Unequal Competition Among Chains of Supercenters: Kmart, Target, and Wal-Mart

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The three largest discount chains, Kmart, Target, and Wal-Mart, have adopted the supercenter format for expansion. This article examines the locations of and the competition among these supercenters. Wal-Mart has the greatest number of supercenters and is driving the expansion of the supercenter format. Both Kmart and Target have clustered their supercenters in a small number of metropolitan markets. In contrast to Wal-Mart and Kmart, Target has focused on a middle-class rather than a blue-collar clientele. Now Kmart is struggling following a declaration of bankruptcy. Wal-Mart has largely defeated its supercenter competitors and now is confronting the major grocery chains for grocery sales. **Key Words: supercenter, Kmart, Target, Wal-Mart.**

In the past two decades, a massive restructuring of the American retailing environment has occurred. Bankruptcies, downsizings, mergers, and acquisitions, as well as growth and expansions, have permanently altered the landscape of American retailing. At the start of the twenty-first century, several chains of discount stores are focusing their expansion on the supercenter format, a combination full-service grocery and general merchandise store. The supercenter format has become a key expansion format for American discount merchandisers. A major trade journal of discount retailers, *DSN Retailing Today*, observed that in the 1990s "the era of the supercenter had begun. Shunned for years by discounters, food had become a key strategic weapon for Wal-Mart, Kmart, and Target" (The Supercenter Era 2002, 27). The present article examines the expansion of and the competition among these three national chains of supercenters.

Wal-Mart Stores Inc. has become a major catalyst for changes in the American retailing structure over the past two decades. The dominant discount chains, Kmart, Target, and Wal-Mart, along with several regional discount chains, compete in most American metropolises. Through market segmentation each discounter has focused on serving a distinct segment of the American market. Target has focused on a middle-class clientele, Wal-Mart has catered to the blue-collar segment, and Kmart has focused on a clientele between the Wal-Mart and Target income segments (Turner 2003, 47). Each of these discount retailers sells vast amounts of merchandise at low profit margins. By adoption of the supercenter format Wal-Mart has fundamentally altered the existing competitive equation among the discount chains. The supercenter format permits Wal-Mart to offer the convenience of one-stop shopping in combination with its carefully crafted image as the low-price leader.

The successful expansion of the discount chains and the expanding use of the supercenter format are having dramatic impacts on both general merchandise and grocery retailers. Already in the twenty-first century, Montgomery Ward and Kmart have been forced into declarations of bankruptcy, and for a period of time the bonds of JC Penney were downgraded to junk status. American grocery retailing has become increasingly concentrated among the largest grocery chains. From 1995 to 1999, the five largest U.S. grocery chains (Wal-Mart, Kroger, Albertson's, Safeway, and Royal Ahold) increased their share of the grocery market from 26 percent to 37 percent (Turcsik 2001). In 2005, Wal-Mart alone controlled more than 20 percent of the U.S. grocery market, and this market share continues to increase rapidly.

In the constantly changing American retailing environment, a new paradigm for the largest retailers is emerging. Despite many difficulties, the largest retailers are becoming even larger through mergers, acquisitions, new construc-

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tion, and international expansion. These large retailers are selling an ever-expanding variety of merchandise to consumers. Global sourcing as well as private warehouse and distribution systems are becoming the norm for such huge retailers. Through such efforts, they acquire a growing proportion of consumer expenditures, and they more fully control the flow of goods from the factory to the consumer. Their huge size and massive buying power allow them to demand lower prices and better terms from suppliers. Wal-Mart includes grocery merchandise with its rapidly expanding Supercenter format, and the firm has entered the international arena. The other large American discount chains, Target and Kmart, have also adopted the supercenter format. Large American grocery retailers such as Kroger, Safeway, and Albertson's have made numerous grocery acquisitions and now serve national markets. Kroger, with its acquisition of Fred Meyer, has become a regional supercenter operator in the Pacific Northwest. Through acquisitions of U.S. grocery chains, European grocery retailers such as Royal Ahold and Delhaize have become major American grocery retailers. And Aldi, the no-frills German grocery chain, has also entered the American market.

In the late 1990s, Kmart, Target, and Wal-Mart identified the supercenter that a major format for future expansion. This article (1) compares and contrasts the strategies that Wal-Mart, Kmart, and Target employ for locating their supercenters, (2) describes the grocery distribution system each firm has developed for its chain of supercenters, and (3) evaluates whether either Kmart or Target is likely to compete successfully with the expanding chain of Wal-Mart Supercenters.

