



Ethical retailing

From Evil Empire to jolly green giant

By Jon Entine

The “green prism” through which Wal-Mart now views all of its products and operations is forcing critics to see the retail giant in a new light

My 10-year old daughter is Wal-Mart’s dream green consumer. Call me a Costco snob, but considering Wal-Mart’s labour relations record and its reputation, deserved or not, for selling products that matched in quality its low prices, I’d always had sufficient excuse to shop elsewhere. But a sagging economy puts old habits in play.

A few weeks ago, during a Wal-Mart run to pick up gardening tools, Maddie dragged me over to the girl’s clothing section ablaze with signs touting organic pyjamas. The PJs had a cute logo featuring two mutts hugging a green globe emblazoned with the slogans “handle with care”, “love the world” and “earth friendly.” My eyes rolled back into my head.

“Dad, it’s so soft,” she said, stroking the top as if it was a kitten and pointing out the tiny Target-like “v” fashion twist in the neckline. “And it’s organic! In school we talk about how to help the environment. Can I get it, can I get it?” She bopped up and down as if enticing me to buy a new iPod.

Bank one for CEO Lee Scott’s sustainability revolution. Who was I to stand on old progressive principles and say “no” to buying a pyjama set selling for less than \$23? Wal-Mart had green-sealed the newfound loyalty of a young customer.

Wal-Mart’s embrace of sustainability was touted in October 2005 by Scott in a speech remarkable for its self-criticism. Scott outlined how the big-box

giant would make good its commitment to come clean and go green – and was greeted with equal parts wonder, scepticism and derision. Yet he set the bar high for global businesses trying to green their operations. He challenged the operative clichés: tigers don't change their stripes; ocean liners turn slowly. He pledged that Wal-Mart would be a "good steward for the environment" and move aggressively towards using only renewable energy sources and producing zero waste.

Since then the company has been churning out dozens of white papers on sustainability, publicly available on its website, addressing everything from how to change eating and exercise habits to green charities; holding state-of-the-art conferences on greening the supply chain; building environmentally efficient stores with open sky lighting and motion sensors to reduce energy consumption; rolling out green products in almost every department; and basing its promotion structure of its own employees, including senior staff, on how successful they are in convincing vendors to adopt measurable environmental standards.

In what amounts to a blink of time, Wal-Mart has gone from the environmental movement's doghouse to become a mover and shaker – correct that: the mover and shaker – in the world of sustainability. And that's making many of its long-time critics nervous.

What is sustainability?

Not too many years ago, "progressives" were comfortably united in their view that Wal-Mart equated with the inherent evils of transnational mass consumerism. According to this narrative, the Bentonville behemoth put mom and pop stores out of business by erecting nondescript big-box warehouses staffed by underpaid workers with few benefits selling cheap clothes made in overseas sweatshops. But within a year of Scott's 2005 mea culpa, Bentonville was well on the way to becoming the world epicentre of corporate sustainability.

Jeffrey Hollander is CEO of Seventh Generation, one of the world's largest suppliers of "green" household and personal care products, and Amory Lovins, founder of the Rocky Mountain Institute. They are among a sizable contingent of corporate responsibility advocates who made the trek to Arkansas, worked directly with Scott and then come away, often to their own surprise, convinced the conversion is real.

According to Hollander, Scott told him that before the company publicly committed to sustainability, Wal-Mart executives "spent most of their time bringing in the sandbags to reinforce their bunker", effectively catalysing activists. "We helped organise our enemies better than they could have done themselves," he quotes Scott as confessing, "unintentionally succeed[ing] in uniting a diverse collection of activists, from labour and environmental advocates to healthcare and women's rights campaigners, that otherwise rarely even speak to each other."

Now those fissures are reappearing. While many environmentalists have moved from suspicion to cautious optimism and even to exuberance about Wal-Mart's ability to accelerate the public's embrace of sustainability, other activists remain unimpressed. They contend the "revolution" consists

Today, Wal-Mart alone buys almost twice as much organic cotton – an estimated 9,000 tonnes this year – as was used annually by the entire world in 2000

mostly of minor but cleverly packaged green tweaks designed to obscure Wal-Mart's structurally unsustainable and anti-worker core ethic. In short, the critics say, it is greenwash.

