

In recent decades, Walmart became a bit of a controversial company in America regarding its pricing. And, of course, the core reason why is simply that Walmart is so successful at serving people well! You see, a bland, average dry goods chain of stores with a relatively few customers doesn't really capture the imagination and fantasies of crusading politicians and muckraking journalists.

But wait a minute, you say! I've been to Walmart stores before, and if there's one thing Walmart *is*, it's bland and average! Well, you're not the first person to think that. After all, there's not even one thing you can buy at Walmart that you can't get at a dozen well-known competitors across America. And what Walmart handles in their stores is a straightforward picture of daily consumption and use in a place like the United States. Pickles, paper towels, peanut butter, laundry detergent, bicycles, aspirin, tomato sauce, light bulbs, and hair gel. Big deal. So, really, why would Walmart be controversial?

Well, in a nutshell, Walmart is controversial to some mostly because Walmart treats relatively poor working folks and retirees in America much better than virtually every other company does. And Walmart does that with a sort of relentless honor and dignity, better than the government does! And that makes some people very upset—ironically often the very people who tend to posture themselves as champions for the poor and downtrodden. Say what? Yeah—so let's go back to a bit of history.

In 1945, Sam Walton left employment at JC Penney, the department store chain, and purchased a Ben Franklin variety store. And after he did that, he did something pretty profound: he broke the mold by creating fresh supply-chain relationships outside the expected—and drove costs down, lowered prices to customers, and increased sales. Sound familiar? A few years later, Sam started his “Walton Five and Dime” on Main Street in Bentonville, Arkansas, the hometown of Walmart to this very day.

By 1962, when Sam had about a couple of decades of rough-and-tumble retail experience, he co-founded Walmart with his brother Bud, with the first location in Rogers, Arkansas. He named it “Walmart Discount City,” and the rest is history: 18 stores in the first five years and the nation's largest retailer in sales by 1989—and that was before Walmart had any stores in California or the Northeast. And just who did Walmart displace as the largest retailer? Sears, itself having a long run of retail success.

Nowadays, Sam's legacy via Walmart is beyond imagination! Walmart is the world's largest corporation in terms of retail sales. Over 10,000 stores worldwide. Multiple brands on storefronts around the world—with the most well-known being the Walmart-branded umbrella of neighborhood markets, stores, and supercenters...and don't forget its Sam's Club warehouse locations.

So, during the past 60 years, Sam and his Walmart executive successors in the stewardship of Americans' retail experience—alongside their huge band of Walmart associates—have been grinding out amazing value every day for their customers. What's that? *Customers*? Yeah, the over 230 million folks who vote with their pocketbooks each year as Walmart shoppers. That's a whole lot of fans, folks!

Here's the thing. This episode is one in a series about finance. And the overwhelming, definitive fact of finance is that 230 million people operating in free markets choose to spend their hard-earned money at Walmart. And the working infrastructure to consistently serve that many people in a cohesive, reliable international operation reveals that Walmart is one of the most sophisticated organizations ever!

So, just what is Walmart's “infrastructure” here? Well, it's a system of the key elements combined into a supply chain that smoothly, consistently, and comprehensively provides the goods and services that many millions of people want and need. The elements of that infrastructure include a myriad of versatile suppliers...and thousands of stores and the distribution centers...and massive amounts of equipment like trucks and refrigerators and computers...and tried-and-true processes...and over two million associates—and all of that working together like a concert symphony. Seriously, that requires years of good choices and refinements into a very complex yet smooth operation—and the enormous financing to put all that together. You know, financing—the enormous capital that it takes to serve so many millions.

Hey, let's gain some context for all that—in dollars. Walmart's most recent official accounting statements at yahoofinance.com gives us a picture of the huge scale of Walmart that's required to serve 230 million customers well. Here we go with some specifics: Walmart has about \$244 billion in assets—comprised of stores, trucks and inventory and the like—and it has about \$152 billion in liabilities. Huge.

