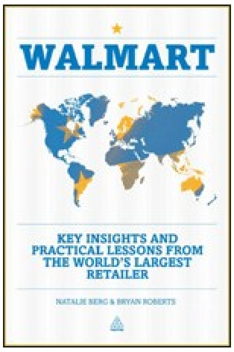


# Walmart: Key Insights and Practical Lessons from the World's Largest Retailer

by Bryan Roberts and Natalie Berg
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# Chapter 6: Walmart and Its Suppliers

Having depicted the meteoric rise of Walmart, from a handful of nondescript discount stores in the backwoods Deep South to a globe-straddling commercial colossus that impacts thousands of suppliers, millions of employees and billions of consumers, we can turn our attention to the impact of Walmart on the first group mentioned above: the supplier community.

One of the confusing issues surrounding Walmart is that it gets a very mixed press from a supplier standpoint. Often held up in the media as the bullying giant that squeezes suppliers until their pips squeak, private conversations between the authors and assorted figures in the vendor community often paint a different picture: a retailer that will – after a very difficult first conversation on price – embark on a collaborative relationship with suppliers, offering them the tools they need to grow their businesses (occasionally internationally) and partnering with them to drive efficiencies that benefit both Walmart and supplier and, most importantly, the consumer.

## Walmart and its suppliers: the evolution of collaboration

Don Soderquist has portrayed Walmart's traditional, historic relationship with suppliers (and relations between all retailers and suppliers) as a fairly adversarial stand-off: 'The salesperson presents his or her items to a prospective buyer. They discuss a price and negotiate – the salesperson attempts to get the highest price and the buyer attempts to get the lowest price... This was the common practice everyone understood and accepted.'[1] This, indeed, was the situation known and accepted by Walmart until the late 1980s, when two separate events – a much-fabled canoe trip and a dinner with General Electric – led to a total overhaul of how Walmart would interact with its major trading partners.

[1]Soderquist, D (2005) The Wal-Mart Way: The inside story of the success of the world's largest company, Thomas Nelson, Nashville, TN, p 166

## Canoeing with P&G

In his autobiography, Sam Walton is refreshingly candid in expressing his disdain for middlemen, the jobbers or distributors that acted as go-betweens, getting manufacturers' products on the shelves of retailers (including a nascent Walmart) in exchange for commission. Because these distributors were reluctant to service a remote merchant like Walmart, the company was forced to source directly from vendors – forcing it to develop its own supply chain capabilities, but also ensuring that it was able to procure goods at great prices as no middlemen were involved: 'Because we got used to doing everything on our own, we have always resented paying anyone just for the pleasure of doing business with him.'[2]

As Walmart's first-ever buyer, Claude Harris, noted, even Walmart's very early philosophy chimes with the prevailing wisdom among Walmart's buyers to this day – that of advocacy for the consumer: 'There's a difference between being tough and being obnoxious. But every buyer has to be tough. That's the job. I always told the buyers: "You're not negotiating for Walmart, you're negotiating for your customer." '[3]

This advocacy for the consumer resulted in some very tough negotiations with suppliers, including P&G, which was already a colossus in the world of CPG. As Claude Harris recalls, 'I'd threaten Procter & Gamble with not carrying their merchandise, and they'd say, "Oh you can't get by without carrying our merchandise." And I'd say, "You watch me put it on a side counter, and I'll put Colgate on the endcap at a penny less, and you just watch me." [4]

Such spats were fairly commonplace and they were often being carried on in a kind of vacuum. In a far cry from today's world of top-to-tops and cross-functional collaboration between Walmart and its suppliers, in the early days it was simply buyers battling salesmen, with little or no dialogue at a higher level.

This changed when Sam Walton's tennis buddy George Billingsley invited Walton on a canoe trip in the late 1980s, also inviting another friend, a P&G vice president named Lou Pritchett. As already noted, the relationship between Walmart (one of P&G's largest customers) and P&G (Walmart's largest supplier, as it remains today) was largely fractious and disconnected. During the canoe trip, Walton and Pritchett concluded that, although both P&G and Walmart were aiming to satisfy the end consumer, they were doing so independently of each other: there was a common purpose, but a disconnect in trying to satisfy the needs of shoppers. As Lou Pritchett recalls, 'We were simply two giant entities going our separate ways, oblivious to the excess costs created by this obsolete system. We were communicating, in effect, by slipping notes under the door.'[5]

This realization heralded the beginning of a new relationship between Walmart and its largest vendor: a senior-level summit followed, which precipitated the formation of a new partnership between the two parties. The partnership saw the creation of a Walmart/P&G team, one of the key outcomes of which was a decision to share Walmart's sales and inventory data with its largest supplier. Through collaboration and data sharing, Walmart was now able to increase efficiency, reduce prices and benefit its consumers. Theoretically, at least, vendors were also able to benefit – seeing improved forecasting, lower costs and (albeit lower) margin on a larger volume of product. Don Soderquist remembers that the problem between P&G and Walmart, however, was slightly more fundamental: 'We didn't trust them, and they didn't trust us.' The resolution of this conflict was the realization that each side could be trusted not to share sensitive data with competitors: 'Ultimately we were not competitors; we were both on the same side, wanting to sell more of our merchandise to our customers.'[6]

[2]Walton, S with Huey, J (1992) Sam Walton: Made in America, Doubleday, New York, p 235

[3]Walton, p 235

[4]Walton, p 236

[5]Walton, p 238

[6]Soderquist, p 167

## Dinner with General Electric

The second pivotal moment in Walmart's relationship with its suppliers happened within a few months of the glasnost with P&G, when Sam Walton of Walmart and Jack Welch of General Electric (GE) had dinner, accompanied by several executives from each business.

Over the dinner, both parties discussed potential ways of making their relationship better and more efficient. David Glass, at that time the Walmart President and CEO, suggested that a combination of exchanging data and exploiting more modern communications technologies would be mutually advantageous. The proposal was for Walmart to capture item-level sales data for GE merchandise and electronically transmit an order based on that sales data on a Monday. GE's computers would process the order overnight, fill the order on the Tuesday and ship the merchandise on the Wednesday. Walmart would get the goods on the Thursday and wire a payment to GE on the Friday. Any anomalies or differences would be reconciled four times a year. Thus was defined the virtuous circle for Walmart and its suppliers: data is shared, technology is exploited and mutual efficiencies are realized.

By rolling out the rapprochement with suppliers (developing trust, sharing state and utilizing state-of-the-art technology) and by convincing vendors that the 'customer' was not the retailer, but the consumer, Walmart was able to generate similar benefits in its relationships with thousands of vendors.

Walmart, clearly, was the main beneficiary in this roll-out of 'mutual advantage' – seeing its costs fall, its prices fall, its attractiveness to value-hungry shoppers improve and its availability reach industry-leading levels. Furthermore, this 'collaboration' required harmonization – of computers, of terminology, of order forms and of supply chain orthodoxies. There are no prizes for guessing that, in the vast majority of cases, it was the vendor that ceded and began to adopt the Walmart way of doing business. It's worth pointing out here that this collaboration saw communication shift from a single buyer/seller interface to more of a cross-functional interaction, with a vendor's technology department talking to Walmart's and a supplier's logistics experts talking to Walmart's supply chain executives and so on. We will take a look in more detail at Walmart's logistics and systems, and how they affect suppliers, in subsequent chapters.

## Collaboration takes hold

It was only as recently as 1987 that Walmart devoted a dedicated section of its annual report to the array of suppliers on which it depended to provide the merchandise being devoured by its legions of bargain-hungry shoppers. In it, Walmart noted that it 'requires a reliable supply line of quality merchandise. Our vendors and suppliers are the heart of this supply line. Historically, supplier and retailer relationships have often been short-sighted and adversarial. Contrastingly, we believe that tough but fair negotiations should be the starting point and from there the mutual goal of servicing the customer and increasing sales opportunities should guide this relationship.'

Walmart stated at the time that it collaborated with its suppliers on the following initiatives:

- new product development;
- test marketing;

- package design;
- display techniques.

Walmart concluded in 1987 that the dialogue between itself and suppliers was 'a frequent and open conversation, with Walmart merchants often meeting with senior managers at suppliers. The relationships have been augmented by new technologies such as electronic ordering which improves lead times.'

This was a theme picked up in 2004, with Walmart stating that, through joint business planning, it provides suppliers with the tools and data to better forecast their sales demand and efficiently plan production and delivery schedules. It stated that it shares real-time store and product data with its suppliers, including sales of individual products by store. In return, suppliers were said to aid Walmart in better understanding new markets and staying attuned to customers' needs. Suppliers highlighted in the fiscal 2005 report included PepsiCo, Mattel, Reckitt Benckiser, Kraft, Danone and Kimberly-Clark.

