Wal-Mart in Mexico:
The limits of growth

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I. Introduction

Wal-Mart, the fast-growing retailer from Bentonville, Arksansas, has achieved notorious success in Mexico. Wal-Mart, which only entered the Mexican market in 1991, boasts 694 Mexican stores and 2003 sales of 128 billion pesos (close to $12 billion US dollars)[2], eclipsing the 102 billion earned by its three closest competitors combined.[3] The retail giant has prompted headlines describing it as a "Goliath[4]" or "Leviathan[5]" that has "invade[d][6]", "trounc[ed] the locals[7]", "transform[ed] the Mexican market[8]", and is decried as a "threat to sovereignty[9]". With roughly 101,000 employees, it is the country's largest private employer. Seemingly, Wal-Mart de México is unstoppable.

Or is it? In this paper, drawing on a combination of reviews of literature and press, analyses of public data sources, interviews with retail actors and consumers, and collective bargaining contracts, I argue that Wal-Mart achieved a powerful first-mover advantage in Mexico by acquiring Cifra, the leading chain of self-service stores, and by introducing several innovations perfected in the United States (in pricing and the management of inventory, labor, and suppliers). However, three factors are beginning to impose limits on that advantage. The first is the rapid modernization of a portion of the Mexican retail sector—in many cases through imitation of Wal-Mart. Second, the polarized Mexican income structure limits the population of consumers able to shop at Wal-Mart and its subsidiaries. Finally, repeated economic crises and stagnation have driven many Mexican consumers back to traditional and informal retail outlets.

A key reason for caring about Wal-Mart's future in Mexico is its impact on employment. In addition to the impact on its own numerous employees, a business of Wal-Mex's size and visibility also has spillover effects on other jobs in the retail sector (which employs about one Mexican worker in five outside of agriculture) and on low-skill jobs in general. Wal-Mart in the United States has a reputation for providing low-wage, exploitative jobs[10]. But again, the Mexican story is more complex. Wal-Mart pays wages slightly above the Mexican retail industry average, and offers pay and benefits comparable to its competitors (though with some notable differences). Many Mexican Wal-Mart stores have union representation, although unions in Mexican retail generally do very little for their members. There may be important reasons to fear negative impacts of Wal-Mart's explosive growth in Mexico, but most of those reasons appear to apply with equal force to the rest of the retail sector.

In the next section of the paper, I set the context for discussion of Wal-Mart's Mexican adventure by contrasting retail sector in Mexico and the United States, particularly as regards employment. Section III lays out evidence on Wal-Mart in Mexico, and the last section offers brief conclusions.

II. Retail employment: Comparing Mexico and the United States

Table 1 profiles similarities in the retail industry as an employer on both sides of the border. Retail is a large employer in both countries, accounting for more than one nonagricultural private sector worker in five. This makes retail comparable to manufacturing in employment size—somewhat smaller in the United States, somewhat larger in Mexico. Retail is also a predominantly—though not overwhelmingly—female job in both countries. The feminization of retail is particularly striking in Mexico, where the proportion of workers who are women stands 44 percent higher than the economy-wide proportion.

As is often the case with "women's" jobs, retail employment pays below-average wages both north and south of the border. The gap between retail wages and the economy-wide median looms larger in the United States, at 32 percent. But the 12 percent difference in Mexico is more significant than it appears. Only two of eight other major industries (construction and agriculture and fisheries) pay less. Moreover, the "commerce" category shown for Mexico includes higher-paid wholesale workers. And the Mexican earnings figure shows earnings *per day*, and therefore is elevated by the long hours that Mexicans work in retail trade.

Table 1: Similarities between retail employment in the United States and Mexico

	U.S.	**Mexico**
Retail as proportion of nonagricultural private employment	21.2%	21.0%
Women as percentage of retail workforce	52.5%	51.5%
Ratio of percentage of women employed, retail/all industries	1.11	1.44
Median retail wage as percentage of wage for all industries	68.2%	87.9%

Sources: U.S. data from Bureau of Labor Statistics, http://stats.bls.gov . Mexican data from Mexico's Instituto Nacional de Estadística, Geografía y Informática (INEGI, www.inegi.gob.mx). Figures for various years 1998-2001.

