The Wal-Mart You Don't Know

The giant retailer's low prices often come with a high cost. Wal-Mart's relentless pressure can crush the companies it does business with and force them to send jobs overseas. Are we shopping our way straight to the unemployment line?

By Charles Fishman

A gallon-sized jar of whole pickles is something to behold. The jar is the size of a small aquarium. The fat green pickles, floating in swampy juice, look reptilian, their shapes exaggerated by the glass. It weighs 12 pounds, too big to carry with one hand. The gallon jar of pickles is a display of abundance and excess; it is entrancing, and also vaguely unsettling. This is the product that Wal-Mart fell in love with: Vlasic's gallon jar of pickles.

Wal-Mart priced it at $2.97—a year's supply of pickles for less than $3! "They were using it as a 'statement' item," says Pat Hunn, who calls himself the "mad scientist" of Vlasic's gallon jar. "Wal-Mart was putting it before consumers, saying, This represents what Wal-Mart's about. You can buy a stinkin' gallon of pickles for $2.97. And it's the nation's number-one brand."

Therein lies the basic conundrum of doing business with the world's largest retailer. By selling a gallon of kosher dills for less than most grocers sell a quart, Wal-Mart may have provided a ser-vice for its customers. But what did it do for Vlasic? The pickle maker had spent decades convincing customers that they should pay a premium for its brand. Now Wal-Mart was practically giving them away. And the fevered buying spree that resulted distorted every aspect of Vlasic's operations, from farm field to factory to financial statement.

Indeed, as Vlasic discovered, the real story of Wal-Mart, the story that never gets told, is the story of the pressure the biggest retailer relentlessly applies to its suppliers in the name of bringing us "every day low prices." It's the story of what that pressure does to the companies Wal-Mart does business with, to U.S. manufacturing, and to the economy as a whole. That story can be found floating in a gallon jar of pickles at Wal-Mart.

Wal-Mart is not just the world's largest retailer. It's the world's largest company—bigger than ExxonMobil, General Motors, and General Electric. The scale can be hard to absorb. Wal-Mart sold $244.5 billion worth of goods last year. It sells in three months what

number-two retailer Home Depot sells in a year. And in its own category of general merchandise and groceries, Wal-Mart no longer has any real rivals. It does more business than Target, Sears, Kmart, J.C. Penney, Safeway, and Kroger combined. "Clearly," says Edward Fox, head of Southern Methodist University's J.C. Penney Center for Retailing Excellence, "Wal-Mart is more powerful than any retailer has ever been." It is, in fact, so big and so furtively powerful as to have become an entirely different order of corporate being.

Wal-Mart wields its power for just one purpose: to bring the lowest possible prices to its customers. At Wal-Mart, that goal is never reached. The retailer has a clear policy for suppliers: On basic products that don't change, the price Wal-Mart will pay, and will charge shoppers, must drop year after year. But what almost no one outside the world of Wal-Mart and its 21,000 suppliers knows is the high cost of those low prices. Wal-Mart has the power to squeeze profit-killing concessions from vendors. To survive in the face of its pricing demands, makers of everything from bras to bicycles to blue jeans have had to lay off employees and close U.S. plants in favor of outsourcing products from overseas.

Of course, U.S. companies have been moving jobs offshore for decades, long before Wal-Mart was a retailing power. But there is no question that the chain is helping accelerate the loss of American jobs to low-wage countries such as China. Wal-Mart, which in the late 1980s and early 1990s trumpeted its claim to "Buy American," has doubled its imports from China in the past five years alone, buying some $12 billion in merchandise in 2002. That's nearly 10% of all Chinese exports to the United States.

One way to think of Wal-Mart is as a vast pipeline that gives non-U.S. companies direct access to the American market. "One of the things that limits or slows the growth of imports is the cost of establishing connections and networks," says Paul Krugman, the Princeton University economist. "Wal-Mart is so big and so centralized that it can all at once hook Chinese and other suppliers into its digital system. So—wham!—you have a large switch to overseas sourcing in a period quicker than under the old rules of retailing."

