

Barclays Retail and Consumer Discretionary Conference

Company Participants

- Bob Drbul, Analyst
- Neil Ashe, EVP, Pres, CEO of Global e-Commerce

Other Participants

- Unidentified Participant, Analyst, Unknown

Presentation

Bob Drbul {BIO 3131258 <GO>}

Well good morning, everybody. Welcome to the second day of the Barclay's Retail and Consumer Discretionary Conference. Kicking off today with Neil Ashe, EVP, President and CEO of Global e-Commerce for Wal-Mart.

We also have Carol Schumacher here -- Vice President of Investor Relations.

Neil was appointed to run Wal-Mart's global e-commerce division, January 2012. Prior to this role, he was president of CBS Interactive, where he ran online properties and led the development of different methods to distribute programming, including CBS.com, CNET.com, CBS News; CBS Sports. I've also been told he's a big Hoya fan.

Prior to working at CBS, he was CEO of CNET Networks. Ultimately he led the sale of the company to CBS. Some miscellaneous information that he was an associate at Smith-Barney. And undergrad at Georgetown. And MBA at Harvard Business School.

Before we turn it over to Neil, we are going to embrace technology, this morning. And we have our -- the lovely -- audience-response system. So we have four questions at the beginning. And then we're going to let Neil do his presentation. Then we're going to finish at the end.

So the first one, hopefully everybody has their little clickers. Have you shopped at WalMart.com within the last year? Yes or no?

25%, yes. 25%, yes and 75% no.

Neil Ashe {BIO 5665242 <GO>}

Feels like a market opportunity to me.

Bob Drbul {BIO 3131258 <GO>}

Second question.

Who do you think has the price-leadership position in online shopping within the US? Wal-Mart, Number 1. Amazon, Number 2. Or, "Other," Number 3.

Amazon, over 78%. Wal-Mart, 12%.

Third question.

What do you view as the most critical aspect of running an industry-leading global, online business? 1 -- Price. 2 -- Assortment. 3 -- Delivery capabilities; logistics. 4 -- Other.

33%, price. 27%, assortment. 38%, delivery and logistics.

Last question.

Where do you believe WalMart.com has the most opportunity to close a gap to competitors? 1 -- price. 2 -- assortment. 3 -- convenience.

Assortment and convenience, 41% and 43%. Price, 16%.

So I think Neil's put together a very interesting presentation this morning. So I'd now like to turn it over to him to learn about the strides that Wal-Mart is making on its online business. Thank you.

Neil Ashe {BIO 5665242 <GO>}

Good morning. Try and tone this down a little bit. Good morning.

Thank you, Bob. Thanks for the questions. You hit on many of the topics we're going to, not surprisingly, talk about today.

So before we dive in, I'd ask you to spend some quality time with our disclosures, here. If you have any other questions, you can find them obviously at our website.

So the history of Wal-Mart, as you know, is one of transforming retail. So we started in the discount stores. We moved into warehouse clubs. We moved into grocery. And now, international.

And at each step along the way, we've developed capabilities, which have allowed us to do things that others can't do in the marketplace. And so you know us today as

the world's largest retailer. But you should also know we're one of the world's largest, fastest-growing and most dynamic e-commerce organizations.

So the capabilities that we built in the other waves of retail, we're building in e-commerce now. And e-commerce is the next growth engine for Wal-Mart.

So as your questions indicated, you are the customer. And the customer has changed. So as Bob said, I've spent the last decade or so bouncing around the consumer internet. And interestingly, got asked a lot of times to try and explain the internet, as if that's something that you could explain.

We often talked about the fact that it's not a "thing." It's really a collection of changed expectations.

Each thing that changes gives you the expectation that everything else should be different. So the internet changed pretty much everything. It changed how we communicate. It changed how we gather information. It changed how we direct ourselves. It changed the expectation that things could be on-demand; that you could get whatever you wanted, whenever you wanted it.

And that change -- that pace of change -- has started to, as you know, accelerate.

So it's worth noting that Netscape launched in 1994. And the iPad is only about four years old. So Bob and I were talking about his kids and their use of the iPad in education. And think about what's changed in the last three years, since the iPad has launched.

And so you'd think the internet was the transformative event which has changed everything. But what's fascinating is that social came along and did to the internet what the internet had done to everything else.

So if you think about the internet taking 40 years of change and compacting it into 15 years, social is only -- what -- 7, eight years old. So and social has transformed the internet and made the internet have to change at a pace that even kind of native internet companies, like CNET that I used to run, were uncomfortable with. So that pace of change has accelerated.