Location Strategy

Laulajainen (1987, 1988) analyzed the expansion strategies employed by many retailers. He found that retailers have successfully employed a variety of diffusion strategies. He observed that both grocery retailers and discount store merchandisers market massive quantities of low-cost merchandise. For these types of retailers, a close relationship between retail outlets and distribution facilities is imperative for success. Distribution costs can be minimized by clustering retail outlets around a distribution center. Laulajainen (1987, 79) observed that the low-cost logistical function critical for the survival of a grocery chain "is difficult to obtain without one's own warehouse and delivery fleet." A grocery trade journal recently noted that a private grocery warehouse system was a necessity for a retailer to become a major national grocery chain (Summerour 2002). In addition, concentration of retail outlets within a market permits advertising costs to be reduced by allocating these costs among multiple outlets.

Laulajainen (1987) and Graff and Ashton (1994) have studied the expansion of Wal-Mart. They observed that Wal-Mart has employed an expansion strategy that differs from most retailers. Wal-Mart started in very small communities and only after solidifying its small-town base did the firm expand into larger markets. Laulajainen (1987, 242) concluded that Wal-Mart practiced "hierarchical diffusion in reverse order." Wal-Mart is similar to most successful general merchandise and grocery retailers in that it emphasizes close coordination between the distribution facilities and retail outlets in its expansion program.

Graff (1998) compared the expansion strategies employed by Wal-Mart and Kmart with their supercenter outlets. He observed that Wal-Mart tended to cluster its Supercenters around its grocery distribution centers and most of the Supercenters were located in comparatively modest-sized communities. In contrast, Super Kmarts were scattered in metropolitan markets around the country. Consumer surveys revealed that in direct competition, the combination of perceived superiority of Wal-Mart Supercenter general merchandise and overall lower prices produced a consumer preference for Supercenters over the Super Kmarts (Tigert, Arnold, and Cotter 1993).

Burt and Sparks (2001) examined the Wal-Mart expansion into the United Kingdom. They analyzed the Wal-Mart expansion in the United States in order to project the impacts of the Wal-Mart entry into the U.K. grocery market. They identified five characteristics that combine to make Wal-Mart a uniquely successful retailer: (1) culture, (2) supply systems, (3) price and cost control, (4) innovation, and (5) market destabilization. The first four of these characteristics combine to permit Wal-Mart to have the lowest cost structure in the retail industry. As a result, Wal-Mart is able to be the low-price leader in most markets, and Wal-Mart exploits this position to expand its market share at the expense of competitors. As Wal-Mart increases its market share and forces prices down, its competitors must adapt to a lower price structure and decreased profitability, and adjust to a diminished market position. When Wal-Mart's growing market share is large enough, competitors are forced to restructure, retrench, and initiate new marketing strategies. The market becomes destabilized.

In an edited volume focusing on emerging trends in geographic research on retailing, Wrigley and Lowe (1996) suggested that corporate culture and corporate strategies have been neglected topics in geographic research. They view these topics as key to understanding corporate behavior in the present competitive environment. They suggest that a "cultural logic as well as an economic logic" are significant factors in understanding the behavior of retailing firms of the twenty-first century (Wrigley and Lowe 1996, 16). As a result of unique histories and traditions, firms develop distinct strategies for survival and expansion in competitive economic environments.

Corporate Histories

In 1962, Kmart, Target, and Wal-Mart each opened its first discount store. The first Kmart was in a Detroit suburb, the first Target was in a Minneapolis suburb, and the first Wal-Mart was in Rogers, Arkansas, a small town in the Ozarks. As the new discount store formats of major retailers, both Target and Kmart had access to significant financial resources and were able to expand rapidly into additional metropolitan locations. Wal-Mart was the discount format of Sam Walton, a small-town merchant who lacked significant financial backing, and in the 1960s Wal-Mart expanded more slowly than other discounters. By the beginning of the twenty-first century the relative position of the discount chains had changed dramatically (Table 1). In the new century, Target and Wal-Mart have continued to increase their number of stores and sales volumes, but Kmart's sales volumes and number of stores have declined precipitously. Wal-Mart has been focusing its expansion on the Supercenter format, and the SuperTarget format is of growing importance to the Target Corporation. Kmart's position as a discount merchandiser and supercenter operator has deteriorated markedly.