Steve Dobbins has been bearing the brunt of that switch. He's president and CEO of Carolina Mills, a 75-year-old North Carolina company that supplies thread, yarn, and textile finishing to apparel makers—half of which supply Wal-Mart. Carolina Mills grew steadily until 2000. But in the past three years, as its customers have gone either overseas or out of business, it has shrunk from 17 factories to 7, and from 2,600 employees to 1,200. Dobbins's customers have begun to face imported clothing sold so cheaply to Wal-Mart that they could not compete even if they paid their workers nothing.

"People ask, 'How can it be bad for things to come into the U.S. cheaply? How can it be bad to have a bargain at Wal-Mart?' Sure, it's held inflation down, and it's great to have bargains," says Dobbins. "But you can't buy anything if you're not employed. We are shopping ourselves out of jobs."

There is no question that Wal-Mart's relentless drive to squeeze out costs has benefited consumers. The giant retailer is at least partly responsible for the low rate of U.S. inflation, and a McKinsey & Co. study concluded that about 12% of the economy's productivity gains in the second half of the 1990s could be traced to Wal-Mart alone.

There is also no question that doing business with Wal-Mart can give a supplier a fast, heady jolt of sales and market share. But that fix can come with long-term consequences for the health of a brand and a business. Vlasic, for example, wasn't looking to build its brand on a gallon of whole pickles. Pickle companies make money on "the cut," slicing cucumbers into spears and hamburger chips. "Cucumbers in the jar, you don't make a whole lot of money there," says Steve Young, a former vice president of grocery marketing for pickles at Vlasic, who has since left the company.

At some point in the late 1990s, a Wal-Mart buyer saw Vlasic's gallon jar and started talking to Pat Hunn about it. Hunn, who has also since left Vlasic, was then head of Vlasic's Wal-Mart sales team, based in Dallas. The gallon intrigued the buyer. In sales tests, priced somewhere over $3, "the gallon sold like crazy," says Hunn, "surprising us all." The Wal-Mart buyer had a brainstorm: What would happen to the gallon if they offered it nationwide and got it below $3? Hunn was skeptical, but his job was to look for ways to sell pickles at Wal-Mart. Why not?

And so Vlasic's gallon jar of pickles went into every Wal-Mart, some 3,000 stores, at $2.97, a price so low that Vlasic and Wal-Mart were making only a penny or two on a jar, if that. It was showcased on big pallets near the front of stores. It was an abundance of abundance. "It was selling 80 jars a week, on average, in every store," says Young. Doesn't sound like much, until you do the math: That's 240,000 gallons of pickles, just in gallon jars, just at Wal-Mart, every week. Whole fields of cucumbers were heading out the door.

For Vlasic, the gallon jar of pickles became what might be called a devastating success. "Quickly, it started cannibalizing our non-Wal-Mart business," says Young. "We saw consumers who used to buy the spears and the chips in supermarkets buying the Wal-Mart gallons. They'd eat a quarter of a jar and throw the thing away when they got moldy. A family can't eat them fast enough."

The gallon jar reshaped Vlasic's pickle business: It chewed up the profit margin of the business with Wal-Mart, and of pickles generally. Procurement had to scramble to find enough pickles to fill the gallons, but the volume gave Vlasic strong sales numbers, strong growth numbers, and a powerful place in the world of pickles at Wal-Mart. Which accounted for 30% of Vlasic's business. But the company's profits from pickles had shriveled 25% or more, Young says—millions of dollars.

The gallon was hoisting Vlasic and hurting it at the same time.

Young remembers begging Wal-Mart for relief. "They said, 'No way,' " says Young. "We said we'll increase the price"—even $3.49 would have helped tremendously—"and they said, 'If you do that, all the other products of yours we buy, we'll stop buying.' It was a clear threat." Hunn recalls things a little differently, if just as ominously: "They said, 'We want the $2.97 gallon of pickles. If you don't do it, we'll see if someone else might.' I knew our competitors were saying to Wal-Mart, 'We'll do the $2.97 gallons if you give us your other business.' " Wal-Mart's business was so indispensable to Vlasic, and the gallon so central to the Wal-Mart relationship, that decisions about the future of the gallon were made at the CEO level.

