

The Big Read Walmart Inc

How a resurgent Walmart saw off the Amazon threat

A decade ago, its huge stores looked outdated as online sales grew. Now they are pulling in more customers than ever

Gregory Meyer in Bentonville, Arkansas

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Influencers, photographers and models circulated around elegantly hung clothes at a launch event for a pop-up store tied to New York Fashion Week.

A neighbouring Chanel boutique in the city's SoHo shopping district was selling denim jackets for \$4,400. But the pop-up was offering \$38 faux leather jackets and jeans for \$26. The owner was not a designer label; it was Walmart.

"We have been on this mission to democratise fashion," Denise Incandela, executive vice-president for fashion at Walmart US, told the stylish crowd last week. "I hope you feel that we're making progress based on the prices that you see today and the incredible quality."

The event was another sign of Walmart's audacious quest for growth. Once known for squeezing mom-and-pop merchants out of town squares, Walmart is now pulling market share from nationwide competitors in the country's malls and along its highways. The consumer goods companies that supply it are becoming its customers, spending heavily on advertising placements and buying shopper data.

Less than a decade ago, investors feared for the group's future as ecommerce sales grew rapidly. In 2015 Amazon overtook Walmart's market capitalisation, its slick delivery services making huge stores on the edges of towns seem anachronistic.

Walmart revenue has risen steadily, but the group aims to grow profits faster than sales

Source: Bloomberg, company reports, S&P Global Market Intelligence

Many expected Amazon's 2017 acquisition of Whole Foods to presage an assault on the US grocery market. In the year to January 2019, Walmart reported its lowest net income since fiscal 2002.

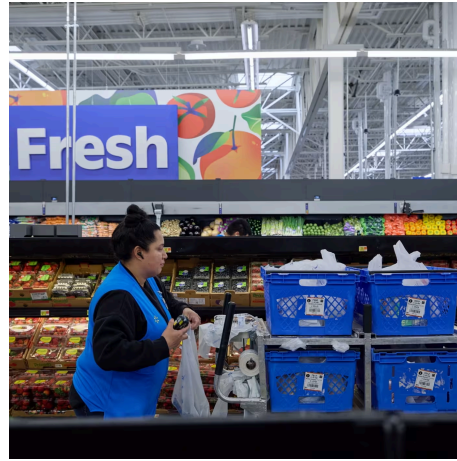
Today, the company founded by Sam Walton 63 years ago is resurgent. Analysts expect it to report a record \$681bn of revenue when it releases full-year results on February 20, maintaining its status as the world's largest company by sales.

Walmart executives, interviewed at its Bentonville, Arkansas headquarters last month prior to its pre-results quiet period, say the investments it has made in online infrastructure are paying off.

Ecommerce sales have been expanding by more than 20 per cent a year. Group-wide, 18 per cent of revenue is now generated online and its marketplace lists more than 700mn items from third-party merchants. Walmart shares have outperformed the market and some analysts predict it will become the world's first \$1tn retailer (though Amazon is still worth more).



Outfits on display during New York Fashion Week under the Scoop and Free Assembly brands, part of what one Walmart executive described as its 'mission to democratise fashion' © Gregory Meyer/FT



A Walmart worker picks items for delivery to customers at a shop in Springdale, Arkansas. The retailer's top priorities include automating its stores and warehouses © Melyssa St. Michael/FT

"Walmart is rapidly transforming itself into a tech company akin to Amazon," says Nikki Baird, vice-president of strategy and product at Aptos, a retail software company. "I view those two in a category by themselves, and then everybody else is retail."

The recovery is part of a wider pattern in US retail. "The big are getting bigger. It's just as simple as that," says Jodi Love, a portfolio manager at investment firm T Rowe Price. Half of the recent growth in US retail sales has been absorbed by just three companies: Walmart, Amazon and the warehouse club chain Costco, according to Morgan Stanley.

Walmart has faced recriminations over its power as the largest single food retailer in America, while the Trump administration's tariffs on goods from China and plans for mass deportation may pose fresh challenges.

But it has been a beneficiary of the worst US inflation in generations, as consumers seek out its bargain prices, and its scale leaves it better placed than rivals.

