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Walmart USA—Searching for Growth

In early 2022, Doug McMillon, president and CEO of Walmart, and his team looked back at a difficult but ultimately successful past year.[a] The global pandemic had posed enormous challenges. Continued concerns for the health of shoppers and workers, global supply chain disruptions, as well as a red-hot labor market all conspired to make 2021 a tough year for the business. Despite the demanding environment, however, same-store sales growth, long anemic, had topped 8% (**Exhibit 1**). McMillon explained, "Walmart U.S. drove a sequential acceleration in comp sales both on a one- and two-year basis and continued to gain market share in grocery. Customers and members are shopping with us across channels, and we're making it easier for them. Speed matters. That's why we offer fast same-day delivery to millions of customers."[1] The team was particularly proud of its performance in online sales, which had almost doubled from 2019 to 2021.[2] Walmart+, the company's $98 membership program that offered free shipping, had attracted more than 15 million households.[3] Importantly, Walmart had gained market share with younger generations—Gen Z in particular—in groceries (up 3.3% in 2021) and in household products (up 5.1%).[4]

Investors remained skeptical, however. The company's share price remained flat over the course of 2021, a marked contrast to Walmart's direct competitors such as the grocery chain Kroger (+44%), general-merchandise retailer Target (+31%), variety store Dollar General (+12%) and the overall market (S&P 500 +27%). There was no surprise here; Walmart had long lagged behind these companies (**Exhibit 2**). Would 2022 finally bring the hoped-for change? What were the most significant opportunities the company faced in its 60th year in business? Was it even possible to substantially grow Walmart's U.S. operations, a behemoth with more than 5,000 stores and over $350 billion in sales?[5]

As McMillon and his team debated Walmart's 2022 capital allocation, they carefully considered three growth opportunities: a continued build-out of the company's e-commerce operations, an upscaling initiative, and a renewed effort to capture market share in urban markets. Would any of these strategic initiatives sway Wall Street?

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[a] This case discusses Walmart's U.S. business. A companion case, "Walmart Goes Global (A)" (HBS 722-385), provides information about the company's global ambitions.

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Building a National Retailer (1962-1988)

Sam Walton, Walmart's founder, grew up in Missouri during the Great Depression.[6] His parents, Thomas Gibson Walton and Nancy Lee, were farmers. To make ends meet, Sam Walton's father supplemented the family's meagre farming income with work for his brother who operated a farm foreclosure business. Sam Walton attended the University of Missouri as an ROTC[b] cadet and graduated with a bachelor's degree in economics in 1940. He gained his first retail experience as a management trainee at a J.C. Penney department store in Iowa. After his discharge from military service in 1945, Walton took over a Ben Franklin variety store. Variety stores were small general merchandise shops that sold everything from fishing gear to toys and beauty supplies. Over the next five years, Walton built his store into the largest variety store in Arkansas. When his landlord refused to renew the store's lease, Walton was forced to sell—a "low point" in his business life.[7]

Walton moved to Bentonville, Arkansas, where he opened his own variety store with the $50,000 he had made from selling the Ben Franklin franchise. He sourced much of the merchandise himself, transporting it in his pickup truck from markets as far away as New York back to Arkansas. In the early 1960s, Walton, always a keen observer of trends in retailing, noticed a novel type of discount chain. These stores adopted the low-margin-low-price strategy of supermarkets but offered the broader selection of products typically found in department stores. Bare-bones staffing, limited service, and margins that were at least 10% to 15% lower than the margins of regular retailers allowed these discounters to offer sharply reduced prices. Convinced that they would eventually hurt the variety store business, Walton decided to start his own, opening the first Walmart in Rogers, Arkansas, in July 1962. He was 44 years old.[8]

Crude in appearance, the first Walmart stores priced their merchandise 20% below competing variety stores. The strategy proved immediately successful. By 1970, Walton had opened 40 stores in Arkansas, Missouri, and Oklahoma. That same year, he took the company public. The almost $5 million he raised allowed Walmart to build its first distribution center and acquire a small fleet of trucks.[9]

As Walmart expanded throughout the 1970s and 1980s, the company hewed closely to its early recipe for success.[10]

Rural locations Walton's ambition was to bring discount stores and lower prices to shoppers in rural America. Competing discounters saw little opportunity in cities with populations below 50,000.[11] "Our key strategy was to put good-sized stores into little one-horse towns which everybody else was ignoring," said Walton.[12]

Pattern of expansion While "the big guys were leapfrogging from large city to large city," Walmart's approach was to "saturate a market area by spreading out, then filling in."[13] Each new store had to be within a day's drive of a distribution center. Walton explained, "We were in the boondocks, so we didn't have distributors falling over themselves to serve us. [. . .] Our only alternative was to build our own warehouse so we could buy in volume at attractive prices and store the merchandise."[14] The company's first warehouse served 18 stores. Vendors delivered their products to the warehouse, but Walton used company-owned trucks to ship the merchandise to his stores.

Every Day Low Prices Walmart was one of the first companies to offer "Every Day Low Prices" (EDLP), consistent discounts that did not depend on temporary sales, promotional events, coupons or

[b] ROTC cadets, college students in the Reserve Officer Training Corps., trained to become officers of the U.S. Armed Forces in exchange for tuition support.

loyalty cards. Walton said, "The idea was simple: when customers thought of Walmart, they should think of low prices and satisfaction guaranteed. They could be pretty sure they wouldn't find it cheaper anywhere else, and if they didn't like it, they could bring it back."[15] Initially set at 20%, Walmart's price advantage narrowed over time. It was estimated to be 10.4% in the mid-1980s.[16] By the late 2010s, Kroger was 8% and Target was 6% more expensive than Walmart. Dollar General matched Walmart's prices.[17]

Walmart delegated pricing (and merchandising) decisions to store managers who reacted quickly to changes in local market conditions. Walmart's prices were about 6% higher than the company's average when it had no local competition.[18] After managers visited the stores of local rivals, they were expected to come up with ways to undercut their prices.

Customer experience Shoppers were greeted by a Walmart employee when they entered the store: "Welcome to Walmart." Inside, shoppers found a wide variety of well-known national brands at discounted prices. Walmart introduced private label merchandise gradually, first in apparel but eventually across many of its 36 product categories. Sam's Choice products, Walmart's premier private label line, were offered at a 25% discount to national brands. A typical discount store carried about 30,000 SKUs (stock-keeping units). Stores were open from 9:00 a.m. to 9:00 p.m. six days a week, and from 12:30 p.m. to 5:30 p.m. on Saturday.

