

Retail giant thinking smaller

Wal-Mart's big box grocery strategy faces review as profit lags

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Last Updated 12:29 am PDT Tuesday, August 28, 2007

Story appeared in MAIN NEWS section, Page A1

Wal-Mart Stores Inc. said Monday it is considering rolling out new store sizes and formats, and consultants believe the retailer's festering problems in California -- political and competitive -- are a big reason why.

Without offering details, Wal-Mart spokesman John Simley said the company is evaluating "our existing formats with the aim of achieving better customer relevance."

However, the company played down the possibility, first raised in a report by the Financial Times, that Wal-Mart was considering making some acquisitions. Wal-Mart has generally grown by building new stores.

Consultants said the giant retailer is likely contemplating the rollout of smaller grocery stores, a fraction of the size of Wal-Mart's giant Supercenters and concentrated in urban centers.

Small stores could help Wal-Mart rebound from lackluster results. Sales at stores open at least a year grew a modest 1.9 percent in the most recent quarter.

A small-store format could also help confront two problems dogging the company in California: new competition from British grocer Tesco and political problems that have slowed the expansion of Wal-Mart Supercenters across the state.

The new format "is a reaction to what Tesco is going to do," said George Whalin, head of Retail Management Consultants in San Marcos. Whalin said it's possible the new format could debut in California.

Tesco plans to open 30 small supermarkets in Southern California, Arizona and Nevada over the winter and is also looking at Northern California.

"They've got real estate people in Northern California looking (for sites)," Whalin said. Sacramento "is definitely part of

their plan."

Besides Tesco, Wal-Mart is also concerned about the political opposition to proposed Supercenters it has faced in numerous California communities. Although 28 Supercenters have opened in four years, the company is frustrated that it hasn't made more progress, said Burt Flickinger III, an independent retail consultant.

Eight of the Supercenters, which combine groceries with general merchandise, have opened in the six-county Sacramento area.

Supercenters have made Wal-Mart the nation's largest grocer, but the company has had trouble conquering California.

High land costs in the state make Supercenters, which consume far more acres than traditional grocers, less profitable, said consultant Mark Lilien of Retail Technology Group of Stamford, Conn.

"The cost of construction and land continue to rise, which makes it more and more expensive to build big structures," said Heath Kastner, a commercial real estate broker at CB Richard Ellis in Sacramento. "And it's almost impossible for them to do big building deals any more because they're running up against opposition from environmental groups, labor groups and cities that are essentially banning Supercenters by limiting new buildings' square footage."

Several California cities and counties have passed "big box ordinances" that limit the volume of nontaxable items -- mainly groceries -- that can be sold in stores that exceed 150,000 or so square feet of selling space.

The ordinances are ostensibly about urban planning and infrastructure, the idea being that megastores create big traffic and pollution problems and need to generate sales tax revenue to compensate. But the real reason behind the ordinances is to keep out Wal-Mart.

"As a result, they're having a heck of a time executing their Supercenters in California," said Richard George, a food marketing professor at St. Joseph's University in Philadelphia. "But they'll fix that -- and it could be with a new format."

The Wall Street Journal, which reported on Wal-Mart's plans for small grocery stores 10 days ago, said the company is also thinking of creating free-standing stores specializing in health care products and services.

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