When Wal-Mart enters the scene, a shakeout begins. Savvy retailers know that market share will change hands like never before. They add stores as competitors' sales decline—either by building new ones or by buying the assets of dying rivals. By being prepared to capture share just as rapidly as Wal-Mart does, aggressive competitors end up even stronger than before. Target has used this approach to attract and keep customers who once patronized now-defunct Ames, Bradlees, Venture, Jamesway, and Caldor.

Next, winning competitors carefully segment their customers and then wow the ones that matter most. They cater to targeted segments, expanding signature categories, customizing local assortments, and raising loyalty benefits. Because Wal-Mart seldom takes even as much as 30% of any regional market, 70% or more of the market remains for fairly priced competitors to serve in ways that Wal-Mart can't—whether it's with personal attention or ten types of tomatoes.

Winners also develop more rigorous pricing strategies. Wal-Mart's entry marks the end of hunch-based pricing, since it puts price gaps so squarely in the spotlight. Successful competitors therefore sharpen their analysis of price elasticity curves, geographic pricing zones, and the implications of everyday pricing versus high-low promotions for each product category. They expand and accelerate the gathering of competitive intelligence and train local store managers to quickly identify pricing opportunities or vulnerabilities.

Finally, because market prices generally decline as much as 10% when Wal-Mart enters a market, winning competitors scrutinize their supply chains, store labor deployment, marketing programs, and overhead costs to eliminate every wasted dollar. Competing against a behemoth enjoying 22% lower costs than an average retailer is tough. The key to survival? Play the bear's game while others become it.

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