

## Will Walmart Hold on to Share it Has Gained During the Recession?

With economic indicators generally rising for the past six months, most signs increasingly point to an emergent recovery. Consumers are also slowly becoming less pessimistic. Although still at relatively modest historical levels, consumer sentiment is now tracking close to 30% above the low that was registered in Q1 2009.<sup>1</sup>

In support of these somewhat encouraging statistics, L.E.K. Consulting's most recent survey of U.S. households indicates that consumer spending has ceased its plummet and has been relatively flat since April 2009. Consumers are indeed spending (albeit, still at reduced levels versus two years ago); however, they are proactively striving to realize the maximum value for each dollar.

Discount retailer Walmart, in particular, has benefited from this increased search for value; the retail giant has gained a significant share of the average consumer's wallet during the recession. The key question is: will other retailers win back most of the customers who defected to Walmart as the economy improves, or are

we witnessing what will turn out to be a more permanent shift in consumer loyalty?

### Consumer Spending Stabilizing

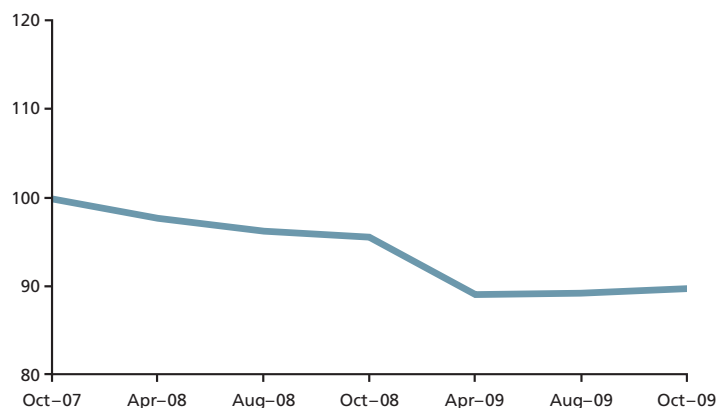
L.E.K. conducted its Consumer Sentiment Survey during the last week of September 2009, canvassing a demographically representative set of more than 2,000

U.S. households to better understand their attitudes and spending behaviors. As Figure 1 shows, we found that while annualized consumer spending significantly declined from October 2007 to April 2009, U.S. households have recently reported more stable trailing 12-month spend between April and September 2009.

**Figure 1**

Consumer Reported Overall Spending (10/2007 – 10/2009)\*

Indexed to 100 (October 2007)



Note: \*Has your overall spending on products increased, decreased or remained the same compared to one year ago?

Source: L.E.K. Consumer Survey (n = 2,076 October '09; n = 2,035 August '08; n = 3,050 April '09; n = 2,006 October '08)

<sup>1</sup> University of Michigan Index of Consumer Sentiment, January 1978 – September 2009.

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Our research also found that consumers collectively feel less negative about the economy, especially those with higher household incomes (defined as more than \$100,000). Higher income groups' sentiments have tended to track the public equity markets over the last year, reaching a nadir in our April 2009 Consumer Sentiment Survey (shortly after the March low in the Dow) and then rebounding in our most recent October survey to a level not seen for one year. In fact, those with the highest incomes (>\$200,000) now appear to have a net positive outlook. Nevertheless, the average household expects economic recovery will still not happen until at least November 2010.

In terms of where general consumers are spending money, we found that many of them shifted significantly to discount retailers, especially the market leader, Walmart. On a self-reported basis, consumers claim they have collectively shifted as much as 300 basis points of wallet share to Walmart across relevant categories. Industry analysts currently estimate that Walmart owns 11% to 11.5% of the \$3 trillion U.S. retail market. While it's not surprising that consumers seek better value in a recession, our research found that even consumers with higher household incomes are shifting in larger numbers to Walmart.

As Figure 2 shows, the overwhelming rationale for initially switching to Walmart is, not surprisingly, lower-priced products. Consumers have a very strong impression of Walmart's price leadership and generally perceive that its products are 8% to 10% lower in price than like-kind products at other retailers.

