

How Wal-Mart Will Save Wal-Mart

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It's no secret that these are challenging times in Bentonville, Ark., where Wal-Mart is headquartered. Although the company declined to make its executives available to talk to BNET, here's what we've been able to learn about the retailer's recovery strategy, based on press reports and interviews with industry experts.

The Problem:

Opening new stores in big cities

Wal-Mart's Solution:

Launch efforts to support local businesses and introduce new store designs

Cities are the last outposts in America where Wal-Mart hasn't been able to build its massive stores, in part because the company has acquired a reputation as a slayer of small businesses. To combat this, the retailer launched a new program called "Wal-Mart Jobs and Opportunity Zones." Under the initiative, Wal-Mart will provide assistance to small businesses in communities where it opens up shop. The program provides seminars on how to do business with Wal-Mart, and places ads for area companies in local newspapers and on Wal-Mart's in-store radio programming. Wal-Mart also makes contributions to local chambers of commerce to develop programs to assist local businesses. Wal-Mart's Chicago store, which opened in 2006, was the first to provide an Opportunity Zone.

Given the high cost of urban real estate, Wal-Mart is also rethinking how it builds its stores. In 2006, Wal-Mart opened a two-level store in White Plains, N.Y.—one of a few in that state. (One-level stores are more efficient because they make it easier and cheaper to move goods within the store.) In April 2007, Wal-Mart even built a three-level store in a mall in Richmond, Calif.

The Problem:

Boosting same-store sales

Wal-Mart's Solution:

Move into new product categories

Sales growth at Wal-Mart's existing stores has been lackluster, so the company hopes it will get a boost by beefing up its product lineup. But success has been mixed.

Fashion had been a top priority. In May 2006, Wal-Mart brought in Mark Eisen, formerly of Ann Taylor, to design a new clothing line, but the effort hasn't gained traction. Likewise, the retailer also cut back on the number of stores that sell its other house brand, Metro 7. During the 2006 holiday

season, Wal-Mart shoppers avoided the Metro 7 line, which featured skinny jeans and other items aimed at younger, hipper consumers.

As prices of big-ticket electronics drop, items like flat-panel LCD TVs are suddenly within the Wal-Mart customers' budget, and the company has responded with newly redesigned electronics departments. Perhaps knowing that its lean sales staff can't compete with that of Best Buy or Circuit City on product knowledge, Wal-Mart emphasizes convenience, stocking items that require little technical knowledge and using in-store signage to let customers know how to set up their new TV for HDTV, for example.

Wal-Mart is also pushing upscale organic foods, but health services may have the most potential in the long run. Last year Wal-Mart's pharmacies accounted for 9 percent of the retailer's total sales — a nice chunk, but there's still room for improvement. In 2006 the company unveiled a plan to sell generic prescription drugs for \$4, with an eye toward increasing overall traffic in its pharmacy departments. In 2007, it also announced plans to build 400 in-store health clinics over the next three years. It's too soon to say if the effort will succeed, but it's conceivable that Wal-Mart could do for health care what it did to the grocery and general merchandise businesses in the U.S. — become a one-stop shop for every budget-conscious customer's (or patient's) needs.

The Problem:

Stalled international expansion

Wal-Mart's Solution:

Pursue growth in China, India, and Latin America

Wal-Mart seems wiser after its embarrassing missteps in Germany and South Korea. After withdrawing in defeat from those countries, the company has moved to address its failure to achieve scale within local markets by beefing up its presence in China, India, and Latin America.

In China, Wal-Mart has only about 70 stores — a modest presence given that the retailer has operated in the People's Republic since 1996. Early in 2007, the company bought a 35 percent stake in Bounteous Company, a Taiwan-owned group that owns more than 100 stores in China. Analysts expect Wal-Mart to eventually buy a controlling stake in the firm with an eye toward expanding its footprint during the years ahead.

In India, Wal-Mart recently struck a deal with Bharti Enterprises, an Indian cell phone operator, to open hundreds of Wal-Mart stores across India within five years. In Central America, Wal-Mart has obtained a controlling interest in Central American Retail Holding, a supermarket retailer with stores in Guatemala, Honduras, El Salvador, Nicaragua, and Costa Rica. Farther south, after several acquisitions Wal-Mart now has 300 stores under a variety of formats in Brazil, and is the country's third largest retailer behind Carrefour and Pão de Açúcar.

The Problem:

A flagging public image

Wal-Mart's Solution:

Call attention to good deeds

Wal-Mart's battered image has been a problem for years, and the company's shareholders have complained that management hasn't done enough to tell its side of the story. Rather than tackling the critics head-on, however, Wal-Mart has chosen to emphasize its credentials as a good corporate citizen.

After Hurricane Katrina devastated the Gulf Coast in 2005, Wal-Mart put its logistical know-how to work for the recovery effort. The company donated \$20 million, 1,500 truckloads of free merchandise, and food for 100,000 meals. It also set up mini-Wal-Marts in hardest-hit areas, delivered ice and water into New Orleans, and shipped computers to shelters for evacuees. Wal-Mart's response contrasted favorably with that of the Federal Emergency Management Agency — an angle that Wal-Mart's publicists eagerly emphasized in the media.

To address environmental concerns, Wal-Mart is turning its stores into green-friendly businesses. The goals are ambitious: Wal-Mart wants "to be supplied 100 percent by renewable energy; to create zero waste; and to sell products that sustain our resources and our environment," says Wal-Mart CEO H. Lee Scott Jr. The company also seeks to reduce greenhouse-gas emissions at existing stores and distribution centers by 20 percent by 2012.

The Problem:

Squeeze new efficiencies from logistics and operations

Wal-Mart's Solution:

Focus on modest efficiency gains instead of radical innovations

It's hard to improve when you already run the world's most efficient retailing machine, but that doesn't mean that Wal-Mart can afford to stop trying. In 2005, it implemented a new program called Network Remix, which gets high-turnover products — like paper products, toothpaste, and food items — on shelves more swiftly by creating specialized distribution centers for fast-selling items.

While its ambitious RFID electronic tagging initiative is stalled, Wal-Mart remains committed to the concept. In mid-2007, Wal-Mart CIO Rollin Ford said that the company planned to add RFID capability to 400 more stores by the end of the fiscal year, touting the technology's ability to decrease out-of-stock items and reduce excess inventory. Meanwhile, one of Wal-Mart's biggest suppliers, Procter & Gamble, says it has recouped its multimillion-dollar investment in RFID by improving the accuracy of its shipments to Wal-Mart — a bottom-line endorsement that fuels hope that other Wal-Mart suppliers may soon warm to the costly technology.

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