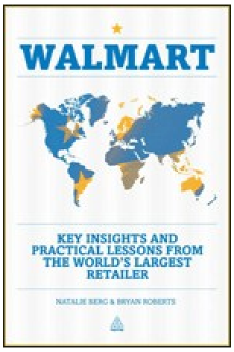

Walmart: Key Insights and Practical Lessons from the World's Largest Retailer

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Chapter 5: It's an EDLP World

The consumer advocate and king of deflation

The first RCA consumer colour television set cost a whopping $1,000 when it was introduced in 1954.[1] Prices halved later that year to $495,[2] yet this was still an astonishing 16 per cent of the average American's income. Fast-forward nearly 60 years and today you can buy a TV at Walmart for $130, less than 1 per cent of the average American's income.[3] Deflation has occurred across a number of categories, particularly in electronics. Not only are retailers finding cheaper ways to source and distribute goods, but the mark-up associated with a new product launch is finding its time limited in the face of ongoing technological improvements.

This is to be expected from general merchandise categories such as electronics where higher margins enable a degree of price elasticity. But what about groceries? They are necessities with very little room for mark-ups. So why are American consumers spending less and less on groceries each year?

You can probably guess by now that Walmart is playing a role in this. In fact, it has been estimated that Walmart reduces consumer price inflation by between 0.1 and 0.2 per cent on an annual basis.[4] Walmart, despite its size, only holds a 15 per cent share of the fragmented US food sector, yet its focus on driving low prices has had a ripple effect on the competition, thereby reducing prices throughout the entire industry.

And of course it has been the consumer to benefit. As a percentage of their disposable income, Americans spent just 11.4 per cent on food in 2010. The figure is even more astonishing when we strip out the amount spent on eating at restaurants – a mere 6.4 per cent of disposable income goes towards food-at-home consumption (ie food bought from retailers). This is less than half the amount we spent just 50 years ago – when Walmart was getting started, 14.1 per cent of consumers' disposable income went to the supermarkets.[5]

However, we can't fully blame or thank Walmart for driving down prices because it wasn't until the late 1980s that they even got into the food business. The proportion of income spent on food has generally been in decline since the end of the Second World War when new technologies were introduced to drastically improve efficiencies in agricultural operations. Farming became less cost-intensive thanks to the introduction of machinery, chemical fertilizers and pesticides, and monocultures. This has helped to reduce prices and make food more readily available across different income groups, but today there is much debate about the true price we pay for cheap food. Issues such as factory farming, the use of pesticides and genetically modified ingredients have divided consumers. The tragedy is that many consumers have become accustomed to low prices and now find it hard to justify paying a 'premium' to ensure that issues such as animal welfare are addressed during production.

Despite doubts over the sustainability and longer-term implications of selling cheap food, we cannot deny that Walmart continues to help consumers by offering lower prices on everyday essentials. And increasingly Walmart is working to democratize new areas such as healthcare (through its $4 prescriptions), financial services (which although very popular in Mexico, for example, have been limited in the United States owing to regulation), and healthy foods, the retail giant's latest initiative. Teaming up with First Lady Michelle Obama, Walmart plans by 2015 to reduce sodium by 25 per cent and added sugars by 10 per cent in thousands of food products offered in its US stores. Even Walmart's most severe critics have to applaud its intentions to improve the nation's health. Of course, the commitment, along with a pledge to save consumers $1 billion a year on fresh fruits and vegetables, will also help Walmart to appease city councils as it looks for the green light into America's cities, which we will discuss in more detail later.

In any case, for nearly two decades Walmart's democratization of everyday goods was reflected in its 'Always Low Prices' slogan. Walmart was about offering cheap stuff, but in today's era of product proliferation and fierce retail competition, this is no longer enough. Therefore in 2007 Walmart drastically shifted its messaging away from pure physiological benefits (low prices on necessities) by changing its slogan to the softer, more emotional 'Save Money. Live Better.'[6] If Abraham Maslow were around today, he would applaud Walmart for moving up the hierarchy of consumer needs and reaching the top of the pyramid – self-actualization. By offering an opportunity to 'live better' at Walmart, the retailer is tapping into the emotional psyche of the consumer and demonstrating the ultimate promise on Maslow's ladder – the ability to enrich its customers' lives. It's also a nod to those affluent yet price-sensitive shoppers who were heading to Walmart in droves during the recession.

Walmart therefore must always act on behalf of its consumers. Everything it does is in the name of providing lower prices to shoppers – whether that is driving hard negotiations with suppliers or investing in technology to cut costs. It is both the advocate for, and gatekeeper to, the United States' shoppers. At times, it is difficult for Walmart to reinforce this message owing to the constant nature of EDLP, and this is particularly true in international markets where Walmart may not be the leading retailer. Therefore, initiatives to improve price perception are welcomed with open arms.

In the UK, for example, Asda's Price Guarantee promises British shoppers that its products are at least 10 per cent cheaper than major rivals. If they're not, shoppers get refunded the difference.[7] The marketing investment was made to finally lay to rest the notion that Asda is the cheapest supermarket around. Since then, millions of shoppers have used the service, which is powered by Mysupermarket.co.uk. It's a clever marketing tool for an EDLP retailer, particularly as pricing becomes more transparent with shoppers increasingly utilizing smartphones and price comparison websites. Honest pricing will be a major trend in 2012 and beyond:

> With our stores and low prices, we can really take advantage of mobile technology and this era of price transparency.
>
> (Mike Duke, 2011)[8]

In an exclusive interview with the authors, Asda's CEO Andy Clarke commented: 'There will always be a place for promotions but it's about having the right proportion. EDLP is transparent, simple and it creates trust with our shoppers. The days of promotional gimmicks are gone.'

Equally, price perception can be just as important, if not more so, than the reality of low prices, which makes the Price Guarantee a worthwhile investment. When it was re-launched in early 2011, UK consumers were battling a number of economic hurdles – inflation was well above government targets and unemployment was a major concern, particularly as government spending cuts began to take their toll. To add insult to injury, consumers feared interest rate hikes and VAT had just gone up by 2.5 per cent. Therefore, Asda's price promise was bound to resonate with many penny-pinching customers, despite the fact that it covers only 15,000 SKUs – which is less than half of the total assortment – and that there is a fair amount of administration involved in claiming a refund. It's the perceived value that made it worthwhile for a number of shoppers.

Price perception is a funny thing. In the United States, Walmart doesn't end prices in $.99 as is common practice in supermarkets. Instead, they typically end prices in $.88 or $.89, leading shoppers to believe subconsciously that they are getting a better deal. At the same time, if certain categories are priced too low then that too can have an undesired effect. In Japan, for example, shoppers were suspicious when Seiyu offered a $10 pair of jeans. Surely, quality must have been cut in order to price a product so low, consumers presumed. HBC is another category where low prices can actually have a negative effect on sales. Walmart could easily reduce the prices of its Equate private label line but shoppers would question the quality in a category where they are used to paying a premium. 'In toothpaste, if the national brands are selling for $3.33 a tube and you're at $1.50, well the customer's going to think something's wrong with your product', a Walmart executive told us.

