

It's Not Only About Price at Wal-Mart

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Then in early 2006, it invited customers to "Look beyond the basics," and try costlier products like 500-thread count sheets.

Now, after a tumultuous year of experimentation, abrupt reversals and admissions of missteps, Wal-Mart Stores is finding its *raison d'être* in the middle of these two extremes: "Saving people money so they can live better lives."

The new, and so far internal, definition of what Wal-Mart, the nation's largest retailer, stands for will soon become a very public strategy, evident on the shelves of 4,000 stores and in advertisements seen across the country.

In their first interviews since a management shuffle last month, John Fleming, the new chief merchandising officer, and Stephen Quinn, the new chief marketing officer, said that after a year of intense research, the discount giant is seeing its 200 million customers as belonging to three groups.

There are "brand aspirationalists" (people with low incomes who are obsessed with names like KitchenAid), "price-sensitive affluents" (wealthier shoppers who love deals), and "value-price shoppers" (who like low prices and cannot afford much more).

The new categories are significant because for the first time, Wal-Mart thinks it finally understands not just how people shop at its stores, but why they shop the way they do.

The recalibration might seem subtle. But when the company is Wal-Mart, whose \$345 billion in sales exceeds those of its next four rivals combined, the stakes are unusually high, especially for Mr. Fleming and Mr. Quinn.

After all, these two executives will be responsible for putting into practice the new strategy, which is intended, in many ways, to fix the old strategy they championed.

That idea — to squeeze more dollars out of every shopper by stocking higher-end products and marketing them in sleek ads — was the company's best hope for correcting its biggest problem: achieving growth by relying on opening new stores, at a rate of more than 300 a year.

Sales growth at Wal-Mart's older stores, a major measure in retailing, trails those of rivals like Target, and for the first time in a decade, they fell during the most recent holiday season.

But the upscale strategy has not worked, at least not yet.

Wal-Mart has begun remodeling its aging stores and has changed how it schedules employees, to bolster customer service at the busiest times of day. To turn around the United States business, executives said, they must fix merchandise and marketing, the biggest priority of 2007.

Mr. Fleming said that for all the new insights Wal-Mart gleaned from its research into its shoppers, it was also reminded that its most powerful lure was low prices.

"It explains why people who have to shop here do and why there are BMWs in the parking lot," Mr. Fleming said.

So what does this mean for Wal-Mart's upscale designer-inspired ambitions, which promised to nudge shoppers who dwelled in the land of \$5 shampoo into the territory of \$31 trench coats by Mark Eisen?

Those ambitions are still there, Mr. Fleming said, but they are scaled back (the contemporary urban women's clothing line Metro 7 is in 1,000 stores now, down from 1,500 last year) and proceeding more judiciously. The company is now focusing more on consumers who already shop at Wal-Mart, rather than on people who executives would like to shop at its stores.

From now on, all product decisions will be organized around the three groups — brand aspirationalists, price-sensitive affluents and value-price shoppers — that, Wal-Mart says, represent the majority of its business.

What do they have in common? They want deals, of course, but they do not want cheap products. In fact, they all put a high value on names like Motorola and Samsung.

So Wal-Mart is creating teams, each with a marketing executive and a merchandise executive, to tackle five so-called "power" product categories with these consumers in mind — food, entertainment, apparel, home goods and pharmacy.

A model for this is the electronics department at Wal-Mart, where the company improved sales not by merely offering the lowest prices, but by carrying well-known national brands, like flat-screen TVs from Sony and Magnavox.

Customers "really need the assurance of brands," said Mr. Quinn, the former Frito-Lay advertising executive who succeeded Mr. Fleming as head of marketing. "In the past we were so focused on low price," he added, "but low price on what?"

A customer in the electronics department, Mr. Quinn said, would see shelves of no-name TVs and think, "I can see it's low price, but I will not buy that television."

But having one or two name-brand products scattered in each department is not enough, he said. Wal-Mart must build a reputation for brands in each category, so that when it is time for a customer to make a purchase, they think of Wal-Mart, rather than Best Buy, Macy's or Home Depot.

Under Mr. Fleming's direction as chief marketing officer, Wal-Mart deliberately strayed from its single-minded focus on price, opening a design office in Manhattan, staging fashion shows and buying ads in stylish magazines like Vogue.

Mr. Fleming, a former executive at Dayton Hudson, which became Target, based the new strategy on research that showed millions of Wal-Mart shoppers bought only household staples like paper towels and orange juice.

But the research was not deep enough, Mr. Fleming said. For example, the "selective shopper," as Mr. Fleming labeled such customers, would buy only household staples at Wal-Mart, never clothing.

The response — introducing stylish dresses from Metro 7 and George ME to satisfy this shopper — apparently misfired precisely because Wal-Mart did not know exactly what motivated their clothing purchases.

"Our decision at the time was to take action," based on the behavior of shoppers, Mr. Quinn said. "It was not perfect."

He added, "It was not wrong, but it was limited."

It was, however, costly. In the fall, when sales at Wal-Mart stores open at least a year fell for the first time in a decade, top executives pointed to the new stylish merchandise as the culprit. H. Lee Scott Jr., the chief executive, said the company "moved too far too fast."

This time around, Mr. Fleming and Mr. Quinn said, the research is more refined. Wal-Mart knows, for example, what motivates brand-obsessed shoppers.

As a result, new advertising, being developed by the Martin Agency in Richmond, Va., is likely to play up that message with the slogan, "Saving people money so they can live better lives."

Mr. Quinn said the marketing will be more consistent this year. "Last year represented a lot of experimentation to learn what works and what doesn't," he said. "We will narrow the range."

The head of Wal-Mart's United States division, Eduardo Castro-Wright, has told executives that after a tough year of store renovations and a new scheduling system in the stores, 2007 will be the Year of Merchandise.

"There is a lot of pressure," Mr. Quinn said.

"But we like our chances," Mr. Fleming added

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