Controlling costs Walmart's frugal culture reached into every aspect of the business. Walton shunned bureaucracy. The company housed its lean senior team in a nondescript building in Bentonville. When managers visited suppliers, they rented inexpensive cars, stayed in low-cost hotels—often sharing a room—and walked instead of taking taxis. Company guidance was to hold trip expenses to less than 1% of purchases. Walton's personal behavior reflected that same cost consciousness. He traveled between stores in his old truck, kept a cramped, spartan office at headquarters, and refused gifts from suppliers because he believed the costs might be passed on to Walmart eventually. He avoided ostentatious displays of power or wealth and expected the same of his senior executives.

Procurement Known for its tough negotiation tactics, Walmart squeezed its suppliers whenever it had a chance to do so.[19] One buyer recounted a typical conversation, "We would ask the vendors, 'Now what is your best price?' And if they told me, 'It's a dollar,' I would say, 'Fine, I'll consider it, but I'm going to go to your competitor, and if he says 90 cents, he's going to get the business. So make sure a dollar is your best price.'"[20]

Price negotiations took place in Bentonville, in small, sparsely-furnished rooms, a photo of Walton looking down from the wall. Buyers focused the negotiation on a single number: the price of the product. If suppliers failed to conform to Walmart's exacting standards, it removed their products from its shelves. In the early 1980s, the company began to order directly from manufacturers, cutting out the independent sales representatives and the 2% to 6% commission they charged.[21]

Despite these harsh business dealings, many manufacturers regarded Walmart as their preferred retailer. When Kantar, a media and brand consulting firm, published its annual ranking of hundreds of retailers, Walmart invariably took the top spot.[22] Systematic data analysis showed that suppliers that held a small share of their market performed worse with Walmart as a primary customer, whereas those with a large share of their market performed better.[23]

Distribution The company was a leader in logistics and first to adopt many novel practices such as merchandise assembly and cross-docking—moving products from one truck to another without ever storing them in a warehouse. By 1975, 80% of Walmart's merchandise was routed through its central distribution system. Because the company owned its fleet of trucks and controlled all parts of the scheduling and delivery process, it was able to drastically reduce the number of items that experienced stock-outs, a figure that stood at 8% industrywide.[24] Stores allocated just 10% of their footprint to inventory storage, versus the 25% historical retail-industry average.[25]

Information technology Walmart began to make large investments in information technology in the early 1980s. The company adopted electronic scanning, and it spent millions of dollars to develop its own private satellite network, Retail Link.[26] The network provided managers and suppliers with near real-time point-of sale and inventory data. Retail Link allowed suppliers to index local demand at each store against thousands of other stores and market characteristics. With Retail Link, Walmart was able to provide its suppliers with customized business plans, and it graded their adherence to these plans each week. Retail Link was free of charge.[27]

Culture Manifestations of Walton's core values—service to customers, respect for the individual, and striving for excellence—were easy to spot throughout the organization. Walton said, "There is only one boss, and whether a person shines shoes for a living or heads up the biggest corporation in the world, the boss remains the same. It's the customer! In fact, the customer can fire everybody in the company from the chairman on down, and he can do it simply by spending his money somewhere else."[28]

Walmart called its suppliers "partners" and employees "associates," implying that both had a different, closer relationship to management than was common at other companies. Walmart's corporate culture was fast-paced and intense. Walton started his work day at 4:30 a.m., managers arrived by 6:30 a.m. At the mandatory company-wide 7:00 a.m. Saturday meeting, executives shared the week's priorities (live via satellite), including sales trends, new products, and competitive developments. Saturday meetings were "equal parts talk show, financial update, merchandising workshop, town-hall forum, talent revenue, gripe session and pep rally."[29] Actions that were called for on Saturday morning were implemented by the end of that day.

New Store Formats (1988-2015)

After 25 years at the helm of the company, Walton stepped down as CEO in 1988. With more than 1,000 stores and nearly $16 billion in sales, Walmart had many reasons to celebrate. It had achieved record growth—sales were up 34% that year—and while it still trailed Sears and K-mart in size, it had become the nation's most profitable discount retailer.[30] Walmart's best experiment at the time, however, was a little-noticed change in store format. A single sentence in the 1988 annual report heralded the company's future: "Walmart SuperCenters, a test-tube concept, combines the Walmart discount store with a complete supermarket presentation under one roof."[31]

Pioneered by the French retailer Carrefour, supercenters added a grocery section to Walmart discount stores. Despite the thin margins in the grocery business—3% to 4% was considered typical, compared to 10% in the general merchandise segment—supercenters came to fuel Walmart's growth and market capitalization (**Exhibit 3**). The company expanded into supercenters at a blistering pace. It opened the first in Washington, Missouri, in 1988. By 2022, there were 3,570 supercenters (**Exhibit 4**). Supercenters were twice as large as regular discount stores. They carried 17,000 grocery products and 60,000 non-food items. With the advent of the supercenter, the grocery business came to dominate Walmart's sales mix (**Exhibit 5**).

Encouraged by the success of the supercenters, Walmart set its eyes on urban markets, long a segment with weak penetration. The 1999 annual report noted, "Supercenters effectively serve a large trade area, but we think there may be some business that we are not getting purely because they may not be as close to the customer or convenient for small shopping trips. That's where we think there may be an opportunity for the small grocery/drug store format where we are testing the Neighborhood Market."[32]

Neighborhood Markets were one-quarter the size of a typical supercenter, and they carried 20% of its SKUs. The interior was similar to Walmart's other stores: exposed ceiling beams, wide aisles, and fluorescent lighting. Each Neighborhood Market employed about 90 workers, compared to 350 for the typical supercenter.[33] Analysts estimated that Neighborhood Market same-store sales grew at 5.5%, outpacing Walmart's overall growth in the 2000s.[34] By 2021, the company had built 683 of these stores. Walmart used the Neighborhood Markets not only to gain market share in cities, it also tested a wide variety of new services using these smaller stores. For example, the first pharmacies, by 2022 a key offering in most locations, were introduced in Neighborhood Markets. Walmart also experimented with private-label grocery brands using the smaller store format as a testing ground. While the new format increased Walmart's market share in urban areas, city grocery markets remained hotly contested (**Exhibit 6**).

The McMillon Era (2014-2021)

Doug McMillon was appointed CEO of Walmart in 2014. Born in Jonesboro, Arkansas, McMillon first worked at Walmart as a teenager, loading trucks. He attended the University of Arkansas and earned an MBA from the University of Tulsa. Post MBA, he joined Walmart's buyer-training program during which he was responsible for buying fishing tackle.[35] After a career as a buyer at Sam's Club, the company's warehouse club, he was appointed CEO of Sam's in 2006. In his new role, he focused on small-business owners. Three years later, McMillon took over Walmart's international business where he grew sales to almost a third of the company's total.[36]

At 47, McMillon was Walmart's youngest CEO since Walton. Seen as an insider with close ties to the Walton family, Walmart's largest shareholders, McMillon was "extremely affable, charming and engaging."[37] He described himself as "Husband. Father. Razorback. Gadget geek. Retail lifer. Proud Walmart associate" on Instagram; his account featured hundreds of photos with associates and their stories. Having worked with Walton directly—McMillon loved telling the story of one of his first days as a buyer when Walton placed a note on his desk asking him to match the price of a fishing line that sold for less at a rival Kmart store—McMillon espoused Walmart's values and traditional corporate policies. At the same time, Walmart's growth challenges and a changing retail environment made it unlikely that the company would continue to see dramatic success with a business-as-usual strategy. As McMillon took over, three challenges stood out: the company's difficult labor relations, pressures to upscale the business and the rise of e-commerce.