[1]http://www.rca.com/about/the-rca-story/

[2]*New York Times*, R.C.A. halves cost of color TV sets, 10 August 1954, p 21

[3]Average income in 1954 was $3,156 versus $40,712 in 2009. http://www.ssa.gov/oact/cola/AWI.html

[4]http://blogs.reuters.com/felix-salmon/2009/11/10/wal- mart-does-not-save-families-3100-a-year/

[5]http://www.ers.usda.gov/briefing/cpifoodandexpenditures/ data/Expenditures_tables/table8.htm

[6]Bloomberg Businessweek, Walmart is out to change its story with new ads, posted by David Kiley, 13 September 2007. http://www.businessweek.com/the_thread/brandnewday/archives/ 2007/09/walmart_is_out.html

[7]http://your.asda.com/2011/1/6/your-weekly-shop-will- be-10-cheaper-at-asda-our-guarantee

[8]Quote from WMT Shareholders Meeting, June 2011

Recession lesson #1: never take your eye off the customer

On a weekly basis, Walmart's low prices attract 140 million shoppers in the United States: 52 per cent, or 73 million, of these shoppers are core Walmart customers with an average household income of over $50,000. Although these core shoppers spend just $61 per month on consumables, they make up more than two-thirds of the retailer's sales.[9] In a weak economy, the need for value is of course heightened, particularly among this lower-income segment. Mr Simon told the authors: 'Our customers in the United States are stretched and stressed. They tell us their primary concerns are job security, the rising cost of groceries and the high cost of gas.' Walmart is learning to adapt to changes in shopper behaviour such as trip consolidation and 'paycheck cycles'.

'One in five Walmart moms tell us that the cost of gas is their top expense after housing and car payments. In an effort to offset high gas prices, customers consolidate shopping trips and they reduce their discretionary spending.' Perhaps more worrying, Mr Simon told the authors that he continues to see a spike in customer visits for necessities at midnight on the first of the month when government assistance funds become available in their accounts. 'These visits taper off significantly, spike again at the middle of the month and then decline drastically through the end of the month. It's called the paycheck cycle. The fact that it has continued over the past few years and is as pronounced as ever speaks volumes about the challenges our customers face.'

With disposable incomes under such pressure, Walmart should have been in a prime position to capitalize on their core customer's quest for value during the most recent recession. So why then did they spend the subsequent two years in decline?

The answer is simple: Walmart saw the recession as an opportunity to engage with an entirely different demographic – the new value-seeking affluents. These higher-income shoppers were spending an average of 40 per cent more per visit than the typical Walmart shopper. They were trading down from traditional supermarkets in a bid for better value. At the same time, the recession sparked a shift in consumer mentality – suddenly frugality became socially accepted. This is a trend we foresee to continue as empowered consumers across a variety of income levels are increasingly utilizing technology such as smartphones and price comparison websites to obtain, share and review product and pricing information. Today, consumers are encouraged to be thrifty, shop smartly and shout about bargains. Asda, for example, told the authors in an exclusive interview that its customers are now sharing online orders so as to split the delivery fee, and promotions such as buy two for £4 were also being shared in-store.[10] Shoppers have never been so savvy, and crucially they expect the retailer to help them save.

Walmart saw the weak economic backdrop and shift in consumer mindset as an opportunity to cash in on more lucrative customers, who perhaps had shunned Walmart prior to the downturn but were now willing to give them a try. Despite a small percentage of sales traditionally allocated towards advertising costs, Walmart ramped up its marketing efforts during the recession in a bid to raise awareness among this new demographic. In 2009, Walmart became the United States' number-one retailer based on measured-media advertising, displacing department store Macy's. That year, *Advertising Age* estimated that Walmart increased its US spending by 14.2 per cent, while global advertising spending increased by an astonishing $300 million to reach $2.4 billion. As a brand, Walmart was the third most advertised in 2009, quite a jump from its ranking at 16th place in 2007 – just before the recession struck.[11]

In addition to ramping up its advertising efforts, Walmart also embarked on a major initiative to revamp its stores, rationalize SKUs as previously discussed, and add more compelling merchandise to the mix. Project Impact, as it was known internally, was aimed at gaining Walmart credibility, reducing clutter, improving shopability and navigation of its stores and creating a more inviting store experience. It was about lowering shelves, widening aisles, improving lighting and removing the bargain-heavy, pallet-led Action Alleys. This was about sophistication, making Walmart about more than just price.

And that is where we had to stop and question whether this was actually the right strategy for Walmart. Walmart is, after all, about price. It's about offering extreme value on a wide assortment of goods. That has always been the attraction among shoppers and the differentiator among competitors – Walmart has been in a unique position to deliver on that promise of both value and assortment. Now you could argue that many of Walmart's stores were in need of a revamp and, of course, improvements in customer service will never be frowned upon in the retail industry. However, unlike most Walmart initiatives, Project Impact wasn't about pure cost investment to provide shoppers with better value. This was about store investment to gain long-term market share. While there would certainly be efficiencies gained on the distribution side, Project Impact was about attracting and retaining a new type of shopper. The strategy carried a great degree of risk. And at a time when value was paramount for Walmart's core customers, its pricing message became muddled.

Looking back on Project Impact, Bill Simon commented in 2011: 'We got enamoured with presentation as an example. We walked people through our [remodelled] stores and they were gorgeous. But they cost more. And if you spend more on your building, your prices can't be as low as you want them to be.'[12] Speaking to the authors, Mr Simon also noted that being in stock is also critically important to shoppers. 'We've found that if we don't get those things right, if we don't take care of the basics, then it doesn't matter how entertaining we make the in-store experience', he told us.

The main merchandising component of Project Impact – 'Win, Play, Show' – was designed to segment its products into three categories. A 'win' category, such as pet care, possessed growth, scale and credibility. Walmart stocked the full range and used the category aggressively to gain market share. Price leadership was vital here. A 'play' category, meanwhile, such as denim jeans, featured a limited assortment because although it may have possessed growth, scale or credibility it certainly did not possess all three (as was the case with a 'win' category).

Finally, a 'show' category such as hardware featured those items that tended to lack credibility at Walmart. These products showed little room for growth but were necessary for Walmart's positioning as a one-stop shop. 'It's important we have hammers, and it's important we have tape measures, but we don't need 28 kinds of tape measures, which we actually had at one time', said former chief merchandising officer John Fleming.

