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Is Wal-Mart Killing Your Business?

Caitlin McDevitt , On Saturday January 2, 2010, 6:08 am EST

When small retailers see the blue big-box giant Wal-Mart moving into town it can be a scary thing. Wal-Mart has a powerful presence, especially now, as customers are drawn there for their legendary low-prices and wide array of offerings.

According to a recent study from Dartmouth's Tuck School of Business, the entry of a Wal-Mart does significantly impact sales at other local establishments. After observing the effects of seven Wal-Mart openings, researchers saw a 40 percent sales drop at nearby mass merchandise chains and 17 percent sales drop at supermarkets.

Kusum Ailawadi, the professor of marketing who led the study, was interested in not only the impact of Wal-Mart's entry, but in how different retailers reacted.

"In their reactions, retailers did a mix of everything," she says. "In general, they tended to reduce the number of brands they carried, lowered their price, and also cut promotions."

It turns out, Ailawadi found, that these most commonly employed strategies were the least effective. Those stores that reduced prices often could still not match Wal-Mart's offerings. "You can't beat Wal-Mart on price," she says, so those retailers just ended up losing customers and revenue.

Instead of reducing brand offerings, Ailawadi found it was better to diversify and sell products that Wal-Mart won't have — such as higher-tier goods. She says that small businesses will have an easier time competing on this front because they will have less difficulty adjusting inventory in a more nuanced way. "What we found is that big retailers don't have the flexibility to react category by category, but small businesses have much more flexibility to fine tune a reaction."

Finally, she suggests that local retailers that can't match Wal-Mart's "everyday low prices" offer more promotions to draw customers. "If a store is offering weekly specials, it's harder to make exact price comparisons," she says.

The outlook, no matter what tactics retailers use, Ailawadi says, is bleak. While smaller companies may more easily fine-tune a strategic reaction, it's often less about boosting sales and more about survival.

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* higher - tier = top - of - the - range .

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2. Make a presentation of Wal-Mart with the help of http://en.wikipedia.org/wiki/Wal_mart and <http://www.walmart.com/cp/An-Introduction-to-Walmart.com/542413>