Labor Relations

Walmart had long stressed the importance of good relations with its associates. To motivate its workforce, the company liberally shared information and ideas throughout the organization. Associates knew their store's sales, profits, inventory turns, and markdowns.[38] "There are no superstars at Walmart," said former CEO David Glass, "We're a company of ordinary people overachieving."[39] An executive at a leading manufacturer explained, "Walmart is a lean operation managed by extremely committed people. It's very exciting being anywhere near these people. They live to work for the glory of Walmart. This may sound like B.S. but it is incredible. Our people who visit Walmart can't believe it."[40] Some observers attributed the company's culture to Walton's values and work ethic. Others saw it as a consequence of Walmart's strong financial incentives—top executives earned 90% of their compensation from performance incentives—and a general profit-sharing plan that was available to every associate after the first year of employment.[41]

As Walmart grew to be the largest retailer with more than one million employees in the U.S. alone, its reputation as an employer grew increasingly negative, however. Many saw Walmart's culture as bullying and mean-spirited, and the working conditions appeared to influence customer experience as well as public support more generally (**Exhibit 7**).[42] In 2014, only 16% of stores met the company's customer service goals.[43] Critics also claimed that Walmart failed to pay its associates a living wage. Part-time workers earned $9.48 an hour and full-time associates made $12.85 (about $21,000 a year), less than the poverty line for a family of four (**Exhibit 8**).[44]

McMillon began to raise entry-level compensation. By 2021, Walmart's minimum starting wage stood at $12 an hour.[45] In some stores, starting wages were as high as $17 an hour.[46] At that level, Walmart matched Costco, the long-time leader in retail employee compensation. Starting wages at Target were $15 per hour and $16 at Kroger. Across all its employees, Walmart estimated its wages were at a 3% to 4% premium compared to grocery peers.[47] Importantly, Walmart also employed a larger number of associates full time, a move that brought them better health and dental benefits. The company's healthcare plan was available for $30.50 per pay-period. Walmart's ambition was to offer two-thirds of its hourly jobs as full-time positions by 2022. This target was up from 53% in 2016, but it remained below the industry average of 71%.[48]

Walmart was also accused of discriminating against women. In a 2001 class action, six Walmart employees claimed that women earned 5% to 15% less than men in similar positions.[49] Women also seemed less likely to be promoted. While two-thirds of Walmart's hourly employees were women, only a third of salaried managers and 14% of the company's top managers were female. The company's competitors had about 20% more women in managerial positions. Walmart challenged the plaintiffs' statistical studies, arguing that female associates were less likely to apply for management positions.[50] Reviewing the evidence, a federal judge certified the class, but the Supreme Court sided with the company in 2011.[c] A similar case was brought in 2019.[51]

While Walmart continued to suffer accusations of discrimination nearly every year—the company faced more than 100 employment-related cases in 2021[52]—most observers agreed that McMillon and his team made substantial progress in creating fairer and more inclusive working conditions over time. By 2021, the company's analyses showed no gender or racial pay gaps.[53] LinkedIn ranked the company #9 on its 2021 list of the "50 best workplaces to grow your career," and Walmart earned perfect scores from Human Rights Campaign, the largest LGBTQ advocacy group in the United States.[54] "Walmart has had a vision of where they want to take their LGBTQ policies," said Jordan Garcia of the Northwest Arkansas Center for Equality, "It was just a matter of when was the right time and the right leadership in place."[55]

Upscaling Pressures

Customer preferences evolved over time in ways that seemed to run counter to Walmart's traditional positioning. Shoppers had become increasingly sensitive to the appearance and the cleanliness of stores, and Walmart's low prices appeared to have become less effective at making up for lower-quality merchandise, minimal customer service and aging physical spaces. Former Target

[c] In a typical class action, a plaintiff sues a defendant on behalf of a group, the class. Courts must certify the class before the lawsuit can proceed.

President Bob Ulrich explained the difference between the two retailers, "If Wal-Mart was striving to be the king of logistics, with enough muscle to force vendors to deliver on price, Target could deliver on a great store experience and a product that was exciting and unique."[56]

Target offered aspirational products at discounted prices, asking its customers to "Pay Less, Expect More." This position awarded the company with increased growth and better margins (**Exhibit 9**). Lured by these margins, Walmart's first attempt at upscaling its merchandise was a failure, however. Despite investments in a 40,000-square-foot Trend Office in New York City's Fashion District and deals with designers such as Norma Kamali and Max Azria, Walmart's Metro 7 fashion line tanked and the designer lines withered. Patricia Edwards, retail fund manager at Wentworth, Hauser and Violich, commented, "The challenge that Wal-Mart faces is value. An upper-end consumer defines value differently than a moderate-income shopper. If it was just price, they would drink the office coffee instead of going to Starbucks."[57]

Despite the early setback, the quest for success with more upscale merchandise continued under McMillon. Walmart acquired Modcloth, known for retro and thrift-shop-inspired fashions for women, Bonobos, an upscale apparel brand for men, and it created Allswell in-house, a brand of "Instagram-worthy" mattresses and beddings. In 2018, the company partnered with Lord & Taylor, America's oldest department store, to offer 125 fashion brands, including Tommy Bahama, La La Anthony, and H Halston.[58] The success of these initiatives was mixed. Walmart sold Modcloth after only two years; Bonobos let go dozens of employees to stem losses in 2019; Lord &Taylor went bankrupt and closed all of its physical stores in 2020.[59] Scott Mushkin, a retail analyst at Wolfe Research, said, "A lot of the push has been trying to appeal to higher income demographics. The problem is that the Walmart brand doesn't always translate."[60]

Allswell, however, was a success. Marc Lore, president and chief executive officer of Walmart's U.S. e-commerce business at the time, said, "Allswell was the aha for us. We realized that we can create these brands and incubate them in a way that makes them successful across stores and online. We are integrating brands like Allswell into the company, and we are going to keep moving in that direction."[61]

For the 2022 season, Walmart hired designer Brandon Maxwell as its first-ever creative director for fashion. Maxwell had previously designed clothing for Lady Gaga, Michelle Obama and Meghan Markle.[62]

