What's happening to retail jobs?

Wages, gender, and corporate strategy

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Section I: Introduction: Low Wage Jobs in Retail Trade

Over the past 30 years, the widening wage distribution in the United States and the corollary worsening position of low-wage workers have raised concerns about job quality for the future. A rich research agenda has developed recently on the relationships between industry dynamics, firm strategies, and job characteristics in specific industries (Appelbaum, Bernhardt, and Murnane 2003, Appelbaum and Batt 1994, Herzenberg, Alic, and Wial 1998).

Broad trends in compensation indicate a worsening of the relative position of low-wage workers. Between 1979 and 2001, the real hourly wage of workers with less than high school education plummeted 18 percent. Access to employer-sponsored benefits such as health insurance and pensions has declined (Mishel *et al.* 2003). Economic pressures on employers have combined with institutional changes to significantly alter the environment in which production process and labor deployment decisions are made with significant consequences for front-line workers. As industry studies included in *Low Wage America* (Appelbaum, Bernhardt, and Murnane 2003) demonstrate, economic pressures include increased globalization of capital markets and production, advances in information technology that result in automation of routine tasks and make possible worldwide markets for service delivery, and a focus on short-term results in financial markets. Institutional changes have included the deregulation of key industries, the decline in union density and of union power, and the decrease in the real value of the minimum wage, a variable that often sets the "floor" of working conditions for entry-level workers.

These forces have resulted in significant restructuring and changes in employment practices, the details of which are better understood in manufacturing and in selected service sectors (banking, hospitals, hotels, telecommunications) and rather less well understood in retail trade to date. This paper examines what has happened to the wages and gender composition of retail jobs over the past 20 to 30 years. The paper also raises questions about ways in which corporate strategies affect retail job characteristics, retail wages, and the gender wage gap within the industry.

As a sector, retail trade exemplifies the central dilemma of low wage work in modern economies. Giant retailer Wal-Mart is the largest US employer, and overall, retail is one of the largest employment sectors in the country. Most retail jobs offer low wages, few benefits, and limited formal training. Nearly half of retail workers are women. Retail trade therefore is a useful industry to study if one is concerned about tendencies in corporate strategies that might affect low wage jobs, and in particular jobs in which women are disproportionately represented. What happens to jobs in this industry, which is a major provider of entry-level jobs, is a key element of the broader picture of low wage employment nationwide.

Retail trade distinguishes itself in that non-supervisory workers have historically been paid lower than the average for private sector workers as a whole. Of greater concern, the retail workforce has experienced overall wage loss since the 1970s, both in absolute terms and relative to other private sector workers. Concurrently, the industry's workforce has changed from female overrepresentation to a gender composition that is similar to that of the private sector as a whole.

This paper explores factors that have come into play in the overall wage decline of the industry. Section II provides key characteristics for retail as a whole as well as for three key sectors within it—General Merchandise, Grocery Stores, and Consumer Electronics. In particular, the section presents long-term trends in absolute and relative wages. Section III examines how women workers fare in terms of wages in the industry, and three sub-sectors. It also explores what employment patterns likely impact (or not) the gender wage gap in retail.

Section IV broadens the discussion to consider the impact of corporate strategy on the outcomes we observe. First, we explore possible explanations for the fall of retail wages, in both absolute and relative terms. Growing feminization of jobs is ruled out as a cause. The spread of discounting, the weakening of protective labor market institutions, and the deskilling of entry level jobs are likely contributors to these trends. Thus, the impact of retailer strategies on job design as well as worker retention and training warrant a closer look. We then examine the range of known retailer strategies and their likely impacts on job characteristics, particularly wages. As an empirical short-cut, we contrast Wal-Mart, representing a "low road" retailer strategy, with Costco, representing the "high road." We scrutinize the impacts of these differing strategies on workers and on women in particular. We inquire as to why the "high road" strategy is not more widespread.

Section V concludes with thoughts on where retail jobs are headed and questions for research.

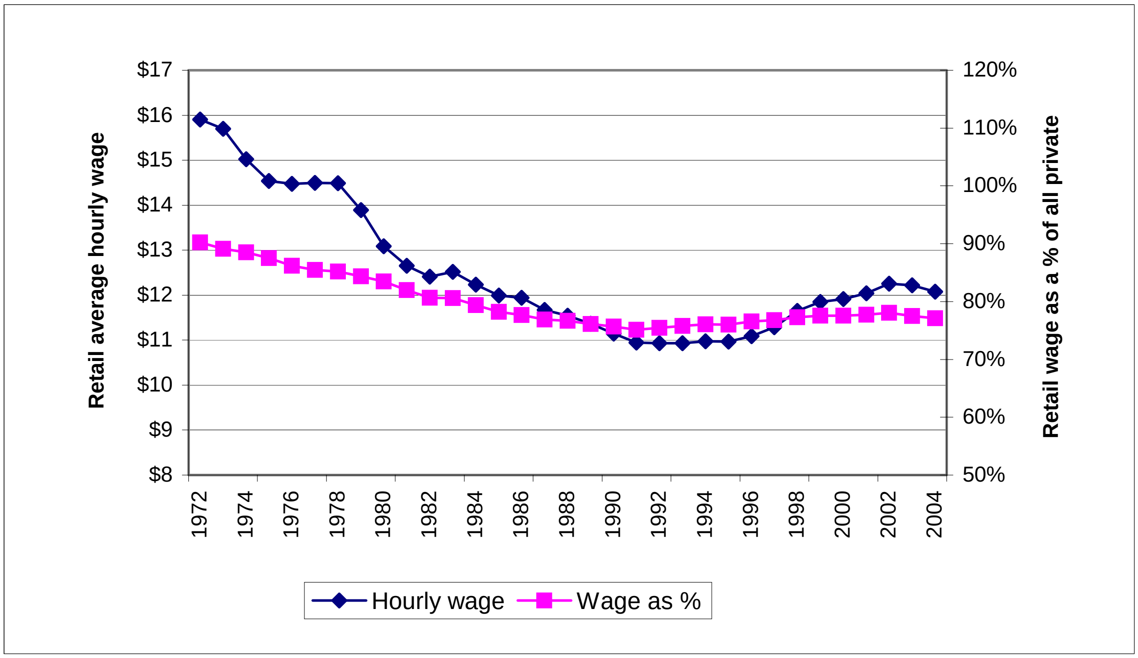
Section II: Retail industry characteristics

Why look at the retail industry?

Retail is one of the largest employment sectors in the U.S. Retail employed 13.4 percent of the private workforce in the United States in September 2005, accounting for slightly more than all manufacturing combined (12.7 percent) (U.S. Bureau of Labor Statistics 2005a). Retail has held its own at roughly 14 percent of employment since 1975, whereas manufacturing has declined in importance from 27 percent in 1975 (U.S. Bureau of Labor Statistics 2004a). In the past 3 years, Wal-Mart has become the largest private sector employer in the country, with 1.2 million workers. Five of the ten largest employers in the country are in retail trade or food service (Labor Research Association 2004).