As Table 2 shows, it is in hours of work that we begin to see a divergence between retail employees in the two countries. In the United States, as is well known, retail has a huge (though minority) part-time workforce, bringing weekly hours below the economy-wide average. In Mexico, in contrast, the average retail worker plies his or her trade for 51 hours per week, significantly above the average. The explanation for the long hours becomes clear when we realize that the majority of Mexican retail workers are self-employed or unpaid (the unpaid category in Mexico includes family members, but also *meritorios*, meaning interns or apprentices)—a far cry from the five percent of U.S. retail workers falling in these categories. In the United States, a retail worker is 26 percent *less* likely to be self-employed or unpaid than the average; in Mexico, to the contrary, retail employees are 60 percent *more* likely to have one of these statuses. Completing this picture, the average Mexican retail business had two employees in 1998—little more than one-third the size of the average establishment economy-wide. North of the border, in contrast, retail businesses are nearly as large on average as other establishments.

Table 2: Differences between retail employment in the United States and Mexico

	U.S.	**Mexico**
Average weekly hours in retail	28.9	50.8
Average hours as percent of average hours for all industries	84.5%	120.4%
Self-employed or unpaid as percentage of retail workforce	5.4%	55.7%
Ratio of percent self-employed or unpaid, retail/all industries	0.74	1.60
Average employment per retail establishment	14.5	2.2
Ratio of average employment per establishment, retail/all private	0.89	0.38

Sources: U.S. data from Bureau of Labor Statistics, http://stats.bls.gov . Mexican data from INEGI, www.inegi.gob.mx . Figures for various years 1998-2001.
*Hours ratio is for weekly hours in the United States, annual hours in Mexico.

Thus, retail work has not been proletarianized in Mexico to anything like the extent in the United States. Indeed, the statistics in Tables 1-2 refer only to establishments with fixed locations, but a huge number of retail workers toil in the Mexican informal sector, estimated by INEGI to employ 29 percent of the Mexican nonagricultural workforce, of whom nearly a third work in commerce and restaurants[11]. Retail is second only to domestic service in the percentage of workers classified as informal[12]. At the same time, interestingly, Mexico still has a significant state retail sector, including 394 stores of the Institute for Security and Social Services for State Workers (ISSSTE), employing 11,000[13], and over 22,000 rural DICONSA (Distributor of the National Company for Popular Subsistence) stores which typically employ one person apiece[14]). Overall, the retail industry is dominated by mom and pop operations that recall a bygone era in the United States. It's not that corner stores operated by one or two people have disappeared in the United States (retail establishments with 1-4 employees make up 46 percent of all retail sites[15]), but they have long since been overshadowed by supermarkets and department stores that account for the bulk of employment and sales. Moreover, in Mexico food stores account for 50 percent of retail employment, compared to only 20 percent in the United States[16].

The Mexican retail industry's structure reflects—and reinforces—Mexican shopping habits. The average U.S. family shops for food 4 times per week[17]. According to a poll carried out by Mexico's retailer association, the Asociación Nacional de Tiendas de Autoservicio y Departamentales (ANTAD) in association with the Gallup Organization, the average Mexican family makes 4 weekly trips to the supermarket, 8.8 trips to neighborhood grocery stores, and 7.5 trips to markets or specialized stores (such as *tortillerias* or butcher shops), for a total of 20 weekly food shopping trips[18]. This number, stunning to U.S. eyes, results not just from cultural traditions such as that of buying fresh tortillas daily (a habit reported by 56 percent of Mexican respondents), but also from the fact that many Mexicans have neither a car nor a large refrigerator. Rita Schwentesius and Manuel Ángel Gómez[19] described the five main channels for food retailing in Mexico:

(1) open-air, public markets, generally in city centers and are managed by city governments; the retailers sell from small stalls;
(2) mobile street markets (*tianguis*) that change location from day to day…; communities and city neighborhoods typically have a day of the week ("plaza market day") when the *tianguis* shows up and sells a variety of products similar to that of a supermarket, but usually of lower quality and with negotiable prices;
(3) traditional small shops that sell a limited line of products; the types and quality of products they carry depend on the incomes and tastes of the neighborhood;…
(4) specialized stores (such as fruit shops); these are of little importance in Mexico as the consumers prefer to buy perishables from tianguis;
(5) self-service stores, including supermarkets and modern convenience stores[20].

They reported 58 percent of Mexicans prefer to shop for fresh fruit and vegetables at open-air markets or *tianguis*, while only 21 percent prefer supermarkets. Researchers Jorge Mendoza, Fernando Pozos, and David Spener[21] found that in retail sales of new clothing, similarly, retail enterprises include department stores, self-service stores (where consumers shop without the assistance of clerks), and specialized clothing stores but also open-air markets, *tianguis*, street vendors, and *aboneros*, who sell clothing and other goods door-to-door. They estimated that in 2000 department and self-service stores accounted for about one-third of clothing sales, specialized (usually small) clothing stores another third, and the less formal outlets one third.