But here's where the Walmart story on Yahoo Finance glitters! You see, during the last full twelve months in its income statement, shoppers spent over one-half trillion dollars with Walmart! That's a whole lot of consumers voting with their dollars! Yeah, that's a lot of meeting the needs and wants of 230 million people! Still...here's the very most astonishing statistic derived from Walmart's financials: the company only makes about 2.4 cents in profit for every dollar spent at Walmart! That's right, when we buy bread and milk and lettuce and toothpaste and whatever at Walmart, spending, say, \$100.00...well then, Walmart only makes \$2.40 in profit! Compare that with Apple, which makes about \$25 in profit for each \$100 in revenue! That's right, Apple makes 10 times the profit rate as Walmart!

But here's the really crazy part: it doesn't take long listening to political nonsense to hear that Walmart is often considered kinda evil by socialist-types. They are angry that Walmart is what they like to identify as a supposedly "predatory pricer" in the marketplace—evil for putting other businesses out of business. But Walmart has only about a 6% market share of all retail—that's because everyone in a place like the U.S. can go to Target, Amazon, grocery stores, and malls to get the same stuff as they can at Walmart!

But what does *predatory pricing* really mean to Walmart's critics? Well, that some smaller stores couldn't compete with Walmart. And that's true! I grew up in a small town in Colorado where the prices were very high in the few stores on Main Street. That's essentially because those store operators were *not motivated to do what Sam Walton did*—go out and build a very efficient chain of stores to give their neighbors better deals. Sadly, the real truth is those local store owners were poor stewards of their neighbors' pocketbooks! So, unsurprisingly, when Walmart comes to towns like mine, the residents are very happy to pay far less at Walmart for the same goods—and have much better selection to boot! Turns out, Walmart is clearly more "neighborly" in being a steward than those unmotivated local store owners! Now—fast forward to today: it's no surprise that 230 million fans shop at Walmart stores!

The reality is, Sam Walton and Walmart have been authentic heroes to the working poor and elderly the past 60 years in America! Not only does Walmart provide all those necessities of life at very low prices—in doing so, Walmart has compelled many of its competitors to have to work to lower *their* prices to remain competitive—you know who...grocery stores and Target and many other retail locations, too!

This is true, too: Walmart has done more than every nonprofit in helping the poor. Yes, Walmart helps those at the edge of price affordability for real needs. Yes, Walmart has honored its countless financially-conscious customers with fantastic value...without a demeaning tinge of a one-way handout. Yes, Walmart has helped lift countless people out of poverty through developing international supply chains. And yes, Walmart has honored the dignity of its associates with meaningful work in serving customers. So, yes, all that success is what free markets facilitate when a Sam Walton goes into action!

So, just why *are* there critics of Walmart prices? Well, one key reason is because Walmart is a living, breathing, neighborly, highly-successful threat to the pretensions of centralized government and a very clear contrast to the routine failure of socialist practices around the world. Walmart's critics complain about the pricing and alleged greed of free-markets capitalism manifested at a Walmart—even while they happily read texts on their very expensive Apple iPhone while they shop at wildly expensive, upper-class retail places like Whole Foods! Perish the thought they would grace the cement floors at Walmart!

Hey, there's even a petition against Walmart at an activist website. But that petition's now closed with just 15 people signing it...while 230 million shoppers keep on keeping-on at Walmart. Hmm. That tells us that 60 years of results are in and tell the story: the number of Walmart's fans voting their pocketbooks vastly overwhelms its critics—230 million to just 15! Well done, Sam—very few have ever done it better!

A&A: Application & Action

1. When it comes to risk, would you be willing to earn just 2.5% (which is slightly above the profit rate of Walmart) on a million-dollars-of-sales business that you start from scratch...that would mean a net annual income for the business of \$25,000? If you *are* willing, would this properly be considered an excellent ministry of excellence and cost-savings to your customers? Discuss.

2. Can you think of a government entity or a nonprofit organization trying to provide consistent daily services to the working poor and elderly—year-in and year-out—that is as efficient and cost-effective in delivering astonishing large-scale supply chain effort results like Walmart? Be specific about the identity of those entities being fruitful with taxpayer dollars or donor contributions.

3. Would you be more likely to sign a petition to keep your local Walmart going or a petition to shut it down due to its “predatory pricing?” Explain.