoid detection. Now, he's trying to organize workers.

The union is getting recruits. It has yet to unionize a store. To do that in the U.S., it must get 30 percent of workers in a store to sign authorizations. Then the National Labor Relations Board, a federal agency, holds an election. If most vote in favor, the union wins the right to negotiate a contract, which workers must approve.

The only Wal-Mart employees who have ever agreed to unionize were 10 butchers at a store in Jacksonville, Texas. They voted 7 to 3 in favor on Feb. 14, 2000. Two weeks later, Wal-Mart switched to prepackaged meat and sent the butchers to other departments, says Maurice Miller, 49, a leader of the union drive. Only one remains at the store, Miller says. "It's going to take years to produce results," says Al Zack, second in command of the UFCW's Wal-Mart team.

Keeping union organizers like Rummage at bay may get harder for Wal-Mart as it erects supercenters in labor strongholds in Illinois, Michigan, New York, Ohio and Wisconsin, says Burt Flickinger, a retail consultant in New York. The union has more allies these days too: communities opposed to the increase in traffic that comes with a big store, environmentalists fretting about rainwater runoff from vast parking lots, manufacturers who blame Wal-Mart for hastening the exodus of U.S. jobs to China. Of all of Wal-Mart's critics, the UFCW is the most dangerous, Flickinger says. "Only organized labor has the resources to keep Wal-Mart an ongoing news story," he says.

Patricia Edwards, who helps manage \$5.5 billion at Wentworth, Hauser & Violich in Seattle, which holds Wal-Mart shares, says the notoriety may hurt sales if the economy keeps improving and concerned shoppers can afford to put their ideals ahead of low prices. "If you've got a little more discretionary income and you don't like some of the things that are being printed about Wal-Mart, then maybe you'll shop at Target," she says.

Wal-Mart's December sales rose 4.3 percent from a year earlier. The company had predicted a gain of 3-5 percent. December sales at Target Corp., the second-largest U.S. discount retailer, rose 4.1 percent. Luxury retailers did best, with sales at jeweler Tiffany & Co. climbing 16 percent.

The UFCW has had a hand in many of Wal-Mart's high-profile fights. In 2000 and 2001, union members handed out leaflets at a thousand stores, telling female employees how to join a class-action lawsuit alleging Wal-Mart denied women promotions, paid them less

than men and forced them to visit strip clubs on business.

A U.S. District Court judge in San Francisco is deciding whether 1.6 million women who have worked at Wal-Mart since 1998 should be represented in the case. If so, it would be one of the largest class actions in U.S. history. In May 2003, the UFCW bused workers to a Las Vegas rally led by former Miss America Carolyn Sapp, who has made Wal-Mart's treatment of women her cause célèbre. In Oakland, California, UFCW members lobbied officials before the city council banned supercenter-size stores in October by a vote of 7 to 1. The union is putting pressure on Wal-Mart's stock, too. Brian Holland, who helps manage \$4 billion at Boyd Watterson Asset Management LLC in Cleveland, says he'd love to buy Wal-Mart shares. He can't because out of sympathy for the UFCW, the unions for which he manages money won't let him. "It's a well-managed company," Holland says. He declines to name the unions.

In all, the UFCW spends about \$3 million a year on its war against Wal-Mart. Local chapters contribute beyond that. "The UFCW is the primary catalyst behind the complaints," Wal-Mart spokeswoman Williams says. "We didn't have these issues before we got into the food business."

Wal-Mart is so concerned about the union that it assigns a Union Probability Index, or U.P.I., to each store based on an anonymous survey of employees, says Stan Fortune, 47, a 17-year Wal-Mart veteran who now works for the UFCW's Wal-Mart team. Williams says U.P.I. actually stands for *Unresolved People Issues*. If the U.P.I. gets high enough, Wal-Mart sends in a special team to root out the union, Fortune says. He spent three months on a similar assignment in Las Vegas in 1997, he says.

Williams says that Wal-Mart has an "HR team" of about 10 people that flies around the country. Its purpose is to teach employees about labor law and how to abide by it, she says.

Jon Lehman, a former store manager who's with the union now, says Wal-Mart has a 60-foot-by-60-foot room at its headquarters, in which two dozen people with headsets monitor calls and e-mails from stores to see whether anyone is talking about union organizing. Wal-Mart spokeswoman Sarah Clark says the company monitors calls only in stores at risk for bomb threats. A recording tells callers that conversations may be monitored, she says. Without such a warning, Wal-Mart's practice would be illegal in California, says Cliff Palefsky, a partner at McGuinn Hillsman & Palefsky in San Francisco.

