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Wal-Mart Cracks Chicago by Splitting Union, Non-Union Workers

Bloomberg [1]

Wal-Mart Stores Inc. [2]'s divide-and-conquer strategy prevailed in Chicago by pitting construction workers against employees who will stock shelves and ring registers.

The biggest U.S. retailer [3] reached a deal with the building trades union two weeks before the city council unanimously approved Chicago's second store. Those workers will erect all Wal-Mart facilities in northern Illinois during the next three years, according to a labor agreement signed by Patrick Hamilton, Wal-Mart's vice president of construction.

The non-union employees who will staff the stores in the nation's third-largest city have no such agreement.

"Wal-Mart played on the whims of the building trade unions, and the rest gave in," Reverend Booker Vance, a spokesman for Good Jobs Chicago [4], a coalition of local unions, congregations and community groups, said in a telephone interview. "You have a lot of smoke and mirrors, and Wal-Mart would like to give the impression that they acted in good faith, but they have not."

Nelson Lichtenstein [5], director of the Center for the Study of Work, Labor, and Democracy at the University of California at Santa Barbara and author of "The Retail Revolution: How Wal-Mart Created a Brave New World of Business," agreed with Vance.

The United Food and Commercial Workers International Union and the Chicago Federation of Labor [6], an umbrella organization representing 300 unions in the area, were "sold out by the building trades, who are still pretty powerful in the city," Lichtenstein said in a telephone interview.

Battle Lost

"The UFCW lost this battle," Lichtenstein said.

While Wal-Mart signed a construction-worker agreement, obtained by Bloomberg News, it wouldn't commit to pay hourly workers in Chicago a specific wage.

"There are no deals," said Steve Restivo, a spokesman for the Bentonville, Arkansas-based company. Wal-Mart didn't play one set of unions against another, and the labor agreement isn't a departure from how the retailer is building other stores in Illinois with union workers, he said.

Tom Villanova, president of the Chicago & Cook County Building & Construction Trades Council [7], said his group worked closely with other unions. The council represents plumbers, electricians, painters and other building-related workers.

"We never bullied anybody," Villanova said in a telephone interview. "We were always in lockstep with UFCW and CFL with everything they were trying to do."

Chicago Unemployment

Wal-Mart envisions adding several dozen stores and creating 10,000 hourly positions and 2,000 construction jobs across Chicago, where unemployment [8] was 10.2 percent in June, compared with the 9.5 percent national average. Unemployment in Illinois was 10.4 percent.

The supercenter approved for the Pullman neighborhood would create 300 in-store positions, according to Restivo, and about 250 union construction jobs, according to Villanova, who said Wal-Mart committed to building 55 stores throughout northern Illinois during the next three years.

The Wal-Marts in Chicago could range from 25,000-square-foot stores not much bigger than a New York City bodega to 140,000-square-foot supercenters.

Making those plans a reality hinged on Wal-Mart wooing local politicians and labor unions. The Chicago City Council's June 30 vote approving Wal-Mart's second store in the city was 50-0, though vitriol filled the council chamber beforehand.

"I was a little surprised it was unanimous," David Doig, the site developer, said in an interview.

"Once you see this thing is going to be approved, why would you want to be on the other side?" he said, explaining why all council members may have fallen into step.

There's also a reluctance to buck the project of a fellow alderman, he said.

Wal-Mart Capital

"I do not want the city of Chicago to become the capital of Wal-Mart in the United States," Alderman Gene Schulner, who represents a ward on the north side, said before the June 30 vote. "Every major city in this country is looking at what we are doing today, so let's make sure that we tell our colleagues in those other cities to be as watchful as we are going to be here in the city of Chicago."

The council's zoning committee set the stage for approval a week earlier when Alderman Ed Burke waved an e-mail printout during debate, saying it was proof that for the first time Wal-Mart "had seen fit to offer 50 cents more than minimum wage as starting pay." Unions praised what they called "the Chicago Agreement [9]" and said the retailer would pay a starting wage of \$8.75 an hour with at least a 40-cent raise after one year.

'Point of Clarification'

Yet the e-mail, sent moments before the zoning vote and later obtained by Bloomberg News, gives no such guarantee. It spells out existing Wal-Mart pay policies.

"All raises are based on performance," Wal-Mart's Restivo said, calling the e-mail a "point of clarification."

Burke declined to comment.