**Figure 2**

### Derived Importance of Reasons for Change in Spending at Walmart (Since the Beginning of the Recession)\*



Note: \*Based on statistical analysis (stepwise regression) to determine the relative importance of reasons predicting the percent increase in spending at Walmart. "In your opinion, which of the following attributes has Walmart improved over the past two years (since the start of the recession)? Please rate the following from 1 to 7. (1 = Much Worse, 4 = No Change, 7 = Much Better)"

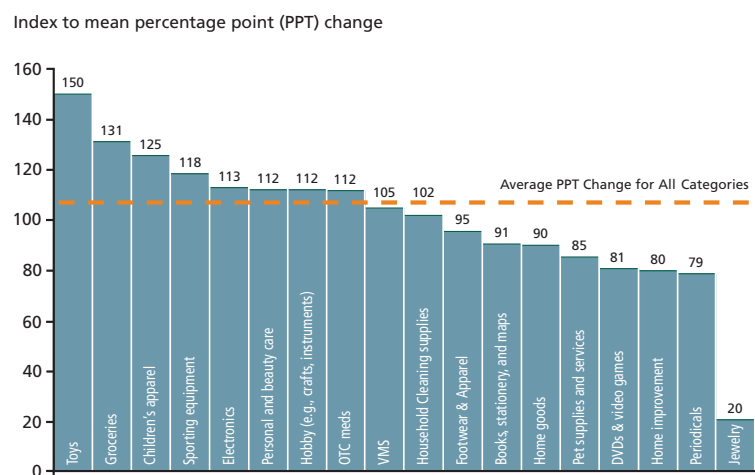
Source: L.E.K. Consumer Survey (n = 1,806)

Looking at Figure 3, consumers are clearly shifting to Walmart to different degrees, depending on the category (i.e., very strong uptake in categories like toys and groceries; while in categories like home improvement, the shift has been more muted).

With an improving economy, Walmart undoubtedly hopes to permanently capture this dollar dislocation. Meanwhile, competing retailers are aggressively seeking answers as to how they can win back shoppers.

**Figure 3**

### Consumer Reported Category Level Shift in Spend to Walmart (Since Pre-recession)\*



Note: \*For which categories have you shifted your spending to Walmart most over the past two years (i.e., before this recession)? How has your spending changed for those categories you shifted to Walmart?

Source: L.E.K. Consumer Sentiment Survey

## Will the Shift to Walmart Become Permanent?

When economic growth returns, will shoppers remain with Walmart? L.E.K.'s research indicates that although some consumers have already started to return to their pre-recession brands and channels, the shift to Walmart could be more permanent, especially among older demographic groups (ages 40 and up). As many in this older group have either begun shopping Walmart for the first time or returned recently, they are reporting that they perceive higher overall value across all categories. Moreover, consumers indicated that the perceived price differential between Walmart and competitive retailers would need to be cut

substantially from where it is today in order to reverse the share shift (presumably for greater convenience, better shopping experience, etc.).

Younger consumers, particularly young families, perceive Walmart's value to be more focused in specific spending categories, such as apparel (both adult and children's), household cleaning products, beauty/personal care and electronics. In categories where younger consumers perceive lower savings at Walmart, retailers may have an opportunity to regain these shoppers with carefully crafted pricing and promotional strategies. Across the board, our research found that retailers would have to reduce their "perceived prices" by roughly 7% to motivate these consumers to return to shopping at their stores.

## Conclusion

Overall, consumer sentiment, and household spending, appears to have stabilized. However, even though most consumers forecast economic recovery about one year away, it does not necessarily mean they will fully return to pre-recession shopping habits. A significant proportion of consumers who were swayed to shop at Walmart because of the company's aggressive low prices are likely to continue shopping at the retail giant unless other retailers significantly change the way they do business. These retailers need to be more competitive in value conveyance and will need to sharpen up their category by category pricing and promotion strategies to close the perceptual, if not the real, price gap.

**L.E.K. Consulting is a global management consulting firm that uses deep industry expertise and analytical rigor to help clients solve their most critical business problems. Founded more than 25 years ago, L.E.K. employs more than 900 professionals in 20 offices across Europe, the Americas and Asia-Pacific. L.E.K. advises and supports global companies that are leaders in their industries – including the largest private and public sector organizations, private equity firms and emerging entrepreneurial businesses. L.E.K. helps business leaders consistently make better decisions, deliver improved business performance and create greater shareholder returns. For more information, go to [www.lek.com](http://www.lek.com).**

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