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## Wal-Mart's moves at Sam's Club make Street sense

By Andria Cheng

NEW YORK (MarketWatch) -- Wal-Mart's plans to cut more than 11,000 jobs at Sam's Club and outsource its product sampling and demonstration will better showcase its products and bolster demand at its wholesale-club chain, which has lagged its sister subsidiaries, analysts say.

Wal-Mart shares were up 0.2% at \$53.03 in midday trading Monday. Through Friday, the Bentonville, Ark., company's shares had risen 9.5% in the past year, lagging the 49% jump of the S&P Retail Index.

In a letter to employees Sunday, Sam's Club's President and Chief Executive Brian Cornell said 10,000 product sampling and demonstration jobs, most of which are part-time, will be cut.

The wholesale-club chain, which charges membership fees and accounts for about 12% of Wal-Mart's more than \$400 billion in annual sales, said it's outsourcing its in-club product sampling and demonstration to a third-party marketing company, Shopper Events, in a new program titled Tastes and Tips.

Shopper Events, of Rogers, Ark., already runs the "Bright Ideas" in-store demos for Walmart U.S. It plans to hire a similar number of staff to accommodate the new Sam's Club business, offering positions that the affected employees could apply for, Wal-Mart said.

The company said Shopper Events will feature integrated demonstration stations, signs, uniforms and product selling to help it better showcase food, beverages, personal wellness and electronics products.

**The moves "make sense," said Telsey Advisory Group's analyst Joe Feldman. Shopper Events is a company "that has expertise in the area and has been more effective with membership promotions and new programs."**

Cornell said Sam's Club also plans to eliminate the positions, about two in each club, that help drive new business memberships. That would equal more than 1,000 positions as Sam's Club had 602 clubs as of Jan. 31, 2009. In comparison, Walmart U.S. and international units each had about 3,600 stores.

"By doing away with the membership-acquisition people, it tells me the need to carry the salary of this group is unnecessary" as the economic downturn has hurt its business-type memberships, said Brian Sozzi of Wall Street Strategies. "It might signal a shift in strategy to more of an emphasis on households."

Sam's Club spokeswoman Susan Koehler said the chain remains "committed" to serving small business and will just use different tools such as national events, individual or tailored approaches such as cost-comparison analysis for customers.

Small businesses represent a little less than half the chain's 47 million club members, she said. For the third quarter ended Oct. 31, Sam's Club membership and other income rose 2.5% to \$744 million. The figure declined slightly for the fiscal nine months. "Our assortment continues to meet their needs," she said in an e-mail.

### **Sam's Club's challenges**

Sam's Club earlier this month had said it would cut about 1,500 jobs with its plans to shut 10 underperforming Sam's Club locations. The company as a whole employs more than 2 million people.

While the namesake chain in the U.S. has benefited from budget-conscious shoppers seeking bargains in the recession, Sam's Club was hurt by deflation in food and other commodity costs and competition from rivals Costco Wholesale Corp. and BJ's Wholesale Club Inc. , analysts said.

The job cuts "showed that the formerly slow-to-move retailer was intent on maximizing profitability in each of its three major units," said Craig Johnson of the New Canaan, Conn., consulting firm Customer Growth Partners. He estimated that the job cuts are the largest downsizing in the retailer's history. Both Costco and BJ's have "a unitary club focus. Costco is an exceptionally strong competitor."

Johnson said Sam's Club also has been hurt by management turnover. Cornell, a former executive at Safeway Inc. and Pepsico Inc. , joined Wal-Mart last April, succeeding Doug McMillon, who was named to head the company's international unit.

Sam's Club has underperformed both Walmart U.S. and Walmart International, in terms of both sales growth and operating profitability excluding currency impact, Johnson said. Sam's Club's 3.5% operating margin is a bit more than half the 6.6% margin of the rest of the company, he said.

In the nine months ended Oct. 31, operating profit declined 0.1% at Sam's Club's while it rose 5.1% at Walmart U.S., according to a regulatory filing. The international unit's operating profit rose 9% without the currency impact, Johnson said.