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How Do You Deal with the Entry of a New Wal-Mart Supercenter into Your Town?

by **Kenneth Stone**

Should you or should you not support the location of a Wal-Mart store in or near your community? This is a question that has been asked and answered by some 3,000 communities in the United States since Sam Walton opened the first Wal-Mart in 1962. It is a question that has caused strong public reaction, debate, demonstrations, boycotts, and lawsuits. I use Wal-Mart as the store in this article but any big-box store could be named.

Issues of concern to local governments such as job creation or loss, land use policy, and environmental and economic impact have raised many questions. Wal-Mart's customers and local government residents, however, have answered these controversial questions by opening their pursestrings and making Wal-Mart the number-one retailer in the world, with annual sales in 2005 predicted to be nearly \$300 billion.

So why is there so much controversy about Wal-Mart? This question could be answered in several ways. First, nearly everyone likes a winner. Wal-Mart's financial success has definitely shown the retailer to be a winner. Sometimes, however, winners can be bullies. And some people view Wal-Mart's power as a bit, or a lot, too much.

This article will outline some of the strategies that have made Wal-Mart a winner and comment on the almost certain economic and social outcomes of the addition of a Wal-Mart to the economic mix in a community that has not had such a store previously.

When Wal-Mart opens a store in a new location, both positive and negative changes occur in this community, as well as in surrounding jurisdictions. Furthermore, the same changes that appear to be positive in some ways for some groups or businesses may be negative for others.

What Is Wal-Mart's Winning Strategy?

Anyone who has missed the point of the bouncing yellow smiley face in Wal-Mart's TV advertising, promising "Everyday low prices-Always," must be living on another planet. Wal-Mart has aimed to create an unflinching image of low prices for consumers every day, and while this is not strictly true for all items on all days, it comes close enough so that few customers dispute this carefully constructed image.

By continually emphasizing the concept of everyday low prices and never featuring "sales," Wal-Mart has reduced its advertising costs. Most Wal-Mart stores send out 13 circulars per year, compared with 53 or more for their competitors. Wal-Mart's main advertising medium is television. By advertising on one TV station, the company can cover the trade areas of many of its stores.

Consequently, ad revenues for many local newspapers and radio stations are reduced, as Wal-Mart causes some competing businesses to fail, with a subsequent loss of advertising for local media. Wal-Mart's expenditures on advertising have been around 0.4 percent of sales in the past, compared with 2 to 4 percent of sales for most local businesses.

How does the number-one retailer maintain an image of low prices? First, by actually making sure its prices are lower than its competitors, at least on key items. These items are called "price-sensitive" items in the industry, and it is commonly believed that the average consumer knows the "going price" of fewer than 100 items. These tend to be commodities that are purchased frequently.

A mid-size Wal-Mart supercenter may offer for sale 100,000 separate items, or stock-keeping units (skus). Wal-Mart and other major retailers believe that the general public knows the going price of only 1 to 2 percent of these items.

Therefore, each Wal-Mart store shops for the prices of only about 1,500 items in their competitors' stores. If it is ever found that a competitor has a lower price on one of these items than Wal-Mart, the store manager will immediately lower his or her price to be the lowest in the area.

Local officials face somewhat of a Hobson's choice in deciding whether to allow new big-box stores to locate in their communities. On the one hand, most of us in the developed world profess to believe in the capitalist economic system, which holds that few roadblocks should be thrown in the way of new businesses. On the other hand, most of us value the current business and cultural heritage in our communities and do not desire to see this culture harmed by outside forces like big-box stores.

Price-sensitive merchandise is displayed in prominent places such as the kiosk at the entrance to the store, as well as on end caps, in dump bins, and in gondolas down the main aisles. Consequently, when Wal-Mart customers see the items of which they know the price, the ones always priced lower in Wal-Mart, they start assuming that everything else is also priced lower than at competing stores. This assumption is simply not true.

