

Walmart Outlines Strategy for Combating US Discounters

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At the Bank of America Merrill Lynch 2017 Consumer & Retail Technology Conference, Walmart offered insight into its strategy for competing with Aldi and Lidl. Walmart CEO Doug McMillon summed up the plan as finding disadvantages the discounters have and using them to play to Walmart's strengths.

Combatting the Threat of Discounters Starts with Assortment

- **Product Quality:** While discounters traditionally lead the industry in price, they have lagged behind mainstream players in product quality perception. A key part of Walmart's strategy will be ensuring that the quality of its products, not just the price, resonates with shoppers and using it to drive product loyalty.
- **Private Brands:** High percentage of private label products, generally 80%-90% of SKUs, enable discounters to offer lower prices. McMillon explained that private brands will become a larger part of Walmart's future assortment and that Walmart will focus on product-driven loyalty.
- **Product Sizing:** Walmart will adopt a method used by discounters to keep prices low—selling products in non-standard sizes. McMillon clarified this will be harder to integrate with off-brand products than with branded products, so the change will likely be initiated with national brands in the short term.
- **Product Engineering:** Discounters have been able to reduce the labor costs of restocking shelves by having products delivered in shelf-ready packaging. Walmart plans to reduce friction in inventory replenishment by finding ways to innovate with speed.

Increasing Efficiencies and Negotiations to Facilitate Lower Prices

- **Supplier Negotiations:** McMillon provided that Walmart had shifted from its traditional EDLP strategy a few years ago as it began to run more print ads that were partially funded by suppliers. When the retailer moved away from advertising, it negotiated with suppliers to transfer the funding to invoicing and lowering costs to enable EDLP. Walmart will likely continue to leverage supplier relationships to drive lower prices.

- Inventory Reductions: Discounters have been able to reduce store costs and therefore lower prices by selling fewer SKUs and stocking less inventory. Walmart has made lowering inventory a priority in recent quarters, adopting another discounter tactic to streamline operating efficiency.

Using Operating Discipline to Renovate Existing Stores

- Store Investment: Walmart reiterated its strategy of investing in existing stores, specifically calling out the supercenter that opened in Lake Nona, Florida in February. McMillon explained that the Lake Nona supercenter is an example of where Walmart plans to allocate its store investment.
- Format Experimentation: While Walmart has limited new store openings in favor of renovating existing stores, it will experiment with different types of stores, particularly supercenters. In addition to the tech-enabled supercenters that recently opened, Walmart has experimented with smaller format stores in the last few months, though these were not singled out during the conference

Grocery Ecommerce & Fulfillment Capabilities Will Continue to Be a Priority

Though not mentioned specifically as part of its strategy to compete with discounters, ecommerce & fulfillment will remain a key differentiator for Walmart in the food-selling space, particularly from discounters.

- Improved Fulfillment Experience: Walmart has specified plans to increase the efficiency of its grocery pickup service by managing the back-end to speed up the flow of products, moving the refrigeration units closer to the pickup area, and making the outside experience faster.
- Delivery Option: While Walmart's grocery delivery option is not fully established in the US, McMillon mentioned that he wants to develop capabilities for both delivery and pickup so shoppers can choose depending on their lifestyles. He called out Asda's developed delivery service to note that Walmart has experience with the option, despite it not being widespread in the US.