Finally, Wal-Mart let Vlasic up for air. "The Wal-Mart guy's response was classic," Young recalls. "He said, 'Well, we've done to pickles what we did to orange juice. We've killed it. We can back off.' " Vlasic got to take it down to just over half a gallon of pickles, for $2.79. Not long after that, in January 2001, Vlasic filed for bankruptcy—although the gallon jar of pickles, everyone agrees, wasn't a critical factor.

By now, it is accepted wisdom that Wal-Mart makes the companies it does business with more efficient and focused, leaner and faster. Wal-Mart itself is known for continuous improvement in its ability to handle, move, and track merchandise. It expects the same of its suppliers. But the ability to operate at peak efficiency only gets you in the door at Wal-Mart. Then the real demands start. The public image Wal-Mart projects may be as cheery as its yellow smiley-face mascot, but there is nothing genial about the process by which Wal-Mart gets its suppliers to provide tires and contact lenses, guns and underarm deodorant at every day low prices. Wal-Mart is legendary for forcing its suppliers to redesign everything from their packaging to their computer systems. It is also legendary for quite straightforwardly telling them what it will pay for their goods.

John Fitzgerald, a former vice president of Nabisco, remembers Wal-Mart's reaction to his company's plan to offer a 25-cent newspaper coupon for a large bag of Lifesavers in advance of Halloween. Wal-Mart told Nabisco to add up what it would spend on the promotion—for the newspaper ads, the coupons, and handling—and then just take that amount off the price instead. "That isn't necessarily good for the manufacturer," Fitzgerald says. "They need things that draw attention."

It also is not unheard of for Wal-Mart to demand to examine the private financial records of a supplier, and to insist that its margins are too high and must be cut. And the smaller the supplier, one academic study shows, the greater the likelihood that it will be forced into damaging concessions. Melissa Berryhill, a Wal-Mart spokeswoman, disagrees: "The fact is Wal-Mart, perhaps like no other retailer, seeks to establish collaborative and mutually beneficial relationships with our suppliers."

For many suppliers, though, the only thing worse than doing business with Wal-Mart may be not doing business with Wal-Mart. Last year, 7.5 cents of every dollar spent in any store in the United States (other than auto-parts stores) went to the retailer. That means a contract with Wal-Mart can be critical even for the largest consumer-goods companies. Dial Corp., for example, does 28% of its business with Wal-Mart. If Dial lost that one account, it would have to double its sales to its next nine customers just to stay even. "Wal-Mart is the essential retailer, in a way no other retailer is," says Gib Carey, a partner at Bain & Co., who is leading a yearlong study of how to do business with Wal-Mart. "Our clients cannot grow without finding a way to be successful with Wal-Mart."

Many companies and their executives frankly admit that supplying Wal-Mart is like getting into the company version of basic training with an implacable Army drill sergeant. The process may be unpleasant. But there can be some positive results.

"Everyone from the forklift driver on up to me, the CEO, knew we had to deliver [to Wal-Mart] on time. Not 10 minutes late. And not 45 minutes early, either," says Robin Prever, who was CEO of Saratoga Beverage Group from 1992 to 2000, and made private-label water sold at Wal-Mart. "The message came through clearly: You have this 30-second delivery window. Either you're there, or you're out. With a customer like that, it changes your organization. For the better. It wakes everybody up. And all our customers benefited. We changed our whole approach to doing business."

But you won't hear evenhanded stories like that from Wal-Mart, or from its current suppliers. Despite being a publicly traded company, Wal-Mart is intensely private. It declined to talk in detail about its relationships with its suppliers for this story. More strikingly, dozens of companies contacted declined to talk about even the basics of their business with Wal-Mart.

