

## **Wal-Mart's \$288 billion meeting**

*Brent Schlender*

It's the single most important business gathering in the world. But can Wal-Mart's legendary Saturday Morning Meeting take the controversial company to the next level?

It's about 6:30 on a foggy Saturday morning in September, and Wal-Mart's prosaic "home office" in Bentonville, Ark., is hopping as it always does on Saturday mornings, 52 weeks a year. Outside in the parking lot, wide-eyed children check out phalanxes of the Harley-like Schwinn Sting-Ray bicycles and pint-sized, motorized kiddie Hummers that will roll into stores for Christmas, while a group of groggy grillmeisters set up their gear for the hot-dog brunch to come. Inside the drab lobby, scores of Wal-Mart managers sip 10-cent coffee as they wait their turn to sign in relatives at the security desk, simultaneously keeping their eyes peeled for a surprise celebrity athlete, actor, politician, or business luminary who may wander through. All told, nearly 600 people will show up this morning rather than sleep in (not entirely by choice), and soon they'll file into the 400-seat stageless auditorium and an adjoining cafeteria for a ritual as old as Wal-Mart itself. There, at seven o'clock sharp, CEO Lee Scott, pacing the front of the room in his blue jeans, plaid sport shirt, and kindly Dr. Phil demeanor, kicks things off by asking some visitors--today it's a group of award-winning Tire & Lube Express mechanics--to lead the Wal-Mart cheer. The crowd jumps to its feet and starts clapping as the grease monkeys launch into it: "Give me a W! Give me an A! Give me an L! Give me a Squiggly! ..."

THIS WEEKLY GET-TOGETHER is called, plainly enough, the Saturday Morning Meeting, and it is, perhaps more than anything else in founder Sam Walton's copious bag of tricks, the management tool that has enabled Wal-Mart to metamorphose from a single small-town variety store in 1962 into the world's largest and, for a time, most admired company--and lately the most controversial one too. (See previous story for more on Wal-Mart's troubles.) Equal parts talk show, financial update, encounter group, merchandising workshop, town-hall forum, talent revue, gripe session, and, of course, pep rally--imagine a corporatized version of *A Prairie Home Companion*--the weekly confab is like watching the metabolism of Wal-Mart in action.

The meeting is the soul of this behemoth, which produced \$288 billion in sales in its last fiscal year. It is the template for other vital gatherings that have evolved throughout the company, ranging from the daily shift-change meetings at the stores to the weekly management, merchandising, and operations meetings at the home office to the five companywide mega-meetings each year that draw more than 10,000 participants apiece. Not only do these assemblies reinforce and personalize Wal-Mart's almost evangelical culture among its 1.5 million "associates" worldwide, but they also are largely responsible for the retailing giant's amazing agility in the aisles. The meetings enable the company to continue to operate its entire business on a weekly and sometimes daily basis, just as the founder managed his first five-and-dime, moving quickly to outflank competition and growing almost as a matter of routine.

Before we go any further, consider what it means to manage Wal-Mart. The company operates more than 3,500 stores in the U.S. alone, each of which employs as many as 500 workers and handles a constantly rotating inventory of 100,000-plus items, delivered by a fleet of 6,300 trucks that log over a billion miles a year making daily trips to and from the 110 distribution centers. (The international operations in Mexico, Canada, South America, China, Korea, and Europe only add to the complexity.) Just keeping the shelves stocked is a daily undertaking of U.S. military--scale and scope.

Successful retailing, however, is as much about building lasting relationships with the customer as about keeping the shelves stocked. The rank-and-file workers in the stores are no less than the face of Wal-Mart, as well as its eyes and ears. That means the bigger management challenge at Wal-Mart is to get these multitudes of associates to focus on serving customers while preserving the feeling that the company is still a human-scale business in which the individual employee can

make a difference. This is where Wal-Mart's elaborate approach to the art of the meeting comes in.

