

**EFFECT OF  
RETAILING INDUSTRY  
& WAL-MART INC.  
ON AMERICAN ECONOMY  
(1973-1982)**

**BY**

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## **Introduction :-**

Macroeconomic variables keep on changing and these events constantly make news. Price, interest rates, output and employment rise and fall. The economy can face either the inflation or the recession or the combination of both known as Stagflation.

Eleven times in this century, including the decade in consideration, the world has faced recession and depression of a vast dimension. The first time we failed in 1914 then again in 1929, 1937, 1945, 1948, 1953, 1957, 1960, 1973, and 1980.

In the decade of the 1970's, the U.S. Economy experienced its worst performance in four decades. Rising inflation and stagnant productivity growth are said to be responsible for this situation.

This paper is a study of the major macroeconomic changes and their effects on retailing industry in the period 1973-1982. This paper is divided into three major sections. Section one deals with the macroeconomic changes in the said period. Section two deals with the macroeconomic industry performance in the period and then make comparisons if the industry's performance was consistent with the economy.

Finally, section three investigates the performance of a single firm from the same industry and see if some major changes occurred in the company's behavior during the period. The firm I chose, is the Wal-Mart Inc., because of its fastest growing nature.

## **Economy in the 1970's:-**

The macroeconomic variables which I chose as indicators of macroeconomic performance, are GNP, Consumption, Inflation, Unemployment and the Money supply. The values of these variables in the said period are given in the following table:-

<b>YEAR</b>	<b>CONS</b>	<b>PERCENT</b>	<b>INFLATION</b>	<b>UNEEMPLOY</b>	<b>GNP</b>	<b>PERCENT</b>	<b>MS%</b>
1973	1689.6	4.2	6%	5%	2744.1	5.2	9.96
1974	1674.0	-.9	11%	6%	2729.3	-.5	6.22
1975	1711.9	2.2	9%	9%	2695.0	-1.3	9.51
1976	1803.9	5.3	6%	8%	2826.7	4.9	13.6
1977	1883.8	4.4	7%	7%	2958.6	4.7	12.9

1978	1961.0	4.1	8%	6%	3115.2	5.3	8.90
1979	2004.4	2.2	11%	6%	3192.4	2.5	8.80
1980	2000.4	-.2	14%	7%	3187.1	-.2	6.76
1981	2024.2	1.2	10%	8%	3248.8	1.9	9.54
1982	2050.7	1.3	6%	10%	3166.0	-2.5	9.40

In 1973, unemployment was fairly low, consumption had increased much more than previous year and inflation stood at 6 percent. GNP growth from previous year was 5 percent.

The Economy did not do good in 1974. Money growth slowed down but inflation increased from 6-11 percent, unemployment increased by one percent and GNP decreased by 0.5 percent.

In 1975, inflation was slowed down but it was done at the cost of unemployment which increased by 3 percent. GNP decreased again in this year but consumption increased by 2.2 percent from 1974's level.

In 1976, inflation and unemployment decreased from previous year. GNP increased by 4.9 percent and money supply grew by 1.5 percent from previous year.

In 1977, inflation and unemployment went up by one percent, consumption increased by 4.4 percent and GNP growth was 4.7 percent.

In 1978, unemployment decreased but inflation increased. Money supply also decreased from 1977 level. Consumption grew at the same rate as in the last year and GNP grew by 5 percent.

In 1979, inflation increased to 11 percent, the consumption growth decreased to 2.2 percent and GNP decreased by 2.5 percent.

In 1980, inflation increased to 14 percent, money supply was decreasing continuously from last three years. Both consumption and GNP decreased. In fact both consumption and GNP decreased from previous year, unemployment increased by 1 percent.

In 1981, The administration became conservative under Reagen presidency. This year money growth increased by almost 3 percent. GNP growth was 1.9 percent and consumption grew by 1.2 percent. Inflation decreased by 4 percent and unemployment grew by 1 percent.

In 1982, GNP decreased by 2.4 percent but consumption grew by 1.3 percent. Inflation decreased to 6 percent on the cost of unemployment which grew to 10 percent of the labor force.

The general macroeconomic trends during this period were that both GNP and consumption were decreasing in the beginning of the period, then rose fast until the end of 1970's and then decreased again. Inflation was low in the beginning and in the end of the period but rising most of the period and was on the peak in 1980 at 14 percent. Unemployment was low in the beginning of the period but was high thereafter and was on the peak in the end of the period. During this period consumption increased 21.4 percent but GNP by 15.4 percent.

### **Retailing Industry During The Period :-**

After having a deep look on the macroeconomic variables, everyone would expect the retail industry to be to have increased more than expected, because the total growth in consumption exceeded the growth in GNP during the period. Industry slowed down in 1974 and 1975 but expanded from 1976-1980, since inflation was high in these years and from 1980 to 1982, it slowed down again. If we look into the data, we see that over all the period, the employment in the retail industry grew 23.7 percent and yearly compounded growth was 2.15 percent.

This was a healthy growth when compared to the growth in the employment in the whole economy, which grew total 16.7 percent over the period but annually only 1.5 percent.

Retail stores generally soared from 1971-1973, but some sectors of the retail trade had slowed down. The reason for slowing down in the sales in these sectors were mainly high interest rates and higher energy prices which affected mainly non-food retailers.

In 1974-1975, the effects of high energy prices and tight money policy (high interest rates) continued to have effect on the retail industry and because of uncertainty about the future, the industry was expected to grow at a relatively slow rate. That forced retail managements to examine operating procedures and find ways to make the operation, more efficient.

