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Wal-Mart takes gloves off, sounds holiday price war

By Nicole Maestri

SAN FRANCISCO, Oct 21 (Reuters) - Wal-Mart Stores Inc (WMT.N) will slash prices each week this holiday season as the discount retailer fights off rivals and strives to keep its newly won market share this holiday shopping season.

Shares in the world's largest retailer fell more than 2 percent after it pledged "hundreds of millions of dollars in price reductions" and raised investor concerns over its ability to protect margins.

The aggressive strategy, announced at its analyst meeting on Wednesday, pressured shares of rivals including grocery stores like Safeway Inc (SWY.N), discount retailers like Dollar Tree (DLTR.O) and Family Dollar Stores Inc (FDO.N), and online leaders like Amazon.com (AMZN.O).

"I am competitive by nature and I want to win," said CEO Mike Duke in his opening remarks. "There is no doubt in my mind that Wal-Mart will continue to win in retailing all around the world."

Safeway shed 4.1 percent, Amazon declined 1.6 percent and Dollar Tree fell 3.4 percent.

Joseph Feldman, a retail analyst with Telsey Advisory Group, said worries over Wal-Mart's gross margin were likely pressuring its shares.

"Some people have been a little frustrated," he said. "You're the leader, but at what cost?"

He also said there was some disappointment that Wal-Mart did not comment on its U.S. same-store sales, or sales at stores open at least a year. Earlier this year, it stopped reporting those numbers on a monthly basis.

PRICES CUT ON TOYS, BOOKS, MORE

Wal-Mart has already rolled out aggressive price cuts ahead of the 2009 holiday season. It is offering more than 100 toys for \$10 each, and it has cut prices on highly anticipated hardcover books by 60 percent or more, igniting a price-cutting war.

Upping the ante, it now plans to introduce new price cuts weekly this Christmas season, kicking off the program on Wednesday by reducing prices on lean ground beef, bananas and certain board games.

"This is going to be a difficult holiday for people. Their wallets are challenged," said John Fleming, chief merchandising officer for the company's Walmart U.S. business.

While Fleming said the holiday will be "tough," he said he liked Wal-Mart's chances and the retailer will be the price leader in entertainment products this holiday.

Wal-Mart also gave an update on efforts to boost sales by slowing U.S. store openings in favor of remodeling locations under its "Project Impact" initiative. It is widening aisles, clearing its shelves of slow-selling merchandise and stocking more brand name or exclusive items, like a clothing line by pop-rock singer Miley Cyrus.

Eduardo Castro-Wright, who oversees Wal-Mart's U.S. operations, said sales in "Project Impact" stores are outpacing those of a control group, although gross margins are flat.

Executives attributed that flat performance to disruptions as customers become familiar with the new format and as it marks down prices on items it no longer plans to sell. Gross margins should improve, it said, as customers in those stores buy higher-margin products, like clothes or home goods.

Castro-Wright also said Wal-Mart is retaining new customers who are shopping more frequently and across the entire store.

Wal-Mart has seen an increase in higher-income shoppers coming to its stores during the recession. Wal-Mart said that in February, 17 percent of traffic growth in its U.S. stores came from new households and the majority of those households had annual income of more than \$50,000.

ROOM TO GROW AT HOME AND OVERSEAS

Duke kicked off the two-day analysts' event that ends on Thursday by telling Wall Street that the world's largest retailer has room to grow, both at home and internationally.

Duke said the company's expenses should grow less than sales. He said that Wal-Mart will lower its expense structure by driving more productivity and efficiency.

In the United States, Wal-Mart will put more money toward remodeling existing locations and it plans to concentrate on opening smaller stores in new markets. It is working to make its store operations and systems more efficient, so it can use the resulting cost savings to lower prices and widen the price gap between itself and competitors.

Wal-Mart is taking its focus on efficiency worldwide. It has opened global merchandising centers that are studying ways to cut the cost of making and selling its proprietary and private label merchandise, such as its Great Value food brand.

Internationally, it will grow through acquisitions and by expanding existing operations. While Wal-Mart has expressed interest in entering Russia, it said that at this point, it makes sense to continue to study the market.

Last week, French retailer Carrefour (CARR.PA) said it was pulling out of Russia only four months after gaining a foothold there. Carrefour said it saw little growth and acquisition prospects in Russia -- where it previously aimed to be the third biggest player in the long term.

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