

Woes at Wal-Mart: Selling Spin Instead of Services

John Garen

Department Chair and Gatton Endowed Professor of Economics, University of Kentucky
January 15, 2007

A front-page story in the *Wall Street Journal* last month reported that Wal-Mart hired Leslie Dach, a longtime Democratic Party campaigner and PR man, along with Michael Deaver, a veteran Republican Party operative with a comparable background, to direct their public relations.¹ When a Democratic Party spinmeister and a Republican Party spinmeister agree on a PR campaign then we had better look out . . . we are going to be schmoozed like never before!

I don't know whether to be mad at Wal-Mart or feel sorry for them. I suppose that I feel a little of both. You might wonder why I'm expressing so much angst about the relatively normal event of a large firm hiring PR people. The reason is that I'm frustrated that our political-economic system looks like it may turn a successful, innovative firm into bunch of folks chanting politically-correct slogans. If this happens on an economy-wide basis, then we've got a recipe for economic troubles.

Aggregate economic well being is improved by producing more and/or better goods and services at a lower cost. Wal-Mart has contributed to this greatly (and been amply compensated for it) by providing various retail services in a much more efficient way. This has enabled it to sell a wide variety of everyday products at lower prices than ever before, simultaneously contributing to its own wealth and the welfare of millions of consumers. Diverting Wal-Mart from this path will likely reduce our society's well being. Doing so for many successfully firms with lead to a large scale reduction in well being. The latest public relations push by Wal-Mart may be a sign of beginning down this unfortunate road.

The background to this story may be familiar to you. Monthly sales were down at Wal-Mart at the end of November 2006 for only the second time in its history. Its attempts to attract higher-income customers and enter more urban markets have not worked out, part of which is blamed on its image. Public relations folks evidently advised Wal-Mart that it needs to buff its image to be able to successful counter political opposition and mollify the liberal-leaning politics of many urban dwellers. Wal-Mart is heeding this advice.

This will likely translate into a large, politically-correct, public relations campaign involving contributions and support for various causes (such as environmental, health, educational, and family issues) and trumpeting Wal-Mart's commitment to them. Though I suppose that Wal-Mart's stakeholders care about these worthy issues, the main intent is to gain political favor. Therein lies the source of my anger. Wal-Mart needs to be told, "You guys create value by efficient retailing! Why play the political game?!" Upon further reflection, though, I realize that they are responding to the environment that

they are in. Hence, the source of my sadness. It's too bad that Wal-Mart can't simply stand on its accomplishments but, to continue its success, it must present a politically acceptable image. Thus, we'll be getting a lot of spin, but how much efficient retail services?

Looking politically acceptable is costly . . . I expect that Messrs. Dach and Deaver charge hefty fees. Of course, looking good can imply supporting some worthy causes. However, in the quest to look good, supporting worthy causes frequently morphs into public posturing, political lobbying, and seeking activities that provide the best sound bites rather than doing the most good. Valuable resources are used up in this quest, which raises costs. Further, it diverts managerial time from enhancing efficiency toward schmoozing and gaining political influence. This, too, raises costs, and can transform a corporation from a value-creating organization to an economic basket case that must seek government favors to survive.

A regrettable example of this would seem to be the General Motors Corporation. Once a great company, GM has spent much of the last thirty years using its political clout in such activities as trying to gain protection from foreign competition and seeking relief from its ill-advised wage and benefits agreements. Of course, all of this while maintaining its public relations image and done in the name of being a good corporate citizen. The citizens of the economy would've been better served if GM had focused on building better cars. As it turns out, GM would've been better served, too, given that it intermittently teeters on the brink of bankruptcy.

This brings us back to the main point. An environment with a widespread and deep expectation that firms play the game of political-correctness and feel-good "charity" leads to inefficient, high-cost firms and, ultimately, to lower economic welfare. Happily, I don't think the U.S. economy is to that point yet, but it behooves us to be cognizant of this danger and careful to avoid it. We would be a lot better off if we rely on Wal-Mart's individual customers, investors, and suppliers to develop and support charitable activities and rely on Wal-Mart to be an efficient retailer. Let Wal-Mart be Wal-Mart.

¹"Behind the Scenes, PR Firm Remakes Wal-Mart's Image," *Wall Street Journal*, December 7, 2006, pg. A1.

(This article was published in *Business Lexington*, January 26, 2007.)