



# Downtown Economics

*Ideas for Increasing Vitality in Community Business Districts*

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## The Wal-Mart Effect

### *Why the Retail Giant is Prospering in Tough Economic Times*

by Jerry Braatz \*

Despite the downturn in the economy, Wal-Mart continues to experience growth. Its strategy is to sell products at the lowest price by focusing on volume sales with slim profit margins. Wal-Mart makes 36 cents in profit for every \$10 in sales.

In Wisconsin, we have seen a proliferation of Wal-Mart Supercenters that provide groceries along with general merchandise. As of August 2008, there were 58 Wal-Mart Supercenters in Wisconsin, 25 Wal-Mart Discount Stores, and 12 Sam's Clubs.

Consider these statistics:

- A typical Wal-Mart Supercenter occupies 187,000 square feet of store space.
- A Supercenter carries an average of 142,000 items, and a discount store has 120,000 items.
- 53 percent of the U.S. population lives within 5 miles of a Wal-Mart. 90 percent lives within 15 miles.
- More than 1.4 million Americans are employed by Wal-Mart.
- Wal-Mart plans to add 22,000 jobs this year (2009) by opening or expanding 150 Supercenters.
- Many Wal-Mart products are made in a foreign country. Inexpensive labor, manufacturing cost cutting, and high volume production results in lower priced products.

Revenue for the year ending on January 31, 2009, shows that 49 percent of Wal-Mart's \$405 billion in revenue was from grocery sales. Combined entertainment, furniture, electronics, apparel, and health and wellness made up 46 percent of all revenue. Products related to home made up the remaining 5 percent.

Wal-Mart is a focused company. Its goal is to build stores, find merchandise people want, and deliver it to shelves to maximize its capture of the market. It strives to cut costs and keep costs at a minimum. In

the book *The Wal-Mart Effect*, Fishman (2006) contends that this philosophy of frugality is one that the company focuses on, constantly analyzing how it can reduce costs. It expects the same from its suppliers.

### Consumers, Wal-Mart and the Economy

People go to Wal-Mart to purchase things inexpensively and expect a deal. They are willing to give up convenience, service, and sometimes an enjoyable shopping experience to get a better deal. Wal-Mart capitalizes on its "always low prices" image during the economic downturn by focusing on selling consumable products or everyday necessities that customers need.

Wal-Mart is doing well in the current economy for no other reason than consumer choice. Customers vote with their wallets and suppliers vote with their products.

Why would a manufacturer even consider developing a relationship with Wal-Mart (given the price pressure they place on suppliers)? The answer is an opportunity to sell substantial volume.

### How to Co-Exist with Wal-Mart during Tough Times

What about local businesses. How can they capitalize on Wal-Mart? Let's look at five strategies of how local downtown businesses can exist and grow in the shadow of Wal-Mart and during a recession.



Wal-Mart with a downtown look in Texas. Photo by Mark Kruser.

### Focus on Customer Service

In a recession, product sales may be lower, so focus on service and repair. Knowing your product includes the expertise to service and repair it as well. Offering service provides opportunities for small business owners to interact with their customers, build stronger relationships, generate revenue through service and repair, and provide an opportunity to introduce a customer to new products which may result in them making a buying decision.

### Cut Operational Expenses

Learn from Wal-Mart and cut the cost to produce and sell a good or service. A word of caution is to make certain that your cuts do not have a significant impact on the quality of the product or service you offer. Small businesses must make certain that customers are satisfied with the quality of the service or product they purchase.

### Work and Listen to Your Customer Base

With the recession, customer traffic has slowed, but all businesses still have a customer base. In recession times, it is crucial to keep in touch with base customers. It is important to keep a customer database current with phone numbers, addresses, and e-mails. Call them and keep in touch. If they are not in the market for your product they made need product service or repair. Also, ask them for referrals. Is your relative, friend, or co-worker in the market? If the customer likes the salesperson and store, they will provide referrals. It is crucial for business owners to receive feedback from their customers and potential customers and understand what they want and are willing to pay for. It is important to know what customers want most.

### Make the Sales Process Fun and Entertaining

During a recession, people are looking for a reason to smile and be entertained. When a customer walks in the store, the salesperson must be on stage smiling, excited, and ready to have fun. It is the salesperson's job to make not only a good first impression, but a lasting impression. It is absolutely necessary to listen to the needs of the customer, demonstrate product knowledge, answer questions, gain trust and build a relationship. This includes being enthusiastic and

demonstrating how the product can improve quality of life for the customer which helps build product value. Also, show them how the product or service might save them money. Salespersons should not be afraid to ask for the sale and suggest "go-with" items as a way to increase revenue.

### Maintain a Positive Attitude

As a small business owner, it is understandable during recession time that a positive attitude may wane. It is crucial not to let this negativity grow. Use the recession as an opportunity to aggressively seek out business. Use down time effectively to know and understand everything about your product or service. Understanding the many product or service benefits will help maintain a positive attitude and generate business from customers.

Also see:  
Downtown Economics issue 147, November 2008:  
Consumer Behavior During Difficult Economic Times

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