Table 1 *Comparison of major discount store chains*

	2000	2001	2002	2003	2004
Kmart					
No. of discount stores	2066	2089	1715	1453	1415
Discount store sales ($1,000,000's)	31,828	31,057	24,906	20,853	
No. of Super Kmarts	105	110	126	114	60
Super Kmart sales ($1,000,000's)	4,915	5,097	4,446	2,400	
Target					
No. of discount stores	896	967	991	1053	1107
Discount store sales ($1,000,000's)	27,568	29,367	32,037	35,500	
No. of SuperTargets	16	30	62	94	118
SuperTarget sales ($1,000,000's)	1,759	3,224	4,880	5,550	
Wal-Mart					
No. of discount stores	1801	1738	1647	1568	1478
Discount store sales ($1,000,000's)	59,900	63,100	61,372	62,200	
No. of Supercenters	721	886	1066	1258	1471
Supercenter sales ($1,000,000's)	61,900	76,000	94,872	110,800	

Sources: Annual Industry Report (2003); Annual Retailer Ranking Report (2001); Top 150: Annual Industry Report (2004).

Wal-Mart

In contrast to other discount retailers, Sam Walton believed that discount merchandising would be successful in modest-sized towns as well as in metropolitan markets. Walton recognized that for Wal-Mart to be successful, the firm needed to offer brand-name merchandise at discount store prices. Metropolitan-based discount chains such as Kmart and Target handled large volumes of merchandise and were able to obtain brand-name merchandise at low prices, but a single Wal-Mart, located in an isolated small town, did not produce sufficient sales volume to interest major suppliers. At its beginning, Wal-Mart was relegated to marketing off-brands of merchandise at very low prices. In order to increase its sales volume, Wal-Mart opened additional stores. Since Wal-Mart feared competition from other discount chains, most of the early Wal-Marts were located in very small towns, towns too small to interest competing discount retailers.

Distribution of merchandise to the first Wal-Marts was always a major issue. Some of the first retail outlets were in towns so small they were not served on scheduled freight routes. Wal-Mart was forced to utilize private delivery to distribute merchandise to these early stores. Capital raised from the first offering of stock was used to construct the first Wal-Mart distribution facility. Now Wal-Mart uses its private distribution system to supply its retail outlets to a greater extent than any retailer in the world.

From its origin, Wal-Mart Stores Inc. has been obsessed with growth. The firm has viewed large sales volumes as the key element for gaining leverage with suppliers. Wal-Mart has aggressively increased its number of stores and constantly improved and upgraded its information and distribution systems in order to sell ever-increasing volumes of merchandise at low prices. Wal-Mart aggressively negotiates with suppliers to obtain the lowest possible prices on the best possible terms. Consequently, vendors are forced to offer their best prices and terms to Wal-Mart or to forgo sales to the world's largest retailer.

Throughout its existence, Wal-Mart has pursued an extremely aggressive expansion program. Now it is not only the world's largest retailer by sales volume, but it has become the largest grocery retailer in the United States, with grocery sales volume surpassing Kroger. In 2000, outlets operated by Wal-Mart Stores Inc. sold 6.2 percent of the nonautomotive and nonboating retail merchandise purchased in the United States (Kaufman 2000, 1). By 2004, this percentage had increased to 8 percent (Scardino 2004, 74). Wal-Mart has become a dominant American retailer and the firm continues to implement very aggressive expansion plans. In spite of its tremendous size and growth, Wal-Mart Stores Inc. has never altered its corporate focus from that of a discount retailer.

Kmart

Kmart started as the discount format of S. S. Kresge and it quickly became the pre-eminent discount merchandiser in the nation. Kmart expanded from the Detroit suburbs and opened stores throughout the nation, primarily in suburban locations within metropolitan markets. In 1977, the Kmart sales volume was about twenty times the Wal-Mart volume. However, the rapidly expanding number of Kmarts did not increase the profitability of the firm (Turner 2003, 81). To increase its profitability, Kmart Corporation tried to broaden its retailing focus beyond that of a discount merchandiser. In the 1980s and early 1990s, Kmart Corporation purchased several established retailers including Builder's Square, Borders, Waldenbooks, Furr's Cafeterias, PACE Membership Warehouse, Payless Drugs Northwest, Sports Authority, and Office Max. In the 1990s, as retail competition in the United States continued to intensify, the financial position of Kmart Corporation deteriorated. Kmart sold its acquisitions and initiated a program to refurbish its discount store base. In 1995, Kmart barely avoided a declaration of bankruptcy, and the firm shuttered hundreds of unprofitable or marginally profitable discount stores.