But, as discussed in the previous chapter, before Walmart takes the axe to its sewing machines and office furniture, it must first and foremost take the customer into account. Take the fishing aisle, for example. This was one of those categories deemed cull-able and therefore soon heavily rationalized, leaving customers with an 'anaemic'-looking department as described by Walmart itself. The retailer has since increased the assortment and space of this department and as a result saw comparable sales of items like rods and reels up by 40 per cent. Hunting goods – including the controversial gun category – and fabrics have also been added back into the mix as part of Walmart's 2012 goal of having the broadest assortment available.

Action Alleys have also been added back. So much for clear sophisticated aisles; the absence of pallet-led discounts has hurt Walmart's price perception. By early 2011, Action Alleys were back in two-thirds of US stores, resulting in an increase of 10–20 basis points in comparable store sales.

[9]These statistics are from a non-public Walmart document seen by one of the authors

[10]Based on an exclusive interview with Judith McKenna

[11]*Advertising Age*, Top 100 outlays plunge 10% but defying spend trend can pay off; 26 bold marketers, Bradley Johnson, 21 June 2010. http://adage.com/article/news/top-100-outlays-plunge- 10-defying-spend-trend-pay/144555/

[12]*The Wall Street Journal*, With sales flabby, Wal-Mart turns to its core, Miguel Bustillo, 21 March 2011. http://online.wsj.com/article/SB100014240527487033284045762071616920017 74.html

The path to efficiency

Now, when it comes to Walmart, there's no two ways about it: I'm cheap.

(SAM WALTON)

Walmart's business model is very simple – to offer well-known brands at the lowest possible everyday price. Logic would tell us that when a retailer prices a product below what the competition are selling it for, they make less money on the sale. Yet this assumes that two things are equal: (1) the number of units sold and (2) the amount for which the product was purchased. At a very early stage, Sam Walton recognized that, provided the right merchandise was on the shelf, he could undercut the competition on price yet attract enough shoppers so that the high volumes would make up for the price investment:

> ... Say I bought an item for 80 cents. I found that by pricing it at $1.00 I could sell three times more of it than by pricing it at $1.20. I might make only half the profit per item, but because I was selling three times as many, the overall profit was much greater.
>
> (Sam Walton)

As Walmart grew and became more powerful, they were able to achieve better terms with suppliers. Their scale meant that lower purchasing costs could be reinvested in lower prices at the shelf. Of course, it didn't stop at lowering the cost of buying goods. Everyday Low Prices (EDLP) is 100 per cent derived from Everyday Low Cost (EDLC). The entire business is based on this principle. As CEO Mike Duke puts it, 'We must have the most efficient retail organization in the world, and that's the path we're on.' Frugality is truly an understatement here, and this even applies to how the company got its name. Sam Walton had a card with several possible names, all of which had three or four words in the title. Bob Bogle, the first manager of Walton's Five and Dime store in Bentonville, tells the story in Mr Walton's autobiography:

> I scribbled 'W-A-L-M-A-R-T' on the bottom of the card and said, 'To begin with there's not as many letters to buy.' I had bought the letters that said 'Ben Franklin' and I knew how much it cost to put them up and to light them and repair the neon.

Walton embedded a frugal yet diligent business culture within Walmart from day one. It wasn't uncommon to see senior business executives, Mr Walton included, stay at the Day's Inn, often sharing a room with a colleague in order to halve the cost. At Walmart's Bentonville headquarters, furniture is often a 'mismatched hodgepodge of colors and styles, including samples of chairs from suppliers that Walmart, having assessed for purposes of selling them in its stores, has put into everyday service', wrote Charles Fishman in his book *The Walmart Effect*.[13] Trips to visit suppliers were always to cost less than 1 per cent of the purchase and vendors were infamously required to accept collect calls from Walmart's buyers. 'Every time Walmart spends one dollar foolishly, it comes right out of our customers' pockets. Every time we save them a dollar, that puts us one more step ahead of the competition – which is where we always plan to be', Sam Walton wrote in his autobiography. Walmart's ability to offer low prices is the result of its continuous efforts to drive out excess costs in the business, something that has been ingrained in the company since Sam Walton's early days as a merchant:

> What happened was absolutely a necessary and inevitable evolution in retailing.
>
> (Sam Walton)

Let's not forget that when Walmart was starting out, independent retailing was a hugely inefficient business. A lack of competition meant that small-town retailers could get away with offering a mediocre assortment, closing their stores on Sundays and, critically for Walmart, charging phenomenal mark-ups. And still customers would keep coming back, either because they didn't know any differently or because they just didn't have a choice. Walmart saw this as an opportunity to better serve the customer and in the process they would forever change the way that retailing was done.

[13]Charles Fishman, *The Wal-Mart Effect*, 2006, Allen Lane, London, p 30 14 http://members.pricingsociety.com/articles/edlp_and_ trade_promotion_roi.pdf

How Walmart broke the supermarket pricing model

As the big boy of retail, Walmart takes a lot of heat. For ruthlessly undercutting its rivals, for tough negotiations with suppliers, for putting smaller companies out of business. It's easy to put blame on the big guy, but we have to remember that Walmart wasn't always so big. Sam Walton was once a small-town merchant. He once felt the wrath of the more established retailers at the time, such as Kmart, and not everything he touched turned to gold. But he did recognize an opportunity to, in his words, 'take things beyond where they've been'. He never marked up a product by more than 30 per cent, thereby offering extreme value to consumers and, most importantly, on a permanent basis:

> When we arrived in these little towns offering low prices every day, satisfaction guaranteed, and hours that were realistic for the way people wanted to shop, we passed right by that old variety store competition, with its 45 percent mark-ups, limited selection, and limited hours.'
>
> (Sam Walton)

While traditional supermarkets primarily focused on high–low pricing strategies, Walmart recognized yet another more efficient way to do business. The retailer broke from the norm once again by asking suppliers to offer one low price on a permanent basis. Now it's important to understand that trade promotion investment, as it is referred to in the industry, on average accounts for 13–20 per cent of an FMCG supplier's revenue, or more than two-thirds of their marketing budget.[14] It is by far the biggest single expense for a number of FMCG companies. Therefore, you can imagine that a few eyebrows were raised when Walmart told its suppliers to abandon their typical promotional cycles and instead to invest it all into one consistently low price.

The cost model of a full-service supermarket is very different from that of a mass discounter, and therefore, prior to Walmart, retailers primarily relied on promotions to drive shopper traffic and incremental sales. In fact, the majority of food retailers today continue to opt for a high–low pricing model, although the two strategies continue to blur.