Wal-Mart is taking its pitch to customers. In March, it began airing television ads that portrayed Wal-Mart as a

Discounted Wal-Mart's shares lagged the S&P 500 as holiday sales disappointed some investors.



Index: Jan. 3, 2003 = 100. Source: Bloomberg

great place to work. In December, TV ads touted a new store in Los Angeles, with locals talking about how Wal-Mart created jobs and attracted other stores to a run-down area. CEO Scott says he's worrying about his customers, not his foes. "It's not our goal to make our detractors love us," he told financial analysts who were meeting at the Embassy Suites hotel in Bentonville on Sept. 30.

Detractors have a huge target. Wal-Mart is the biggest vendor of music CDs, according to NPD Group Inc. Last year, it sold enough Ol'Roy dog biscuits to circle the earth twice. It's the largest private employer in the U.S., with 1.2 million workers, and in Mexico, with about 101,000. Side by side without parking lots, Wal-Mart's 3,500 U.S. stores would cover most of Manhattan. It has another 1,345 in Argentina, Brazil, Canada, China, Germany, Mexico, Puerto Rico, South Korea and the U.K. Clorox Co. relies on Wal-Mart for a quarter of its sales, according to U.S. government filings. Kellogg Co. gets 12 percent and Procter & Gamble Co. gets 18 percent of its sales from Wal-Mart.

If founder Sam Walton were alive and owned the Wal-Mart stock he left to his wife and four children when he died of bone cancer in 1992 at 74, he'd be almost three times richer than Microsoft Corp. Chairman Bill Gates. The Waltons' 39 percent stake is worth \$89 billion. Gates's Microsoft stake totals \$31.8 billion.

Atop the Wal-Mart empire sits Scott, a father of two who

plays golf with his wife and likes to fish. He worked his way through Pittsburg State University in Kansas, where he earned a degree in business in 1971, and then joined trucking company Yellow Freight System Inc., according to Wal-Mart.

David Glass, who succeeded Walton as CEO in 1988, had recruited Scott to run Wal-Mart's truck fleet in 1979. Scott spent 16 years in logistics and distribution, heading the division from 1993 to '95. He did stints in merchandising and then managed Wal-Mart's U.S. stores. In 1999, he became chief operating officer and in January 2000, president and CEO.

Scott told analysts in September that he sees no limit to Wal-Mart's growth. The company accounts for just 3 percent of reported worldwide economic activity, leaving plenty of room for expansion. Scott said he would build more supercenters—closer together. Two stores with annual sales of \$80 million each are better than one with \$120 million, he said. "We are finding that we can put more supercenters closer together than we ever dreamed," he said. Case in point: Wal-Mart is building a supercenter in Alabaster, which had a population of 22,619 in 2000, even though there are four within 14 miles.

Williams says Scott has placed a moratorium on interviews because the press has been unfair lately. "They've decided to focus on the business," she says, referring to Wal-Mart executives, "and let the media say what they're going to say."

Wal-Mart has always been secretive. "We've been very protective of our business dealings and our home lives," Sam Walton said in his 1992 autobiography, *Sam Walton: Made in America* (Bantam). His widow, Helen, didn't want the company to go public in 1970 because of the scrutiny it brought, he wrote.

Wal-Mart is as secretive under Chairman Rob Walton, Sam's eldest son. Wal-Mart's Clark won't disclose anything about the family, not even ages. Rob Walton was Wal-Mart's first lawyer, according to his father's book.

John Walton is chairman of True North Partners LLC, an investment firm. A Wal-Mart board member, he also owns Pearson Yachts, a boat-building company in Warren, Rhode Island. Jim Walton is president of Arvest Bank Group Inc., a bank holding company in Bentonville. Sister Alice Walton raises horses at the Rocking W Ranch in Mineral Wells, Texas, 50 miles west of Fort Worth.

Wal-Mart's success, evident in the family fortune, has some politicians wondering why the company can't pay workers more. California State Assemblywoman Sally Lieber says she's concerned that Wal-Mart is funneling employees into Medi-Cal, the state's health care program for low-income earners. Wal-Mart distributes instructions to workers on how to use the

Wal-Mart's annual sales of **\$244.5 billion** are almost as great as **Switzerland's GDP**.

Wal-Mart sold enough Ol'Roy multiflavored dog biscuits in one year to circle the earth twice.

