Wal-Mart Stores Inc U.S. Strategic Update for Investors and Analysts

Company Participants

- Carol Schumacher, Mart Stores, Inc.
- Charles Holley, Mart Stores, Inc.
- Greg Foran, Mart Stores, Inc.
- Judith McKenna, Mart Stores, Inc.
- Unidentified Speaker, Unknown

Other Participants

- Bob Drbul, Analyst, Nomura Securities
- Budd Bugatch, Analyst, Raymond James
- Chris Horvers, Analyst, JPMorgan Chase
- Craig Johnson, Analyst, Customer Growth Partners
- Dan Binder, Analyst, Jefferies & Co.
- David Strasser, Analyst, Janney Capital Markets
- Ernie Salsner, Analyst, Gilford Securities
- Greg Melich, Analyst, Evercore ISI
- Joe Feldman, Analyst, Telsey Advisory Group
- Matt Fassler, Analyst, Goldman Sachs
- Matt Nemer, Analyst, Wells Fargo Securities
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- Scott Mushkin, Analyst, Wolfe Research
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- Walter Loeb, Analyst, Loeb Associates

Presentation

Carol Schumacher {BIO 2078735 <GO>}

Good morning, everyone. On behalf of Walmart's Investor Relations department, thanks for joining us today and I am Carol Schumacher with the Walmart IR team. In front of you on the tables, you will see that we have our forward-looking statement there and I want to remind you that, during the presentations and also during the Q&A today, some of our executives may be making forward-looking statements. For further information regarding our filings and other earnings-related information, please check our website. That's stock.walmart.com.

This meeting is being audio webcast and the webcast will include a Q&A. There will be a transcript available. But due to the time of getting that done, it will not be available until tomorrow. But the transcript along with the audio webcast will be available again at stock.walmart.com.

On behalf of our team, I am very happy to introduce some members of our executive team from Bentonville, Arkansas. On the side, you all know Charles Holley, our CFO of Walmart Stores Inc. Next to Charles, Greg Foran, the CEO of Walmart US. On the other side, Judith McKenna, who is our Chief Operating Officer for Walmart US and Jeff Davis, who I think many of you know previously was Treasurer and now is CFO of Walmart US.

We will start today with some remarks from Charles and we will have some formal remarks, there are no slides and then we'll go to Q&A. So Charles, I turn it to you.

Charles Holley {BIO 18024865 <GO>}

Thanks, Carol and welcome, everybody. It is good to see you again. Thank you for being here and taking time out of your day to visit with us. So why are we here? You might remember Greg had mentioned back in October he was very new to his position and he promised to come back and give you his thoughts and observations of the business and what he thought we wanted to do going forward. So we felt this was a good time. He has been in role now for approximately eight months. So he has a pretty good idea of the business.

I'll just say a couple of things about the business right now. We are not here to talk about our First Quarter. So we're not going to -- or re-up our guidance or anything like that. But I will say very consistently what you heard back in October and in the Fourth Quarter earnings release, we are very focused on price, assortment, our experience and our access. Now we are also -- now when I talk about that, I am talking about the core business that we have, making sure we run a very good core business whether it's in Walmart US, whether it is in Canada, Mexico, Brazil or China. And in addition, making sure that we are making the investments to stay relevant with our customers in the future.

You have heard us talk about we are making the largest investment that we've ever made as far as the integration of physical and digital. We feel like we are in better shape than anybody out there and prepared better than anybody to leverage what we already have to integrate the digital and physical. We think that's very important.

As far as this year, we have a very good tailwind and that's been gas prices, which we've talked about a lot in our Fourth Quarter earnings release. But we have three really big headwinds I think of and the first one obviously was the investment that we are making in our wages and in our associates. The second one would be our continued stepped-up investment in global e-commerce and the third is foreign exchange. Foreign exchange continues to weigh heavily for our foreign operations as we translate back to the US.

Walmart is very committed to returning back to shareholders and I don't see any change in the short-term future on how we look about our allocation of capital and how we want to make sure that we have good dividends for our shareholders and that whatever is left over we use for share repurchase, if not for acquisitions that are available. With that, Greg, I will turn it over to you to say a few things.

Greg Foran {BIO 4687375 <GO>}

Thanks, Charles and good morning, everyone. I am really pleased to be here with you this morning and to have the opportunity to give you some updates on the Walmart US business. I am joined today, as Carol has already mentioned, by Judith, our COO and Jeff, our CFO and also by Scott Huff, just over here, who is our EVP of Merchandise Operations. Judith and I are going to give you an update over the next 30 minutes and then we'll be happy to answer any questions. Following the formal agenda, we will share a quick lunch with you and we will be available for further discussion.

We are going to cover three topics with you today -- firstly. And quite quickly, some principles our team manage the business by; secondly, key findings from the review that we conducted on the business; and thirdly, the sequence plan that we are going to be implementing following this assessment.

Building a strong and enduring business is both strategy and principles. Let me begin with the principles. One, tell the unvarnished truth. If you acknowledge the issue, you can begin to address it. Two, make hard decisions. Three, explain the strategy to your team so they understand and are committed to what you are doing. Four, trust in your associates and take care of them. Five, keep things simple. And finally, six, play to win. As I look at the opportunities that we have before us, I know that these principles will serve us well.

So to the review, as Charles has mentioned, I have been here eight months and over those eight months, I have spent quite a lot of time around our stores listening and learning. Whether it is walking with the third shift overnight managers in Wichita or stocking the shelves with our associates in Sioux Falls, or talking about out-of-stocks with customers on the sidewalk in Nashville, or listening to customer calls at our call centers, it has been a busy few months. Judith has likewise been pounding the action aisles and side counters as have all of our senior team. Why? Because it is where we do business. It's where the moments of truth occur, whether it be clean stores, in stock, quality of fresh, ease of store pickups or checking out. I know that when you get these things right, you add in terrific assortment and low everyday prices, you have a healthy growing business.

So what have we learned? Well I'm going to share with you eight key points in particular. But before I begin, let me say I believe that Walmart is the greatest retailer in the world and I am truly honored to lead our business here in the US. Part of what gets me excited is that, in our DNA, we are always looking for better ways to serve our customers.

So to the review, first point, over the last few quarters, we have found that we've got opportunities to improve the shopping experience and Judith will cover this in some more details. When I say opportunities, I mean areas where we can further strengthen our shop-keeping skills and in turn the customer experience. Our processes require some rework. Might be overnight stocking, markdown cadence, rotation of fresh food. They are just some. We want this year to be the year of improving our stores. So by the time we hit holiday season, our stores are clean, tidy, well-merchandised and run by engaged associates. Today, in the main, we are not.

Of course, there are bright spots. I was visiting our stores in Boise, Idaho just last week and I liked what I saw. It's a tough market, strong competitors. But our stores were clean, our fresh was fresh and our department managers were engaged. If you would like to know where I would like our business to be by the holiday season, visit Boise.

Two, our inventory quantity and flow can be better. We've got too much inventory in the back rooms and our processes are not where we want them to be. And that is causing some undue shrinkage and some out-of-stocks. We've had too many PDQs, or displays, not allowing associates to merchandise the store -- their store -- the way they need to for their customer. Our modulars and merchandise flow can be much better. There's lots of opportunities.

However, we have already made some changes as part of our Urgent Agenda initiatives that I talked about in October. We have reduced the number of PDQs that are flowing to stores. We've given our store managers control of an important share of the merchandise space to ensure localization and ownership. We've started to reduce the price of products nearing the expiration date to give value to customers and to reduce shrinkage. We estimate this markdown initiative alone is delivering a retail run rate saving of over $500 million annually. A small number times a big number is a big number.

