

## Walmart Gaining Traction – What Suppliers Need To Know

May, 2017

The world’s largest retailer has posted relatively strong results for the first quarter of the year, thanks to a surge in online sales. This continues the momentum generated by the retailer in the US over recent quarters. However, suppliers need to be aware of key changes to Walmart which may impact their own growth in the future.

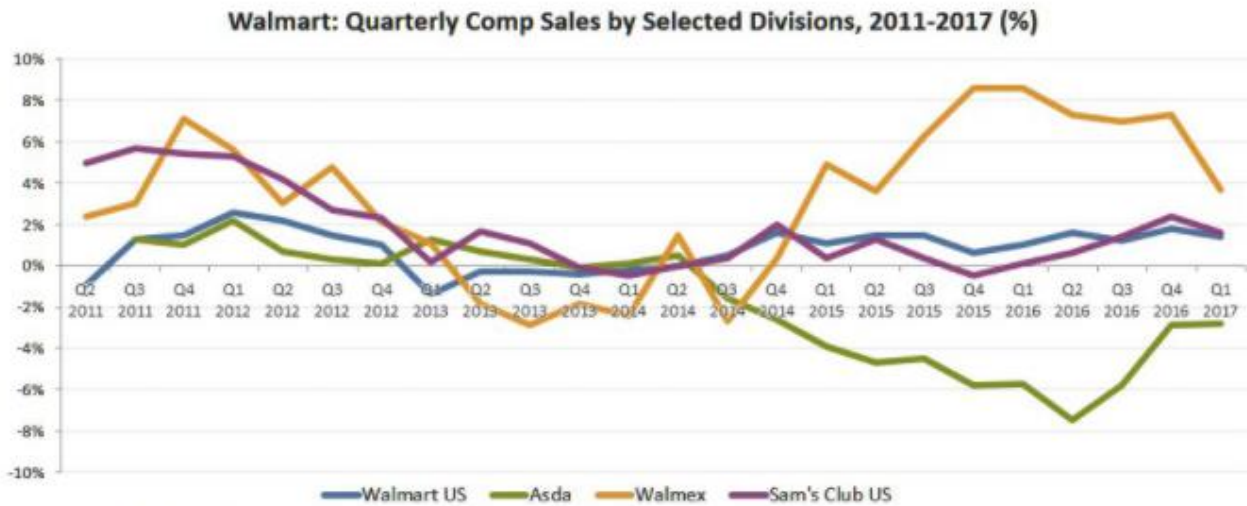
### Online sales surge as Walmart makes ground

A key highlight of the quarter was an impressive 63% rise in e-commerce sales for Walmart US, with GMV up 69%. To put this in context, it was only 12 months ago in Q1 2016 where e-commerce sales were up by “just” 7%, a rate of growth blasted by Doug McMillon at the time as being “too slow”.

| Walmart Q1 2017: Revenue and Operating Income by Division |               |               |              |                  |               |              |
|-----------------------------------------------------------|---------------|---------------|--------------|------------------|---------------|--------------|
|                                                           | Q1 2017       | Q1 2016       | % YoY Change | % YoY Comp Sales | % YoY Traffic | % YoY Ticket |
| <b>Revenue (USD bn)</b>                                   | <b>117.54</b> | <b>115.90</b> | <b>1.4</b>   |                  |               |              |
| Walmart US                                                | 75.43         | 73.29         | 2.9          | 1.4              | 1.5           | -0.1         |
| Walmart International                                     | 27.02         | 28.08         | -3.5         |                  |               |              |
| Sam's Club                                                | 13.99         | 13.61         | 2.8          | 1.6              | 1.1           | 0.5          |
| <b>Operating Income (USD bn)</b>                          | <b>5.24</b>   | <b>5.27</b>   | <b>-0.7</b>  |                  |               |              |
| Walmart US                                                | 4.27          | 4.23          | 0.9          |                  |               |              |
| Walmart International                                     | 1.16          | 1.16          | -0.1         |                  |               |              |
| Sam's Club                                                | 0.41          | 0.41          | 0.2          |                  |               |              |

Source: Walmart

What a difference a year makes, thanks to acquisitions of Jet, an online product range which currently numbers 50 million SKUs (compared to 10 million 12 months earlier) and the ongoing introduction of a range of supporting services and initiatives. Of these, it is worth highlighting Pickup Discount, where customers can order non-store products online and receive a discount for picking these items up instore and free two-day shipping with a basket size of USD35 or more on select items. The online grocery service has now been expanded to include nearly 670 locations in the US.



