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Wal-Mart's thinking small

Wal-Mart - which is know for its massive Supercenter stores - is reversing course and will be rolling out smaller stores in urban areas.

By PETER O'DOWD

Kai Ryssdal: Wal-Mart does everything big. It's the world's biggest retailer. It's got the world's biggest supply chain. Even its stores are huge - the average Wal-Mart Supercenter store comes in at 200,000-square feet. But to everything there is a natural end. Wal-Mart announced a new strategy today: Smaller stores inside American cities, not out where you have to drive half an hour to get to 'em.

From KJZZ in Phoenix, Peter O'Dowd reports.

Peter O'Dowd: Forget big box. Wal-Mart is moving to shoe box.

Bill Simon is the CEO of Wal-Mart U.S.

Bill Simon: There are hundreds and hundreds if not thousands of opportunities in the U.S. for small formats.

Simon spoke to investors and analysts this morning.

Simon: Many, many, many of them exist in markets where we have no market share or next to no market share.

He says these smaller formats will show up in America's urban core. From New York to California, and places in between. Though he was short on details, Simon said even small towns that can't support a Supercenter will get a look at the new concept.

Simon: After years of development, we're now prepared to accelerate the growth of this size store.

The company has experimented with smaller grocery stores. Wal-Mart will use that experience as it opens the initial round of 40 mid-sized stores that will be somewhere between 30,000 and 60,000-square feet. Eventually, the chain will go even smaller than that.

RJ Hottovy: It is a risk.



Morningstar Analyst RJ Hottovy.

Hottovy: But at the same time, I don't think they're losing sight of the core business that they have been known for. I think this is just a new avenue of growth that the company is exploring.

After a long recession, sales at existing Wal-Mart stores have edged downward for several consecutive quarters. Even Wal-Mart says this concept is a key to drive future growth.

Faith Hope Consolo: It makes sense. Discount is darling. It's the cache.

This is Faith Hope Consolo. She's with Prudential Douglas Elliman, a commercial real estate firm in New York. She says it's no secret that Wal-Mart has eyed New York City and its millions of untapped consumers for years.

Consolo: They've been looking at this for a very long time. They didn't just wake up yesterday morning and say, "Oh great. I want to be on 33rd Street and 5th Avenue in Manhattan."

Analysts say urban stores bring in far more sales per square foot than their suburban counterparts. But Wal-Mart's effort has failed in New York City, in part, because the chain has faced fierce political opposition. Critics say Wal-Mart abuses employees with low pay and inadequate benefits. At the investor's meeting, Wal-Mart VP Leslie Dach acknowledged the possibility of further conflict as the urban strategy moves into other U.S. cities.

Leslie Dach: We know that all politics are local in this country and that we're going to have to fight that fight every where we go.

And it appears Wal-Mart is gearing up for another try at New York. Faith Hope Consolo says Wal-Mart has been talking to real estate companies, including hers, about smaller sites in all of New York's five boroughs. And she says landlords are paying attention.

Consolo: Listen, if they ring the phone and they say, "Hi, I'm Wal-Mart and I want to look at your site," you don't walk to meet them - you run to meet them.

Wal-Mart is not the only big retailer that's jumped into the smaller format. This fall, Target announced its own strategy to open about a dozen urban stores with a footprint of less than 100,000-square feet, starting with Seattle in 2012.

Susan Reda follows the industry for the National Retail Federation.

Susan Reda: The desire to build huge stores is beginning to wane.

Reda says customers are losing patience, too.

Reda: Consumers don't want to spend their days walking up and down the aisles of stores that are the size of football fields.

Reda says this is driving retailers to reconsider the way they've been doing business. So don't expect as many flat-screen TVs at your urban market. Think groceries instead.

In Phoenix, I'm Peter O'Dowd for Marketplace.