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Wal-Mart Opens for Business In Tough Market: Washington

**Famously Apolitical Retailer
Plunges Into Lobbying
And Becomes Top Donor**

A Big Defeat on Banking

By **JEANNE CUMMINGS**

Staff Reporter of **THE WALL STREET JOURNAL**

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WASHINGTON -- China's entry into the World Trade Organization was essentially a done deal in the late 1990s when **Wal-Mart Stores Inc.** executives discovered a problem: U.S. negotiators had agreed to a 30-store limit on foreign retailers operating in China, an insufficient figure for the ambitious Arkansas retailer.

Worse, executives at Wal-Mart headquarters in Bentonville, Ark., realized they couldn't do anything about it because they didn't know the right people in Washington. The company spent literally nothing on lobbying. "We weren't there," says Wal-Mart Senior Vice President Jay Allen, throwing up his hands.

The incident brought home a lesson that had been nagging at Wal-Mart for years. After decades of explosive growth, the retailer couldn't continue to expand its empire without abandoning founder Sam Walton's policy of shunning politics. So, in 1998, the retailer hired its first lobbyist -- a retired Air Force lieutenant general -- and set out to transform itself from a company without a Washington presence to one that could bend public policy to suit its business needs.

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Jay Allen

As it tried to flex its political muscles, Wal-Mart got a painful education in the ways of Washington. It has endured setbacks, most recently at the hands of community bankers who dashed Wal-Mart's plans to expand into lending. Still, the retailer is beginning to notch significant wins on global-trade issues and shows signs it may emerge as a political powerhouse. Since the WTO deal was struck, Wal-Mart has negotiated with Chinese government officials to increase its store count there to 35, with plans for more. It is also building up a state and local government lobbying shop in the U.S. assigned to clear any roadblocks to new domestic store openings.

In Washington, Wal-Mart has five lobbyists on its payroll, and a bench of hired guns led by Thomas Hale Boggs Jr., one of Capitol Hill's best-known lawyer-lobbyists. The company's political action committee was the biggest corporate donor to federal parties and candidates in 2003, with more than \$1 million in contributions -- up from \$182,000 during the 1997-98 election cycle, according to Federal Election Commission disclosure reports. Wal-Mart's PAC ranks as the second-largest in Washington, according to the Center for Responsive Politics, a nonpartisan organization that tracks political giving.

"It's hard to go to a fund-raiser in Washington for a member of the [House] Financial Services Committee without running into one or two or three Wal-Mart lobbyists," says Ron Ence, a lobbyist for community bankers.

Unlike most corporations, which contribute to both parties in rough proportion to Congress's partisan split, about 85% of Wal-Mart's checks go to Republicans. And recently Mr. Allen was named a "Pioneer" by the Bush campaign, meaning he has raised at least \$100,000 by getting friends and colleagues to make contributions of up to \$2,000 each.

The partisan giving is a nod to Wal-Mart's hostile relationship with organized labor and its dependence on free-trade agreements. Wal-Mart defends its lopsided support, saying it's supporting pro-business candidates. But sometimes it can get personal. Several Democratic presidential candidates -- including presumed nominee Sen. John Kerry -- have criticized Wal-Mart's labor practices. At the company's managers meeting in Kansas City in January, Wal-Mart executives showed footage of former Democratic presidential candidates Howard Dean and Richard Gephardt criticizing the company's health benefits. Managers booed and hissed.

The footage, says Mr. Allen, shows that Wal-Mart "had become an issue in the presidential campaign, and we needed to engage at this level" by donating to candidates who share the company's priorities.

Wal-Mart's pivot toward politics coincided with its rise to become the nation's largest retailer, one with enough market clout to drive down consumer prices, bust through trade barriers and force competitors to demand cost-saving concessions from labor unions.

Legal Challenges

But its growth introduced challenges that couldn't be solved without government help. The company, once celebrated as an entrepreneurial success story, typified by the late Mr. Walton's down-home style, found itself fighting off legal challenges from unions, workers' lawyers and federal investigators.

Throughout the same period, friendly lawmakers warned Wal-Mart executives to guard against the fate that had befallen Microsoft Corp. The technology giant's courtship of Washington didn't start until the Justice Department had filed an antitrust lawsuit -- leading to years of costly litigation and damage control. So Wal-Mart executives directed Mr. Allen to hire the company's first full-time lobbyist. The trick: finding someone who would remain true to Wal-Mart's practical, no-frills culture, says Mr. Allen.

Norm Lezy was an Air Force lieutenant general with Pentagon lobbying experience when he got a call from Wal-Mart. An old Air Force buddy working for the retailer recommended him. Headed for retirement, Mr. Lezy says he wasn't interested but agreed to be interviewed to spare his friend embarrassment.