In 2001, Kmart proclaimed a new retailing strategy that included less advertising, fewer advertised specials, and lower daily prices on many items. In short, Kmart tried to challenge Wal-Mart as the everyday low-price leader. Wal-Mart responded to the Kmart challenge with still lower prices. These new initiatives further weakened the financial position of Kmart Corporation. The Kmart assault on the Wal-Mart image as the low-price leader failed, and Kmart was left with huge volumes of unsold merchandise (Turner 2003, 71–72). In January, 2002, after disappointing fall and Christmas sales seasons, the financially strapped Kmart Corporation declared bankruptcy. Following the declaration of bankruptcy, about 600 Kmarts (almost 30 percent of its store base) and about half of the Super Kmarts were closed.

Target

Target has expanded its number of stores more slowly than the other two national discount chains. Target started in the suburbs of Minneapolis as the discount format of Dayton's, an upscale Minneapolis department store. Additional Targets were opened in Denver, St. Louis, and other cities. Despite recently severing its last ties with department stores, Target continues to focus on more expensive, more stylish, and higher quality merchandise than other discount chains. From its origin as an offshoot of an upscale department store, Target has always focused on the market niche as the upscale discounter (Rowley 2003, 122). At present, though it operates stores in all regions of the country, the Target discount chain has yet to enter all of the states.

Supercenters

The large American discount chains did not invent the supercenter format. In Europe, the hypermart format has long been utilized. For decades, regional American retailing chains such as Meijer of Michigan and Fred Meyer of the Pacific Northwest have employed the supercenter format. In the 1980s, both Wal-Mart and Kmart experimented with large retail outlets that combined a full-service grocery store with a discount department store. Both firms found these early prototypes too large (typically about 250,000 sq. ft. of space) and eventually settled on a slightly smaller supercenter format (typically about 180,000 sq. ft., in size, though each firm employs several different sizes). Wal-Mart opened its first Supercenter in Washington, Missouri, in 1988; Kmart opened its first Super Kmart in Medina, Ohio, in 1991; and Target opened its first SuperTarget in Omaha, Nebraska, in 1994.

Despite some differences, the supercenters of the three national discount chains are quite similar. True to its nonmetropolitan origins, most Wal-Mart Supercenters have extensive sporting goods and automotive departments. Wal-Mart strives to maintain its position as the low-price leader and a recent price survey supports this perception (Heller 2001). Kmart has announced that it is focusing on becoming the urban, ethnic merchandiser of choice. Super Kmarts tend to be a bit smaller than Wal-Mart Supercenters. SuperTargets have a more upscale ambience than the stores of either of its discount store competitors. Most SuperTargets include a Starbucks coffee bar, in contrast to the McDonald's included at many Wal-Mart Supercenters or the Little Caesar's Pizza at some Super Kmarts. Another distinction between Target and its competitors is that the SuperTarget private label grocery brand, Archer Farms, is advertised as a gourmet rather than a low-priced alternative.

Wal-Mart Supercenters

Wal-Mart has been extremely aggressive in employing the Supercenter format and has identified the Supercenter as its prime format for growth in the United States. At present, Wal-Mart has more than 1,400 Supercenters in operation and is increasing the number by more than 15 percent annually. Most of these Supercenters are expansions or relocations of existing discount stores.

Table 2 *Comparison of Wal-Mart discount stores and Wal-Mart Supercenters*

	Discount store	Supercenter
Average size (sq. ft.)	94,947	181,692
Average sales	$34,100,000	$72,500,000
Operating income	$2,700,000	$5,400,000
Capital Invested	$10,100,000	$19,700,000
Return on investment	26.4%	27.6%

Source: Nowhere to Hide (2001).

Wal-Mart's focus on expansion of its number of Supercenters is a result of the profitability of the format. The Supercenters provide greater returns on capital investment than do Wal-Mart's discount stores (Table 2). Though general merchandise usually provides retailers greater profitability than groceries, the higher customer visitation rates for grocery merchandise offset the low profit margins of groceries. By employing the supercenter format, Wal-Mart can use groceries to attract higher rates of customer visitation for its general merchandise offerings (Burt and Sparks 2001, 1472). Wal-Mart also clusters its Supercenters around its grocery distribution centers. It plans to have about ninety Supercenters located within 300 miles of each grocery distribution center.

As Wal-Mart has rapidly expanded its number of Supercenters, the firm has spread that format nationwide (Figures 1–3). In 1995, 45 percent of the Wal-Mart Supercenters were located in metropolitan statistical areas (MSAs) counties. Although the firm retains its small-town bias, its Supercenters are in cities of many sizes and the company now tends to locate more of its Supercenters in larger communities—more than half are in MSA counties.