Unilever is an excellent example of a supplier that has enjoyed a great track record in collaboration with Walmart. For example, before Walmart embarked on its joint venture with Bharti in India (providing supply chain best practice and jointly running Best Price Modern Wholesale cash & carries), it consulted with Unilever – which has many years' experience serving Indian retailers and consumers. This, according to Unilever, 'contributed to an even better working relationship and understanding when (Walmart) began opening its stores there'.[7]

[7]Unilever annual report 2010

### Is collaboration on the wane?

One of the negative side-effects of Project Impact (with its SKU reduction programme and more intensive promotional activity) was a souring of relationships with suppliers. The Wal*Mart of old – with its 100,000-plus SKU megastores, EDLP strategy, low private brand penetration, willingness to stick pallets around the store and relative lack of enthusiasm for 'vendor investment' – was pretty well regarded in the supplier community. Sure, the annual discussions over terms and conditions would be fairly robust, but the relationship with Walmart was described by many vendors as one of partnership and predictability. Importantly, some of the less fragrant practices used by supermarkets to make money on the buy rather than on the sell were notable by their absence. Although doing business with Walmart was no walk in the park, there are signs that selling into the Walmart of today has become more of a problematic process, thanks in part to private label penetration increasing, but also due to Walmart attempting to increase pressure on suppliers.

At the time of Project Impact, a number of suppliers told us that category assortment reviews had become somewhat more confrontational as Walmart sought to play suppliers off against one another. Anecdotes suggested that appointments with buyers were organized so that representatives from major vendors within a category all met the buyer back-to-back on the same day, in a move that some vendors told us was engineered to create an environment of heightened competitive pressure.

When we asked a senior Walmart executive whether they thought Walmart was still a truly collaborative retailer to do business with, the candid response was fairly stark: 'No. We've lost our collaborative spirit. Other people are better partners now, like Target and a bunch of other non-food retailers. We're the same as Kroger and all the other guys now.'

This appears to be a sentiment that is shared by the higher echelons of the retailer too. In internal documents seen by the authors, which were presented to the retailers' 2011 Year Beginning Forum held in Florida in March, Bill Simon, President and CEO of Walmart US, stated that a renewed priority for the company would include improving vendor relations: 'Healthy relationships with suppliers, that include trust and collaboration, are critical to success.' Mike Duke, President and CEO of Walmart, added that he saw the 2011 meeting as 'a "family reunion" with valued supplier relationships'. He described the historically collaborative relations that Walmart enjoyed with suppliers as 'growth drivers'. He noted that 'trust with suppliers, transparency, collaboration, customer focus, focus on value and passion for serving our mutual customer' would underpin relationships with vendors going forward. He added at an investor event in 2011 that 'relations with suppliers really have to be on a win–win basis. I think in the long run win–lose doesn't ever work. I had a meeting with a large supplier, the CEO and senior management team. And we talked about how do we work together to create an efficient supply chain from the factory all the way to the store shelf and to the consumer.'

Duncan Mac Naughton, Executive Vice President and Chief Merchandising Officer, told the 2011 Year Beginning Forum that suppliers could look forward to easier accessibility to the retailer, accompanied by robust and open dialogue, and collaborative joint business planning. In return, suppliers should 'have their best team on the Walmart business and empower them to make real-time decisions'.

In a document from the Forum, shared with us by a member of the vendor community, Walmart set down its expectations from the supplier community on a single slide, the content of which is worth reproducing here in its entirety:

Suppliers need to:

Bring consumer insights & competitive insights. Every supplier can participate in Category Management through these insights.
Be positioned well with EDLC
Evaluate and optimize productivity loop
Be aligned well with Walmart business model
Provide collaboration and teamwork
Bring correction of errors (COE) dialogue
Evaluate scorecard, benchmark for success against buyer's objectives

Walmart needs:

Price leadership. Walmart respects our brand, we need to respect theirs by confirming EDLC
Innovation: Pre-planning/collaboration/1st to market
Ownable Innovation – exclusivity with Walmart
Market Share (100 per cent out of the gate/70 per cent within first 6 months/ 40 per cent ongoing)
Excellent operational execution, collaboration
Incremental sales to category
Help to tailor assortment by store: Store of the Community
Unique promotional activity: endcaps/action alley/retailtainment
Growth through Walmart.com

### 'Tough but fair negotiations'

While all this talk of collaboration, partnership and mutual benefit might present Walmart in a somewhat rosy light, it should not be forgotten that Walmart is a fierce, large and unrelenting negotiator. This aggression is often couched in terms of the retailer being an 'agent of the consumer', with Walmart buyers negotiating not on behalf of Walmart, but on behalf of its shoppers. In 1994, Walmart Chief Operating Officer Don Soderquist noted that 'we think of ourselves as agents for the customers, buying for them rather than selling to them'.

However, it should always be borne in mind that Walmart is a publicly listed business with a fiduciary duty to maximize returns (profits) for its shareholders. In other words, there are very few initiatives enacted by Walmart that do not have at least half an eye on the bottom line. While Walmart is able to achieve a positive spin in terms of PR and advertising from its 'consumer advocacy' – its entire marketing strategy has been based around 'Save Money. Live Better' for a few years now – the savings generated from suppliers also benefit shareholders as well as consumers.

It is a telling phrase that was used by Walmart in its 1987 annual report, with 'tough but fair' discussions over price described as the kicking-off point between Walmart and its vendors. One of many accusations levelled against Walmart over the past 20 years is that its growing scale has enabled it to become slightly over-enthusiastic in its quest for lower prices, driving such a hard bargain that suppliers actually reach the point where they are suffering or losing money just to fulfil their obligations to the retailer.

Former Walmart insider Michael Bergdahl, now a participant on the motivational-speaking circuit, addresses this issue on his website, stating that:

> Sam Walton was a proponent of the Free Enterprise System. The pressure placed upon manufacturers and suppliers today is no different than the pressure Sam Walton himself placed on his early suppliers. Walmart Merchandise Buyers expect suppliers and manufacturers to earn a fair profit on the goods they sell to Walmart and no more. If a supplier can't earn a profit supplying Walmart they should either lower their manufacturing costs to become profitable or make the decision to stop supplying the giant retailer. Supplying Walmart can be a manufacturer's dream come true or their worst nightmare. There are many companies that choose not to supply products to Walmart because they cannot achieve their profit goals. Other companies are too small to supply the insatiable product needs of Walmart. There are companies who choose to supply Walmart whether they make a large profit or not simply to enhance the visibility of their brand. For those who do supply Walmart the expectation

> is that that supplier needs to partner with Walmart to ALWAYS deliver value to the retail customer. In reality there are three types of companies that supply products to Walmart: those who make a profit, those who break even and those who lose money.[8]

Bergdahl's assertion is a refreshingly candid and honest one. Walmart, as with all retailers, does not expect its suppliers to consistently lose money.

No retailer has anything to gain by driving its suppliers out of business – indeed, the disruption caused can be hugely turbulent and expensive. Bergdahl's statement that Walmart expects its suppliers to earn a fair profit is a very neat and concise summary of Walmart's philosophy regarding its suppliers: they should make a decent return, but not too much; not at the expense of the shopper and certainly not at the expense of Walmart.

When we asked a senior Walmart insider if the Walmart of today is any better or worse to deal with than other retailers in terms of negotiating, their opinion was fairly bleak: 'I think we used to be easier to deal with, but it's much harder now. The buying teams are under-resourced and under much greater pressure than they used to. There have also been a lot of changes, so communication has really suffered. Calls are unreturned, e-mails unanswered.'

A report in *The Independent* published in late 2010 revealed that Walmart's UK division, Asda, had published an 88-page memo for its buying staff that recommended some less than fragrant negotiating skills. The guidance reportedly warned buyers that negotiations would not be easy, and that they should use techniques such as 'good cop/bad cop' in meetings. The report added that one Asda supplier who went through the negotiating process said he felt 'disappointment' with Asda. 'Obviously, you get used to having hard negotiations but this went beyond that and it didn't reflect the partnership approach that you want with retailers. It was all about how much you could screw out of us', he said.

Buyers were also instructed to extract better terms from their suppliers by asking for money to cover areas such as marketing and waste. 'Clearly, suppliers should be challenged to fund marketing costs', it says. It also tells buyers: 'Suppliers should provide compensation for products that are marked down or thrown away because customers aren't buying them.' In addition, suppliers should help fund capital expenditure: 'We invest a huge amount of capital into new space each year and our suppliers can help pay for it.'