Wal-Mart accounts for 25 percent of Clorox's sales and 18 percent of Procter & Gamble's.

If Wal-Mart were a country, it would be China's eighth-largest trading partner, with **\$12 billion** in imports.*

Wal-Mart is the largest private employer in the U.S., with **1.2 million workers**.

*For 2002. Sources: Bloomberg; Clorox and Procter & Gamble SEC filings; Wal-Mart

Low prices, high numbers Wal-Mart makes its fortune on volume. These numbers show just how big the biggest company is.

The Walmex Effect

Standing in his cramped stall in Mexico City's Bu-gambilla market—a concrete building teeming with food, flowers and household items—Jorge Llerena says his profit from selling beans and rice has dropped 5 percent in the past two years. The reason: Customers he's had for two decades are shopping at the Wal-Mart de México SA supercenter 5 minutes away. "Wal-Mart has a better range of products," says Llerena, 52, rubbing his gray stubble in his 3-meter-by-3-meter (10-foot-by-10-foot) booth. "To keep business, we've had to sacrifice our profit margins."

Llerena isn't the only one whose profits are suffering. Wal-Mart's three biggest rivals—supermarkets Organización Soriana SA, Controladora Comercial Mexicana SA and Grupo Gigante SA—say their combined earnings plunged 42 percent to 2.7 billion pesos (\$249 million) in 2002 from 4.6 billion pesos in 1999 as they tried to match Wal-Mart's prices. In the same year, Wal-Mart de México earned 4.9 billion pesos.

The world's biggest company by sales set up shop in Mexico in 1991 with a Sam's Club warehouse in Mexico City. Its early stores were 50-50 partnerships with Mexico's biggest retailing chain, Cifra SA. In 1996, Wal-Mart merged its Mexican stores into Cifra and paid \$1.2 billion for a 62 percent stake in the new

company, which it called Wal-Mart de México.

Shares of Wal-Mart de México, 38 percent of which trade on the Mexico City Stock Exchange, have more than doubled since the company's creation. Now valued at \$14 billion, Walmex, as it's known, is Mexico's third-biggest stock, behind Teléfonos de México SA and América Móvil SA. Since Wal-Mart moved in, everything from Mexico's workforce to the country's inflation rate, to the efficiency of suppliers has been affected. The company makes 92 percent of its purchases, or about \$8 billion, a year in Mexico, which is equal to about 1.3 percent of Mexico's gross domestic product.

Since 2001, Walmex has added 26,000 jobs. Mexico's unemployment rate rose to a six-year high of 4 percent in August 2003. Today, Walmex is Mexico's largest private employer, with about 101,000 workers. That compares with 38,000 at Organización Soriana, its closest competitor. During the same period, rival Controladora Comercial Mexicana shed 12 percent of its employees as it acquired a smaller rival.

For some job hunters, Walmex is the only game in town. "I looked for a job for a year and a half after leaving high school, and finally, I was happy to find this," says Jocelyn Robles, 18, who was making \$1 an hour stocking shelves for the Christmas season at Walmex's supercenter in the



Wal-Mart employs about 101,000 people in Mexico, including at this store in Mexico City.

Buenavista neighborhood of Mexico City. She says the pay is "OK"—similar to what her friends earn.

Walmex discourages its employees from joining unions. It pays an organization to negotiate collective contracts to comply with labor laws, says Marco Antonio Torres of the Center for Labor Studies. He says Walmex simply keeps the contracts on hand to meet legal requirements. Walmex says it acts in line with competitors. Walmex has helped reduce Mexico's inflation rate, says Edgar Amador, an economist at Stone & McCarthy Research Associates in Mexico City. That's because goods like Lala milk and Tia Rosa tortillas that Walmex sells account for 42 percent of the items the central bank uses to measure prices. "One unknown ally of the central bank's success against inflation has been Walmex," Amador says. "It goes all the way down the chain to the producer."

In 2003, Walmex sent 15 employees from Mexico City to teach Mexican textile

manufacturers to work more efficiently. One of the goals was to receive orders in six weeks rather than six months. Also, suppliers will download shirt designs straight onto their computers rather than work with physical patterns. "We're changing the way the textile industry works," says Walmex Chief Executive Officer Eduardo Castro-Wright, 49.

In 2002, Walmex's demands on suppliers led Mexico's Federal Competition Commission to investigate what it called "monopolistic practices in self-service stores." The commission was suspicious that Walmex was using its size to force suppliers to sell at better terms than they gave to competing stores. On March 6, 2003, it ended the probe, saying there was no evidence of monopolistic practices.