The retail industry exemplifies the central dilemmas of low-wage work; most retail jobs offer low wages, few benefits, and little formal training. Non-supervisory employees in retail trade have experienced overall wage loss since the 1970s, both in absolute and relative terms (see Chart 1). The real hourly wage in retail declined by 25 percent from 1975 to 1991, and has never completely recovered its early value; the 2004 wage is 83 percent of the 1975 level in real terms. Simultaneously, retail's relative hourly wage— the wage as a percentage of the private nonfarm average—dropped from 88 percent in 1975 to 75 percent by 1991, and has remained at about that ratio ever since (77% in 2004). In 2004, the average hourly wage for non-supervisory employees was $12.08 according to the Current Employment Statistics.

Chart 1: U.S. retail average hourly wage in 2004$ and retail wage as a percent of all private, 1972-2004

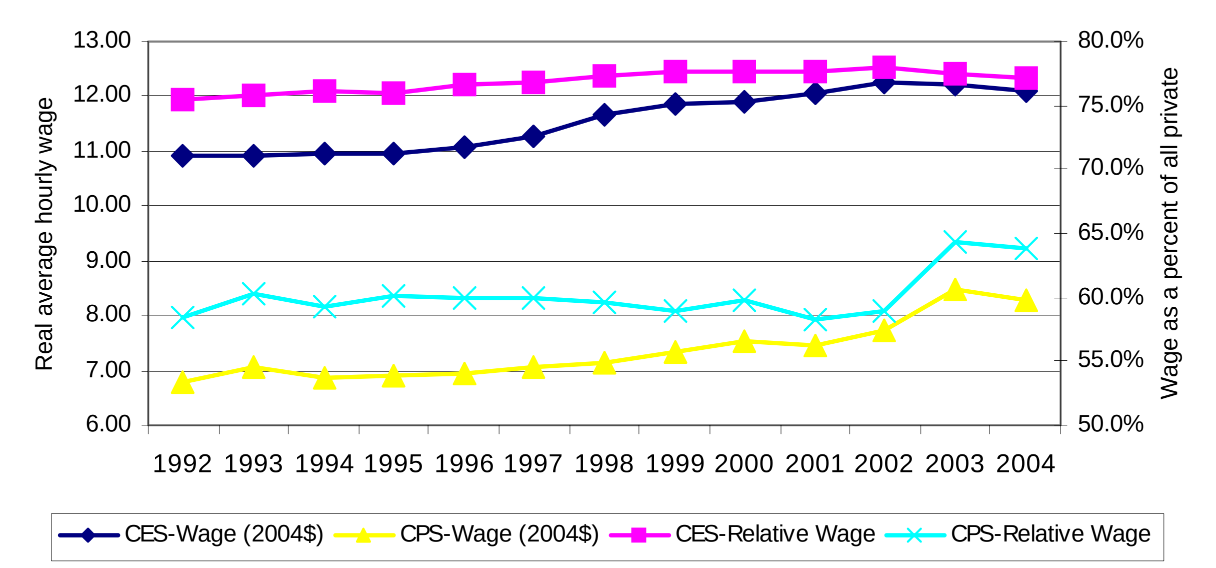


Source: CES

We used data from the Current Employment Statistics (CES) series, which are payroll data provided by employers, to track *average* wages by industry for non-supervisory employees; to complement these we used data from the Current Population Survey (CPS) to compute trends in *median* wages. We used the March Supplement of the CPS, which provides detailed information on jobs and income.[1] We took a look at *median* wages for anybody that worked in an occupation in retail that was non-supervisory and for the most part front-line, for example cashiers, stockers, and sales representatives. Chart 2 shows that since 1992, relative median wages have been relatively stagnant, only showing an increase in the last two years (interestingly, at a time when relative mean wages were decreasing). The relative wage averaged about 60.1% over the past 13 years and in 2004 median hourly wage in retail is shown at $8.30. Although the CES and CPS data sets measure slightly different occupations and wage definitions (average versus median), the basic story of worsening relative position of frontline retail workers is the same in either case.

[1] The CPS provides a richer source of data based on individuals; however samples sizes can get small when looking at particular occupations in different sub-sectors (e.g. sales force in consumer electronics).

Chart 2: Comparison of wages from the CES (mean, hourly employees) and the CPS (median, frontline employees), 1992-2004



Source: CES and CPS

In terms of total compensation, considering employer-sponsored benefits as well as wages, retail trade workers fare worse relative to the workforce as a whole. Average retail hourly compensation weighed in at $11.49 in 2001, only 51 percent of the economy-wide average (Mishel *et al.* 2003, Table 2.28). In 1999, 31 percent of retail trade workers had medical insurance through their employer as compared to 53 percent of the workforce as a whole. Corresponding figures for employer-sponsored retirement benefits were 30 and 48 percent (Mishel *et al.* 2003, Table 3.13). Part-time employment, which often precludes fringe benefits (Tilly 1996), is widespread in the retail sector. In 2002, 35 percent of workers in retail plus eating and drinking places worked part-time, compared to 17 percent economy-wide (National Retail Federation 2003, U.S. Bureau of Labor Statistics 2004b).

Educational requirements and formal training are also minimal for front-line retail jobs. According to the Occupational Outlook Handbook, “There usually are no formal education requirements for this type of work, although a high school diploma or equivalent is preferred,” (U.S. Bureau of Labor Statistics 2004c). Only 10 percent of retail employees had a college degree or higher in 1998 (compare 20 percent in durable goods) (Hirsch and McPherson 1999). According to the 1995 Survey of Employer-provided Training, workers in retail trade typically receive 3.7 hours of formal training as compared to an average of 10.7 hours across all sectors.

Characteristics of three retail sub-sectors

We have examined three sub-sectors within retail—General merchandise, Grocery stores, and Consumer electronics[2]— that offer interesting comparisons around wages and other job characteristics in order to provide a deeper understanding of the impact of the broader retail trends outlined above.

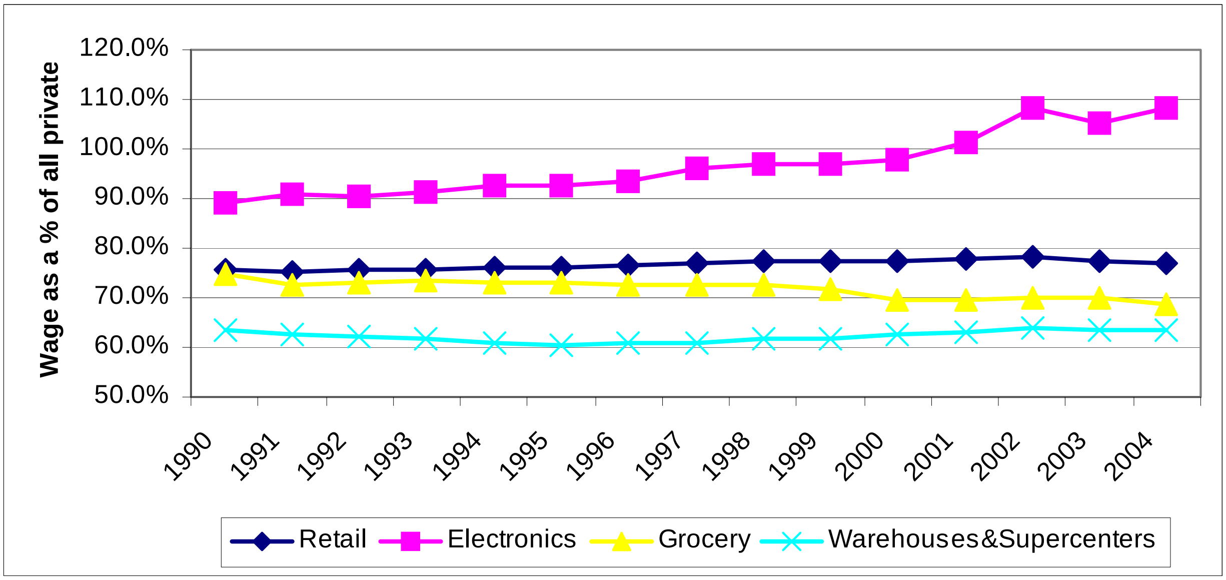
Grocery, general merchandise and electronics stores are interesting in their own right. Grocery and general merchandise stores command attention because of their importance in employment (at 16 and 19 percent, respectively, of total retail employment, they constitute the largest sub-sectors) and because of the revolutionary impact of Wal-mart. Electronics stores have little weight in employment (with 3.5 percent of retail jobs), but have experienced their own revolution with giant chains such as Best Buy and online sellers such as Dell entering the arena.