Another estimate, for dry goods more generally, puts self-service stores at 28 percent, department stores at 16 percent, and specialty retailers at under 5 percent, with the remaining 52 percent claimed by the informal sector[22]. In contrast, non-store retailing accounts for a tiny 0.3 percent of U.S. retail employment[23].

In brief, as retail analysts are fond of saying, Mexico is "understored"[24]. This does *not* mean that Mexican consumers lack access to retail outlets; the combination of large stores, neighborhood stores, and the informal sector appears to meet consumer needs. But it does mean that Mexicans, at least until recently, had relatively few modern, large-scale stores. Into this relative vacuum has entered Wal-Mart.

III. Wal-Mart in Mexico

Secrets of success?

Wal-Mart first stuck its toe into Mexico in 1991 through a joint venture with Cifra, Mexico's leading retail company, initially limited to developing Sam's Club warehouse stores in Mexico. The tremendous success of the first Sam's Club stores and the impending passage of the North American Free Trade Agreement encouraged further collaboration, and Wal-Mart and Cifra expanded their joint venture through the 1990s. Wal-Mart purchased a majority stake in Cifra in 1997[25]. Prior to the joint venture, Cifra's lineup included Aurrera *autoservicios* (superstores selling food, clothing, and a variety of other items), Superama supermarkets, Suburbia department stores, and Vips restaurants. To this roster, Wal-Mart added Wal-Mart superstores (shifting Aurrera to a budget niche and relabeling its stores Bodega) and Sam's Club warehouse stores, as well as introducing two new restaurant formats. Wal-Mart-Cifra had fewer *grocery* stores (though more stores of all formats) than either of competitors Gigante and Comercial Mexicana as of 1993, but had overtaken them by 2000[26] and today has 326 Wal-Mart, Aurrera, Sam's, and Superama stores. Wal-Mart controlled 49 percent of Mexican supermarket sales in 2001[27].

Wal-Mart's success is particularly striking in comparison with the performance of other international entrants. As Table 3 shows, Wal-Mart's presence dwarfs that of every other major foreign retailer. The one partial exception is 7-Eleven, but a convenience store has 1/20 the employment of a superstore, and within the convenience store niche 7-Eleven is swamped by Mexican competitor Oxxo (combined with Bara and Six, its sister chains within the Femsa Group). Thus, Wal-Mart's success does not reflect general success by US or multinational companies in Mexico; rather, it appears to be distinctive.

Table 3: Wal-Mart and other recent international retail entrants in Mexico

Chain	*Country*	*Format*	*Year entered*	*Mexican stores in July 2004*
Wal-Mart	U.S.	Self-service	1991	646 (326 grocery stores)
7-Eleven	U.S.	Convenience	1971	"More than 500" (compare OXXO/Femsa with "over 3000")
Auchan	France	Self-service	1997	Exited in 2003 with 5 stores
Carrefour	France	Self-service	1994	27; announced its intention to sell Mexican stores in February 2005
HEB	U.S.	Self-service	1997	19
Inditex (Zara)	Spain	Department	1992	100
JCPenney	U.S.	Department	1995	Sold its 6 stores to Grupo

				Sanborns in 2003

Sources: Number of stores and related information from company web sites. Year of entry from Schwentesius and Gomez 2002, op. cit., except 7-Eleven, Inditex, and JCPenney from company web sites. News of Carrefour decision to sell from Gabriel de la Garza, "Arranca venta de Carrefour," *La Reforma*, February 4, 2005.

What, then, can explain Wal-Mart's phenomenal track record in Mexico? The conventional explanation is that it has brought a set of superior management techniques and technologies. Press accounts have emphasized Wal-Mart's low-price strategy, high-technology distribution network, and intense pressure on suppliers for discounts[28]—"the same formula" as in the United States, according to *New York Times* reporter Tim Weiner.

Wal-Mart rolled out its "every day low prices" (EDLP) policy in Mexico in 1999-2000, once inflation had diminished to the point where meaningful price comparisons were possible[29]. The chain marked tens of thousands of items down as much as 14 percent, and has also passed on further savings, for example when currency shifts decrease an item's cost to the company. Wal-Mart also began to post price comparisons with other chains, a practice that in 2002 got it expelled from ANTAD, Mexico's National Association of Supermarket and Department Stores. "EDLP has been extremely successful for us in Mexico," commented Wal-Mart International CFO Charles Holley[30].