My barber has offered me a simple example. He sells a nonbreakable pocket comb for 25 cents that he procures from his vendor for eight cents. Wal-Mart sells a lower-quality comb for 98 cents, and one would assume that Wal-Mart pays less for it than the barber does. People keep buying Wal-Mart combs, however, because the average person does not know the going price of a pocket comb, and it is automatically assumed that the Wal-Mart price is the lowest.

Wal-Mart also negotiates the lowest possible prices from its vendors. Vendors often respond by having their merchandise manufactured in countries where wages are lower, especially if the items are labor-intensive to make. While Wal-Mart established its "Good Old Boy, Supporting the USA" reputation by advertising that much of its merchandise was American-made, it has steadily squeezed vendors on price so hard that much of its merchandise is now imported, or outsourced, from developing countries with low wage scales.

Wal-Mart's superior distribution system has also helped the company to sell at lower prices. Its cost of getting merchandise from the producer to the retail floor is reputedly less than that of any of its competitors. This was accomplished by the company's early adoption of a scanner checkout tied into a satellite communications system.

As each item is scanned at the checkout counter, the relevant data are nearly instantaneously sent by satellite to Wal-Mart's home office, to its distribution centers, and perhaps most important, to its vendors. Therefore, everyone in the supply chain knows the status of inventory in every store at any given moment, which allows a substantial portion of resupply to be accomplished with little or no human intervention.

What Are the Impacts of a Wal-Mart to a Community?

My studies of Wal-Mart supercenters in Iowa and Mississippi have shown that total local sales usually increase after the opening of a supercenter. This is because a huge store like this one will keep a lot of residents shopping at home, rather than outshopping to other localities, and it will also attract more residents from outlying areas.

This effect can be observed in most communities of up to 50,000 or so in population. In larger places, the impact of one store is hard to measure; however, larger communities usually get more than one supercenter.

I have two intuitive rules of thumb I use in determining which merchants get hurt and which ones get helped. Rule of thumb No. 1 is that merchants in a host town that are selling something different from the supercenter often experience an increase in sales, as they benefit from the spillover of Wal-Mart's high-traffic draw. Examples of these businesses are furniture stores, restaurants, various service businesses, upscale stores, and so forth.

Rule of thumb No. 2 is not so pleasant for existing merchants. It is that anyone selling the same merchandise as a supercenter is in jeopardy and will probably lose sales unless the store is repositioned to capitalize on its own strengths and the supercenter's weaknesses. Local grocery stores are usually the hardest hit, with sales declines of some independent stores reaching 25 percent or more per year.

An earlier study of Wal-Mart supercenters in Texas showed that drugstores in the host town suffered a substantial loss of sales after the opening of a supercenter. An ongoing study in Iowa reveals that there also are sales losses to several other types of stores in the host town, including those selling apparel, jewelry, sporting goods, tire and lube services, eyewear, photo services, and any other, similar merchandise to Wal-Mart's.

In summary, a new supercenter makes the host place more of a regional trade center. In larger communities, it sometimes forms a critical mass that attracts such other chain stores as home improvement and office supply retailers and restaurants. Conversely, a new supercenter usually captures enough sales from competing firms that at least some businesses in the host city or county and surrounding areas will fail.

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What Is the Basic Dilemma for Local Officials?

Local officials face somewhat of a Hobson's choice in deciding whether to allow new big-box stores to locate in their communities. On the one hand, most of us in the developed world profess to believe in the capitalist economic system, which holds that few roadblocks should be thrown in the way of new businesses.

On the other hand, most of us value the current business and cultural heritage in our communities and do not desire to see this culture harmed by outside forces like big-box stores. The dilemma is further complicated by the desire for more revenue for the jurisdiction, which tilts many local officials toward favoring the entry of new big-box stores.

Should Local Officials Offer Financial Incentives?

Some local officials are so desperate for new tax revenues that they recruit big-box stores and offer substantial financial incentives to attract them. Usually, the financial incentives take the form of tax abatements, tax-increment financing, extension of infrastructure to the site and other preferments, but occasionally outright cash payments are made.