Claudio González, CEO of Kimberly-Clark de México SA, says Walmex has been good for his company, which sells Huggies diapers and Kleenex tissues. "We find ourselves very energized by what we have to do to meet Wal-Mart's requirements," González says. "Because we're being demanding with our suppliers also, the whole chain works, and you become more competitive as a company and as a country."

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Work Number system, which enables social service agencies to verify applicants' incomes. The instructions, which bear the Wal-Mart logo, prove that Wal-Mart relies on the state to cover part of its health care costs, thereby cutting its expenses, Lieber says. "One of the world's largest corporations has become totally welfare dependent," she says.

Sam Walton, in his autobiography, said he was "chintzy" with wages in the beginning. Wal-Mart still pays less than rivals, the UFCW says. In 2002, the average wage of a U.S. supermarket hourly worker was \$10.81, according to the U.S. Bureau of Labor Statistics. Spokeswoman Clark won't disclose Wal-Mart's average wage. The UFCW says the average Wal-Mart wage is \$8.50 an hour. Most people work 32 hours a week, for an annual total of \$14,144. The UFCW estimate comes from wage information Wal-Mart released in the sex discrimination case and from Bureau of Labor Statistics data. More than 700,000 Wal-Mart employees don't have health insurance because they can't afford it, the union says. In the U.S., federal minimum wage is \$5.15 an hour. Clark says overall compensation is competitive with other retailers and is always above minimum wage. Wal-Mart matches 15 percent of associates' stock purchases up to \$1,800 a year, according to a copy of Wal-Mart's benefit plan. After working for one year, employees are eligible for profit sharing.

Workers can buy insurance after six months. According to the benefit plan, it costs \$230.50 a month with a \$350 deductible per person for a family of any size. With a deductible of \$1,000 each, family coverage costs \$132.50 a month. Being nonunion gives Wal-Mart an advantage. Its selling, general and administrative expenses including wages consumed 16.8 percent of revenue in fiscal 2003. At Kroger, expenses accounted



CEO **H. Lee Scott** sees no limit to Wal-Mart's growth.

Louisville, was the first Wal-Mart manager to sign on.

As a boy, Lehman and his brother Gary crashed a cart they were racing into a table of towels in a Wal-Mart in Harrison, Arkansas. A clerk brought them to her manager. It was Sam Walton. He got on the store intercom and paged the boys' father. Years later, Lehman told Walton the story. He remembered what they'd been wearing, Lehman says: identical striped shirts.

Lehman worked at Wal-Mart for 17 years, starting as a janitor. He left to study music and economics at Baylor University, didn't graduate and came back as a management trainee. He got his own store in Garland, Texas, in 1988.

Lehman says the company changed after "Mr. Sam" died. Lehman remembers him as Wal-Mart's conscience, urging executives to buy American—long after it became obvious that overseas suppliers had an edge—and attending every store opening he could. Walton would land his six-seat Beech Baron on tiny airfields across rural America and ask managers to pick him up. At home, he drove a battered pickup with cages for his hunting dogs.

Joyce Moody, a 23-year Wal-Mart veteran, says a highlight of her life was being present at Wal-Mart headquarters on March 17, 1992, when President George H.W. Bush awarded Walton the Presidential Medal of Freedom. Instead of inviting dignitaries, Walton filled the auditorium with Wal-Mart workers.

When Walton died months later, executives abandoned their trucks and started showing up for work in Infinitis and other luxury cars, Moody says. Glass, CEO at the time, reserved a parking spot, which Walton had never done. "I thought I was driving into a new parking lot," Moody says.

Lehman says things changed for him in 1993, when he was running a Wal-Mart in Richmond, Indiana—then the largest in the state. At a meeting in Muncie, the district manager told Lehman and seven other store managers to go into their stores at 7 a.m. on Saturdays to excise any overtime from the week's payroll, Lehman says. Overtime wages are paid at time and a half—the standard rate by law.

'It's not our goal to make our detractors love us,' says CEO H. Lee Scott.

for 22 percent of revenue in the year ended on Feb. 1, 2003. The same costs claimed 24 percent of sales at both Albertson's, the second-largest supermarket chain, and No. 3 Safeway.