Point three, we've got some opportunities in store layout and design. Both Supercenters and Neighborhood Markets have potential to be better -- adjacencies, flows, sightlines, lighting, even the temperature in some of our stores. Some of the stores we recently opened, in our opinion, are not quite as good as ones that we had opened in previous years. Customer convenience and space has been compromised. But I can tell you that I like Supercenters and I like large Neighborhood Markets. Both working in tandem, leveraging off one another, well-designed and operated, these truly are powerful and enduring formats.

We have a store in Las Vegas that I was in recently. They made simple and sensible changes to how we lay out the produce area of the store. Plus they added labor to the department to better curate the merchandise. Our store manager, Donna. And her associates have, within just four short months, taken the percentage of baskets with produce from 25% to 45%. That's the productivity loop in action.

Fourthly, the integration of physical and digital retail. With over 4500 stores, we are within 10 miles of nearly 90% of all Americans. As we continue to expand, that equation becomes even more fascinating. That is a competitive advantage. But both grocery home shopping and pick up are areas where we can be better. From many aspects, this is a very, very exciting landscape.

Point five, we've got opportunities with adjacencies like gas, care clinics and financial services. We have a mindset that we are building scalable, profitable businesses whilst driving additional traffic to our stores. Consider how important pharmacy is to Supercenters and Neighborhood Markets as a traffic driver.

Point six, we have opportunities in price and whilst we have pockets of leadership, in more competitive markets, our gap is too small and against some competitors, we are beaten. What is more, we lost a little bit of our muscle for reacting quickly and I also believe that we have strayed from executing some of our EDLP principles consistently.

This year, we are focusing on addressing our store experience and we are working through what amount in time we will invest in price. Although I can assure you price remains every day part of our discussions and actions. We have identified opportunities to get there without compromising service or assortment. I continue to be encouraged by some of the actions we are taking and the resulting uplift. For example, Andy Barron, our SVP for Softlines and his team, developed a cami, or a tank top, for this season -- great quality, unbelievable price, $1.68. We projected sales for this item to be 30 million units this season versus 6 million that we did the previous season. Andy came to me the other week and said he has upped the order to 50 million units.

Point seven, assortment. It is the lifeblood of our business. When we get the assortment right, we know that the customers respond. The apparel team have driven strong comps over the last year. As well, seasonal continues to be a real highlight. I am impressed with what those teams delivered last year and I'm looking forward to Easter. I don't think anyone has a better Easter assortment than Walmart. And note our assortment focus is not just in general merchandise. But in fresh, grocery and private label.

And finally, point eight, our job at the home office in Bentonville is to serve the stores who in turn serve customers. Sam Walton founded our business based on this principle. But to be frank, in some recent years, we have slipped a little away from this. We have recently undertaken some important activities to simplify our organization and empower our stores, our associates in our stores to make decisions. But more to do. So that, in a nutshell, is what we have learned, eight key points and with it lots and lots of detail. We've got plenty of opportunity. But as I often say to my team, you get 1 point for talking about it, 9 points for doing it.

So let's move on and share with you what are we doing and what we intend to do. We have, as a top priority, to grow sales and marketshare. That starts with improving the core and concurrently investing for the future to help our customers shop anywhere, anytime. I will share briefly our plan of attack on this. We have developed a number of specific and large projects that, for the purposes of this presentation, we'll group into four areas, exactly the same that Charles just shared with you -- assortment, price, experience and access. I'm going to cover three of those whilst Judith will dive into experience.

So first to assortment. We've got a few projects that slot into this broader heading. They are building an assortment discipline, fresh, private label and omnichannel. Now speaking to each of these, we know that we have lost some of our muscle in building a customer-relevant assortment and we have been slow in using data to help achieve this. I am pleased to tell you that this project is now well underway and we will roll it out sensibly and carefully over the next 18 to 24 months. We are establishing customer decision trees based on data about how our customers shop, building substitutability and loyalty tools to assist with choice and driving disciplines around the design and building of modulars in store. All of this and much more fits into this space.

Likewise, you have heard me comment about fresh. This is a complex and challenging area and further progress will need to be steady and sure. As with all of these projects, the applications to Neighborhood Markets and Supercenters is extremely relevant. At our year beginning meeting, we brought 500 assistant managers, one from each market, to go through special fresh training. I spent 12 hours on the floor with those managers listening, learning and teaching.

While we are the largest private label player in the US, we can and should do more. Our customers love it and it delivers on our promise. But we are not fulfilling our mission of save money, live better if we don't provide a more competitive price offering in some private label areas. We will sensibly lean into this opportunity. But never compromise on quality. And finally, omnichannel will see us leverage our physical and digital capabilities. We need to strengthen our leadership here and I'll talk more about that later.

Now to price, the second of the four areas. We've got several projects that will assist with price. Firstly, we are focusing on EDLP, not back margin. We are developing new tools for competitive pricing. We are leveraging the learnings from GEC and experiments that we have conducted in the past.

Secondly, we are looking at how we source product in a very systematic, sensible way, including commodity pricing, especially as we see some of these key materials falling worldwide. And our Urgent Agenda program continues to deliver some very good results and it is funding some of the early investments in customer experience and price. Walmart's formula is no secret. We use the productivity loop to deliver lower prices to our customers.

Onto experience, the third area. We've got several projects here from the store operating model to a couple of Urgent Agenda pieces. Judith, over to you.

Judith McKenna {BIO 4806787 <GO>}

Thank you, Greg and good morning. I am very clear that the priority for operations for this year is to improve the customer experience and I'm going to take a few minutes just to talk to you about some of the things we're trying to do to simplify the business. But also a couple of the major projects that fall into this area that Greg mentioned.

Our job is to run good stores and we know that if we make life easier for our associates, they will have more time to serve our customers. So one of the things that we have done is actually go back to some of the fundamentals and core principles of how we run retail. Retail isn't rocket science. But sometimes it's easy to get distracted by the number of things that are going on. So one of the things that we did at our year beginning meeting this year is we stripped our agenda back very simply for stores into six fundamentals and these won't be a surprise to anybody. But they start with people. Our job is to get, grow, train and keep our people and also to teach and train in our stores.

Secondly, it is about service basics. The three things that matter most to customers are clean, fast and friendly and we are adjusting the way we operate to make sure we make those real priorities.

Thirdly, it's availability. Getting items from the back room onto the sales floor available for customers to buy them. Fourthly, a focus on fresh. Particularly for stores, we're asking them to look at meat and produce as (KRO) departments.

Merchandising, we are giving a bit more freedom to merchandise to our stores. We want them to have fun with that. We want them to drive sales as a result of this. And connected, being digitally connected in stores. It's all about the experience of bringing digital and physical together and against the stores, the priority is all around pickup and we are introducing metrics that help us measure things like wait times, which we haven't had previously.

Now, as I said, all of these aren't different. But what is different about them is the way we are going to focus on them. We are going to be disciplined in the way we measure them and the way we talk about them every day in the business. Now to do that, for example, is introducing (inaudible) reporting that just brings those six key things together and the metrics behind them that we measure. We've put them in one single report available digitally to our store managers and in being able to do that, we've gotten rid of more than 80 (surface) reports they don't have to go into any more. And we're also looking at the way we reward people around us. So this year, we have introduced customer experience metric into our (market) managers, our store managers and an increased proportion from Myshare for our associates.

So we really are committed to moving that forward, which brings me to the two major projects. Greg has already mentioned one of them, which is Urgent Agenda and to give you an update from some of the things that we talked about at the October analyst, we said there was inventory, markdowns, returns and outliers stores. The good news is that returns and outlier stores, we have been pleased with the progress and we have moved those back into business as usual. We are continuing the focus on markdowns and we're making good progress there. But we are also continuing the progress on inventory and it's easy to talk about inventory in terms of the numbers. But actually it is really important from a simplification perspective in stores because with less inventory in the back, it is easier for associates to do their job. It's easier to keep that customer availability moving items from the back room to the sales floor. But actually in a much more productive manner. So that is Urgent Agenda.

