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# TIME europe

## Inside The World's Biggest Store

**Wal-Mart's miles of aisles have conquered the U.S. and they're spreading across Europe and Asia. Is bigger always better?** BY BILL SAPORITO/BENTONVILLE

The aisles are clean, the store is brightly lit and associates in red polo shirts provide friendly service to the customers, who flock there for the low prices and the wide range of products offered. Throughout the store the image of a kindly old man appears in posters and photographs. His slogans and philosophy have been internalized by all employees, and they can tell you the story of his great march forward from humble rural roots to become a great leader. And by the way, would you like us to skin that frog for you?

Welcome to Wal-Mart in China, where the late Sam Walton has a new image: the Mao of retailing. And where, as in Arkansas, stocking exactly the right merchandise is still paramount. So the store in Shenzhen, just north of Hong Kong, is crowded with tanks of crabs, fish, frogs and shrimp, which can be taken home wiggling or be expertly gutted and cleaned on the spot.

Wal-Mart's push into China — and Brazil and Britain and Germany and deeper into California and New York — offers a hint of why the world's largest retailer seems unfazed by this stinker of a holiday shopping season. Wal-Mart's 3% like-for-like sales increase in the fourth quarter was at the low end of its estimate. But Wal-Mart did better than most and its total sales this year will grow 10%, to about \$240 billion worldwide in the fiscal year that ends Jan. 31.

No company on the planet is bigger. And Wal-Mart is mounting an audacious expansion that could double its sales within just five years. Wal-Mart has 1,300 Supercenters, many of them converted from standard discount stores, offering everything from hardware to groceries and drugs. In some areas, it is placing these 16,700-sq-m monsters as close as 8 km apart. And in the spaces between, it's tormenting local grocery and convenience stores with Neighborhood Markets (call 'em Small-Marts). "It's surprising how much room we have for growth," says Robson Walton, Sam's son and the company's non-executive chairman. As it grows, Wal-Mart is adding categories such as PCs, ceiling fans, more fashionable clothing and gasoline. And last week the company announced it will begin offering the basic financial services already available in some stores — check cashing, money orders — to all its U.S. customers, many of whom don't have a bank account. It wants to be in any category where it can lower prices. "Their goal is to have a 30% share of every major business they are in and they are pretty serious about it," says Linda Kristiansen, a retail analyst for UBS Warburg Equity Research.

They are also serious about global expansion. Wal-Mart wants to be in the world's top 20 national markets, which account for 60% of all retail activity. "I'm not trying to be flippant," adds Lee Scott, 52, Wal-Mart's third ceo. "But simply put, our long-term strategy is to be where we're not." Wal-Mart is now the leading retailer in Mexico. The company recently landed in Japan, buying 34% of Seiyu, a leading retailer there, adding market No. 10. That leaves most of Europe, not to mention large parts of Asia and South America. Wal-Mart made a dream debut in the U.K. with the \$10.7 billion acquisition of ASDA in mid-1999, where it discovered a company almost perfectly in tune with its Every Day Low Price (EDLP) culture. But expansion in Germany has been less than stellar, delaying, perhaps, Wal-Mart's move into the rest of Europe.

Wal-Mart reached Europe in 1998 when it bought Germany's Wertkauf. A year later it added Interspar, and then mangled the merger in almost every way possible. "We could write a training manual about our experiences in Germany," Scott says. "We really did more things wrong than right." German consumers love low grocery prices, which would make them the perfect clientele for Wal-Mart, but they, too, experienced culture shock when confronted by Southern hospitality. Germans found Wal-Mart's famous door greeters appalling, and they don't want to be approached by ever-helpful clerks in the stores — it's considered an intrusion. The company says it is narrowing losses and hitting targets, but analysts say Wal-Mart isn't going anywhere soon. "I don't see any light at



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the end of the tunnel," says Jürgen Elfers, a retail analyst at Commerzbank AG in Frankfurt.

In Germany, Wal-Mart discovered a surprising weakness: it couldn't export one of its biggest advantages — high-volume logistical know-how. There was trouble synchronizing warehouse data systems, and the Americans say they were surprised by the lack of sophistication of German distribution. "It's a very immature market in Germany. We haven't been able to use our tools," says John Menzer, head of the company's international division. It was a humbling lesson for Bentonville.

To help offset losing the advantage of logistics abroad, and to increase its pricing power at home, Wal-Mart has decided to use its mass to become a better global buyer. The company is reaching farther back into the supply chain to source products such as hardware and apparel that it now buys from outside vendors and importers. "We realized that as we continue to expand internationally the need to leverage international and domestic buying power was key, and the only way to do it effectively is to do it ourselves," says Ken Eaton, who heads global procurement. The company has opened 21 offices around the world to oversee its factories. The idea is to source goods universally for all stores where feasible, so the 20 locations in Brazil and the 250 in Britain can get the same price as the 2,800 U.S. Wal-Marts.

By becoming contractor, importer and wholesaler, Wal-Mart expects not only to save money buying things, but also to cut down inventory expenses by speeding up the supply lines. Wal-Mart figures to take 20% of the cost out of procurement over the next five years and improve gross profit margins by nine percentage points worldwide on general merchandise it buys directly. In retailing, this figure is astonishing. For instance, Wal-Mart buys about \$6 billion worth of goods from China. Multiply by .09. Take to bank.

