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Walmart's Latest Move to Crush the Competition

By SEAN GREGORY

Walmart loves to shock and awe. City-sized stores, absurdly low prices (\$8 jeans!) and everything from milk to Matchbox toys on its shelves. And with the recession forcing legions of stores into bankruptcy, the world's largest retailer now apparently wants to take out the remaining survivors.

Thus, the company is in the beginning stages of a massive store and strategy remodeling effort, which it has dubbed Project Impact. One goal of Project Impact is cleaner, less cluttered stores that will improve the shopping experience. Another is friendlier customer service. A third: home in on categories where the competition can be killed. "They've got Kmart ready to take a standing eight-count next year," says retail consultant Burt Flickinger III, managing director for Strategic Resources Group and a veteran Walmart watcher. "Same with Rite Aid. They've knocked out four of the top five toy retailers, and are now going after the last one standing, Toys "R" Us. Project Impact will be the catalyst to wipe out a second round of national and regional retailers."

Though that's bad news for many smaller businesses that can't compete, Walmart investors have clamored for this push. Despite the company's consistently strong financial performance, Wall Street hasn't cheered Walmart's growth rates. During the 1990s, the company's stock price jumped 1,173%. In this decade, it's down around 24% (Walmart's stock closed at \$51.74 per share on Sept. 3). "Walmart is under excruciating pressure from employees and frustrated institutional investors to get the stock up," says Flickinger.

Many analysts believe that the store-operations background of new CEO Mike Duke will keep investors quite happy. Though the recession finally caught up to Walmart last quarter, when the company reported a 1.2% drop in U.S. same-store sales, Walmart was a consistent winner during the worst days of the financial crisis, as frugal consumers traded down. While most retailers are shutting down stores, Walmart has opened 52 Supercenters since Feb. 1. **Joseph Feldman, retail analyst at Telsey Advisory Group, estimates that each store costs Walmart between \$25 and \$30 million. In order to continue the momentum that it has picked up during the retail recession, over the next five years the company plans to remodel 70% of its approximately 3,600 U.S. stores.**

So what does a Project Impact store look like? One recent weekday afternoon I toured a brand new, 210,000-sq.-ft. Walmart in West Deptford, N.J., with Lance De La Rosa, the company's Northeast general manager. "We've listened to our customers, and they want an easier shopping experience," says De La Rosa. "We've brightened up the stores and opened things up to make it more navigable." One of the most noticeable changes is that Project Impact stores reshape Action Alley, the aisles where promotional items were pulled off the shelves and prominently displayed for shoppers. Those stacks both crowded the aisles and cut off sight lines. Now, the aisles are all clear, and you can see most sections of the store from any vantage point. For example, standing on the corner intersection of the auto-care and crafts areas, you can look straight ahead and see where shoes, pet care, groceries, the pharmacy and other areas are located. And the discount price tags are still at eye level, so the value message doesn't get lost.

"They are like roads," De La Rosa says proudly. "And look around, the customers are using them. We've already gotten feedback about the wider, more breathable aisles. Our shoppers love them."

The layout is also smarter. "You can kind of guess where everything is going to be," says Sharon Tilotta, 73, a shopper in the West Deptford store. The pharmacy, pet foods, cosmetics and health and beauty sections are now adjacent to the groceries. In the past, groceries and these other sections were often at opposite ends of the store, which made it more difficult for someone looking to pick up some quick consumables to get in and out of Walmart. **"Under Project Impact, Walmart is providing more of a full supermarket experience within its walls," says Feldman. "The biggest complaint against them has always been that it takes a long time to get through everything. This definitely improves efficiency."** De La Rosa also points out the party-supply section. Favors, wedding decorations, cards and scrapbooks are all in one area. **"In the past, these products would be in three different places," he says.**

And although Walmart won't admit to targeting specific competitors — "We're just listening to what our customers want," De La Rosa says — it's clear that, under Project Impact, Walmart will make major plays in winnable categories. The pharmacy, for example, has been pulled into the middle of the store, and its \$4-prescriptions program has generated healthy buzz. With Circuit City out of business, the electronics section has been beefed up. Walmart is also expanding its presence in crafts. Sales at Michael's Stores, the country's largest specialty arts-and-crafts retailers, have sagged, and Walmart sees an opportunity. Stores are chock-full of scrapbooking material, baskets and yarns. "Look, they're selling the stuff that accounts for 80% of Michael's business, at 20% of the space," says Flickinger. "It's very hard for any company to compete with that."

Apparel, one of Target's traditional strengths, gets a prominent position at the center. The color palettes of the shirts and dresses are brighter and more appealing than they've been in the past. "Walmart has figured out fashion for the first time in 47 years," Flickinger says. "They've gone from a D to an A-minus." Briefs and underwear have been shuttled to the back. "That's a smart move," Flickinger says. "People know to come to Walmart for the commodity clothing. Now, they have to walk past the higher margin, more fashionable merchandise to get what they need."

Of course, Project Impact isn't perfect. You'd think that if Walmart was going to open a massive new store with a cutting-edge layout, the company would at least put a sign up. In West Deptford, it's easy to miss the entrance to the Walmart — which is buried in the back of a parking lot — while driving along a main thoroughfare. And of course, customers will always nitpick. One elderly shopper complained about a shortage of benches in the store (she needed a rest). Another had a more esoteric, yet legitimate, gripe. "Their meat is leaky," says Jeff Winter, 30, a West Deptford shopper. "And instead of giving you a wet wipe to clean it off, they give you a dry towel. How's that going to prevent E. coli or whatever?"

What analysts really want to see from Project Impact, however, is a faster pace of implementation. **"The biggest hurdle facing Walmart is the speed with which they can roll this out," says Feldman.** As more Project Impact stores pop up, the existing stores appear worse by comparison. For example, while the merchandise at the Project Impact store outside of Philadelphia really speaks to that particular market — there's tons of Eagles and Phillies gear — at one regular discount store outside New York City, Minnesota Twins and Seattle Mariners pajama pants wasted away on the racks. There were plenty of associates staffing the electronics section at the Project Impact store; at the discount store, five frustrated shoppers waited in line for help from a customer-service rep. Soon, it was closer to 10.

What about the friendly service? In West Deptford, the associates were sunny and bright. At the New York-area discount store, not so much. "You'll notice we've been in the store for two hours, and no one has even said hello to us," Flickinger says after he and I toured that store. He's right, we weren't feeling any love. But if Project Impact keeps picking up momentum, many more Walmart salespeople, and shareholders, should be smiling.