

Wal-Mart can be good news, bad news to communities, ISU researcher says

According to an Iowa State University professor who has researched the chain's grocery division, Wal-Mart remains as strong as ever in grocery because of its efficient supply chain management strategies that allows it to offer lower prices to consumers. The retail giant is known for driving down prices throughout an area, and driving out some local competition in the process.

Democratic presidential prospects have targeted the world's largest retailer for its business and employment tactics. Last week, Wal-Mart posted its first profit decline in a decade.

But according to an Iowa State University professor who has researched the chain's grocery division, Wal-Mart remains as strong as ever in grocery because of its efficient supply chain management strategies that allows it to offer lower prices to consumers. The retail giant is known for driving down prices throughout an area, and driving out some local competition in the process.

"Wal-Mart built itself on being low cost and extremely efficient in supply chain management practices. And they are that. They're the model for the world in terms of retail supply chain management," said Bobby Martens, assistant professor of logistics and supply chain management at Iowa State.

"Wal-Mart has thus far been good for consumers. Even when they started selling gas, prices went down five cents a gallon in at least one market," he added. "But it's the other questions people ask: 'Is Wal-Mart good for communities?' 'Are wage-earners harmed?' 'Is there an overriding picture?' and 'How long will they be good?'"

Wal-Mart takes rapid path to grocery growth

Martens points to Wal-Mart's exponential growth in the grocery business as one benefit to consumers. As the chain progressed from selling no groceries in 1987 to becoming the No. 1 grocery retailer in the world today, it's brought savings and convenience to consumers.

"There are projections that by 2010, Wal-Mart will control 35 percent of the U.S. food grocery market," he said. "That growth has been brought on by supply chain and logistics advancements, the fact that consumers are looking for one-stop shopping to buy other goods along with their food -- so the convenience factor -- and the fact that consumers are going to grocery stores less often, but buying larger quantities. That is a function of better packaging, the fact that they can go to these one-stop shops, and changing family demographics."

The families and their grocery purchasing habits aren't the only things that have changed with Wal-Mart's penetration into the market. It has also forced other grocery chains to change the ways they do business in order to keep up.

"Wal-Mart has completely changed the grocery playing field," Martens said. "So the traditional grocery retailers like Kroger -- which is the No. 2 -- are very much changing how and what they stock. It's really changing Kroger's life because they need to compete with this one-stop shopping concept, so they're bringing more into their store."

"Another thing that's changing in the grocery industry is that the middle-sized stores are really exiting the market, but there is a surge in the number of convenience stores (non gas station-related) in the United States," he said. "Another opportunity we've been seeing for grocers is specialization -- for example,

excellent meat counters, cheese counters, specialty foods. Many of these smaller traditional grocery stores that are surviving have that kind of a niche."

According to Martens, Wal-Mart is opening a number of new Supercenters near Cincinnati -- the home of Kroger headquarters -- allowing the top two grocery retailers to go head-to-head.

Seeking a different Wal-Mart shopper

But Kroger is not the only one that's changing to meet consumer demand. Wal-Mart is also trying to appeal to a different clientele, Martens said.

"The typical Wal-Mart consumer is a lower-end consumer who immediately has to make budget tradeoffs when energy costs go up (like they are now)," he said. "By introducing some higher-end product lines and testing Sushi bars and organics, Wal-Mart is trying to capture more of a Super Target kind of shopper. Those consumers typically have higher incomes, so they're not as hurt by exactly what's going on right now with high energy costs."

"I think one of the things that will be interesting is that, as Wal-Mart expands its product lines into higher-end goods -- or goods that have lower sales volume -- will they be able to maintain the low cost position with so many low volume items?," Martens asked. "Expanding low volume storekeeping units, without giving up supply chain efficiency, is difficult."

Martens said Wal-Mart is on target to open 370 new stores in the United States this year, and a company news release a few weeks ago reported that "in coming years" the retailer plans to open 1,500 additional stores.

"If you divide those evenly throughout the U.S., that's a lot of stores," Martens said. "It certainly seems that in some areas, Wal-Mart seems to be competing with Wal-Mart. It's interesting as Wal-Mart continues to open stores to watch their strategic positioning. When do they become competitors with themselves?"

Martens is working on two related papers from his data titled, "The Effect of Wal-Mart on Retail Grocery Concentration" and "The Effect of Supercenters and Retail Stores on County Level Grocery Sales," which he plans to publish in professional journals.

Source: Iowa State University

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