

## Wal-Mart's Growth and Vulnerable Retail Sectors

This fall, many stories about Wal-Mart were covered in the media. David Faber, host of the MSNBC documentary, *The Age of Wal-Mart*, reported that, "Wal-Mart sells more DVDs, groceries, toys, bicycles, guns, diamonds, engine oil, bedding, detergent, dog food, sporting goods, CDs, socks, and toothpaste than any other company in the world." PBS's Frontline asks, "Is Wal-Mart good for America?" Forbes.com outlines Wal-Mart's plan to expand their market share in consumer electronics, banking, pharmacy, gasoline and fashion apparel.

Wal-Mart, is not only the world's largest retailer, but ranks #1 on the Forbes 500 list as the world's largest business with sales of \$256 billion in FY04. Wal-Mart sells more than Target, Sears, J.C. Penny's, Home Depot, Best Buy and Walgreen's combined. The typical Wal-Mart Supercenter generates annual sales of approximately \$81 million per year. That is over \$200,000 per day. Eighty-five percent of U.S. households shop at Wal-Mart, where the average household spends about \$2,000 per.

According to the Forbes.com article, Wal-Mart plans to add 310 new stores and 30 new Sam's Clubs to its stable of 3,625 locations in 2005. One retail analyst expects that by 2010, Wal-Mart will have 3,000 "Supercenters," up from 1,600 this year. Such growth will increase Wal-Mart's share of the retail market and increase the likelihood that it will dominate even more retail sectors.

Many of the sectors Wal-Mart has targeted for expansion are now dominated by big box specialty stores like Best Buy, Home Depot, and Bed Bath & Beyond. Analysts point to the announcement by Toys "R" Us that stiff competition from mass merchant Wal-Mart was causing Toys "R" Us management to consider exiting the toy business. This suggests that even the successful "category killer" stores of recent years may face intense competition from Wal-Mart.

### Consumer Electronics

Wal-Mart is currently the second-largest consumer electronics retailer in the U.S. Only Best Buy sells more electronics. Competition in this sector has increased with

Wal-Mart's recent introduction of its own private-label electronics line, ILO. This line already includes low-priced 42 inch plasma TVs, LCD monitors and DVD recorders and is expected to expand.

Further, many retailers are concerned about Wal-Mart's efforts to boost its relationships with Sony, Panasonic and RCA. Such relationships will most likely pose intense competition for large (category killer) and small electronics stores.

### Banking

Wal-Mart has been trying to enter the banking business for a number of years. However, its efforts to buy banks in California, Oklahoma and Canada were thwarted by regulators.

Analysts believe that Wal-Mart has a ready-made market at hand as 20% of its 100 million customers don't have bank accounts. The chain already offers financial services such as check cashing, bill payment and money orders, and it has 28 Wal-Mart Money Centers, which are operated by SunTrust Banks, as well as hundreds of other in-store bank branches.

The company says it has no plans to get into retail banking, but industry sources say Wal-Mart is still pursuing this agenda.



## Pharmacy

Currently, Wal-Mart ranks fourth in the pharmacy business, behind giants Walgreen, CVS and Rite Aid, according to the National Association of Chain Drug Stores. Pharmaceuticals represent 9% of total combined sales at Wal-Mart stores and Supercenters. That does not include health and beauty aids that generate another 7% of total sales. Wal-Mart is seeking to increase its market share by upgrading its profile and introducing a number of 24-hour pharmacies.

Wal-Mart's penetration of the pharmacy business will likely target shoppers who don't have drug coverage or health insurance, many of them its customers. Wal-Mart's brand of competitive pricing would appeal to these consumers as they have to pay for pharmacy purchases out-of-pocket.

## Gasoline

Gas pumps have become a significant traffic generator for Wal-Mart. There are 1,555 stations on Wal-Mart properties, 300 of which are operated directly by Wal-Mart's warehouse arm, Sam's Club. The balance are operated by third-party vendors.

Wal-Mart's pumps already have a 3% share of U.S. retail gas sales, ranking as the 10th largest gas retailer in the U.S. As Wal-Mart's share grows, some analysts question whether Wal-Mart will oust its vendors and operate the stations by itself. Independent gas suppliers are growing as the oil giants spin off their refineries. This makes Wal-Mart an appealing partner to these independent suppliers.

## Fashion

Wal-Mart may lead the apparel market, but it does so with the sale of mundane items like underwear, socks and sweatshirts. Analysts say that Wal-Mart is losing sales of fashion items to companies like J.C. Penney, Kohl's, and Target. Wal-Mart is optimistic with its George brand, the top selling British apparel line. Wal-Mart acquired the George brand when it bought its parent, U.K. retail giant Asda, in 1999. Wal-Mart also stocks the Mary-Kate and Ashley line, licensed from the famed Olsen twins. Analysts believe that Wal-Mart may start enhancing its clothing merchandising and marketing efforts as it repositions itself in the apparel market.

Local retailers, both independent and chain-affiliated should stay watchful of Wal-Mart's expansion into these and other product lines. Understanding the competitive

market and designing strategies to co-exist (and not necessarily compete) with Wal-Mart are essential for downtown and business district retail survival.

### Related Articles:

The Impact of Walmart on Small Towns (July 2001 No. 59)  
<http://www.uwex.edu/ces/cced/lets/0701ltb.pdf>

How Independent Stores Can Survive in Your Community (November 2000 No. 51)  
<http://www.uwex.edu/ces/cced/lets/Nov00ltb.pdf>

Co-Existing with the Retail Giants (December 1996 No. 4)  
<http://www.uwex.edu/ces/cced/lets/letsualb.html>

The Hometown Advantage: Reviving Locally Owned Business  
<http://www.newrules.org/retail/index.php>

Source:

Wal-Mart's Next Victims, Penelope Patsuris, November 10, 2004,  
Forbes.com

[http://www.forbes.com/commerce/2004/11/10/cx\\_pp\\_1109wmt.html](http://www.forbes.com/commerce/2004/11/10/cx_pp_1109wmt.html)

Summarized by Bill Pinkovitz and Bill Ryan, community business development specialists with the University of Wisconsin-Extension. Production by Alice Justice and editing by Michelle Oddo-Marohn.

Center For Community Economic Development, University of Wisconsin-Extension  
610 Langdon Street, Madison, WI 53703-1104

PH: (608)265-8136; FAX: (608)263-4999; TTY: (800)947-3529; HTTP://WWW.UWEX.EDU/CES/CCED  
An EEO/Affirmative Action Employer, UW-Extension provides equal opportunities in employment and programming, including Title IX and ADA requirements.