Wal-Mart is now entering some major metropolitan markets, and concentrations of its Supercenters can be found in the Dallas-Ft. Worth, Atlanta, and Houston markets. Though it has scarcely entered the New York City, Detroit, Chicago, Boston, Washington, DC, Philadelphia, or California markets with Supercenters,Wal-Mart has already become the largest grocery retailer in the nation.

Super Kmart Centers

Kmart began establishing its network of Super Kmarts in 1991. Though the Super Kmart

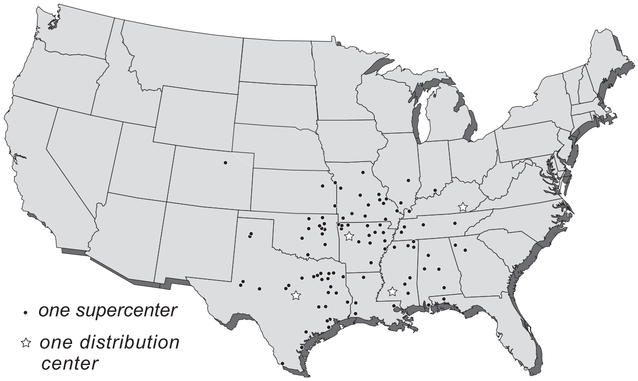

Figure 1 *Wal-Mart Supercenters: 1995.*

initiative was a major focus of the firm, Kmart Corporation had additional foci competing for corporate resources and attention. Kmart contracted with established grocery wholesalers to supply groceries to its new Super Kmarts. Because these established wholesalers had considerable experience with grocery retailing, the grocery merchandising at Super Kmarts was of high quality from the beginning. In the early 1990s, as a result of the superior grocery distribution infrastructure and merchandising expertise, Kmart could have successfully competed with Wal-Mart in most grocery markets (Turner 2003, 115–16). But as Wal-Mart gained experience with groceries and developed its own grocery distribution system, it became a more potent grocery competitor and the early Super Kmart advantages disappeared.

By 1996, Kmart had opened ninety-six Super Kmarts (about one-third the number of Supercenters that Wal-Mart had in operation at the time), but the number has stagnated since that date. Since 1996, Kmart has made multiple announcements about plans to expand the Super Kmart format, but the corporation has been financially unable to open significant numbers of new Super Kmarts (Super Kmart 2001). Corporate pronouncements since 2000 about the future of the Super Kmart format have been mixed. After a new Chief Executive Officer (CEO) assumed leadership of the firm that year, Kmart announced plans to open 200 Super Kmarts within five years. The firm also announced the closing of seventy-two Kmarts, including six Super Kmarts. Quickly, two of the closed Super Kmarts (Jackson, Mississippi, and Valdosta, Georgia) were reopened, only to be closed again in later rounds of closures.

In summer 2001, the Kmart CEO stated that eventually more than 900 existing Kmarts could be converted into Super Kmarts (Howell 2001a, 106). In the fall of 2001, Kmart opened fifteen additional Super Kmarts, and at the time these openings were thought to reflect a renewed

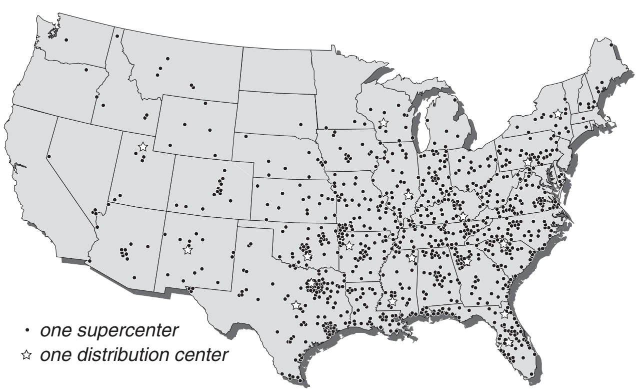

Figure 2 *Wal-Mart Supercenters: 2001.*

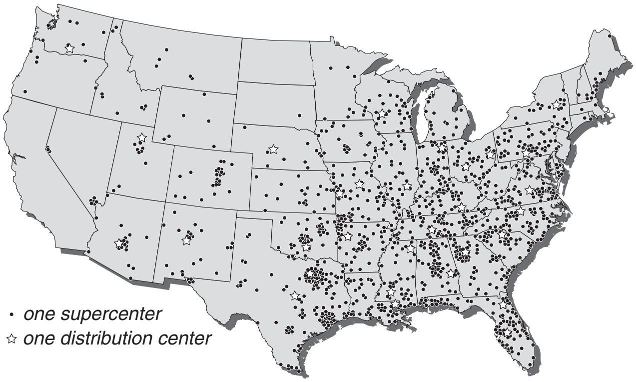

Figure 3 *Wal-Mart Supercenters: 2004.*

emphasis by Kmart on expansion of the supercenter format (Howell 2001c). Since its bankruptcy declaration in 2002, Kmart has reduced its number of Super Kmarts to less than half of its maximum number.

