

Big Buildup For Small Wal-Marts

Sep 27, 2010 12:00 PM, By ELLIOT ZWIEBACH

BENTONVILLE, Ark. — [Wal-Mart Stores](#) here is likely to begin testing a smaller, urban-oriented format within the next few months that's based on aspects of some of the smaller stores it operates in Latin America, industry observers told *SN* last week.

Most said they expect the stores to fall into the 20,000-square-foot range, with one analyst predicting Wal-Mart has the long-term potential to open between 350 and 400 small-format stores a year in the U.S. for the next 10 years.

Wal-Mart executives are scheduled to disclose specific plans for the smaller units at an analysts meeting here for Oct. 13.

Dave Marcotte, director of retail insights for Kantar Retail, Cambridge, Mass., said Wal-Mart will probably open the first group of smaller-format stores in the urban Midwest or the West, “where it is under-represented with supercenters, rather than in an area like the Southeast, where it already has a dominant supercenter presence.”

“California and Nevada are especially attractive because of the weak economies right now and the severely depressed commercial real estate that's available,” he added.

Neil Currie, executive director for UBS Securities, New York, said the time is right for Wal-Mart to open smaller-format stores in urban markets in the U.S. based on what it has learned from urban formats in other countries; the availability of low-cost commercial real estate and; the information it has gleaned from observing Tesco's Fresh & Easy experience operating smaller stores.

“With increased knowledge transfer across Wal-Mart's [international] operations, the company has become more flexible, and formats are being translated to different regions,” Currie said. “For example, Mi Bodega and Bodega Express — small formats from Mexico — and Maxi from Brazil have been used in other countries to good results.”

Bob Gorland, vice president at site-selection and consulting firm Matthew P. Casey & Associates, Clark, N.J., said Wal-Mart is likely to open small-format stores in areas where its market share is limited, “so it can build business without cannibalizing its existing stores.” He said he isn't aware of efforts by Wal-Mart to find real estate for smaller boxes in the Northeast.

Wal-Mart isn't giving out a lot of detail until next month. In a speech in New York two weeks ago, Bill Simon, president and chief executive officer of Wal-Mart U.S., said the company has been looking at smaller formats to penetrate more urban markets. He also said Wal-Mart would “beg, borrow and steal” format ideas from its Latin American operations.

According to Currie, penetrating urban markets could enable Wal-Mart to boost volume by at least \$80 billion a year, given that Wal-Mart's share of the top 50 metropolitan markets is only 5.8%, while its share of the non-top 50 metro markets is 11.6%.

“If Wal-Mart could raise its top-50 metro market share to around 10%, this incremental opportunity equates to approximately \$80 billion,” Currie noted — mostly from “a multi-format strategy revolving around food in small- and medium-sized stores,” he explained.

Currie estimated Wal-Mart has the potential to open 350 to 400 small-format stores a year for the next 10 years. “And we don't see an issue trying to fold a small-store concept into a large-store distribution structure,” he added.

Currie noted that in Mexico, Wal-Mart's smaller food-centric bodegas represent 34% of total sales, up almost 10% over the past six years.

Marcotte told *SN* he expects Wal-Mart to borrow heavily from its Latin American store base to develop a smaller U.S. model.

“It's been very successful in those countries, so why not operate a similar format in the U.S.?” he said. “If Wal-Mart wants to be in urban environments or have a vehicle to enter new markets with size restrictions on box stores, that is the right format.”

The Aurrera stores in Mexico range in size from 3,000 square feet for limited-assortment units to 15,000 square feet for grocery-store versions and up to 50,000 square feet for mass merchandise locations, Marcotte said.

John Rand, another director of retail insights for Kantar Retail, said smaller stores would keep labor costs down.

“The Mexico stores have very high service levels, but most Americans don't expect the same degree of service, so Wal-Mart could probably staff a 20,000-foot store with just five or six people to handle grocery, produce, meat and the checkstands.”

Gorland said he expects the smaller-format Wal-Marts to offer an edited selection of offerings — similar to what Target's P-fresh sections, with an edited selection of groceries, home meal replacement products, 12 feet to 16 feet for pre-packaged meats; 16 feet to 20 feet of packaged produce; plus HBC items and a pharmacy.

If Wal-Mart sticks with its historic approach, Gorland said, he expects Wal-Mart to test the new concept by rolling out a few locations in several urban markets “and then see how it flies.”

Currie said he expects Wal-Mart to find “the sweet spot” for its small-format stores at 20,000 square feet — half the size of its Neighborhood Market format, with about half the SKUs. “A multi-year rollout of a smaller-store format could make Walmart U.S. a growth story once again,” he said.