Think of these meetings as the human and managerial counterparts of the company's vaunted logistics systems. They are designed to react almost instantly to the up-to-the-second workings of the entire enterprise, whether by recognizing a hot new item that needs better promotion chainwide, or correcting a distribution problem in a particular region, or revamping advertising in the wake of disappointing companywide sales on the day after Thanksgiving, as happened this year. And lately they have become a means for Scott and his management team to improve the morale of a company facing severe public criticism—Wal-Mart is too big, it's too hard on suppliers, it treats its employees like dirt.

"When you attend one of these meetings," says management guru Jim Collins, who has studied the company in great depth, "it's like you're on the inside of a giant clock, watching these incredibly powerful mechanisms. You also come to realize that these are totally neurotic people. As one key Wal-Mart person once told me, 'We're the world's largest company with the world's largest inferiority complex.' Mechanisms like these meetings keep that neurotic tension alive even at this enormous scale."

Last year Wal-Mart executives agreed to let me do something no business journalist had ever done before—spend several months studying the company's unconventional approach to the business meeting. While a few especially sensitive sessions were off-limits, I was able to observe more than a dozen meetings in stores, distribution centers, and the home office to get a sense of how they work. The bigger question, though, is what the meetings really accomplish. How can 200 people attending the Friday senior management and merchandising meetings possibly conduct coherent discussions, much less transact business or make decisions efficiently? Is the "neurotic tension" Collins refers to really just "bunker mentality"? And given that the company's same-store sales growth in the U.S. has slowed, have all these time-consuming meetings finally begun to outlive their usefulness? As we'll see, the gatherings really do make the company tick. And for all the down-home antics, the Saturday Morning Meeting remains the heart of the heart of Wal-Mart.

The first order of business of the Saturday Morning Meeting is discussing the past week's sales numbers. Scott swings his legs in the air as he sits on the table at the front and asks Wal-Mart Stores president Mike Duke and each of the divisional vice presidents to give brief interpretations of the week's performance, as slides showing sales figures and year-to-year comparisons (as of midnight Friday) are projected on a large video screen behind them. Each executive singles out a store or two for doing especially well or poorly and calls attention to weather anomalies or merchandising surprises, both good and bad, that might have affected business. Then Scott singles out a couple of specialty-department executives—say, the person in charge of one-hour photo processing, or jewelry, or vision centers companywide—to explain how their businesses did the past week.

Today Scott notices that a regional vice president isn't present and asks his stand-in to explain. The underling relates that his boss had accidentally shot himself a few nights before while stalking a skunk in his backyard. Scott rolls his eyes and shakes his head and says, "Only at Wal-Mart would an executive shoot himself hunting a skunk. If he worked for Target, he'd have been hunting a mink."

HERE'S HOW the Saturday Morning Meeting was born. Back in 1962, Sam Walton didn't think it was fair for him to take Saturday off when clerks at Walton's Five & Dime in Bentonville faced their busiest day of the week. As he put it in his autobiography, "If you don't want to work weekends, you shouldn't be in retail." So he would show up in his shabby office in the back of the store at 2 or 3 A.M. and go through the ledgers to see which merchandise was moving and how the numbers compared with previous weeks. Then, when his associates arrived, he'd hold a

meeting before the open sign was hung out and share his observations with the whole crew, ask their opinions, and decide what items to put on sale and display more prominently. Not only did it endear the founder to employees, but it clued them in to how the company was doing financially and gave them all a weekly lesson in merchandising. As the company opened more stores and built up a staff, he continued the tradition, requiring all salaried associates--managers--to attend each week. He did so over the objections of his wife, Helen, who thought the meeting cut into time he and his associates should spend with family.

"The Saturday Morning Meeting was always a decision-making meeting to take corrective action, and the rule of thumb was that by noon we wanted all the corrections made in all the stores. Noon on Saturday," says former CEO David Glass, who presided over many of the meetings during the 1990s. "Our competitors ran their salesweek through and including Saturday. So they'd get their sales reports on Monday morning and then talk about them and decide what to do. And by the time they sent direction out to the stores, they were in the early part of next week, whereas we were making our changes before the weekend business really occurred. So it gave us a competitive advantage."