Wal-Mart de México also has connected with and replicated the U.S. company's huge, automated distribution network. With NAFTA eliminating most trade barriers, Wal-Mex has direct links to U.S.-based distribution centers, but also has built twelve distribution centers within Mexico[31]. In addition to heightened efficiency, this multiplies Wal-Mex's power as a purchaser, since Wal-Mart consolidates orders for all goods from outside the United States. "I buy 20,000 plastic toys, and Wal-Mart buys 20 million. Who do you think gets them cheaper?" asked Francisco Martinez, chief financial officer of Wal-Mart rival Comercial Mexicana[32].

As in the United States, Wal-Mex uses that buying power to drive down prices. According to an unhappy executive of a small clothing manufacturer I will call Ropinta[33]:

> Wal-Mart has driven many suppliers out of business. Wal-Mart maintains its profit margin…. They never reduce *their* margin. They *do* pass on savings in price, but at the expense of the manufacturer. You can increase efficiency a certain amount, but…. For example, they may tell you, "We're going to sell shirts at a discount of 40 percent—you, the manufacturer, have to cut your price 40 percent. So the consumer benefits, but they're driving out of business the manufacturers that provide *jobs*.

Observers argue that another contributor to Wal-Mex's success is its use of a wide range of formats to appeal to varied classes of consumers, and particularly lower income consumers[34]. Executives of competing Mexican companies also referred to Wal-Mart's use of minutely prescribed systems and procedures. "There's a sign on the Wal-Mart headquarters saying 'Ordinary people coming into a company to do extraordinary things." commented an executive of another chain. "…With the right systems, training, and tools, ordinary people *can* do extraordinary things."

Limits to the success story

There is some truth to these interpretations. But I argue that (1) they overlook a number of conjunctural advantages difficult to replicate in other times and places; (2) competitors are now successfully imitating these strategies, diminishing the Wal-Mex advantage; and (3) the polarization of Mexican society limits retail strategies aimed primarily at a middle market.

Wal-Mart's conjunctural advantages were several. First of all, "they bought the business [Cifra] that was already the leader," as one department store executive commented. Shortly after Wal-Mart launched its joint venture with Cifra, the dramatic peso devaluation of 1994-95 offered the U.S. company a unique opportunity to buy a controlling share of Cifra at an extremely low price (though Wal-Mart deserves credit for having the foresight to invest in Mexico rather than pulling out as K-Mart and Sears did[35]). More broadly, Wal-Mart gained first-mover advantages by arriving in a Mexico that was "under-stored," where other retailers were still using traditional high/low pricing (based on periodic discounts rather than consistently low prices), still depending on suppliers for most deliveries, and little accustomed to demanding discounts from suppliers.

Mexican retailers have proven to be quick studies. All three of the main national *autoservicio* chains competing with Wal-Mart now offer some version of its "every day low prices" (EDLP) formula. (A number of retail executives and managers commented that a pure EDLP strategy is not yet feasible, since Mexican consumers still expect periodic sales.) Comercial Mexicana and Soriana now aggressively publicize price differences with Wal-Mart and Aurrera. In addition, some of the larger suppliers (especially soft drink and snack food manufacturers) have begun to print suggested prices on their packages, deterring retailers from charging more. Wal-Mart's competitors insist that there is now no significant price difference, and many Mexican consumers seem to have drawn the same conclusion. "In terms of service, prices, assortment, they're all pretty much the same," commented a Guadalajara cab driver. [36]

Similarly, squeezing suppliers has become commonplace for large Mexican retailers. The Ropinta apparel supply executive quoted above described in some detail retailers' process of negotiating a *"contrato leonino"*:

> First, they ask you for a discount. Then, on top of that, they say, "We want a graduated volume discount"—1 percent off for this much sales, 1 percent more off for that much. And then they ask for a "confidential discount"—confidential because nobody puts it in writing—for another 1-2 percent. And if you don't provide *promotores* [stock handlers to stock merchandise in the store], *another* discount. And on the anniversary of signing the contract, another discount…. And if you send the wrong amount, not enough, they fine you. In some cases, the fine erases your whole profit margin…. And then they have provisions when they're opening a new store, that if you send the wrong amount, the whole order is free.

However, this account is not about Wal-Mart, but its competitor Soriana, which he described as the most predatory of the major self-service chains "right now" (in mid-2004). An industry consultant offered the opinion that Gigante, yet another chain, was actually squeezing suppliers hardest. Comercial Mexicana, Gigante, and Soriana have now also boosted their market power by forming a buying alliance, Sinergía, which may be a step towards more extensive cooperation against Wal-Mart. Although Mexico's Federal Competition Commission originally ruled the pact illegal, it reversed itself in July 2004 and allowed it to proceed.

