

Small Business

Guess Who's Got His Back?

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RIGHT or wrong, it has somehow become conventional wisdom: [Wal-Mart](#) is bad for small businesses, outspending, outmaneuvering and outgrowing lesser rivals until they change their strategy or close their doors.

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Gary Kazanjian for The New York Times

Backroom Support Brett Hutton, owner of a window-washing company in Washington State, used Sam's Club to create a Web site.



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But for Sparky Electronics, a family-owned store in California that sells hard-to-find watch batteries and record-player needles, Wal-Mart is more ally than enemy, more lifeline than threat.

The 43-year-old store, which has a loyal customer base of handymen and contractors, wanted a Web site to reach consumers beyond its home in Fresno. But the big technology companies wanted up to \$1,000 for a simple site, far more than the owner, Cheryl Cook, was willing to pay.

Then there was Wal-Mart. For \$100, the retailer helped create sparkyelectronics.com, complete with the icon that sits above its store, an oversize electrified cartoon character. "The nice thing was that it did not cost us an arm and a leg," Ms. Cook said

For thousands of independently owned convenience stores, restaurants and hair salons, the nation's largest — and most feared — retailer also happens to be a business partner. Through its Sam's Club division, a chain of 570 club stores, Wal-Mart helps them process credit-card transactions, build Web sites, pay employees and take out loans, all at bargain prices.

In that sense, Sam's Club is an oasis within the harsh climate of Wal-Mart. At Sam's, the very qualities that make Wal-Mart such a formidable competitor — its size and hard-nosed negotiating tactics with suppliers — have been unleashed on behalf of small businesses.

At Wal-Mart's request, for example, the health insurance company Extend Benefits Group waived a \$500 fee for Sam's Club members who signed up for its plans. And the financial services company [First Data](#), which processes credit-card payments, set aside 50 executives to work with Sam's members.

At a time when Wal-Mart is under assault by critics for, among other things, driving mom-and-pop stores out of business, Sam's looms as a relatively untapped public relations success story.

But that may be about to change. Wal-Mart's unusual plan to offer training to small businesses in urban areas where it wants to build stores, announced last month, will rely on the expertise of Sam's Club, which has provided such support to its members for two decades, executives said.

And Wal-Mart says marketing for Sam's Club, which has traditionally focused on its low prices and the good works of its blue-smocked employees, will soon focus on its relationship with small businesses.

It is a relationship that the company has invested heavily in. Sam's Club has exclusive hours for small businesses (7 a.m. to 10 a.m., five days a week), a designated online ordering system for small businesses (order by 5 p.m., pick up anytime the next day) and a team of sales representatives who even make house calls to small businesses.

Sam's Club is not the only warehouse club store to pursue small businesses — Costco offers services like health care and Web site development, too — but Sam's is the first to put those customers at the center of its business plan and marketing strategy. Its slogan: "In business for small business."

Certainly, it is in business to make money. And, as it turns out, small-business owners are ideal shoppers. They consume more merchandise and earn more money than the average consumer. The average household income of a Sam's Club member is \$72,000, says Scarborough Research, compared with about \$45,000 for a Wal-Mart shopper.

Sam's Club, started by Sam Walton, the Wal-Mart founder, in 1983 (the year Costco opened), relies on a

simple model: buy and sell products in bulk, charge little more than the original cost and earn profits from annual membership fees. Today, the fees range from \$35 to \$100 for Sam's 47 million members, yielding nearly \$2 billion.

Unlike its larger sibling, however, Sam's Club is no runaway success.

To compete with Costco, which attracted a higher-income consumer, Sam's Club strayed from its small-business roots in the mid-1990's, stocking a large number of luxury goods, like Waterford crystal, and temporarily dropping products, like paper clips, that its small-business customers relied on.

After alienating some businesses and reporting dismal financial results in 2002, the chain returned to an aggressive small-business focus, hanging signs throughout the store welcoming entrepreneurs. Profits have risen sharply in the past few years.

Sam's Club's pile-it-high, sell-it-cheap strategy, while attracting a cross section of consumers, is particularly appealing to small businesses, which can buy a package of, say, 50 bags of Frito-Lay potato chips at 19 cents apiece, resell each for 50 cents and pocket \$15.50.