The second of the major projects we're putting together under a banner, which is store operating model and that has got three key elements to it -- the associate proposition, the customer proposition and store process. To touch on those briefly, the associate proposition, you have already heard a lot about and Greg, I think you are going to mention it in a moment, the start rate changes that we made for associates. But it isn't just about the wages that we pay that is important; it's about the hours that we give as well. So we are also doing a lot of work around scheduling to give more choice to associates. But also to give more clarity as the hours they are working because that really drives engagement.

We are also looking at training. We talked about Pathways, which is a new training program that we are introducing for associates when they start (our) business to be able to have opportunity. But also the right skills to be successful. And we are also looking at departmental managers and putting more departmental managers back into our Supercenters where they matter most, where the work needs to be done most to help drive that customer experience.

The second area is around customer proposition and that is all around service in the stores. We set up a new team that is going to own customer service and what that means and what we expect from it for our customers. Their number one focus for this year will be the front end. We are really encouraged by the way Checkout Promise worked at Christmas. We got some fantastic feedback from customers. But from associates as well. We had enough registers open to move people through quickly and it's one of the areas we've invested hours into for this year and we will continue to focus on that.

Then the third area is business process and actually this is all around simplification as well. And it's the little things. It's from we are trialing iPads in stores, which some of you have been to (inaudible) may remember that we introduced that a few years ago. So a store manager has all the information that they need at their fingertips to see what is going on on the shop floor, not in the back room. But more importantly, it is the big process review and the key one that we've got underway at the moment is this one of how do we move product, when it's coming in the back door to getting onto the shelf. There's lots of moving parts with that. There is no single silver bullet to correct what we've got. But actually by using best practice from around the world, we think over the course of this year, we can make a big difference.

So all of these things together are the priorities that we've got to drive the experience. It's about being very focused about what we are going to do, being very disciplined about what we are going to do and measuring and managing the results of it. It's not going to happen overnight. But it's a progress that we will make towards the holiday season and get our stores fit for our customers. Greg.

Greg Foran {BIO 4687375 <GO>}

Thanks, Judith. Let me finish off by sharing with you some of the projects that we have underway with access, which fundamentally is driven around convenience. Our customers want to save even more time today and as I mentioned earlier, we believe we have an incredible advantage to serve them given our large store base and supply chain.

This year, we've expanded the grocery home shopping test to include Phoenix, Arizona and Huntsville, Alabama. You are going to start to see our orange pickup signs in stores this year. Customers can take advantage of our prices and convenient locations to save on shipping costs. Access also involves changing our format to serve customers even better. And we've got a couple of work streams underway there. They include reinvention of both the Supercenter and Neighborhood Market and work on our next-generation supply chain, which supports the integration of digital and physical retail.

There are opportunities for us to significantly update and improve things like space allocations, adjacencies, ambience, navigation and flow in both of our formats. We are working on this now as we are also on the next generation of our supply chain, one that leverages moving pallets with each as one unit and looks at inventory across the entire enterprise.

So we have significant multiple projects underway and we have shared some of the details around those with you this morning. I can assure you that each of them is sponsored and led by some of our best people. Each is carefully scoped and resourced, each tracked against agreed metrics and milestones. As we think about how these play out, the key takeaways are that we're going to focus this year on addressing our core operations. We'll also focus on generating the funds that allow us significant multiyear price investment in both physical and digital.

Before I close, I do want to talk about the most important group of all, our people. They are the ones who make the difference in our business every day. When we made our announcement in February that we were investing more in our associates, our decision to raise starting wages to $9 this month and $10 next year, grabbed most of the headlines. But actually what we announced is much more comprehensive. As Judith mentioned, it involves training, schedule changes, enhancements to benefits and putting department managers, the kings of our court, back into our stores. We believe these changes will make a difference to our business helping with turnover and retention. Already 75% of store management teams started as hourly associates. With better pay and clear career paths, we will grow and develop the best talent in retail.

To close, let's play it forward two to three years. You enter a Walmart Supercenter. It is light, it is bright and it's large. You are struck by the ease by which you can see where you want to find what you want and where you need to go. The fruit and vegetables are tempting, the color vibrant as is the rest of fresh and you easily navigate through the store. The items are relevant and merchandised effectively and attractively. Associates work the product and are easily identifiable and are helping customers. It is clear that prices are a source of pride and are sold without any gimmicks. You are taken by the stunning value you see on an end cap and you see a brand that you never expected to see in a Walmart store and are attracted to an item that shouts value.

Customers around you are using their mobile phones to order online for free pickup in the store or maybe to confirm that Walmart does regularly win on price. You are through the checkout quickly and efficiently and you pick up that birthday gift that you ordered online as you exit the store. You remark to your partner as you leave that Walmart does really save you time and money.

Retailing is a simple business. We buy some merchandise and we sell it. Our ambition is clear. We will grow sales. We will improve the core operations by running great stores. We will leverage by integrating digital and physical in ways only Walmart can and we will continue to invest in our associates.

We've got a lot of work to do. But I'm very confident about our future. With our footprint of over 4500 stores, we are uniquely positioned in the retail landscape to win the future as customers shop in our stores, online or on mobile phones. With these strengths combined with our investment in associates, we will reset the legacy we inherited from Sam Walton, leading the next revolution in retail to save our customers money so they can live better anytime, anywhere.

Some of you may know. But likely not, that one of my sons is a pretty good rugby league player in Australia. As we have said to one another, for all the talk of kicks, passes and plays, the key ingredient in that game is belief. You either take it away from the opposition and feed your own or the equation goes the other way. Belief. The army that is Walmart believes. Thank you. Let's open it up for some questions.

Questions And Answers

A - Carol Schumacher {BIO 2078735 <GO>}

Okay, before we get underway with the Q&A, let me just remind you that you do need to wait for a microphone so that those on the webcast can also hear the questions, as can our executives up here. And we would ask that you please state your name and your firm before you ask the question.

Q - Simeon Gutman {BIO 7528320 <GO>}

Simeon Gutman, Morgan Stanley. Greg, curious on the age-old question of pricing. You talked about it and you mentioned that it is still in the works. After studying and being around this business for a little longer, curious if you can diagnose the price position today. And if you think changes down the road are going to be tweaks or maybe larger adjustments. And there was this article this morning talking about getting some savings with some of your vendors. To the extent that that is true, if you can comment on it, will those savings be reinvested back into price or through alternate marketing channels? Thanks.

A - Greg Foran {BIO 4687375 <GO>}

Thanks. As I get around, I see quite a difference in price across the width and breadth of America, to be honest. We track it very carefully and very closely and Scott and his team have really been leaning into this to get us some robust data. We continue to be extremely focused on price and I hope that came through by what I said. We are not moving away from that at all. But we also recognize that assortment and the experience that you have in store is pretty important as well and we've got to make sure that we get that part of the equation right. We are focusing heavily on that this year without taking our objective of continuing to ensure that Walmart does win on price. We are not moving away from that. We will remain true to Everyday Low Price. It's a big country. There's going to be competitive areas. There will be areas that will be less competitive. But Walmart has a very strong intention, which I intend to follow through, which is that we are unbelievably competitive on price and continue to hold that position.

A - Unidentified Speaker

And as far -- are you talking about the article in the Wall Street Journal? Greg, I would think that that article didn't say anything new for us at all. We work with our suppliers to try to get the cost down so we can run Everyday Low Price. I don't know if there is anything new there.