Most importantly, the three sub-sectors offer a series of very interesting contrasts: differences in wages and occupational distribution; unionization; industry concentration; establishment size; gender composition; and skill requirements.

Wage and occupational distribution: In Chart 3, we compare relative average wages for non-supervisory employees in the three sub-sectors along with retail as a whole over the period 1990-2004. While the trend in relative wages in retail remained flat over the period, the big winners are workers in consumer electronics stores, who at 90% started out higher than workers in the other two sectors and rose above (108%) the average wage for all industries by 2004. In contrast, frontline workers in warehouses and super-centers have the lowest relative wage and its trajectory remained almost flat fluctuating around 62 percent over the past 15 years. Grocery workers' position also worsened, their relative wages have been low and declined in relative terms from 75% in 1990 to 69% in 2004.

[2] In some cases, we looked at Supermarkets within Grocery stores and Supercenters/Warehouses within General Merchandise.

Chart 3: Relative wage by retail sub-sector, 1990-2004



Source: CES

In addition to demonstrating that electronics employers pay higher wages, Table 1 documents differences within specific job categories. Moreover, staffing configurations are quite different in the three sub-sectors. In Grocery stores, the modal employee is a cashier; in Electronics stores the modal worker is a retail salesperson; and in General merchandise the modal worker may be either a cashier or a salesperson.

Table 1: Wages and occupational distribution for grocery, electronics and "other general merchandise" (variety and discount, not department), May 2004

	Grocery	*Electronics*	*Other General Merchandise*
Median hourly wage			
All occupations	$8.74	$12.23	$8.83
Cashier	$7.90	$8.39	$7.85
Retail Salesperson	$9.24	$10.25	$8.36
Packers and packagers	$7.07	$8.08	$7.71

Table 1: (Cont'd)

	Grocery	*Electronics*	*Other General Merchandise*
Percent of total employment			
Cashier	33.7%	5.8%	21.2%
Retail salesperson	1.9%	34.0%	26.1%
Packers and packagers	8.0%	0.05%	1.7%

Source: U.S. Bureau of Labor Statistics, 2005. Occupational Employment Survey, wages and employment by industry May 2004. http://stats.bls.gov/oes/2004/may/oessrci.htm#44-45.

Unionization: As an industry, retail trade is known for having low levels of unionization, except in grocery stores. In 2004, 24.6 percent of workers in grocery stores were union members, compared to only 3.4 percent in consumer electronics and 3.0 percent in general merchandise (CPS data). Grocery stores' level of unionization is unique among retail sub-sectors: the next highest unionization rate was in dairy product stores, with 11.1 percent.

Growth and Industry Concentration: All three sub-sectors have experienced growth in concentrated sales. However, grocery stores sales are growing much more slowly than the retail industry as a whole and general merchandise has surged in recent years, growing at a rate much higher than the industry average. The electronics stores sector has kept pace with industry growth (U.S. Census Bureau 2002). Table 2 shows sales and employment for the top 4 firms in each sub-sector. The highest levels of concentration are found in general merchandise, where warehouses and super-centers contribute significantly to those concentrations. Grocery and electronics have high sales and employment concentrations too, although not as high.

Table 2: Sales and employment concentrations for top 4 firms by sub-sector

Sub-sector	% Sales	% Employment
Grocery	30.9%	25.9%
Supermarkets	32.5%	27.4%
Electronics and Appliances	43.9%	35.1%
General Merchandise	65.1%	55.8%
Warehouses and Super-centers	92.0%	89.3%

Source: U.S. Census Bureau, Economic Census, 2002 Industry Series Reports.

Establishment size: Grocery and general merchandise stores are much larger than their electronic counterparts. In 1997, 85% of grocery store employment and 94% of general merchandise employment was in establishments with 20 or more employees, whereas electronics had 46% of employment in establishments with 20 or more employees (U.S. Census Bureau 2000).

Gender composition of employment in sub-sectors: In 2004, grocery job-holders include about the same percentage of women (47 percent) as the retail industry as a whole (49 percent). Women are under-represented in consumer electronics and appliance stores (39 percent) and over-represented in general merchandise (64 percent) relative to their share of the workforce (CES data).

Skill: We presume that part of the wage difference between consumer electronics and other sub-sectors can be accounted for by differences in job requirements. There is greater technical knowledge and skill required to sell some electronics devices, particularly complex appliances and computers. Only 9 percent of grocery workers had a college degree in 1998, substantially fewer than the 14 percent in stores selling appliances, TVs, etc (Hirsch and McPherson 1999).

These contrasts present three markedly different retail environments in which to study trends in job characteristics, wages in particular. Grocery has a substantial union presence, high firm concentrations, and is experiencing slower growth than industry averages; its wages are lower than average for retail and female employment is very close to 50%. General merchandise has very little union activity, very high firm concentrations and has experienced a major growth spurt in the past 10 years. However, wages are lower than any other sector and women are over-represented in the workforce. Finally, electronics is a much smaller sector that is experiencing average levels of growth, is less concentrated, and provides much higher wages to a predominantly male workforce.

Section III. Gender disparities in retail trade

To explore the dimensions of the gender "gap" in retail trade, we must look both at the gender composition of employment and the actual gender wage gap.

First, by 2004, there is only a slight overrepresentation of women in retail trade relative to their share of total employment 49% and 47%, respectively. Compare this to 1972, when women represented 45% of retail employment but only 35% of all private employment. Today, the gender composition of retail employment resembles the all-industries average.