Executives from competing chains report that they have also begun to shift toward centralized, highly automated distribution and tracking systems, and to create detailed procedure manuals. What's more, Gigante and Comercial Mexicana, Wal-Mart's largest rivals, have created multiple store formats (three in the case of Gigante, four in the case of Comercial Mexicana) and have through acquisition or joint venture accumulated constellations of retail outlets (Comercial Mexicana has Costco and the California chain of restaurants; Gigante has Office Depot, Radio Shack, Price Smart, and the Toks restaurant chain) (information from company web sites). The net result of Mexican chains' emulation of Wal-Mart is that Wal-Mex's share of sales among the top five Mexican retailers has remained steady for the last two years.[37]

There is also growing evidence that the Wal-Mex advantage does not translate well to other contexts. Wal-Mart has failed to reproduce its Mexican success elsewhere in Latin America. Historian Julio Moreno (2004) noted that Wal-Mart's success in Brazil has been modest, and its experience in Argentina "disastrous." In Brazil, where Wal-Mart recently reached sixth place among retailers, the retailer confronted other entrenched retailers already using the low-price strategy, and made early missteps that tarnished its reputation with consumers. In Argentina, Wal-Mart entered without a joint venture partner, maintained a strategy predicated on high incomes despite Argentina's prolonged descent into recession, and encountered difficulty in securing local suppliers (due to pressure from other retailers, Wal-Mart charged).

Closer to home, Wal-Mart has struggled in northern Mexico, particularly the Monterrey area (Hanrath 2004). Executives of another chain offered several analyses of Wal-Mart's difficulties in the region. Soriana and the Texas-based HEB were already entrenched by the time Wal-Mart arrived. Wal-Mart made some early merchandising mistakes, opening no-frills Bodegas that had done well in central Mexico but left more sophisticated northern customers cold. One executive suggested that Wal-Mart stumbled when it turned management of the northern stores over to Aurrera, whose more hierarchical style frustrated employees. And one attributed the ensemble of problems to Wal-Mex's increasing geographic dispersion: "Just to be spread out causes problems. With a lot of dispersion, it's hard to concentrate on regional marketing."

Finally, as polarization between rich and poor increases in Mexico, Wal-Mart's approach of selling to a broad middle faces structural limits. Robert Buchanan, an analyst at NatWest Securities, commented: "Mexico is a land of haves and have-nots. It's a poor bet for an American broad-lines retailer that is mostly aimed at the middle class" (Seckler and Ramey 1997). *Chain Store Age* (1995), writing shortly after the 1994 devaluation, said that Mexican retailing had "become overdeveloped in some sectors, particularly self-service retail (including discounters), shopping malls, and high-end stores all competing for the small share of the population with medium to high purchasing power (estimates range at 10-30%)" (p.33). Despite Wal-Mart's domination of the supermarket sector, it still only accounts for 7 percent of Mexico's total retail sales[38].

Table 4 helps explain why.[39] This comparison, based on price checks in Wal-Marts in the United States and Mexico in January 2005, demonstrates that while some Mexican prices are lower, others are roughly equal and a few are considerably higher. To gauge the accessibility of these prices to low-income consumers in both countries, Table 4 converts the prices to the number of hours of work at the applicable minimum wage it would take to purchase each item. Given that the Mexican minimum wage was less than one-tenth of the U.S. minimum on an hourly basis, the price difference in "minimum wage hours" is striking. A Mexican minimum wage earner must expend from three to 25 times as many hours as his or her U.S. counterpart to buy the same items; for most items the ratio falls between five and fifteen. In short, Wal-Mart is far less affordable in Mexico than in the United States. As one reporter put it, "For the average Mexican consumer a trip to a Wal-Mart supercenter is a high-end experience."[40]

Table 4
Comparing prices in Mexican and U.S. Wal-Marts

	Mexican price as % of U.S.	*Hours of work at minimum wage to purchase item*		
Merchandise item		***Mexico***	***U.S.A.***	***Mexico/US ratio***
1 kg pinto beans	47%	1.6	0.3	4.9
1 kg rice	68%	1.5	0.2	7.1
1 liter corn oil	77%	3.1	0.4	8.0
Small can tuna	137%	1.2	0.1	14.2
1 gallon whole fresh milk	103%	5.6	0.5	7.0
Cheerios, 425g box	101%	5.0	0.5	10.5
Tostitos corn chips, 500g	24%	1.9	0.8	2.5
Bleach, 3.8 lt	108%	3.2	0.3	11.3
30 kitchen size trash bags	85%	6.1	0.7	8.8
Toilet paper, 12 rolls	50%	5.4	1.0	5.2
Huggies diapers, pack of 34	127%	18.1	1.4	13.2
Pine fragrance cleaner, 2 lt	56%	3.8	0.7	5.8
Liquid laundry detergent, 2 lt	235%	7.3	0.3	24.5
Men's t-shirts, pack of 3	171%	20.6	1.2	17.7
Hand soap, 4 cakes	143%	3.9	0.3	14.9