Norm Lezy

"What's the first thing you'd do if you got the job?" Mr. Allen asked him. Mr. Lezy replied: "I'd like to drive around with a Wal-Mart truck driver." Bentonville executives were sold. They put on a hard press, and Mr. Lezy was won over.

Not long after, a man with silvery, shoulder-length hair and a striking resemblance to Buffalo Bill showed up at Mr. Lezy's cubicle in Bentonville. "I wanted you to see me before you got into my rig," said Carl Mayes, then a 17-year Wal-Mart truck driver, according to Mr. Lezy.

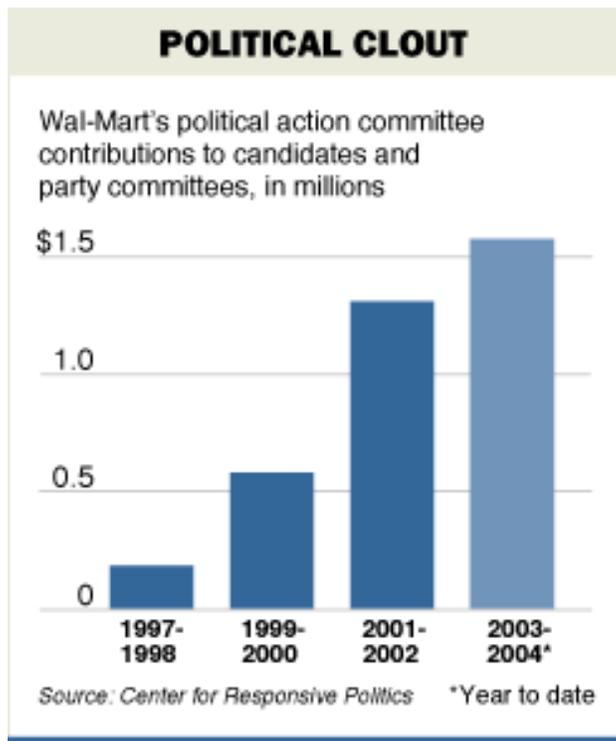
The next morning, the two climbed into Mr. Mayes's rig to deliver 80,000 pounds of Wal Mart's Ol' Roy Dog Food to six stores in four states. Over the miles, Mr. Lezy learned about the company's rise, old timers' reverence for Mr. Walton -- known as "Mr. Sam" -- and how drivers serve as executives' eyes and ears by talking to customers.

Mr. Lezy headed to Washington in March 1999, and set up shop in a small borrowed office at the Retail Industry Leaders Association. At the time, lawmakers were hammering out a complex bill on banking, a business Wal-Mart was keen to explore. Customers wanted the convenience of in-store banks, and company officials figured Wal-Mart could save millions of dollars in credit-card transaction fees alone. Three months after Mr. Lezy arrived, Bentonville executives asked federal regulators for permission to buy a small thrift in Broken Arrow, Okla. They saw it as the first step in creating a national banking chain in their stories.

Small bankers pleaded with Congress to spare them the fate of mom-and-pop hardware and variety stores, which, they said, were strangled by Wal-Mart. "It totally moved the ball into our court," recalls Bill McQuillan, president and chief executive of City National Bank of Greeley, Neb., who testified on behalf of the community bankers.

Lawmakers inserted a clause in the banking bill barring retailers from buying thrifts. It was retroactive

to May 4, 1999, and killed Wal-Mart's thrift application. (Another blow came this month, when the House passed a bill that would make it hard for a retailer to expand into banking through the purchase of an industrial-loan company.)



Mr. Lezy figured he was about to be fired when he got a call from David Glass, then Wal-Mart's chief executive. But Mr. Glass gave Mr. Lezy a pep talk and said he was committed to Wal-Mart's Washington experiment.

Congressional allies rushed to offer advice, including Trent Lott, then Senate majority leader. Mr. Lott arrived in Bentonville in late 1999 with a simple message, according to a congressman who attended the meeting: Increase your profile and open your wallet.

So Wal-Mart executives set out to beef up their political action committee -- an account made up of voluntary employee contributions that executives use to make political donations. (Federal law prohibits direct corporate contributions to party committees and candidates.) At an August 2000 meeting attended by thousands of Wal-Mart managers, buckets were passed

around for donations, as well as forms authorizing automatic paycheck deductions for the PAC.

For some employees, the pressure to contribute became a point of contention. "With my district manager sitting 3 inches over my shoulder, you think I didn't sign up?" recalls Jon Lehman, a Wal-Mart manager who quit in November 2001 and is now working with union organizers to enlist Wal-Mart workers. Current Wal-Mart employees, who asked not to be named, also report feeling pressured to give to the PAC.

Mr. Allen says Wal-Mart doesn't force workers to give to a PAC; such an action would be illegal. "I regret" that employees felt pressured, says Mr. Allen. "That is not the intent at all."