Doing business with a high–low retailer adds a significant level of disruption and cost into the supply chain. For a given promotion, demand must be precisely forecast in order to ensure that there will be a worthwhile return on investment (ROI) and that there is sufficient supply (if not, suppliers can be faced with leftover stock or empty shelves – neither of which is likely to go down well with their retail customer). In the case of the former, trade sources suggest that as many as 50 per cent of promotions result in negative returns on investment after taking into consideration execution costs and unintended cannibalization. For example, say a can of tomato soup is on a supplier-funded half-price promotion at high–low Retailer X. That same can of tomato soup is offered at regular price at EDLP Retailer Y. In this instance, shoppers are more likely to visit Retailer X, which cannibalizes sales for the tomato soup supplier while disproportionately rewarding the retailer. As Walmart says, high–low retailers simply rent customers and rent market share:

> Don't go in and dump a bunch of coupons in the market and drive artificial volume, hold it steady.
>
> (Bill Simon, 2011)

That said, the increasing use of data is enabling high–low retailers to offer more targeted promotions and thereby improve ROI for both them and their suppliers. As discussed in the last chapter, Tesco's partnership with dunn-humby (the market research company part-owned by Tesco and behind the retailer's Clubcard scheme) is a fantastic example as it enables Tesco to drive long-term customer loyalty by better understanding its shoppers. To Walmart, this is viewed as unnecessary cost. Instead, the retailer's EDLP strategy looks to remove the complexities associated with running a high–low strategy, and in the process it provides both itself and its suppliers with a far greater sense of predictability in the supply chain. Since prices are generally constant, there is no need to worry about forecasting for incremental demand that would occur as part of the binge/purge process of running promotions. This then allows suppliers to achieve greater efficiencies when it comes to planning, manufacturing and distribution.

One private label supplier in the UK that we have spoken to told us that Asda's EDLP approach combined with long-term multi-buys and rollbacks makes for a much more predictable flow of business than it sees with supplying the likes of Tesco and Sainsbury's with their more promotional approach to retailing.

Therefore, EDLP takes the guessing game – and the costs – out of the equation. Take labour and advertising expenses, for example. Labour is one of the largest operating expenses for many food retailers, so any opportunity to reduce this – of course without impacting customer service – is taken. This is why we have seen so much investment in store technology (eg self-checkouts, handheld scanners) over the past decade. Like technology, an EDLP policy can also reduce labour costs as it eliminates the need for employees to physically change price tags each time there is a promotion. Of course, for many retailers this can be as often as once a week, which is a lot of time and money spent changing prices and relocating stock to promotional areas. When Walmart implemented EDLP in Brazil, for example, the number of price changes declined by 60 per cent and checkout lines were reduced by 53 per cent, proof that EDLP can actually help to improve customer service.[15]

Equally, a lack of price changes means that EDLP retailers can save on advertising costs – whether that's mailing weekly circulars or announcing a promotion via TV or radio. While volume-driven food retailers tend to spend a relatively small proportion of their sales on advertising anyway, Walmart's investment is still remarkably low – a mere 0.5 per cent of sales versus the 2 per cent spent by Target.[16]

[14]Marketwatch, Wal-Mart pitches 'everyday low prices' overseas, Andria Cheng and MarketWatch, 1 June 2011. Read more at http://www.foxbusiness.com/industries/2011/06/01/wal- mart-pitches-everyday-low-prices-overseas/#ixzz1UMZX5TIf

[15]*Advertising Age*, Walmart boosted media investment by $300 million, Jack Neff, 16 February 2009. http://adage.com/article/news/walmart-boosted-media- investment-300-million/134628/

[16]Comments from company Shareholders Meeting in June 2011

Too concerned with trading down over trading out

As you can see, EDLP versus high–low remains one of the most debated topics in the food retail sector. Which actually conveys a stronger value proposition? Walmart would argue that everyday low prices are simple and credible. They eliminate short-term price uncertainty and, in fact, instil trust among consumers once they understand the value proposition. 'It's not easy being an EDLP retailer but nothing builds more loyalty', Mike Duke commented in 2011.[17]

However, high–low retailers would say that EDLP is boring, lacking both stimulation and a sense of urgency among shoppers since the prices are always the same. High–low retailers maintain that shoppers can find better value at their stores by waiting for the promotions, during which time prices are typically lower than at an EDLP retailer. Of course, the catch is that those prices are temporary and an EDLP retailer like Walmart would argue that such short-term discounts erode the credibility of the standard shelf price. 'The two most important words in that equation aren't low prices but every day', said Walmart Canada's former CEO David Cheesewright:

> This promise of the lowest possible prices, day-in and day-out, permits our customers to shop at their convenience without waiting for 'sales'.
>
> (Walmart)

Yet all of this assumes a normal economic backdrop. In a down economy, shoppers become more promiscuous and cherry-pick the best bargains, which puts pressure on retailers to engage in more promotional activity regardless of their pricing principles.

During the recession, Walmart in the United States suffered quarter after quarter of negative comparable store sales growth. In a bid to win quick market share, they made a few pricing blunders. Firstly, there were instances when national brands were priced below the private label equivalent – referred to as 'the cardinal sin in retailing' by a former Walmart executive. In other instances, the cost to Walmart of buying private label was greater than the cost of buying a national brand – another significant faux pas. But perhaps the biggest mistake was Walmart's temporary shift away from its core EDLP policy. They began offering deep discounts on major brands, and in some cases these products were being offered below cost. For example, a 40-ounce bottle of Heinz ketchup was sold for $1. A former Walmart executive told us: 'It was ludicrous. They only sold Heinz and they only sold the 40-ounce bottle so they had restaurants, schools, everyone buying 6 or 7 bottles at a time. You couldn't buy the 24-ounce bottle for that price, let alone the 40-ounce one.'

A similar mistake was made by selling 24-packs of Coke and Pepsi for $5. 'At the end of the day, it didn't bring in any more customers. It just brought the same customer in a lot', the Walmart executive told us. The retailer was arguably more concerned with shoppers trading down than they were with shoppers trading out, in this instance to the dollar stores. At the time, Walmart was losing the pricing battle to these smaller pesky stores, many of which were growing comparable store sales in high single digits while Walmart was in decline. Too preoccupied with SKU rationalization and store remodels, Walmart began to neglect its EDLP principles and in the process alienated its core shopper base. Meanwhile, the dollar stores were busy adding more groceries into their assortment, benefiting from those shoppers defecting from Walmart.

Slashing prices on national brands, and doing so below cost in some cases, was a desperate attempt by Walmart to win back market share. Some point the finger to the host of external executives who have joined Walmart's management team in recent years. The retailer has hired executives from CPG companies and competing retailers, some of whom 'just didn't get Walmart's business philosophy', according to a senior executive. In any case, such pricing was unsustainable and uncharacteristically Walmart: this was high–low behaviour. It's no surprise then that Walmart's number-one goal today is to restore EDLP across its entire corporation. They now aim to have an opening price point – either national brand or private label – in every single category and in 2011 introduced an aggressive ad match policy to restore confidence among shoppers that Walmart offers the lowest prices around.