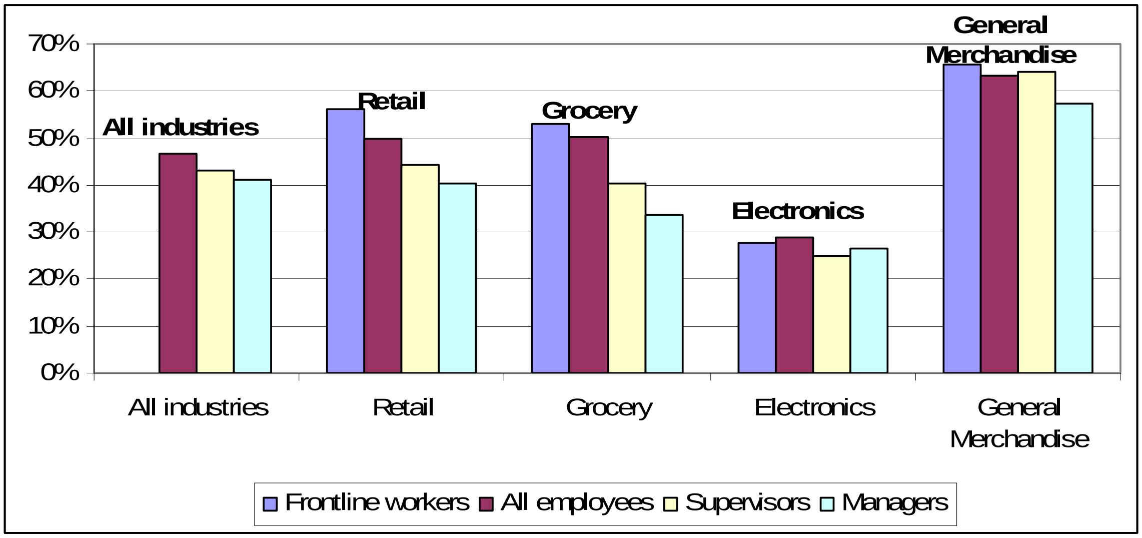
Women do earn less than men in retail but the disparity is not as great as economy-wide. Women's median hourly wage, averaged over 1992-2004, was 87 percent of men's in retail as compared to 76 percent economy wide (CPS).

There are three ways to account for the gender wage gap within retail: occupational sorting (women cluster in low-pay ***occupations***); sectoral sorting (women cluster in low-pay ***sectors*** within retail trade); and gender differences in pay ***within occupation and sector.***

Is there occupational sorting within retail?

Occupational sorting means women are concentrated in occupations with lower hourly wage within the industry. Indeed women are overrepresented in frontline (entry level) retail positions (see Chart 4 below) (averaging 56% of this workforce over 2000-2004) and conversely underrepresented in supervisor and manager positions (44% and 40%, respectively). This pattern of decreasing female representation with each occupational step upward holds retail-wide, and also in two of our sub-sectors: Grocery stores and General Merchandise. Interestingly, it does not hold in Consumer Electronics, where women workers seem to be evenly distributed across hierarchical layers. The largest disparity between the share of frontline workers (left-most bar) and that of managers (right-most bar) occurs in Grocery Stores, where women make up 53% of the frontline workforce, but only 34% of management.

Chart 4: Occupational Sorting? Women as % of various occupations by industry



Source: CPS

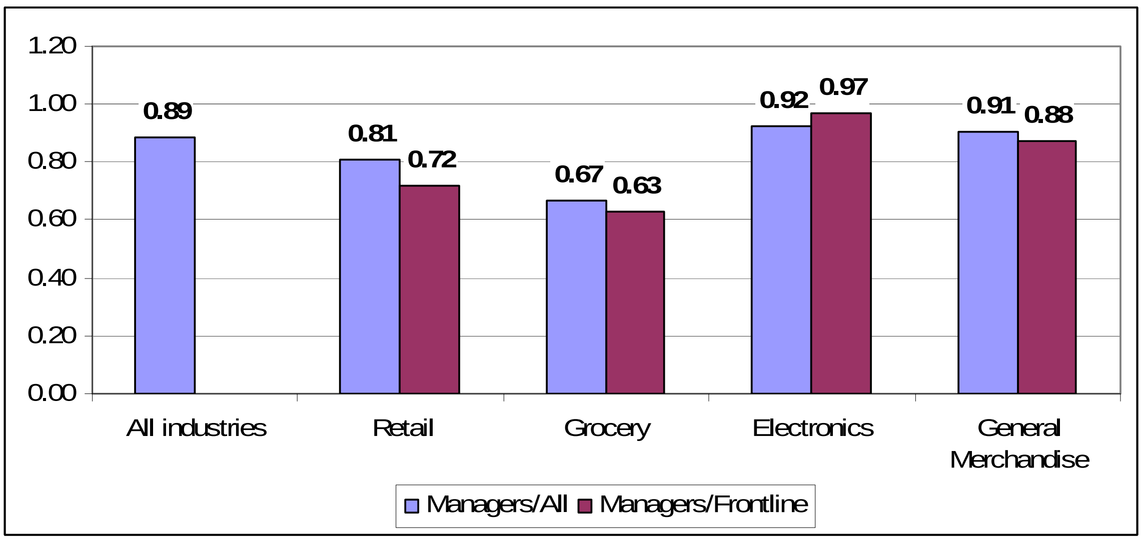
Another way to explore occupational sorting is to look at women's "odds of promotion" in retail and within each sub-sector of interest. Chart 5 (calculated from CPS data) attempts to put a number on the degree to which women are underrepresented in management. We calculate the ratio of two percentages: the percent of managers who are women, and the percentage of workers who are women. If it is 1, it means that women have the same representation among managers as among workers. All of these are less than 1, which means that women are less represented among managerial ranks than in the workforce.

"Odds of promotion" is in quotes because it does not actually reflect an individual woman's chances of being promoted from a frontline position; it only reflects the degree of disparity of women's representation in entry-level versus managerial ranks.

We calculated the odds of promotion in two ways: 1) women managers divided by women among all employees (blue or left bar); and 2) women managers divided by the percentage of women among frontline employees only (maroon or right bar). They both show pretty much the same general patterns:

- There is more underrepresentation of women in management in retail than in the economy as a whole (all industries)
- However, when we break down retail into different sectors, we only find grocery women more underrepresented in management than the economy-wide average. Women managers are underrepresented in general merchandise, but women in that sector fare *better* than the economy-wide average. In electronics retailing, women in management come close to mirroring the workforce.

Chart 5: Women's "odds of promotion": Ratio of % women managers to workers, by sector



Source: CPS

Gender sorting across retail *sub-sectors*

There is also gender sorting across retail sub-sectors, a pattern that receives less attention in accounts of gender disparity. In particular, women concentrate to some extent in sub-sectors with relatively lower wages *within retail*.

In Table 3 below we have listed retail and sub-sectoral median wages as percent of the economy-wide median wage so as to have a common 'yardstick" to compare all sub-sectors (column 1 on the chart). Women are concentrated in the two sub-sectors with lower wages.

Median wages are similar for grocery, general merchandise, and retail as a whole. Electronics stands out, however; it is a high-wage and very male sub-sector. Note, in the final two columns, that low-wage retail sectors offer comparatively low wages to both women *and* men relative to their counterparts elsewhere in the economy.

