

What Good Are Low Prices If the Shelves Are Empty

► After staff cuts, Walmart is having trouble replenishing its stocks—and likely losing sales

► When retailers are advised to invest in people, “the typical response is, ‘It’s just too expensive’”

Margaret Hancock long considered her local Walmart superstore her one-stop shopping destination. But during recent visits, the retired accountant from Newark, Del., says she failed to find more than a dozen items, including certain types of face cream, cold medicine, mouthwash, bandages, and hangers. Walmart’s loss was a gain for **Kohl’s, Safeway, Target, and Walgreens**—the chains Hancock visited for the unavailable items. “If it’s not on the shelf, I can’t buy it,” she explains. “You hate to see a company self-destruct, but there are other places to go.”

Wal-Mart Stores has been cutting staff since the recession—and pallets of merchandise are piling up in its stockrooms as shelves go unfilled. In the past five years the world’s largest retailer added 455 U.S. Walmart stores, a 13 percent increase, according to company filings in late January. In the same period its total U.S. workforce, which includes employees at its Sam’s Club warehouse stores, dropped by about 20,000, or 1.4 percent.

A thinly spread workforce has other consequences: longer checkout lines, less help throughout the store, and disorganization. Last month, Walmart placed last among department and discount stores in the American Customer Satisfaction Index, the sixth year in a row the company has either tied or taken the last spot. The dwindling level of customer service comes as Walmart has touted its in-store experience to lure financially strained shoppers and to counter the threat from online rivals such as **Amazon.com**.

The retailer says reports of stocking problems are overblown. “Our in-stock levels are up significantly in the last few years, so the premise of this story, which is based on the comments of a handful of people, is inaccurate and not



representative of what is happening in our stores across the country,” Brooke Buchanan, a Walmart spokeswoman, said in an e-mailed statement. “Two-thirds of Americans shop in our stores each month because they know they can find the products they are looking for at low prices.”

At a Feb. 1 gathering of Walmart managers, U.S. Chief Executive Officer Bill Simon said Walmart was “getting worse” at stocking shelves, according to minutes of the meeting ob-

tained by Bloomberg News. Simon said “self-inflicted wounds” were Walmart’s “biggest risk” and that an executive vice president had been appointed to fix the restocking problem, according to the minutes.

The stocking challenge coincides with slowing sales growth. Same-store sales in the U.S. for the 13 weeks ending April 26 will be little changed, Simon said during a Feb. 21 earnings call for investors. “When times were good and people were still shopping, the lack of excellence was OK,” says Zeynep Ton, a retail researcher and associate professor of operations management at the MIT Sloan School of Management. “Their view has been that they have the lowest prices so customers keep coming anyway.” Ton says

The number of Walmart stores in the U.S. grew by 13 percent while the worker rolls shrank by 1.4 percent

Walmart shoppers are “mad about the way they were treated or how much time they wasted looking for items that aren’t there.”

Retailers consider labor—usually their largest controllable expense—as an easy target for cost-cutting. That’s what happened at **Home Depot** in the early 2000s, when it tried to trim expenses and boost profits by cutting staff and relying more on part-time workers. Eventually customer service and satisfaction deteriorated, and sales growth at established stores fell. “When you tell retailers they have to invest in people, the typical response is, ‘It’s just too expensive,’” Ton says.

Adding five full-time employees to Walmart’s U.S. supercenters and discount stores, for example, would cost the retailer about \$448 million a year, assuming those workers earned the federal minimum wage and industry standards for health benefits, according to an analysis by Poonam Goyal, a Bloomberg Industries senior analyst. That would add about a half-percentage point to Walmart’s selling, general, and administrative expenses, which were about \$88.9 billion last year.

At the Kenosha (Wis.) Walmart where Mary Pat Tiffit has worked for nearly a quarter-century, merchandise ready for the sales floor remains on pallets and in steel bins lining the floor of the back room—an area so full that “no passable aisles” remain, she says. “There’s no manpower in the store to get the merchandise moving,” says Tiffit, who oversees grocery deliveries and is a member of OUR Walmart, a union-backed group seeking to improve working conditions at the chain. “Customers come in, they can’t find what they’re looking for, and they’re leaving.”

At the Walmart store in Erie, Pa., 26-year-old meat and dairy stocker Anthony Falletta faces a similar predicament.

“The merchandise is in the store; it just can’t make the jump from the shelf in the back to the one in the front. There’s not the people to do it.”

Walmart is entangled in what Ton calls the “vicious cycle” of understaffing. Too few workers leads to operational problems. Those problems lead to poor store sales, which lead to lower labor budgets. The decision to hire more workers “requires a wake-up call at a higher level,” Ton says.

Rochelle Jackson, who works at the jewelry counter at a Walmart store in Springfield, Mo., says a supervisor recently told her the number of hours available to schedule employees is linked to sales performance: The worse the sales number, the fewer hours available. “I asked, ‘Why can’t we have enough hours to make the store work?’” recalls Jackson, who has worked at two Walmart stores since 2009. “They said, ‘It’s orders from home office.’”

Staff shortages at cash registers during peak hours require Jackson and her co-workers on the sales floor to help check shoppers out “while we are trying to restock the shelves, help customers, and do other assigned projects,” she says. That leaves a service vacuum across the store’s departments. “Customers come back to shoes for help to find something in grocery because they can’t find someone in grocery,” Jackson says.

Tim White, an attorney, recalled trying to buy wall paint at the Walmart near his home in Santee, Calif.: “You wait 20, 25 minutes for someone to help you, then the person was not trained on mixing paint. It was like, you have to help them help you.” White says that while long checkout lines irritated him, “the No. 1 reason we gave up on Walmart was its prolonged, horrible, maddening inability to keep items in stock.” The White family’s visits to Walmart—which had been a several times a week occurrence several years ago—became less and less frequent until they stopped in the past year. The eight-member clan now shops at Target and **Costco Wholesale**. “Things might be a little bit more expensive,” he says, “but not so much so that it would keep me away.” —*Renee Dudley*

The bottom line Some employees say staff reductions have hurt Walmart’s ability to keep shelves stocked at its more than 4,600 U.S. stores.

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Averages based on total U.S. employee and store count, including Sam’s Club and headquarters staff