"The company's environmental initiatives miss the big picture," notes Stacy Mitchell of the Institute for Local Self-Reliance, a US-based NGO with more than 30 years of work focusing on environmentally sensitive community development. "What is truly sustainable is local sourcing. Of course we will always have trade, but sourcing locally cuts down dramatically on fuel and energy use."

Flowing out of the virulent anti-globalism ethic in vogue a few years ago, hardened critics embrace the standard issue anti-growth and small-is-better sentiments. Two high profile advocacy groups, Co-Op America and the union-financed group Wal-Mart Watch, issued slashing reports, attacking the warehouse store's über consumerist model in which workers, vendors and local communities in effect subsidise the company by absorbing its negative externalities.

"Their push to lower costs year after year

Size matters: getting the measure of Wal-Mart

- Wal-Mart employs **1.9 million** "associates" worldwide and more than **1.3 million** in the United States.
- Wal-Mart operates more than **4,000** facilities in the US and more than **2,800** more in Argentina, Brazil, Canada, China, Costa Rica, El Salvador, Guatemala, Honduras, Japan, Mexico, Nicaragua, Puerto Rico and the UK.
- More than **180 million** customers per week visit Wal-Mart stores worldwide, including **127 million** per week in the US.
- Wal-Mart workers in the US earn an average full-time hourly wage of **\$10.83**.
- In September 2007, Wal-Mart announced a partnership with the Carbon Disclosure Project to measure the amount of energy used to create products throughout the supply chain and encourage suppliers to reduce greenhouse gas emissions. It has also begun purchasing solar power in a commitment to provide renewable energy to 22 facilities in California and Hawaii and reduce greenhouse gas emissions by an estimated **6,500 to 10,000 tonnes** per year.
- In May 2008, Wal-Mart reached its goal to sell only concentrated liquid laundry detergent in all of its US stores and Sam's Clubs, which is expected to save more than **1800 million** litres of water, more than **43 million** kilograms of plastic resin and more than **56 million** kilograms of cardboard. For water alone, this is the equivalent of **100 million** individual showers.
- In October, 2007, Wal-Mart reached its goal to sell **100 million** compact fluorescent light bulbs. Each CFL uses **70 per cent** less energy than a traditional bulb, prevents **202** kilograms of greenhouse gas emissions, and saves more than **\$30** per bulb in utility costs. Sales to date will save consumers a total of more than **\$3 billion** over the life of the bulbs.

Source: Wal-Mart

has driven down wages here and abroad," Co-Op America says. "[They've sent] American manufacturing jobs overseas, rapidly expanded toxic industrial production in countries that lack rigorous labour or environmental protections, and contributed to a host of other social and environmental ills. It's a race to the bottom where everyone loses."

To unwavering critics, Wal-Mart is the anti-Christ, recalling the lyrics to "Blame Canada," the laugh-out-loud song from South Park's first movie: "Times have



The disaster relief department

changed. Our kids are getting worse. They won't obey their parents. They just want to fart and curse! Should we blame the government? Or blame society? Or should we blame the images on TV?" The response: "No," sang the progressive community chorus. "Let's blame Wal-Mart!"

Seeds of green

In practice, Wal-Mart was never the bad guy as caricature has it. Not too many years ago, it was on every social investor's recommended list because of its focus on supply-chain sustainability, which it began to address a decade before most people had even heard of the concept. But for the most part, its environmental initiatives were "one off" responses to problems the company encountered as it relentlessly drove to bring efficiencies to its operations, such as centralising its warehouse distribution system to cut down on transportation costs.

Credit goes to a daring gamble by one of its eco-conscious associates to help turn sustainability from a "bolt on" to one of the key ways to help streamline operations and product innovations.

