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Price war, no deals barred

Wal-Mart's rivals fear the chain's power to undercut them, but they have holiday plans of their own.

By Andrea Chang

With another tough holiday season looming, Wal-Mart Stores Inc. is ratcheting up a price war that could be good for shoppers but has competitors fearing the worst.

The world's largest retailer has for years snatched sales from department stores, discounters, supermarkets, electronics sellers and mom-and-pop shops. Its intensive markdowns helped drive chains such as Circuit City and Mervyns out of business over the last year.

Now Wal-Mart is using its enormous clout to wrest the advantage during what is expected to be another weak Christmas season.

The chain's power to undercut rivals has allowed it to slash prices on toys, books and other holiday items in recent weeks. The latest deals include a \$20 Thanksgiving dinner for eight, an HP notebook computer for \$298 (normally \$448) and a Sharp 52-inch flat-panel television for \$898 (normally \$1,548).

"They put a stake in the ground and said, 'We will not be beat this holiday season,' " said Joe Feldman, a senior retail analyst at Telsey Advisory Group. "Without question, everyone has to look out for Wal-Mart."

The retailer's sheer size means that "anything it does has a greater impact," said Todd Slater, an analyst at Lazard Capital Markets. "Wal-Mart's pricing strategy will allow consumers to save millions while at the same time keep pressure on its competitors."

For shoppers like Phyllis Whitt, who is unemployed and moved in with her daughter to save money, the discount giant is "where we come to make ends meet."

"When we were all working, we would do Target. Now that we're not, we do Wal-Mart," Whitt, 56, said while shopping at a Wal-Mart in Baldwin Hills recently.

Wal-Mart's competitors say they are girding for battle and promise that they, too, will be discounting left and right.

Toys R Us Inc. has opened hundreds of pop-up holiday toy shops nationwide and will offer "exceptional values and deals every day throughout the holiday season," a company spokeswoman said. Kmart, which introduced an online layaway program last month, announced its own slew of holiday price cuts this week and said it would offer "Better than Black Friday" deals every Friday until the day after Thanksgiving.

"We're certainly ready to compete," said Chris Brathwaite, a spokesman for Kmart's parent company, Sears Holdings Corp., which also operates Sears department stores.

Target Corp., too, is quickly dropping prices to match the market leader.

"Wal-Mart is a formidable competitor," said Michael Francis, Target's chief marketing officer. "They outdistance us by any measure in terms of size and revenues."

Indeed, Wal-Mart's more than \$400 billion in annual sales dwarfed Target's \$62.9 billion last year and helped make it the world's third-largest company, according to Fortune's Global 500 list.

Analysts say no one can discount quite like Wal-Mart can. With its size, clout and expansive supply chain -- which enables it to offer millions of cutthroat prices throughout the year -- the retail behemoth will be tough to beat.

"If JCPenney will go into the back-to-school season at \$14.99 [for jeans], they'll say, 'We have to be at \$13.99,' " said Wayne Hood, an analyst at BMO Capital Markets. "Because they buy enough, they can do that."

For the holidays, Wal-Mart is becoming even more aggressive and strategic, promising new price cuts every week until Christmas. The deals are not just in traditional holiday categories but also on groceries and other necessities.

"Last year shoppers migrated to us because they were seeking value," Gary Severson, senior vice president of entertainment for Wal-Mart's U.S. division, said in an interview. "I don't see this year being dramatically different."

The Bentonville, Ark.-based chain has been one of the few strong retail performers during the recession. In last year's holiday season, the worst for retailers in four decades, Wal-Mart posted a modest increase: Sales for its fourth quarter ended Jan. 31 were \$108 billion, up 1.7% from \$106.2 billion a year earlier.

In addition to offering low prices, the chain's stores serve as massive one-stop-shopping destinations. At its Rosemead location, for instance, shoppers can get their nails done, grab a burger at an in-store McDonald's and even buy goldfish.

Wal-Mart has also made strides in appealing to higher-income shoppers by sprucing up its stores, shortening checkout line waits and improving its merchandise selection.

"The price was always there, but the store experience wasn't desirable, the style wasn't desirable, the quality wasn't as desirable," Hood said. "They've made significant headway in improving those variables."

But to some consumers, Wal-Mart remains a bit unfashionable for the holidays -- though many go there for basic items.

"They have OK stuff, but not stuff for Christmas shopping," said Melissa Zarate, 28, a dental assistant who was shopping at the Rosemead location this week. "Everything's cheaper but not nice. I just come here for little things like cat food and cleaning supplies."

Shopper Gilbert Rodriguez, 48, said he felt there was a "stigma" associated with Wal-Mart and said he'd turn to mall-based and outdoor stores when buying holiday presents.

"I find their products to be on the lower end of the scale -- it reflects the price," he said of Wal-Mart. "I'm a firm believer in you pay for what you get."

But others say that this year, they can't afford to care about where it's trendy to buy Christmas presents.

Carol Clark has already finished her holiday gift shopping, spending \$500 on presents including knit caps, gloves and pajamas -- all from Wal-Mart.

"In the past, I'd spend way more than \$500 and I'd go to Macy's, JCPenney, Nordstrom," said Clark, 64, who was shopping at the Baldwin Hills store recently. "It's nice to know you can go to a Wal-Mart and get everything you need."

Because it's "generally a losing game" to try to beat Wal-Mart on price, the best bet for competitors is to differentiate as much as possible from the retail giant, Feldman of Telsey Advisory Group said.

That's the game plan at Blast from the Past, a specialty toy shop in Burbank that makes as much as 20% of its annual revenue from December sales.

"I can't compete with Wal-Mart's prices," owner Larry Ross said. "But they can't compete with my customer service and my selection."

Or as a spokesman at a major department store chain said: "We all want to win. None of us wants to lay down and let Wal-Mart have Christmas."