[17]*The Grocer*, Promotions hit record 40% of all supermarket sales, Charlie Wright, thegrocer.co.uk, 29 March 2011. http://www.thegrocer.co.uk/articles.aspx?page=articles& ID=217003

No need for weapons of mass distraction

Across the Atlantic, Walmart's British operations were also guilty of veering away from EDLP at one point. In the UK, where 40 per cent of all sales were on promotion in 2011,[18] EDLP-driven Asda has struggled at times to compete against promotion-orientated competitors such as Tesco and Morrisons. When you factor in a weak economic backdrop, the temptation to veer away from EDLP becomes even greater. Back in 2009, Asda began to dabble in multi-buy promotions in an attempt to drive shopper traffic and claw back some lost market share. The retailer continued with its efforts to win shoppers over with 'buy one, get one free' (BOGOF) and other limited-timed deals into the following year. In the four weeks to 5 July 2010, the number of promotions at Asda increased by 13.4 per cent on an annual basis to 1,646. This was still below competitors such as Sainsbury's and Morrisons, but in fact greater than Tesco – one of the most promotional supermarkets – which ran a total of 1,615 promotions during the same time.[19]

Despite its intent of improving price perception, the move towards promotional activity simply confused shoppers and in the process made Asda blend in with the rest of the supermarkets. Similarly, as food price inflation eased, Asda found that suppliers would offer more promotions rather than decreasing unit costs.[20] As an EDLP retailer, this is unacceptable, yet, from an CPG supplier's point of view, it's far more favourable to end a promotion early than to push through longer-term base price increases. It turned out that multi-buy offers, or 'weapons of mass distraction'[21] as then CEO Andy Bond famously referred to them, were not in Asda's interests and the retailer is now 'on a journey back to EDLP', Andy Clarke told the authors. Clarke, however, points out that, while low prices are important, having a strong value proposition goes much further. 'We are the best-value retailer in the UK, not the biggest discounter.'

[18]*The Grocer*, What about EDLP? Asda ups number of promos by 17%: it has said it will be running fewer deals but Asda has increased its number of promos by more than its rivals over the past month, Ronan Hegarty, 20 July 2010

[19]*Guardian*, Battle of the bogofs, Julia Finch, 18 February 2010. http://www.guardian.co.uk/business/2010/feb/18/viewpoint- asda

[20]*Guardian*, as above

[21]Walmart Shareholders Meeting, June 2011

Preço Baixo Todo Dia: is it an EDLP world?

The Asda example leads us to a very important question – does EDLP translate in every market? Generally speaking, Walmart has made significant improvements in flexibility with regard to its international operations, recognizing that not all markets are created equal after failures in Germany and South Korea. For example, in Latin America and Asia, many stores trade under local banner names and merchandising is also very much reflective of the local market. However, when it comes to pricing, there's no two ways about it – a uniform EDLP approach must be adopted by all markets:

> Everyday low prices in every market. No exceptions, no excuses.
>
> (Mike Duke, 2011)[22]

On 6 January 2011, 5,000 miles south of Walmart's cold Bentonville headquarters, its Brazilian division was celebrating something special. And no, it wasn't just a warm summer day in the southern hemisphere, but the day that EDLP was launched in its Brazilian stores. All hypermarkets and supermarkets – including Walmart, Big and Hiper Bompreço – were closed that morning so that employees could permanently reduce prices on 2,000 items by up to 20 per cent. The chain officially reopened at lunchtime as an EDLP retailer.[23]

The conversion had been in the works for nine months, as Walmart worked with suppliers to renegotiate contracts and also with consumers to help educate them about the benefits of EDLP. The new pricing model had been tested in a handful of Brazilian outlets and met with 'fairly good results'. Days before the launch, Walmart ended its Bomclube loyalty pro-gramme which had approximately 4 million members in the north-east and south of Brazil. It was time once again to focus on cost reduction and driving everyday low prices.

The move in Brazil is significant for a few reasons. Firstly, Brazil is unique in that it is one of the few retail markets in the world dominated by the large multinational retailers: Companhia Brasileira de Distribuicao (or CBD, which is jointly controlled by France's Casino), Carrefour and Walmart are the country's three most important food retailers. Their efficiency-led approach has helped to drive prices down in what is already an extremely promotional market. As such, there is a tremendous amount of price transparency in the Brazilian food sector. It is not uncommon to see shopping-basket price comparisons at the entrance of Carrefour or Walmart, and Brazilian shoppers are accustomed to finding comparison signage for specific products at the shelf. Walmart's commitment to EDLP therefore puts additional pressure on vendors, who of course sell to both Walmart and its competition.

Now Walmart is certainly an important retail customer for Brazilian FMCG suppliers – but they're not number one. Unlike in the United States where some FMCGs make more than one-third of their sales through Walmart, in Brazil CBD is actually the largest retail account. Therefore, if an FMCG supplier is asked/required by Walmart to adopt an EDLP approach, it is bound to ruffle some feathers when it comes time for negotiations with CBD.

[22]Walmart Brazil. http://www.walmartbrasil.com.br/imprensa/releases_interna. aspx?id=1281

[23]http://walmartstores.com/AboutUs/277.aspx?p=246

EDLP doesn't exist without EDLC

> Our highest priority is to continue being the retailer with the lowest cost structure in the market, so as to be in a position of giving our customers Every Day Low Prices.

(Walmart de Mexico y CentroAmerica 2010 Annual Report)

In order for EDLP to be a success in a new market, it's absolutely vital for two things to take place: (1) EDLC must be well established and (2) prices must be truly cheaper than the competition. 'EDLC is and continues to be a part of our DNA. We invest in low prices which drives volume and enables us to go back and reinvest in price. It's all a cycle and something that is truly unique to Walmart', Asda CEO Andy Clarke told the authors.

But this doesn't always happen overnight – in Mexico it took Walmart eight years from market entry to EDLP implementation. Ownership structure plays a major role in Walmart's ability to offer everyday low prices to shoppers. In Mexico, majority ownership was achieved in 1997[24] and by 1999 EDLP was introduced.[25] Prior to this, Walmart had spent years stripping out excess costs in Mexico in order to fund EDLP, and its vision for EDLC continues to this day. By 2000, the EDLP model had already been established on the back of a lean cost structure whereby general expenses accounted for 15.1 per cent of revenues and operating margin was 5.3 per cent. A decade on, general expenses were reduced even further to 14 per cent of revenues as part of Walmart's relentless drive for efficiency.[26] That year, Walmart de Mexico invested more than 1 billion pesos in the automation of two of its distribution centres (DCs). How does this affect prices, you might ask? Productivity at those two DCs in Tabasco and Cuautitlán is expected to increase by up to 30 per cent,[27] allowing Walmart to transport merchandise to a larger number of stores more efficiently. The cost savings achieved through DC automation as well as global sourcing and other supply chain initiatives will once again get fed back to the customer in the form of EDLP, enabling Walmart to attract additional shoppers and fund further investment in technology and the supply chain. It is an ongoing cycle, all in the name of lower prices.