Here, for example, is an executive at Dial: "We are one of Wal-Mart's biggest suppliers, and they are our biggest customer by far. We have a great relationship. That's all I can say. Are we done now?" Goaded a bit, the executive responds with an almost hysterical edge: "Are you meshuga? Why in the world would we talk about Wal-Mart? Ask me about anything else, we'll talk. But not Wal-Mart."

No one wants to end up in what is known among Wal-Mart vendors as the "penalty box"—punished, or even excluded from the store shelves, for saying something that makes Wal-Mart unhappy. (The penalty box is normally reserved for vendors who don't meet performance benchmarks, not for those who talk to the press.)

"You won't hear anything negative from most people," says Paul Kelly, founder of Silvermine Consulting Group, a company that helps businesses work more effectively with retailers. "It would be committing suicide. If Wal-Mart takes something the wrong way, it's like Saddam Hussein. You just don't want to piss them off."

As a result, this story was reported in an unusual way: by speaking with dozens of people who have spent years selling to Wal-Mart, or consulting to companies that sell to Wal-Mart, but who no longer work for companies that do business with Wal-Mart. Unless otherwise noted, the companies involved in the events they described refused even to confirm or deny the basics of the events.

To a person, all those interviewed credit Wal-Mart with a fundamental integrity in its dealings that's unusual in the world of consumer goods, retailing, and groceries. Wal-Mart does not cheat suppliers, it keeps its word, it pays its bills briskly. "They are tough people but very honest; they treat you honestly," says Peter Campanella, who ran the business that sold Corning kitchenware products, both at Corning and then at World Kitchen. "It was a joke to do business with most of their competitors. A fiasco."

But Wal-Mart also clearly does not hesitate to use its power, magnifying the Darwinian forces already at work in modern global capitalism.

What does the squeeze look like at Wal-Mart? It is usually thoroughly rational, sometimes devastatingly so.

John Mariotti is a veteran of the consumer-products world—he spent nine years as president of Huffy Bicycle Co., a division of Huffy Corp., and is now chairman of World Kitchen, the company that sells Oxo, Revere, Corning, and Ekco brand housewares.

He could not be clearer on his opinion about Wal-Mart: It's a great company, and a great company to do business with. "Wal-Mart has done more good for America by several thousand orders of magnitude than they've done bad," Mariotti says. "They have raised the bar, and raised the bar for everybody."

Mariotti describes one episode from Huffy's relationship with Wal-Mart. It's a tale he tells to illustrate an admiring point he makes about the retailer. "They demand you do what you say you are going to do." But it's also a classic example of the damned-if-you-do, damned-if-you-don't Wal-Mart squeeze. When Mariotti was at Huffy throughout the 1980s, the company sold a range of bikes to Wal-Mart, 20 or so models, in a spread of prices and profitability. It was a leading manufacturer of bikes in the United States, in places like Ponca City, Oklahoma; Celina, Ohio; and Farmington, Missouri.

One year, Huffy had committed to supply Wal-Mart with an entry-level, thin-margin bike—as many as Wal-Mart needed. Sales of the low-end bike took off. "I woke up May 1"—the heart of the bike production cycle for the summer—"and I needed 900,000 bikes," he says. "My factories could only run 450,000." As it happened, that same year, Huffy's fancier, more-profitable bikes were doing well, too, at Wal-Mart and other places. Huffy found itself in a bind.

With other retailers, perhaps, Mariotti might have sat down, renegotiated, tried to talk his way out of the corner. Not with Wal-Mart. "I made the deal up front with them," he says. "I knew how high was up. I was duty-bound to supply my customer." So he did something extraordinary. To free up production in order to make Wal-Mart's cheap bikes, he gave the designs for four of his higher-end, higher-margin products to rival manufacturers. "I conceded business to my competitors, because I just ran out of capacity," he says. Huffy didn't just relinquish profits to keep Wal-Mart happy—it handed those profits to its competition. "Wal-Mart didn't tell me what to do," Mariotti says. "They didn't have to." The retailer, he adds, "is tough as nails. But they give you a chance to compete. If you can't compete, that's your problem."