And I saw that today, Facebook is reporting. And the obvious key facts for Facebook is, "Can you monetize mobile?"

So mobile now is doing to social what social did to the internet. And the internet did to everything else. What's interesting about all these curves is that there's an inverse relationship between engagement and performance. So at each step of the way, we've had a deeper and more intimate relationship with the consumer; they're in more control.

Whether it starts with your website, moves to your Facebook account. And now with your mobile device you have more control. And your engagement goes up. But performance-conversion goes down.

And so that's a general trend that we are focused on as we move through these waves of change.

But at the end of the day, what really matters is that the customer controls that experience. And so we have to choose to live in her world.

So you answered to whether price, convenience, assortment, et cetera, were the things that were most important to you. And the answer to those questions is, "Yes."

And as we talk about that effect on retail, a lot of the conversation, as I kind of entered the industry a little over a year ago, was about channels. Are we omni-channel? Are we multi-channel? Are we meta-channel?

And I think that's exactly the wrong question. So it takes the question of that consumer and it looks at that consumer only through our eyes. And not through their eyes.

The simple fact is, the customer wants us to serve them -- where, when and how they want to be served. And so, our opportunity is not to become a multi-channel commerce company. But rather to be the company that satisfies that consumer when, where and how she'd like to be served.

So Wal-Mart realized that. And realized that the path we were on was not going to get us there. And so, two years ago, we created global e-commerce.

So global e-commerce at Wal-Mart is e-commerce at Wal-Mart. So we operate sites in 10 markets around the world. We develop local-assortment and fulfillment networks in those key markets.

We power a lot of innovation and technology through our teams in San Bruno, Bangalore and São Paulo. And we're building best-in-class technology capabilities to empower this new shopping experience.

But what Wal-Mart global e-commerce really is, is about 2,500 of the world's best consumer-internet merchants, technologists and supply-chain professionals that are coming together to solve this unique challenge.

How do we take the mission of Wal-Mart -- "To Save Money and Live Better" -- into this new era of changed consumer expectations? So how are we going to do that?

We've got four key elements of the strategy that we believe get us to this new vision of commerce. The first is to excel with the fundamentals of e-commerce.

So what's undeniably true about the pyramids in Egypt? Anybody? What's undeniably true about the pyramids in Egypt? They're old? And they're big; right?

So if you want to build something that's going to be really big and last forever you darned well better get the foundation right. And so the first element of our strategy is to get that foundation right; to excel at the fundamentals of e-commerce -- many of which were addressed in the questions that Bob asked you on the way in.

So from our perspective, the fundamentals of e-commerce are as follows --

First, it's about customer-acquisition and retention. We've got to deliver you a personalized shopping experience that exceeds your expectations each time.

The second is about category development and assortment. We need to sell you what you want, everything you want, at a low price.

The third is about customer experience. We need to deliver for you the highest-quality consumer-internet experience. The best site, the best staff and the best store.

And finally, we need to make you a promise. And we need to keep that promise. If we say we're going to deliver this widget to you tomorrow at your door, or later today at our store, we're going to deliver on that promise.

So taken together, personalized commerce, category development, customer experience and customer promise are the fundamentals of e-commerce.

The second area is that we have to innovate in new areas. We have to commit to live at the edge of the web. What's true about the web by definition, is that it's a web. Right?

So you have to commit to live at the edge of the web. And live at the edge of that development.

So for us, those areas of focus now in new areas are big data, social and mobile. So spending a second on big data, we have some of the best data scientists. And obviously, we have the largest collection of commerce data in the world.

So we're using that to deliver a personalized shopping experience, to help with our category-expansion. To understand what our customers want and need; when and where they want it. To use technology to dramatically improve our ability to serve that customer, as well as the efficiency of our operation.

Social, obviously, is a big deal. How can we connect with you? Where, when and how you like to be connected.

So we have, since the beginning, harvested important social signals from Facebook, from Twitter and now from Pinterest, about what consumers care about. What they're interested in. And how that can affect the development of our assortment and our customer experience.

And finally, around mobile. I'll spend quality time talking about mobile. But it's worth noting that over half of our customers now have smartphones. And a smartphone today is the equivalent of what a super-computer was 20 years ago.

So each of us is walking around with a super-computer in our pocket. And the power of that to change both our offering and your expectations of our offering are obviously pretty dramatic.

The third area of focus is winning in key markets around the world. I think many of you may have been with Carol last week at ASDA. So we'll talk about our international markets in a second.

But obviously, e-commerce is not just a local phenomenon. The internet's everywhere. And our opportunity now is to serve people not just in the trading areas of our stores. But anywhere you can receive a package.

