

## WHO'S AFRAID OF THE GIANT?

Not we, say a group of retailers that follow Wal-Mart's footprints

By Steve McLinden

Much gets written about retailers that flee the "Wal-Mart effect" once the Bentonville, Ark.-based discount colossus anchors itself on neighborhood turf. Less publicized is the inner circle of national retailers that routinely line up to hitch their wagons to Wal-Mart's blazing star.



Illustration: Todd Umbarger

Obviously, setting up shop in the lengthy shadow of Wal-Mart is not a winning strategy for every retailer. Only those specialty discounters with deep product lines that complement rather than compete can hope to thrive in shopping centers anchored by Wal-Mart, retail experts say.

A list of the top 10 Wal-Mart co-tenants, compiled by the Chicago-based National Research Bureau (NRB), seems to validate that notion. The listing includes three discount apparel retailers, a beauty supply chain, a dollar-store chain, a jewelry chain, and a vitamin and supplements seller.

Denton, Texas-based Sally Beauty Supply tops the list, appearing in 26 percent of U.S. Wal-Mart-anchored centers. "Wal-Mart generates an enormous amount of traffic, and we like to feed off that," said Sally Beauty Supply spokeswoman Jan Roberts. "We do have a few similar products, but we offer much more selection. If someone is looking for specific beauty items, we are more likely to have them ... like in the 400 [personal] appliances we carry, such as blow-dryers and curling irons."

Next were Topeka, Kan.-based Payless ShoeSource and Chesapeake, Va.-based Dollar Tree, both of which showed up in 25 percent of Wal-Mart centers.

These compulsive co-tenants have not just deeper merchandise lines than Wal-Mart, but similar demographics as well, allowing them to corral the overflow of shoppers seeking styles and brands not available in Wal-Mart, says Nancy Veatch, NRB's publisher. "There has been a lot of homework and logic behind their decisions to locate there," she said.

The smaller footprints of these co-tenants, which range from 1,600 to 8,000 square feet, also allow quick, convenience visits that shoppers cannot make at a Supercenter, says Andy Weiner, president of Houston-based Weiner Development Corp., which has built several Wal-Mart-anchored centers.

Most frequent Wal-Mart co-tenants			
	% in Wal-Mart centers	No. of stores	Avg. store GLA
Sally Beauty Supply	26%	303	1,600 sf
Payless ShoeSource	25	295	3,000
Dollar Tree	25	290	8,000
RadioShack	24	288	2,400
GNC	20	231	1,500
Subway	18	216	1,200
Fashion Bug	17	198	8,000
Cato Fashions	15	174	6,000
McDonald's	12	137	3,000
Friedman's Jewelers	11	133	1,800

Source: National Research Bureau/CoStar Group



Though many new power and neighborhood centers experience a drop in traffic within a few years of opening, that is seldom the case with Wal-Mart-anchored complexes, says Weiner. "By being next to Wal-Mart, these tenants are in effect able to steal trips from those other centers," he said. "For the right business, that dramatically reduces the risk of real estate because Wal-Mart is by far the biggest trip driver out there ... and these different players realize the power of those trips."

The trend reflects an ongoing evolution of the 21st-century town center effect, says Jeff Green, president of Jeff Green Partners, a Mill Valley, Calif., retail research firm. "It's the hub of where people shop these days," Green said. "What a lot of retailers like about being near Wal-Mart is the fact they can piggyback on Wal-Mart's trade area, which becomes their trade area. It becomes a cross-shopping experience."

If center patrons have a favorite fast-food or fast-casual restaurant, they can simply drop in before or after shopping at Wal-Mart, says Green. "In many cases, you just have to park your car once," he said. "These businesses benefit from being near the strongest retail traffic hub, and in so many cases today, that's Wal-Mart."

Wal-Mart generally sells its outlots directly to banks, restaurants and stand-alone retailers. The balance of the shopping center property is usually bought by developers, who will try to recruit a balance of compatible users that attract high customer counts, says Carole Baker, director of land development for Wal-Mart Realty. "We like to have businesses that complement our store offerings, whether it's a quick-serve restaurant, a nail salon or a coffee shop," she said. "We especially like businesses that are focused on strong customer service. The synergy created by the businesses that locate near our stores only enhances our customers' overall shopping experience."

When Wal-Mart added grocery departments to its Supercenters in the 1990s, the extra traffic generated made Wal-Mart-anchored centers even more alluring to certain retailers, though not, of course, to grocery tenants, says Green. "Instead of fighting to get away from Wal-Mart, they are fighting to get into these centers."

Green says he is not surprised to see off-price apparel sellers Fashion Bug and Cato Fashions on the list. "Those two may duplicate a few [Wal-Mart] items, but apparel is a comparison-shopping trip," he said. "You may go into Wal-Mart to look, but you are going to look at nearby apparel too, as long as it is value-priced."

As Wal-Mart modifies its merchandising strategy, its top co-tenants could very well change.

Pittsburgh-based GNC, which locates in 20 percent of Wal-Mart centers, differentiates itself "by being a place you go when you want performance, nutrition and people who are knowledgeable and will help with your selections," said Green. Dollar Tree, by contrast, has a different lure. "It has become a destination," he said. "You go there for impulse items, but you don't go there for specific things like you do at Wal-Mart." Still, he says, Dollar Tree attracts the same value-oriented customer.

Electronics retailer RadioShack, which is in the process of closing about 500 company-owned stores as part of a turnaround plan announced in February, is in nearly a quarter of Wal-Mart-anchored centers. The Fort Worth, Texas-based chain will be far less likely to close those locations than others, according to RadioShack spokeswoman Wendy Dominguez. "They are generally high-performing stores, and we do like to set up shop where there is high-volume traffic."

Fast-food chains McDonald's and Subway are the only eateries on the list. Subway spokesman Les Winograd says Wal-Mart produces a "semicaptive audience" for Subway, while Subway offers convenient service for Wal-Mart workers and other shopping center employees. "People don't have a whole lot of time for the lunch or dinner breaks," he said, "and don't want to have to drive somewhere, especially with the price of gas these days." Subway also has units inside about 1,000 Wal-Mart stores, Winograd says.

Savannah, Ga.-based Friedman's Jewelers shows up in a sizable portion of Wal-Mart centers, despite a geographic presence in just 20 states and no stores in the demographically desirable California, New York or Chicago areas. Friedman's did not return calls for comment, but Roberts of Sally Beauty Supply calls the chain "a good, affordable jeweler that offers excellent financing, and that bodes well for being in the same town center anchored by a Wal-Mart Supercenter."

As Wal-Mart modifies its merchandising strategy, this list of top co-tenants could very well change, says Veatch. Some fashion retailers, such as Cato or Fashion Bug, could retreat in some markets if Wal-Mart continues to expand its own fashion lines, she says. This spring Wal-Mart announced that it would expand its Metro 7 clothing line, which targets stylish women, from 500 stores to nearly 900.

But apparently, there will be no shortage of opportunities for many other Wal-Mart co-tenants. John Menzer, vice chairman of Wal-Mart Stores USA, said in February that the company is set to open about 350 stores this year and that it also has some aggressive growth plans for the near future.

Lead on bright star.