Source: Price comparisons in January 2004 (see footnote 39).

Economic polarization and impoverishment have worsened over time, with predictable results for shopping patterns. The percentage of Mexicans who state an overall preference for shopping in a supermarket dropped from 75 percent in 1993 to 56 percent in 2000[41] and 34 percent in 2003[42]. On the other hand, analysts agree that the informal sector—accounting for something like half of Mexican retail sales—has grown due to economic crisis. According to analyst Chris Albi of Valores Banamex,

> During the crisis, Mexicans got used to shopping more in municipal food markets and the informal street markets known as *tianguis*. For washing machines or European-tailored suits, department stores are basically the only alternative. But for food, regular clothing and general merchandise, Mexicans have other lower-cost options than the established retail chains[43].

Similarly, Mendoza, Pozos, and Spener[44] concluded that small scale and informal apparel sellers are likely to retain a significant share of the retail clothing market, serving moderate to low income customers. In addition to offering lower costs, neighborhood retailers are more likely to offer informal credit and flexibility in quantities sold. “We sell to people in the very low classes, including many who are unemployed,” reported the proprietor of a new family-run corner store in an outlying urban area. “It’s hard for us, because we thought we would sell a whole box of cookies or a whole package of diapers, but instead we’re selling them one by one.”

Indeed, Antonio Chedraui, then president of ANTAD, the National Association of Supermarkets and Department Stores, pointed to consolidation in the *informal* sector as one outcome of the economic crisis, which leads to growth in bargain-seeking customers as well as an increased supply of jobless people in search of a means of survival. “We’re not talking about one vendor with a stand on the street corner anymore, but someone who has 100 stands or more and hires a staff to work them,” he said[45]. And as the Mexican economy slumped once more in 2001 due to the U.S. recession, Mexican toy manufacturers contracted with street vendors to sell their toys to offset declining store sales[46]. Of course, inability to accurately measure the size of the informal retail sector makes any broad conclusions somewhat speculative, and some analysts have recently offered the contrary view that Wal-Mex is now stealing market share from the informal sector[47]. But many of the Mexican consumers I spoke to in early 2004 continued to tout the affordability of the *tianguis* and public markets in comparison with self-service stores.

Wal-Mex jobs

I assess job quality based on pay and benefits as tabulated in selected union contracts from the cities of León and Guadalajara, where I obtained contracts for Wal-Mart and two competitors for each city.[48] Comparison of union contracts with interview findings in the two cities suggests that contractual pay rates constitute a floor for actual pay rates, and contractual benefits appear to be a generally accurate representation of actual benefits received.

Despite Wal-Mart’s reputation as a low-paying company in the United States, and journalistic claims that it offers low pay in Mexico, it appears to offer pay levels comparable or superior to those in other chains (Table 5). Other useful comparisons are Mexico’s minimum daily salary, which was 43.73 in Guadalajara and 42.11 in León in 2004[49], and the national average of daily compensation in retail, which I estimate at 66 pesos in 2003 (far below the economy-wide average of 160 pesos); by these yardsticks as well Wal-Mart offers decent pay. The problem is not low pay at Wal-Mart in particular, but rather low pay in the retail sector in general. (To get a sense of the purchasing power of these salaries, note that Wal-Mex customers were paying about 8 pesos for a kilo of rice, 9 for a kilo of beans, 18 for a liter of corn oil, and 31 for a gallon of pasteurized milk.)

Table 5
Wal-Mart daily pay rates (pesos) compared to those in other chains, 2004

	Wal-Mart (León, Guadalajara)	*Comercial Mexicana (Léon)*	*Comercial Mexicana (Guadalajara)*	*Soriana (León)**	*Gigante (Guadalajara)**
Assistant janitor	67	--	--	75.62	75.03
Sales, general merchandise	75.30	54.59	71.23	71.24	75.03

Source: Collective bargaining contracts from the Juntas Locales de Conciliación y Arbitraje, Guadalajara and León

* Imputed from 2002 rates of pay by applying the percentage increases implemented by Comercial Mexicana in León. Based on pay at 4 months at Soriana and 6 months at Gigante (other chains do not list pay differences by seniority).