A - Greg Foran {BIO 4687375 <GO>}

Absolutely. So would you expect Walmart to be out there checking the prices of commodities and having appropriate discussions? Gee, I would be disappointed in a business that of our scale and size that is not on top of that reaffirmation of Everyday Low Price. All of you in this room are pretty familiar how that works. You're probably starting to realize that I'm a very strong supporter of that. I'm not into gimmicks. I'm into simplicity and sharing that we negotiate the very best price and we then pass that price on to our customers.

Q - Matt Fassler

Thanks a lot. Good morning. It's Matt Fassler from Goldman Sachs and I want to ask about food, e-commerce, home delivery, that theme. Can you talk about your learnings so far from the tests that you have run, your initial view on the optimal model for that business and as you roll out to additional markets, is this to facilitate additional tests, or is it to roll out what you think you have proven to date?

A - Greg Foran {BIO 4687375 <GO>}

I'll make a couple of comments and then, Judith, please jump in. So we've been in Denver now for I guess coming up a year and continue to feel very good about what we are seeing and what we are learning in Denver and obviously feel good enough about it to now take it into Phoenix and take it into Huntsville, Alabama. In each case, we are experimenting, we are testing, we are trialing some new things and learning quickly. The most important thing is that, as we get around those stores, I can tell you that the feedback from the customers is very, very positive. They like what we are doing and also strongly supported by our associates.

A - Judith McKenna {BIO 4806787 <GO>}

Yes. So the only thing I would add to that is we are indeed still testing different elements of this. Denver is a very developed market for us within that. But going into Huntsville and to Phoenix, they are clearly very different types of markets with different market demographics that go with them. And equally, we are testing in some of those pickup only versus pickup and delivery. So as far as what the economics of everything looks like, all of those are part of the testing process that we are going through. I would echo what Greg said in terms of customer response. It has been very strong as we have launched into Phoenix and into Huntsville in particular.

Q - Craig Johnson {BIO 18288790 <GO>}

Craig Johnson, Customer Growth Partners. Greg, I would like to follow up on something you -- two things -- one, you mentioned at the end of your presentation in terms of competition and second, an area I don't think you touched on, that is traffic and trips, particularly trip missions. By our analysis, it looks like you all have been at best holding share in terms of share of trip missions. Meanwhile, most of your competitors that are gaining share, whether it's Kroger, Costco, the Dollars, the off prices, are all gaining share of market and they are all gaining share of trip missions. Could you address what any learnings you got out of your review that you've been doing in terms of what you are finding out in terms of your traffic, your share of trip missions, what learnings you got out there and what recommendations and what you are doing about it, what you plan to do about it?

A - Greg Foran {BIO 4687375 <GO>}

Sure. I think it is a pretty good indicator of how any business is going. That has been my experience. One of the things that I avoid doing is, in this role, is spending a lot of time dealing with averages. So I am pleased to hear that as you talk about it, you break it down to individual competitors. We are a big player. There's lots of other big players out there. So what I like our team to do is to focus on specifics and ensure that we address those specifics.

Our plan is to get traffic counts up in the store. You've heard me reiterate how important it is to get the core part of our business going. As I get around the stores, I see lots of opportunities and so does Judith just to do the basics better. Improving in-stock. We are not where we need to be on in-stock yet. But I can tell you that there wouldn't be a day that goes by that my colleague over here, Scott, is not working extremely hard on it because he hears lots about it, not just from me. But from other people. We've got to improve in-stock. We've got to improve fresh. We've got to look at some of the adjacencies and layouts that we have in stores and all of that I have learned over the years will encourage customers to visit your store and encourage customers who are in your store to actually buy more.

There is no quick panacea to fix that. You actually have to roll your sleeves up, bend your back and get in there and it is literally a store at a time approach. Now in a business that's got 4500 stores, there is no way that Judith or I can do that on our own. So part of our action over the last few months has been to make sure that we surround ourselves with a team that are going to be able to do it because you can then use scale to your advantage. But traffic is critical, getting that basket operating the way we want it is critical. Yes. There has been progress last year. But we've got a lot more to do and we are pretty focused on that.

Q - Bob Drbul {BIO 3131258 <GO>}

It's Bob Drbul from Nomura Securities. Greg, you have been very focused on fresh from October, a lot more today. Can you just talk a little bit about the performance that you've seen, the lift that you've seen, sales performance in the category? And the second question that I have is the changes that you were talking about in the format with the layout or design, can you just elaborate a little bit more in terms of any of the changes you think will be high level and what we should be looking for in the stores?

A - Greg Foran {BIO 4687375 <GO>}

Sure. So I'll talk a little bit and Judith, maybe you'd pick up on some pieces as I get through that. So the first comment I would make is that fresh is critical. But it's not the only thing that I am focused on. I can appreciate that it comes through in what I say. But I take just as much interest in what is happening with the woman's camis as what I do with quality of the organic carrots in the Neighborhood Market.

What are we doing in fresh? It is a really challenging part of any business because there are multiple things that you've got to get right in order to be good at fresh. If you think about how you procure the product, if you think about how you then organize for that to be distributed through to your stores; let me just quickly spend a minute on that. I am pleased that some of the work that we are doing in this area is seeing us get closer to the field, consolidate product, get it to our distribution centers, our HVDCs in a quicker fashion, hold less of it in the HVDC and get it to the store faster.

What does that mean? It means that by the time the product gets to the store, it has been out of the field for less. If we then run less inventory in the store, the customer benefits because when they buy that product, they get it home and it lasts for five or six days. As I get around and I talk to customers, I will often hear customers say to me the product looked good yesterday. But the day after, I opened up the fridge and I can tell you that apple or that strawberry or that mango was not good enough to eat. So we're looking at what we do from a procurement and transportation perspective and there has been real work done on that and we have (leaned) into some work that we did down in Texas and we are also expanding an operation in Los Angeles that is going to do that and then we are looking further down the track from there.

In terms of stores, there's been a lot of focus on training our people. I spoke briefly about one part of it at (YBN). But I can assure you that 4500 store managers went through that same training. You can imagine what happens as we do store visits and we walk them and the sort of discussions that we are having and I can tell you that over the last 4 to 6 weeks, I'm seeing a little bit of momentum in this area. I am seeing improvements in what we are offering our customers. But we've got a lot more to do in this area yet.

A - Judith McKenna {BIO 4806787 <GO>}

Yes. And on the what do the stores of the future look like, you have heard both Greg talk about this before and Doug talk about it before. So both Neighborhood Markets and Supercenters and what we are looking at is how does the look and feel of our stores (inaudible) the customers for the future. How do we integrate technology more into the stores? How do you make it easy to navigate and easy to get through, as well as what are the adjacencies and what are those categories that we want to lean into and what are those categories that we know customers are starting to shop in different ways.

In Neighborhood Markets in particular, you will see things like all Neighborhood Markets in the future will open up with a bakery and a deli because we absolutely believe that is important for the future and we are looking at how that looks and how that feels. So we have a number of different tests going on and we'll continue to do that over the course of this year to bring all of the different elements together. Probably one of the biggest changes you will see in stores is one of the things I talked about, which is pickup and our emphasis onto pickup in stores and the integration of digital and physical. So we are looking at stores where we can take that to the front of the store to make that a more convenient place for customers to pick up. As they check out, they can collect their parcels. But also very different signage package for it, which means that it is very easy to see and it's easy for customers to know that's the business that we are in.

Q - Paul Trussell {BIO 20732173 <GO>}

Paul Trussell, Deutsche Bank. Clearly, the focus is on improving sales. But as we invest in labor hours, continue to integrate digital into retail, improve the inventory, how do we think about margins near term? Should we be bracing for a few years potentially of margin pressure? And if you can just speak about the long-term operating profit potential relative to Walmart US historically. Then lastly, can you just discuss the Neighborhood Market profitability relative to the Supercenter from a profit and return standpoint? Thank you.