The document laid out how to structure a meeting with a supplier. 'Plan your introduction', it said. 'Use this opportunity to take control and set the agenda. Open outrageously (include plenty of fat). The bigger the opening figure, the bigger the settlement figure.' Buyers should have prepared 'three concessions that cost Asda nothing but will assist their trading position. Only concede if you have to. Be tactful, but be firm. A threat is only a threat if it is followed through. Remember always that we are negotiating on behalf of our customers!'[9]

Despite the odd wobble and prevarication – and despite counter-claims from assorted retailers – Walmart's go-to-market strategy in the United States (and in most of its global markets) is everyday low prices. This EDLP strategy is documented in the previous chapter on pricing and marketing, but is worthy of brief consideration here as well. Walmart's ability to single-handedly drive the pricing agenda, to the extent that it is often credited with reducing prices and suppressing inflation across the entire US economy, is a function of many factors. Chief among these is scale: on the one hand, Walmart's size means that it has massive power over US suppliers; while on the other, this very scale means that it is able to offer its suppliers the potential to generate economies of scale and volume efficiencies.

So, what is the extent of this scale and power? And what does it actually mean for vendors that service the world's largest retailer?

[8]http://www.michaelbergdahl.net/q5.htm

[9]http://www.independent.co.uk/news/business/news/leaked- memo-reveals-how-asda-sought-to-beat-down-suppliers-2102448.html

### The dependence of US suppliers on Walmart

While many suppliers around the would have to be confronted with thumbscrews before they started revealing the names of their biggest retail customers, US Securities and Exchange Commission (SEC) regulations mean that publicly listed businesses in the United States (or those that report for other reasons) are required by the SEC to reveal the identity of those customers that account for a significant proportion of revenues.

With 10 per cent being the threshold at which the loss of a major customer could have a 'material impact' on a supplier in terms of loss of sales and/or profitability, many regulatory filings in the United States unsurprisingly point to Walmart as constituting just such a customer. That said, a variety of other mass merchants (notably Kohl's, Costco and Target), grocery retailers (Kroger, Safeway, SuperValu and Food Lion) and specialist retailers (Walgreens, GameStop, PetSmart, Home Depot, Toys 'R' Us etc) are often cited as key customers for relevant suppliers.

The basis of the research for the following analysis is the 10K annual filings submitted by suppliers with the SEC. Within these filings, suppliers inform investors of the fact of whether or not they have a single customer, or several customers that account for a significant proportion of their revenues, usually 10 per cent. The fact of having one, or several, large customers is something of a double-edged sword in that having these customers suggests certain benefits in terms of volume if nothing else. On the flip side, losing one or more of these customers would mean losing a sizeable chunk of business. In the words of one vendor: 'The loss of sales of any of our products in a major retailer could have a material adverse effect on our business and financial performance.'

By collecting and analysing the percentage of sales reported by each supplier as being accounted for by Walmart (and it is normally a percentage – only one or two vendors report dollar sales volumes), this percentage is applied to the vendor's total sales to deliver a dollar value for sales to Walmart, enabling us to compare different vendors in terms of share of sales to Walmart, dollar sales to Walmart and growth in sales to Walmart over time. It is worth noting that many of the percentages supplied by vendors are issued with no decimal places, so there is an evitable margin of error, but one that we feel comfortable in analysing and publishing.

Before we reveal some of the finding of this research, it is worth highlighting some background issues and technical points to put the findings in context.

### Pharmaceuticals and alcohol have a convoluted route to the shopper

Planet Retail estimates show that Walmart is the third-largest retailer of pharmaceuticals in the world,[10] so one would expect to see it figure as a major customer for the likes of Pfizer, Wyeth and Bristol-Myers Squibb. Owing to the structure of the US pharmacy market, which still relies to a huge extent on wholesale giants such as McKesson, Cardinal Health and AmerisourceBergen, however, it is these groups, not Walmart, that figure as the major customers for pharmaceutical manufacturers.

An even more complex distribution system confronts US brewers, distillers and vintners. As any frequent visitor to the United States will attest, the country is a patchwork quilt of different regulations and laws concerning both the on-trade and off-trade sale of alcoholic beverages. Regulations vary state by state and even county by county, and also vary by category, with different laws covering beers, wines and liquor. As a result of this fairly archaic legislative framework, a fair proportion of alcohol consumed in the market reaches consumers via a complex network that can include wholesalers, state-run distributors and liquor boards, retailers and restaurants. For this reason, while we would assert that Walmart is a significant eventual global customer for major alcoholic beverage suppliers, this is not apparent in regulatory filings owing to the indirect distribution model in the US market.

[10]Category sales estimates from the www.planetretail.net database

### Tobacco & confectionery – the McLane clause

A similar factor is in evidence in other categories in which wholesalers have traditionally played a major role, such as tobacco and confectionery in the fragmented c-store sector. One such wholesaler is McLane, the former Walmart-owned business that is still responsible for supplying the retailer with confectionery and cigarettes. Walmart, presumably, has continued with this arrangement as it makes economic sense compared to the alternative – bringing it in-house – and it means that for suppliers like Hershey and Altria, McLane is the principal way that they get their products onto Walmart's shelves. McLane has revealed that 30 per cent of its sales go to Walmart, so we assume that for major candy and tobacco concerns, Walmart is again a significant eventual customer, but there is no precise way of confirming this assertion.

### Lack of disclosure from private and international businesses

Clearly, there are some limitations to the following analysis, the most notable of which is the fact that huge parts of the vendor community do not provide these data, as they are private companies or based outside the United States. No doubt, if we were able to secure similar levels of data from private companies or those listed outside the United States, then names such as SC Johnson, Reckitt Benckiser and Nestlé might be figuring highly in this analysis. It is noteworthy that European-based suppliers tend to be less overwhelmingly reliant on a single retailer, as European grocery markets are dominated by strong local players such as Tesco, Carrefour, Migros, Delhaize and Ahold, meaning that sales tend to be spread more thinly across more customers. Unilever, for example, states that only 20 per cent of its global sales are channelled through 10 major retail chains. The bulk of its sales are distributed through wholesale to millions of smaller retail enterprises: Unilever has commented that its products can be found in over 10 million small stores in Africa and Asia alone. Nonetheless, the availability of the data that we present below means that we are able to glean interesting insights into what it means to participate in the Walmart vendor community.

### Reliance on Walmart as high as 55 per cent

Our research shows that around 120 vendors or service providers name Walmart as a major customer. On average, Walmart accounts for 21 per cent of total sales for the 120 suppliers, with the proportion reaching as high as 55 per cent. Garan, the manufacturer of the Garanimals range of children's apparel, generated over 90 per cent of its sales through Walmart in 2010. As this range is virtually exclusive to Walmart, Garan does not qualify as a multi-retailer supplier for consideration here.

It is noteworthy that, of the 10 vendors with the highest dependency on Walmart, nine are sellers of fairly niche non-food categories such as DVDs, firearms accessories, kitchen gadgets or apparel or are the providers of services such as the operation of photo studios within Walmart stores. Only Del Monte, the seller of canned vegetables, fruit and tomato products and pet care, can be classed as a grocery vendor and it is indeed the largest vendor on the list shown in Table 6.1 (its involvement in private label – a growing component of Walmart's grocery business – should see Del Monte's reliance on Walmart increase in the future). Some of the suppliers in the table are relatively small operators, where even a tiny piece of business in absolute terms can account for a substantial proportion of their turnover.

**Table 6.1: The 10 vendors with the highest dependency on Walmart**

| Vendor | Product category | % of sales to Walmart |
|---|---|---|
| DAC Technologies Group | Gun accessories | 55.0 |
| Emerson Radio | Electricals | 53.0 |
| CPI | Photographic studios | 52.0 |
| Tandy Brands | Belts & accessories | 47.0 |
| CCA Industries | HBC | 45.0 |
| Crown Crafts | Baby products | 43.0 |
| HBB (Nacco Industries) | Kitchenware & small appliances | 36.0 |
| R. G. Barry | Footwear & accessories | 38.0 |
| Del Monte Foods | Food & pet care | 35.0 |
| Lions Gate | Films & DVD | 35.0 |
| Entertainment | | |

**SOURCE:** SEC filings; 2010 & 2011

DAC Technologies Group is a leading manufacturer of gun-cleaning kits, gun safety devices and other outdoor products. In fiscal 2009, it generated a whopping 55 per cent of sales to Walmart, with its other customers including sporting goods retailers, distributors and catalogue companies. It should be noted that sales to Walmart were an eye-watering 71 per cent of total sales in 2008. DAC's administrative offices and primary warehouse facilities are handily located in Little Rock, Arkansas, and the company also operates a warehouse facility in Los Angeles which is used primarily to ship products to Walmart distribution centres. DAC notes that its products are primarily sourced from manufacturers and suppliers located in China. In 2009, DAC entered into a trademark licensing agreement with Olin Corporation to market certain of its gun-cleaning items under the Winchester brand name to Walmart.