While Walmart certainly benefits from the increased traffic and consequent market share gains on the back of price investment, it is by no means a charity and therefore some of those cost savings are used to buffer the bottom line and appease shareholders – over the past decade, Walmart de Mexico has recorded a 280 basis point improvement in operating margin.[28] Today it is the unequivocal market leader in Mexico, with sales reaching $25 billion in 2010.[29]

[24]*DSN Retailing Today*, Resilience and format diversity keep first international entry excelente – Wal-Mart operations in Mexico, June 2001. http://findarticles.com/p/articles/mi_m0FNP/is_2001_ June/ai_75406090/

[25]Walmart de Mexico y Centroamerica 2010 Annual Report, p 13. http://www.walmex.mx/assets/files/Informacion%20financiera/ Anual/Eng/Financiero/financiero2010ing.pdf

[26]Walmart de Mexico y Centroamerica 2010 Annual Report, p 13

[27]Walmart de Mexico y Centroamerica 2010 Annual Report, p 13

[28]Walmart de Mexico y Centroamerica 2010 Annual Report, p 4

[29]Comment from Walmart Shareholders Meeting, June 2011

Kakaku Yasuku – EDLP implementation isn't always seamless

EDLP is a proven recipe in fast-growing, price-conscious markets like Mexico and China; however, the transition hasn't gone quite so seamlessly in the stagnant, more affluent Japanese retail market. Initially, EDLP simply didn't work for Walmart's Japanese shoppers, 90 per cent of whom are women,[30] who were used to finding weekly specials in *chirashis*, newspaper inserts produced by many retailers. We know by now that weekly flyers are a big no-no when it comes to Walmart's EDLP approach; however, when Seiyu attempted to abandon the *chirashi*, sales quickly plunged: EDLP wasn't going to happen overnight.[31]

In Japan, another barrier to EDLP was the fact that many consumers had traditionally been motivated by quality over price, although this has shifted in recent years owing to austerity measures. This is especially true when it comes to fresh food – a vital component of the Japanese consumer's diet. Even for a retailer like Walmart, there is very little room for cost reductions in perishables because most Japanese farms are family-run operations that tend to offer better deals on smaller orders rather than on larger ones.[32]

In fact, many Japanese consumers associated cheap food with inferior quality and let's not forget that, owing to higher population densities, consumers do not have the space in their homes to bulk-buy six months' worth of toilet paper or canned beans. Add to the mix that there is a strong preference for domestic goods and we can begin to see why Walmart struggled for so many years in Japan.

But differences in consumer behaviour were certainly not the only barrier Seiyu faced when attempting to convert to EDLP. Going back to our earlier points about the prerequisites for success with EDLP, Walmart Japan initially failed when it came to both ensuring that it was offering the lowest prices available and achieving EDLC in order to fund EDLP. 'Everyday Low Prices cannot be achieved overnight, but we have to meet the challenge. Otherwise, there will be no rebirth of Seiyu', then Seiyu President Masao Kiuchi said in 2005.[33] Seiyu's stores were dated and prices were not compelling enough – more than a decade of deflation in Japan meant that most retailers were forced to cut prices aggressively:

> When we started talking to the Japanese multinationals about EDLP, and the fact that EDLC was an important part of that, they didn't get it, quite honestly.
>
> (Scott Price, CEO of Walmart Asia)

Like Mexico, Walmart Japan's ownership structure held them back initially. They entered the market in 2002 by purchasing a 6.1 per cent stake in Seiyu.[34] During the first few years, Walmart had little to do with the day-today operations of Seiyu. They were there primarily to learn the ropes of this vastly different but potentially very lucrative new market, so if it all went sour they could easily sell their minority stake. Well, it did go sour for quite a while and many analysts, noting similarities with Germany, questioned Walmart's ability to crack such a difficult, stagnant market. Despite continued losses in Japan, Walmart felt that it needed to hold a more influential role in one of the world's largest economies. Japan may have had its nuances – a finicky consumer, a stagnant economy and an inefficient supply chain – but it was a big market with a fragmented retail sector. This was music to Walmart's ears. It gradually increased its stake over time until Seiyu eventually became a wholly owned subsidiary in 2008.[35] The timing was ideal: the impact of the global financial crisis meant that Japanese consumers who previously shunned lower prices were quickly developing an appetite for cheap goods.

Achieving full ownership gave Walmart more power and flexibility to invest in key areas such as merchandising, store remodels, distribution and logistics, ultimately enabling them to invest in EDLP. Cost reduction on the whole has been a much slower process in Japan compared to other markets, owing to higher wages and underlying complexities in the structure of the grocery distribution system. However, within months of acquiring the final shares of Seiyu, Walmart flexed its muscles by shutting down 20 unprofitable stores and reducing its corporate workforce by 29 per cent[36] – a move that was uncommon in employee-loyal Japan and therefore met with a degree of resentment among both staff and shoppers. Yet it crucially enabled Walmart to invest in price. It began to realize additional economies of scale by processing meat in a central facility (and therefore eliminating the need for in-store butchers and freeing up floor space for higher-margin prepared meals). Walmart began to achieve higher labour productivity in stores from initiatives such as multi-tasking, improved logistics efficiency and lower advertising costs:

> The Japanese customer needs us. Thirty per cent of the Japanese are now classified as working poor.
>
> (Scott Price, 2010)

Kakaku Yasuku (EDLP) was launched in 2008, just months after Seiyu was fully integrated into Walmart's business. Whereas previous half-hearted attempts at EDLP had met with mixed results, the launch of Kakaku Yasuku resonated with today's more price-conscious shopper. There had also been a change in the consumer psyche around quality perception – many now recognize that lower prices do not necessarily equate to lower quality, an area that has been bolstered by Walmart's global sourcing and private label initiatives. Previously, Seiyu lacked a compelling in-store environment and crucially was not always the cheapest, despite its best efforts. Today, renovations have attracted shoppers (traffic was up 2 per cent in 2010) who are also more convinced of their pricing strategy thanks to a series of guarantees which honour competitors' prices if shoppers find a product cheaper in another retailer's *chirashi*. Seiyu reversed seven consecutive loss-making years by turning a profit in 2008 – the year EDLP was implemented.

Global sourcing has played, and continues to play, a major role in Seiyu's ability to offer not only greater value but also more compelling merchandise. Take grapes, for example. Seiyu had been sourcing grapes through an existing supply chain in Japan and selling them to customers for 348 Japanese yen. In 2010, they began importing a different variety of grapes from California, which were offered in a larger package and sold for a whopping 40 per cent discount to the Japanese variety. At 248 Japanese yen, the California grapes not only offer greater value to the customer but it's also a differentiated product with a quality level that is equal to or better than the current option. Now you can argue that this goes completely against the notion of offering locally and sustainably sourced foods, which ironically is a major priority for Walmart at home and in international markets, particularly in India, China and Central America. However, as Mike Duke puts it: 'What's happening is the geographic borders are more blurred and there's more of a global optimization going on as it relates to product.' If Walmart can leverage this and offer greater value to its shopper, you bet it is going to act on it.