Over the decades the meeting grew from a handful of people to dozens, to hundreds, and by the 1990s, thousands. One reason is that Wal-Mart has always asked its regional and divisional vice presidents, merchandise buyers, and other managers to live in Bentonville and make weekly treks to their territories. To Sam Walton, who piloted his own plane to drop in on stores around the Southeast and Midwest, it seemed the best of both worlds--management was both a close-knit bunch and yet spent a lot of time in the field.

A typical meeting lasts about 2 1/2 hours. The agenda has always been loose, aside from the opening financial review. Scott then recognizes guests--an associate's mother-in-law, or a forklift driver there getting an award for 25 years of service, or a VIP.

The heart of the meeting is usually a series of presentations that all have some big merchandising lesson. For example, the toy department manager from an especially successful Supercenter might unveil how she will display the playthings that kids will be clamoring for at Christmastime. Mike Duke often shows a preview of the merchandising best-practices video that will be broadcast to all the stores the following week. And Scott or another executive might also call the manager of a store that has been performing exceptionally well to ask for some trade secrets via speakerphone. Finally, around nine or so, Scott launches into an extemporaneous ten-minute "sermon" to close out the meeting. He's like a talk-show host who saves his monologue for last.

This Saturday Scott introduces a special guest. "We have a good friend of Wal-Mart's who's been here for two days. Carlos Ghosn is chairman and chief executive officer of Nissan Motor and now Renault. This young man is so special that we even allowed him to sit in on the Friday morning management meeting. I've been here for 25 years, and we've never, ever allowed outside people to do that, other than Jack Welch of GE. Even though he's not a customer or supplier, it's been a great opportunity for me to talk to a CEO involved in the global business community and for him to get a view of us. Maybe someday he'll be on the Wal-Mart board of directors."

Ghosn takes the mike and launches into a pep talk of his own: "There are a lot of amazing things about your company, but, you know, you deserve it. You deserve it because making all these goods available at very affordable prices is the right thing to do. You do it in the U.S., and I hope you will do it more in international markets--not only in Brazil, Argentina, and China, where you are already, but also in Eastern Europe, the Middle East, India, Southeast Asia, and Africa--because there are a lot of people out there being taken advantage of in these overseas markets. There are a lot of opportunities for you."

The crowd whoops and whistles as he hands the mike back to Scott, who, ever the educator, adds, "If you want to read a great story about a person who made a huge difference, read about

Carlos and what he did at Nissan. His turnaround wasn't done by verbiage. It was done by getting into the heart and soul of what was happening in that company and challenging the way they did everything. And by focusing on the customer."

OVER THE YEARS, as attendance grew, the nature of the Saturday meeting of necessity began to change. It became impossible to give everyone a chance to speak. (In the early days Sam liked to go around the room and ask everyone a question--you never knew whether he would lob a softball or ask you to explain an embarrassing screwup.) And by the late 1980s, then-CEO David Glass had begun to hear grumbling that the meetings were getting boring, even though he and Sam had tried to spice things up by putting on skits and asking people to come up front and sing songs like "Red River Valley." There were persimmon-seed-spitting contests and free-throw shoot-offs. Some of Wal-Mart's suppliers, hoping to ingratiate themselves with what was becoming a powerful retail player, began offering to bring country-music stars like Garth Brooks, actors, and pro athletes like Joe Montana to the meetings. "The point was to make it interesting enough to where everybody wants to be there even though it's a Saturday morning," Glass recalls. "But you had to be careful how you did that because it becomes more fun to do that than to fix the problems."

Scott and Glass both concede that by the late 1990s the company had gotten carried away with the celebrity performers. So they started inviting guests that had something important to say or teach rather than something to sell--people like Henry Kissinger, Walter Cronkite, Rudolph Giuliani, Bill Clinton, and business luminaries like Jack Welch, Warren Buffett, and author Tom Peters.