Emerson Radio is a supplier of televisions, DVD players and video cassette recorders (VCRs), audio accessories, microwave ovens, home theatre, high-end audio products, office products, mobile stereo and wireless products. Walmart accounted for 53 per cent of 2009 net revenues, progressing steadily from the 46 per cent seen in 2008. Target is Emerson's other major customer, accounting for 25 per cent of sales in 2009. Emerson notes that 100 per cent of its products were sourced overseas, primarily from China.

CPI is owner and operator of Sears Portrait Studios and PictureMe Portrait Studios in Walmart and is the leading portrait studio operator in North America, offering photographic services in over 3,000 locations. Its reliance on Walmart owes much to the acquisition of its rival PCA in 2007, a transaction that saw it become the sole operator of portrait studios in Walmart stores in the United States, Canada, Mexico and Puerto Rico. The company operates under the trade names PictureMe Portrait Studio in the United States, Walmart Portrait Studios in Canada and Estudios Fotografia in Mexico. As of 2010, PMPS operated 1,923 studios worldwide, including 1,549 in the United States and Puerto Rico, 260 in Canada and 114 in Mexico.

Crown Crafts is a vendor of infant and toddler products, consisting of bedding, bibs, infant soft goods and accessories. The company's products are manufactured primarily in China. Walmart accounts for 43 per cent of sales (down from 47 per cent in 2008) and Toys 'R' Us accounts for another 21 per cent. Target ceased accounting for more than 10 per cent of sales in 2009.

Tandy Brands is a leading designer and marketer of branded men's, women's and children's accessories, including belts, gifts, small leather goods, eyewear, neckwear and sporting goods. Its merchandise is marketed under a broad portfolio of licensed and proprietary brand names, including Totes, Wrangler, Dockers, Dr. Martens, Amity, Rolfs, Canterbury, Prince Gardner, Princess Gardner and Surplus, as well as private brands for major retail customers. Tandy sells its products through all major retail distribution channels throughout North America, including mass merchants, national chain stores, department stores, men's and women's speciality stores, catalogue retailers, grocery stores, drug stores, golf pro shops, sporting goods stores and the retail exchange operations of the US military.

In 2010, private brand products sold to a variety of retailers accounted for 59.6 per cent of net sales. One of the company's principal private brand activities is the supply of Faded Glory SKUs for Walmart, which accounted for 47 per cent of total sales in 2010. Unsurprisingly, the principal source country for Tandy's procurement is China, with other imports coming from the Dominican Republic, India, Italy, Mexico and Taiwan.

CCA Industries is a creator and vendor of a fairly broad selection of health and beauty products, designed to cater for a variety of requirements such as teeth whitening, scar reduction, nail polishing, weight loss and the eradication of bikini bumps. Given the focus of its product portfolio – which includes 'cosmeceutical categories' – drugstore customers are also a signifi-cant sales channel. In fiscal 2010, Walmart accounted for approximately 41 per cent of net sales, with Sam's Club accounting for a further 4 per cent. Other key customers include Walgreens (13 per cent), CVS (5 per cent), Target (4 per cent), Dollar General (3 per cent) and Rite Aid (3 per cent).

Nacco Industries is, to say the least, one of the more esoteric conglomerates you could wish to discover, with subsidiaries active in forklift trucks, kitchenware stores, small domestic appliances and coal mining.

Its Hamilton Beach (HBB) small appliances division supplies brands such as Hamilton Beach, Proctor Silex, Eclectrics, Traditions, TrueAir and Hamilton Beach Commercial to leading retailers and to restaurants, hotels and bars. Hamilton Beach states that it has approximately 1,300 active accounts and enjoys category-management responsibilities at Walmart (United States and Mexico), Target, Kmart, Sears and a number of other food, drug, and mass merchandise retailers throughout the United States and Mexico. Its highlights of dealing with Walmart include receiving accolades such as Vendor of the Year and vendor innovation and quality awards.

In addition to its own consumer brands, HBB supplies Walmart with GE-brand kitchen electric and garment-care appliances under Walmart's licence agreement with General Electric Company. HBB also supplies Target with Michael Graves-branded kitchen appliances under Target's store-wide Michael Graves line. In addition, HBB supplies Kohl's with Food Network-branded kitchen appliances and supplies Canadian Tire with small kitchen appliances under the Lancaster brand. Walmart accounted for approximately 36 per cent of HBB's revenues in 2010. The majority (98 per cent) of HBB's products are supplied to its specifications by third-party suppliers located in China.

R. G. Barry is an industry leader in the dynamic world of slippers, but also supplies other categories such as hybrid and active fashion footwear, sandals, slipper socks and hosiery. The company enjoys a strong reputation in its area: in 2008, Walmart US selected R. G. Barry as category manager and sole supplier for its sizable replenishment slipper business; the Utopiaä brand team was named Target's 2008 Vendor of the Year in the men's essentials area; and Sam's Club named the company their Accessories Supplier of the Quarter in the first quarter of 2009.

In 2009, the company followed in the footsteps of FMCG businesses by realigning its structure to better serve key retail customers. It reorganized its internal sales resources so that key customers would be served by specialized cross-functional account teams. The business already operated a sales administration office in Bentonville to support its business with Walmart, its largest customer which accounted for 38 per cent of revenues in 2010. On the manufacturing front, R. G. Barry sources its slipper-type products from 14 different third-party manufacturers, all of which are located in China.

Del Monte Foods (not to be confused with global produce giant Fresh Del Monte) is a major player in the canned food and pet food markets. It generates 35 per cent of its sales to Walmart, with Walmart representing the largest customer in all of Del Monte's product segments.

Interestingly, Del Monte is one of very few suppliers to happily confess to participating in the private label arena, noting: 'The company also produces, distributes and markets private label food and pet products.' Del Monte provides some Great Value vegetables and tomatoes as well as some of Walmart's Ol' Roy dog food – partly explaining some of the vendor's deep reliance on Walmart.

Lionsgate is a leading studio with a major presence in the production and distribution of motion pictures, television programming, home entertainment, family entertainment, video-on-demand and digitally delivered content. Lions-gate directly distributes to the rental market through Blockbuster, Netflix and Rentrak. In August 2009, it also entered into a multi-year distribution agreement with Redbox which made its titles available through 22,000 Redbox DVD rental locations. Lionsgate also distributes or sells directly to mass merchandisers such as Walmart, Kmart, Best Buy, Target and Costco. Sales to Walmart accounted for approximately 35 per cent of net home entertainment revenue in fiscal 2010.

Before we go on to take a look at the largest identified vendors to Walmart, it is worth assessing those vendors that have generated the most impressive growth to Walmart over the past three fiscal years, both in terms of pace of growth and also volume of incremental sales.

Table 6.2 represents those vendors that have seen the fastest growth. The most stellar performer in this regard has been Iconix Brand Group, which has seen sales from its three licences with Walmart rising from 3 to 21 per cent of the company's sales over the past three years. The company – which is responsible for annual eventual retail sales of $12 billion – kicked off its business with Walmart in March 2007 through Iconix's acquisition of Danskin, through which Iconix acquired a licence with Walmart for the exclusive sale of Danskin Now product in the United States, Canada, Central America and Argentina. In August 2007, a deal was signed for Walmart to be the exclusive retailer of Ocean Pacific (OP) in the United States. The agreement also granted Walmart rights to use the brands in Brazil, China and India, as well as the right of first negotiation with respect to other international territories. In December 2007, Iconix entered into an agreement with Walmart to use the Starter trademark in the United States, Canada and Mexico.

**Table 6.2: Vendors that have seen the fastest growth**

| Vendor | Product category | Rate of growth of sales to Walmart 2008/10 (%) |
|---|---|---|
| Iconix | Apparel | 1,012 |
| Smucker | Grocery | 146 |
| Activision | Entertainment software | 122 |
| Ralcorp | Grocery | 121 |
| Moneygram (US) | Financial services | 114 |
| Smart Balance | Grocery | 106 |
| American Italian Pasta Company | Grocery | 72 |
| Coinstar | Kiosks | 67 |
| Maidenform Brands | Apparel | 60 |
| DemandTec | Consumer demand software | 58 |

**SOURCE:** SEC filings

These moves were followed by the 2008 launch of OP in the United States, with the OP brand expanding to Canada, Mexico and Argentina in the following year. As a result of these moves, Iconix has seen direct-to-retail sales increase from 25 per cent to 50 per cent over the past three years and its sales to Walmart grow exponentially. Tellingly, Iconix describes Walmart International as a key global partner. Iconix also owns Bright Star, a business that provides design direction and arranges for the manufacturing and distribution of men's private label footwear products primarily for Walmart under its private labels.

Other vendors that have seen their sales to Walmart grow rapidly include Smucker (which saw sales to Walmart accelerate rapidly thanks largely to its acquisition of the Folgers coffee business); video game supplier Activision; and private label grocery specialist Ralcorp.

