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WSJ.com

BUSINESS | APRIL 9, 2010

Wal-Mart Bets on Reduction in Prices

By [MIGUEL BUSTILLO](#) And [TIMOTHY W. MARTIN](#)

Wal-Mart Stores Inc. is cutting prices on thousands of products in an aggressive campaign to reinforce its reputation as a discount leader, as the company seeks to reverse months of slowing U.S. sales.

The world's largest retailer was a rare beneficiary of the economic downturn, as large numbers of bargain-hungry Americans, including many middle-class families, flocked to its supercenters from supermarkets and specialty clothing stores.

Wal-Mart's sales at U.S. stores open a year or more have edged lower recently, while other retailers have started to see an uptick in consumers' discretionary spending. That suggests to some analysts that Wal-Mart is having trouble hanging on to middle-class shoppers.

Wal-Mart says that it isn't so. Its executives attribute the chain's slowing sales to a general decline in food and electronics prices, a trend they say has begun to ease.

The company says it believes that, despite increasing consumer optimism, many Americans will continue to struggle in the months ahead. So, it is cutting prices this week on roughly 10,000 items, mostly food and other staples. The company declined to specify the sizes of the cuts.

"We felt we needed to increase the intensity and excitement with our customer, especially the feeling that Wal-Mart has great deals," Chief Marketing Officer Stephen Quinn said in an interview Thursday.

Wal-Mart is publicizing its price cuts with a barrage of placards in the aisles of its 3,700 U.S. stores and a media campaign describing how the company's cost-cutting moves, such as combining shipments so its trucks carry full loads, translate into savings for consumers.

Mr. Quinn said Wal-Mart expects to expand the number of price cuts in coming months with help from suppliers. Wal-Mart is encouraging them to reduce what they charge the chain in exchange for having it spotlight their products as part of its price "rollback."

"It forces them to sharpen their pencils a little bit and see what they can do to be a part of this," Mr. Quinn said. "Obviously they are competing with each other to get space and visibility at Wal-Mart."

Retailing experts question how effective the strategy will be in lifting Wal-Mart's sales, since surveys show consumers already regard it as a low-price leader.

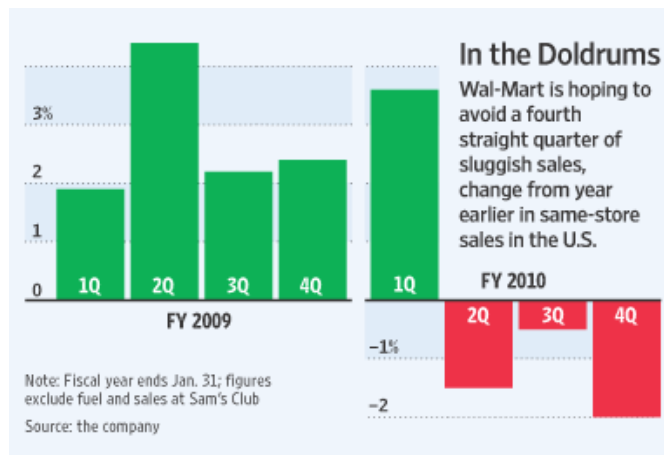
Though the company may get a modest near-term sales boost, the cuts are more likely to intensify the loyalty of shoppers who came to Wal-Mart during the recession, said Craig Johnson of retail consulting firm Customer Growth Partners. "This will make customers say, 'if I go back to Kohl's and Kroger I may be missing deals at Wal-Mart.'"

Despite its sales slowdown, Wal-Mart has continued to post solid profits, in part due to widening margins. Some analysts believe that gives the retailer room to cut prices without sacrificing profit. Getting suppliers to share the costs of the price reductions would also mute the impact on its bottom line.

Retail analysts predict the new Wal-Mart cuts could hurt supermarket chains.

Kroger Co. Chief Executive [David B. Dillon](#), however, recently expressed confidence that he had weapons other than price to use against Wal-Mart, citing his stores' service, selection and cleanliness.

Jack Brown, chief executive of Stater Bros. Markets, a small California grocery chain, said he believes consumers are looking to gravitate away from discounters like Wal-Mart and back to traditional supermarkets closer to their homes. He said signs of better economic times have led to an increase in store visits to Stater Bros., and shoppers are spending 25% more per transaction.



Wal-Mart lowering prices won't "impact Stater at all," Mr. Brown said. "Customers have already gone to where they think they're getting the best value."

The price reductions could help Wal-Mart fend off a growing list of no-frills competitors, such as the U.S. branch of Germany's Aldi discount grocery chain and variety stores such as [Dollar General Corp.](#), which are increasingly nipping away at its less-affluent core clientele.

Yet whether Wal-Mart is committed to pushing the envelope on pricing as it did in the days of its late founder, Sam Walton, or is

merely hyping promotions as it pursues a more margin-driven approach, is the question the industry is asking.

J.P. Morgan analyst Charles Grom wrote this week that his early scouting suggested a more concerted effort by Wal-Mart to convey the image of lower prices, but that he was left wondering how sharp reductions really were.

His regular price survey of 31 items at the chain found that the total bill was up 2.3% from the previous month.

Indeed, despite the piles of charcoal briquettes and Folger's coffee at a Houston Wal-Mart, topped with signs blaring "Unbeatable" and "Rollback", Jose Luis Torres, a worker at a Texas plastic bag factory, seemed skeptical he was getting a better deal than in the past.

"The clothes, the electronics—the prices all look pretty good," Mr. Torres said Wednesday evening as he piled into a minivan with his four children. "But I think they might have been better last year."

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