Additional examples of Seiyu utilizing Walmart's global sourcing network include US beef, US broccoli, Australian asparagus, US-made household products from Procter & Gamble, Chinese-manufactured home electrical appliances and electronics from Haier, EUPA and Funai, and Walmart private labels such as Extra Special wines from the UK, as well as Mainstays home textile products from India and Pakistan.

In another international market, South Africa, Walmart's entry has been touted as a possible precursor to a bitter price war, with Walmart using its global scale and influence to bring down prices for South African shoppers.

To some extent, this will be true, with Walmart expected – in the longer term – to implement some of its efficiencies and best practices to bring lower costs (and therefore lower prices) to Massmart. Walmart can also be expected to reinforce Massmart's commitment to centralized distribution and will also be keen to expedite the process of centralized procurement.

Owing to the sanctions that were placed on South Africa during the apartheid era, there were very few European or US suppliers that built a significant presence in the South African market, meaning that competition among vendors was largely limited to South African suppliers servicing South African retailers. In an attempt to foster competition, many retailers and suppliers became organized on a regional level, with procurement and logistics often being structured around provinces and then being further segmented around different brands or ranges. The end result is a very fragmented FMCG market with very many decentralized conversations taking place between retailer and supplier. This will be something that Massmart, guided by Walmart, will seek to remedy. Walmart prefers to have fewer, more senior conversations with its suppliers and will not be content with Massmart's buyers operating on a regional or SKU-specific basis. Suppliers in South Africa will soon be asked to centralize and shift away from the legacy provincial structure.

However, there are also a number of reasons why Walmart's impact on pricing in South Africa might be limited. The first reason is that Massmart is a relatively small retailer – particularly in grocery categories – where it is dwarfed by Shoprite, Pick n Pay and SPAR, meaning that its bargaining power will be limited. Any attempts by Massmart to implement EDLP will be met by resistance from suppliers and from their larger retail customers, who may act punitively towards suppliers if Massmart is seen to be receiving better prices. The second reason why Walmart's impact on pricing might be muted is due to the aforementioned absence or weakness of global FMCG giants in the South African marketplace. The leading suppliers in the market are not Walmart's traditional partners such as Tyson, Procter & Gamble or Clorox, but instead local conglomerates like Tiger Brands and AVI, companies that Walmart will have done little – if any – business with. The retailer will therefore be starting from scratch to some extent in building relationships with local vendors and will be less able to draw on the collaborative relationships that it has historically enjoyed with the likes of P&G.

It is in non-food categories that Walmart might be able to bring about the fastest impact on prices. In areas such as consumer electronics, apparel and toys, where Walmart has made huge progress in global procurement and private label, Walmart should be able to exert a strongly positive impact on Massmart's value proposition: bringing lower prices and higher quality to South African shoppers.

[30]Bloomberg Businessweek, Can Wal-Mart woo Japan? 10 May 2004. http://www.businessweek.com/magazine/content/04_19/b3882063. htm

[31]Bloomberg Businessweek, Japan isn't buying the Wal-Mart idea,

[32]February 2005. http://www.businessweek.com/magazine/content/05_09/b3922073. htm

[33]Bloomberg Businessweek, Japan isn't buying the Wal-Mart idea

[34] http://walmartstores.com/AboutUs/274.aspx

[35]http://walmartstores.com/AboutUs/274.aspx

[36]Bloomberg Businessweek, Matthew Boyle, 13 October 2009. http://www.businessweek.com/managing/content/oct2009/ca20091013_227022_page_2.htm

Walmart versus inflation

We're seeing cost increases starting to come through at a pretty rapid rate.

(BILL SIMON, 2011)

What do the following events have in common: political unrest in North Africa, rising affluence in China and floods in Australia? They are all contributing factors to rising food prices. The global food market is far more intertwined than one would imagine. Economic, political, environmental and socio-demographic shifts can all impact the price we pay for everyday foods such as bread, chicken and vegetables.

Inflation is one of the largest concerns for the future of the food sector, and even the mighty Walmart will not be able to fully absorb the cost of inflation. By mid-2008, food prices had reached their highest levels in 30 years. At that time, skyrocketing oil prices were to blame – by July 2008 they had reached an all-time trading record of $147 per barrel. Not only did this make it more expensive to transport food and other products, but it also made it more costly to manufacture and package consumer goods. The silver lining for retailers like Walmart, however, is that shoppers look to consolidate trips when gas prices go up.

> When it goes from $30 to $45 or $50 to fill up your tank, then the one-stop shop becomes more important. We actually see our traffic lift.
>
> (Bill Simon)

In any case, food price inflation eased as oil prices dropped to more normal levels. However, in December 2010, the global food price index rose above its 2008 peak and by February 2011, food prices were up another 2.2 per cent over the previous month, marking yet another record high.

While the 2008 increases were directly linked to soaring oil prices, 2010 rises were primarily climate related. Poor and unusual weather conditions in producer countries pushed up commodity prices, leading to a global increase of 25 per cent for the year. For example, droughts in Russia, the world's third-largest wheat-producing country, and a consequent export ban logically led to skyrocketing wheat prices in summer 2010. It's a simple case of economics: if demand outstrips supply then prices are likely to rise.

Sure, weather and its impact on crops have always led to fluctuations in the price and availability of certain foods. Retailers and manufacturers brace themselves for this by engaging in hedging – locking in prices with producers for an agreed period of time so as to avoid short-term pricing volatility.

Yet, while commodity price fluctuations are to be expected, there are greater forces at play that make inflation a long-term concern for the entire food sector. Agricultural land is being diverted from crop to biofuel production. The United States is diverting close to 40 per cent of corn harvest for fuel while the European Union has a goal of 10 per cent biofuel use by 2020. Hedge funds, meanwhile, have artificially inflated prices through increased speculation in the commodities market. In 2010, the price of cocoa reached a 33-year high after a London hedge fund bought up approximately a quarter of Western Europe's total stocks.

What is most worrying, however, is the projected population growth which will have a major impact on food resources and consequently retailers' ability to sustain low prices for consumers. The world population, at just under 7 billion at the start of 2011, is expected to grow by approximately 30 per cent by 2050. In order to keep up with the projected 2 billion additional mouths to feed – the equivalent of almost seven new United States – the UN estimates that food production will have to double within the next 40 years.

Jason Clay of the World Wildlife Fund believes that 'we will need to produce as much food in the next 40 years as we have in the last 8,000'. To some, this may sound sensationalist but you cannot ignore the rapidly emerging middle classes in Asia, the Middle East and Latin America. By 2050, incomes are expected to triple globally and quintuple in emerging markets. As consumers become more affluent, they spend less of their disposable income on food but they suddenly have the buying power to consume higher-quality, often more expensive foods. For example, newly prosperous consumers in Asia are shifting from vegetarian diets to meat-based ones, which will put further pressure on global meat and grain prices. The UN Food and Agriculture Organization (FAO) suggests that beef could become an extreme luxury by 2050 – 'the caviar of the future' – while a rather more eccentric *Wall Street Journal* article puts together a compelling case for considering insects for dinner – they require fewer resources and produce less waste. Bugs or no bugs, the era of cheap food is well and truly over.

