

Managing Wal-Mart

How U.S.-Store Chief Hopes to Fix Wal-Mart

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Each week, 100 million customers—more than one-third of the U.S. population—stream through Wal-Mart's doors. And to hear Eduardo Castro-Wright, the company's new chief executive officer of U.S. stores, tell it, those customers have been poorly served.

Stores don't have enough workers at the times shoppers need them most, particularly weekends, he has claimed, and merchandise hasn't been strategically selected to reflect customer demographics in individual neighborhoods. When he first arrived in the U.S. last year after leading Wal-Mart Stores Inc.'s Mexican division, he was shocked to learn that not one Wal-Mart store featured a machine for making tortillas, he recently told a Merrill Lynch & Co. analysts' conference. And don't get him started on the state of the women's bathrooms.

Eduardo Castro-Wright is tailoring each store's offerings to reflect neighborhood demographics.

Mr. Castro-Wright, 51 years old, has the daunting task of whipping into shape a 3,000-plus store division that, despite its vaunted reputation for efficiency, has grown fat and complacent. On the job just 14 months, he has spearheaded many of Wal-Mart's key efforts this year and is already being considered by suppliers and analysts as a contender to eventually succeed Wal-Mart CEO Lee Scott.

Mr. Castro-Wright's job is to wring more productivity out of each store, increase sluggish sales at stores open more than a year and improve the store experience to appeal to a more sophisticated consumer. To that end, he has been overhauling the system for scheduling work shifts, tailoring each store's offerings to its clientele's tastes, improving the presentation of merchandise, and speeding up store remodeling. He is also getting ready to trim half the employees in each store's accounting office. (He told analysts they will be offered other jobs within the chain.)

Not all of the moves are being applauded. A research report by HSBC Holdings PLC, a financial-services company, called Wal-Mart's beefed up remodeling plans "botox," designed to "arrest decline but not relaunch growth."

This month Wal-Mart is rolling out a new electronically driven pilot program for matching employees' work shifts more precisely with customer traffic patterns. Mr. Castro-Wright has said it will improve customer service markedly, but critics worry it could undermine morale because employees will have little say over what days and hours they work.

Wal-Mart executives have acknowledged that the retailer will also shift to a heavier reliance on part-time workers, who now account for roughly 20% of the work force, higher than the national average for retailers. A recent JP Morgan report said Wal-Mart plans to increase the ratio of its 1.2 million-member

U.S. hourly work force on part-time schedules to 40% from 20%, meaning the hours of as many as 240,000 workers could be cut below 34 a week, the threshold to be considered full time. Wal-Mart spokeswoman Mona Williams says the company has no "predetermined target."

Mr. Castro-Wright was born in Ecuador, where his grandfather built that nation's first grocery-store chain. Before joining Wal-Mart, he oversaw Nabisco's Asian-Pacific region and served as a corporate officer of Honeywell International Inc. Earlier this year, he became a director of Dow Jones & Co., the publisher of The Wall Street Journal.

Mr. Castro-Wright, who declined to comment for this article, brings an outsider's perspective and a sense of urgency to the task at Wal-Mart. At Wal-Mex, he presided over major improvements as operations chief from 2001 to 2003 and as CEO from 2003 to 2005. Under him, Wal-Mex refined its approach by tailoring the merchandise and format of each store to its customers' traits: The company's Bodega Aurrera outlets cater to low-income customers; its Wal-Mart supercenters serve midlevel customers; its Superama supermarkets offer groceries; and its Suburbia apparel stores cater to middle-income shoppers.

Mr. Castro-Wright's initiatives helped fuel a more than 50% jump in Wal-Mex's revenue to \$12.5 billion in 2005 from \$8 billion in 2000, and a surge in its sales per square foot to \$527 from \$470 in the same period. Meanwhile, he trimmed costs. The result: Wal-Mex's stock, which trades on the Mexican Stock Exchange, rose 72% during his tenure.

Mr. Castro-Wright moved to Wal-Mart's U.S. operations in January 2005 and was promoted to CEO of U.S. stores in September. Since then, he has told analysts and suppliers he aims to rededicate Wal-Mart to its "store of the community" program, which strives to match offerings to the clientele. At the same time, suppliers say, he intends to chop billions of dollars from Wal-Mart's inventory costs. Better to have six popular styles of toasters, including some high-end models, for example, than a dozen brands. "I think inventory clutters stores," he said at the Merrill Lynch conference.

To better tailor merchandise to each store, Mr. Castro-Wright overhauled Wal-Mart's regional executive structure, relocating managers to the regions they cover rather than having them commute each week from the headquarters in Bentonville, Ark. He has also given these managers more authority to make marketing decisions.

After beefing up the corporate marketing team, which is overseen by Mr. Castro-Wright, Wal-Mart is now relying on more customer-driven data to determine customer preferences. Research shows that Hispanics are loyal Wal-Mart shoppers for certain products but tend not to buy their food there. Wal-Mart is implementing a new food display that will feature a broader array of Hispanic food brands. It will also display

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products—from cakes to dresses—for quinceaneras, the popular celebration when Hispanic girls turn 15.

Mr. Castro-Wright was in such a hurry to get these managerial changes made, he implemented them during the holiday season—a bold but risky move. They haven't yet caused meaningful change, such as jump-starting sluggish sales, particularly of higher-margin general merchandise such as apparel and electronics. Still, early tests of stores with improved apparel offerings and displays have shown sales gains.

Wal-Mart's ambitious plan for upgrading rundown stores calls for remodeling 1,800 of them in 18 months by adding mock-hardwood flooring in the apparel area, widening aisles and upgrading bathrooms. Wal-Mart will improve the layout and fixtures in the electronics, apparel and baby departments. The latter will now be more of a destination, offering clothes and equipment along with diapers and food.

The speeded-up remodeling is an effort to reduce the variation among stores. "The [top] 800 stores perform in terms of [same-store sales] 10 times better than the bottom 800," Mr. Castro-Wright told analysts last October. "If we can reduce that [gap], move everything up, then we can certainly improve the overall performance of the company."

And it seems that no detail is too small for Mr. Castro-Wright to consider. Take accidents. He recently outfitted store managers and workers with both clean-up kits to mop up spills in store aisles and inflatable orange cones to mark them. And he got a new line added to the Wal-Mart cheer. After spelling out the company's name and shouting that the customer is always No. 1, Wal-Mart employees now yell: "What do we want to be? Accident free!"