Ralcorp (which has recently acquired American Italian Pasta – also included in the rapid growth list) has presumably benefited from Walmart's push for higher private label penetration. The company's private label lines include cereal, pasta, frozen bakery items, cookies, snack nuts, savoury snacks, preserves and jellies, peanut butter, table syrups and dressings. As previously discussed, Ralcorp is also active through its own consumer brands, such as Post cereal.

While Ralcorp will have benefited to an extent from the strategic push by Walmart to boost private label sales, it will have been hurt by Walmart 'encouraging' its branded vendor partners to participate in enhanced Rollback activities. With Ralcorp active in both branded manufacturing and private label supplies, it is very difficult to identify whether the positive impulses from its largest customer outweighed the negative, but the fact remains that Ralcorp has seen the share of sales to Walmart increase from 15 to 19 per cent over the past three years.

Having rapid growth is all well and good, but to assess the sheer scale and some of the business added with Walmart, Table 6.3 represents the incremental sales volumes generated through Walmart over the most recent three fiscal years.

**Table 6.3: Incremental sales volumes generated through Walmart**

| Vendor | Product category | Added sales volume 2008/10 ($m) |
|---|---|---|
| McLane | Convenience wholesaling | 1,032 |
| PepsiCo | Grocery | 883 |
| Kraft Foods | Grocery | 876 |
| Smucker | Grocery | 738 |
| General Mills | Grocery | 597 |
| ConAgra | Grocery | 487 |
| Hershey | Grocery | 477 |
| Ralcorp | Grocery | 404 |
| Kellogg | Grocery | 404 |
| P&G | Grocery | 383 |

**SOURCE:** SEC filings

It is no great surprise to see major players in grocery supplies being the largest recipients of extra sales volume through Walmart. The 10 largest gainers between them garnered an extra $6.3 billion in sales to Walmart over the past four years (Table 6.3); a period during which Walmart increased its global sales by $44 billion to $419 billion and Walmart US saw sales increase by $19 billion to around $260 billion.

At the same time as this monumental growth, Walmart's sales mix has been shifting towards grocery, which has gained in share each year, climbing from 47 per cent of sales in 2007 to reach 54 per cent of sales in 2010 (please note that in the intervening years, the Puerto Rican division was folded into the US division, accelerating the growing share of grocery as the Puerto Rican unit is dominated by supermarket chain Amigo). While this shift does not sound particularly seismic in itself, it is worth remembering that the modest-looking increase in grocery share translates into grocery sales increasing from $112.6 billion in 2007 to $140.6 billion in 2010 (an increase of $28 billion). For the sake of context, market-leading grocer Kroger's total sales are $82 billion.

**Table 6.4: The 10 largest vendors, 2006–10**

| Vendor | Sales | % of sales to Walmart | Sales to Walmart ($m) |
|---|---|---|---|
| P&G | 78,938 | 16 | 12,630 |
| McLane | 32,687 | 30 | 9,806 |
| PepsiCo | 57,838 | 12 | 6,941 |
| Kraft | 49,207 | 14 | 6,889 |
| Tyson Foods | 28,430 | 13 | 3,810 |
| General Mills | 14,797 | 23 | 3,403 |
| Kellogg | 12,397 | 21 | 2,603 |
| Kimberly-Clark | 19,746 | 13 | 2,567 |
| ConAgra | 12,079 | 18 | 2,174 |
| Dean Foods | 11,158 | 19 | 2,131 |

**SOURCE:** SEC filings While this is nominally good news for grocery vendors, it should be pointed out that apparel vendors will have had to face up to shrinking sales within Walmart, with apparel sales declining from

$28.7 billion to $25.8 billion in the United States over the past three years (this figure still leaves Walmart as the overwhelming leader in the US apparel market, however).

### P&G leading the way

As we've seen earlier in this chapter, P&G, one of the world's largest FMCG businesses, is one of Walmart's most long-standing and important vendor partners. It has a veritable arsenal of global power brands in household, HBC and pet care such as Pampers, Tide, Ariel, Always, Pantene, Bounty, Pringles, Charmin, Downy, Iams, Crest, Actonel and Olay. Walmart and P&G blazed a trail with their adoption of a top-to-top collaborative approach on information sharing and supply chain, shifting away from the traditionally adversarial approach that typified relationships between retailers and vendors. Their collaboration – which was a key step in the creation of Retail Link over the longer term – has enabled lower costs, minimized inventory and allowed a greater focus on the customer.

McLane's reliance on Walmart is due mainly to the fact that it used to be owned by the retailer. McLane is a supply chain services company, providing grocery and foodservice supply chain solutions for thousands of convenience stores, mass merchants, drug stores and military locations, as well as thousands of chain restaurants throughout the United States. It counts among its customers 7-Eleven, Yum! Brands, Target, The Pantry, Conoco-Phillips and Exxon Mobil, in addition to relying on Walmart for over a third of its annual revenues. Following its sale by Walmart, McLane is now owned by renowned investment group Berkshire Hathaway. McLane supplies Walmart with much of its merchandise in areas such as confectionery and tobacco.

PepsiCo tells its investors that 'retail consolidation and the current economic environment continue to increase the importance of major customers'. In 2010, sales to Walmart, including Sam's Club, represented approximately 12 per cent of total net revenue. The company's top five retail customers represented approximately 31 per cent of 2010 North American net revenue, with Walmart and Sam's Club representing approximately 18 per cent. These percentages include concentrate sales to PepsiCo's bottlers which are used in finished goods sold by them to Walmart and Sam's Club.

PepsiCo has recently been lauded for its work with Walmart, with PepsiCo China beverage group named Supplier of the Year by Walmart China and Walmart Mexico naming PepsiCo Beverages Mexico as its Supplier of the Year.

Generating nearly $7 billion in annual sales to Walmart, Kraft's leading categories are confectionery (thanks to the Cadbury deal), snacks (bolstered by the acquisition of Danone's biscuits unit), beverages, cheese, convenience foods and general groceries. With iconic brands such as Kraft, Kool Aid, Ritz Philadelphia and Oscar Mayer, Kraft generates 49 per cent of its sales in North America, meaning that its relationship with Walmart is very close.

Kraft's contentious acquisition of Cadbury has significantly increased its exposure to emerging markets and bolstered its activities in categories such as gum and candy. Kraft is an active partner with both Walmart US and Sam's Club in terms of operating co-branded promotions and states that it is 'taking full advantage of our size and broad reach. We're working closely with our global customers like Carrefour, Tesco and Walmart.'

PepsiCo is a leading global food, snack and beverage company. Its global brands, which include Quaker Oats, Tropicana, Gatorade, Frito-Lay and Pepsi, are accompanied by strong regional brands such as Walkers, Gamesa and Sabritas. The company's largest operations are in North America (United States and Canada), Mexico and the UK, which, coincidentally or not, are Walmart's largest markets too.

Tyson Foods, with headquarters in Arkansas, is the world's largest processor and marketer of chicken, beef and pork. The company produces a wide variety of protein-based and prepared food products that it sells to both retail and foodservice customers. Often tagged the 'Walmart of meat', thanks to its Arkansas roots and dominant scale in its industry, its sales to Walmart are generated in its chicken, beef, pork and prepared foods segments.

General Mills, the world's sixth-largest food company, is dominated by its US retail division, a fact reflected by the importance of Walmart to the company. Its other divisions – International, Bakeries & Foodservice and Joint Ventures – account for much less than half of sales. In the United States, General Mills' major product categories are ready-to-eat cereals, refrigerated yogurt, ready-to-serve soup, dry dinners, shelf stable and frozen vegetables, refrigerated and frozen dough products, dessert and baking mixes, frozen pizza and pizza snacks, grain, fruit and savoury snacks, and a wide variety of organic products including soup, granola bars and cereal.

During 2010, Walmart accounted for 23 per cent of consolidated net sales and 30 per cent of net sales in the US Retail segment. Walmart also represented 5 per cent of net sales in the International segment and 7 per cent of net sales in the Bakeries and Foodservice segment.

Kellogg is the world's leading producer of cereal and a leading producer of convenience foods, including cookies, crackers, toaster pastries, cereal bars, fruit-flavoured snacks, frozen waffles and vegetarian foods. The company's brands include Kellogg's, Keebler, Pop-Tarts, Eggo, Cheez-It, All-Bran, Mini-Wheats, Nutri-Grain, Rice Krispies, Special K, Chips Deluxe, Famous Amos, Sandies, Austin, Club, Murray, Kashi, Bear Naked, Morningstar Farm, Gardenburger and Stretch Island. Walmart accounted for approximately 21 per cent of consolidated net sales during 2010, comprised principally of sales within the United States.