Competition in e-Commerce

Walmart launched its first website, wal-mart.com, in 1997, three years after the founding of Amazon. Initially, the company sold mostly electronics to an enthusiastic group of military customers stationed overseas.[63] In 2000, the retailer created a separate e-commerce company, Walmart.com, and located it in Silicon Valley to attract the "best possible technology talent."[64] At that time, only 20% of Americans had ever shopped online. Walmart viewed its online business as primarily supporting the physical stores and helping customers understand the quality of its products. In 2007, the retailer introduced free in-store pickup of online orders at more than 750 of its stores. When customers collected their online order, they spent an additional $60 in the store.[65]

But even a decade after its incorporation, Walmart.com struggled. "The only thing Silicon Valley about Walmart.com was that we had an office in Silicon Valley," said Gibu Thomas, who led the company's mobile technology team.[66] Walmart.com was run like a traditional IT department, and incompatible technologies prevented the organization from seamlessly connecting with physical stores and Walmart's mighty supply chain. Worse yet, a mediocre search engine made it difficult for customers to find products of interest. A query for "smartphones" did not return the iPhone. A search for "cotton socks" showed results for cotton candy and balls of yarn.[67] By 2012, Walmart.com had only $7 billion in revenue. At that time, Amazon's net sales in the U.S. stood at $35 billion, up 30% from the previous year.[68]

McMillon decided to drastically overhaul Walmart's online business. With the help of 3,000 newly hired engineers, Walmart.com rebuilt its entire technology stack and moved its infrastructure to the cloud. It acquired Kosmix, a social media firm with expertise in search. One of Kosmix's founders, Venky Harinarayan, had created Amazon's Marketplace. In parallel, Walmart built out its e-commerce logistics. By 2017, the company had created 22 fulfilment centers that could handle small orders picked and packed for individual shoppers. Three-quarters of Walmart.com's sales were fulfilled using this new system instead of the traditional store distribution network.[69]

Walmart's overhaul of its e-commerce operations culminated in the $3.3 billion acquisition of Jet.com, a retail marketplace that encouraged bulk buying. Modeled after Costco's wholesale business, Jet.com charged customers a $50 annual membership fee for access to lower prices. Walmart tasked Marc Lore, Jet.com's founder, to lead Walmart.com. Lore challenged the company to create a true omni-channel customer experience, invest billions of dollars in digital-first brands, and embark on a massive expansion of its e-commerce infrastructure.

Omni-channel experience Under Lore's leadership, Walmart created an integrated shopping experience across its physical stores, Walmart.com and the retailer's mobile app. For example, customers would scan their products while shopping in-store, and the app would use their purchasing history to remind them of frequently purchased items that were not yet in their basket. Online, the company expanded its own product portfolio and built out its third-party marketplace. By 2022, Walmart.com offered 160 million products, roughly half the number of what was available on Amazon's marketplace. Walmart's e-commerce sales reached $43 billion in 2021, topping 10% of U.S. revenue overall (**Exhibit 10**). Click-and-collect sales reached $20.4 billion.[70] Walmart expected e-commerce revenue to reach $75 billion in 2022 and $100 billion in 2023.[71] "Our omni-channel focus is pushing digital penetration to record levels,'' said a proud McMillon.[72]

Walmart's performance in the grocery segment was particularly impressive. The category was difficult to penetrate for any online business (**Exhibit 11**), but Walmart's sales grew rapidly. By 2021, its grocery sales stood at $27 billion, exceeding Amazon's revenue in the category.[73] Analysts speculated that a modest price advantage had supported Walmart's performance (**Exhibit 12**).

Walmart tied many new services to its online operations. Perhaps the most important was Walmart+, a membership service modeled after Amazon's Prime program. For an annual fee of $98, Walmart+ provided free next-day shipping of Walmart.com orders (next business day, no minimum, excluding most marketplace items), and same-day shipping of 180,000 grocery and general merchandise items from 3,300 stores ($35 minimum). For a surcharge of $10, roughly the cost of last-mile delivery, Walmart+ members received 2-hour express shipping. They also benefitted from prescription and gasoline discounts. Walmart+ membership grew quickly (**Exhibit 13**). In early 2022, the program had more than 15 million members, compared to 147 million Amazon Prime subscribers.[d] More than 80% of Walmart+ members also had a Prime membership.[74] While 74% used Prime to

[d] Neither Walmart nor Amazon disclosed membership numbers, and estimates of Walmart+ membership varied widely. Some surveys indicated that up to 32 million households had signed up for Walmart+.

purchase general merchandise, only a third of Walmart+ members continued to shop for groceries once they had a Walmart+ membership.[75]

Other services tied to Walmart's e-commerce business included:

- Spark Driver, a grocery delivery service that operated in 600 cities. Drivers were independent contractors and paid by the order. Prior to accepting an order, drivers saw an estimated payout, the delivery distance, and the order type.

- Golocal, a service that allowed local businesses (bakeries, restaurants, etc.) to use Walmart's last-mile delivery service for a $2 to $4 service fee.

- Walmart Connect, an advertising platform that offered Walmart's vendors online and in-store display, video, audio and CTV advertising opportunities. Walmart emphasized its rich omni-channel data that enabled better ad targeting. Walmart Connect revenue reached $1.5 billion in 2021, up 54% from the previous year.[76]

Digital-first brands To differentiate Walmart.com from Amazon, Lore acquired a number of digital-first businesses, often unprofitable brands that matched Walmart's broader upscaling ambitions. In addition to Modcloth and Bonobos, the company acquired brands such as ShoeBuy ($70 million), Moosejaw ($51 million), Eloquii ($100 million) and Bare Necessities ($100 million), spending close to $4 billion in total.[77] The acquired brands continued to run their vertical sites but created additional stores on Walmart.com. Acquiring these specialty retailers aligned with Walmart's e-commerce strategy of having experts manage an entire online category and elevate the company's brand image.[78]

Eloquii, a venture that offered trendy plus size fashion, turned out to be one of the few success stories. "The one area that's fair to criticize is the strategy of building digitally native brands," conceded Lore. "Those businesses didn't perform the way I hoped they would." [79] Analyst Richie Siegel was harsher in his judgment:

> Walmart's digital brand strategy is a massive, self-inflicted, multi-billion-dollar detour that led it right back to where it should have started: building private label brands that leverage Walmart's vast audience. While Allswell is the one success to come out of this entire saga, it still pales in comparison to Target's new private labels, which are collectively doing billions of dollars in sales annually in a matter of years.[80]

To stem the losses at Walmart.com—observers estimated the company lost $1 billion in 2019[81]—Walmart sold off some digital brands, cut back others, and shuttered the rest. McMillon also narrowed the focus of Jet.com and scaled back sales expectations for the site. Three years after the $3.3 billion acquisition, Walmart shut down the site and integrated the Jet teams with Walmart.com.