Kmart has tended to locate its Super Kmarts in metropolitan locations scattered around the nation (Figure 4). In 2001 approximately 78 percent of the Super Kmarts were located in MSA counties. Because Kmart opened a relatively small number of Super Kmarts, the firm never attained a concentration sufficient to dominate the grocery business in any major metropolitan market or to support a private grocery distribution system. Through an exclusive alliance with Fleming Foods, a grocery wholesaler, Kmart sought to compete with Wal-Mart on price and quality of private-label grocery items. But as a result of the Kmart bankruptcy, Fleming lost its largest customer and also declared bankruptcy.

Between 2000 and 2003, more than seventy unprofitable or marginally profitable Super Kmarts were closed. The majority of the closures were in the southern and southwestern portions of the nation, though no region was spared the Super Kmart downsizing. With the exception of a few Super Kmarts in Colorado, Kmart retained few Super Kmarts in the West. Similarly, the concentrations in Detroit, Cleveland, and Chicago markets have been greatly reduced. Now, Kmart is less able to dominate the grocery business in any major market.

SuperTargets

In 1994, when Target opened its first SuperTarget in Omaha, Nebraska, the firm stated that the format was an experiment and that it planned to open about twenty SuperTargets before it determined the future of the format. The firm stayed with this plan and in 2000 its original goal was reached. After this period of experi-

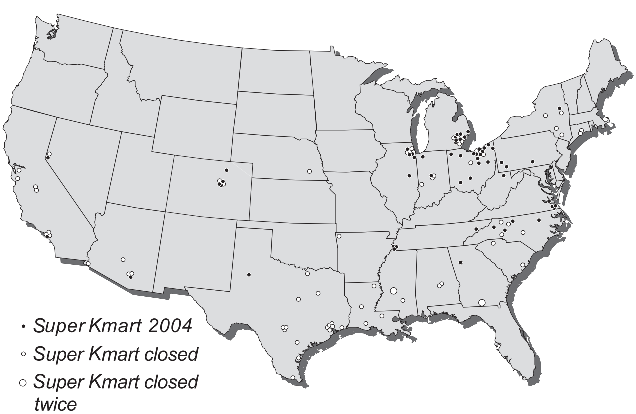

Figure 4 *Super Kmarts.*

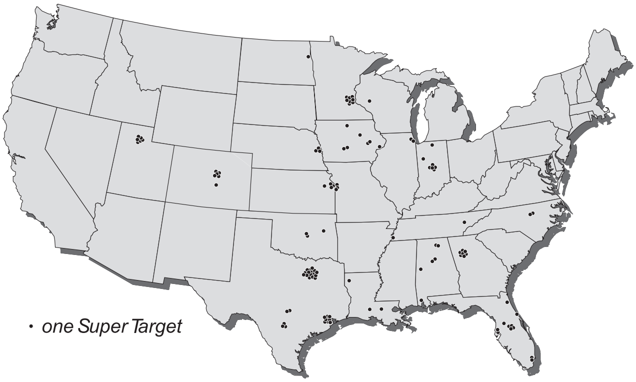

Figure 5 *SuperTargets: 2004.*

mentation, the firm announced plans to open 200 SuperTargets in the next decade (SuperTarget 2001). Based on the number of openings in 2001–2003, Target will greatly surpass its goal of 200 SuperTargets within this decade. One expert suggests that Target will greatly increase its speed in opening new SuperTargets and that Target will be one of the top ten American grocers by 2007 (Summerour 2002).

The Target Corporation has accelerated the opening of SuperTargets so that Target now has more than 100 SuperTargets operating (Figure 5). Though the SuperTarget expansion appears modest compared to Wal-Mart, the growth in the number of SuperTargets is a major focus for Target Corporation. In 2002 and 2003, more than 40 percent of the corporation's expansion square footage was devoted to the SuperTarget format. Target has concentrated its SuperTargets in metropolitan locations. With the exception of the store in Mason City, Iowa, all SuperTargets are located in MSA counties. The present number and concentration of SuperTargets are insufficient to permit Target to develop a private grocery distribution system. Previously, the prime SuperTarget grocery supplier was Fleming. If Target is to become a major American grocery chain, the firm will need to develop a private grocery distribution system (Summerour 2002).