The story begins a year before Scott issued his encyclical. Coral Rose, a senior buyer at Sam's Club, the members warehouse store owned and operated by Wal-Mart, was presented with a line of organic cotton yoga outfits. Rose herself had embraced a "natural" lifestyle, including buying organic products, after losing both her parents to cancer. When she found out about a yoga outfit line, she jumped at the opportunity, overcoming the scepticism of her bosses. It was an unexpected hit –

190,000 units sold out in ten weeks – which caught the attention of the C-suite. It was an early signal that Wal-Mart's price-conscious customers would be willing to buy green so long as the products were affordable.

Below the radar, at Scott's personal urging, his buyers began working with the non-profit trade group Organic Exchange, which took them on tours of cotton farms in California, Texas and Turkey. Within weeks, Wal-Mart committed to rolling out organic clothing lines, and then expanded into bath, bed and baby products.

When it came to organics, Wal-Mart may have been a follower, but it was a game changer. Patagonia had converted its entire sportswear line to organics in the mid-1990s, and soon after a few other companies, including Timberland and Nike, began offering some organic products. But relative to Wal-Mart, which last year cranked out \$378.8 billion in sales, more than 3 per cent of the US gross domestic product, these multinationals are minnows in the consumer ocean. When Moby Dick began dabbling in organics, waves crashed ashore.

Today, Wal-Mart alone buys almost twice as much organic cotton – an estimated 9,000 tonnes this year – as was used annually by the entire world in 2000. More critically, Wal-Mart guaranteed its farmer partners that it was in it for the long haul, which meant they could continue to convert to organics without fear that their biggest buyer would suddenly change gears.

What's the environmental impact of this Wal-Mart-revved organic cotton boomlet? Organics are still a tiny fraction of this

industry and there may be better choices to reduce agricultural chemical usage, such as planting more genetically modified cotton – we'll leave that controversial debate for another time. But, considering the \$500 billion global cotton industry uses more pesticides and fertilisers than any other crop, there is no denying that Wal-Mart's move into organics, however modest, is a trend changer that benefits all of us.

Greening the supply chain

The successful organic cotton experiment came during a trying but opportunistic time for Wal-Mart. Its stock price had languished, under relentless attack because it paid low wages and offered fewer benefits than comparable retailers such as Target and Costco. It needed some public relations relief, but it also recognised that it needed to shake things up dramatically if it hoped to turn out of its tailspin.

According to Scott, the company began applying what it called a green prism to operations and products. It began looking at sustainability in holistic terms, which led to a review of everything from its supply chain to diversity programmes, from charitable giving

"When we first started examining how we operated, it was like picking up \$1,000 bills off the floor"

Wal-Mart executive on benefits of greening the supply chain

and community involvement to the health and well-being of all its employees, including its historically penurious benefit programmes.

One top executive told me he still shakes his head in disbelief that a company as relentlessly price competitive as Wal-Mart took so long to recognise the potential financial benefits from greening its supply chain. "We didn't have to launch major reforms because no matter what we innovated, we found it saved us money, buckets of money. When we first started examining how we operated, it was like picking up \$1,000 bills off the floor."

Not surprisingly, its 6,000 suppliers were initially wary. Who was this Green Giant issuing what sounded like apocalyptic challenges for them to re-examine their entire supply chain or risk being cut off by their single biggest purchaser?

"We were first introduced to sustainability

about two years ago and Wal-Mart drove that," recalls Brad Fraser, executive director of card product management at Cleveland-headquartered American Greetings, one of the world's largest greeting card companies.

AG receives 16 per cent of its \$1.77 billion revenue from Wal-Mart. "We were asked to attend 'business partnership meetings' in Bentonville focused on sustainability. When our single biggest customer talks, we listen." Just a year into its green make-over, Wal-Mart was already seeing strong bottom-line evidence that its "save money/live better" philosophy, designed around providing functional and emotional benefits to customers, meshed well with its new sustainability model.