Kimberly-Clark's global brands are sold in more than 150 countries, with the business estimating that 1.3 billion people use Kimberly-Clark products every day. With well-known family care and personal care brands such as Kleenex, Scott, Andrex, Huggies, Pull-Ups, Kotex, Poise and Depend, the company states that it holds the number-one or number-two share position globally in more than 80 countries. Kimberly-Clark, with two offices in Arkansas, is closely aligned with Walmart, through which it generated 13 per cent of sales in 2010.

ConAgra Foods is one of North America's leading food companies, noting that its brands are to be found in 97 per cent of America's households. ConAgra's Consumer Foods segment manufactures and markets leading branded products to retail and foodservice customers in the United States and internationally. Its flagship brands include Egg Beaters, Healthy Choice, Hunt's, Orville Redenbacher's and PAM, just to name a few. Stating that one of its key strategies is 'aligning with customers to leverage consumer insights', ConAgra has seen its sales to Walmart rocket over the past four years from 13 to 18 per cent of sales, adding nearly $500 million in sales over the past three years alone. This growth will have been attributable to both branded and private label foods sold through Walmart.

Market leader in the US dairy industry, Dean Foods sells milk and a full range of related products under more than 50 well-known local and regional brands, and a wide array of private labels. It operates through two divisions: Fresh Dairy Direct-Morningstar, the largest processor and distributor of milk and other dairy products in the country; and WhiteWave-Alpro, the maker of an extensive line of nationally branded products such as Horizon Organic dairy products, Silk soymilk and International Delight coffee creamers.

Fresh Dairy Direct-Morningstar's largest customer is Walmart, which accounted for approximately 19 per cent of Fresh Dairy Direct-Morningstar's net sales in 2010. WhiteWave-Alpro's largest customer is also Walmart, accounting for around 16 per cent of WhiteWave-Alpro's net sales in 2010.

### The power is now with Walmart

It will take people with long memories in some markets to cast their minds back to a time when suppliers ruled the roost. This was a time when suppliers were so big compared to fragmented national retail sectors dominated by independents and small regional chains that they called all the shots in terms of which retailers could sell their products, the minimum (or 'recommended') retail price at which products could be sold and how the products should be merchandised.

The 1970s and 80s were a period in which the evolution of the FMCG industry stepped up a gear, with the consolidation of national speciality brands into national FMCG powerhouses that grew through acquisition to include different brands and products across food and drink, health and beauty, pet care, household products and beyond. At the same time, M&A was becoming increasingly international in scope, leading to the development of the FMCG giants that we see today – multi-billion-dollar leviathans often active in 100+ countries with a broad arsenal of $1 billion+ brands that are present in billions of households across the globe.

As this consolidation and internationalization process in the supplier community gathered pace, a similar process was at play in the world of retailing. The mid- to late 1990s saw retailers in mature markets build on their dominant domestic market positions by venturing overseas in a concerted attempt at building scale. While the likes of Ahold, Delhaize, Walmart, Tesco and Carrefour were busy constructing global empires, some commentators were asserting that this cross-border push was an attempt to establish global buying power – an observation that we will subsequently argue is something of a fallacy in an FMCG industry that is still typified by negotiations and deals that are conducted on a national level.

Nonetheless, the emergence of global retail superpowers like Walmart has expedited the consolidation process in the FMCG manufacturing sector. Deals such as P&G's acquisition of Gillette are widely understood to be an attempt to wrest back some control from the retailers by building multinational FMCG operations that should theoretically be able to better stand up for themselves against the might of the retailers. Despite the FMCG sector bulking up in an effort to build self-defence capabilities against major retailers on a national or international level, it remains the case that it is the retailers like Walmart that are in charge of the distribution of products to consumers and it is those retailers that are the ultimate gatekeepers for suppliers to reach shoppers.

With approximately 70 per cent of purchasing decisions thought to be made at the shelf in-store, it is clear that the influence of brand marketers is to a certain extent limited. The concept of 'must-have' brands is becoming diluted, although still relevant, and retailers including Walmart have pursued strat egies such as range rationalization and increased private label sales, while at the same time increasing their demands for vendor investment and the delivery of category and shopper insights.

At the risk of stating the blindingly obvious, it is worth reiterating the fact that retailers have become colossal businesses in their own right, with Walmart, Tesco and Carrefour growing to such a scale that they dwarf many of their suppliers by a monumental margin – a far cry from the 1960s and 70s when big food, drink or HBC businesses bossed relatively tiny retailers around.

It is worth remembering that Walmart's sales in 1980 were 'only' US $1 billion and that many vendors would refuse to visit Bentonville – suppliers had bigger accounts to manage and saw little benefit in collaborating with a backwater southern retailer with less than 300 fairly modest stores.

Fast-forward to 2012 and Northwest Arkansas continues to be one of the fastest-growing communities in the United States in terms of population growth. US and international vendors are falling over themselves to establish a physical presence in Bentonville, Springdale and Fayetteville to service Walmart. Why? Because the backwater southern retailer now trades through around 9,000 stores in around 30 countries, generating net sales in excess of $400 billion and serving more than 176 million customers a year.

If one compares the total net sales of the world's leading FMCG producers with the world's leading retailers, it becomes clear that the scale and power have very much shifted to Walmart and other global retail giants. What becomes obvious is that there are very few vendors that can compete with the global retailers in terms of scale: to provide some context, Walmart International alone is now bigger than Nestlé and, indeed, Walmart's annual expenditure on private label – at over $100 billion – tops Nestlé's annual revenues.

We will point out in the next chapter why this global scale has yet to translate into genuine global buying power for Walmart, but it is worth reminding ourselves here that retailer scale has already exerted a profound impact on a national level. Walmart's sheer size in the United States has confronted suppliers with a huge customer that can insist on change. These demands can impact prices, promotional programmes, marketing support, supply chain, sustainability initiatives, packaging, sales volumes and profitability. Walmart's other initiatives – including a drive for higher private label penetration, SKU rationalization and inventory reduction – have been wreaking a seismic impact on the vendor.

### Walmart's shopper-centricity driving customer-centricity from suppliers

Having seen already in this chapter that US suppliers are becoming increasingly dependent on Walmart, with around a fifth of the business going through the retailer, we turn now to one of the more successful responses to the trend – that of customer-centricity. It is noteworthy how frequently many of the multinational suppliers that we have spoken to identify four key strategic customers on a global basis. Usually, these would be Walmart, Carrefour, Tesco and Metro, although these can often be augmented with a 7-Eleven, McDonald's, PetSmart, Home Depot, Best Buy, Aldi, Kroger, Walgreens, etc depending on geography or the product specialization of the supplier in question.

Regardless of what retailers are on the list, the simple fact remains: individual retailers, led by Walmart, have now become so important to suppliers that many of them have dedicated headcount, offices and strategies to better serve their most important customers. By the same token, it should be noted that the ball is in Walmart's court when it comes to influencing or even deciding which products shoppers should buy. Through strategies such as range rationalization, private brand development and increasingly sophisticated promotions, merchandising and marketing, and despite the billions of dollars thrown at NPD and advertising by suppliers each year, it is Walmart that controls what its shoppers buy. Even if a vendor creates the greatest product ever, if that vendor is not aligned with the needs and strategies of Walmart, then that product is unlikely to be a success.

At the time of its merger with Gillette, a P&G executive remarked that the move was a reaction to the fact that 'the power has shifted to the consumer'. While the comment is true, a more realistic observation would have been that the deal was a reaction to the fact that the power has shifted to Walmart: it has become the ultimate gatekeeper to American shoppers.

It is fairly old hat to observe here that Walmart has been endeavouring to put its shoppers at the heart of what it does for many years now, that is, pursuing a shopper-centric strategy. Shopper-centricity is a long-term strategy requiring retailers to place the shopper at the core, even at the expense of short-term profit. In its most basic form, shopper-centricity is simply the ability to offer the right assortment to the right shopper at the right time.

While price is clearly one of the key drivers of shopper loyalty, especially in these economically uncertain times, it is worth remembering that price is one of myriad loyalty drivers, the other main categories of which comprise quality, experience, product and location. Price leadership has always been a key strategic focus for Walmart, seizing on initiatives such as private labels (economy lines in particular), EDLP messaging and enhanced promotional activity in an attempt to convince shoppers of its value credentials.

Price has proven to be an effective weapon for Walmart, but it is a fairly blunt instrument with which to deal with increasingly sophisticated shoppers. In order to maintain many of its key metrics (sales, margins, market share etc), Walmart has been moving beyond price alone in order to better compete in what is a fiercely competitive market awash with different options for demanding consumers who are often short of both time and money. Some examples of shopper-centric initiatives being pursued by Walmart include: offering tiered private label assortments; utilizing shopper and category data to tailor in-store assortment, merchandising and marketing; rationalizing SKUs to increase the relevance of assortments; engaging directly with shoppers via social media; investing in the in-store experience through store remodels; and diversifying its range of formats (Super-mercado de Walmart and Walmart Express are two good examples) based on shifting consumer patterns.