Part of the UFCW strategy for organizing Wal-Mart's workers is to get the NLRB to crack down on the company and individual managers for pressuring employees to oppose the union, says Zack, the union leader. The strategy worked at ConAgra Foods Inc.'s Monfort meat-packing plant in Grand Island, Nebraska, in the late 1980s, Zack says.

Wal-Mart has seen some high-ranking managers defect to the union, taking the company's secrets with them. Lehman, 42, who raises dachshunds in his spare time in



Sam Walton, who died in 1992, opened the first Wal-Mart in Rogers, Arkansas, in 1962.

If a worker had logged overtime but hadn't taken a lunch break, managers were told to make one appear, Lehman says. Three managers agreed that this was wrong and decided to use Wal-Mart's open-door policy, which lets anyone in the company call a superior about anything. They called Tom Coughlin, now vice chairman of the board in charge of U.S. operations. Coughlin told them the overtime orders were out of line, Lehman says. The manager who gave them apologized.

In December 2002, a federal jury in Portland, Oregon, found Wal-Mart liable for not paying employees overtime. Carolyn Thiebes, a former manager, testified that she routinely docked overtime hours from paychecks. On Jan. 14, another jury started deciding how much the company owes in back pay.

"That was one of the dumbest things I ever did," Lehman says of using Wal-Mart's open-door policy. He left Wal-Mart in 1997 to care for his wife, who'd been stricken with a brain tumor. After she recovered, he went to work at Meijer Stores LP, a closely held Wal-Mart rival. He made \$85,000 a year, down from \$220,000 at Wal-Mart, but he liked Meijer, which had a union and better relations with workers.

His former supervisor at Wal-Mart kept calling, trying to get him back as a store manager. In 1999, the prospect of higher pay lured him to return. He stayed until 2001, when he gave three weeks' notice and then joined the union. "I left on good terms," he says.

Now, he spends time trolling Wal-Marts in Las Vegas, trying to get workers to support the union. Las Vegas has a strong union tradition. Most casino workers are in the Culinary Workers Union, Local 226, and the UFCW represents grocery workers at Albertson's, Kroger and Safeway stores in the city.

Robert Padilla, 32, is in the meat department at a Las Vegas Sam's Club, Wal-Mart's wholesale chain, which has an annual membership fee. He says he's trying to organize his store, which has 200 employees. He makes \$16 an hour and says he could earn \$19 in the union. He pays \$310 a month

for Wal-Mart health insurance for his wife and two children. "I like my job," he says. "I just don't like my pay, and I don't like my benefits."

When Padilla's activities became public, four people from Bentonville took over the meat department, he says. They changed the lock on the manager's office and put paper over the window to keep their antiunion work secret, he says.

Padilla says they required him to go to "labor education" classes. So pressing were the classes that managers didn't require Padilla to fill holes in the display case areas where meats had run out. Previously, he'd been yelled at for having even one gap, he says.

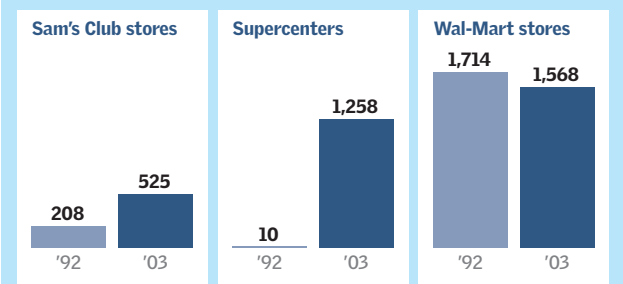
Rummage says Wal-Mart tries to head off unionism in the job interview. When he interviewed applicants at his supercenter, he wrote anything the person said about organized labor on a piece of yellow paper he said was included in interview packets for that purpose.

If the interviewee was promising, Rummage had the person take an Orion test, which required reading about 60 statements, such as "Smoking a joint is like having a beer." The applicant then rated the statements one for agree through 10 for disagree. A computer scored the test and spit out recommendations regarding which ratings to discuss. One about unions, such as "Most people are in unions," always came up, Rummage says.

Such questioning may violate U.S. labor law, says Patricia Gilbert, an NLRB spokeswoman. "It wouldn't be the best practice," she says. Wal-Mart says there's nothing inappropriate in the Orion test.

Rummage says at least two people with union experience were hired at his store. Gretchen Adams, 55, who helped open 27 supercenters, says her orders were stricter in

Supersize it Wal-Mart is putting more of its resources into supercenters, which sell both general merchandise and groceries.