Wal-Mart empowered each of its vendor managers to work with suppliers to hammer out a shared definition of sustainability that could yield real change. "For example, they had an expert in sustainability in the lighting area," says Fraser. "So we came back with a list of initiatives and brainstormed with them about how we could make our displays more energy efficient. We reviewed our large corrugated displays, which up till this time we were shipping to individual sites. That burned a lot in transportation costs. Based on what we learned in our sessions, we began packaging them in bulk to send to Wal-Mart distribution centres. That saved us and Wal-Mart a heck of a lot of money in fuel costs and cut down on wasteful packaging."

The new sustainability consciousness has resulted in new products and fresh perspectives. "In many cases, we were already moving green," Fraser notes. "More than 95 per cent of the paper we use is from certified forests, which are replanted. But Wal-Mart helped accelerate the process." This spring, AG launched a "Funny Card" line targeting younger consumers that uses 30 per cent post-consumer waste rather than 100 per cent virgin stock. New "green" leadership programmes are in the works. "We now use a green prism to review how we make our product, our merchandising, and our recycling. Everything is on the table."

Lee Scott maintains that sustainable business is by and large good business, an affirmation of market forces at work. Given that premise, the real question might be what happens once the company finishes sweeping \$1,000 bills off the floor? Charles Craypo, an emeritus professor in economics at Notre Dame university, sees no clear sign yet that its green initiatives are being matched in less



Greener stores, but questions remain

visible operating areas of the company where reforms might cut into profits.

"When Wal-Mart builds greener stores, it saves money and the environment benefits. But some messy realities may not fit the 'win-win' paradigm," he notes. "What about its long-time bad habits, such as allowing toxic run-off at its construction sites, which pollutes ground water and local streams? They're still getting fined for this, and they're building hundreds of new stores every year. Maybe the win-win model doesn't work here. Will they back away if there is no clear profit payback?"

Pay and benefits

While Wal-Mart has begun overhauling its pay and benefits programmes for US workers, it is not as clear that it so proactively addresses similar concerns among its far-flung operations elsewhere, where the media is less apt to be on its case. Even those most sympathetic to Wal-Mart raise questions about its global sourcing model, now emulated by most transnational corporations, which requires extracting low-priced goods produced in low-wage countries like China, where labour and environmental laws are de minimus.

On balance, is Wal-Mart doing more good than harm? That's a personal calculus based on how one defines sustainability and balances the benefits and harm caused by international trade. To its critics, Wal-Mart has no exit: the very goods it sells will forever condemn it to the Seventh Circle, where violence against people and property are the way of life.

By this measure, its signature low price strategy is a form of original sin that feeds the vain pursuit of growth and profitability. "The real environmental impact comes from what Wal-Mart sells: cheap commodities that are designed to wear out quickly," says Heather Rogers, author of "Gone

Tomorrow: The Hidden Life of Garbage".

Let's put aside the fact that such comments ignore Wal-Mart's building and product innovations, including its single hottest selling green item: long-lasting energy saving fluorescent light bulbs. Throughout the 1990s, Wal-Mart was widely praised for its modest prices on staples, which were considered a godsend for lower income consumers. But those benefits seemed to get lost in the shuffle as the public focus shifted toward loftier notions of sustainability.

Going forwards, it might be helpful to consider sustainability in the broadest, multi-faceted and most human sense, which would encompass notions of financial security – for low-income, hard-pressed customers who see Wal-Mart as a lifeline.

For all its problems, Wal-Mart recognises that stewardship is not just about what you produce but how you produce it. Sustainability is a mindset and a process. Is Wal-Mart "going green" to make money? Who cares? The company is rewriting the rules of sustainability for corporations, turning sustainability from "radical chic" into an everyday ethic, which is the formula for long-term sustainability – financial and environmental. And the company is forcing this lesson on the rest of the corporate world, even its competitors.

It's a lesson my daughter has already embraced, and she's trying desperately to pass it along to her father. "Wal-Mart is cool," she told me, when she dragged me back to the former Evil Empire, to buy a second pair of organic summer pyjamas. Now that's a sea change for Moby Dick. ■

Ethical Corporation's regular Last Word columnist, Jon Entine is an adjunct fellow at the American Enterprise Institute in Washington DC and consults on sustainable business, including for American Greetings. www.jonentine.com