A - Greg Foran {BIO 4687375 <GO>}

Sure. I will comment briefly and then hand to you, Charles. In any country that I have worked in, any business over the last almost 40 years, margin has always been an interesting topic. And as a general rule, you only ever see them go south as competition comes along and particularly as that competition has operating models that often have very low SG&As and so therefore operate at lower margin. So we are going to continue to be challenged in terms of margins as we do the sort of things that we're doing. But we are also attacking this in a very thoughtful and planned way.

And so one of the things I wanted to make sure that we left you with today is that we are not firing off in any particular direction. We've sat down, we've analyzed this, we've pulled together a series of projects that are pretty significant and difficult. We cost those out, we measure them and over a period of probably 3 to five years, those will be executed systematically and sensibly in our business. At the end of the day, what do we end up with? Really great stores with something that I think is quite unique in this market, which is the ability to both shop physically and digitally and provide customers with that convenience. So that is sort of how I think about margins.

A - Charles Holley {BIO 18024865 <GO>}

Let me give you kind of an overall company view of how we look at it. First of all, we run some operations with some pretty high operating margins already. And I think that we don't want to be in a position where we are constantly trying to increase something that is already very high at the expense of sales and marketshare and that's always a balance and that's something that we look at.

As far as opportunity on margin, I can tell you and Greg would tell you, we have stores that we know that we can -- we have stores that did extremely good as far as margin. But we have stores that still have a ways to go and can do much better. We have some international operations that can do much better. So every store and every operation is going to be a little different on how you look at it. Net net in the long term, we want to have stable margins. Now that doesn't mean the margins are going to be the same as a company every year or every quarter; they are going to bounce around some. But we are in a heavy investment mode in our wage and our associates and along with our global e-commerce. But you saw the guidance that we had and we put out there this year because of those things. In fact, we just, as a reminder, on the integration of physical and digital, we said for about 24 months, 18 to 24 months, we will be in a heavy investment mode and the guidance that we gave out for this year reflects that.

A - Carol Schumacher {BIO 2078735 <GO>}

The other part of the question was specifically I think, Paul, about Neighborhood Market profitability. Was that your second question?

A - Charles Holley {BIO 18024865 <GO>}

They are very -- and what we've said in the past, they have a return that is very close to Supercenter. They take a little longer to get mature because of the Rx and how the Rx kicks in as far as the scripts. But they have ability to have returns very close to Supercenters.

Q - Matt Nemer {BIO 6377063 <GO>}

Matt Nemer, Wells Fargo. Historically, Walmart has been reluctant to do a large-scale loyalty program because it has sort of been at odds with EDLP. But I think one of the learnings in retail is that if you look at Amazon Prime and Costco and other loyalty programs, they have been very effective at building wallet share. Would you rethink that and potentially launch a broader loyalty program and is Savings Catcher sort of a fill-in strategy along those lines?

A - Greg Foran {BIO 4687375 <GO>}

Sure. I guess over the years, I never discount anything would be my initial comment. But I would also say that I absolutely believe because I have seen it work that focusing your attention on just getting the right price in front of the customer and offering that in a very fair and consistent manner generally is the program that works the best over a long period of time. So that's what we are focusing our attention on at the moment.

In relation to Savings Catcher, it's a pretty good program. The way I look at it is it's a bit like an insurance policy. I would expect that our pricing on the shelf is right in the majority of cases. In the odd case that it isn't and you go through the checkout and you decide that you want to scan that receipt, I am hoping that you get a response that comes back that says we saved you a dime or we didn't save you anything at all and the reason for that is we got the price right to begin with. So that's how we think about Savings Catcher and we are happy with the way that it is going.

Q - Chris Horvers {BIO 7499419 <GO>}

Chris Horvers, JPMorgan. So I was curious if your view on the dollar store competitive impact has changed? In the past, you've talked about the convenience factor of them cutting off that fill-in trip or perhaps pack sizes. The customer intra-month when they don't have the check filling in with a single roll of Bounty. So has the view changed and do you think that these strategies really address that or address other issues? Then secondly, you mentioned that you really like the large-format Neighborhood Market store. So is this the official cementing of the view around the Express format perhaps not rolling out? Thanks.

A - Greg Foran {BIO 4687375 <GO>}

I'll jump in, maybe you might want to follow in with some comments on Express and Neighborhood Markets. One of the most important things that makes a retailer work well in our game is getting the assortment right. I mentioned that it is the lifeblood of your business. Building an assortment is actually a combination of art and science and if any of you have been buyers. And a good buyer, you will understand how difficult it is. It is not something that you just walk in and do nor do you sit there and wait for a supplier to tell you that this is exactly the assortment that you should run. You've got to understand how to do this. There's a process that you go through.

You begin first of all by understanding the customer, understanding the customer decision tree. You need to analyze the market. You need to understand opening price points. You need to understand the role private label will play. You need to understand what products are substitutable and which ones customers are loyal to.

You need to then make decisions on which ones are deleted; what role seasonal plays. There's like a 10-step process.

If you do that properly, a Walmart Supercenter or a Neighborhood Market competes just fine with any format that is out there because you have followed a sensible, disciplined process for building an assortment. So that's how I think about dollar stores. If we fix assortment, actually we compete well. We compete well with dollar stores. We compete well with Kroger. We compete well with anyone, Aldi. But do that process. And so that's why it's a really key plank in our step forward.

I like large Neighborhood Markets. So let me give you a definition of what I mean there. Most Neighborhood Markets that we roll out are what we call a (proto-41), which means they are 41,000 square feet in selling area. Whether it is 41,000, whether it needs to be a little bit bigger, we are not sure; we are still discussing those things. But it feels there or thereabouts to be right. Once you start getting sort of under 30,000 square feet, it becomes a little bit more different for us in terms of how we operate those stores, particularly when you take into account supply chain. So I make that distinction that I like the larger Neighborhood Markets.

Express stores, I think we've got almost 100 out there now, Judith? We told you that we would do those 100, we would look at them, we would see how they go. Frankly, the majority of them really only opened in the last couple of months of last year. So it is too early to tell. I don't have a view on that at the moment.

A - Judith McKenna {BIO 4806787 <GO>}

Yes. The only thing that I would add to that from a Neighborhood Markets perspective in terms of competition, you can probably see from the results that we had that we talked about they are actually doing well and one of the reasons for that is I think they helped us compete against a broad range of competitors and they helped us with this fill-in trip. So customers, not just the stock of trip, which is great from a Supercenter as we put the two together and have a strategy that uses both of them.

From an Express stores perspective, which we renamed of course the smaller Neighborhood Market, we are still in the process of opening the last of the trial stores. They go through this month and then we'll have our trial in place. We did stop tethering to those stores, which we talked about in October. So we have changed slightly what the format of them looks like and we are testing both what the customer response to them is, as well as what the economic model is for that. But it will take us a little bit of time yet to assess where we are going to take them.

Q - David Strasser {BIO 1541767 <GO>}

David Strasser, Janney Capital Markets. So you are laying out in some ways a -- the more I listen to it -- a fairly dramatic change in strategy from sort of a cost-focused business over the last five or six years to more of a service-focused business. Over the last decade or so, Walmart has gone through some different iterations of going back and forth there. I guess one key question is, what have you learned from, or what do you think was some of the things that drove success for your predecessors running the US and what do you think some of the things that they may have done wrong? And as you think about this pretty dramatic change, I guess you have talked about timing. From a cost standpoint, this could get more substantial. I'm still trying to understand from a modeling standpoint how to do this. I guess two things, number one, what have you learned from the successes and failures of people ahead of you and two, this does sound like a pretty substantial change with a lot of cost involved. I'm just trying to understand it better. Thank you.