Table 3: Women are concentrated in sub-sectors with lower relative wages

	Median hourly wage as % of economy-wide median	Women as % of frontline jobs	Women's median hourly wage as % of women economy-wide	Men's median hourly wage as % of men economy-wide
Grocery Stores	57.4%	52.8%	65.0%	51.3%
Retail	60.1%	58.2%	65.1%	57.4%
General Merchandise	60.3%	69.1%	68.1%	55.8%
Consumer Electronics	85.3%	25.0%	89.4%	76.3%

Source: CPS

Managers' earnings and women's odds of promotion

If we put together the odds of promotion with the relative median wage, it appears that to some extent, in sectors where managers earn more, a smaller share of women become manager. In Table 4, we list the sectors by promotion premium—that is, how much more the average manager does earn per hour than the average frontline worker. Managers earn twice as much as frontline workers in the retail industry as a whole, but earn about 2.5 times as much in each of our selected sub-sectors.

When we compare General Merchandise and Grocery, it turns out that the bigger the promotion premium, the fewer women managers there are, both as an overall percentage and relative to their share of the sub-sector's workforce. However, Consumer Electronics does not follow this pattern. This sub-sector's promotion premium falls between those of General Merchandise and Grocery, yet women have the lowest representation in management in *absolute* terms and the highest representation in *relative* terms of any of the three sub-sectors.

Table 4: Where managers earn more, fewer women become managers

	Promotion premium: Manager wage as % of frontline wage	Women as % of managers	Odds of promotion (ratio of % women managers/workers)
All industries	174%	41%	*0.89*
Retail	206%	40%	0.72
General merchandise	240%	57%	0.88
Electronics	251%	27%	0.97
Grocery	263%	33%	0.63

Note: For *all industries*, the promotion premium and the odds of promotion are calculated using all workers, not frontline workers.
Source: CPS

Gender differences *within* occupation and sub-sector

To what extent do gender wage differences persist when we look within particular occupations and sub-sectors? When we limit our attention to frontline workers, women earn 87 percent as men in retail—a 13 point gap in the median wage. When we additionally focus on one sub-sector as a time, the gender gap narrows but does not go away completely. Interestingly, the gap is most narrow in Grocery (98%), and wider in Consumer Electronics (90%) and General Merchandise (94%). One likely explanation that we have not explored systematically is men's concentration in commission sales in these sub-sectors.[3]

[3] Source: CPS, averages of 1992-2004 percentages.

Section IV: Retail wages and retailer strategies

Our analysis to this point in the paper has focused on two striking facts:

- Hourly wages in retail have fallen dramatically, in real and relative terms, since the 1970s
- There is a persistent gender gap in the retail sector (though a smaller one than in the economy as a whole), and a substantial portion of that gap is accounted for by the differential distribution of women and men across retail sub-sectors and occupations

Now we ask, to what extent can these patterns be connected to conscious corporate strategy, rather than more diffuse market forces? We pose this question in three steps.

1) Given the timing of the collapse of retail wages, what trends are most likely to explain it? We do not examine the gender gap in the same way (though we do consider the gender gap as one possible explanation for the wage decline) for the simple reason that retail's gender wage gap has *changed* very little in the period for which we have detailed information: women front-line retail workers earned 87.2% as much as their male counterparts in 1993, and 88.1% in 2004.
2) We explore the range of current retailer labor strategies by comparing prominent examples of two disparate strategies, Wal-Mart and Costco. We consider the impact of these differing strategies on workers as a whole and on women workers in particular.
3) Finally, we examine the possibility of diffusion of a more worker-friendly, "Costco-like" strategy more broadly within the retail sector.

Why did (real and relative) retail wages fall?

Production and nonsupervisory workers in the United States saw their average real hourly earnings trend downward for twenty years beginning in the early 1970s, and then undergo an incomplete recovery from 1995 forward (U.S Council of Economic

Advisors 2005). As we documented above, retail workers saw a more severe decline, and an only slightly more favorable recovery, over the same period. As a percentage of the private industry average, retail workers' wages slipped from 90% in 1972 to 75% in 1991, and then inched up to 77% in 2004. Why?

The growing feminization of the retail workforce does *not* provide an explanation. As we noted above, although women's share of retail jobs did rise from 45% to 49% between 1972 and 2004, their share of total private industry jobs climbed much faster, from 35% to 47%. Moreover, the gender wage gap is smaller in retail than economy-wide.

But a number of other factors, all linked to some extent to corporate strategy, offering more promising explanation. Start with the spread of discount retailing, which combined reduced prices and service levels, high volumes, and resulting economies of scale. Part of the discounting formula is lower pay, in part because expected service levels are lower. As Table 5 shows, while non-discount department stores pay about the average retail wage, discounters paid 16 to 18% less, with little change in the relative wage between 1990 and 2004.

Table 5: Average hourly earnings as a percentage of the retail-wide average for non-discount and discount retail sub-sectors, 1990 and 2004

	Average hourly earnings as % of retail-wide average	
Retail sub-sector	*1990*	*2004*
Non-discount department stores	102.9%	99.7%
Discount department stores	82.0%	82.2%
Warehouse clubs and superstores	83.7%	82.3%

Source: US Bureau of Labor Statistics, Current Employment Statistics, http://stats.bls.gov/ces/home.htm#data

We know that KMart was born in 1962, Wal-Mart in 1964. But Table 6, which tracks discount retailing from 1966 forward, suggests that rapid discounting growth took place later. Discount store sales as a percentage of total retail sales expanded only slightly between 1966 and 1977, but saw a substantial jump between 1987 and 1992, only to lose ground thereafter (unfortunately, because of lack of comparable data, we are not able to assess the nature of change during the critical period between 1977 and 1987). Other data show that especially in the later years, discount sales were dominated by large chains (Satterthwaite 2001). Warehouse clubs and superstores more than offset these declines in discounters' share of stores and sales between 1997 and 2002, but because this category was not defined before 1997, we cannot tell when the warehouse/superstore surge began.

Table 6: The spread of discounting, 1966-2002

	1966(a)	1977	1987	1992	1997	2002
Conventional discount department stores only						
Discount store sales as % of retail sales (b)	5.5%	5.9%	4.2%	6.0%	5.1%	4.4%
Discount store employment as % of retail employment (c)			6.1%	7.6%	7.4%	5.2%
Conventional discount + warehouse/superstores (d)						
Discount and warehouse/superstore sales as % of retail sales					8.5%	10.6%
Discount and warehouse/superstore employment as % of retail employment					10.4%	10.9%

Sources: US Census Bureau 1971, 1980, 1990, 1995, 2000, 2005, Bluestone et al 1981 (Table 2.2)
(a)Total retail sales imputed by interpolation from 1963 and 1967 data in US Census Bureau 1971.
(b) Retail was redefined beginning with the 1992 Economic Census to exclude eating and drinking places. "Retail" in this table refers to retail net of eating and drinking places. 1966 and 1977 discount store sales are from *Discount Merchandiser* reports compiled by Bluestone et al (1981), so sales percentages for these years are not strictly comparable to Economic Census figures used from 1987 forward.
(c) Separate employment data on discounters only become available in the Economic Census of 1987.
(d) Separate data on the "warehouse clubs and superstores" only become available in the Economic Census of 1997.

However, Table 6 understates the impact of discounting in two important regards. First, it only measures "discount department stores." But the discounting model rapidly spread to other retail categories, including supermarkets and narrow-line "category killers" such as Toys R Us and Best Buy—which do not show up in the Census's discounter classification. Second, discounters exercise a competitive effect on prices and therefore on wages. Arindrajit Dube and co-authors have recently estimated one such effect, the "Wal-Mart effect"—the impact of a Wal-Mart opening on wages in competing retailers within the same county, as shown in Table 7.

