

New Wal-Marts Mean Bad News for Newspaper Revenues

By Mark Fitzgerald
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CHICAGO -- Larry W. Freels, publisher of the Kirksville (Mo.) Daily Express, has been a newspaperman for 40 years, except for one five-year period when he worked for a company that newspapers have come to fear and loathe: Wal-Mart.

As a store manager, Freels saw from the inside looking out how the arrival of a Wal-Mart can cheer consumers but devastate a small town's retail area -- and leave the local paper scrambling to make up lost advertising revenue. "Oh, God, yes, I was a manager for the store in St. Robert, Missouri, and then I opened a new store in Fairfield, Iowa. We hurt that town, too," he says.

When Freels started with Wal-Mart Stores Inc. in 1986, his store was buying a few newspaper inserts. Soon, though, new marching orders came down from corporate headquarters in Bentonville, Ark. "As far as advertising in the paper," Freels says, "you can't, you'd better not. First they said, 'You can't advertise without your district manager's permission.' Then they said, 'You can't do it, period.'"

Tired of long workweeks -- and having to move his family three times in three years -- Freels quit Wal-Mart in 1991 to run the Kirksville Daily Express, a 5,393-circulation evening paper now owned by Northbrook, Ill.-based Liberty Group Publishing. Two or three years ago, Wal-Mart replaced its old store in Kirksville, a town of 17,500 in rural northern Missouri, with a Supercenter open 24 hours. How much advertising does it do in the paper?

"N-o-o-o-o-o-o-ne," Freels says, drawing out the word emphatically.

But that isn't all that's happened since Wal-Mart parked its big box out by State Highway 63. The store has killed some important newspaper advertisers. "When I came here 11 years ago, we had five good-size grocery stores. Now we have Hy-Vee -- and Wal-Mart," Freels says. A Kmart, a fabric store, a lawn-and-garden center, a stationery store, four clothing stores -- all have gone out of business since Wal-Mart's arrival.

Supercenters, superthreats

Newspapers these days worry about a lot of things, from declining circulation to newsroom-diversity woes to online aggregators trying to steal the classified-ad franchise. But one of the biggest threats to newspapers may very well be the new generation of Supercenters that Wal-Mart is planting in ever-closer proximity to each other all across the country.

Wal-Mart, of course, has been a retailing juggernaut -- and famous shunner of newspaper advertising -- going all the way back to 1962 when Sam Walton and his brother, Bud, opened their first store in Rogers, Ark. Built on cheap land in rural markets, the first Wal-Marts set a pattern as slash-and-burn competitors. When Iowa State University economist Kenneth E. Stone studied the effect Wal-Mart stores had on small towns in Iowa between 1983 and 1993, he estimated Wal-Mart sent 7,300 businesses packing. Among them were 555 grocery stores or supermarkets, 293 building-supply stores, and 264 men's or women's apparel stores.

That devastation was wreaked mostly by the old Wal-Mart, whose stores were basically bigger Kmart's with more downscale merchandise. The new Wal-Mart is rapidly replacing those stores with 24-hour Supercenters that stock 100,000 different items -- including huge supermarkets with 30,000 grocery products. Wal-Mart is no longer an overgrown five-and-dime store with clothes and sporting goods: Customers now can buy the week's groceries and get their kids' portraits taken, their eyes examined, their cars fixed, and their gas tanks filled. Many Supercenters offer banking -- Wal-Mart is even trying to buy a bank in California -- and a few are experimenting with used-car sales.

There were 260 of these behemoths in 1996. There are 1,100 of them now, and some analysts expect the number to double by 2006. Wal-Mart is increasingly looking beyond its small-town roots to bigger markets. Just two weeks ago, Wal-Mart announced it was moving its Supercenters into California for the first time.

Everything is accelerating with Wal-Mart. While the company took 34 years to reach \$100 billion in sales in 1996, it doubled that in less than five years. With revenue last year of \$218 billion, Wal-Mart is bigger than the economy of Switzerland (with its gross domestic product of \$197 billion). Wal-Mart's worldwide expansion is so aggressive that some state-owned retail businesses in China, fearing the chain's first toehold in Beijing, flew in Iowa State's Stone to talk to them about competing with the Bentonville giant.