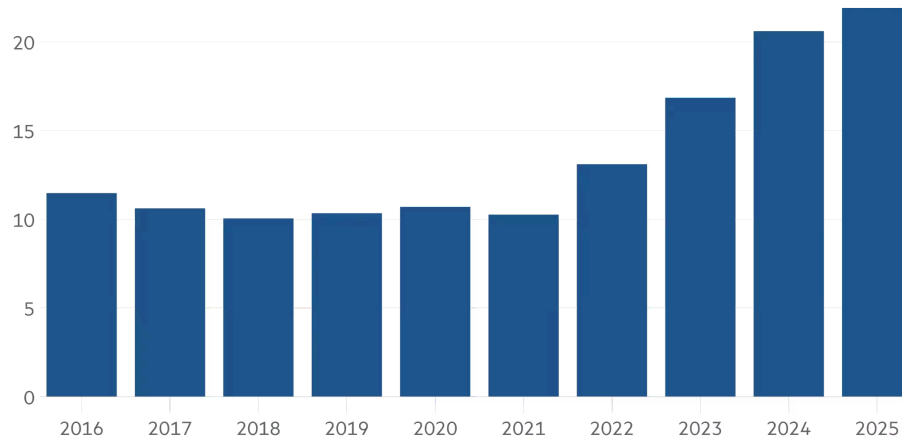
According to Love, smaller and mid-sized retailers and grocers "can't compete any longer with the capabilities that Walmart has invested in over the past decade".

For all its colossal scale, Walmart still fosters an almost familial veneration of its late founder, who died in 1992.

Frugal and tough, Walton made his executives share hotel rooms while on business trips. His company's longtime "home office" in Bentonville started life as a warehouse and is clad in utilitarian corrugated steel and brick.

Walmart has ramped up spending on ecommerce and automation

Capital expenditure, \$bn



2025 figure is a forecast

Sources: Walmart, S&P Global Market Intelligence

Walmart employees have now started moving into a new 350-acre campus on the other side of town. Landscaped with native plants and criss-crossed by cycle paths, it is home to the Sam Walton Hall — featuring an atrium inscribed with his sayings and stocked with copies of his autobiography. His vintage two-seater Ercoupe plane hangs from the ceiling.

Walton's fundamental insight was to win the trust of consumers by promising the same low prices every day, rather than keeping them guessing with sales and promotional gimmicks.

His successors are keeping the faith. "We want to do everything we can to keep prices as low as possible," says John Furner, the chief executive of Walmart's US business. "And we are always working on that." The son of a Walmart manager, Furner played guitar in a rock band called Smashing Prices with other senior Walmart executives over the festive season.

While Walmart still keeps an iron grip on costs, it has been investing heavily. Under group chief executive Doug McMillon, capital spending has doubled to more than \$20bn a year.

Among the top priorities is automating its stores and warehouses. All 42 of Walmart's US regional distribution centres are being fitted out with robots that assemble pallets categorised by department to speed up stocking when they arrive in stores.

Walmart also plans to extend automated pick-up and delivery annexes to 400 US stores, from 22 at present. In these, robotic trolleys pick high-volume items from racks in a separate area of the store to fulfil online orders, reducing congestion in aisles where human pickers work among customers.



Latriece Watkins, the retailer's chief merchandising officer, says her team focuses on achieving 'a win for the customer, a win for Walmart and a win for the suppliers' © Melyssa St. Michael/FT



John Furner, chief executive of Walmart's US business, says the retailer does 'everything we can to keep prices as low as possible' © Melyssa St. Michael/FT

In the company's vast Supercenters, clerks scan stacks of inventory with their phones to learn which shelves must be restocked and where to find supplies in storerooms. A phone-based artificial intelligence tool enables managers to plan worker shifts in five minutes, a task that once took an hour, while digital shelf-edge labelling will end the chore of manually updating price tags.

"We want to be the low-cost provider. We want customers to think of us as the place to go to get the lowest prices on anything that they want to buy," says John David Rainey, chief financial officer. "To do that, we have to have the lowest cost to serve."

The group's stores are also at the heart of its pursuit of Amazon in ecommerce, a business that includes both online orders picked up by customers and those delivered to homes.

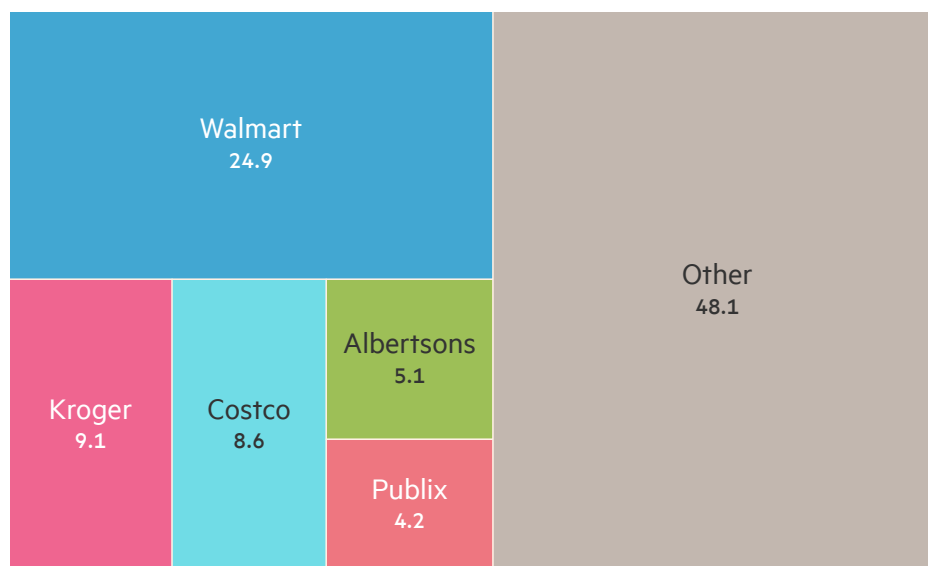
It has about 4,600 Walmarts in the US, while Sam's Club, a members-only chain selling at wholesale prices, has another 600. As a result, 90 per cent of Americans live within 10 miles of a Walmart-owned store — and the company is opening new locations for the first time in years.