Table 8: The "Wal-Mart effect": Impact of a Wal-Mart store on average earnings three years after entry (Metro area counties only)

Effect on…	*% change in wages*
General merchandise	-0.8 to -0.5%
Grocery	-0.9 to -0.8%
Rest of retail	0% (0.4-0.6% but not significant)

Source: Dube, Eidlin, and Lester 2005
Note: All results are statistically significant except for the "rest of retail" coefficients.

A second strategy-related change is the erosion of protective institutions that once sheltered retail wages—the minimum wage and unions. Retail workers are nearly three times as likely as the average worker to earn the minimum wage or less (Haugen 2003). Whereas in the first several decades after the minimum wage was enacted in 1935 Congress routinely raised the minimum to keep pace with inflation, since the 1970s legislators have allowed the real minimum wage to slide downward, under intensive lobbying by industries that employ large numbers of low-wage workers. The real value of the minimum wage in 2004 was 41% less than in 1968, 33% less than in 1978 (calculated by authors from US Department of Labor 2005 and US Bureau of Labor Statistics 2005b).

During the same time period, employers across the economy began much more actively resisting unionization. The retail sector shed union density more rapidly than the rest of the economy, reducing union coverage by 36% (from 9.6% to 6.1%) between 1988 and 2004, compared to a 27% decrease economy-wide (Hirsch and McPherson 1999, US Bureau of Labor Statistics 2005c). Fast-growing, strongly anti-union new entrants, such as Wal-Mart, make up an important part of this story.

A third change—once more connected to business strategy—is the adoption of deskilling technologies. The advent of boxed beef, which shifted most meat-cutting from the store back to the slaughterhouse, deskilled one of the most skilled retail occupations by the early 1980s (Burns 1982). Moss and Tilly (2001), in employer interviews in the early and mid-1990s, discovered a consensus that "smart" cash registers and bar codes had deskilled cashier jobs, the most numerous job category in retail. In unpublished interview data from a large catalog retailer in the late 1990s, Philip Moss, Hal Salzman, and Chris Tilly learned, likewise, that bar codes and computer-devised "pick lists" had reduced the skills required of the warehouse workers behind the scenes in retail. Charley Richardson (2005) provided a more recent update, reviewing technological change in both stores and distribution warehouses. In stores, automated "self-checkout" counters and the emerging use of "personal shopping buddies" that put a customer-activated scanner right in the shopping cart shrink the cashier's role to supervision and assistance, whereas computerized ordering and a shift of stocking to outside vendors has removed most discretion from stock clerks' jobs (as well as decreasing their numbers). In distribution, “voice-tech” technology has in many cases reduced warehouse workers to deskilled gofers who are told their destinations, one at a time, via earphones by a computerized “boss,” and report their progress into a microphone, to be fed into the computer using voice-recognition software. Such deskilling reflects corporate strategy in the sense that technological innovation responds to the perceived needs of large retail corporations—in particular, the need to drive down labor costs by reducing skill requirements.

Two strategies: Wal-Mart vs. Costco

The set of trends just reviewed paints quite a somber picture of how retailers’ corporate strategies affect job quality. It appears that on the whole, retailers are increasingly emulating cost-cutting discounters, fighting to keep the value of the minimum wage down and unions out, and implementing new technologies that strip away employees’ skills. But surely more than one strategy is possible. Comparing alternative strategies can give us a sense both of what is driving the aggregate trends and of whether—and under what circumstances—another direction for retail is possible.

Here we examine one key comparison: Wal-Mart vs. Costco. The two companies have frequently been contrasted in the business press. With 3,808 stores and 1.3 million U.S. employees (more than 8% of total U.S. retail employment) at the end of November 2005, Wal-Mart is the dominant U.S. retailer (Wal-Mart 2005a). Critics have widely attacked the chain for providing low wages and few benefits to employees (see, for example, Wal-Mart Watch 2005). Costco, on the other hand, has recently been hailed in the media as a sort of “anti-Wal-Mart” that pays higher wages and offers generous benefits, despite a big-box, warehouse-club format very similar to Wal-Mart’s Sam’s Club stores (Greenhouse 2005a, Herbst 2005, Holmes and Zellner 2004, Nazareño 2005, Rafter 2005, Van Tassel 2004). We note one limitation of our analysis at the outset: our comparison of Wal-Mart and Costco, along with some information on other chains, is based entirely on secondary sources, including journalistic accounts and web-based reports.

Table 8, summarizing wages, hours, and turnover in the two chains, certainly conforms with the media’s representation of the pair. Costco pays considerably more on an hourly basis, and enjoys lower turnover as a result. Wal-Mart's average wage is low even compared to the retail-wide average of $12.08 (from CES data). Interestingly, both chains have relatively low part-time employment compared to industry standards.

Table 8: Costco vs. Wal-Mart: Wages, hours, turnover

	Costco	*Wal-Mart (or Sam's Club)*
Starting hourly wage 2004 (a)	$10.50	
Average wage 2004 (b)	$17	$11.52 Sam's Club $9.64 Wal-Mart*
CEO pay (c)	Salary $350,000 Total compensation plus stock option grants $4.1 million	Salary $1.2 million Total compensation plus stock option grants $17.5 million
% part-time (d)	≤50% in each store 25 weekly hours guaranteed	<50%
% who leave after 1 year of employment (e)	6%	21%

* Average wage for Sam's Club excludes wages of 25 % of the workforce that are low wage part-time workers. The Wal-Mart figure, as well, appears to be limited to full-time workers.
Sources: (a) Greenhouse 2005a, (b) Zimmerman 2004, (c) AFL-CIO 2005, (d) Wal-Mart 2005b, (e) Holmes and Zellner 2004.

The picture is similar when we turn to benefits (Table 9). The great majority of Costco employees have health coverage, compared to a minority of Wal-Mart workers. As a point of reference, 31% of the total wholesale and retail trade workforce receives employment-based health benefits, so that even Wal-Mart exceeds the industry average (Mishel *et al.* 2003, Table 3.13). Costco's pension plan is also considerably more generous than that of Wal-Mart.

Table 9: Costco vs. Wal-Mart: Benefits

	Costco	*Wal-Mart*
% with health insurance (a)	80%	47%
Annual health costs per worker (a)	$5,735	$3,500
Part-time worker access to health plan (a)	After 6 months	After 2 years
% covered by pension plan (a)	91%, excludes those with <1 year seniority	64%
Annual retirement cost per worker (a)	$1,330	$747
Contribution toward 401K (a)	3 % of salary starts year 2 9% after year 25	
Dental coverage (b)	Most dental expenses	

Sources: (a) Zimmerman 2004, (b) Greenhouse 2005a

What about the two companies' stance toward unions? As is well known, Wal-Mart has no union representation in the United States and Canada, and has gone so far as to shut down departments or entire stores to avoid union representation (Featherstone 2002). (Wal-Mart does tolerate a union presence in Argentina, Brazil, China, and Mexico.) According to a Wal-Mart management manual cited by Featherstone (2002):

> Staying union free is a full-time commitment. Unless union prevention is a goal equal to other objectives within an organization, the goal will usually not be attained.... Unless each member of management is willing to spend the necessary <u>time</u>, <u>effort</u>, <u>energy</u>, and <u>money</u>, it will not be accomplished.