Successful Walmart suppliers have already realized that, in order to better reach the end consumers that are the subject of Walmart's shopper-centric strategies, they should take on the challenge of becoming more Walmart-centric in order to better serve their biggest customer. Which leads us to reiterate a point made earlier – the role of Walmart as gatekeeper to the shopper.

### Is Walmart lacking insight?

The ability to offer a targeted, localized and customized product mix is a fundamental component of Walmart's shopper-centric strategies. One of the key tactics in ensuring that Walmart is meeting the requirements of its shoppers is through the effective use of shopper data. We would argue that the most effective way of delivering these data and insight has been through the use of loyalty card data, as demonstrated by the likes of Kroger, Casino and Tesco utilizing insights from dunnhumby. Walmart would argue that its use of shopper surveys married up to Retail Link data delivers similar levels of actionable insight, an assertion that would be more than open to debate. Indeed, Walmart insiders have told us that many of the mistakes made during Project Impact were a direct result of Walmart's inability to generate and benefit from granular insight into the preferences and behaviour of its shoppers.

Walmart already tailors stores and assortments by location to a certain extent. Being able to tailor merchandising mix by time of day, week etc requires a very deep level of customization – in terms of inventory maintenance and employee costs when it comes to restocking – and is therefore one of the least-used tactics by retailers. However, Walmart (in Mexico and the UK) has begun offering more premium, higher-margin products around pay day and more promotions from mid-month onwards when shoppers are feeling strapped for cash. Walmart is also tweaking its assortment in the United States as well, offering smaller pack sizes with lower prices towards the end of the month.

### As Walmart evolves, suppliers must follow suit

As Walmart continues to evolve its strategy in order to better serve shoppers, this process is directly impacting suppliers. Walmart's emphasis on a shopper-centric approach, helping its shoppers 'save money so that they can live better lives', has created both threats and opportunities for vendors. It has therefore become more vital than ever for vendors to gain genuine understanding and alignment with Walmart's shopper-centric way of going to market and the strategies that result.

In terms of tangible steps, those we have seen successful suppliers adopt include:

- Engaging with Walmart's strategy setters to better understand its strategy and priorities.
- Collaborating with Walmart to understand its shoppers and how to better connect with them.
- Shifting from a transactional relationship with Walmart to a more collaborative partnership.
- Vendors need a seat at the strategic table. This can be delivered by supporting and enabling routine top-to-tops and cross-functional meetings with Walmart.
- Driving Joint Business Planning with Walmart for win–win growth and mutual margin enhancement.
- Providing shopper and/or category data and insight to support Walmart's objectives.
- Focusing on suitable categories and brands to align with Walmart's objectives.
- Establishing the correct structural alignment. Walmart wants a Customer Business Unit organized around it, not a supplier that is organized around countries or categories.

- Resourcing accordingly: having the correct personnel and infrastructure (eg an office in Bentonville).
- Partnering on logistics, supply chain etc to deliver efficiencies and unlock mutual value.
- Supporting and adhering to Walmart's environmental sustainability objectives.

### Structural alignment is key

As mentioned above, getting the right structural alignment in place is vital for a vendor wanting to thrive in its relationship with Walmart. As we note above, the ideal structure for dealing with Walmart includes establishing a Customer Business Unit (CBU) that is organized around Walmart. We have heard of several instances of frustration being directed at those vendors who retain their historical structure of being organized purely by country or by product/category. A typical CBU operated by a major supplier to Walmart might include some or all of the following features:

- global/regional/national engagement at Walmart HQ (be that Bentonville, Miami or Leeds);
- central management of account with P&L accountability;
- cross-functional support;
- joint marketing and innovation;
- insights and category advisory;
- functional customer teams;
- support teams covering insights, marketing, finance, supply chain etc.

As the archetypal success story in terms of dealing with Walmart, P&G is often held up as a good example of how to structure to win with Walmart. P&G's Walmart CBU can be summarized with the following points:

- global customer team leaders with P&L responsibility;
- direct reporting from Walmart team leaders to P&G HQ;
- cross-functional teams (marketing, logistics, merchandising etc);
- global Walmart council led by P&G HQ;
- internship scheme at Walmart;
- regular top-to-top meetings and cross-functional meetings.

When we asked a senior executive at Walmart if P&G was a good example to emulate, and if they had any other views on structural alignment, they said:

> P&G has historically done well. They've always been pretty good. A team in Bentonville is pretty much essential. A team in each Walmart market is also good. The key issue is communication. We have vendors with a team in Bentonville, and a team in, say, Brazil. What can happen is the Walmart team in Brazil reports to the head of Brazil or the head of Latin America. What's the point of that if the Walmart Brazil team don't report into the Walmart team in Bentonville? Local teams need to roll up to the central team in Bentonville.

### Assortment editing and the impact on suppliers

Alongside Walmart's acceleration in private label development and penetration, perhaps the greatest threat to brands from Walmart has been the SKU rationalization process, also known as range rationalization or assortment editing, that occurred as part of Project Impact. In fact, the two phenomena were inextricably linked: Walmart trimmed brands from its assortment and replaced delisted secondary brands with expanded private label ranges.

At the risk of being unfair to the global CPG business, there are simply too many products available to consumers, and there have only recently been signs that manufacturers are thinking of decreasing the rate at which new products and their new variants are being churned out to an increasingly indifferent world of consumers.

Following decades of NPD by CPG manufacturers, private label innovation by retailers and the emergence of huge out-oftown retail concepts, the array of products greeting a typical supermarket or Supercenter shopper has grown exponentially. According to the Food Marketing Institute, by 2008 nearly 47,000 distinct products filled a typical US supermarket's shelves, up more than 50 per cent from 1996. At any one time in the United States, there is a pool of over one million items available to consumers, according to AMR Research. Of that 1,000,000+ assortment, shoppers typically only use approximately 340 unique items per year (down from 390 in 2009).

One of the main impacts of product proliferation was that Walmart shoppers were increasingly faced with a bewildering array of choices when attempting to navigate a store, a department and a category. Prior to Project Impact, a Walmart Supercenter carrying 100,000 SKUs would be shopped for 22 minutes by an average consumer, implying that a thorough evaluation of each product carried would require an investigation of 75 items per second! This is clearly a preposterous piece of statistical analysis on our behalf, but still fairly telling in that it reveals that consumers had become over-served in terms of the array of products on offer.

A good example of the benefits of SKU rationalization from a consumer's perspective can be found in the case of Walmart Canada and peanut butter. Walmart dropped two of its five lines of peanut butter to free up shelf space for cinnamon spreads. The retailer didn't see a decline in peanut butter sales: with fewer selections to browse, customers ended up purchasing more than before. 'Folks can get overwhelmed with too much variety', Duncan Mac Naughton, Chief Merchandising Officer at Walmart Canada at the time, told the *Globe and Mail*. 'With too many choices, they actually don't buy.'[11]

As previously discussed in the book, the SKU rationalization process enabled Walmart not only to reduce inventory and labour costs but also to give private label items greater prominence on the shelf. As Walmart remarked, the process resulted in 'improved planning, reduced inventory, higher customer satisfaction scores and better merchandise sell through over the course of 2009'.

One other positive spin-off for Walmart from its SKU rationalization pro-gramme was that the process enabled another opportunity for the retailer to enjoy enhanced leverage over its vendor partners. We have encountered several vendors that have told us that the SKU rationalization resulted in a quasi-auction process where those suppliers more willing to contribute the largest amount of marketing contribution or promotional support have retained their place on the shelf, despite not necessarily being the stronger or most popular brand.

While most of the SKU reduction programme was undertaken in consumables as well as in non-food categories like sports, the process was broadened to include a wider array of non-food categories. The assortment editing process was not without certain issues. Walmart found itself in 2009 losing shopping trips to drugstores, grocers and category specialists like Home Depot because it had axed certain SKUs that were trip- drivers in their own right. Walmart admits that it made mistakes, and arguably these mistakes were made due to the lack of credible customer data that other retailers – notably those with loyalty cards – have available to them.

As discussed earlier, in order to rectify its mistakes, Walmart has been adding thousands of SKUs back into the mix. The retailer has engaged with suppliers to review its assortment to make sure that it has the breadth of inventory that Walmart customers have come to expect. Walmart is restoring thousands of products to its assortment and adding new items. Bill Simon stated at the time: 'We plan to win in every category and let customers decide through their purchase decisions what to include in our assortment.'