Wal-Mart managers boosted PAC contributions to \$703,500 in the 1999-2000 election cycle from \$230,800 in 1997-98. When Sen. Lott issued a call for help for Republican candidates in the late summer of 2002, Wal-Mart's PAC donated \$50,000 in September and \$101,000 a month later -- mostly to Republicans. "They came through, and people knew it," recalls a former Republican senatorial aide.

Product Placement

The support brought its own rewards -- including free publicity. In November 2002 the Bush administration proposed the removal of all tariffs on manufactured goods imported to the U.S. by 2015. U.S. Trade Representative Robert Zoellick stood on a stage before the news media with two identical baskets of baby goods, prominently marked as having come from Wal-Mart. The one without tariffs was \$32 cheaper.

Wal-Mart's PAC today has swelled to nearly \$1.5 million, according to its March 2004 report. Nearly 19% of the company's more than 60,000 domestic managers contribute, most through payroll deductions that average \$8.60 a month, says Mr. Allen.

Labor problems have deepened Wal-Mart's involvement in politics. In the late 1990s, the United Food and Commercial Workers International Union stepped up efforts to organize Wal-Mart workers. It helped employees file a series of complaints about the company's overtime, health-care and other policies with the National Labor Relations Board. Dozens of class-action lawsuits were filed on behalf of workers.

Wal-Mart responded by pouring millions of dollars into the U.S. Chamber of Commerce's Institute for Legal Reform, which presses for limits on awards in class-action suits. It also backed then-Sen. Tim Hutchinson, an Arkansas Republican, when he introduced legislation to bar unions from soliciting outside retail stores. Wal-Mart says the legislation was intended to clear room for charitable groups making solicitations, not to restrict labor activity. But labor's congressional allies decried the "Wal-Mart" bill, which was soundly defeated. In the fall of 2002, labor-backed Democrat Mark L. Pryor defeated Mr. Hutchinson.

The company's labor problems reached a peak late last year, when Immigration and Customs Enforcement agents raided several stores, rounding up more than 200 undocumented workers hired by Wal-Mart subcontractors to clean the stores. Wal-Mart hired Martin J. Weinstein, a former federal prosecutor, to conduct an internal audit. Mr. Lezy took advantage of Wal-Mart's improved access in Washington, dispatching a lobbyist to Congress and the White House to describe Mr. Weinstein's conclusions, which laid the blame on the subcontractors. Wal-Mart also urged policy makers to make immigration reform a bigger part of the national debate.

A grand jury is still investigating the immigration case.

In 2003, Mr. Lezy began paving the way for his retirement. His heir apparent: Erik Winborn, a former Air Force colonel he'd met at the Pentagon and hired at Wal-Mart in 2000. At Mr. Lezy's urging, Mr. Winborn took his own trip with a Wal-Mart driver -- and wound up stuck on the highway in a blizzard.

Mr. Winborn's emergence as Wal-Mart's chief lobbyist wasn't much easier than Mr. Lezy's. During last year's debate over legislation to add a prescription-drug benefit to Medicare, Congress wanted to encourage seniors to use mail-order prescriptions to control costs. Wal-Mart saw mail orders as a threat to its in-store pharmacy business, and mobilized thousands of pharmacists to deluge Capitol Hill with letters and telephone calls urging Congress to restrict mail-order prescriptions for Medicare patients.

Lawmakers rejected Wal-Mart's appeal and passed the bill. But they also offered Wal-Mart an olive branch, directing the Federal Trade Commission to study potential conflicts of interest within mail-order companies.

At the same time, Wal-Mart was winning some big global battles. In 2002, the retailer hired Angela Marshall Hofmann, a Democratic trade expert, who promptly used her connections to get Wal-Mart a

seat on a Department of Commerce advisory committee on the retail industry.

As a committee member, Ms. Hofmann last September traveled to Cancun, Mexico, to track talks on the Central American Free Trade Agreement, which is designed to boost trade by eliminating tariffs between the U.S. and Guatemala, El Salvador, Costa Rica, Nicaragua and Honduras. Many jeans, polo shirts, and other clothing sold in the U.S. are stitched together in the region.

In the CAFTA agreement, Ms. Hofmann and her allies won language allowing Central American manufacturers to use some less-expensive cloth, including denim, from Mexico. That means those manufacturers can send duty-free products into the U.S. market even though they are produced in part with Mexican materials, which would otherwise have been excluded from the pact. U.S. textile mills will lose business, and retailers such as Wal-Mart will get cheaper wholesale products to sell.

Over lunch in a cafeteria-style restaurant a good distance from Washington's K Street lobbying corridor, Mr. Allen feels Wal-Mart is making progress but still sees room for improvement. He'd like to extend the company's network in Washington's political and regulatory circles, including leveling out its lopsided campaign contributions, so the next time its "enemies and critics" come calling, the company has even more allies.

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