At Costco, on the other hand, one-fifth of the workforce is represented by the Teamsters—a legacy of the 1993 merger with Price Club, which had a unionized workforce. Indeed, according to Teamster union representative Rome Aloise, the compensation package is pegged to the union contract, which helps to explain the high-end—by industry standards—wage and benefit package (Holmes and Zellner 2004). Nonetheless, Aloise commented, "They're not union-friendly. They're just as bad as any other employer trying to prevent people from joining the union" (Rafter 2005). Indeed, matching union wage and benefit levels is a canny way of removing any incentive for non-unionized employees to choose union representation.

When it comes to gender, there is little difference between the two chains (Table 10). In both cases, women are severely underrepresented in management relative to their presence in the frontline workforce. Though the ratio of the two percentages is somewhat higher in Costco, in both cases the ratio of women's share of management jobs to their share of hourly jobs is around 0.5—well below the retail average of 0.73 that we documented above. Perhaps it is not surprising, then, that both companies face class action lawsuits from women who believe they were discriminated against in their quest for promotion to management. We are not in a position to evaluate the merits of either case (but see Featherstone 2004 for in-depth documentation of the Wal-Mart case); nonetheless, the combination of numerical underrepresentation and current litigation strongly suggests that something is amiss at both chains.

Table 10: Costco vs. Wal-Mart: Gender

	Costco	*Wal-Mart*
% women among hourly workers	50% (a)	72 % (b)
% women among managers	26% (a)	33 % (b)
Ratio: % women managers / % women hourly	0.52	0.46
Lawsuit about not promoting women managers? (c)	Yes	Yes

Sources: (a) Zimmerman 2004, (b) Featherstone 2002, (c) Schmitt 2004

Can the Costco or "high road" model spread?

Despite its apparently weak track record on promoting women, Costco's job profile suggests the possibility that retail in general could follow a somewhat more worker-friendly model. How realistic is this prospect?

First, it is important to recognize that in its treatment of workers, Wal-Mart lags behind industry averages, but it is not alone:

- Wal-Mart's 2004 average hourly wages of $9.64 (Wal-Mart) and $11.52 (Sam's Club) trail the retail-wide average of $12.08, especially considering that the Wal-Mart figures appear to be limited to full-time employees. Nonetheless, 8% of retail workers earn the minimum wage of $5.15 or less.
- Ninety-four percent of the retail workforce is non-union, like Wal-Mart.
- Target, which avoids the opprobrium heaped on Wal-Mart, in 2003 started workers at $6.25-7.75 (Team Member), $8 (Team Specialist), or $10 (Team Leader), with some progression (for example, a California worker who started at $7.25 reported making $10.05 after four years) (United Food and Commercial Workers Local 789, 2005). This set of pay levels suggests that Target's average pay is likely to be similar to Wal-Mart's, and lower than Sam's Club. "Target, [many] argue, [like Wal-Mart], also undermines local businesses, shuns unions, squeezes employees and suppliers, and buys from overseas," according to former Boston City Councilor Thomas Keane (2005). Featherstone (2004, 157-8) agrees that "In many markets, Target's wages are just as low as Wal-Mart's."
- With regard to gender inequality, if Wal-Mart and Costco are discriminating against women, they appear to have company. A Lexis-Nexis search for 2002-2005 articles

on sex discrimination lawsuits against retailers turned up stories about suits at Best Buy (Selvin 2005), Abercrombie & Fitch (Greenhouse 2004), regional chain Kash 'n Karry (Hundley 2003), and Rent-a-Center (New York Times 2002), as well as earlier lawsuits against Lucky Stores (settled 1994), Home Depot (settled 1997), and Publix (settled 1997) (Teicher 2003). Interestingly, however, at Target women make up 67% of employees and 50% of managers, for a ratio of 0.75, considerably higher than at Wal-Mart or Costco (Featherstone 2004, p.157).

Even so, in the past, large, leading employers such as General Motors or IBM were known for *leading* the pack in pay and benefits. Wal-Mart presents us with the anomaly of a market leader that offers substantially less in compensation than the average in its industry. In a recent interview, Wal-Mart CEO Lee Scott directly challenged the comparison with GM, arguing that the company's market niche precludes paying more:

> **You are always accused of paying rock-bottom wages and benefits.**
> We are not building cars. We work in an industry where we compete with Target and Dollar General. And we cannot set employment practices that set the standard worldwide for all industries and forget that the industry we are in is a much different kind of industry. The jobs we provide are [the kind] people [take] to enter the workforce.
> **Why couldn't you pay wages above the industry average, like warehouse club Costco does?**
> I think the Costco model, their sales per square feet, and the revenue they generate per store allows them to do the things they do. They have a different model. Much fewer people. A different customer base. That model doesn't work at Wal-Mart against Dollar General, Target, the Gap. But it certainly works for them.
> (Business Week 2005)

Scott raises the question of whether Wal-Mart and Costco are in fact competing in different segments of the market. Are they?

Table 11: Costco vs. Wal-Mart: Business and operations

	Costco	*Wal-Mart*
Sales/square foot (a)	$795	$516
Average yearly sales/store (b)	$121 million	$70 million
US operating profit per hourly employee	$13,647	$11,039
Number of U.S. stores and ten-year growth	1994: 182 2004: 336 Ten-year growth: 85%	1994: 2,440 2004: 3,600 Ten-year growth: 48%
U.S. workforce and ten-year growth	1994: 38,300* 2004: 83,600 Ten-year growth: 118%	1994: 528,000 2004: 1.2 million Ten-year growth: 127%
Customer base (c)	Higher income, more educated, including many small business owners	8 out of 10 US households shop at least once a year Average household income of shopper $40-45,000 (median household income was $44,400 in 2004)

*1994 Costco US employment imputed by calculating average employment per store in 1996 (combining 1996 store count from 1998 Annual Report and employee count from Hoovers 2005), and multiplying by 1994 store count from 1998 Annual Report.
Sources: Information from company web sites or annual reports, except as indicated. (a) Holmes and Zellner 2004, (b) Greenhouse 2005a, (c) *Economist* 2004, Nazareño 2005, and Mui 2005.

Table 11 suggests that Scott has a point. As a warehouse club rather than a general merchandise company, Costco is far more efficient than Wal-Mart in sales per square foot or per employee; it has a high throughput model that wrings enormous sales out of each store. But the model builds on a relatively affluent and educated customer base, whereas Wal-Mart sells to almost everyone, and particularly targets low and moderate income shoppers. Though Costco has grown rapidly, adding stores faster than Wal-Mart in *percentage* terms, it has less than one-tenth the number of stores and employees that Wal-Mart has. It is far from clear that the Costco model (as an archetype for a "high road" strategy), at least in its current form, could dominate retail on the scale that Wal-Mart does.