So what does all of this mean for food retailers? The primary implication is that low prices cannot be sustained, a particular worry for those retailers that trade from a value-led, price-driven proposition. Take the single-price point retailers, for example. In 2008, inflation got the best of California-based discounter 99 Cents Only which was forced to raise prices of all items by 0.99 of a cent. Factoring in sales tax, products were soon no longer ‘99 cents only’. At what point will the dollar stores be replaced by the ‘two dollar stores’?

Inflation may be out of the retailers’ hands but they should be looking to control that which is controllable. Over the next 5 to 10 years, we can expect to see increased investment in supply chain and technology as food retailers find ways to increase efficiencies. Cost reduction will be vital when it comes to combating inflation, an area, of course, where Walmart is already streets ahead of the competition. In fact, we expect Walmart to benefit disproportionately from rising food prices given its ability to mitigate certain cost increases. It operates one of the most efficient supply chains in the world, and is now beginning to reap the benefits of global sourcing. There is no other retailer in the world that can boast such efficiencies on a global scale. The bigger Walmart becomes, the greater economies of scale it can generate and consequently the lower prices it can offer. Meanwhile, smaller retailers and/or those without a lean cost structure will be exposed and the gap widened:

Furthermore, Walmart’s EDLP strategy works well in an inflationary environment since customers are aware that, while there are a lot of overall price fluctuations in the market, Walmart’s prices are generally constant and therefore trustworthy. There will, of course, be some exceptions – in 2010, Walmart had to raise the price of jeans, for example. Additionally, in commodities such as rice, it becomes very difficult even for a retailer of Walmart’s size to mask inflation.

In such a price-competitive marketplace, the very last thing Walmart, or any retailer, wants to do is pass inflation on to its customers. If the retailer isn’t absorbing it and the shopper isn’t absorbing it, then that leaves just one party left – the supplier.

> We work with [suppliers] as hard and as long as we can to try and hold down the costs all the way through the supply chain.
>
> (Bill Simon)

This is by no means exclusive to Walmart, or US retailers for that matter. In France, hypermarket chain Leclerc vowed to limit price increases to 2 per cent in 2011, despite requests from suppliers to raise prices by up to 7 per cent to reflect the higher raw material costs. Leclerc promised to reinvest 0.2 to 0.25 points of profit margin in order to maintain its own EDLP status, but the rest would be up to suppliers. A similar message was echoed in Germany by Rewe Group CEO Alain Caparros who in 2011 simply stated: ‘We are refusing price increases from food manufacturers.’

Since retailers tend to hold the upper hand, it is often the supplier that is required to find a more economical way of delivering the same product for the same cost. This tends to mean one of two things – suppliers can take the hit on inflation themselves and potentially reduce promotional spend, or, provided they come to an agreement with the retailer, they can reduce the pack size of their product while maintaining the price. The former option isn’t sustainable and will quickly eat into profits. The latter option, meanwhile, allows the cost of inflation to be absorbed, but without the shopper necessarily recognizing an increase in unit pricing. During the recession, such downsizing occurred in a number of product categories, including peanut butter, ice cream, orange juice and yogurt. We will inevitably see more of this in the future as retailers and suppliers battle rising commodity costs.

But it’s not always so straightforward. Those suppliers that refuse to succumb to retailer demands often meet with an unfortunate fate. Over the past several years, there have been a number of high-profile cases of major brands being delisted from retailers because they couldn’t agree on price. In the United States, Costco delisted Coca-Cola for almost an entire month in 2009.[37] In Belgium, Delhaize removed roughly 300 Unilever products for a similar reason.[38] In the UK, following on from soaring wheat costs, Tesco and Premier Foods became embroiled in a public pricing dispute that saw 12 of Premier’s 18 SKUs removed from Tesco’s shelves.[39] Price negotiations, never a particularly easy process to begin with, are becoming a growing source of contention in the food industry.

The hard fact remains that today the power is very much in the hands of the retailer. It’s hard to believe that in Sam Walton’s autobiography he refers to initial difficulties getting the large FMCG companies such as Procter & Gamble and Eastman Kodak to sell their products in his stores. ‘And when they did they would dictate to us how much they would sell us and at what price.’ Today, Walmart is P&G’s largest customer, with annual sales of nearly $13 billion generated through the retailer.

Today, an average Walmart store features 96 product categories with 140,000 SKUs. Walmart’s US division alone buys from more than 61,000 suppliers in more than 55 countries around the world.[40] Yet, as we will discuss in the next chapter, to one supplier Walmart alone can account for more than half their business. It’s easy to see which way the pendulum swings.

Yet amid the fight for power, it's easy to forget that retailers and suppliers are targeting the same end user. There needs to be far greater collaboration in the industry, particularly given the growing expectations of today's savvy shopper. Retailers and suppliers need to think about how they can best serve their shoppers and consumers who will undoubtedly be looking for value at the shelf, but they will also be looking for their favourite brands.[41] As we've seen in the previous chapter, shoppers have the power to vote with their feet if they cannot find what they are after in the store. Leading suppliers with strong brand equity will find a way to remain on shelves simply because there is consumer demand for their products. When Delhaize removed the Unilever products from its stores, nearly one-third of its shoppers defected to the competition because they were loyal to specific Unilever brands. Inflation therefore should be viewed as a long-term trend that will require a more collaborative approach between retailers and suppliers. With that in mind, we will now take a closer look at Walmart's relationship with – and importance to – the world's largest consumer packaged goods companies.

[37]MSN Money, Costco brings back Coke, Elizabeth Strott, Thursday, 10 December 2009. http://money.msn.com/market-news/post.aspx?post=00000065- 0000-0000-35ad-150000000000&_blg=385

[38]Reuters, Delhaize halts Unilever products in pricing row, 10 February 2009. http://www.reuters.com/article/2009/02/10/delhaize-unilever- idUSLA49729320090210

[39]The *Wall Street Journal, Europe Edition*, Bread-price dispute hits British aisles, Paul Sonne, 29 October 2010

[40]http://walmartinfo.co.za/docs/walmart_economic_benefits_ facts.pdf

[41]*Marketing Magazine*, Branding does work – shoppers vote with feet after Belgian supermarket removes Unilever products, David Benady, marketingmagazine.co.uk, 17 February 2009. http://www.brandrepublic.com/bulletin/brandrepublicnewsbulletin/ article/881378/Branding-does-work–-shoppers-vote-feet-Belgian-supermarket-removes-Unilever- products/?DCMP=EMC-DailyNewsBulletin