In the years since Mariotti left Huffy, the bike maker's relationship with Wal-Mart has been vital (though Huffy Corp. has lost money in three out of the last five years). It is the number-three seller of bikes in the United States. And Wal-Mart is the number-one retailer of bikes. But here's one last statistic about bicycles: Roughly 98% are now imported from places such as China, Mexico, and Taiwan. Huffy made its last bike in the United States in 1999.

As Mariotti says, Wal-Mart is tough as nails. But not every supplier agrees that the toughness is always accompanied by fairness. The Lovable Company was founded in 1926 by the grandfather of Frank Garson II, who was Lovable's last president. It did business with Wal-Mart, Garson says, from the earliest days of founder Sam Walton's first store in Bentonville, Arkansas. Lovable made bras and lingerie, supplying retailers that also included Sears and Victoria's Secret. At one point, it was the sixth-largest maker of intimate apparel in the United States, with 700 employees in this country and another 2,000 at eight factories in Central America.

Eventually Wal-Mart became Lovable's biggest customer. "Wal-Mart has a big pencil," says Garson. "They have such awesome purchasing power that they write their own ticket. If they don't like your prices, they'll go vertical and do it themselves—or they'll find someone that will meet their terms."

In the summer of 1995, Garson asserts, Wal-Mart did just that. "They had awarded us a contract, and in their wisdom, they changed the terms so dramatically that they really reneged." Garson, still worried about litigation, won't provide details. "But when you lose a customer that size, they are irreplaceable."

Lovable was already feeling intense cost pressure. Less than three years after Wal-Mart pulled its business, in its 72nd year, Lovable closed. "They leave a lot to be desired in the way they treat people," says Garson. "Their actions to pulverize people are unnecessary. Wal-Mart chewed us up and spit us out."

Believe it or not, American business has been through this before. The Great Atlantic & Pacific Tea Co., the grocery-store chain, stood astride the U.S. market in the 1920s and 1930s with a dominance that has likely never been duplicated. At its peak, A&P had five times the number of stores Wal-Mart has now (although much smaller ones), and at one point, it owned 80% of the supermarket business. Some of the antipredatory-pricing laws in use today were inspired by A&P's attempts to muscle its suppliers.

There is very little academic and statistical study of Wal-Mart's impact on the health of its suppliers and virtually nothing in the last decade, when Wal-Mart's size has increased by a factor of five. This while the retail industry has become much more concentrated. In large part, that's because it's nearly impossible to get meaningful data that would allow researchers to track the influence of Wal-Mart's business on companies over time. You'd need cooperation from the vendor companies or Wal-Mart or both—and neither Wal-Mart nor its suppliers are interested in sharing such intimate detail.

Bain & Co., the global management consulting firm, is in the midst of a project that asks, How does a company have a healthy relationship with Wal-Mart? How do you avoid being sucked into the vortex? How do you maintain some standing, some leverage of your own?

Bain's first insights are obvious, if not easy. "Year after year," Carey, a partner at Bain & Co., says, "for any product that is the same as what you sold them last year, Wal-Mart will say, 'Here's the price you gave me last year. Here's what I can get a competitor's product for. Here's what I can get a private-label version for. I want to see a better value that I can bring to my shopper this year. Or else I'm going to use that shelf space differently.' "

Carey has a friend in the umbrella business who learned that. One year, because of costs, he went to Wal-Mart and asked for a 5% price increase. "Wal-Mart said, 'We were expecting a 5% decrease. We're off by 10%. Go back and sharpen your pencil.' " The umbrella man scrimped and came back with a 2% increase. "They said, 'We'll go with a Chinese manufacturer'—and he was out entirely."

The Wal-Mart squeeze means vendors have to be as relentless and as microscopic as Wal-Mart is at managing their own costs. They need, in fact, to turn themselves into shadow versions of Wal-Mart itself. "Wal-Mart won't necessarily say you have to reconfigure your distribution system," says Carey. "But companies recognize they are not going to maintain margins with growth in their Wal-Mart business without doing it."

