

Wal-Mart Wants More Buying Clout

The world's largest retailer is convinced it can cut even better deals by consolidating its purchasing of raw materials with partners

By [Matthew Boyle](#) and [Carol Wolf](#)

Wal-Mart Stores ([WMT](#)) purchasing chief Hernan Muntaner has a dream: teaming the giant retailer with soda and snack maker PepsiCo ([PEP](#)) to buy potatoes jointly for a lower price than either company can get on its own. That would allow both to earn more money on the chips and spuds they sell in Wal-Mart's supermarkets. So far, Pepsi isn't playing along. But with sales slowing in the U.S. and the price of sugar, meat, and wheat on the rise, the world's largest retailer is jointly purchasing a growing share of raw ingredients with manufacturers of food and household products sold in its stores.

Products already being purchased with suppliers include sugar, which goes into the company's store-brand soda and five-pound bags, and paper, used in Wal-Mart's back-office printers. Muntaner envisions a day when his company will do it with most goods it sells.

"Around the world, we found we were buying the same raw materials" that Wal-Mart suppliers buy, says Muntaner, whose official title is vice-president for international purchase leverage. "When you put the volume together of what we bought and what [suppliers] bought, and buy from just one supplier, you can reduce the cost."

It's all about the retailing giant doing what it's become famous for: squeezing costs out of its supply chain. And although Wal-Mart is already feared by many suppliers for its enormous buying clout, it's convinced it can cut even better deals by consolidating its purchasing with partners. Currently, only makers of private label goods sold under Wal-Mart's house brands have joined in its so-called collaborative sourcing program.

Manufacturers of branded products have taken a pass because they're loath to share pricing data and product formulas, say executives at three companies approached by Wal-Mart. Pepsi declined to comment.

Muntaner says that "in most cases" the branded companies "are more sophisticated than we are" in buying raw materials. "But we have found times when that wasn't the case," he adds. He declines to give specifics. "Sometimes it's very hard with a big company to have conversations like this," Muntaner says. "That is the main reason why we don't have Pepsi yet."

Muntaner's primary job is to circle the globe helping Wal-Mart's international divisions, from China to Japan to Brazil, find ways to use the company's massive buying muscle to lower what it spends on everything from copier paper to store-branded bottled water. Increasingly, that means selling the benefits of sourcing collaboratively. Muntaner says a soda maker, which he declines to name, has teamed up with Wal-Mart in Britain to buy sugar. The soda company paid 14 percent less, he says. Wal-Mart's sugar costs also fell, savings it used to lower the price of bags of its own house brand of sugar.

In Chile, where Wal-Mart has 259 locations, the retailer teamed up with a paper supplier and managed to cut Wal-Mart's own paper costs by 2.5 percent because of the greater bargaining clout. Wal-Mart is also jointly purchasing rice and could extend the program to everyday products such as household cleaners, vitamins, and produce. "We can do this with anything that is sold," Muntaner says.

This is just the company's latest attempt at slowing expense growth. Wal-Mart is already consolidating its roster of suppliers, eliminating distribution middlemen in nations such as Japan, and taking over the U.S. trucking operations from some of its suppliers in a bid to haul goods more cheaply. International chief Doug McMillon says the company is saving hundreds of millions of dollars a year from such changes—and wants savings of over a billion dollars eventually.