Just like the Wal-Mart of old, the Supercenter generation almost never advertises in newspapers. From Wal-Mart's home state, Arkansas Press Association Executive Director Dennis Schick says, "Even with the change in their top executive people and the turnover they've had, the philosophy seems to be pretty much the same -- and that is they advertise as little in newspapers as they can get away with."

From his neck of the woods, Wyoming Press Association Executive Director Jim Angell says simply, "They don't advertise a lick."

Wal-Mart's public-relations operation, saying it was too busy preparing for the company's

annual meeting on June 7, would not make executives available or comment for this article.

Bagging groceries

For newspapers, the real killer in Wal-Mart Supercenters are the huge supermarkets that come attached to them, say newspaper executives who have the stores in their markets.

"In just about every case, they put one or two grocery stores out of business," says Scott Champion, executive vice president of operations for Liberty Group Publishing. And the grocers going out of business aren't just the Mom-and-Pop operations anymore. As Champion recounts the experiences of the small-town, small-circulation papers that make up the bulk of Liberty's 350 properties, the names of grocery advertisers chased away by Wal-Mart resembles a "Who's Who" of Midwestern supermarkets: Supervalu Inc., Econo Food, Farmers IGA -- and even the Kroger Co., the nation's No. 2 grocery chain behind Wal-Mart.

"These are \$20,000 to \$60,000 accounts," Champion notes. "How do you make that up? It's impossible."

With \$56 billion in grocery sales, Wal-Mart is now by far the No. 1 supermarket -- feared so much by competitors that the mere announcement of its imminent arrival in a market is enough to send some chains packing.

That's what happening in Vinita, Okla., where Wal-Mart recently announced it was replacing its old store with a brand-new Supercenter. A regional chain immediately consolidated its three grocery stores -- and, of course, cut its insert buys at The Vinita Daily Journal, a 4,062-circulation evening paper. An upscale dress shop that was a good advertiser is taking an even more drastic step. "They are going out of business. They said they just won't be able to compete with the Supercenter," says Danny Walker, editor of the Daily Journal's sibling weekly, The Nowata Star.

A super new strategy

Tom Sanders saw the future of Supercenters back in 1997 when he was advertising director of The Joplin (Mo.) Globe. The paper was already struggling with the impact of two Supercenters when Wal-Mart suddenly opened three more.

"Now, nobody from Wal-Mart gives you a call and says, 'Tom, this is what we're planning.' The word I got was to see just how much pressure they could put on a market of 50,000, that on weekends was as big as 100,000 [people]. What they found is they could impact every single location -- and [store revenue] came directly out of the hide of its competitors," says Sanders, who is now advertising director for the Wisconsin Newspaper Association.

Many good newspaper advertisers died in this Wal-Mart experiment, Sanders says. A regional supermarket chain with about a dozen stores closed its doors. Another chain was bought by Albertsons Inc. When Wal-Mart experimented with adding a full-service pharmacy and convenience store -- the way Jewel supermarkets have partnered with Osco drugstores in the Midwest -- local competitors quickly shuttered their businesses. "Most of the retailers on Main Street in downtown Joplin closed. Joplin just got bowled over," Sanders says.

Wal-Mart is now replicating that test all over the nation, says Al Norman, a PR executive whose successful fight to keep Wal-Mart out of his hometown of Greenfield, Mass., has led to a second career as an anti-Wal-Mart organizer nationally. Says Norman: "Wal-Mart deliberately saturates the area so they will have more market share, and will discourage other companies from coming in. Wal-Mart has said that, in many areas, 'We are our own competition.'"

What Norman, who calls his campaign "Sprawlbusters," does not understand is why some local newspapers continue to editorialize in favor of bringing Wal-Mart into their communities. "Some newspapers, their attitude seems to be that any new building equals progress," he says. "They don't have a clue about what I call 'Wal-Math' -- that most of the merchants who support newspapers will be destroyed by Wal-Mart. ... The only column-inches I've ever seen [Wal-Mart run] is when they're announcing the opening of a store. After that, it's direct mail."