In my opinion, these practices are not fair in most cases. More than one local business person has characterized these procedures as "taking taxpayers' money to give to a big company (that really doesn't need it) that will use it to help put local firms out of business." I believe that the only time when subsidies to big retailers are legitimate is when they will entice a developer to build in a blighted area or another district desperately needing new retail facilities.

The key question then is: Is there a net increase in tax revenues to the local government after the big-box store opens? The answer varies according to location, the incentives offered, and the competition. Property taxes collected from the new store are often partially offset by reduced collections of property taxes from competing merchants that go out of business.

The initial surge in local sales taxes also may decline after some of the local competing firms go out of business. My studies of regular Wal-Mart stores in Iowa showed that, on average, total town sales rose for the first few years after a Wal-Mart store opened, but after 10 years total sales fell below the pre-Wal-Mart opening level. This occurs primarily because of the saturation effect of Wal-Mart's placing its own stores ever closer together and thus "robbing Peter to pay Paul."

Is Retailing a Zero-Sum Game?

Many economists believe that in the majority of the United States—with the exception of several rapidly growing metropolitan areas—retailing is essentially a zero-sum game. In other words, the population is at best stable, and when a big-box store comes into a community, its sales are captured from existing businesses.

For example, if a new Wal-Mart supercenter opens in a town with no population growth and generates sales of \$70 million per year, the \$70 million doesn't come out of thin air; it comes out of the cash registers of competing businesses in the host town and surrounding areas.

Some of the host-town businesses, like grocery stores, may suffer huge losses and be forced to close, but even businesses suffering smaller losses can become nonviable as a result. Perhaps, the most tragic impact of a supercenter is upon businesses in outlying, smaller towns. The owners of these stores have absolutely no say in the decision to allow the supercenter to build but often are severely affected.

What to Do with Abandoned Stores?

When a supercenter is built in a jurisdiction that already has a regular Wal-Mart, the old Wal-Mart store is often abandoned. Wal-Mart leases the great majority of its stores and typically still owes lease payments on them when they are abandoned. In recent years, approximately 400 old Wal-Mart stores sat vacant at any one time.

These vacant stores present a big problem for the host community. Sometimes, although they occupy prime property, there is little demand for such a large store there. A few old Wal-Marts have been converted into antique malls or Hobby Lobbys or warehouses, and a few have even been converted into churches. The problem is that most of these structures—the ones not converted—become eyesores, as they are minimally maintained after abandonment.

There is no easy solution to the abandoned-store problem. One possible solution, however, is for the host locality to negotiate an agreement with Wal-Mart that, after a reasonable time (three years, for example), the building must be torn down and the property restored to a developable site, all at the expense of Wal-Mart or the landlord.

So why is there so much controversy about Wal-Mart? This question could be answered in several ways. First, nearly everyone likes a winner. Wal-Mart's financial success has definitely shown the retailer to be a winner. Sometimes, however, winners can be bullies. And some people view Wal-Mart's power as a bit, or a lot, too much.

What Can Local Officials Do to Arrive at the Best Decision?

One of the worst things that local officials can do is give the public the impression that they are operating in secrecy and without community input. Wal-Mart usually "plays its cards close to the chest" when it is laying its groundwork for building a new store in a community. As soon as local officials become aware of Wal-Mart's intentions, the public

should be advised.

I offer these tips to arrive at an equitable decision. Local officials should:

1. Educate themselves about the economic and social impacts of a new Wal-Mart store. Several studies are available online at www.seta.iastate.edu/library.aspx?lmode=1<opic=6.
2. Hold hearings to collect public input.
3. Have independent experts analyze Wal-Mart's marketing plan.
4. Be assertive with Wal-Mart about meeting the locality's sign ordinances and harmonizing with building styles.
5. Offer financial incentives only in cases of developing blighted areas.
6. Make sure that there are minimal environmental impacts.
7. Negotiate with Wal-Mart on the disposition of an old Wal-Mart store when it is replaced by a supercenter.
8. Provide educational programs to help existing merchants to compete after a building permit has been given to Wal-Mart.

