The Evolution of Walmart’s Neighborhood Market

Walmart launched the Neighborhood Market banner in 1998 and now operates 181 retail stores in the US and China. At about 42,000 square feet, this smaller format store averages about a quarter of the size of Walmart’s supercenters and positions itself to service customers between trips to the supercenter. Emphasizing this positioning strategy, Walmart built some Neighborhood Markets within a few miles of existing supercenters because they believe the two formats occupy a distinct space in the marketplace. The stores focus on a quick and convenient shopping experience, offering Walmart’s distinctive low prices, while still providing a large selection of general merchandise. Other features include a photo development center and drive-through pharmacy to compete with retailers like Walgreens and CVS.

Currently, Walmart seems content to use Neighborhood Markets as a test to discover the advantages of a smaller store. The size and layout of the stores have undergone numerous changes after not meeting initial expectations for growth. While the ultimate positioning and format of Neighborhood Markets remains in flux, Walmart’s immediate future direction seems to be an even smaller Neighborhood Market that can penetrate urban areas.

Key Points to Consider

- Focus on Quick & Convenient Shopping Experience
- Targeting Value Focused Shopper
- Brand Presence vs. Private Label
- Walmart Learning & Adjusting to Small Format Needs
- Walmart’s Small Format Future
- Implications for Retailers and Suppliers

Focus on Quick & Convenient Shopping Experience

Neighborhood Markets intent to complement the destination Supercenter for consumers and provide them with an easier, but still value oriented alternative between the typical weekly or bi-weekly trip to the larger Walmart stores is one of Walmart’s answers to the growing discounter channel. While comparatively small for Walmart, at an average of 42,000 square feet, Neighborhood Markets are still able to provide consumers with a large selection of general merchandise as well as a number of service departments that traditional smaller supermarkets ignore.
This relatively oversized fresh produce department highlights the clean feel and openness that differentiates Neighborhood Markets from the more crowded Supercenters.

The large meats department is all pre-packaged, due to lack of scale/economics for in-house butchers.
In addition, Neighborhood Markets emphasizes services to enhance shopper convenience like the many self-checkout aisles and drive through pharmacy depicted below.

The convenience and openness of the Neighborhood Markets attract both traditional Supercenter shoppers looking for convenience and those who favor a more intimate shopping environment not available in the massive and often crowded supercenters.
Targeting Value Focused Shoppers

Walmart seeks to engage a number of different consumer segments with the Neighborhood Markets, but still primarily focuses on lower income, value oriented consumers that have made Walmart so successful. Signage on the entrance, and throughout the store, appeal to low income consumers that survive on government benefits.

The signage on the entrance encourages consumers taking advantage of the Supplemental Nutritional Act for Women, Infants, and Children (WIC) to shop there and links that to shelf with products clearly marked on shelf.

The convenience offered by the stores remaining open 24 hours appeals to those consumers who work multiple jobs, and often cannot fit their shopping into regular store hours.
WIC eligible products are marked throughout every department in the store, with additional signage like the one calling out specific merchandise.

The appeal to low income consumers goes beyond the traditional merchandise with inexpensive offerings in the pharmacy department.
Neighborhood Market competes with traditional pharmacies like CVS and Walgreens by focusing attention on the $4 generics prescriptions, and a simple RX transfer from other pharmacies, which provide more one stop shopping, even in a small box.

While Walmart designed these stores for its traditional lower-income target consumer, it has been evolving the stores to attract a broader range of value shoppers. To see a remodeled Neighborhood Market that targets a higher income class please visit http://retailnetgroup.com/StoreTours/Album.aspx?id=586.

**Brand Presence vs. Private Label**

Walmart's purchasing power with suppliers remains one of the strongest in the world, and it uses that power to fulfill expectations for low prices on all items, especially brands. However, in response to the recession and the repositioning / re-launching of Great Value, Walmart has shifted to a strong presence of private label in brand blocks for many categories.

Here you can see a near equal display of Great Value soup next to Campbell’s. Brand blocking is sometimes replaced with pair and compare item adjacency in categories like Cereal, where the dramatic price gaps emphasize Great Value’s affordable advantage and offset brand power.
While all brands have a strong presence in Neighborhood Markets, Walmart’s Great Value line’s emphasis creates an image of greater favor and presence than in the supercenters.

Brands opportunities for in-store merchandising are sometimes conditional on availability of co-branded, shelf-ready packaging in a more constrained end cap design, and occasional power aisle pallet display:
The balance between brands and private label remains an ongoing test for Walmart as they attempt to find the product mix that appeals to a wider consumer range and contributes the greatest proportion to sales.

**Walmart Learning & Adjusting to Small Format Needs**

Walmart continues to adjust Neighborhood Market as it searches for the small format that best fits the market. When originally launched, Neighborhood Markets expected to reach store counts in the thousands by 2010, but learning about the economics and sensitivities of the smaller box business model caused Walmart to temper expectations. Since then, Neighborhood Markets have been used as a test for the future direction of Walmart’s small format. The stores have undergone numerous renovations, including converting two of the stores to Hispanic-centric supermarkets under the banner Supermercado de Walmart. (To see a tour of these stores visit [http://retailnetgroup.com/StoreTours/Album.aspx?id=477](http://retailnetgroup.com/StoreTours/Album.aspx?id=477).) The stores now provide a more intimate feel with tailored merchandise, and in October of 2009, Walmart recruited a new team of managers and buyers dedicated specifically on Neighborhood Markets. This team will try to decide the future direction of the small store format. One of the practical barriers to the smaller box is that the management talent for this format does not differ much from that of a supercenter, with massively larger scale relative to personnel costs. Walmart has similar issues with Marketside where they have experimented with managers overseeing multiple units.

**Walmart’s Small Format Future**

Walmart continues to tinker with variations of small format stores, including Neighborhood Markets and Marketside by Walmart, using them as a testing ground. Recently, Walmart unveiled plans to introduce 30,000 square foot and smaller hybrid Neighborhood Market/Marketsides that will fuse aspects of both formats to penetrate urban areas. ([http://retailnetgroup.com/Content/News.aspx?id=41545](http://retailnetgroup.com/Content/News.aspx?id=41545))
As Save-a-Lot and Rite Aid have learned, a different operating model may be necessary for profitability in those stores. The incremental opportunity for penetration of the urban deserts has been estimated by UBS Securities to be as high as $80 billion, so Walmart and other players with this strategy have a lot at stake.

**Implications for Retailers and Suppliers**

These formats offer Walmart the greatest opportunity for growth, not only in the U.S., but especially in countries like China where crowded cities do not leave much room for supercenters. Currently, Walmart operates only two Neighborhood Markets in China, which are similar to the proposed hybrid model opening in the U.S., with a smaller size and more tailored product line. This latest adjustment to the smaller format stores displays Walmart’s continuing effort to penetrate urban markets, and if successful, could prove costly for retailers currently occupying that space.

As the smaller formats increase in presence across US retail, suppliers will have to re-evaluate their assortment strategies to ensure relevant presence and features for their brands. Many were forced into this process by last year’s Project Impact Re-assortment – it now will need to be a continuous process.

As always, we appreciate your comments and feedback

Let us know what you think!

Michael Rogosa  
Research Analyst  
RetailNet Group  
michael.rogosa@retailnetgroup.com