The Nowata Star has to plead guilty to that, Editor Walker says. "The paper was a booster, and being so close to Bentonville, Wal-Mart enjoys a fair amount of good publicity around here," he says. The relationship soured when Wal-Mart not only hurt local retailers and refused to advertise in the local weekly -- it then abandoned the town to build a Supercenter 30 miles away.

Though Nowata's town fathers are hopping mad at Wal-Mart for seducing and abandoning them, Star Editor Walker says some good may come of it. He notes that several small discount chain stores -- advertisers this time -- are now returning to the market.

Yet the paper and the town are still hurting from their Wal-Mart encounter. "Our advertising is not great," Walker says. "It's not great at all."

Nowata's experience is increasingly common, says "Sprawlbuster" Norman. Citing Wal-Mart's own statistics, he says the company has littered 31 states with some 400 empty stores as it rolled out Supercenters.

The sphinx of Bentonville

Newspapers say Wal-Mart often favors what could be called a silent-but-deadly approach.

Even newspapers that manage to get some Wal-Mart advertising are at a loss to explain why. When Wal-Mart started up a Supercenter across the street from its old store in the DuQuoin Evening Call's southern Illinois hometown, the paper successfully pitched it on a direct-mail program that carries store circulars once a month. Advertising and Marketing Director Danette Lamczik says the Call has tried repeatedly to move the store into the 3,626-circulation paper.

And what do the Wal-Mart folks say? "No."

Just no? "Just no," Lamczik says.

When David R. Ferro was publisher and editor of The Daily News in Rhinelander, Wis., the 4,736-circulation evening paper got an insert order from Wal-Mart once or twice a month. Now he's publisher of the 5,316-circulation evening Coldwater (Mich.) Daily Reporter -- and never gets an ad from the local Supercenter. "I've never fully found out why that market -- which is almost identical to Coldwater, with the same water [recreation], same population, same fairly blue-collar demographics -- qualified for newspaper ads, and this one does not," Ferro says.

Wal-Mart store managers rely on direct mail -- aided, of course, by those ubiquitous, heart-warming, flag-waving TV commercials -- and are deaf to arguments that newspapers can be more effective, says Shawn Wolfe, advertising and marketing director of The Newton (Iowa) Daily News and its shopper, the Jasper County Advertiser. He says he's good buddies with the local Wal-Mart manager, but all he can ever get is some seasonal lawn-and-garden advertising. "We've done things to help other retailers, but they won't let us help them," Wolfe says.

Rust Communications' 14 dailies and 34 weeklies have lost business because of Wal-Mart's impact on retailers, but the chain is somewhat pleased with its relationship with the company, says Wally Lage, Rust's chief operating officer and the publisher of its flagship Southeast Missourian in its hometown of Cape Girardeau. One of its properties recently won back direct-mail business it had lost when Wal-Mart partnered with Pizza Hut to deliver circulars.

"Friend or foe, we still look at them as a customer," Lage says. "Our biggest concern really is with our direct-mail competitors."

That's what Liberty Group Publishing tries to do as well, says Executive Vice President of Operations Champion. Newspapers can offer considerable savings, he notes. "In a lot of cases when they [Wal-Mart] do direct mail on their own, it's costing them 12 cents a piece just for postage and the handling, and we're charging 4 to 6 cents a piece," he says. "You're not only securing their business but you're keeping them from coming into the market with their own direct mail -- and taking out your direct mail."

Still, whatever advertising newspapers do get from Wal-Mart, it never makes up for the business it displaces, Champion and others note. While a strong supermarket customer

may drop inserts twice a week in the paper, "the best [Wal-Mart] will do is maybe 20-some a year," Champion says.

With Wal-Mart's dominance only growing in the retail landscape, is there any silver lining for newspapers?

"Well, there is one thing," Champion says. "You never have a collection problem with Wal-Mart."

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