And lots of corporate chieftains--including some who, like Ghosn, head companies that don't even do business with Wal-Mart--make the pilgrimage to Bentonville just to see what they can learn. DreamWorks SKG co-founder Jeffrey Katzenberg has made an appearance (and showed a specially made videoclip from Shrek that substituted the voices of Wal-Mart brass for those of the actual characters). Steve Jobs, who's rarely seen in anything other than a black mock turtle-neck, showed up in a Wal-Mart T-shirt to discuss marketing plans for the DVD release of Pixar Animation's Finding Nemo in 2003. "I love going to the Saturday Morning Meeting not only because it's such a great show, but because they're really smart and we learn a lot about retailing and merchandising every time we go," says Jobs, who's quite a showman and a pretty smart dude himself. "Wal-Mart, of course, sells more copies of Pixar's movies than anyone, but what's really cool is how much they love to sell our movies."

Let's back up a day and drop in on the Friday merchandise meeting, one of three key home-office meetings spawned by the Saturday Morning Meeting. Typically, about 300 people show up at the auditorium for the 90-minute lunchtime session. In essence, this is the forum in which the stores, represented by all 36 regional vice presidents fresh back from barnstorming across the country earlier in the week, square off with the buyers who pick, price, and suggest how to promote merchandise for the whole chain.

At this meeting you hear a lot of stunning numbers that reflect the immense scale of Wal-Mart's business. Today one merchandise manager notes that the chain sold 1.3 million rain ponchos during the late summer and fall, and that one store alone in Kissimmee, Fla., sold 27,000. But you also hear a lot about merchandising errors--usually either related to having too much of a product, which leads to markdowns, or to not having enough of a hot seller like, say, memory-foam mattress pads. Shortages like that really rile the store managers.

About a half-hour into today's session, Paul Busby, a burly, big-voiced regional vice president for the Northeastern U.S., signals for the microphone. "I went into a Kmart near one of my stores to look around and found an item that made me wonder why we don't have it." Grabbing a plastic Kmart bag, he reveals a \$9.99 poker table cover and chip set. "We should really have this product because it's a much better value than ours."

Scott McCall, the divisional merchandise manager for toys, moves to a microphone stand to respond. "We've got a pretty nice poker set in our stores, but I'll check with our sources and get back to you." Busby nods and passes the microphone to Carol Johnston, regional VP for stores in Pennsylvania, Ohio, and West Virginia, who complains tersely about chronic "outs"--inventory shortages--of bedding and kitchen items at too many of her stores. Her no-nonsense tone elicits a round of "oohs" and cautious laughter, as well as a smattering of applause.

Ten minutes later McCall, the toy merchandiser, commandeers the mike again. "Paul, I just wanted you to know that I've arranged for those Kmart poker sets to be acquired and be on the trucks rolling out to all the stores next week." The whole crowd cheers.

WAL-MART STORES' U.S. operations convene nearly 50,000 regularly scheduled meetings each week, all of them starting and ending with the Wal-Mart cheer, the bulk of them taking place in Wal-Mart's 3,200 stores and 110 distribution centers in the U.S. Each store, for example, has a 15-minute shift-change meeting three times a day, when a new wave of cashiers, stockers, and supervisors arrives. Managers go over the previous day's numbers and single out products or displays that seem to be especially effective--or not. There's a lot of supportive whooping and clapping when, say, an assistant department manager reports better numbers. But the most important part of the meeting is when associates are asked whether they have any specific ideas that might spur sales. Anyone who wants to speak up can, and associates quickly learn that a key to advancement at Wal-Mart is to get comfortable weighing in at these meetings.

Many of the suggestions discussed in the Saturday Morning Meeting and other home-office sessions originate all the way out here--the idea for the Wal-Mart greeter was conjured up by a store employee. That's because the store manager will relay the best of the ideas on up the chain to the regional vice president, who is responsible for 100 or so stores and usually pays a visit a half-dozen times a year. This "RVP," who lives in Bentonville but spends most of her week on the road, then decides whether to bring the idea up at one of the big weekly meetings back in Bentonville. (The same cycle occurs in the distribution centers, in which associates make suggestions to improve the logistics of supplying stores. And the Sam's Club warehouse store division, as well as every one of Wal-Mart's overseas operations, each has a similar taxonomy of meetings.)