Infrastructure By 2022, Walmart operated a massive retail store and distribution network that occupied as much space as 24 of New York's Central Park. The company's distribution network comprised close to 200 facilities, including 42 general merchandise and 45 food distribution centers that served traditional stores. Forty-five e-commerce fulfillment centers enabled Walmart to pick and ship smaller orders to individual customers; 19 of these fulfillment centers had been established since 2019.[82] Walmart also experimented with direct shipments from its stores. "Market fulfillment centers" were compact warehouses added to a store. While personal shoppers picked fresh items in the store, robots assembled the rest of the order from these centers.[83] In comparison, Amazon operated 1,137 facilities in the U.S., including 293 fulfillment centers, 34 centers dedicated to food, and 614 "delivery stations," suburban facilities that received shipments from the fulfillment centers and distributed them locally (for a cost comparison, see **Exhibit 14**).[84]

Lore had pushed for an even faster expansion of Walmart's e-commerce infrastructure. In view of the substantial losses at Walmart.com, however, Walmart executives pushed back and nixed the plan. Greg Foran, CEO of Walmart's U.S. business, in particular preferred initiatives with clearer payoffs, for instance cutting in-store prices. The disagreement may well have had a personal side. Walmart's online grocery business was celebrated as a big success. In Foran's view, much of the credit should have gone to Walmart's traditional organization that fulfilled these orders. One observer commented, "Greg and Marc started out in a good place. But over time, it's very hard to be the person running a huge part of the organization that's printing all the cash and get no public credit."[85]

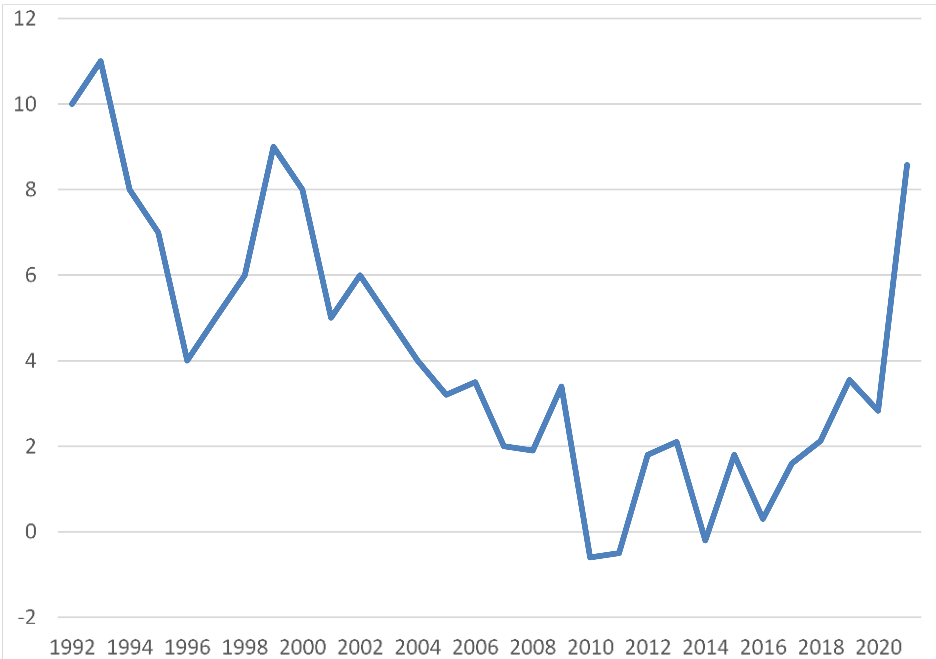
Lore left Walmart in early 2021. During his tenure, Walmart.com advanced to become the No. 2 online shopping site after Amazon, more than doubling the company's market share of online sales.[86] McMillon said, "All of this progress is the result of good work from a lot of people, of course, but Marc's expertise and aggressiveness have been game changing. Our brand is stretching in a way that is really exciting, and we were able to attract brands to Walmart.com, brands that did not yet want to be in our stores, brands like S'well, Ray-Ban, Champion and many others."[87]

What's Next?

As McMillon and his team debated investment priorities for 2022, profitable growth was a key consideration (**Exhibit 15**). In Walmart's traditional business, opportunities appeared sparse. With more than 5,000 stores across the U.S., the company had achieved broad geographic coverage. Deepening Walmart's cost advantage seemed equally daunting. Walmart's laser-like focus on its EDLP policy appeared to have wrung almost every conceivable expense from the firm's operations. Over time, competitors like Kroger and Target had imitated many of Walmart's advances in logistics and information technology.[88]

Against this background, McMillon considered three opportunities. Was it the right time to double down on e-commerce? Walmart.com had achieved considerable success, but online sales were challenged by the low margins in grocery, the difficult economics of last-mile delivery, and Amazon's dominance of e-commerce more generally. Was it best for Walmart to focus its online efforts on the grocery business? Take on Amazon directly? A second option was to upscale some of Walmart's merchandise and customers' shopping experience. Walmart had failed twice in this effort. Was the third time the charm? A third option was to seek greater market penetration in urban areas where the company tended to have less appeal historically. Were the company's Neighborhood Markets, a compact store format specialized in grocery, the next growth engine?

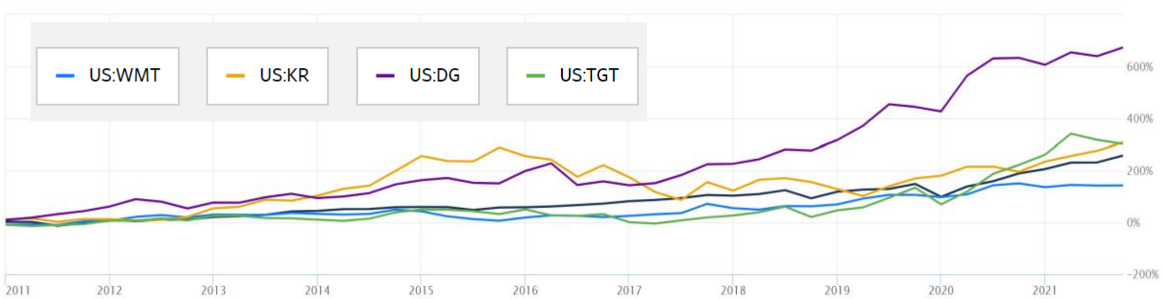
Exhibit 1 Walmart Growth in Same-Store Sales, 1992–2021 (percent)



Source: Walmart 1992-2020 Annual Reports.

Notes: Comparable store sales are defined as sales in units that were open at least 12 months.