U.S. stores. For the fiscal years ended on Jan. 31. Source: Wal-Mart

Las Vegas: Shun anyone with union experience. She initially complied and then suggested a different strategy: Treat workers so well that the union's pitch wouldn't work.

In 2000, when Adams was up for a promotion, her store suffered two bomb threats within 12 hours, leaving shopping carts in aisles and inventory on loading docks. After the crisis, Adams says, she learned her promotion had been put on

hold because her management team's response after the threats was unacceptable.

Adams faxed a letter to Scott, who flew out to investigate. Two weeks later, her manager told her that if she wanted to stay with Wal-Mart, she'd have to leave Las Vegas. He made her pick a spot right then, she says. She chose Florida and got a job in West Palm Beach. Clark says Adams wasn't given any ultimatums. "Many such transfers take place in order to find the right fit for both managers and Wal-Mart," she says.

Like all Wal-Marts, Adams's new store had a quarterly payroll budget that shrank if sales fell. Her store's sales dropped in 2001 when road construction limited traffic. Her manager told her to fire 10 people. "I couldn't see firing people because we had road construction," she says.

The Sept. 11 terrorist attacks happened a week later. Adams's manager told her to fire five more workers. She quit to join the UFCW.

In the next five years, Wal-Mart says, it will create 40,000 management jobs that pay at least \$30,000 a year. Many hourly workers will have a shot at them, Clark says.

The chance to climb the corporate ladder at Wal-Mart is real, says Larry Mahoney, who started his retail career as a janitor at a Filene's Basement store in Boston. He joined

Wal-Mart in 1990. Now, he runs eight Wal-Mart distribution centers in the southeastern U.S. The one outside Bentonville is typical: It measures 1.2 million square feet and has more than 10 miles of conveyors.

Every hour, 13,000 cases of Honeycomb cereal, Nestlé Nesquik, Huggies diapers and other products whiz toward the end of the building, where a computer directs each parcel to a Wal-Mart truck. "There's so much opportunity here," Mahoney says in an accent that's half Boston brogue and half Arkansas drawl.

Mahoney used to manage a nearby center that this one replaced. Walking through in his black blazer and gray dress pants, he's welcomed like a returning hero. Workers rib him about his fancy clothes. With a union, he wouldn't have such rapport with workers, he says. "Third-party intervention clouds the issues," he says.

People like Mahoney are among Wal-Mart's best defenses against the union. Still, with committed company men like Lehman and Rummage switching sides, Wal-Mart isn't taking any chances. At stake is the engine of its growth: low prices. ▶

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BLOOMBERG TOOLS

Wal-Mart Investors Can't Discount Employees

Wal-Mart's plans for growth through expansion in the grocery business with more supercenters could be hampered if the UFCW succeeds in organizing the discount retailer's nonunion workers. Type WMT US <Equity> TCNI LABOR <Go> for labor news involving Wal-Mart.

According to Wal-Mart spokeswoman Mona Williams, the company makes an annual profit of less than \$6,000 per employee. Type FA Y <Go> and click on Employee Data. The number of employees as of Jan. 31, 2003, was 1.4 million. The screen shows that while Wal-Mart is adding more employees, the five-year geometric growth figure is minus 379, indicating that the number of employees is increasing at a slower rate. As shown at right, Wal-Mart's net income per thousand employees is \$5.74 million a year, sales per thousand employees are \$174.7 million and assets per thousand employees are \$67.6 million. To see how those ratios get calculated, click on Definitions on the tool bar and select a term from the pop-up menu.

To compare Wal-Mart with other retailers such as Target, type RV <Go>. Click on Options on the tool bar, select Copy Template and click on From Example RV's. Then click on Retailers. This sample RV lets you compare Wal-Mart's sales growth, inventory turnover and same-store sales with its competitors'. The average discount retailer has 1,579 stores. Target has 1,475, and Wal-Mart has almost triple the average.

MARY K. WOOD

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	1/03	1/02	1/01	1/00	1/99	5Y GeoGr
# OF EMPLOYEES *	1400000	1363000	1244000	1140000	910000.0	11.2
Employee Yr change %	1.23	11.17	9.12	25.27	10.30	-37.9
Net inc/Employees **	5.74	4.62	5.06	4.72	4.87	6.1
Sales/Employees **	174.66	157.46	153.80	144.75	151.25	4.1
Assets/Employees **	67.63	60.34	62.81	61.71	54.94	4.2

*Actual number of employees
**Per thousand employees

For Wal-Mart's company filings with government entities, type WMT US <Equity> CF <Go>.