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Activision Meets Walmart in Recession With Market-Share Gains

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At Activision Blizzard Inc., instilling a "culture of thrift" means you wait 13 years before you change the office carpet, according to Chief Executive Officer Bobby Kotick.

"A lot of other companies, when there is some sort of economic downturn, they go into triage mode where they are trying to figure out their costs," Kotick said. "We do that all the time."

Kotick acted quickly during the recession, merging his company last year with Blizzard, the game division of France's Vivendi SA. Activision got "World of Warcraft," an online role-playing game with more than 11 million subscribers paying $14.99 a month. That helped Kotick boost market share in North America and Europe by 2.8 percentage points to 12.7 percent even as industry sales fell 14 percent.

Activision offers one example of how companies well- positioned for the worst economic slump since the 1930s have gained a competitive advantage.

Wal-Mart Stores Inc. expanded electronics offerings after Circuit City Stores Inc. liquidated, McDonald's Corp. rolled out low-priced lattes and casino owner Penn National Gaming Inc. is looking to expand into Las Vegas. J.M. Smucker Co. added Folgers, the best-selling ground coffee in the U.S., to its market-leading jelly, jam and preserve brand; Ford Motor Co. boosted output while U.S. rivals filed for bankruptcy; and Verizon Communications Inc. bought Alltel Corp.

Beating the S&P

Six of those seven companies have outperformed the Standard & Poor's 500 Index since the recession began in December 2007, while Penn National, the only laggard, has outpaced the S&P since the benchmark's March 9 low.

Analysts expect the gains to continue. Each of the seven companies has more buy ratings than holds or sells. Of 150 recommendations for the group, there are 106 buys, 38 holds and six sells, based on data compiled by Bloomberg.

"To be aggressive in this recession, it took a strong stomach and a good balance sheet," said Mark Zandi, chief economist of Moody'sEconomy.com in West Chester, Pennsylvania. "The companies that panicked will suffer more in the long run."

McDonald's, the world's largest restaurant chain, and its franchisees invested $1.12 billion to add McCafe gourmet coffee drinks at about 11,200 U.S. locations.

Investing in Coffee

The company's share of the U.S. fast-food market has increased 1 percentage point since 2006, according to a spokeswoman, Heidi Barker. That growth was driven in part by last year's introduction of the McCafe products, said Chief Financial Officer Peter Bensen. Coffee sales have grown to 5 percent of the Oak Brook, Illinois-based company's sales, up from 2 percent in 2006, Bensen said.

"We're hitting or exceeding our targeted unit movement across the country," Bensen said, while declining to specify internal goals. "We think the combined beverage strategy, conservatively, can add about $125,000 to sales per store."

U.S. McDonald's restaurants average $2.3 million in annual sales, Bensen said.

Lattes at McDonald's start at $2.29, compared with $3.29 for a small latte at some of Starbucks Corp.'s New York outlets. Seattle-based Starbucks said Aug. 20 it is lowering prices on coffees and lattes by as much as 15 cents while raising prices on frappuccinos and caramel macchiatos by as much as 30 cents.

Sales Growth

"We continue to focus on providing value to our customers, an area where we have made much progress against the misperceptions about Starbucks value proposition," May Kulthol, a spokeswoman for Starbucks, said in an e-mailed statement.

McDonald's shares are up 9.3 percent since their March 5 low this year. They rose 20 cents to $55.57 yesterday in New York Stock Exchange composite trading. Of 21 analysts covering the stock, 12 say buy and 9 say hold, based on data compiled by Bloomberg.

"We've had an intense focus on improving operations," Bensen said. "The eating-out market is shrinking in the recession, and we're grabbing an even bigger part of the market."

U.S. restaurant-industry traffic fell 2.6 percent for the three months ended May 2009, according to market researcher NPD Group, the steepest drop since 1981. Sales at McDonald's U.S. stores open at least 13 months gained 3.5 percent in the second quarter, the company said.

Breakfast Boost

While it's too early to say whether the drinks strategy will meet McDonald's goals, the coffee is "bringing people into McDonald's more often and they're spending more on breakfast and the rest of the menu," said Richard Jeremiah, a restaurant analyst with marketing researcher IBISWorld Inc. in Los Angeles. "The key thing at the moment is getting that traffic."

