



Wal-Mart Supercenters: What's in Store for Southern California?

Executive Summary

Wal-Mart Stores, Inc. is now the largest grocery retailer in the country based on sales. It is preparing to introduce its Supercenters, which combine a large general merchandise store with a full service market, into Southern California. The City of Los Angeles, in particular, with its 3.61 million people, 1.28 million households, and annual food store spending of approximately \$5.65 billion, is a very attractive market. Wal-Mart's planned expansion into the local grocery business creates both a challenge to the major grocery store chains in the region, and an opportunity for cities to encourage strategic reinvestment in underserved neighborhoods.

The LAEDC [Los Angeles County Economic Development Corporation] agreed to assess the economic implications of Wal-Mart's entry into the Southern California grocery market because existing studies, which tend to tally only the negative impacts of Wal-Mart's operations, miss half the story. Here we aim to provide a fair and balanced assessment of both the good and not so good impacts of Supercenters in Southern California. Thus, we include not only the potential effects on existing grocery chains and their employees, but also the potential savings to consumers, and the potential job creation outside the grocery industry.

Costs and Savings

Wal-Mart Supercenters have a substantial cost advantage relative to traditional supermarkets, based on careful supply chain and inventory management, volume discounts, and lower labor costs. Much of this can be attributed to Wal-Mart's willingness to invest in technology and business practices which make its operations more efficient. Wal-Mart passes the savings on to consumers, offering lower prices on groceries than traditional grocery market chains. If Wal-Mart Supercenters are introduced in Los Angeles, food prices should fall.

Wal-Mart shoppers would immediately save an estimated average of 15 percent relative to what they would have paid under the current status quo.

The savings could be higher, particularly in portions of the City of Los Angeles such as South Los Angeles and the northeast San Fernando Valley, which are underserved by traditional grocery stores. The corner stores where much of the food purchases in these areas take place offer uncompetitive prices relative to existing grocery stores, never mind Supercenters. As Wal-Mart gradually builds market share, major competitors will lower their prices as well, thus bringing additional savings to some consumers who will never set foot in a Wal-Mart store. Smaller stores will adjust by emphasizing specific market niches and specialty products which Wal-Mart does not provide.

The LAEDC conservatively calculated the potential savings to consumers in the City of Los Angeles to be *at least* \$668 million, or \$524 per household, annually, once Wal-Mart reaches 20 percent market share. The savings could be much higher, though the savings will not materialize overnight. They will increase gradually over many years in step with Wal-Mart's market share. These savings add to a household's discretionary *after tax dollars*—the portion of the income actually available for spending. This "found" money will be redirected to other items, including housing, savings, health, entertainment, and transportation. As households redeploy their savings, their spending will create jobs outside the grocery industry. In the City of Los Angeles, redirected grocery savings will create 6,500 additional jobs. The new jobs will be in a wide variety of occupations, reflecting the diverse spending patterns of Los Angeles households and the breadth of the regional economy.

The LAEDC also looked at the potential impact of Wal-Mart Supercenters on the entire Southern California market. In Los Angeles County, the aggregate annual savings to consumers would be at least \$1.78 billion. When the savings are redirected to other purchases, the county-wide job creation will total 17,300 jobs. For consumers in Imperial, Los Angeles, Orange, Riverside, San Bernardino, San Diego and Riverside counties, the combined total annual savings will be at least \$3.76 billion. The seven-county Southern California job creation total is 36,400 jobs.

Wal-Mart compensation, while lower than for the best-paid unionized grocery employees, is better than most people realize, particularly in its food business. Wal-Mart benefits include health care, a stakeholders' bonus, which is paid to employees at stores that perform well, profit-sharing, company contributions to 401(k) plans, which are the most common form of defined contribution retirement plan, a 15 percent discount on company stock, and a 10 percent discount on purchases of general merchandise. Wal-Mart's healthcare plan requires employees to share the upfront costs (Wal-Mart pays 2/3rd; the associates pay 1/3rd), but in return does not have single incident or lifetime caps on coverage.

Two important factors make Wal-Mart's wages appear lower than they might otherwise. First, Supercenters are a relatively new phenomenon. Most Supercenters have simply not been open long enough to have accumulated many employees with lengthy service records, and thus higher rates of pay. Second, and perhaps most important, Wal-Mart's pay among its front line grocery workers is skewed downwards because it promotes from within. Wal-Mart recruits its management primarily from within the ranks of its own employees.