Discussion

Obviously, Wal-Mart has dominated the competition among the national chains of supercenters. The present number of Wal-Mart Supercenters dwarfs all of its competitors, and the continuation of an aggressive expansion program will produce an even greater disparity in numbers. On one level, the announced plans of both Target and Kmart appear aggressive, but these plans pale when compared to the Wal-Mart expansion program. Because of its massive size and growth, Wal-Mart has reduced all of its national supercenter competitors to niche marketers.

The corporate bankruptcy ends Kmart's pretense as a national supercenter competitor. Kmart's difficulties with its Super Kmart Center format appear to stem from the overall financial problems of the corporation rather than inherent deficiencies in the Super Kmart Center format. By scattering Super Kmarts in metropolitan locations throughout the nation, Kmart never achieved the concentration of Super Kmarts necessary to minimize costs for advertising and distribution of groceries.

The recently announced plans to merge Sears Roebuck and Company and Kmart into a single firm illustrate the magnitude of the changes occurring in American retailing. In 1991, Wal-Mart surpassed both Sears and Kmart in sales volume to become the largest American retailer. The merger of Sears and Kmart will produce the third largest retailer in the nation but its combined sales volume will be only 30 percent of the Wal-Mart sales volume. As Sears and Kmart attempt to merge two distinct companies and cultures into a viable firm, better established and financed competitors continue to try to expand their customer base at the expense of the newly merged firm.

Superficially, Target seems to be repeating the ill-fated Kmart strategy of locating a small number of supercenters in metropolitan markets scattered throughout the nation. But in fact Target has identified a market niche, a more upscale clientele, than either Wal-Mart or Kmart. Target's comparatively slow expansion of the SuperTarget format is consistent with the methodical expansion tradition of the corporation. After identifying a satisfactory model, the firm has increased the number of SuperTargets. A slow rate of expansion combined with a wide geographic dispersion of stores implies that Target will be forced to employ grocery wholesalers rather than developing a private grocery distribution system. In order to become a major force in the grocery industry, a private distribution system is probably a necessity, and a sufficient concentration of SuperTargets is unlikely in the near future.

Wal-Mart's huge size and its efficient distribution system provide the corporation with a price advantage over all competitors. Wal-Mart purchases huge volumes of merchandise and therefore is in a position to demand the most favorable terms from its suppliers. Its advanced distribution system permits the firm to move goods from the warehouse through the checkout line more efficiently than any retailer in the world. Wal-Mart strives to be the price leader in all markets and its combination of huge sales volumes, a superior distribution system, and the best terms from suppliers means that Wal-Mart usually to meets that goal. Wal-Mart Supercenter sales per square foot average more than 30 percent higher than either Kmart or Target superstores.

Wal-Mart's rapid expansion of its Supercenter format is producing direct competition with all major supercenter operators. Major competition among the supercenter chains now is occurring in Dallas-Fort Worth, Memphis, Indianapolis (where Meijer has multiple outlets), Atlanta, Denver, Houston, and San Antonio. Wal-Mart has opened a grocery distribution center in Northeastern Indiana and has opened Supercenters in Michigan, the corporate headquarters of both Kmart and Meijer. In the Pacific Northwest base of Fred Meyer, Wal-Mart has opened several Supercenters and a grocery distribution center. As Wal-Mart continues a nationwide expansion of its Supercenter format, greater competition will develop between Wal-Mart and all of its supercenter competitors.

Grocery sales data from the Dallas-Fort Worth Metroplex reveal the magnitude of the difficulties competitors face in competing with Wal-Mart. Wal-Mart's image as the low-price leader provides the firm with a major attraction over its competitors. With sixteen SuperTargets, the Metroplex has the greatest concentration of SuperTargets in the nation. Wal-Mart has fifty-five Supercenters serving this same market. Wal-Mart is the top grocery retailer in the Metroplex with more than 23 percent of the grocery market. In grocery sales per supercenter, Wal-Mart Supercenter sales are almost twice the sales volume of SuperTargets (TDLinx 2004).

The locations of some Super Kmarts are particularly difficult to understand. In Rogers, Arkansas (location of the original Wal-Mart), directly across the street from the present location of the Wal-Mart Supercenter (Wal-Mart #1), Kmart upgraded an existing discount store to become its single Super Kmart located in Arkansas. This store was closed following the bankruptcy declaration (at the same time Kmart abandoned its big advertisement billboard located across the highway from Wal-Mart corporate headquarters). Similarly, the location of the single surviving California Super Kmart in the massive Los Angeles market is difficult to understand. In Texas, the sole surviving Super Kmart is located in Lubbock, hundreds of miles from any other Super Kmart. With only a few scattered Super Kmarts, Kmart cannot hope to be a dominant grocery retailer in any major western market in the near future.

