Wal-Mart and Recessions

In late 1989 and early 1990, most retailers in the United States were having severe problems. But not Wal-Mart. Read the following excerpt from *Forbes* and see if you can figure out why.

> If ever there was a recession-proof retailer, Wal-Mart Stores, Inc., is it. Good times or bad, it grows rapidly.
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> Built by folksy billionaire Sam Walton, Wal-Mart has seen its sales mushroom at a compound annual rate of better than 36% in each of the past ten years. Last year sales approached $26 billion. Wal-Mart often gains market share during recessions, its executives claim, because it wins customers who defect from more expensive department and specialty stores.
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> "There's far more opportunity ahead of us than behind us," says David Glass, Wal-Mart's president and chief executive officer. "This company is geared to grow."
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> What's the Wal-Mart edge? Nothing more than hard work and clear thinking. Top executives work six and seven days a week, spending more than half their time visiting stores. Important decisions, such as what items to display in desirable spots, are often delegated to employees closest to the customer, the clerks on the sales floor. The network of 1,355 Wal-Mart stores (plus 120 Sam's Wholesale Club warehouse outlets and 3 giant Hyper-Mart USA food and discount stores) is held together by the industry's best computer and communications systems.
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> Thus, the company's selling, general, and administrative costs, at just 16% of sales, are 10 percentage points or more below those of most competitors. That allows it to offer prices that are often far lower than competing discounters'. And Wal-Mart works harder to keep its old stores fresher than any other retailer, doing major remodeling at 70 stores a year. That's why sales gains at Wal-Mart stores open at least a year, recently around 10%, are usually nearly double the industry same store average.

Early in this article, we find that Wal-Mart experienced tremendous growth during 1989–1990. Part of the growth is due to greater consumer awareness of Wal-Mart, which shifts demand to the right. Interestingly, Wal-Mart does especially well during recessions. How can this be?

Its image makes Wal-Mart an inferior good to a large segment of the market. This does not mean that Wal-Mart sells poor-quality products or provides inferior service. It simply means that when income declines due to a recession, the demand for Wal-Mart shifts outward. The increase in demand is similar to that shown in Figure 2–20. As the general income level declined in 1989–1990 due to recession, the demand for Wal-Mart shifted out to the right as in the shift from D^0 to D^1. The equilibrium price and quantity of goods sold by Wal-Mart therefore tends to increase during recessions.

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