

Going upscale

Could US retailer Wal-Mart change the face of shopping? by Naomi Marcoulet

For US mega-retailer Wal-Mart, the 2009 recession will have one silver lining: after years of struggling to overhaul its image, it has become the destination of choice for cost-conscious and affluent shoppers alike. As other retailers struggle to restore profit margins, Wal-Mart has beat Wall Street expectations with sales of \$100.08bn in the second quarter, down 1.4% over the previous year. "Wal-Mart has been enjoying the downturn," says Bryan Roberts, global research director of retail consulting group Planet Retail. "In the US, it has consistently outperformed most of its competitors in food, drug and general merchandise retailing in terms of comparable store sales growth."

The world's largest retailer, with 8,100 retail units in 15 countries, Wal-Mart employs more than 2.1 million people worldwide. The operator of supercenters and discount neighborhood stores has come under fire in the past for issues including low wages, environmental damage, discrimination and sweatshop sourcing. Now, its low-cost positioning has allowed it to capture shoppers who have been trading down or changing channels. A recent *60 Minutes/Vanity Fair* poll found that 48% of Americans consider Wal-Mart the best corporate symbol of America today. "We do see that many of the new customers that we have would be customers that are middle- and upper-income customers that might not have shopped with us before," the retailer's new

president and ceo Mike Duke told analysts at the Goldman Sachs Retailing Conference in September. He expressed confidence that Wal-Mart would continue to attract shoppers during the crucial holiday season.

Revamp and remodel

Like its competitors, Wal-Mart has been slashing inventories and improving productivity. But it is also making efforts to woo a new class of consumer by embarking on a US-wide store remodeling strategy. Project Impact, which kicked off last year and is set to last until 2013, foresees several in-store changes such as new modules, wider aisles and revamped color schemes. US retail consulting group Retail Forward says the project is "a game changer" that could permanently shift shopping patterns. Roberts at Planet Retail agrees. "New and remodeled stores have certainly seen some genuine improvements," he says. "There will obviously be a sizeable impact on supermarket competitors."

As part of the strategy, the company has played up winning categories and cut skus in less important areas. Wal-Mart intends to strengthen its clout in the beauty arena by adding more premium beauty brands to the fray. "One of the things they really want to capitalize on is that there is a higher-end shopper shopping in Wal-Mart now," says Karen Grant, vice president and global industry analyst at market research firm The NPD Group.



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Commenting on Wal-Mart's shift towards premium beauty, industry veteran Allan Mottus notes that the retailer has been a

Wal-Mart will nonetheless be felt by its rivals. The retailer is now viewed as an innovative player. "It has taken some years, but they were conscious of the reputation and took initiatives to completely change their image," says Gutsatz. With value offers,

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The NPD Group vp and global industry analyst Karen Grant

harbinger in picking up on market movements in the past. "When Wal-Mart cut significantly its prestige fragrances in 2006, it preceded the huge drop in the category's department-store sales," says Mottus. "Wal-Mart saw the declines in celebrity and designer [fragrances] before anyone else. It also began cutting inventories and stock-keeping units in makeup before anyone else. They are the best at managing the category."

But this time around, Wal-Mart faces a highly competitive market. The drugstore scene in the US is a major threat, says branding consultant Michel Gutsatz. "Drugstores like Walgreens and Rite-Aid are developing aggressively. Walgreens is reworking its whole beauty strategy," he says. "Wal-Mart is in a situation where it faces strong competition, which it didn't have so much [of] before. How it will develop beauty, I'm not sure."

The changes taking place at

combined with a more pleasurable shopping experience, Wal-Mart could soon be knocking out its rivals. "Wal-Mart is superior to other mass retailers in its execution, pricing and commitment to beauty and should continue to excel at Christmas," says Mottus. ■

Fact file

Founded: 1962, Arkansas, US

Floated on New York stock exchange: 1969

President and ceo: Mike Duke

Number of stores: 4,258 (US); 3,615 (international)

Net sales fiscal 2009*: \$401bn (+7.2%)

Second-quarter sales: \$100.08bn (-1.4%)

*year ending 31 January