The Wal-Mart expansion into grocery retailing is having a dramatic destabilizing impact on the American retail grocery industry. In its fifteen years of employing the Supercenter format, Wal-Mart has become the largest grocery retailer in the nation and has forced significant adjustments in the market shares of the major grocery chains. The chains are being forced to restructure to accommodate the growing Wal-Mart market presence. Wal-Mart started its Supercenter expansion in the southeastern states. Competition with Supercenters was the major factor in the downsizing of the Winn Dixie grocery chain (Wal-Mart's expansion 2000). Similarly, competition with Wal-Mart expansion Supercenters has forced national grocery chains such as Albertson's, Kroger, and Safeway to restructure by adopting lower pricing strategies and abandoning some markets (Duff 2001; Scheraga 2002). No longer do metropolitan markets provide a safe refuge for grocery chains from Supercenter competition. Oklahoma City provides an example of the Wal-Mart invasion of metropolitan markets. From 1998 to 2002 Wal-Mart opened nine Supercenters and additional formats selling groceries in the Oklahoma City market. At least twenty-eight large Oklahoma City grocery stores were closed in the wake of the Wal-Mart expansion. Now Wal-Mart has captured 35 percent of the Oklahoma City grocery market (Rogers 2003).

Wal-Mart is experimenting with new formats that may be better adapted to metropolitan markets. It has introduced the Neighborhood Market (typically about 40,000 sq. ft.), which combines a grocery store and a full service pharmacy but carries only a limited selection of general merchandise. Wal-Mart has also opened its first 99,000 sq. ft. Supercenter. This smaller size meets the size limitations discussed in many California jurisdictions. These smaller formats may permit Wal-Mart to better enter metropolitan markets where vacant real estate is scarce and regulations can be more restrictive.

A meeting of the National Grocer's Association focused on survival strategies for independent grocery stores in the wake of the massive Wal-Mart expansion into grocery retailing (Howell 2001b). The association advised its members against trying to compete with Wal-Mart on price, but to try to prosper by offering superior service and focusing on a particular market segment. This is the Target strategy; serving a more upscale clientele with more upscale merchandise. The Kmart alliance with Fleming was designed to permit Kmart to compete better with Wal-Mart on the basis of price. The Kmart bankruptcy suggests that Kmart was unable to compete successfully on that basis.

Conclusions

The competition to dominate the national market for supercenters is over and Wal-Mart has defeated its supercenter competitors. The eventual survival of Kmart is uncertain, and the firm is not in a position to become a major competitor with Wal-Mart Supercenters in the near future. Target has identified a niche market, a more upscale market segment, than Wal-Mart. While Wal-Mart tries to expand its market segment to include a more upscale clientele, Target continues to focus its efforts upon this same market segment.

Wal-Mart's adoption of the Supercenter format shows the flexibility of this huge retailer. In 1988, when Wal-Mart first opened a Supercenter, the firm sold relatively limited quantities of grocery merchandise. Now Wal-Mart is the largest grocery retailer in the nation, and half of the firm's discount stores are Supercenters. Before the end of this decade all Wal-Mart outlets in the United States will derive a major portion of sales from groceries. And Wal-Mart will continue to seek new forms of retailing to dominate (gasoline–convenience stores are already facing tremendous price competition from gasoline pumps located in more than 1,200 Wal-Mart parking lots). Despite its present massive size, Wal-Mart still views itself as a growth company. At present, Wal-Mart sells 8 percent of U.S. retail merchandise, but the remaining 92 percent offers tremendous opportunities for future growth.

A new array of nonretailing challenges has emerged to confront Wal-Mart. As the largest retailer in the world, Wal-Mart is the subject of much public interest and scrutiny. Its pricing policies, personnel practices, employee compensation, antiunion activities, supplier relations, impacts upon communities, etc., have become the subject of much critical public inquiry. In addition to unwelcome publicity, Wal-Mart is fighting numerous legal challenges in court. The traditional Wal-Mart practice has been to sell ever-increasing volumes of merchandise at low prices, try to avoid negative publicity, and fight legal challenges strenuously in court. The future success of these traditional strategies is far from certain, and whether Wal-Mart can adapt successfully in the new questioning environment is uncertain. The Wal-Mart corporate executives who have succeeded Sam Walton have lacked the public relations acumen and the folksy charisma of the firm's founder. In short, the public has begun to evaluate Wal-Mart Stores Inc. on far more than low prices and huge sales volumes. ■

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