Smucker, the 112-year-old maker of Smucker's jams and Jif, the top-selling peanut butter in the U.S., has also taken advantage of the decline in dining out.

"The shift to 'at-home' consumption is on an upward trend and we are well prepared to continue to play an important role," Co-CEO Tim Smucker said in an Aug. 21 e-mail.

Net income at Orrville, Ohio-based Smucker more than doubled to $98.1 million for the three months ended July 31. Revenue nearly doubled when it acquired the Folgers coffee business from Procter & Gamble Co. for about $3 billion in November as Wall Street turmoil fueled a global financial collapse.

"Folgers was a sleeper that they have been able to reinvigorate," said Edward Aaron, a Denver-based analyst with RBC Capital Markets.

On the Prowl

Folgers captured more than a quarter of ground-coffee dollar sales in the 13 weeks ended June 28, according to Information Resources Inc., a Chicago-based market researcher. IRI's data does not include sales at Walmart.

Aaron, who advises buying Smucker, has a 12-month share- price target of $59, 14 percent more than yesterday's NYSE close at $51.59. Of 11 analysts covering the company, 9 say buy and 2 say hold. Smucker has surged 51 percent since touching a 2009 low of $34.22 on March 11.

Penn National has $800 million in cash and is on the prowl for new casino licenses in states including New York, Kansas and Ohio, as well as existing properties being sold by debt-laden rivals, Chief Executive Peter Carlino has said since October.

"We are probably busier at the corporate office than we have ever been in terms of looking at new opportunities," CFO Bill Clifford said in an Aug. 21 interview. "We have a lot more firepower, a lot more options available to us to take advantage of the opportunities being created indirectly by the bad economy."

‘Distressed Property’

The prize the Wyomissing, Pennsylvania-based casino and race-track company is seeking: a mid-sized resort on the Las Vegas Strip. Troubled owners now reluctant to sell may have little choice next year after MGM Mirage’s CityCenter opens in December, adding almost 6,000 new hotel rooms amid the city’s worst decline.

“There are going to be some distressed property situations out in Las Vegas,” Clifford said. “It will play itself out early next year, and at that point in time I think it will be much easier to get something done.”

Of 16 analysts covering Penn National, 12 recommend buying and 3 say hold, according to data compiled by Bloomberg. The shares have soared 68 percent since a March 6 low. They rose 13 cents to $28.64 in Nasdaq Stock Market composite trading.

As U.S. auto buying fell to the lowest level in three decades, Ford CEO Alan Mulally forced the 106-year-old automaker to deal with its diminished place in a changing market.

“There was a move by the company to accept the reality of today rather than thinking things are going to get better,” CFO Lewis Booth said in an Aug. 21 interview. “This very strong view, led by Alan, is, ‘Accept reality and react to it. Don’t hope it’s going to go away.’”

Avoiding Bankruptcy

That attitude led the Dearborn, Michigan-based automaker to borrow $23 billion in late 2006. The move saved Ford from the bailouts and bankruptcies that beset the predecessors of General Motors Co. and Auburn Hills, Michigan-based Chrysler Group LLC.

Ford has cut its North American workforce by 42 percent, or 50,400 jobs, since December 2006 as it revamped its product line. It dropped the 10-miles-per-gallon Excursion sport-utility vehicle and added the 41-mpg Fusion hybrid.

As Chrysler and Detroit-based GM slipped into Chapter 11 in April and June, Ford boosted output 16 percent to win more buyers. Ford had 15.8 percent of U.S. auto sales through August, up from 15 percent in 2008. It’s faring better than it did after the 2001 recession, when its market share slid to 21.5 percent in 2002 from 24.1 percent two years earlier.

“We didn’t think of just surviving,” Booth said. “We thought that, as we went through this, we would continue to invest in the new products for the future.”

‘Stealing Share’

Ford has combined “cost cutting, product improvement and pricing enhancement,” said Brian Johnson, a Chicago-based Barclays Capital analyst who has a “neutral” rating on the stock. “Ford is not just stealing share from GM and Chrysler, they’re taking it from the Japanese as well.”

Ford rose 45 cents to $7.48 yesterday in composite trading on the New York Stock Exchange. The shares have more than tripled this year for the third-largest gain in the S&P 500.

