

Pricing Study #56: WMT vs. TGT

Highest Price Points In Over A Year = Less Promo & Inflation

Our 56th consecutive monthly discount pricing study showed a more subdued promotional presence with a smaller amount of rollbacks/temporary price cuts hitting our baskets at Wal-Mart and Target, respectively. **The smaller percent of the basket on discount combined with some price inflation, in our view, translated into our like kind baskets (23 items) now standing at their highest totals in over a year (17 months at Wal-Mart and 18 months at Target).** Specifically, Wal-Mart and Target's like kind basket were 2.7% and 5.8% above the October 2009 prices, respectively, - see Figure 1 and Figure 2 herein.

Overall, Wal-Mart remained the price leader for a 17th consecutive month versus Target with the gap widening sequentially to 255 bps – above the historical spread of 175 bps. Importantly, as we highlighted in our October 19th Target First Call note entitled *"5% Rewards Explained, Kansas City Checks,"* if the customer shops Target with a Redcard, they would have the lowest priced basket after the 5% discount is applied at the register, a potentially dangerous competitive advantage, in our view, as the holiday shopping season begins.

- **Take #1: Wal-Mart Pricing Advantage Widens Sequentially.** Wal-Mart maintained its price leadership position for a 17th consecutive month, with the gap widening for the second consecutive period following a material narrowing on its pricing lead over the summer months. Specifically, Wal-Mart's price advantage stood at 255 bps this month compared to 126 bps in September and 88 bps in August. Of note, over the lifetime of our study, Wal-Mart has averaged a 175 bps pricing advantage over Target. However, while the pricing lead in October was ahead of the aforementioned historical average, it remains well below the spread of 482 bps in May (as a result of the deep discount rollback campaign at Wal-Mart).
- **Take #2: Target Reduced Promotions in October.** We attribute October's results to a much less aggressive pricing campaign at Target sequentially during our checks, which included 3 fewer items on temporary price cuts (5 total in October versus 8 in September) and 13 items overall that saw a price increase sequentially. On average, the 5 items on TPC were 4.7% lower than Wal-Mart in price well below the impressive 21.5% price advantage at Target on TPC items in September. These items included Clorox Bleach and Swiffer Sweeper cloths this month.
- **Take #3: Wal-Mart Rollbacks Have Faded Into The Sunset.** While rollbacks remain a part of the store's pricing communication, our observations suggest Everyday Low Price is 100% the emphasis going forward. To this point, of the 50 SKU's, only 2 items of the basket were on rollback this month versus 5 in September, 9 in July, and 14 in May. Interestingly, the 2 items on rollback did not translate into a price advantage this month (equal with Target prices) despite rollbacks accounting for a 4.1% price advantage in September. Recall, rollback items had a 15.6% advantage versus comparable products at Target back in May.

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- **Take #4: Prices For Like Kind Basket Stands At Highest Points In Over a Year as Inflation Potentially Plays Role.** Sequentially, the total basket for the 23 regularly selected items from our past samples rose at both Wal-Mart and Target sequentially. The baskets now both stand at their highest totals in over a year (17 months at Wal-Mart and 18 months at Target) partly due to inflation. Specifically, Wal-Mart's basket increased for the fifth consecutive month, up 0.69% from September to \$116.29, which was also a 2.7% increase YOY – the fourth consecutive YOY increase. Target's basket saw a considerable move upward sequentially – rising 4.73% in October to \$120.24 following a 1.43% decline last month. The result represented a 5.8% increase YOY in Target's basket, the second consecutive YOY rise, after September's increase represented the first in the past 13 months.
- **Take #5: Wal-Mart Regains Pricing Lead In Grocery.** Breaking down our basket of 50 items between food (19 SKUs or 38%) and general merchandise, Wal-Mart held the price leadership position on both categories in October. While the lead on general merchandise represented the 16th consecutive pricing advantage for Wal-Mart, its lead in food was the company's first in six months. The price lead in food of 2.3% by Wal-Mart this month compares to a 289 bps lead by Target last month and an average lead of 115 bps by Target over the past six months. We believe the large month-over-month change reflects a combination of inflation pass-through and less aggressive promotions at Target. On general merchandise, prices at Wal-Mart were 2.6% less expensive than Target, similar to its price lead in September although modestly below its 333 bps average over the past 6 months.
- **Take #6: Christmas Prices Now Available.** The seasonal areas of both Target and Wal-Mart quickly moved out of Halloween and into Christmas as showcased by the shelves of ornaments, décor, toys, and other gifts. Wal-Mart, in particular, got a jumpstart to the holiday season with its Top 10 toys already set up near the front aisle. Checking the price of a handful of the items, we noticed sharp price reductions of up to 33% off. Not to be outmatched, each of the prices we viewed were the same at Target.