At ASDA the company was selling men's jeans for about \$24 after paying \$15.31 per meter for just over 45,000 meters of material to make them. Then the buy was moved to Bentonville, and the conversation went something like, "We'd like 5.5 million meters, please. Now what's your price?" Try \$5.21 per meter. As a result, ASDA slashed its retail prices in half and upped its annual jeans sales to 1 million, from 174,000. ASDA is acquiring some 2,000 products from Wal-Mart's global network, and its gains might have set off a consolidation spree. Last week, Morrisons, the U.K.'s fifth-largest chain, launched a takeover offer for Safeway, the fourth-largest. ASDA could join the fray.

ASDA is making its mark on Wal-Mart, too. ASDA's George brand of apparel is one of the most popular private-label lines in Britain, generating sales of around \$1.6 billion in 2002, and Wal-Mart recently launched it in the U.S. "We're selling apparel anyway," says Claire Watts, Wal-Mart's fashion boss. "Would it kill us to be a little more up to date?" Wal-Mart is also importing ASDA's recruiting philosophy, "Hire for attitude, train for skill." Labor is a particularly ticklish subject at Wal-Mart because unions have been trying to organize its U.S. stores. That effort has been unsuccessful so far, in part because Wal-Mart's wages are competitive with other retailers'. But the two most frequent complaints made by Wal-Mart employees to TIME — low wages and morale-killing store managers — recently factored into a labor case the company lost in Oregon. A jury found the company guilty of requiring associates to work unpaid overtime. The company plans to appeal; some 40 other wages-and-hours lawsuits are pending. Wal-Mart says it doesn't underpay employees, and that it's a good place to work. The company will enroll 5,500 people (most from store ranks) in its management-training program. "If the jobs are so bad, why are so many people working for Wal-Mart?" asks Charlyn Jarrells Porter, the company's head of personnel.

There are no such labor issues in China. It turns out that the Chinese make the best capitalists, and the most fervent believers in the Wal-Mart culture. At the store in Shenzhen, local managers hold Ping-Pong tournaments, stage fashion shows and have clerks hawk products like paper towels in front of a large display. And that's just on Tuesday. The store even has its own fight song, *Marching Into a New Era*. ("My heart is filled with pride ... I long to tell you how deep my love for Wal-Mart is ...") Wal-Mart plans to increase this year, from 25 to 40, the number of stores in China. In China's three main cities, according to a McKinsey study, increasing wealth will support 250 hypermarkets among the competing retailers. The company introduced the Walton Institute, a program to teach local managers the master's Three Basic Beliefs (respect for the individual, service to our customers, and to strive for excellence), the Sundown Rule (any employee or customer request must be addressed before sundown) and



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other cultural foundations.

Walking into a Wal-Mart Supercenter in Fort Worth, Texas, CEO Scott says he misses the old days a little bit; when Wal-Mart was an underdog, "you could really go after a competitor." Now the company no longer shows comparison-shopping baskets to demonstrate that Wal-Mart has lower prices than competitors. "It just looks like we're picking on people," he says.

Nevertheless, Wal-Mart is still pummeling the competition. Over the past two years, Kmart filed for bankruptcy, and Ames and Bradlees, once U.S. powerhouses, closed up shop. Wal-Mart is quickly adding scalps in the grocery industry too. Wal-Mart's next competitive weapon is advanced data mining, which it will use to forecast, replenish and merchandise on a micro scale, so that even stores close to one another could have substantially different offerings. By analyzing years' worth of sales data — and then cranking in variables such as the weather and school schedules — the system could predict the optimal number of cases of Lucozade, in what flavors and sizes, a store in Canterbury should have on hand the Friday before a bank holiday. If the weather forecast suddenly called for temperatures 5C hotter than last year, the delivery truck would automatically show up with more.

The company calls the strategy "the store of the community." The principle is as old as shopping: customers differ significantly depending on where they live, what they earn and other factors. But the differences are far subtler than anyone ever imagined. The company has been analyzing every purchase made over the past 10 years, looking at the relationships between the items people buy and hundreds of other variables such as time of day and price. The data miners are constantly searching for exploitable relationships — say, between sales of cameras and atlases. Or take something as pedestrian as laundry detergent. Wal-Mart used to stock its stores all over the U.S. by using one of 18 basic display "modulars" for detergents until one of the buyers began to analyze the numbers. Now there are 288 of them.

One can think of Wal-Mart as a huge pipe organ with thousands of stops. On a busy shopping day in November 2001, the system was reporting slow sales of a boxed computer-and-printer combo for which merchandisers had had high hopes. But one location was bucking the trend. A quick call from headquarters determined that the store manager had cut open one of the stacked cartons so shoppers could see they got both machines for one price. Soon a message went to all other stores: Open a box. Sales began to move immediately.

That cycle of high-powered logistics engineering and penny-squeezing huckstering remains retailing's most potent weapon. UBS's Kristiansen sees no reason why Wal-Mart can't sustain earnings-per-share growth of 15%.

Scott, who earns less than most other Fortune 500 CEOs, was leaving a store not long ago when he stopped to chat with one of the many senior citizens who work as greeters. They are a fearless lot, and the old gent teased the boss with a question: "Did you give everyone a big raise?" Scott returned a look of mock horror. "Are you kidding me?" he said. "This is Wal-Mart!"

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