

Face value | From bad to great *520211*

Lee Scott is stepping down having revived Wal-Mart's share price—and its reputation



ONLY last year it seemed increasingly likely that Lee Scott's reign as chief executive of Wal-Mart would end soon, in disappointment and against his will. The world's largest retailer was suffering from slowing sales and falling profits in its core American market. Its share price had fallen by nearly one-third from its high in 1999, and a class-action suit filed by female workers, alleging systematic discrimination, had reinforced Wal-Mart's reputation as the firm sensitive Americans loved to hate. Mr Scott was floundering, his attempt to rebrand Wal-Mart as an eco-crusader widely dismissed as mere "greenwashing".

Yet such has been the transformation of Wal-Mart's fortunes since then that the announcement, on November 21st, that Mr Scott would step down as chief executive at the end of January was greeted with surprise. Nobody doubted that the decision to go, at the relatively tender age of 59, was entirely his own. Whereas most other bosses, especially of retailers, are struggling in what is shaping up to be the harshest recession for decades, Mr Scott is leaving on a high. Sales are expected to rise by some 8% in this financial year. The firm's share price, although down since September, is still about 20% higher than at the start of 2008.

The credit crunch has been Mr Scott's friend. Wealthier folk who used to turn up their noses at Wal-Mart now see its "every day low prices" in a new light. A strategy of refurbishing stores to make them more tempting to discerning shoppers, and expanding the range of products to cater to more sophisticated tastes, proved more prescient than Mr Scott could possibly have imagined. Sure, shopping at Wal-Mart will never offer the same delight as strolling in the wholesome oasis that is a Whole Foods Market, but in these times it is more than adequate, especially when you can buy the same organic yogurts for up to 30% less. Which is why Wal-Mart's popularity with higher-income shoppers has never been greater, and Whole Foods' share price has plunged by about three-quarters this year.

Good times had actually been the worst of times for Mr Scott, who was born in Kansas, joined Wal-Mart in 1979 and was soon heading its all-important logistics arm. He worked closely with the firm's founder, Sam Walton, before becoming only its third boss in 2000. He found himself grappling with a shift in consumers' demand, as they turned increasingly to less basic rivals such

as Whole Foods and Target. His response seemed muddled as he hired marketing people whose lavish approach to business clashed with the austere culture built by old man Walton, and drifted away from the obsessive focus on driving down costs and prices that had made the firm great. In late 2006 Mr Scott decided to return the firm to its low-cost roots. As a result, Wal-Mart was perfectly placed when the economy started to slow, and price moved to the top of the consumer agenda.

Mr Scott's early years were also dogged by increasingly effective attacks on Wal-Mart's employment policies, notably its opposition to trade unions; the supposedly lousy pay and benefits of its 1.5m employees, whom it calls "associates"; and its aggressive store-opening programme, which critics complained drove many smaller retailers out of business. In 2005 Mr Scott decided to fight back, hiring an army of public-relations experts to point out the many benefits to society provided by Wal-Mart. At first this was received sceptically, but things started to change later that year after the company's impressive response to Hurricane Katrina, during which it delivered necessities to residents of New Orleans far more effectively than the government did.

This seems to have triggered something of an epiphany in Mr Scott, a straight-talker who hitherto had seemed more partial to sarcasm than tree-hugging. "What would it take for Wal-Mart to be that company, at our best, all the time?" he asked, concluding that in tackling environmental problems in particular there was an opportunity to make the "very things people criticise us for—our size and reach" into "a trusted friend and ally to all." This was not fundamentally an altruistic decision, but rather a chance to hit back at Wal-Mart's critics and make money, whilst also doing good. The firm started selling environmentally friendly products such as low-energy light bulbs, reduced its use of wasteful packaging and said it would switch to renewable energy—all things that could boost Wal-Mart's bottom line.

The greening of Bentonville

A growing number of eco-warriors have become convinced that the firm is sincere, and that its scale gives it the potential to have a hugely positive effect on the environment. On November 19th, at a conference on corporate citizenship hosted by *The Economist*, Jeffrey Hollender, the boss of Seventh Generation, a green household-products firm, said that after three years of exhaustive talks he had just lifted a self-imposed ban on selling his products at Wal-Mart because, despite having "a huge negative footprint", Wal-Mart is now unambiguously "on the right trajectory".

Some critics say Mr Scott is stepping down before Congress makes it easy for unions to be formed at companies, such as Wal-Mart, that prohibit them. Perhaps a more union-friendly boss is needed to navigate the choppy waters ahead. That said, Mr Scott told a recent gathering of 1,000 suppliers in China that their firms would be held to high standards on labour practices. He has also struck up a useful working relationship with Andrew Stern, president of the SEIU, a big union, to campaign for health-care reform in America. In the end, the likeliest reason why Mr Scott is stepping down is timing. Wal-Mart's performance and reputation have never been better, and there is little for him to gain by staying on. The culture is transformed; the strategy is in place; his reputation glows. If the recession proves deep enough to prompt its customers to make further cutbacks, Wal-Mart may yet find itself grabbing a bigger slice of a fast-shrinking cake. But Mr Scott is leaving that potential problem to Mike Duke, his successor. ■