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Beyond the Big Box: Wal-Mart Thinks Smaller

By MIGUEL BUSTILLO And TIMOTHY W. MARTIN

Wal-Mart Stores Inc. became the largest retailer by building sprawling stores in suburbs and rural towns. But now it is exploring opening a number of small outposts to penetrate the nation's cities and fight the spread of no-frills grocery chains, which are luring away some of its core customers.

Wal-Mart declined to discuss the details or timing of its new strategy, but Chief Executive Mike Duke stated in the introduction to the company's annual report last week that U.S. growth will be fueled by "innovative new formats."

It is one of several recent statements by Wal-Mart declaring that its U.S. expansion will center less on its warehouse-sized Supercenters and more on far smaller urban stores, as well as condensed locations where consumers can pick up merchandise they order online.

Wal-Mart has markedly slowed its openings of U.S. Supercenters in recent years—from 132 in 2007 to just 49 in 2009, leaving it with about 2,747. Some analysts believe it is running out of ideal places to build the gigantic outlets.

Bill Simon, chief operating officer of Wal-Mart's U.S. business, told investors at a conference last month the company was focusing on reaching customers in large metropolitan areas with "more-efficient formats." He pointed to smaller prototype Wal-Marts that feature drive-through lanes where customers can pick up online purchases.

Wal-Mart already operates some smaller formats, including 152 Neighborhood Markets, which are grocery-focused stores in small towns and suburbs. But they are relatively large at about 42,000 square feet. The company also has Rested Marketside, a smaller concept that has grown to only four stores after disappointing early performance, and Supermercado de Wal-Mart, targeting Hispanic customers that got good early buzz in Houston and Phoenix.

People familiar with the company's thinking also point south to Mexico, where Wal-Mart became that nation's largest merchant by operating seven store formats catering to shoppers across the socioeconomic spectrum, most of which are smaller than its U.S. Supercenters. The head of Wal-Mart's U.S. operations, Eduardo Castro-Wright, formerly ran Wal-Mart de Mexico.

Wal-Mart's U.S. business, meantime, is increasingly facing competition from discount grocers, including SuperValu Inc.'s Save-A-Lot and U.S. stores of Germany's Aldi chain.

These rivals proliferated during the downturn, luring cash-strapped Americans to relatively small, nondescript locations that offer simplified selections of staples such as milk and canned vegetables at cut-rate prices.

SuperValu CEO Craig Herkert, who formerly headed Wal-Mart's Latin American operations, plans to double the number of Save-A-Lots to 2,400 from 1,197 in the next five years.

Aldi Inc., whose U.S. operations are based in Batavia, Ill., has opened 83 U.S. stores in the past 12 months and recently rolled into Texas. It plans to add 72 more by the end of this year, augmenting its current store total of 1,084 in 31 states.

Retail experts disagree over whether these discounters pose a big threat to Wal-Mart, the nation's largest seller of groceries. But their rise comes at a tough time for the big-box giant, which has reported three straight quarters of sluggish U.S. sales. In response, it lowered prices on many products this month.

While Wal-Mart generally benefited from consumers trading down in the bad economy, shunning supermarket chains and department stores in search of bargains, some of the company's core clientele moved further down the retail ladder to discount grocers—and liked what they found.

Trina Fleming, a data-entry worker who lives in University Park, Mo., said she used to buy the bulk of her groceries at Wal-Mart. Now she stocks up at a Save-A-Lot in nearby Overland, and estimates she is saving \$40 a month on items such as meat and yogurt.

"If I don't have that much money I come to Save-A-Lot—it's cheaper here," said Ms. Fleming, 37 years old.

A typical Save-A-Lot stocks just 1,800 items, 5% of a supermarket's total. Roughly 80% are private-label products, and they are displayed on shelves in the cardboard boxes they arrived in to save labor costs.

"A typical grocer carries 100 types of mustard," said Save-A-Lot President Bill Shaner. "We have just brown and yellow."

Aldi stores carry 1,400 items, 95% of them private label. Though Aldi still offers an austere shopping experience, it has added fresh meat instead of just frozen, augmented its produce section and added healthy items to broaden its appeal.

Wal-Mart declined to discuss its competitors, but it is well aware of the threat they present. It pulled out of Germany in 2006 after struggling to compete with Aldi and other discounters.

"Aldi literally ran Wal-Mart out of continental Europe, and now they're taking the fight to Wal-Mart in the U.S.," said retail consultant Burt Flickinger of Strategic Resource Group.

Some experts believe the bargain grocers are overexpanding, and could struggle as shoppers feel the urge to return to Wal-Mart and supermarkets for familiar brand names. "While the challenge for Wal-Mart will be retaining the new customers they gained in the recession, that challenge will be even tougher for Aldi and the other hard discounters," said Gary Stibel of New England Consulting Group, which previously advised Wal-Mart.

Write to Miguel


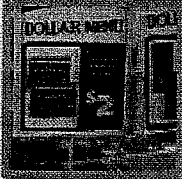


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Slimming Down ~~High~~ Low Prices

Wal-Mart Supercenter
185,000 sq. ft.

<p>Wal-Mart's Marketside</p>  <p>15,000 sq. ft.</p>	<p>Supervalu's Save-A-Lot</p>  <p>15,000-16,000 sq. ft.</p>	<p>Aldi</p>  <p>17,000 sq. ft.</p>	<p>Wal-Mart's Neighborhood Markets</p>  <p>42,000 sq. ft.</p>
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Wal-Mart plans to open fewer warehouse-sized stores in favor of smaller formats to compete more directly with smaller discount grocers such as Aldi and Save-A-Lot.

Source: The Wall Street Journal

Credit: Bloomberg News Supercenter; The Arizona Republic (Marketside); Getty Images (Aldi); Whitney Curtis for WSJ (Save-A-Lot); Wal-Mart (Neighborhood)