

## Wal-Mart Visits Drop 2.6% as Added Products Fail to Draw Buyers, Memo Says

August 3, 2011

By Matthew Boyle

Visits to Wal-Mart Stores Inc. (WMT)'s U.S. locations open at least a year dropped 2.6 percent from February through June, according to an internal memo, while rivals are attracting customers.

Those Wal-Mart stores had 82.8 million fewer visits through the first five months of the company's fiscal year than a year earlier, says the memo, which was obtained by Bloomberg News. Wal-Mart doesn't disclose those traffic numbers, and David Tovar, a spokesman, declined to comment on the memo.

Wal-Mart's plan to recapture customers by returning thousands of products to U.S. store shelves has failed to reverse a decline in foot traffic at the world's largest retailer, said Jeff Stinson, an analyst at Cleveland Research Co. That's primarily because Wal-Mart's core low-income customers are shopping less and going to other retailers more often, according to two recent shopper surveys.

"The biggest issue remains weak store traffic," Stinson wrote in a July 14 report. "We believe sales have slowed in the second quarter and are running below plan primarily due to further traffic declines." The Cleveland-based analyst rates the shares "neutral."

Wal-Mart, led by Chief Executive Officer Mike Duke, is restoring an average of 8,500 products to its stores to lure back shoppers still pinched by persistent unemployment and gas prices that have risen 36 percent in the past year. Sales in U.S. Wal-Mart stores open at least 12 months have declined for eight straight quarters.

Wal-Mart's traffic decline comes as some of its direct competitors are getting more visits.

Kroger TrafficKroger Co. (KR), the largest U.S. supermarket chain, boosted traffic in each of the previous three quarters. Dollar General Corp. (DG), the biggest dollar discount chain in the U.S., has increased traffic for 13 straight quarters, the company said June 1. At Target Corp. (TGT), traffic rose for six consecutive quarters before falling in the first quarter of 2011.

Wal-Mart's decline is close to the 2.5 percent drop in shopper traffic at all retailers from February through June, according to retail industry data provider ShopperTrak in Chicago.

Wal-Mart rose 14 cents to \$51.82 at 11:17 a.m. in New York Stock Exchange composite trading. Before today the shares had fallen 4.2 percent this year.

The two shopper surveys, from Morgan Stanley and retail consultancy **WSL Strategic Retail**, found that the removal of items from stores in 2009 to reduce clutter wasn't among the top reasons why shoppers are visiting Wal-Mart less frequently.

"Consumers are not very concerned about removed items or

breadth of assortment," Mark Wiltamuth, an analyst at Morgan Stanley, said in a July 11 report that included the survey. In the WSL survey, 7 percent of Wal-Mart shoppers said they were going there less because it stopped carrying products they buy.

Dollar StoresMany shoppers don't believe Wal-Mart's prices are the lowest anymore, the surveys found. These consumers are shifting more of their spending to dollar stores, Target, and supermarkets such as Kroger's, WSL said. Both surveys polled about 1,500 shoppers.

"The biggest surprise from our survey is that Wal-Mart appears to have lost some of its low-price reputation," Wiltamuth said in the report. "Wal-Mart now has a price perception problem." The New York-based analyst rates the shares "equal-weight."

Wal-Mart, based in Bentonville, Arkansas, has responded by pledging to match local rivals' prices, a move that Wendy Liebmann, CEO of New York-based WSL, said was "defensive."

"They are taking incremental mini-steps at a time when they need to knock shoppers' socks off," Liebmann said.

Fewer TripsTraffic declined by an undisclosed amount at U.S. Wal-Mart stores in the fiscal year ended Jan. 31 after increasing 1.3 percent in the previous year. Shopper visits continued to drop in the first quarter of the current fiscal year. Duke has said customers are making fewer shopping trips and spending less when they do shop because of higher gas prices.

"Our priority right now is trying to provide that opportunity for customers to go to one place and have everyday low prices on the full assortment that they purchase," Duke said at an April investor conference.

Wal-Mart has forecast that the change in second-quarter fiscal 2012 comparable-store sales in the U.S. would be negative 1 percent to positive 1 percent. Cleveland Research estimates same-store sales to be down as much as 2 percent.

"The data points don't look great," Dan Binder, an analyst at Jefferies & Co., said in an Aug. 2 note to clients. "There is downside risk to sales in the second quarter and potentially over the balance of the year." The New York-based analyst cut his recommendation to "hold" from "buy" in the note.

In a May study from Deloitte Research, almost three out of four respondents said they are making fewer trips to the grocery store to save money and two-fifths said they are purchasing fewer items overall.

"Wal-Mart shoppers believe they are still living in a recession," Liebmann said. "They simply have, and will continue to have, less to spend."