If the Costco approach were broadly replicable, we would expect to see other retailers adopting it. We set out to look for other retailers treating employees well, outside of the small unionized section of retail. The results were discouraging. For example:

- In 1999, Radio Shack CEO Leonard Roberts announced an initiative to make the chain "the best place to work" (Schnurman 1999). But in terms of benefits, the initiative turned out to move the company's benefits from below average in the industry to "average or slightly better" (Goldstein 1999). In the years that followed, Radio Shack's "best place to work" drive did lead to opening a credit union at company headquarters (Fort Worth Star-Telegram 2000). But perhaps more striking are recurrent class action suits alleging that Radio Shack improperly classified store managers as exempt employees in order to avoid paying overtime (Class Action Law Monitor 2005, Wall Street Journal 2002).
- "To check out the future of democratic capitalism, get in the checkout line at Whole Foods Market—where all work is teamwork, everyone sees the numbers, and people vote on who gets hired," gushed *Fast Company* in 1996 (Fishman 1996). In 2005, *Fortune* named Whole Foods one of its "100 best companies to work for," for the seventh year in a row. However, a 2002 union campaign at a Whole Foods store in Madison, Wisconsin cast the company in another light. Employees conceded that the company pays competitive wages, but complained of arbitrary wage differences among employees, insufficient management contributions to the cost of health coverage, and a restrictive dress code. Whole Foods strongly opposed unionization in Madison, and escalated its opposition after workers voted for union representation, firing union activists (ostensibly for consuming products at the store's coffee bar) and eventually removing the union through a 2003 decertification election (Nathans 2003, Whole Foods Market 2003, Whole Foods Workers Unite 2003). In fact, Whole Foods has a long history of opposition to unions (Bates 1998). And according to *Santa Cruz Metro* reporter Eric Bates, as of 1998, "The company says it pays employees nationwide an average of $20,600 a year, but according to compensation guidelines in one region, annual wages for all full-time workers except meat cutters, bakers, buyers and team leaders range from $11,500 to $17,500."

A related question is whether Wal-Mart itself is shifting to a more Costco-like labor strategy. As part of its campaign to blunt growing criticism, in late 2005 the chain announced internal reforms and even called for a higher minimum wage. Table 12 summarizes selected late 2005 coverage of Wal-Mart—including statements suggesting that Wal-Mart is taking a new direction, and others suggesting that little has changed. It is probably fair to conclude that, on the whole, not much has changed yet—but over time, continuing public pressure and, in particular, evidence that consumer choices are influenced by Wal-Mart's image may lead the company to steer a more worker-friendly course.

Table 12: Is Wal-Mart turning over a new leaf?

Yes	No
• Wal-Mart Stores Inc. has accelerated a campaign to polish its image by proposing a lower-cost health care plan for its employees, promising an environmental initiative and calling for a boost in the minimum wage. (AP, 10/30/05) • Facing criticism that Wal-Mart has not adequately promoted women and minority group members to management levels, the retailer recently appointed a chief diversity officer, increased leadership training for female workers and has tied executive bonuses to diversity goals. (Barbaro 2005)	• Wal-Mart's opponents call its new health care plan inadequate because workers would still have a $1,000 deductible. And they term the company's advocacy of a higher minimum wage as a self-serving attempt to boost the buying power of its low-income customers. (AP, 10/30/05) • An internal memo sent to Wal-Mart's board of directors proposes numerous ways to hold down spending on health care and other benefits while seeking to minimize damage to the retailer's reputation. Among the recommendations are hiring more part-time workers and discouraging unhealthy people from working at Wal-Mart. (Greenhouse and Barbaro 2005) • The Labor Department's inspector general strongly criticized department officials yesterday for "serious breakdowns" in procedures involving an agreement promising Wal-Mart Stores 15 days' notice before labor investigators would inspect its stores for child labor violations.(Greenhouse 2005b)

In short, corporate strategy in its many varieties matters profoundly for the quality of jobs. And though a variety of retailers have come up with creative ways to improve jobs, the results for even the most celebrated companies appear mixed at best. Importantly, this conclusion is based on secondary sources, including journalistic accounts and partisan web sites; a more full evaluation of the range of retail strategies would depend on in-depth research. Nonetheless, in the absence of public policy steps to provide added incentives for improving job quality, a "high road" model seems unlikely to sweep the field.

Section V: Conclusion

Before summarizing our findings, we note that much in-depth research remains to be done to unearth corporate strategies and practices and analyze their impact on front line retail jobs. Our work thus far has shown us the limits of existing analytical categories for comparisons of corporate strategies in retail. Discounters and warehouse stores increasingly blur the distinctions between general merchandising, food retail, and electronics/appliances stores. Additionally, the growth of call centers and internet sales components also change the patterns of labor deployment. Thus, comparing the strategies of companies that, apparently, belong in the same sub-sector of the industry for statistical purposes is an exercise that entails numerous ambiguities. These will need to be taken into account in future work on the industry.

That said, based on what we know to date there is scarce good news about the quality of frontline retail jobs. As has been highlighted, retail wages are low and have fallen both in real terms and relative to average private sector wages. Retail wages have declined in a context of the spread of discounting, weakening institutional protections — such as a minimum wage with reduced purchasing power and attrition of union representation—and deskilling of frontline retail jobs.

Additionally, women retail workers continue to face disadvantages reflected in an unchanging wage gap as well as lower likelihood of promotion to managerial positions. This degree of disadvantage, however, varies across the sub-sectors we examined. To the extent we could determine through secondary sources, the gender differential in promotion patterns occurs across most major retailers, albeit to varying degrees.

In terms of corporate strategies that might address the worsening wage as well as the wage gap, there are a few scattered examples of “high road” practices. The most publicized and important “high road” exception to the dominant Wal-Mart model is the example provided by the warehouse club Costco. It offers a high productivity alternative to the practices of the leading retailer, based on high business performance and worker retention. Costco’s example is relevant to the practices of large discounters and warehouse stores. However, investment in high worker retention and workforce productivity does not necessarily imply gender equality in pay and promotion, nor does it entail a neutral attitude toward worker representation. In short, this high road example does not part company in all ways from the patterns seen across retail as a whole.

Furthermore, to date, it is unclear whether “high road” practices are found in any significant number of major retailers. Our preliminary scan finds little evidence of the adoption of these practices. It is also unclear whether the practices described in the case of Costco could easily extend to other retailers. The warehouse club company’s customer base (mix of fairly high income households and small businesses) and product range vary from those of most large discounters. Different customer bases, divergent retailing models, as well as obviously different attitudes toward the role of workers in corporate life, raise doubts for us about delineating a clear path for change. The spate of negative publicity and adverse regulators’ decisions on Wal-Mart’s managerial practices regarding labor standards and gender equity has indeed prompted the company to begin revising some of its labor practices. But in the long run, shifting significant numbers of retail jobs to a high road model probably depends primarily not on a diffusion of Costco’s success, or any other company’s, nor on consumer distaste for Wal-Mart’s practices, but on shifts in several important aspects public policy. Weakened unions and a sagging minimum wage opened the way for discounters to follow the low road. More consistent enforcement of existing labor standards, stronger institutions for worker representation, a “living wage” level minimum wage, and public oversight mechanisms for development (such as laws tying retail development approval to job standards) may hold the potential for a high road alternative. Similarly, stronger public policies monitoring and sanctioning barriers to women’s upward mobility (or conversely fostering women’s promotion) could add a gender-equalizing component to this high road approach.

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