

1to1 Weekly  
September 25, 2006

\*\*\*\*\*

## **WAL-MART'S BIG PLANS TO THINK SMALL**

By Don Peppers and Martha Rogers, Ph.D.

Wal-Mart has never been known to be a one-to-one marketing fan. Its gargantuan success historically has been owed to a single store model backed by extremely sophisticated and brutally efficient supply chain operations. Customers came for products they needed and prices they felt good about paying. Relationships and individual understanding simply did not enter into the picture -- until now.

As reported earlier this month in the Wall Street Journal, Wal-Mart is preparing a substantial shift in its store planning, customizing its design and product mix around six demographic groups: the affluent, empty-nesters, Hispanics, suburbanites, African Americans, and rural residents. According to a mid-August Goldman Sachs report, Wal-Mart has at least 100 full-store reorganizations on the docket over the next six months, and the Wall Street Journal reports that Wal-Mart's efforts will focus most strongly on the roughly 40 percent of stores that are in major metropolitan areas.

-- A strategic shift --

Although Wal-Mart's presence still cannot be denied, its fortunes are not as secure as they once were. Large cities continue to make life difficult for Wal-Mart with various "big-box ordinance" restrictions that hold up development plans. The company's stock is well off its 1999 high, and it recently bailed out of the German and South Korean markets. "You don't need to think about loyalty when customers are blindly loyal to you," says Martin Schneider, senior analyst of enterprise software with research firm The 451 Group. But things change when growth slows.

Wal-Mart has spent the past decade wringing every ounce of cost out of its operations, and more recently, expanding all over the globe. It seems to us that it has nowhere to go but to increase revenue from present customers. The challenge now is a share-of-customer challenge -- getting

more business and categories from its current shoppers. And in the case of a retailer known for gun counters and trailer hitches, that means listening a little more carefully to the needs of different customer groups.

"Instead of building more stores, Wal-Mart is going to have to put money into technology to tell them how to get more money out of each store they [already] have," Schneider says.

Another crucial factor in the move to customization may be elements out of Wal-Mart's control, such as energy prices that affect transportation and logistics. A mid-August research report from Bank of America Securities highlights the fact that rising energy prices could have an even deeper impact on Wal-Mart's performance than stock analysts currently expect. Goldman analyst Adrienne Shapira wrote that the company would use what she believed to be the only tool at its disposal, inventory control, to keep things running smoothly. What she may not have anticipated at the time was that Wal-Mart, rather than betting solely on its ability to drive costs down, would instead focus on getting smarter with respect to which particular products its different types of customers most wanted to see in the store.

-- Not business as usual --

Wal-Mart's decision to develop a more customized approach isn't unique. Schneider points to Apple and Volkswagen as examples of companies that successfully shed an everyman, one-size-fits-all heritage to pinpoint a specific market segment and ride it to renewed profitability. "This is not necessarily an about-face, but it is an evolution in what they're doing to keep their margins and profits high, and to try to understand how they will grow as they start to completely saturate" the U.S., he says. And we can't forget the success that another big box retailer, Best Buy, has had with a similar approach to customer groups.

We applaud Wal-Mart's effort, as any step made toward improving the customer experience and building a stronger relationship is a step in the right direction. The strategy behind the move may one day lead Wal-Mart from the mass marketer's best example to a one-to-one best practice.