The most direct descendants of the Saturday Morning Meeting, however, are three other weekly meetings held at the home office that are the primary focal points of all these feedback loops. The smallest of these is the Thursday afternoon operations meeting, which deals with the nuts and bolts of making the stores run smoothly. It's an unusual session in that the 70 attendees remain standing for the duration as they discuss everything from inventory management to new-store real estate planning and other nonmerchandising subjects. Why stand? To make sure that the meetings don't drag on and that the participants get to the point.

The other two big meetings take place every Friday in the same spartan auditorium that hosts the Saturday meeting. At 7 A.M., Scott convenes his 200 top officers for the Friday management meeting. That's right: The most rarefied meeting of them all involves 200 people. Outsiders aren't allowed in this one; it's where management debates the most strategic and sensitive issues--such as the recent firing of the head of operations for Wal-Mart and several other subordinates--and the discourse can get pretty spirited.

The Friday merchandise meeting is the epitome of Wal-Mart's concentric feedback loops in action. The purpose of the meeting is twofold--to give the buyers a more direct sense of what's selling and what's not and why, and to give the RVPs a means to get instant action to solve merchandising problems in their stores. Many of those RVPs also visit competing Targets and Kmart's in their areas and report back on where it appears Wal-Mart either is being undersold or is missing a hot product.

By the time the RVPs and merchandisers get back to their desks, they'll see a "priority note" in their e-mail outlining up to a dozen specific assignments to make good on by the end of the day. The "priorities" are culled from the week's meetings and are the distillation of what makes Wal-Mart the fleet and fearsome competitor that it is.

Scott will take any opportunity to preach the Wal-Mart customer-comes-first ethic. Today, when it's time to call on a manager for an update, he picks the guy who runs Wal-Mart Financial Services, which operates branches in Wal-Mart stores that cash checks, sell money orders, and handle wire transfers. It's an important service because about 20% of Wal-Mart's customers don't have checking accounts. Scott asks, "If you do a million transactions, how much money will customers save vs. what they would spend on fees before we came into this market?"

The young manager responds, "Well, Lee, they would save on average somewhere around 30% from going somewhere else. The average money order in the U.S. costs about 88 cents; ours is 46 cents. The average money transfer is about \$14 for us, where it's over \$25 elsewhere in the U.S.

And then check cashing is where our customers really see major savings because we have a maximum fee of \$3 on any transaction, where most of your major check cashers work on a percentage. I don't know exactly what the dollar amount would be, but those are some examples."

Scott beams like a proud teacher who has just watched one of his students win a spelling bee and then tosses off a quick sermonette: "There's nothing wrong with getting satisfaction out of doing your job and growing your business, but at Wal-Mart the greatest satisfaction should always be in how much money we've been able to save the customers."

IN HIS FIVE YEARS AS CEO, Scott has put his own imprint on the Saturday Morning Meeting, just as Sam Walton and David Glass did before him. The main difference in Scott's approach stems from the fact that Wal-Mart is now often viewed as a corporate villain. Rarely a week goes by without a splashy news report or public controversy over Wal-Mart's anti-union stance, its promotion practices, or the impact of its stores on local communities. All that bad press takes its toll on morale, and it has prompted Scott to engage in some public soul-searching every time he runs the meeting.

"Over the last couple of years I've been spending much of the time talking about all the negative publicity we've been getting, not from the standpoint that we hate the press, but by asking our people what we are doing that allows people to perpetuate these kinds of negative discussions about Wal-Mart," says Scott, sitting at the same scratched-up desk in the same dowdy office that belonged to the founder 20 years ago. "We can't just fall back on the idea that we should have some leeway because we don't mean to do any harm. We're going to be judged on how we react to racism, or sexism, or these other issues when we find them going on, and I tell everyone we have to react more dramatically and in a less forgiving, harsher way to behaviors that don't measure up."