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Ethics

Reflections on ICMA's Code

Author Terry Cooper, in his ethics textbook *The Responsible Administrator*, notes that the ICMA Code of Ethics is the "most operational" of the codes adopted by associations of governmental professionals. The code of the National Education Association (NEA) is the only other one that has an enforcement mechanism. Cooper notes, with apparent approval, that the ICMA Code is 300 words long, while NEA's contains 1,200 words.

He takes the position that effective codes of conduct cannot be imposed upon a group. They require the active participation of many. Ethical laws may be imposed, but there is a significant difference between laws and codes. Generally, codes are a statement of the ethical optimum, as opposed to laws, which are a statement of the ethical minimum.

Participation and acceptance by many is important because under these circumstances the code of conduct is more likely to be internalized. Internal controls are better than external ones. If a code of conduct is internalized, it becomes more intuitive, and there is less need for an outside monitor. If this is the case, the code can be maintained even with lax supervision.

Cooper quotes author Fritz Marx as follows: "Judicial redress, official liability, and the whole gamut of disciplinary measures are poor substitutes for a sense of duty. No formal device for accountability can give us a clue as to the components of answerable conduct. One cannot commandeer responsibility. One can only cultivate it, safeguard its roots, stimulate its growth, and provide it with favorable climatic conditions."

The Association's stated and enforced Code of Ethics is what sets ICMA members apart from others in local administration. It is the most valuable commodity or quality that we bring to the table.

You can be average in your financial planning ability. You can be average in your communications ability. You can pursue a reasonable course of continued professional development. But you cannot be a person of average integrity. You cannot be reasonably honest. As public administration professionals, we are required to adhere to (or aspire to) the highest ideals.

In my opinion, the Committee on Professional Conduct (CPC) is the "keeper of the flame" for the profession. As representatives of ICMA's membership, CPC members are on the front line in giving meaning and relevance to the code. Let me hasten to add that I think the proper purpose of this flame is more to give light than heat; the emphasis needs to be on education, training, enlightenment, and raising members' awareness of the code's content and purpose.

Even when the heat must be applied and punishment meted out, I think the emphasis, to the extent possible, should be on reeducation, rehabilitation. Sure, there are some members who deserve a harsher penalty for not abiding by the code, but these cases are so obvious that you won't even debate the point. When you see room for debate, I urge you to think in terms of rehabilitation and not of punishment.

Awareness

While I was sitting in my first ICMA Executive Board meeting, a case was being considered regarding a violation of Tenet 12. A city had issued bonds insured by a national company, and the city manager was pictured in a magazine ad on the ski slopes: he could now relax because managing the city's finances was so easy and successful. Well, his elected officials had asked him to appear in this ad because they thought it would be good advertising for the city, but it was clearly a case of endorsing a commercial product in a commercial ad.

As I thought about this, a cold chill went down my spine. Our city had been using a neat little integrated accounting system, and it was a godsend after dealing with the accounting mess I had found when I got there. It was such a good

product that Arthur Young bought it from the mom-and-pop operation that had developed it.

My old friend Bob Bowman, who worked for Arthur Young (AY), was in my office one day and asked what I thought of the product. I was effusive in my praise. He took out his tape recorder and asked if he could tape me. I said, "Sure." At this point, I wasn't thinking that my praise could be considered an endorsement.

Later, as I attended a board meeting being held at the first ICMA conference that had exhibitors, I knew that AY was one of them. Suddenly, I could just hear my praise of this product being played at the AY exhibit, and I would be busted before I finished my first board meeting. I rushed to the exhibit hall to make sure this was not happening. It was not, but you can be sure that my awareness level had been raised.

At this point, I am going to make two assertions, assertions that may or may not seem obvious to you. I think these ideas, however, ought to be central to the way you conceptualize the role of the CPC.