Retail workers in the U.S. earn an average of \$11.84 an hour, according to the Bureau of Labor Statistics. The average hourly wage for full-time Wal-Mart employees is \$11.75 an hour, according to the company's website. Costco Wholesale Corp. starts stockers at \$11 an hour and cashiers at \$11.50 an hour, Jim Sinegal [10], chief executive officer, said in a telephone interview. Costco's average hourly wage nationwide is \$19.76, he said. Target Corp. doesn't disclose its wage scale, said Jenn Glass, a company spokeswoman.

Wal-Mart's deal with the construction trades council is an "official agreement," said Maggie Sans, vice president of public affairs for the retailer.

Daley Veto

Mayor Richard M. Daley [11], 68, who vetoed an ordinance in 2006 that would have required Wal-Mart to pay a so-called living wage of \$13 an hour including benefits, said he has been approached by other mayors about Wal-Mart.

“Especially in cities that need some sales tax money, that need some real estate money, that need some jobs,” he said in a telephone interview. The mayor declined to disclose who contacted him.

Sales at Wal-Mart stores open at least a year have dropped for four straight quarters. If the retailer succeeds in building up stores in urban markets, it could mean an extra \$80 billion in sales, or about 20 percent of its annual revenue last year, Neil Currie [12], an analyst at UBS Securities LLC in Stamford, Connecticut, said in a telephone interview. He recommends buying the shares.

Duke’s Priorities

Wal-Mart shares have increased about 6 percent during the past three years, outperforming during the recession and underperforming since the economy began to recover last year. The stock rose 51 cents to \$50.86 at 4:15 p.m. in New York Stock Exchange composite trading.

The Chicago stores are part of a bigger strategy that Chief Executive Officer Mike Duke [13] has outlined during the past year to spur growth in the U.S. One of his top priorities is to have operating expenses such as labor rise at a slower rate than sales. In the most recent second quarter, Wal-Mart met the mark as sales grew 6 percent and expenses increased 3.9 percent.

“At this point there is quite a bit of pressure from the investment community to raise sales without increasing expenses,” said David Abella [14], portfolio manager at Rochdale Investment Management in New York, which manages \$2.9 billion including Wal-Mart shares. “The fact is that Wal-Mart is a value stock but even value investors are getting frustrated. Some investors are wondering if there is light at the end of the tunnel.”

No Target

Last month, Wal-Mart put its chief operating officer, William Simon [15], in charge of U.S. stores, replacing Eduardo Castro-Wright [16], who was reassigned to other duties.

Wal-Mart hasn’t said exactly where else it plans to build in Chicago. It probably won’t go head to head with other retailers like Target, David Doig, the site developer of the city’s second Wal-Mart, said in an interview.

The largest tracts of available land in the city are zoned for industrial use, and Wal-Mart would have to obtain rezoning for any larger stores, James Kutill [17], a vice president with Chicago-based Appraisal Research Counselors, said in a telephone interview.

During the Chicago negotiations, “decision makers within Wal-Mart” met with the building trades in their downtown Chicago office six times, Villanova said. Wal-Mart met with the labor federation, the local UFCW and local Service Employees International Union twice: on May 3 at O’Hare International Airport and June 21 in the downtown Chicago offices of a Wal- Mart consultant, according to Keith Kelleher, president of SEIU Healthcare Illinois & Indiana.

Confidentiality Agreements

“Of course they wanted more work,” Kelleher said of the union construction workers. “There’s always that pressure when there’s a major building project.”

Wal-Mart required all attending the meetings, including its own company representatives, to sign confidentiality agreements, Restivo said.

“We’re not going to get into details about what happened behind closed doors,” Marina Faz-Huppert, legislative and political director for the local UFCW in Chicago, said in a telephone interview.

The Chicago Federation of Labor also declined to comment on meetings with Wal-Mart.

More Stores

Wal-Mart has a third store in the works for Chicago, in the West Chatham neighborhood about five miles northwest of the approved location in Pullman. It's likely to open sooner because site development is further along, Doig said.

Mayor Daley today asked the City Council to "express its support" for the West Chatham store at its July 28 meeting, according to a statement from the Mayor's office. Daley said his administration has the authority to approve the store without a vote of the council. Pete Scales, a spokesman for the mayor, said this power came from a redevelopment agreement for the site approved by the council in 2005.

As Wal-Mart has largely exhausted the rural market, it's turning to these urban areas with a shortage of stores for their residents, where it will face distrust from some unions.

"Wal-Mart is not a good neighbor," Thomas McNutt, president of the UFCW serving the Washington metropolitan area, said in a telephone interview. "They are a company that has redefined the meaning of corporate greed."

It's possible that the Chicago building trades leaned on the other unions, McNutt said.

"We are not going to let a company like Wal-Mart divide us," he said.

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