Walmart's attachment to physical stores is partly grounded in the belief that they are the most logical way to deliver fresh goods. "E-grocery is unlike any form of commerce because of the perishability of the product," says John Lert, an inventor who has worked closely with Walmart. "You need to be close to the customer to be profitable selling food."

This week in Secaucus, New Jersey, construction workers were busy building an annex on a Supercenter to expand online pick-up and delivery. Furner says people using these services tend to have higher incomes than the typical in-store shopper. Households earning more than \$100,000 a year account for 75 per cent of Walmart's recent market share gains, executives have said.

Walmart accounts for a quarter of all US grocery sales

Top five grocery retailers by \$ share, Oct 2023-Sep 2024 (%)



Among them might be Fred Leck, a 72-year-old Wall Street retiree leaning on his Subaru in Secaucus, waiting for a store clerk to wheel out the groceries he ordered on the Walmart.com app.

Leck says price is not Walmart's principal draw for him. "It's just the convenience. I get to park here and people come out," he says.

Research firm Forrester estimates that Walmart and Amazon will together control two-thirds of a projected \$1.1tn in US ecommerce sales by 2029. While ecommerce is not yet profitable for Walmart, Rainey predicts it will be at a global level in a year or two.

"This is not something where I have to squint my eyes and look far out to the future," he says.
 "We're really close."

Last year, the Playa Vista tech and media district of Los Angeles welcomed a new arrival: Walmart Studios.

The 80,000 sq ft facility was built so the retailer could produce more advertising content in-house. "People think of us for our low prices, and may think of us for our consumables and our grocery. We want to be known for more than that," David Hartman, vice-president of creative, told a conference last month.

But [Walmart has also entered the business of selling advertising](#) to suppliers and sellers using its online marketplace. The Walmart Connect retail media service allows them to pay for better exposure to the 170mn US customers who visit Walmart every week.

[Advertising income](#) and fees from the customers who sign up to Walmart+, an Amazon Prime-style membership scheme with free home delivery, accounted for a third of the company's \$6.7bn in operating profit in the third quarter, Walmart has said.

Seth Dallaire, Walmart's chief growth officer and a former advertising sales executive at Amazon, says: "There's a whole menu of investments where the revenues generated by advertising or membership or data ventures can be used."



Senior Walmart leaders during a morning meeting in the Sam Walton Hall auditorium, part of the company's new headquarters in Bentonville, Arkansas
 © Melyssa St. Michael/FT

Walmart is also investing further in its marketplace, where the company takes a cut of sales made by third-party vendors rather than owning the inventory itself. The 700mn lines on sale there range from everyday necessities to high-end handbags and jewellery from the likes of Hermès and Chanel.

Just as Walmart has become both an advertising buyer and seller, its own suppliers have found themselves buyers of data and enhanced marketing exposure from Walmart.

It is a slightly uneasy relationship. A former executive from a consumer goods company recounts that when Walton first launched Retail Link, a pioneering platform that allowed Walmart to share information with consumer goods companies, it did not charge them for data. Now it does.

"It's a much muddier equation," says Jeff Clapper, chief executive of 8th & Walton, a Bentonville-based consultant to Walmart suppliers. "It inevitably runs into a space where you're like, well, we're kind of moving money from one pocket to the other, and it's ultimately complicating the entire thesis of everyday low price, everyday low cost."