First, the ICMA Code of Ethics has nothing to do with religion, religiosity, or any creed. Our code is the cultural consensus of the members who have banded together to develop it and who have agreed to accept and abide by it.

Second, there is a difference between what is legal and what is ethical; something can be legal and still not be ethical. The ICMA code describes as unethical much conduct that is perfectly legal. For those who think in legalistic terms, the code is not intuitively correct. In fact, those who think in legalistic terms as they try to apply the code are doing it a disservice.

The rules of procedure adopted by the executive board list the factors that may be considered in determining the level of sanction to be applied in the case of an offense:

- Nature of the violation.
- Prior violations by the same individual.
- Willfulness of the violation.
- Level of professional or public responsibility of the individual.
- Any other factors that bear on the seriousness of the violation.

If the code were carved in stone like a religious creed or set in law, a staff person could look at the facts and mete out the appropriate punishment. This committee, the CPC, is needed because every case must be considered on its own. There must be some generalized concern for precedence, but in my experience, each case is unique.

"The nature of the violation" is a question that is pretty easy to deal with, I think. Lying, cheating, stealing, assaulting, and things like these get a harsher penalty. When it's illegal, it's easy to judge. The difficulty occurs when the violation is not illegal but has been defined as unethical by our code. This is where we sometimes have to wrestle with it.

But if there are prior violations by the same individual, and this has been brought to the individual's attention, then the reeducation has been attempted and failed. Prior violations make a decision easier.

The willfulness of the violation comes into play a lot. Was it someone like me making a stupid mistake, or what could have been a stupid mistake, or was it someone acting with malice aforethought? I mean, I never meant to commercially endorse a product, but it could have ended up that way.

The ICMA board, in a formal guideline, has stated that the CPC should consider the member's "level of public or professional responsibility." Our mission is that professional public administration should support democratic government. To what degree does the conduct in question threaten or undermine this basic mission?

I have always championed the role of assistants in our organization, but this is one case in which I would say that the manager is more important than the assistant. The manager is the prime representative of the profession in a community and bears a greater burden. Others would argue that this creates a double or even triple standard, with some members being held to a higher level of conduct than others. I think there is an important distinction to be made, however. All ICMA members are expected to adhere to the same level of conduct; any difference in the impact of their conduct is only being considered in making a determination of the appropriate disciplinary or corrective action. And there may be a difference in impact between the action of a manager and the action of an assistant.

Questions and Answers

We encourage members to report what might be violations of the code, but we do not require them to do so. Should we, as part of the code, require members to report possible violations?

I don't think so. From an enforcement point of view, you have the difficult question of who knew what, when. Most "possible violations" are just that-possible violations. A real determination cannot be made until there is a thorough investigation. Some members may not consider that a violation has occurred and therefore not report it. In my experience, ICMA members take the code seriously, and only in an extremely isolated instance would a significant possible violation go unreported.

But doesn't voluntary reporting mean that the members of "the old boys' network" won't report each other?

I guess, in all modesty, that the consensus would be that I am part of "the old boys' network," to the extent that there is one. Senior members of the profession, maybe more than others, know what got them to where they are. They know the importance of the code to the profession.

And they know that the "level of public or professional responsibility" of senior members means that their violations would have a greater impact on the profession and the members. This being said, I have no doubt that one of my cohorts would not hesitate to bring an ethical violation of mine to the attention of ICMA, and I would not hesitate to do this with one of his or her violations either.

Why do we allow anonymous reporting? Doesn't the accused have the right to face his or her accuser?

There is an important distinction to be made. The person making a report of a possible violation does not stand as an "accuser." The matter is being brought to the attention of the CPC for investigation to determine if a violation has occurred. The reporter may or may not have personal knowledge of the conduct in question and may or may not have formed an opinion of whether a violation has occurred.

An independent investigation of the facts determines whether violations have occurred, and the members have a full opportunity to participate in this investigation and to present their facts and points of view.