In fringe benefits, Wal-Mart lags somewhat behind other chains (Table 6). Wal-Mart offers a year-end bonus twice that required by law, but otherwise offers only those benefits required by Mexico's national labor law. Comercial Mexicana (in Guadalajara), Soriana, and Gigante all offer somewhat more generous packages. Gigante stands out, providing more vacation days, double the vacation pay, and its own pension plan. But with that exception, Wal-Mart compensation does not appear far out of step with other chains. Moreover, given high employee turnover rates in retail, differences in vacation times and pension plans for senior employees will affect only a small proportion of the retail workforce. ANTAD estimated third trimester supermarket staff turnover at 30 percent in 2004, implying an annual turnover rate of 90 percent[50].

Table 6
Wal-Mart benefits compared to those in other chains, 2004

	Wal-Mart (Léon, Guadalajara)	*Comercial Mexicana (Léon)*	*Comercial Mexicana (Guadalajara)*	*Soriana (Léon)*	*Gigante (Guadalajara)*
Days of pay in year-end bonus (*aguinaldo*)	30	30	30	30	30
Vacation days after 2 years	8	8	8	8	10
Vacation pay as % of regular pay	25%	25%	30%	25%, to 30% after 2 years	50%
Pension plan beyond social security?	No	No	No	No	Yes

Source: Collective bargaining contracts from the Juntas Locales de Conciliación y Arbitración, Guadalajara and León

Also noteworthy, in comparison with the United States, is the fact that Wal-Mart has union contracts at all in Mexico. According to Marco Antonio Torres of the Center for Labor Studies, Wal-Mex simply "pays an organization to negotiate collective contracts to comply with labor laws" and "keeps the contracts on hand to meet legal requirements"[51]. But in fact, Mexican retail unions *as a rule* appear to offer only minimal protection to their workers. Economists José Alfonso Bouzas and Mario Vega[52] analyzed Gigante contracts and concluded that they were *contratos de protección* (sweetheart contracts) designed to protect the company from serious union organizing rather than defend workers. In my interviews, managers referred to unions as "white" or even "white paper", and few unionized workers (outside of ISSSTE, which has a strong public sector union) were even aware that they were represented by a union. Like its compensation policies, Wal-Mex's labor relations approach seems to place it squarely in the mainstream of Mexican retailers.

IV. Conclusions

A closer look at Wal-Mart's performance in Mexico indicates that it is neither invincible nor exceptionally exploitative. Though Wal-Mex has indeed scored impressive growth since 1991, this spurt rested on a specific set of circumstances. Imitation by competitors, income polarization, and economic hardship that steers consumers toward the informal sector will limit Wal-Mart de México's reach in the future. Already, Wal-Mart has stumbled in Brazil, Argentina, and northern Mexico for related reasons.

Wal-Mart's pay roughly equals or exceeds that of its competitors; all pay less than twice the minimum wage for entry-level jobs. The company's approach to labor relations also appears comparable to that of other large retailers. Wal-Mart does trail in fringe benefits, but in most cases the differences are small.

All of this does not mean that Wal-Mart's entry is purely beneficial for Mexico. Critics charge that Wal-Mart drives small retailers out of business, weakening community fabric in the process. Wal-Mart's recent opening of a store in the archeological zone of Teotihuacán, the site of 1500-year old pyramids, crystallized this issue, uniting local merchants, economic nationalists, and historic preservationists in an attempt—ultimately unsuccessful—to stop the store. Critics also argue that Wal-Mart is in the process of bankrupting many small suppliers, flooding the country with cheap imports that further undermine domestic production, and threatening Mexican sovereignty by heightening U.S. domination of the Mexican economy. But as the example of pay levels illustrates, the key issue may not be that Wal-Mex is playing a distinctively negative role, but rather that Wal-Mex is representative of problems that characterize much of the retail sector.

It is worth taking a moment to draw up a balance sheet of the broader impacts of retail modernization in Mexico, and indeed in much of Latin America and the developing world[53]. There is some evidence that Wal-Mart and its competitors have succeeded in lowering prices for Mexican consumers. "A basket of food and groceries typically costs about the same as in the United States," according to the *Dallas Morning News*[54]. "By contrast, Mexicans typically pay more than Americans do for everything from telephone calls to banking services to computers." While such anecdotal evidence abounds, it is harder to detect a retail modernization effect in overall price levels. Taking September 1997, the month Wal-Mart acquired Cifra, as a likely starting point for a "Wal-Mart effect," we find that food, drink, and tobacco prices grew at 99 percent the rate for overall price increases from 1997 to 2004. This compares to 96 percent during 1990-97, and 94 percent over the 1980s[55].