A - Greg Foran {BIO 4687375 <GO>}

Sure. I guess the first point that I would want to make is that we are not about moving away from low price. Really difficult to have low price unless you have low costs. We have learned that if you put too much pressure on some costs in your business. And read into that stores, then you can impact the shopping experience and environment for customers so that it does make sales difficult to achieve.

And the second thing it does is that it's a bit like squeezing a balloon. You can start incurring costs elsewhere in your organization because you are not as efficient or effective in things like marking product down. So I shared with you the experience that we had of sensibly implementing our markdown cadence across a whole variety of product and that will deliver in your savings at retail of $500 million.

If you put too much pressure in store wages and you reduce hours say in the meat department to a point where the department manager, or maybe not even the department manager, maybe it is someone else who has just been called in is responsible for filling the meat, what happens is that you may end up putting too much on show or you may not even put the right cuts out there. That product has a four-day shelf life. At the end of the fourth day, you need to have cleared it. If that person doesn't understand the rate of sale of that product and you get to the fourth day and you are throwing that out at full retail versus having taken a sensible markdown cadence on day three, then you can incur a lot of cost.

So as we get into the detail of this, what we're finding is we are finding opportunities to do things better. So we may put some more costs in here. But we try and offset that with savings here. At the end of the day, we don't want to run a business where margins are going up and costs are going up. We actually want the opposite to occur. We can't do that unless we grow the top line. So that's why we are very focused on sales. That's why we are focused on getting the assortment right. It's why we are focused on how we lay stores out and the adjacencies and the flows. It's why we are focused on the store operating model. Department managers are the kings in our court. I can tell you that when you have good department managers in stores, you run good stores.

So if we can maximize the big machine out there, I don't think you need to assume that margins go up and the costs go up; what you can assume is that we do more sales per square foot and actually we are able to leverage the business. So that's how we think about it. Charles, Judith, anything you want to add?

A - Judith McKenna {BIO 4806787 <GO>}

I would just say that if you think about this, there is no lack of focus still on EDLC in the business. It's just where you look for that cost coming out of it and all the things we talk about about simplification and simplification of process that is not customer facing is around how do we take costs out of the business from that perspective and that's one of the areas that we can leverage global best practice in how to do that within the organization.

A - Charles Holley {BIO 18024865 <GO>}

You've got to remember, we haven't, as a company, levered our expenses until 2010, since -- I think it was 1999. So we needed to go through that phase of productivity and efficiency and I think what Greg is saying is now we need to make sure we are not overdoing it in areas and maybe we cut too much here or there, reinvest where we need to come. But we did not have a good track record at all on controlling costs for 10 plus years.

Q - Greg Melich {BIO 1507344 <GO>}

It's Greg Melich with Evercore ISI. I wanted to follow up on maybe how some of the incentives have changed for store managers with the simplified process or maybe department managers; they seem critical. It is simple, which is good. But also incentives also help clarify. So how have those changed and maybe the same question but for the merchants? You gave, I think, Greg, the example of the tank top for a dollar something. How have merchant incentives changed to encourage them to take some risks to make that decision, wow, let's sell it for $1, not $5 and see what the volume is?

A - Greg Foran {BIO 4687375 <GO>}

Sure. So why don't you cover the stores and I'll jump in with the --?

A - Judith McKenna {BIO 4806787 <GO>}

So from an incentive perspective, actually we have made it really simple to measure the customer experience. We've introduced a series of measures, which are all based on customer feedback that appear in a dashboard on clean, fast and friendly the store can see week in, week out. It's applicable for store associates, the departmental managers. It's applicable right way through to the market managers. So whilst (everyone) you're introducing incentive programs, this is part of the existing program. It can get more complex, actually we've made it as simple as possible and made it things that the store associates are really passionate about already.

From a departmental manager perspective, putting in new departmental managers will make a significant difference. We are being very thoughtful about the stores that we do that in. Some stores are much more complex to run and therefore need even more departmental managers. Some stores are less complex to run and actually we have been able to put a balance between them. But the departmental manager role are the people who actually own and run the departments. So for us having that as one of the key focuses over the whole of the management team is proving to be in the stores we have trialed this in quite a significant step change.

A - Greg Foran {BIO 4687375 <GO>}

In terms of the merchant part of the business, there is lots and lots of dialogue around Everyday Low Price. We measure in price in a very robust way. Now every single week, part of Scott's team jumps in there and gives us updates. We break it down by department, by category. We are having different types of discussions with suppliers. We are changing some of the marketing approaches that we've done in the past to reflect more of an Everyday Low Price, everyday low cost. We are taking a different view of how we do modular walk-throughs, how modulars are built and a lot of that gets picked up in the projects that we are running. But there is many other things that Scott and Andy and Michelle and Steve are doing day-to-day with the merchants to sensibly pivot the business so that we get back to the DNA that we know is pretty good.

Q - Dan Binder {BIO 1749900 <GO>}

Dan Binder, Jefferies. I just wanted to focus back on price for a moment. You talked about developing some tools. Just wondering if you could elaborate a little bit on that. Then also your view on in-store pricing versus online; is there going to be a gap and then how do you think about that price investment from a timing perspective? It sounds like maybe it is next year when it gets stepped up? If you could just clarify that point a little bit more.

A - Greg Foran {BIO 4687375 <GO>}

So firstly, maybe just to clarify the in-store online piece, we made decisions at the end of last year to actually allow our stores to match prices if they need to where customers can find products online and like anything, you have to develop the muscle to do that because there is always some people out there who can come up with an item that is on a marketplace for $0.10. But it costs you $20 to have that product delivered. So we had a couple weeks of dealing our way through there. But as I get around the country, I can tell you that we are doing a pretty good job of making sure that what we do online, not only in Walmart.com. But across the broader set and what we do in the store is much more appropriate. Not saying we've got it 100% right. But we are doing it and that is working.

How we think about that pricing and how we are working through it, that is still a work in progress with us. We are making a lot of progress around it. Scott, in particular, in his area has been active with working with the GEC guys on a number of tools that they use. You can imagine that they have tools that scrape particular sites that run particular algorithms and we are looking at how we can take those learnings and put those into the life of a buyer in a physical store.

We are also looking at how we appropriately combine the buying between what we do in a physical store and what we do online. So take toys, for example. We sell a heck of a lot of toys in our physical stores and we run a pretty good business there and it's going well. I can also tell you that we run a pretty good toy business online. In a lot of cases, we've got the same suppliers. In a lot of cases, it's the same inventory and so learning how we can now take that physical team and join that with the digital team is something that we are looking at and working out how we do.

Included in that will be how we think about price, how we think about assortment, how we think about inventory, how we think about end-of-season clearance. So all of that is a dialogue and a work stream, which is actually underway and gathering some pretty good momentum at the moment.

Q - Joe Feldman {BIO 4772233 <GO>}

Joe Feldman, Telsey Advisory Group. Wanted to ask, you guys commented on giving a little more rope to the managers and the department managers. Can you comment on how much rope that is and how that is different from today? And sort of a second part of the question, what will that mean for the stores? What should we expect to see in the stores by the holiday season in terms of the progress you guys are making?

A - Greg Foran {BIO 4687375 <GO>}

Why don't you start and I will --?

A - Judith McKenna {BIO 4806787 <GO>}

Yes. So in terms of freedom to the stores, one of the things that we are looking at is giving them the ability to choose some of the features that they have in-store. Be that great regional items, be that items that they just feel very passionate about. So again with Scott and the team putting some process into enable them to be able to do that without us getting into problems with inventory and flow and the things that go behind that. So again this idea of making that process simple for them to be able to do it and letting them have a bit of fun with it as well because that really sparks this emotion of selling and what we want stores to do is reengage in selling and that is their role in this and serving the customer. So that is the first piece around that. What was the second part of the question around?