I have a problem with the private censure, in which case no one else knows that a problem has been addressed. And the person can go on to be a state officer or serve on the ICMA board.

First of all, the state or provincial president and the person reporting the conduct are notified of the private censure. Second, a person who has been corrected, educated, and enlightened may very well be one of our better members. As Joyce Cary wrote in his novel *The Horse's Mouth*, "The only good government is a bad government in a hell of a fright."

How should the ICMA board handle a possible violation by a board member?

This should be handled in exactly the same way as the possible violations of other members. There should be the same independent investigation of the facts and careful attention to following the regular procedure.

If a situation involves a legal proceeding, the CPC makes it a practice not to act until the legal proceedings are complete. With appeals, this could take years. Do you think we should continue this practice?

Quick, decisive action on a violation is always to be desired. I think, however, that ICMA's legal counsel will advise you that taking action before a legal case is complete exposes ICMA to much more liability than it cares to assume.

—Curtis Branscome

Chief Executive Officer

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This article is adapted from a presentation given at the orientation meeting of the 2005 ICMA Committee on Professional Conduct, held on December 4, 2004.

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DEPARTMENTS

On Retirement

Accrued Health Care Benefits

Public managers across the United States often ask me how they can provide affordable health care benefits to their retired employees. For some public officials, this is one of the most difficult challenges they face today.

Even for the most experienced public officials, meeting health care obligations to retirees without depleting government budgets is an enormous challenge, especially when making decisions that might alienate taxpayers, current or former employees, or both.

Consider that the cost of health care benefits for employers has been increasing dramatically for years, and no consensus exists as to when double-digit inflation in health care costs may end.

Next, consider a new rule from the Government Accounting Standards Board. The GASB rule requires that the costs for retiree health care benefits earned by individuals while employed should be accrued while they are employed. Additionally, employers who have been promising these benefits and not setting assets aside to pay for them have created an accrued unfunded liability that must be accounted for under the new standard. This change could generate a financial liability that might weaken many local governments' balance sheets, already under pressure from budget constraints and pension funding shortfalls.

Fortunately, a solution is available to public managers: employer retirement health investment programs. These separate, dedicated trusts-like ICMA-RC's VantageCare RHS Employer Investment Program-help employers to put aside funds to meet their anticipated obligations. Instead of holding these assets in their general funds, employers can use these separate trusts to dedicate assets exclusively for retiree health, thus offsetting their GASB liability. This action protects both the employer and the employee and allows for actuarial studies on retiree health liabilities to use a portfolio rate of return, rather than one for short-term general-fund investments.

Clearly, medical costs will continue to rise at rates greater than inflation for the foreseeable future, and employer prefunding of retiree health benefits will become critical. But now, through retirement health investment programs, public managers have an effective way of providing affordable health care to their employees in retirement.

—Joan McCallen
CEO and President
ICMA Retirement Corporation
Washington, D.C.

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DEPARTMENTS

Fast Facts

Benefits of E-Government

- Nearly 70 percent of local governments report improved communication with the public as a result of their e-government initiatives.
- 56 percent cite improved customer service.
- More than 99 percent of local governments have Internet connectivity.
- All reporting jurisdictions with a population of 250,000 or more have a Web site.
- Close to 60 percent provide downloadable forms, online communication with elected and appointed officials, employment information and applications, and codes and ordinances on the local government Web site; nearly 76 percent post council agendas and minutes.
- Fewer than 30 percent of respondents accept online requests for local government records or services (such as pothole repairs), provide GIS/mapping data, or send electronic newsletters to residents and businesses, but 50 percent to 62 percent of these respondents plan to provide these services in the future.
- The most frequently cited barriers to e-government initiatives are lack of financial resources (64 percent) and lack of technology/Web staff (63 percent).

Statistics taken from ICMA's 2004 E-Government Survey. Aggregate results are available on [ICMA's Web site](#). Complete survey results, downloadable for analysis, are available at <http://bookstore.icma.org> (select "E-Documents" from the lefthand menu).

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