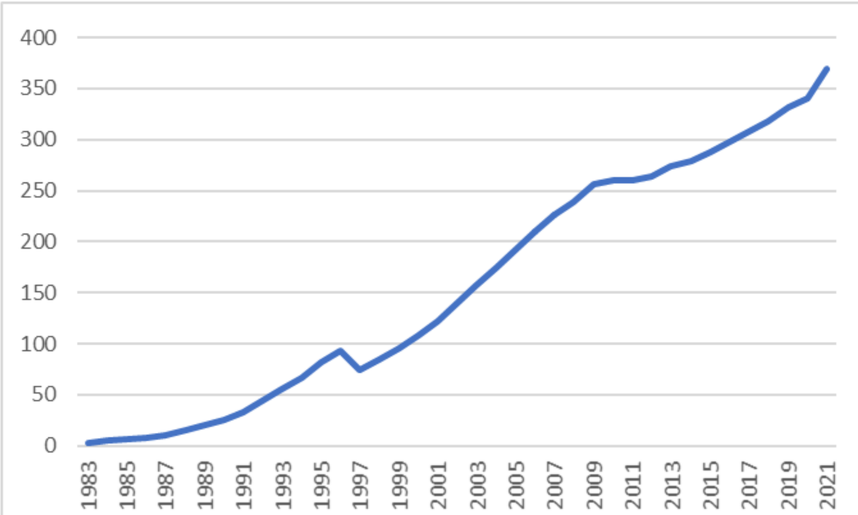
Exhibit 2 Walmart and Competitor's Share Prices, January 2011 to December 2021



Source: Wallstreet Journal | Markets, https://www.wsj.com/market-data/quotes/index/US/S&P%20US/SPX/advanced-chart?mod=md_home_chart_advanced, accessed January 2022.

Note: WMT is Walmart; KR is the grocery chain Kroger; DG is the variety store Dollar General; TGT is the discounter Target. The black line represents the S&P 500.

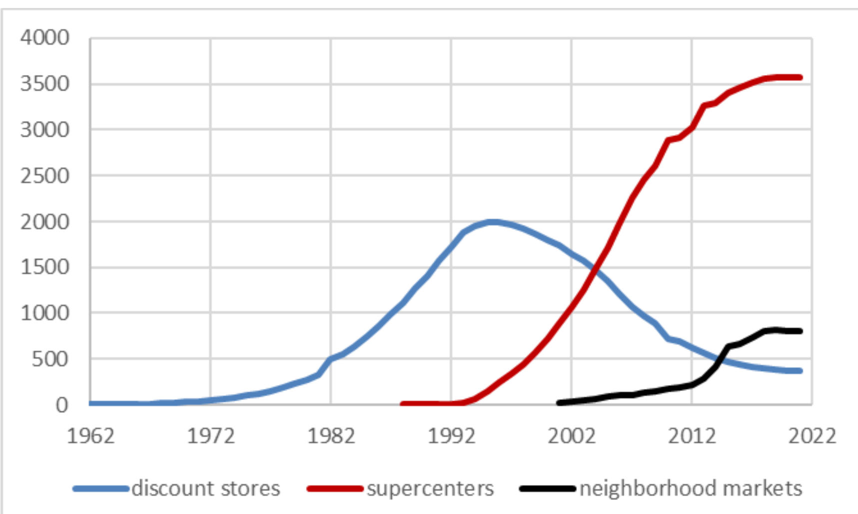
Exhibit 3 Walmart Net Sales, 1983-2021 ($ billions)



Source: Walmart 1983-2021 Annual Reports.

Note: Until 1996, sales figures include Sam's Club.

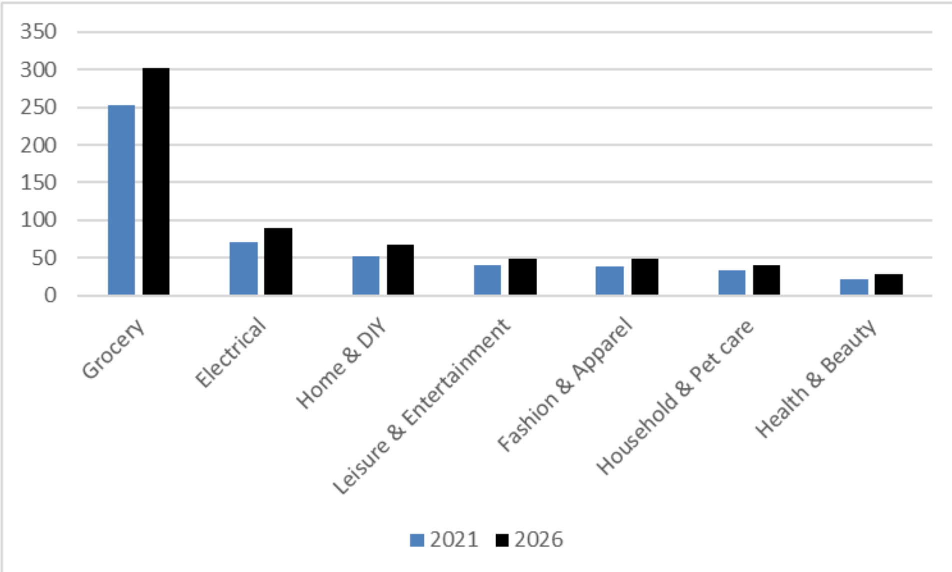
Exhibit 4 Number of Walmart Stores, 2012 - 2021



Source: Walmart 1962-2021 Annual Reports.

Notes: Numbers are for stores in the U.S.

Exhibit 5 Walmart Sales Mix in 2021 and 2026 ($ billions)



Source: Walmart Survey by Edge by Ascential, via Statista, https://www.statista.com/statistics/1125104/estimated-net-sales-of-walmart-by-category/, accessed January 2022.

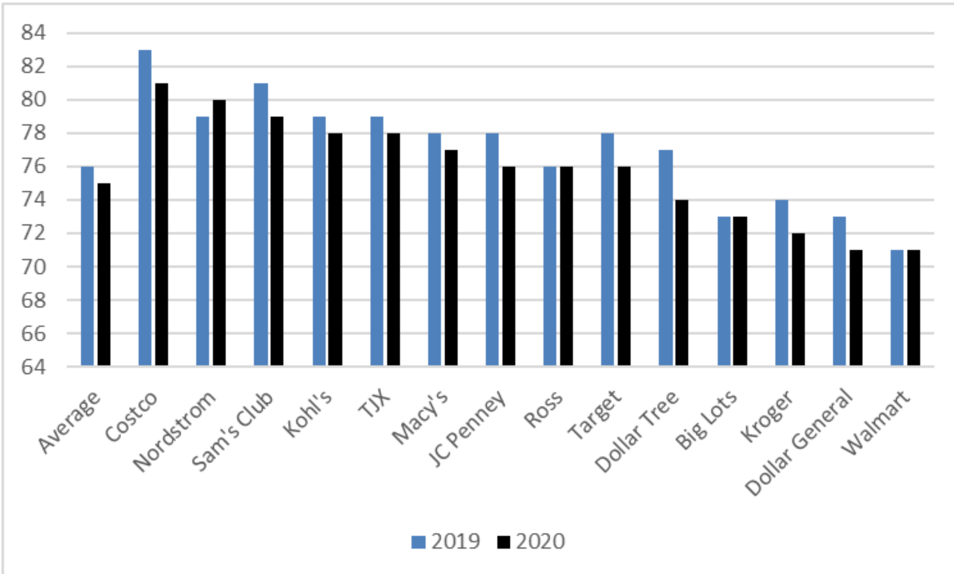
Exhibit 6 Probability of Customers Shopping at Walmart