Discounters - Wal-Mart & Target

Step #1 - Head-to-Head Competition:

Results from our 56th pricing comparison between Wal-Mart and Target indicate that the former maintained its price leadership position. As part of the pricing study, we selected 50 SKUs for comparison purposes with all of the items remaining the same as the previous month. Note that we also continue to track a like kind basket which compares 23 of the 50 items to gauge long-term pricing trends.

In October, Wal-Mart maintained its price leadership position for a seventeenth consecutive month, with the gap widening for the second consecutive month following a material narrowing on its pricing lead over the summer months. Specifically, our selected basket for WMT held an average price of \$4.98 (per item) compared to \$5.11 (per item) at TGT, or a difference of \$0.13. As a point of reference, as seen in Table 1 below, the October gap is slightly above the average delta of \$0.11 or 223 bps (in Wal-Mart's favor) over the past six months. Said differently, Wal-Mart's price advantage stood at 255 bps this month compared to 126 bps in September and 88 bps in August. Of note, over the lifetime of our study, Wal-Mart has averaged a 175 bps pricing advantage over Target.

Table 1: Pricing Analysis – Discounters (5/10-10/10)

Month	Basket Size	Wal-Mart vs. Target	
		Avg. Price Delta	% Delta
Oct-10	50	(\$0.13)	(2.55%)
Sep-10	50	(\$0.06)	(1.26%)
Aug-10	50	(\$0.04)	(0.88%)
Jul-10	50	(\$0.07)	(1.36%)
Jun-10	50	(\$0.12)	(2.49%)
May-10	50	(\$0.24)	(4.82%)
Average		(\$0.11)	(2.23%)

Source: Company data and J.P. Morgan estimates. Note: Basket size represents a randomly selected sample of SKUs.

Table 2: Average Price/Unit & Total Basket Price (5/10-10/10)

Month	Wal-Mart		Target	
	Average Price	Total Basket	Average Price	Total Basket
Oct-10	\$4.98	\$249.20	\$5.11	\$255.71
Sep-10	\$5.01	\$250.41	\$5.07	\$253.61
Aug-10	\$5.02	\$250.85	\$5.06	\$253.08
Jul-10	\$5.00	\$250.00	\$5.07	\$253.44
Jun-10	\$4.86	\$243.16	\$4.99	\$249.36
May-10	\$4.81	\$240.45	\$5.05	\$252.63
Average	\$4.95	\$247.35	\$5.06	\$252.97

Source: J.P. Morgan estimates, Company data. Note: Basket represents 50 items

Table 3: Number of SKUs that Wal-Mart Has Price Advantage (5/10-10/10)

Month	Basket Size	WMT lower	% of WMT lower	Same	TGT lower
Oct-10	50	33	66%	6	11
Sep-10	50	28	56%	8	14
Aug-10	50	32	64%	4	14
Jul-10	50	31	62%	5	14
Jun-10	50	35	70%	3	12
May-10	50	33	66%	4	13
Average		32	64%	5	13

Source: J.P. Morgan Economics.

As shown in the table above, Wal-Mart had a lower price on 33 of the 50 SKUs we priced in October, or 66%, up substantially from the 56% result in September and also above the 64% average over the past 6 months. We also note that Wal-Mart and Target were similarly priced on an additional 6 of the 50 items, compared to 8 in the previous month. We attribute October's results to a much less aggressive pricing campaign at Target sequentially during our checks, which included 3 fewer items on temporary price cuts (5 total in October) and 13 items overall that saw a price increase sequentially.

Table 4: Food & General Merchandise Price Delta (5/10-10/10)

Month	Total Basket	Food Basket	% Food	Wal-Mart vs. Target	
				Food % Delta	GM % Delta
Oct-10	50	19	38%	-2.31%	-2.63%
Sep-10	50	19	38%	2.89%	-2.60%
Aug-10	50	19	38%	0.56%	-1.36%
Jul-10	50	19	38%	4.64%	-3.28%
Jun-10	50	19	38%	1.10%	-3.69%
May-10	50	19	38%	0.02%	-6.42%
6 mo Average		19	38%	1.15%	-3.33%

Source: J.P. Morgan estimates, Company data.

Breaking down our study between food and general merchandise, Wal-Mart held the price leadership position on both categories in October, which is a change from recent studies. To this point, while the lead on general merchandise represented the 16th consecutive pricing advantage for Wal-Mart, its lead in food was the company's first in six months.