The flip side of the impact on consumers is that giant retailers have replaced small businesses with large ones, shifting workers from the ranks of the self-employed, family members, and neighbors to employees of large organizations. Retail restructuring has triggered two waves of such employee-ization, one in retail itself and one among the industries that supply it. Simultaneously, Mexico and many other countries of the global South have removed trade protection for such supply industries, exposing them to global competition.

Without question, the resulting transition has been painful for small business owners. "All of the retailers in the downtown are in crisis," lamented a woman whose family has run a stand in the León municipal market selling clothing for two generations. "It's the result of so many businesses opening—Mexican businesses, foreign businesses, for example, Wal-Mart, Soriana, and Ley [a large regional chain]." As for suppliers, the large chains set quality and consistency standards that are difficult for small producers to meet. "They wanted consistent supply without ups and downs," the leader of a small Guatemalan vegetable cooperative said about a globally owned supermarket chain in his country. "We didn't have the capacity to do it." And for more durable goods, according to the executive of Mexico's Ropinta, the global chains searching for lower costs are "buying from China, and that's leading to the elimination of manufacturing in the rest of the world."

For Mexico, there are at this point no good estimates of how this shift affected job *quality*. Though owners of small stores and businesses had "middle class" status, it is not clear that overall the hourly pay of these workforces exceeded the pay currently available in larger stores and farms. In the case of production shifts from Mexico to China, on the other hand, lower pay rates motivated these shifts in the first place. Moreover, the shrinking of a formerly widely dispersed middle class removes an important building block of stable communities.

In terms of job *quantity*, the rise of large retailers clearly took a toll. Within retail, the giant companies automated processes such as pricing and inventory management at the same time as they replaced across-the-counter service with self-service, slashing employment needs. Retailers shifted purchasing of goods to large, capital-intensive suppliers or out of the country altogether.

In the context of such sector-specific job losses, the difference between a difficult transition and long-term distress depends on the overall growth of the economy. Unfortunately, Mexican economic growth has not even kept pace with population growth. The result has been the explosion of the informal sector, officially estimated at 28 percent of the workforce, though many researchers argue that true figure is 50 percent or higher. Ironically, the informal sector is concentrated in retail, so that huge retail corporations have grown in step with tiny, one- and two-person operations, including street vendors and home-based selling. One expression of this irony is found in net sales per employed person, the standard measure of retail productivity. Net sales per person climbed from 47,000 in 1989 to 54,000 in 1994 (in 1999 pesos), reflecting efficiency increases. By 1999 (the most recent year for which data are available), however, net sales per person had fallen once more to 49,000, indicating a *decline* in overall efficiency, most likely due to the expansion of marginal businesses[56].

Thus, the transformation of Mexican retail has contributed to the polarization of the Mexican economy, with retail sector employment itself one important locus of this polarization. In turn, as I argued above, this polarization places limits on the expansion of Wal-Mart and other retailers, since the poorest cannot afford to shop in modern supermarkets. As the leader in Mexico's retail makeover, Wal-Mart makes a convenient target, but the serious problems in Mexico's retail sector and in the economy as a whole are much deeper and broader than any one company.

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[38] Calculated by author from Wal-Mart 2004b, INEGI 2004

[39] All prices were checked on Friday-Sunday, January 7-9, 2005, except for prices in Mexico City checked on January 25, 2005. Mexican prices the average of prices from a Wal-Mart in Tehuacán, Puebla and a Wal-Mart in Mexico City. U.S. prices are based on price checks in Eugene, OR and Niles, IL (in the Chicago area). Most prices were identical in the two U.S. stores. When they were different, I took the average of the two prices, unless one was a special sales price (in which case I took the higher price). To compare prices, I converted currencies using the January 7 exchange rate published in the *Boston Globe*. The Mexican minimum wage varies by geographic area; I obtained the Puebla minimum wage from the Comisión Nacional de los Salarios Minimos, "Salarios minimos vigentes a partir de 1o de enero de 2005," http://www.consasami.gob.mx/estadisticas/docs/Desplegado%202005.pdf (accessed January 2005). The Mexican minimum wage is a daily wage, so I divided by eight hours (a standard working day in Mexico) to come up with an estimated hourly minimum.

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