Store Distance (miles)	Population Density (thousands of people within a 5-mile radius)						
	1	5	10	20	50	100	250
0	.999	.989	.966	.906	.717	.496	.236
1	.999	.979	.941	.849	.610	.387	.172
2	.997	.962	.899	.767	.490	.288	.123
3	.995	.933	.834	.659	.372	.206	.086
4	.989	.883	.739	.531	.268	.142	.060
5	.978	.803	.615	.398	.184	.096	.041
10	.570	.160	.083	.044	.020	.011	.006

Source: Casewriters, based on Thomas J. Holmes, "The Diffusion of Walmart and Economies of Density," *Econometrica* 79, no. 1 (2011), pp. 253-302.

Notes: This table reports the likelihood that a customer would shop at Walmart as a function of population density and customer distance. For example, a customer in an area with 10,000 people within a five-mile radius shopped at Walmart with a probability of 61.5% if the closest store was five miles from home.

Exhibit 7 Customer Satisfaction Index, 2019-2020



Source: Casewriters, based on American Customer Satisfaction Index (ACSI), https://www.theacsi.org/news-and-resources/customer-satisfaction-reports/reports-2021/acsi-retail-and-consumer-shipping-report-2020-2021, accessed January 2022.

Notes: The index is based on ACSI customer surveys. The index ranges from 0 to 100. Scores of 80 or above are deemed excellent.

Exhibit 8 Distribution of Labor Costs at Selected Walmart Locations

Quartile	Store Location	Annual Payroll per Worker ($)	Wages as Percent of Sales
Minimum	Pineville, MO	12,400	4.5
25	Litchfield, IL	19,300	7.0
50	Belleville, IL	21,000	7.6
75	Miami, FL	23,000	8.3
Maximum	San Jose, CA	37,900	13.7

Source: Casewriters, based on Thomas J. Holmes, "The Diffusion of Walmart and Economies of Density," *Econometrica* 79(1) (2011), pp. 253-302.

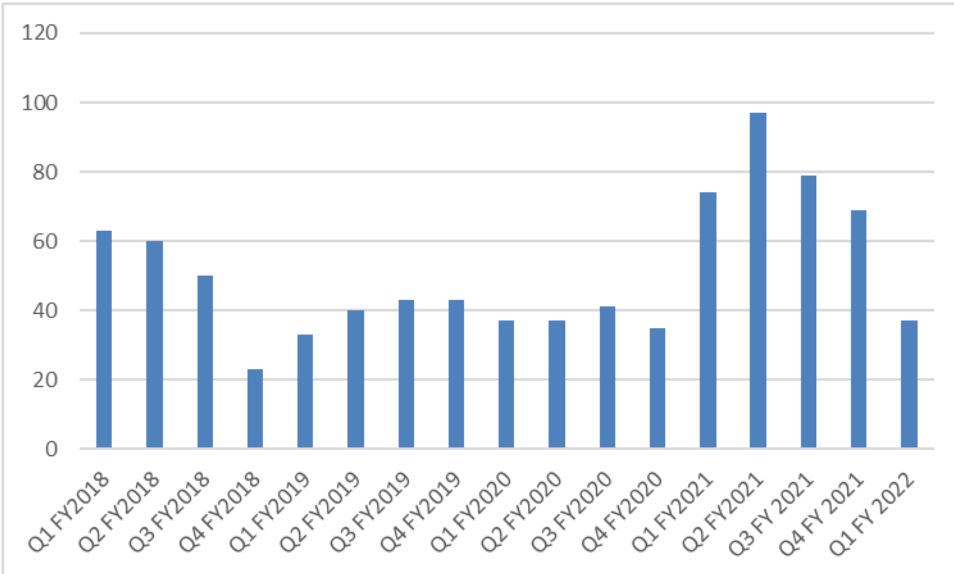
Exhibit 9 Selected Financials, 2020 ($ millions)

	Walmart (a)	**Target**	**Dollar General**	**Kroger**
Total Revenues	**559,151**	**93,561**	**27,754**	**132,498**
Revenues U.S.	369,963			
Cost and Expenses				
Cost of Sales (b)	420,315	66,177	19,265	101,597
Operating, SG&A Expenses (c)	116,288	18,615	6,187	24,500
Advertising	3,200	1,500	107	888
Depreciation & Amortization	10,987	2,230	505	2,747
D&A U.S.	6,561			
Leases	4,284	2,600	1,380	974
Operating Income	**22,548**	**6,539**	**2,302**	**2,780**
Operating Income U.S.	19,116			
Interest	**2,194**	**977**	**101**	**(544)**
Income Before Tax	**20,564**	**5,546**	**2,202**	**3,370**
Income Tax Expense	6,858	1,178	489	782
Net Income	**13,706**	**4,368**	**1,713**	**2,588**
Profitability				
Gross margin	24.8%	29.3%	30.6%	23.3%
Operating margin	4.0%	7.0%	8.3%	2.1%
Profit margin	2.5%	4.7%	6.2%	2.0%
Return on Assets %	5.9%	7.0%	8.1%	4.0%
Return on Capital %	9.2%	11.7%	10.6%	6.3%
Return on Equity %	18.9%	28.3%	26.1%	18.4%
Compound Annual Growth Rate Over Five Years				
Total Revenue	1.5%	1.5%	8.0%	2.4%
Gross Profit	1.4%	1.7%	7.9%	3.4%
EBITDA	-2.2%	1.6%	6.0%	0.9%
EBIT	-4.6%	0.3%	5.5%	-3.4%
Earnings from Cont. Ops	-2.0%	5.9%	10.0%	-2.8%
Net Income	-1.9%	1.0%	10.0%	-0.8%
Number of employees (worldwide, 1000)	2,200	368	158	435
Number of employees (U.S., 1000)	1,600			
Number of stores (worldwide)	11,501	1,868	16,278	2,757
Number of stores (U.S.)	5,355			
Stores Square Feet (U.S., 1,000s)	703,318	240,516	120,342	180,000

Sources: Walmart, Target, Dollar General, and Kroger Annual Reports. Fiscal years end January 30, 2021.

Notes: (a) Walmart's information is for all of its businesses, including Sam's Club and the international operations.
(b) Cost of sales includes actual product cost, the cost of transportation to Walmart's distribution facilities and stores from suppliers as well as the cost of transportation from the company's distribution facilities to the stores and customers.
(c) Operating, selling, general and administrative expenses include the majority of the cost of warehousing and occupancy. Because the company only includes a portion of the cost of its Walmart U.S. distribution facilities in cost of sales, its gross profit as a percentage of net sales may not be comparable to those of other retailers that include all costs related to their distribution facilities in cost of sales and in the calculation of gross profit.

