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WAL-MART LOGISTICS MAY SWAMP DISTRIBUTION CHAIN

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WESTPORT, Conn. -- The disciplines necessary for servicing Wal-Mart Stores may make it difficult for some vendors to treat less-efficient operators fairly, a Wall Street analyst said here during an Internet-based panel on Wal-Mart.

"There's no doubt working with Wal-Mart requires a lot of up-front involvement by manufacturers in systems and logistics to make sure they can supply Wal-Mart's needs," said Andrew Lazar, consumer packaged goods analyst with Lehman Brothers, New York, "but once that investment has been made, the gross margins that result are higher with Wal-Mart than with other retailers because Wal-Mart is more efficient.

"No supplier wants to end up with just one customer, but many manufacturers have no choice but to chase Wal-Mart's business hard because that's where their growth is. Manufacturers commit resources by retailer, and they may have to be less democratic about how they deal with retailers who don't grow sales of their products.

"As a result, we're starting to see food manufacturers using systems to allocate their resources better so they can focus on the most profitable businesses, and that may mean they pull back on support for retailers who are unwilling or unable to work with them to get the same benefits, which could hasten the suffering of some traditional grocers."

The panel was sponsored by the New England Consulting Group here, whose chief executive officer, Gary Stibel, said Wal-Mart "dragged the CPG industry into the 21st century in the 1980s and 1990s and made them better suppliers and business partners because it's passionate about reducing costs to execute its low-price strategy. In the process, it infected suppliers with 'cost-cutting disease,' which makes them become more efficient and forces them to make their own investments in technology."

Tom Muccio, retired head of Procter & Gamble's Wal-Mart team, said Wal-Mart can be very tough and demanding with suppliers, "but it is also very fair. The people there are always pushing you to eliminate costs and they promote competition between suppliers, but they're also willing to listen, and ideas are judged solely on their business merit."

According to Gary Michael, former chairman and CEO of Albertsons, Boise, Idaho, most retailers pay about the same prices Wal-Mart does for the CPG products they buy, "but it's how they apply their costs that make a competitive difference."

"Retailers need to decide if they want to be merchandisers with high-low prices or marketing companies," Michael said. "Wegmans is an example of a retailer that changed to the marketing approach and made a successful transition from being the best high-low merchandising company to a marketing company with a lot of muscle.

"What many of us have learned is, we've got to sell the merchandise. For years, we worried more about buying it instead of moving it faster."

Asked whether most retailers will be able to survive the competitive threat Wal-Mart poses, Stibel said, "Wal-Mart is clearly the most effective retailer today and one of the best technology companies in the world, but its main concern should be its success. Wal-Mart cannot let itself become complacent. It must be constantly focused on providing value to consumers and suppliers, and its greatest vulnerability, which is its greatest strength, is its size."

Stibel said Wal-Mart's biggest competitive challenge may come from dollar stores, "which offer a value proposition that some consumers find more compelling than Wal-Mart's value proposition."

Other comments during the 90-minute panel discussion included:

Lazar said Wal-Mart will continue to tweak the Neighborhood Market format, and although that may be its next major expansion vehicle, "we're still several years away from that happening at minimum. But once Wal-Mart has ringed a city with supercenters, the economics favor development of more Neighborhood Markets."

Michael said supermarket operators would much rather compete against a Neighborhood Market than a supercenter. "A supercenter has 225,000 stockkeeping units, compared with 45,000 at a supermarket and 25,000 at a Neighborhood Market, and at the end of the day, I don't see Neighborhood Markets becoming as big a threat," he said.

Sam's Warehouse Clubs are coming on stronger against Costco than they have in years, Muccio said, "because Tom Coughlin, who runs Sam's, has brought people from Wal-Mart and the international division into Sam's management to provide more diversity and to leverage all the knowledge Wal-Mart has. As a result, there's more of a dogfight [between Sam's and Costco] than we've seen in past years."

Michael said conventional supermarkets may do better competing with Wal-Mart in California than they do elsewhere "because the dynamics are different there. It's more urbanized than the Southeast, and Wal-Mart will have problems penetrating those urban areas."

Mark Shapiro, principal with New England Consulting, said the company's employee base will be different in California "because as you go more urban, there are differences [in the interactions between people] in terms of the degree of friendliness that's such a big part of Wal-Mart's formula."