The way to avoid being trapped in a spiral of growing business and shrinking profits, says Carey, is to innovate. "You need to bring Wal-Mart new products—products consumers need. Because with those, Wal-Mart doesn't have benchmarks to drive you down in price. They don't have historical data, you don't have competitors, they haven't bid the products out to private-label makers. That's how you can have higher prices and higher margins."

Reasonable advice, but not universally useful. There has been an explosion of "innovation" in toothbrushes and toothpastes in the past five years, for instance; but a pickle is a pickle is a pickle.

Bain's other critical discovery is that consumers are often more loyal to product companies than to Wal-Mart. With strongly branded items people develop a preference for—things like toothpaste or laundry detergent—Wal-Mart rarely forces shoppers to switch to a second choice. It would simply punish itself by seeing sales fall, and it won't put up with that for long.

But as Wal-Mart has grown in market reach and clout, even manufacturers known for nurturing premium brands may find themselves overpowered. This July, in a mating that had the relieved air of lovers who had too long resisted embracing, Levi Strauss rolled blue jeans into every Wal-Mart doorway in the United States: 2,864 stores. Wal-Mart, seeking to expand its clothing business with more fashionable brands, promoted the clothes on its in-store TV network and with banners slipped over the security-tag detectors at exit doors.

Levi's launch into Wal-Mart came the same summer the clothes maker celebrated its 150th birthday. For a century and a half, one of the most recognizable names in American commerce had survived without Wal-Mart. But in October 2002, when Levi Strauss and Wal-Mart announced their engagement, Levi was shrinking rapidly. The pressure on Levi goes back 25 years—well before Wal-Mart was an influence. Between 1981 and 1990, Levi closed 58 U.S. manufacturing plants, sending 25% of its sewing overseas.

Sales for Levi peaked in 1996 at $7.1 billion. By last year, they had spiraled down six years in a row, to $4.1 billion; through the first six months of 2003, sales dropped another 3%. This one account—selling jeans to Wal-Mart—could almost instantly revive Levi.

Last year, Wal-Mart sold more clothing than any other retailer in the country. It also sold more pairs of jeans than any other store. Wal-Mart's own inexpensive house brand of jeans, Faded Glory, is estimated to do $3 billion in sales a year, a house brand nearly the size of Levi Strauss. Perhaps most revealing in terms of Levi's strategic blunders: In 2002, half the jeans sold in the United States cost less than $20 a pair. That same year, Levi didn't offer jeans for less than $30.

For much of the last decade, Levi couldn't have qualified to sell to Wal-Mart. Its computer systems were antiquated, and it was notorious for delivering clothes late to retailers. Levi admitted its on-time delivery rate was 65%. When it announced the deal with Wal-Mart last year, one fashion-industry analyst bluntly predicted Levi would simply fail to deliver the jeans.

But Levi Strauss has taken to the Wal-Mart Way with the intensity of a near-death religious conversion—and Levi's executives were happy to talk about their experience getting ready to sell at Wal-Mart. One hundred people at Levi's headquarters are devoted to the new business; another 12 have set up in an office in Bentonville, near Wal-Mart's headquarters, where the company has hired a respected veteran Wal-Mart sales account manager.

Getting ready for Wal-Mart has been like putting Levi on the Atkins diet. It has helped everything—customer focus, inventory management, speed to market. It has even helped other retailers that buy Levis, because Wal-Mart has forced the company to replenish stores within two days instead of Levi's previous five-day cycle.

And so, Wal-Mart might rescue Levi Strauss. Except for one thing.

Levi didn't actually have any clothes it could sell at Wal-Mart. Everything was too expensive. It had to develop a fresh line for mass retailers: the Levi Strauss Signature brand, featuring Levi Strauss's name on the back of the jeans.

Two months after the launch, Levi basked in the honeymoon glow. Overall sales, after falling for the first six months of 2003, rose 6% in the third quarter; profits in the summer quarter nearly doubled. All, Levi's CEO said, because of Signature.