At one of the meetings I attended, for example, Scott explained the firings of two Wal-Mart managers in Florida for a breach of company policy that involved how a store helped in the distribution of emergency hurricane assistance. It wasn't a public hanging, and he didn't name names. "These were good people," Scott told the hushed crowd. "But they made a judgment error. We had no choice because if you're going to hold the associates to a standard in the store, then you can't hold management to a different standard." The net effect of Scott's efforts to keep the meeting so open, educational, and spontaneous is that he is able to preserve the feeling that Wal-Mart, despite being the world's largest company, is still a small-town retailer with an

inferiority complex and a strong work ethic. Those are traits that he believes are more important than ever now.

It's approaching 9 A.M., and today's Saturday Morning Meeting is winding down. Scott launches into what can only be described as his benediction. "Perfection is an awfully high standard for our people, but that's pretty much what we have to shoot for now. We have to remember that any bad incident that occurs is not only a reflection on the individual who did it but on all of us here. Every decision you make is critically important to this company. If one person comes up to you and says, 'I'm being sexually harassed,' and you walk away without dealing with it because it's uncomfortable or because it's your manager involved, you expose the entire company to bad publicity. If you're a buyer and you're dealing with a supplier--particularly if it's, say, a small Hispanic supplier and we represent 70% of their business--and you decide you're going to rough them up, you are getting ready to take out the paint brush and put a big black mark across Wal-Mart Stores.

SCOTT AND OTHER EXECUTIVES are the first to admit that the Saturday Morning Meeting is a little quaint and hokey. One has to wonder how useful it is for executives to dip into what little time they have with their families to come learn about how Wal-Mart Supercenters are about to start selling catfish from Arkansas. And most of the real work of Sam Walton's original Saturday meeting has been offloaded to the more focused operations, management, and merchandising meetings. So the question naturally arises, Has the meeting perhaps outlived its usefulness?

"When your company gets as big as ours, you still need to feel that this is a family, that you're in on things and know what's going on, or else you'll feel like a nobody," says Don Soderquist, who was Wal-Mart's vice chairman in the 1980s and 1990s and has attended hundreds of the meetings. He's just written a book about the management lessons that other businesses can learn from Wal-Mart's quirky ways. "Also, we want everyone in management to broaden themselves, to be generalists about our business. It's one of the things that just blows away summer interns who come to work at the home office. They get more education in how a place like this really works in two months of sitting in on these meetings than they ever get in graduate school."

Well, then, given how Scott devotes so much time counseling home-office managers on how to deflect mounting criticism, has the meeting morphed into a weekly exercise in groupthink that is transforming Wal-Mart's almost endearing inferiority complex into something more like corporate paranoia? The CEO, as you might expect, doesn't believe so. "No question, it has been a hard transition for us going from being the darling to being under attack," he says. "At first we threw the sandbags up and got the machine guns out and believed anybody who criticized us was our enemy. But I think we're taking down those sandbags one at a time, and the Saturday meeting is one of the best ways to make that happen."

Some of the biggest fans of the meetings are the visiting CEOs. While most say they could never foist the idea on their own companies, many wish they could find a way to bottle its spirit and release it into their own organizations. "I think they've got a tool that's amazing," says Microsoft CEO Steve Ballmer. "The Saturday meeting is all about sharing best practices and about being accountable. It's about a culture of performance, and it's about reminding people that business has got to be executed every day. Those are disciplines every company needs."

The irony of it all is that the Saturday Morning Meeting, as unwieldy and unrehearsed as it seems, really is what makes the world's largest enterprise continue to feel as small and folksy as Bentonville. And whatever makes Wal-Mart feel smaller and folksier only makes it stronger. Or scarier.

**Fortune, v. 151, n. 7, p. 30-40, 18 apr. 2005.**