As Walmart and other retailers have rationalized the number of SKUs they sell (in order to focus on brand leaders and private label) and heightened their demands for genuine innovation and added value in terms of NPD, major FMCG vendors have reacted accordingly. A number of them have reined in NPD, others have pledged to shrink the number of lines they offer, while others have gone further still – disposing of entire divisions in order to focus on their areas of strength, brand leadership, authority and expertise. P&G, for example, pledged to reduce its product assortment by 14 per cent over a two-year period. In an interesting experiment of sorts, the company reduced the number of skincare products it sold through one Canadian retailer by a third and reduced its household SKUs by 20 per cent at another retail customer. In both instances it reported sales increases.

[11]http://www.theglobeandmail.com/report-on-business/in- store-aislesless-is-more-but-customers-can-still-be-particular/article1573518/

### Vendors and sustainability

Beyond the usual spheres of promotions, terms and conditions etc, retailers are exerting their powers in other areas, with two notable examples including the inextricably linked issues of packaging and sustainability.

Retailers have not enjoyed the best of reputations in the media and in the general public consciousness in recent years, with constant allegations of bully-boy tactics, unethical sourcing and worker exploitation surrounding the retail industry around the world. Clearly, Walmart has proven to be a large and easy target for criticism in this regard. Walmart has acknowledged that the PR issue was part of the reason for its enthusiasm for all things green. Matt Kistler, Walmart's Senior Vice President for Sustainability, told the *Guardian* in 2010: 'At first it was a little bit of a reaction to the negative pressures as a company we'd been receiving. But very early on, from day two, there was a tremendous appetite not only from an environmental point of view but from a business point of view to do what we're doing.'[12]

Faced with this bad press – and also the need to reduce costs and increase efficiency – Walmart has been busily pursuing an environmental agenda in recent years, seeking to minimize both inputs and outputs in order to reduce the overall environmental impact of its operations. It has become increasingly apparent that Walmart has been looking to maximize the PR impact of its environmental initiatives and the company has been eager to involve its suppliers as much as possible in its efforts to reduce its ecological impact.

We are happy to acknowledge that Walmart is pursuing the environmental agenda because it is the 'right thing' or a 'good thing' to do, but it would be churlish not to acknowledge that its eco-friendly strategies are also being followed thanks to the significant positive spin-off that many of them have for cost reduction. Indeed, it is worth remembering that many initiatives being launched by Walmart and other retailers (minimizing plastic bag usage, backhauling, packaging reduction etc) were first pioneered or championed by hard discounters – not because they help save the planet, but because they help save money.

As in many other issues, Walmart has been in the vanguard of pushing a sustainable vision of retailing. We don't doubt for a second that this has been at least partly motivated by a desire to improve its image (the retailer has traditionally been something of a corporate enemy number 1 in the United States), but Walmart has always been more than transparent that its motivations for greener retailing are – as with all it does – a combination of lower prices for shoppers and higher profits for itself.

Walmart has been proactive in the realm of environmentally responsible retailing in markets such as the UK, the United States and Mexico (indeed, the retailer has initiated some impressive projects in all of its operating markets). Walmart has little time for the expensive showboating and grandstanding exhibited by some other retailers around the world. For an environmental initiative to be worthwhile for Walmart, it must have a positive impact on profitability. As noted by a Walmart executive in Canada, the retailer is anxious to demonstrate that 'environmental sustainability can go hand-in-hand with business sustainability'.

It is worth remembering that Walmart faces something of an uphill battle when it comes to burnishing its eco-credentials, involved as it is in importing tonnes of Chinese imports produced with grotesque environmental side-effects.

That said, there is no doubt that Walmart is genuinely attempting to offset its impact on the environment. Through programmes of change, Walmart is making tangible progress in areas such as refrigeration, heating, ventilation and cooling; store design; lighting; water use; packaging use and recycling; general recycling initiatives; eco-friendly/ethical sourcing and supply chain logistics.

Alongside these in-house initiatives, vendors around the world are being exhorted to support Walmart's environmental improvement programmes. Through mechanisms such as packaging scorecards, carbon foot printing and basic minimum standards, suppliers are facing up to the fact that – in order to continue to do business with their major retail customers such as Walmart – they must adhere to a set of criteria and uphold a series of values that they might not otherwise participate in. Obviously, many major vendors have already embarked on sustainability programmes of their own, but are now facing the burden of matching the requirements of Walmart.

As John Compton of PepsiCo told investors in 2010, 'I'm in the consumer products business, so if I'm going to have a company in the next five or ten years, I better change my practices because Walmart is not going to sell my products if they're not sustainable'.

Walmart's broad environmental goals are simple: to be supplied 100 per cent by renewable energy; to create zero waste; and to sell products that sustain people and the environment. To this end, one of the key developments kicked off by Walmart is a planned worldwide Sustainable Product Index, which is expected to lead to higher quality, lower costs and measure the sustainability of products. According to Walmart, 'one of the biggest challenges we all face is measuring the sustainability of a product. Walmart believes a research-driven approach involving universities, retailers, suppliers and non-government organizations can accelerate and broaden this effort.'

The first step has been the implementation of a Supplier Assessment in which Walmart will provide each of its 100,000 global suppliers with a survey of 15 simple questions to evaluate their own company's sustainability. The questions include some familiar queries on greenhouse gas emissions and location of factories, but the list also includes some new areas, such as water use and solid waste produced. Walmart asked its top-tier US suppliers to complete the survey by the end of 2009. Outside the United States, the company has developed timelines on a country-by-country basis for suppliers to complete the survey.

The 15 questions for suppliers comprise:

- Energy and Climate: Reducing Energy Costs and Greenhouse Gas Emissions
  1. Have you measured your corporate greenhouse gas emissions?
  2. Have you opted to report your greenhouse gas emissions to the Carbon Disclosure Project (CDP)?
  3. What is your total annual greenhouse gas emissions reported in the most recent year measured?
  4. Have you set publicly available greenhouse gas reduction targets? If yes, what are those targets?
- Material Efficiency: Reducing Waste and Enhancing Quality
  5. If measured, please report the total amount of solid waste generated from the facilities that produce your product (s) for Walmart for the most recent year measured.
  6. Have you set publicly available solid waste reduction targets? If yes, what are those targets?
  7. If measured, please report total water use from facilities that produce your product(s) for Walmart for the most recent year measured.
  8. Have you set publicly available water use reduction targets? If yes, what are those targets?
- Natural Resources: Producing High Quality, Responsibly Sourced Raw Materials
  9. Have you established publicly available sustainability purchasing guidelines for your direct suppliers that address issues such as environmental compliance, employment practices and product/ ingredient safety?
  10. Have you obtained third-party certifications for any of the products that you sell to Walmart?
- People and Community: Ensuring Responsible and Ethical Production
  11. Do you know the location of 100 per cent of the facilities that produce your product(s)?
  12. Before beginning a business relationship with a manufacturing facility, do you evaluate the quality of, and capacity for, production?
  13. Do you have a process for managing social compliance at the manufacturing level?
  14. Do you work with your supply base to resolve issues found during social compliance evaluations and also document specific corrections and improvements?
  15. Do you invest in community development activities in the markets you source from and/or operate within?

The general sustainability index followed the 2007 launch of a packaging scorecard system across its supplier base. The aim of the programme was to measure Walmart's 60,000 worldwide suppliers on their ability to improve packaging and conserve resources. This initiative was projected to reduce overall packaging across the Walmart global supply chain by 5 per cent by 2013. In February 2007, Walmart shared the packaging scorecard with its global supply base of more than 60,000 suppliers, allowing them to input information and track their performance relative to other suppliers. From February 2008, Walmart began to measure and recognize its entire worldwide supply chain based upon the packaging scorecard.

Walmart's environmental initiatives, particularly the scorecarding, could be viewed on the one hand as another onerous example of Walmart burdening its suppliers with more work and expense. On the other hand, it also provides more opportunity for mutual benefit through collaboration. Once again, Unilever provides some good examples. The European supplier has been providing expert support to Walmart's sustainable value networks (SVN) for several years. Unilever participates in 4 of these 13 SVNs, which aim to bring Walmart's suppliers together to share best practice. In the Food & Agriculture SVN, Unilever has taken the lead in water by developing a reliable way to measure how efficiently suppliers are using water to grow crops. Unilever ran an irrigation study among Californian tomato growers, the results of which contributed to a sustainability scorecard for Walmart suppliers. Also, working in close cooperation with Walmart, in the summer of 2008 Unilever set up 'sustainability kitchens' at Asda superstores around the UK. The objective was to encourage shoppers to make environmentally friendly changes, for example washing laundry at 30°C, which could also save them money. As part of this activity, Asda ran a promotion on selected Unilever brands with strong sustainability credentials such as Hellmann's, Persil and PG Tips, resulting in a significant sales increase during the period.

Having looked at Walmart's interaction with major global suppliers, we now turn to evaluate the retailer's attempts to increase the clout it holds over suppliers in general: its strategic push to more direct global sourcing.

[12]http://www.guardian.co.uk/business/2010/jan/12/walmart- companies-to-shape-the-decade