Retail sales in 1976 were expected to grow at a similar or higher rate than previous year. The prospects for a moderation of inflation and lower interest rates were expected to increase the consumer confidence. In 1977 and 1978, many companies went bankrupt because of higher

credit sales. Therefore industry became more cautious but increasing inflation was expected to increase sales. In 1979, the inflation continued to increase retail sales and strengthened the competition between major retail chains.

In 1980 and 1981, low retail sales were expected because of recession, savings by public was expected to increase and consumption to decrease.

In 1982, retail sales were not expected to increase much because of lack of consumer's confidence and tight money supply.

### **Wal-Mart Inc.**

First Wal-Mart store opened in Arkansas on July 2, 1962. The primary goal of the company was to provide people, in small towns, with cheap but quality products, so they did not have to go to cities to get good bargains.

By the end of 1987 Wal-Mart had almost 1050 stores and 160 Sam's Wholesales Clubs in operation.

About 80 percent of all Wal-Mart stores were located in small towns. By the end of 1987, Wal-Mart employed 183,000 people, its total sales were 19118.5 million dollars with total profit of 761.2 million dollars.

### **Wal-Mart during the period:-**

The performance data for Wal-Mart is shown in the following table:-

<b>YEARS</b>	<b>SALES</b>	<b>GROWTH %</b>	<b>COSTS</b>	<b>GROWTH &amp;</b>	<b>STORES</b>	<b>NEW STORE</b>
1976	340331	—	251473	—	125	—
1977	478807	40.7	352669	40.1	153	28
1978	678456	41.7	503828	42.9	195	42
1979	900298	32.7	661062	31.2	229	34
1980	1248176	38.7	919305	39.1	276	47
1981	1643199	31.2	1207802	31.1	330	54
1982	2444997	48.8	1787496	48.0	491	161

a. All the dollar values in 1000 of nominal dollars.

During the period 1976–1982, Wal-Mart annual compounded sales growth was 24.3 percent. Over the period it grew by 458.9 percent. On average, Wal-Mart opened, 52 stores a year in the said period. This is an excellent performance when compared to growth in the retail industry, which over the same period grew only by a little more than two percent each year with a total of 15.5 percent in the total period.

When macro economy was slowing down in 1973 and 1974, it made the whole retail industry to slow down but in 1975 the economy started to rise a little but industry did not start rising until in 1976 when inflationary expectations started to rise.

From 1976-1980, the economy was growing a little slower than the industry but Wal-Mart grew much faster than both the industry and the economy.

From 1980-1982, when the economy took a slump, the industry took a slump too but Wal-Mart continued to increase it's operation and had a record growth in 1982.

### **Reasons For Success:-**

After having a look on Wal-Mart's wonderful success, a question arises in mind that what were the reasons for this success? If I leave this question un-answered, the reader will not be satisfied. Therefore this section deals with these reasons for this brilliant success. These reasons can be summed under three head.

#### a) **Customer's Satisfaction:-**

At Wal-Mart as Sam M. Walton said that there is only one Boss and that is customer. This customer priority plus the concept of "Every Day Low Prices" took Wal-Mart to one of the biggest retail chains in just 25 years. The concept of customer's priority means that every shopping experience of the customers should be satisfying one.

The concept of "Every Day Low Prices" means that quality name brand merchandise are offered at every day low prices without waiting for sales.

This promise of the lowest possible prices is the merchandise pricing format at Wal-Mart. Efficient, friendly check-out experiences and no hassle refund and exchange policies are important incentive given to the customers.

### **Vendor' s Relation:-**

Wal-Mart's unprecedented growth in retailing requires a reliable supply line of quality merchandise. This needs good relations with vendors and suppliers. In Wal-Mart they both work with management as a partner on new product development and test marketing to satisfy ever changing customer's demand.

Joint efforts are made in package design, display techniques and quantity packing decision. This general framework of partnership and cooperation creates the right product at lowest possible price.

### **Associate Relations:-**

Every associate is an individual with certain God-given talents and abilities. If they are treated with respect and dignity and they are allowed to use their talents and abilities, it can really make difference in working atmosphere.

At Wal-Mart, they are trained by sharing information, open-door communication, computer net-work, gross roots meetings, weekly store meetings, Saturday morning meetings in the general office and year-end management meetings.

Educational experiences such as the Walton school of retailing, Retail management training seminars, Store with-in a store, Sam's operating school, Department managers development guides, in-store seminars for development and customer service managers and UPC clerk workshops, facilitate the objective of "Our people Make Difference".

### **Community Relations:-**

Another major reason for the success is the special attention given to the community. Wal-Mart's support of national agencies, Wal-Mart foundation matching grant program, assisting local non-profit organizations, Fund raising projects, hosting blood drives, assisting with voter registration and volunteering time to cleanup after natural disasters, provide the facilities to the communities.

### **Conclusion:-**

The relationship between macroeconomic conditions and the retail industry is clear and same

as expected. When the economy was growing, the industry was also growing. The relationship between Wal-Mart and the retail industry as not as expected. The company was following the macroeconomic and industry trend till 1980 but after that company did not follow the industry trend.

It was growing faster where as both the economy and the industry were contracting.

The major reasons for this success were excellent goals, cost controls, sales strategies and excellent management.

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1. All the data for macroeconomic variables is derived from National Income Accounts of the United States.
2. For industry data, See U.S Industry Outlook issued by U.S Commerce department.
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4. Sam M. Walton is founder and chairman of Wal-Mart Inc. and Sam's whole sable Club.

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