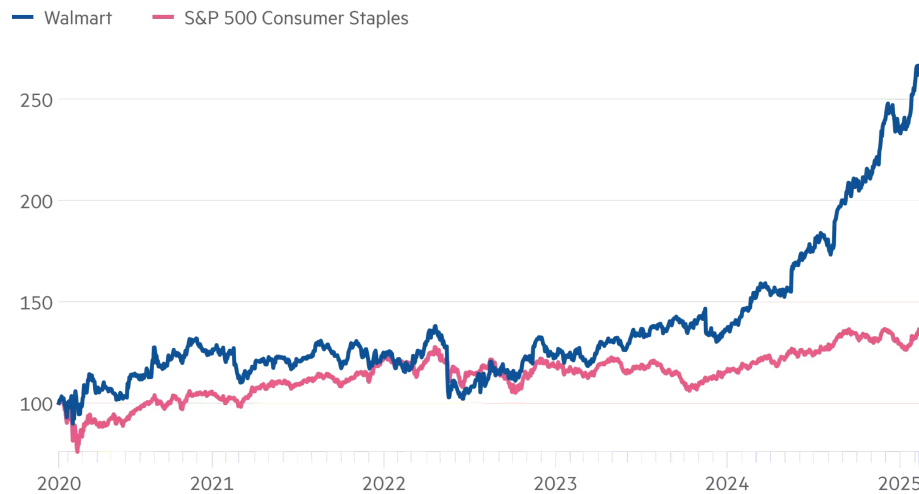
Walmart's scale means suppliers work hard to maintain good relations. Cincinnati-based Procter & Gamble, the maker of Tide soap and Crest toothpaste, was the first to open a satellite office in north-west Arkansas to serve Walmart, which today accounts for about 16 per cent of its global sales.

The region now has 1,600 Walmart suppliers and vendors, estimates Brandom Gengelbach, chief executive of the Greater Bentonville Area Chamber of Commerce, which maintains a special "Walstreet" membership tier for them. The logos of brands such as Coca-Cola, General Mills, Kellogg's and PepsiCo top glass office towers across the road from the 11,000-seat Walmart Amp amphitheatre south of Bentonville.

The Federal Trade Commission last month accused Pepsi of giving a "massive" big-box retailer [unfair advantages](#) over its rivals such as payments for promotional displays. The retailer was Walmart, according to a source familiar with the matter.

Walmart has outperformed other consumer staples stocks

Share price and index rebased



Source: LSEG via markets.ft.com

Pepsi disputes the allegation and Latriece Watkins, Walmart's chief merchandising officer, says she does not know how the retailer's wholesale costs compare with those of rivals.

"We want our suppliers to win," she tells the FT. "The merchant team and I talk a lot about triple wins: a win for the customer, a win for Walmart and a win for the suppliers."

Brands attempting to increase prices often meet resistance from retailers, but when Walmart pushes back they take notice. Chris Nicholas, chief executive of Sam's Club, cites the example of DiGiorno, a best-selling [frozen pizza](#) made by Swiss conglomerate Nestlé.

"They wanted to inflate the price. We didn't think that was a good idea," Nicholas says. "Their response to that was to reduce the quality of cheese and the quality of meat and reduce the size of the pizzas, and we don't think that's right for our members."

Sam's Club created its own version of the pizza, which this week was selling for \$10.98 at a store visited by the FT. DiGiorno pizzas were absent. Nestlé declined to comment on pizzas but said: "We value our relationship with Sam's Club and the ongoing business we have together, as we do with all our retail partners."

Walmart and Sam's Club now account for 25 per cent of US grocery sales, according to Numerator, a market research firm, and competitors are fighting to keep their share.

Kroger and Albertsons, the two largest food-focused chains in the US, sought to merge in 2022 so they could better compete, but the deal was blocked last year on antitrust grounds.

The guys down in Bentonville are doing a pretty nice job in garnering the available traffic that's out there from other retailers

During the legal hearings Stuart Aitken, Kroger's chief merchandising and marketing officer at the time, acknowledged the company was "monomaniacally" focused on its giant rival. "To be a sustainable long-term business in this industry, you have to have prices in line with Walmart," he added.

Dollar General, whose 20,000 stores across the US sell products from canned tuna to bin bags at [just \\$1](#) to lower-income customers, is also feeling the heat as Walmart offers free grocery delivery with \$49 annual

memberships for people on government food aid.

"The guys down in Bentonville are doing a pretty nice job in garnering the available traffic that's out there from other retailers," Dollar General chief executive Todd Vasos said last year.

Another Walmart offer — nationwide same-day prescription medicine deliveries alongside groceries — is throwing down a challenge to beleaguered drugstores. Walgreens Boots Alliance's chief executive Tim Wentworth blamed "value-seeking and channel-shifting behaviour" among the pharmacy chain's customers for a big drop in US front-of-store sales in its latest quarter.

They are far from alone. "We consult for people who are desperate to compete with Walmart," says Gary Stibel, head of the retail practice at New England Consulting Group. "They're telling us their revenues and profits per store are declining."

Walmart's perspective is humble — or perhaps ominous. Rainey says: "We don't do everything perfectly here. And there's a lot of lessons we can take from our competitors."

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