Analysts estimate that small-business owners generate half of the \$40 billion in annual sales at Sam's Club, though the company will not disclose such figures. Most businesses that use Sam's Club depend on it for routine purchases — cleaning supplies, hamburger patties, file folders, ink cartridges. Increasingly, however, they rely on Sam's Club for basic services that the retailer gets through a growing network of outside companies. Sam's Club's involvement in these services is limited. It negotiates the prices, but companies like Extend Benefits administer them, with Sam's Club closely monitoring customer service. Sam's Club generally derives little or no direct profit from its role. Rather, services like credit-card processing and health insurance generate good will for Sam's, and create an incentive to renew an annual membership. Internal research shows that services increase loyalty to the retailer because members cannot secure the same discounts on their own. Customer Synergy Solutions, a consulting firm in Houston, was staggering under the weight of \$2,600 in monthly health insurance premiums, partly because of back-to-back surgeries for one of its two employees. By switching to an Extend Benefits plan through Sam's Club, one with a Health Savings Account and a high deductible, rather than a small group plan, the company cut its premiums by \$2,200 a month. The owners of K.C.'s Country Store, in Nacogdoches, Tex., needed to process credit-card and debit-card payments in their two-month-old store. After researching five competing services, they chose First Data, another Sam's partner, because it charged the lowest rates. K.C.'s., a rural retailer that sells hot dogs, cigarettes and farm feed, is the kind of business that Wal-Mart has competed with — and mostly trounced — for 40 years. "It's pretty ironic," said the store's owner, Chairity Meagley, who is 29. "But Wal-Mart is helping us." Some people join Sam's only for these services. Brett Hutton, the owner of Windowworks Etc., a residential window-washing company in Washington State, joined Sam's Club not for its cheap cleaning solution but to develop a cheap Web site, eastside windowcleaning.com, which would give his business more legitimacy. "My office is my pickup and cellphone and laptop," he said. "There is nothing concrete, no storefront. The Web site becomes your storefront." The discounts that Sam's secures are, in many cases, considerable. First Data does not charge Sam's Club members its regular monthly service fee, which amounts to \$60 a year, and gives them a free debit PIN pad — linked to a cash register — valued at \$150. Extend Benefits not only eliminated a \$500 administrative fee for Sam's Club members, it reduced a separate monthly fee for processing medical reimbursements from \$5 to \$2.50, or \$30 a year. Brian Tenner, senior vice president for sales at Extend Benefits, said that Sam's Club was a tough negotiator. "That is what they are good at," he said. "They push back." It is doubtful that Sam's Club does much pushing. It possesses what companies like Extend Benefits covet: millions of high-income members, many of whom run small businesses that will grow into larger companies. In negotiations with potential service suppliers, "the discussion generally revolves around the long-term earning potential of Sam's members," said Philip Malcolm III, vice president for marketing at Sam's Club. That earning potential has allowed Sam's to stock merchandise — like a \$1,200 stainless-steel grill or a \$3,500 hot tub — that has little to do with small business. But it may tempt entrepreneurs to splurge when they should plow profits back into their companies. Sam's Club executives call such products "affordable luxury" and say they carry only carefully

selected bargains, even if the bargain is a \$169,000 diamond ring (which sits, with little fanfare, in the jewelry case of the Springdale, Ark., store just a few miles from Wal-Mart's headquarters). The corporate culture of Sam's Club intentionally mirrors that of a small business, with an emphasis on the personal touch — a challenge for what is, after all, one division of an international retailing colossus with \$300 billion in annual revenue. Every month, Wal-Mart's technology office produces a new list of businesses that have moved into the commercial area near a Sam's Club store, a list gleaned from public records like change-of-address forms. Two sales representatives, assigned to each club store, fan out to recruit those new businesses every week, knocking on doors rather than leaving telephone messages. Stores hold breakfasts for small-business members several times a year, often inviting one local company to make a presentation. And every manager at the company, from store managers to the chief executive, is required to work at a small business one day a year to better understand its needs. That personal touch has given Sam's a cultlike following, and has helped turn at least one of its members into a supplier. Sam's employees who ventured into a restaurant run by Debra Hopkins, a Sam's member in Hawaii, eventually decided to stock her barbecue sauce in their stores. "There really is a small-town feel to it," said Judi Brenstein of Customer Synergy. She said she was on a first-name basis with the manager of her local Sam's Club, who has told her to call him, personally, if she needs anything. "A lot of people pay lip service to helping out small business," she said. "Sam's Club really does."