Analysts still aren’t convinced a turnaround is at hand. Six recommend the shares while five say hold and five say sell.

Walmart, the world’s biggest retailer, loaded up on laptops, mobile phones and Blu-ray disc players as Circuit City liquidated in March. In the U.S., operating profit advanced 5 percent to $4.9 billion in the quarter ended July 31.

Walmart and Target

Customer visits during the period increased by 1.3 percent, reflecting store improvements that will help the Bentonville, Arkansas-based company keep shoppers when the recession ends, Eduardo Castro-Wright, U.S. stores chief, said on an Aug. 13 earnings call.

Sales by Walmart’s U.S. stores open at least a year rose 1 percent in the 26 weeks through July 31 as Target Corp. posted a 5 percent decline. Walmart had a 3.2 percent gain in 2008, when same-store sales for Minneapolis-based Target slid 2.9 percent.

“Based on same-store sales performance over the past year, Walmart has been outperforming the competition, which implies that the company is gaining market share,” Joseph Feldman, an analyst at New York-based Telsey Advisory Group, said Aug. 27.

A Target spokesman, Eric Hausman, said the second-largest U.S. discount chain “has continued to gain market share in many categories.”

“Market share is not a zero-sum game between these two companies,” he said.

Verizon’s Leap

Walmart’s ability to keep increasing sales in a slumping economy echoes the company’s experience in the 2001 recession. For the 52 weeks ended Feb. 1, 2002, Walmart’s same-store sales climbed 6.1 percent.

Walmart rose 82 cents to $51.74 in NYSE trading yesterday. Walmart has gained 11 percent since a 2009 low on Feb. 4, and 21 analysts recommend buying the stock, based on data compiled by Bloomberg. Six say hold.

Verizon used an acquisition to leapfrog AT&T Inc. and become the largest U.S. wireless provider this year. The Jan. 9 purchase of Alltel for $28 billion helped New York-based Verizon increase second-quarter sales by 11 percent amid a slowing market for phone services, and boosted the number of mobile customers by 18 percent.

Mobile Web Access

“Our business relationships have held up very well,” Verizon CFO John Killian said in an Aug. 19 interview from his office in Basking Ridge, New Jersey. “We’ve not lost any contracts.”

Verizon announced contracts this year with the Bank of New York Mellon Corp., Siemens Enterprise Communications and federal agencies such as the Department of Health and Human Services.

Revenue from mobile plans that let customers surf the Web jumped 53 percent last quarter from a year earlier. They will eventually comprise half of customers’ monthly wireless bills, up from 29 percent in the second quarter, Killian said.

Mobile Web access will speed up when Verizon rolls out its “fourth generation,” or long-term evolution, network next year. Verizon said it will be the first to deploy its LTE network in the U.S., ahead of AT&T’s planned 2011 rollout.

While global mobile-phone sales slid 6 percent in the second quarter, smart-phone sales rose 27 percent, according to research firm Gartner Inc.

“People want the cool thing,” said Brian Marshall, a technology analyst at Broadpoint AmTech Inc. in San Francisco. “They view that as a necessity.”

Verizon rose 10 cents to $30.24 yesterday in NYSE trading, pushing its gain to 16 percent since a March 9 low. Of 31 analysts covering the company, 17 say buy, 13 say hold and 1 recommends selling.

‘Even Out Earnings’

Like Verizon, game maker Activision looked to a merger to expand in the recession by combining with Vivendi’s Blizzard.

“Doing that merger and having a subscription base for a game such as ‘Warcraft,’ that really helps even out earnings,” said Geoff Chamberlain, a research analyst with Appleton Partners in Boston, which owned 272,000 Activision shares as of June 30, based on data compiled by Bloomberg.

Adding market share in an economic contraction isn’t new for Santa Monica, California-based Activision. In 2001’s fourth quarter, when the last recession ended, game titles featuring professional skateboarder Tony Hawk helped boost global market share by 1.7 percentage points from a year earlier to 12.4 percent, the company said.

Activision has surged 41 percent since its low for the year on Jan. 6 in Nasdaq trading. The shares fell 9 cents to $11.55 yesterday. All 29 analysts following the stock rate it as a buy.

As for the 13-year-old carpet at company headquarters, CEO Kotick said he recently replaced it at the landlord’s expense.