But the low-end business isn't a business Levi is known for, or one it had been particularly interested in. It's also a business in which Levi will find itself competing with lean, experienced players such as VF and Faded Glory. Levi's makeover might so improve its performance with its non-Wal-Mart suppliers that its established business will thrive, too. It is just as likely that any gains will be offset by the competitive pressures already dissolving Levi's premium brands, and by the cannibalization of its own sales. "It's hard to see how this relationship will boost Levi's higher-end business," says Paul Farris, a professor at the University of Virginia's Darden Graduate School of Business Administration. "It's easy to see how this will hurt the higher-end business."

If Levi clothing is a runaway hit at Wal-Mart, that may indeed rescue Levi as a business. But what will have been rescued? The Signature line—it includes clothing for girls, boys, men, and women—is an odd departure for a company whose brand has long been an American icon. Some of the jeans have the look, the fingertip feel, of pricier Levis. But much of the clothing has the look and feel it must have, given its price (around $23 for adult pants): cheap. Cheap and disappointing to find labeled with

Levi Strauss's name. And just five days before the cheery profit news, Levi had another announcement: It is closing its last two U.S. factories, both in San Antonio, and laying off more than 2,500 workers, or 21% of its workforce. A company that 22 years ago had 60 clothing plants in the United States—and that was known as one of the most socially reponsible corporations on the planet—will, by 2004, not make any clothes at all. It will just import them.

In the end, of course, it is we as shoppers who have the power, and who have given that power to Wal-Mart. Part of Wal-Mart's dominance, part of its insight, and part of its arrogance, is that it presumes to speak for American shoppers.

If Wal-Mart doesn't like the pricing on something, says Andrew Whitman, who helped service Wal-Mart for years when he worked at General Foods and Kraft, they simply say, "At that price we no longer think it's a good value to our shopper. Therefore, we don't think we should carry it."

Wal-Mart has also lulled shoppers into ignoring the difference between the price of something and the cost. Its unending focus on price underscores something that Americans are only starting to realize about globalization: Ever-cheaper prices have consequences. Says Steve Dobbins, president of thread maker Carolina Mills: "We want clean air, clear water, good living conditions, the best health care in the world—yet we aren't willing to pay for anything manufactured under those restrictions."

Randall Larrimore, a former CEO of MasterBrand Industries, the parent company of Master Lock, understands that contradiction too well. For years, he says, as manufacturing costs in the United States rose, Master Lock was able to pass them along. But at some point in the 1990s, Asian manufacturers started producing locks for much less. "When the difference is $1, retailers like Wal-Mart would prefer to have the brand-name padlock or faucet or hammer," Larrimore says. "But as the spread becomes greater, when our padlock was $9, and the import was $6, then they can offer the consumer a real discount by carrying two lines. Ultimately, they may only carry one line."

In January 1997, Master Lock announced that, after 75 years making locks in Milwaukee, it would begin importing more products from Asia. Not too long after, Master Lock opened a factory of its own in Nogales, Mexico. Today, it makes just 10% to 15% of its locks in Milwaukee—its 300 employees there mostly make parts that are sent to Nogales, where there are now 800 factory workers.

Larrimore did the first manufacturing layoffs at Master Lock. He negotiated with Master Lock's unions himself. He went to Bentonville. "I loved dealing with Wal-Mart, with Home Depot," he says. "They are all very rational people. There wasn't a whole lot of room for negotiation. And they had a good point. Everyone was willing to pay more for a Master Lock. But how much more can they justify? If they can buy a lock that has arguably similar qual-ity, at a cheaper price, well, they can get their consumers a deal."

It's Wal-Mart in the role of Adam Smith's invisible hand. And the Milwaukee employees of Master Lock who shopped at Wal-Mart to save money helped that hand shove their own jobs right to Nogales. Not consciously, not directly, but inevitably. "Do we as consumers appreciate what we're doing?" Larrimore asks. "I don't think so. But even if we do, I think we say, Here's a Master Lock for $9, here's another lock for $6—let the other guy pay $9."

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