Specifically, our basket of 50 items was comprised of 38% food items (19 SKUs) with the balance general merchandise items. **The 2.3% price lead in food by Wal-Mart this month compares to a 2.9% bps lead by Target last month and an average lead of 115 bps by Target over the past six months. We believe the large month-over-month change reflects a combination of inflation pass-through and less aggressive promotions at Target.** On general merchandise, prices at Wal-Mart were 2.6% less expensive than Target, similar to its price lead in September although modestly below its 333 bps average over the past 6 months.

Step #2 - Identical SKU Study:

Within our October selection of 50 SKUs each of the products was the same as the previous month in order to better capture Wal-Mart's rollback campaign earlier this spring. **Interestingly, the 50 SKU's, only 2 items of the basket were on rollback this month versus 5 in September, 9 in July, and 14 in May.** Of note, the 2 items on rollback did not translate into a price advantage this month despite rollbacks accounting for a 4.1% price advantage in September. As a point of reference, rollback items had a 15.6% advantage versus comparable products at Target back in May.

We noticed that Target was less aggressive in pricing relative to last month with 5 temporary pricing cuts (TPC) or limited time only sales hitting our basket in October compared with 8 in September. On average, the 5 items on TPC were 4.7% lower than Wal-Mart in price well below the impressive 21.5% price advantage at Target on TPC items in September. These items included Clorox Bleach and Swiffer Sweeper cloths.

Turning to the regularly 23 selected items from our past samples since March 2006, Wal-Mart regained the price leadership position. Specifically, prices at Wal-Mart were lower by \$0.17, on average, implying a 3.3% delta which compares to a spread of 60 bps in Target’s favor in September. As a point of reference, over the past six months, Wal-Mart has averaged a price lead on identical SKU’s of 190 basis points.

Table 5: Like Item Comparison (5/10-10/10)

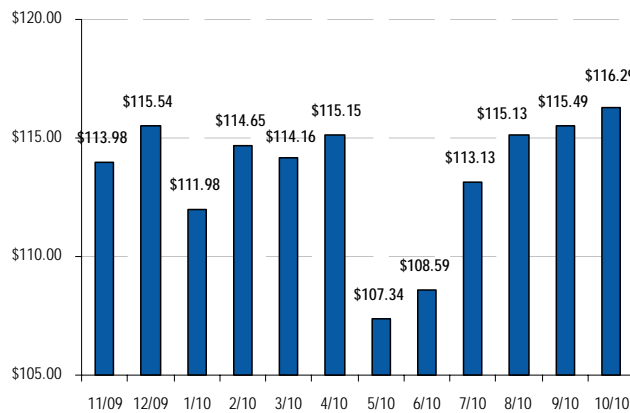
Month	Basket Size	Wal-Mart vs. Target	
		Avg. Price Delta	% Delta
Oct-10	23	(\$0.17)	(3.3%)
Sep-10	23	\$0.03	0.6%
Aug-10	23	(\$0.06)	(1.2%)
Jul-10	23	(\$0.06)	(1.3%)
Jun-10	23	(\$0.06)	(1.3%)
May-10	23	(\$0.24)	(5.0%)
Average		(\$0.10)	(1.9%)

Source: Company reports and J.P. Morgan estimates

Step #3 – Like-Kind Basket Analysis:

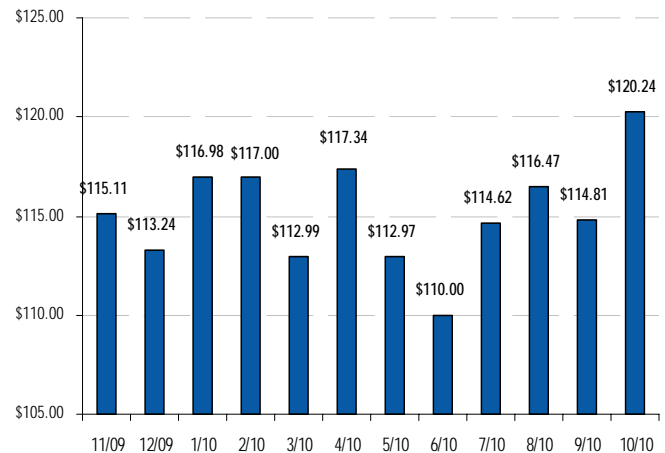
As illustrated in the figures below, the total basket for the 23 identical items rose at both Wal-Mart and Target sequentially. In fact, the baskets now both stand at their highest totals over the past year, potentially partly due to some inflation. Specifically, Wal-Mart’s basket increased for the fifth consecutive month, up 0.69% from September to \$116.29, which was also a 2.7% increase year-over-year – the fourth consecutive rise. In addition, Target’s basket saw a considerable move upward – rising 4.73% in October to \$120.24 following a 1.43% decline last month. The result represented a 5.8% increase YOY in Target’s basket, the second consecutive rise, after September’s YOY increase represented the first in the past 13 months.