Q - Joe Feldman {BIO 4772233 <GO>}

The second part was what types of improvements we should expect to see by the holiday season?

A - Judith McKenna {BIO 4806787 <GO>}

Yes. So it's really interesting. When Greg was out in store visits last week and he was talking about being in Boise, Idaho, that was a good store. It was --.

A - Greg Foran {BIO 4687375 <GO>}

It was actually four good stores.

A - Judith McKenna {BIO 4806787 <GO>}

It was four good stores. It was clean, it was well-merchandised, customers could get through o the checkouts, there was good availability on the shelf for customers. It was a good shopping experience. So as we progress through these fundamentals that we are doing, that is exactly what our customers should expect to see.

A - Greg Foran {BIO 4687375 <GO>}

The bits that I would add to that is I started filling the shelves -- a night stocker -- and my mother then encouraged me to join at that point Woolworth's in New Zealand full time. So here I am 17 years old, finished school. And didn't go to University and here I am working in a Woolworth's store having progressed from being a night fellow to now working basically as an entry-level associate. If you give people tools to help them do their job and you give them -- you teach them how to do it and they take some ownership in it, some amazing things can happen in a retail business.

Likewise, if you start stripping that away, the opposite occurs. So if you think about where technology is and you think about our ability to track items, or find out if they are on order or where do they sit in the planogram, when are we going to get some more, is it a seasonal item and it is going to drop out, imagine giving that information to a 17 or a 20-year-old entry-level associate and providing that in a TELSON or the new device that we've got. All of a sudden they take an interest in what is happening and they serve customers because they have information.

We are really determined to get this right because retailers, those moments of truth. We can sit in Bentonville and we can talk about this and we can talk about that. But at the end of the day we are only as good as that store with that associate serving that customer. I know that. Okay, we've got 4500 stores. So how do I think about that? Well I can't think of 4500 stores. So I've got to get 100 people in this business who then break that down into this number of stores and that number of stores and that number of stores and then all of a sudden you get some momentum because you are doing the basics right.

You must give people in stores freedom and you must give them information. Now it's not wholesale. It's not about saying you can decide exactly how you want to lay out every modular and it's not about saying that you can be in charge of all your replenishment because actually automated replenishment systems will generally do a better job than even your best grocery manager. But you've got to give them enough to keep them interested and you've got to give them enough to serve customers and then they will progress through the business and one day they'll be doing our jobs. And we lost a little bit of that because we wound things down pretty tight. So we are just sensibly now opening it up and I think we're going to be pleased by what we are going to see.

Q - Ernie Salsner

(Ernie Salsner), Gilford Securities. Retail is detail and you are making a very convincing argument that Walmart is in better shape being in the hands of people who know shopkeeping. But there's another element -- the excitement of merchandising. And I really don't hear much of that. Could you discuss a little bit, for example, the consumer electronics and entertainment department, which had a very poor quarter? I know that there was the absence of gaming -- games that were introduced the year earlier. But Walmart was down big time and others were up. Best Buy had a gain and Walmart reset the electronics department and reassorted it.

What went wrong and how can we energize what Walmart is doing to convey a stronger message to the customers right now?

A - Greg Foran {BIO 4687375 <GO>}

I can see I'm going to have to get you one of these tank tops or camis if you don't think I am passionate about merchandise at $1.68. In fact, I will get you a few because they are so cheap. But I love merchandise. Assortment is absolutely the key to running our business. You've got to have the store operating discipline. But actually that is secondary to getting the assortment right. You can run the cleanest, tidiest nicest store that you've ever seen. But if the product in there isn't right, it actually doesn't matter. If you get the product right and the store isn't clean and nice and tidy, you'll still have a business. So merchandise is absolutely critical.

Let me deal specifically with your question because it's a great question. Project Reboot went some of the way to addressing some of the issues. So I walked in as that was in the final throes of getting rolled out. So what was good about it? We had a look at the space that we had and we made some adjustments to increasing in this area, reducing in that area. Good. Not sure we went far enough. We had a look at moving some of the accessories from the back of the department to the front of the department. Good decision. But I don't think we did a great job in ensuring that we replenished those products appropriately. A lot of them went on to what we call assembly merchandise. What that means is it takes a bit longer for us to replenish the stores versus what we call stable stock, which means you pretty much get it the next day.

Thirdly, I don't think we did a lot around looking at department managers and associates that were working in that department. So there were some things in Reboot that were good. But there were other things that I think we missed the boat on. Someone mentioned before about store layout. Once again, that is a skill that you learn over a period of years. A guy called Jack Shoemaker and Roger Corbett, who is on our Board, have taught me a lot over the years about store layout, about creating a situation where you create a concave situation in your store. What does that mean? It means your walls are more powerful than the middle.

Why is that important? Well actually, if you went and spoke to any customer, they couldn't tell you and nor should they. But what they will tell you is that it just feels good. This store just feels better. I can see where I want to go. I like it. In Reboot, we put a lot of signage up in the department. So we started to lose sight lines. Assistants working in that department found it very difficult to see who was shopping in an aisle three gondolas over because they couldn't see the tops of those people's head. Something as simple as that creates an issue.

Actually our store I was in last week, this is a very true story, I was walking in that department and we started taking the signs down and the department manager who has been with us for about 17 years came up and gave me a big hug and she said thank goodness we are doing this. You will actually see in the next few weeks that we will make some more adjustments to what we're doing in that category. But I can tell you that Andy Barron, who looks after it, his team have taken me through as recently as two weeks ago what they want to do in that area. That will now go to our layout center. Scott and his team will get actively involved in that and when we get that area right, then we will roll it out and we will do that as quickly as we can. But we made a mess in that area. Other areas I think we have done a really good job. But that one, I agree with you. I think we missed.

Q - Budd Bugatch {BIO 1504748 <GO>}

Budd Bugatch with Raymond James. You talked about keeping it simple and also EDLP. How do we factor in EDLP, price first, rollbacks, keeping it simple? How does that all factor together? Do any of those programs disappear over time now and can you help us merge those together?

A - Greg Foran {BIO 4687375 <GO>}

Sure. So we are looking at all those things. We are not in the game of creating rollbacks for the sake of rollbacks because that defeats the purpose of Everyday Low Price. A rollback has got to be done for the right reason and Scott and his team now measure as part of one of the projects. Every single month, I get a report on how many rollbacks, whether they were adding value or they weren't adding value, how long they were on for, etc., etc. Don't expect us to do anything different other than do the right thing with rollbacks. We know when we do them right, we know they work.

As we think about private label, we are working through that process at the moment. I personally have found in the eight months that I have lived here that Great Value is actually a really good product. I have worked in other businesses where often that what you call a generic can vary considerably in terms of the quality. I actually haven't found a Great Value item that I don't think is really good quality. We were eating bacon and eggs for breakfast the other day and my wife said it's Great Value bacon and I can tell you it was fantastic.

I like Great Value. It's important as we think about Great Value that we make sure that we get the pricing on Great Value appropriate and there are examples, some examples that I find where we are not. So we've got some work underway on that at the moment. It's going to be an important part of our strategy as we think about some of the competitive set that we deal with and both Judith and I have spent time dealing with some pretty good European discounters. So you can assume that we have a reasonable understanding of the role that private label plays in that space. But we will keep things very simple.

As I think about price first, I think in some categories, it has complicated things. I think in some categories it is not required. I think in other categories, it may be. But as part of the assortment process, let's not just assume that it is required in every category; let's consider it carefully. At the end of the day, I don't want us ever selling product that we are not proud of.