Despite a number of high-profile online acquisitions, the majority of the e-commerce growth in Q1 was organic through Walmart.com. The purchase of specialists such as ModCloth and Moose Jaw, have helped to improve the assortment, while allowing Walmart to gain critical category expertise in higher-margin categories like shoes and apparel. But, as McMillon explained: “The majority of our growth is and will be organic. The acquisitions are helping us speed some things up.”

### RECOMMENDATIONS

*Linking online with its stores is seen as a crucial advantage for Walmart over Amazon and is therefore likely to be a key focus area over the next 12 months.*

*Suppliers should be supporting Walmart's aims through expanded online ranges, as well as looking to drive loyalty online and offline through combined promotions and even sampling programmes.*

### Walmart sharpening prices in anticipation of tougher times

Walmart’s Q1 results announcement came immediately after a briefing held by Lidl revealing its first US stores will open on 15 June. Lidl’s US CEO Brendan Proctor predicted the company would succeed as a result of superior efficiency and sourcing that would provide quality products at a good value, with “market-beating” prices up to 50% less than conventional grocery stores.

There was no mention of Lidl (or fast expanding discount rival Aldi) by Walmart’s management in the Q1 results, but it’s hard to believe the new protagonist hasn’t been top of mind at Bentonville in recent months.



*Club Pickup has been a major success at Sam's Club since its introduction. © Walmart*

Walmart has already been lowering prices over the past year to ward off home-grown threats such as Dollar General and Kroger. However, the -0.1% comp ticket fall, compared to +0.4% and +0.5% in Q4 and Q3 2016 respectively suggests that the past quarter has seen price investments ramped up further. This is supported by reports from the quarter stating that Walmart has requested a 15% price cut from grocery suppliers as it tests lower prices on a range of grocery products across 1,200 stores in 11 states. In addition, the quarter saw a -7.3% reduction in comp store inventory, on top of a similar drop in Q4.

With price competition increasing and pressure on retailer profitability likely to remain (and in many cases with margins lower than that achieved by FMCG suppliers), suppliers, if they haven't already, may well have to get used to requests for price cut demands (from WMT and others) in the future.

In addition, it seems likely that Walmart will push private label penetration as a way of adding pressure on suppliers and offering low prices on key lines to compete with the own brand heavy discounters. McMillon revealed he was "excited" by how they are ramping up the private brand offering with "improved quality and compelling new items". At Sam's Club, for example, they've streamlined 20 private brands into one and will be introducing 300 new Member's Mark items this year.

#### RECOMMENDATIONS

*There are clear opportunities for private label manufacturers, although Lidl's entry is likely to further reinforce Walmart's need for quality products rather than just inexpensive ones.*

*For many suppliers, Walmart is their largest customer – so investing in strengthening their key brands and focusing on innovating are two ways they can limit direct comparison and make themselves invaluable.*

*Reduction in comp store inventory is likely to continue – so suppliers should accelerate efficiency attempts as their products move through DCs.*

#### Sam's Club sees Pickup take-off

With comp sales (excluding fuel) up by 1.6%, led by comp traffic up by 1.1%, Sam's Club has now reported its fifth straight quarter of comp growth. Under new CEO John Furner, Sam's is looking to ramp up its private label range and brand positioning while also driving digital growth. Club Pickup increased nearly 30% during the quarter.

#### RECOMMENDATIONS

*Tapping into the digital and Pickup opportunity (which has been slower to take off) could enable suppliers to offer a broader range than through the stores alone.*

*Supporting through initiatives such as Sam's Club's online Tastes & Tips sampler bags – which offers free samples for online or Pickup purchases is a win-win for all concerned.*