Figure 1: Wal-Mart (11/09-10/10)



Source: J.P. Morgan Data

Figure 2: Target (11/09-10/10)



Source: J.P. Morgan Data.

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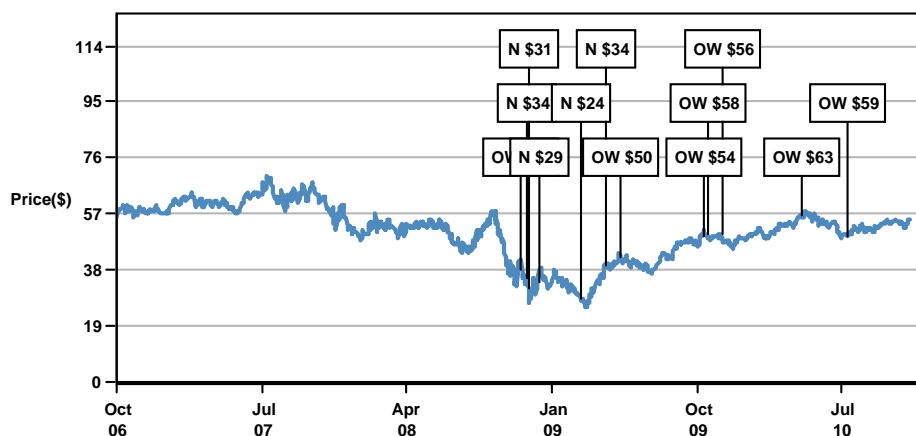
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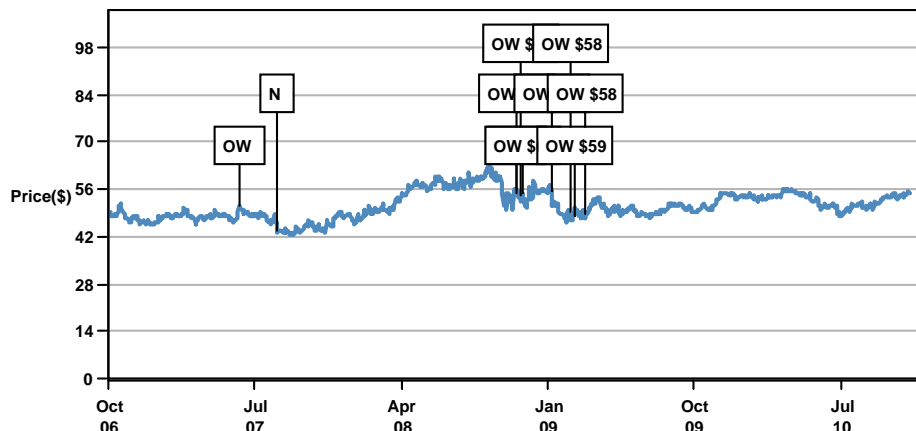
Target Corporation (TGT) Price Chart



Date	Rating	Share Price (\$)	Price Target (\$)
31-Oct-08	OW	38.39	46.00
14-Nov-08	N	35.33	34.00
18-Nov-08	N	31.68	31.00
05-Dec-08	N	34.04	29.00
24-Feb-09	N	28.43	24.00
13-Apr-09	N	39.89	34.00
08-May-09	OW	42.67	50.00
13-Oct-09	OW	49.60	54.00
20-Oct-09	OW	50.39	58.00
17-Nov-09	OW	50.29	56.00
15-Apr-10	OW	56.60	63.00
12-Jul-10	OW	49.16	59.00

Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.
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Wal-Mart Stores, Inc. (WMT) Price Chart



Date	Rating	Share Price (\$)	Price Target (\$)
04-Jun-07	OW	51.21	--
14-Aug-07	N	43.82	--
31-Oct-08	N	54.75	56.00
03-Nov-08	OW	55.97	65.00
10-Nov-08	OW	54.39	64.00
13-Nov-08	OW	54.93	62.00
08-Jan-09	OW	55.54	59.00
09-Feb-09	OW	49.28	58.00
18-Feb-09	OW	48.24	59.00
10-Mar-09	OW	48.67	58.00

Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends. This chart shows J.P. Morgan's continuing coverage of this stock; the current analyst may or may not have covered it over the entire period. J.P. Morgan ratings: OW = Overweight, N = Neutral, UW = Underweight.

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