Q - Walter Loeb {BIO 1421346 <GO>}

My name is Walter Loeb and I run Loeb Associates. Fast fashion retailing has become very important internationally. And particularly companies like Uniqlo, H&M have been very important competitors to Walmart and to everybody. We're soon going to see another entry with Primark coming into the Northeast. And I was wondering how Walmart is going to address that competitor and all of fashion competitors because I think that it has lost share of market in fashion and lost it to its other retailers.

A - Greg Foran {BIO 4687375 <GO>}

Yes, Primark, very, very, good competitor. How do we think about them? Really good competitor. We have had teams over there looking at their business. We know they are coming. We know where they are coming and when they are coming. We have been leveraging off the (Esther) team and George and you can assume that we're going to compete very, very aggressively. We welcome it, to be honest. One of the things that I like about our merchant team that I am seeing because they report directly to me now, is that when we are giving them a challenge like this, they aren't frightened to lean in and have a go. So when they have a look at the jean that might be on sale in Primark, or the T-shirt, we are looking at that, we are pulling it to pieces. We understand where they are sourcing from. There are slightly different duty rates when you bring product into America than what there is in the UK and you are nodding your head so you know that. We engineer those, reverse engineer them and we are looking forward to it. You can assume that we will compete and we will compete aggressively with Primark or anyone else in that space. We won't back away from having great prices.

Q - Unidentified Participant

Yes. So I actually had two questions. One is I am wondering what kind of hard discussions are you having with your suppliers as more of them moved to what looks like to be a direct replenishment model where you saw what Amazon's announcement, other people are moving to that model where you've moved the consumer actually away from the store. So just comment on that.

And secondly, I guess the next step is on the back end of replenishment and that is moving from primarily a casepack distribution methodology to individual eaches and I am just wondering -- Charles, maybe you could even speak to this -- when does that capital requirement come into play and how does that affect the cost structure because it's different than casepack being lower margin, higher costs. When are we going to be talking about that capital investment that needs to be made?

A - Charles Holley {BIO 18024865 <GO>}

I will start with the capital investment, then maybe you guys can talk about the other questions and comments. As I said in October, our heaviest investment for this integration, which would be eaches versus casepacks and everything else, will be 18 to 24 months. What we are building out suite and fulfillment centers right now in the US. And so there will be very heavy investment that you will see this year and next year for that.

A - Greg Foran {BIO 4687375 <GO>}

As we think about discussions with suppliers around that space. And some I have been personally involved in, where we can actually do some of this ourselves and we need to get on and do it. And so areas like nappys or shaving or categories like that, it's on our roadmap, get into it. If it makes sense for the customer then it makes sense for Walmart. If you do it with a supplier then that's also fine. I don't preclude any of those things.

At the end of the day, I think we are still uniquely positioned in this space, 4500 outlets and growing, an ability to move product to a store cheaper than anyone else that I know of in the world and a lot of customers who are really happy to go to a store to go and pick it up. So I like the equation that we have there. Our challenge is to make sure that we execute really strongly around it.

Q - Michael Exstein {BIO 1494967 <GO>}

I'm Michael Exstein; I work with Credit Suisse. My question is really this. You have laid out, I think, a reasonable set of expectations and plans going forward. But most of it sounds like a reaction to things that you didn't do, didn't do right, didn't anticipate, or pulling the Company into the 21st century. The glory days of Walmart was when it led and I haven't heard very much about leading -- what you are going to do to lead, what you are going to do to set the agenda other than changing the wage and hour structure for your employees. Can you talk about that?

A - Greg Foran {BIO 4687375 <GO>}

Sure. So there is no doubt that there are some parts of our business, some fundamentals that we feel we need to lean into and address. And you've got to do that in order to set that foundation before you start building the next layers on. It's important, particularly when you've got 4500 stores, that you don't try and take on too much too soon.

What you got to do is to get that momentum going. So that's why we are really concentrating at the moment on getting that base fit, which is about improving the shopping experience for the customer. I have reiterated that you can also assume that price is going to be a key part of our foundation and that we are going to gradually lead into that in a very sensible and thoughtful way. But that is not going away.

The big prize for us in the future goes back to the point that I made about this integration of digital and physical. You, I am sure, can see the opportunity that that presents. I think if I was running a pure play Internet company at the moment, one thing I would love is I would love to have 4500 growing to 5000 distribution points that in 90% of where all Americans live and a supply chain that can get the product there really quickly. We are excited about that. We have some good ideas in that space and we've got to make sure that we develop the tools and the technology to get there.

I am also passionate about making sure that we lead in providing technology to the people in our stores to do a better job and Judith spoke a little bit about that. But a lot of that is catch-up. But you can also assume that we will quickly catch up. But her team are already thinking about where do we go from there.

Q - Scott Mushkin {BIO 7138867 <GO>}

Scott Mushkin over at Wolfe Research. So just wanted to summarize it a little bit and go off of Michael's question. It seems to me if you look at Walmart, their number one competitive advantage historically has been price based on superior logistics. But what I am hearing today is we are behind on logistics a little bit, we need to make some investments there, plus maybe the price gaps are not nearly what they used to be and in some markets, Greg, I think you even said maybe we are not even the lowest. So that is forcing you to compete on things that you guys haven't really been that good at, which is assortment, perishables. So I guess my question is are you just kind of kicking the can down the road here a little bit and why not address the bigger issues, which is the price gaps, immediately? Thanks.

A - Greg Foran {BIO 4687375 <GO>}

I guess the first point is I would disagree with you that Walmart wasn't good at assortment. I think it depends how far you want to go back. I have been visiting Walmart for getting up 20 years and I can tell that when I first visited them and even prior to that, they were really, really good at building an assortment. It was probably their single biggest competitive advantage.

By having the right assortment that got customers into their stores to buy the products. They were then able to get the productivity loop going and get the pricing right. Sure, one doesn't always exactly follow in their sequence. But don't underestimate how good they were at assortment, or how important it is in building a business.

We know that, at this point in time. And I have done now about 116 stores unannounced. So I have a pretty good sense from one end of this country to the other what you see when you go into a Walmart store. To be really frank, if we went out there and started shouting about price today, I don't think you'd get a great return on your investment. I think customers would want to make sure that we are in stock, that the store was clean, including the toilets, that fresh was reasonably fresh and that the service from the front end was appropriate.

So that's why we've said let's get ourselves to holiday season to a point where we are all proud enough to take our mother or grandmother into the store and say, hey, this is who we work for. Our associates are engaged. I think it's a really logical approach for us to take to get that fixed and I think there is good growth by doing that.

As we start to do that, you then move on to what the next stages and the plan are and as I said price is important. I think some people will look at this and say, gee, it's a bit of the old and maybe not enough of the new. That's not how I look at it. I think we have enormous competitive advantage and scale. I think we have enormous competitive advantage with the dotcom business that we are now starting to understand how we integrate that into the scale that we have. And I know that we have numerous competitive advantage when we get our associates engaged in our business in a really meaningful way. A lot of them already are. But we've got room in other areas.

So I think it's exactly the right approach. I feel very confident that what we are doing, the order in which we are doing it, the way we are doing it is actually going to deliver sensible long-term results. We are not thinking about this quarter to quarter. We are thinking in a much longer timeframe. But I can tell you we are 100% committed to getting this thing, not just right for a year or two. But right for a couple of decades.

A - Carol Schumacher {BIO 2078735 <GO>}

And on that note, Greg, thank you for all the questions that you have taken. Our leadership team is going to stay and be available for questions during lunch. This concludes our webcast and again, the transcript -- (ends in progress).