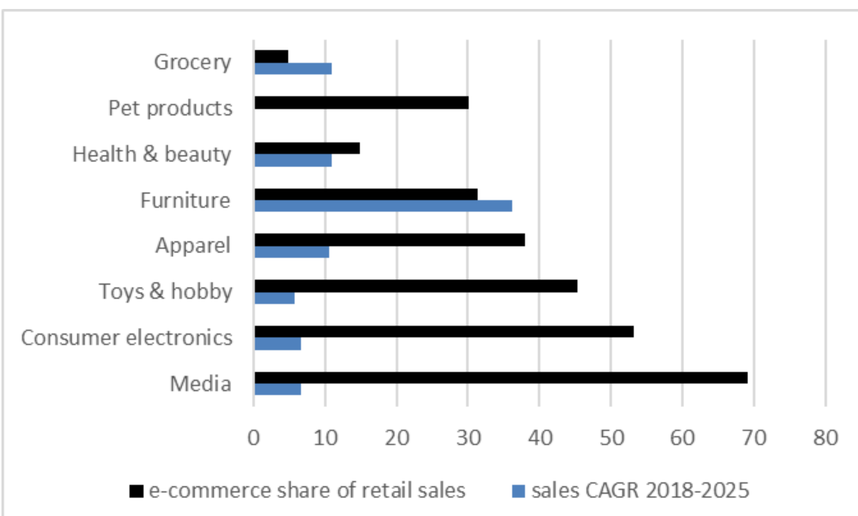
Exhibit 10 Walmart U.S. e-Commerce Sales Growth, quarterly 2018-2022



Source: Walmart 2019-2021 Annual Reports.

Note: Sales growth in Q1 2022 is projected.

Exhibit 11 e-Commerce Share of U.S. Retail Sales, 2021



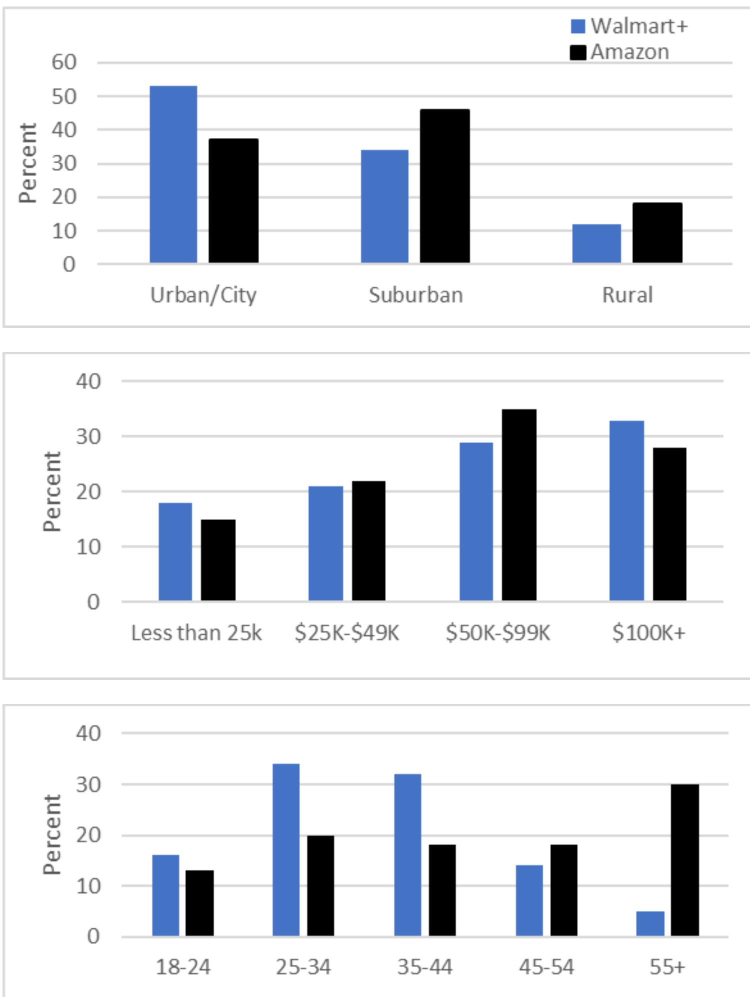
Source: eMarketer, "US Ecommerce by Category 2021," https://www-emarketer-com.ezp-prod1.hul.harvard.edu/content/us-ecommerce-by-category-2021, accessed January 2022.

Exhibit 12 Walmart vs. Amazon Pricing Comparison, 2018

Amazon = 100%	Walmart.com
Home Goods	99%
Food & Beverage	95%
Kitchen & Appliance	111%
Technology & Entertainment	96%
Miscellaneous	105%
Total	**98%**

Source: Adapted from David Collis, Andy Wu, Rembrand Koning and Huaiyi CiCi Sun, "Walmart Inc. takes on Amazon.com," HBS No. 718-481, (Boston: Harvard Business Publishing, 2018).

Exhibit 13 Walmart+ vs. Amazon User Demographics by Location, Income and Age, 2021



Source: Casewriters, based on Deutsche Bank Research, "Walmart+ Survey Update: The Behemoth Awakens," September 2021.

Exhibit 14 Walmart vs. Amazon Comparative Cost Structure

Amazon $ %		Walmart $ %	
Revenue 120	100.0	Revenue 120	100.0
COGS	69.6	COGS	68.2
Marketing	3.9	Marketing	0.5
SG&A	1.8	SG&A	2.3
IT	3.5	IT	1.0
Fulfillment	9.5	Logistics	2.5
Shipping (3rd party)	2.7	Store	2.0
Shipping (in-house)	6.0	Labor	12.9
Operating Income	3.00%	Operating Income	10.60%

Source: Adapted from David Collis, Andy Wu, Rembrand Koning and Huaiyi CiCi Sun, "Walmart Inc. takes on Amazon.com," HBS No. 718-481, (Boston: Harvard Business Publishing, 2018).

Notes: $120 is the average value of a single Amazon delivery package and is for Amazon's own retail offerings. Product mix will differ between Walmart and Amazon. Amazon shipping costs as defined in their accounts "include sortation and delivery centers and transportation costs"; fulfillment costs are "primarily costs incurred in operating and staffing our North America and International fulfillment and customer service centers and payment processing costs."

Exhibit 15 Walmart Allocation of Capital Expenditure 2019-2020 ($ millions)

	2020	2019
e-Commerce & Technology	5,643	5,218
Store remodels	2,184	2,152
New stores	77	313

Source: Walmart 2020Annual Report.

Note: Outside the United States, the company invested $2.6 billion (2019) and $2.8 billion (2020) in its international operations.

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