And finally. And arguably, most important -- How can we use e-commerce and this new consumer experience to unite and expand the Wal-Mart Experience? To deliver to people what no one else in the world can deliver.

So to do that, obviously, we need to invest.

I opened by talking about the history of Wal-Mart and the building of capabilities to change in different areas of retail. And the consistent success for each of those changes.

To win in e-commerce, we also need to invest. And so, I want to spend some time talking about the areas where we're focusing that investment.

The first is around our global-technology platform. The second is around next-generation fulfillment networks. And the third is about scaling these markets around the world.

We're investing now. And we will for the long-term, to build the capabilities necessary to win in e-commerce. So let's dive in and talk about each one of these a little bit.

First, our global-technology platform.

Perhaps the best press, or at least my favorite piece of press we've gotten in the last year, is from an article in Wired Magazine. Where the lead was, "Wal-Mart is a technology company."

We're using our stores. They're using the stores as apps to change the experience for consumers around the country. That was pretty cool. And I think, justified, because that's really what we're up to in e-commerce.

So we're building a global-technology platform whose goals are as simple, frankly, as they are audacious. We want to know what every product in the world is. We want to know who every person in the world is. And we want to have the ability to connect them together in a transaction.

Wal-Mart, like most non-technology or non-traditional technology companies, had previously bought many of the systems that were available for sale through other companies. We've made the strategic decision to insource our technology around e-commerce, because we believe that it's a necessary competitive advantage for us to do what we want to do.

We can't do what we want and need to do with off-the-shelf solutions.

Only we at Wal-Mart have brand-permission to sell everything to everyone. So when we say we want to know what every product in the world is, if not us, who? If we want to know who every person in the world is, if not us, who? And now we have the ability to pull them together in a transaction.

Obviously, we wouldn't be Wal-Mart if we didn't talk about leverage. And as we talk about a global-technology platform, there's obviously significant leverage.

We can build this once and use it in our markets around the world. But I think even more interesting than the leverage around the cost-investment and capital-investment that we're making in this technology platform, the innovation leverage is even more impactful.

So when we develop a feature in Brazil, it's realized in the US. When we develop a feature in ads that relate to grocery, it's available around the world. That kind of innovation leverage allows us to go faster and faster.

And the theme you'll hear from us over the next several years is going to be one of speed. How can we go faster and faster and faster, to meet those customers? Those changing customer expectations?

I firmly believe that change is a choice. And the innovators are those who race almost as fast as the customer is, to where the customer wants us to be.

And this global-technology platform empowers us to change almost as fast as or faster than anyone else. And almost as fast as the customers.

The second key area of investment is around developing these dynamic, local-fulfillment networks.

At the end of the day, retail and e-commerce is still about -- largely about -- physical goods. How can we get this to you from raw material to wherever you want us to get it to you? Faster, cheaper and more effectively than anyone else.

And that's where, obviously, Wal-Mart has a unique collection of assets. So we start by developing dedicated online fulfillment centers that serve the unique needs of the e-commerce transaction. So more goods stored in more places around the markets in which we serve.

We layer that onto our unique collection of assets. The transportation network and incoming freight and such that our retail operation obviously is very, very good at.

Then finally, we capitalize on our unique collection of assets. In the US, for example, 4,000 forward-deployed fulfillment centers that we call "stores." So no one else has these points of presence close to customers around where they want and need to receive the product and packages that you need.

Pulling those all together, we create a faster, more efficient and more effective fulfillment network for all the products that you buy online.

We currently ship to home. We are also shipping to our stores. And you'll hear us talk about lockers and other innovations around that, later this year.

Then the third area is scaling these markets around the world. So we focus on our four largest markets today. And the 10 in which we operate are the US.

From a traffic perspective, we see over 45 million people each month in the US. WalMart.com's growth is accelerating. I'll talk to you about some changes to the site and experience in a second. But we're excited about the progress that WalMart.com has made in the US.

In Brazil, six months ago, we were the eighth-largest traffic site, at WalMart.com.br, according to ComScore. And now, this month, we are Number 1.

We are the largest-traffic B2C e-commerce site in Brazil. An incredible story of growth.

We're not the Number-1 revenue player, yet. As you know, B2W, which is public, is the largest. But we've made tremendous progress in the last six months. And we're

really, really excited about Brazil and the opportunity for e-commerce in the broader Latin America.

In the UK, we're the second, with ASDA. We're the second-largest grocer. And we're expanding range to include George products and other general merchandise.

As many of you may have been -- how many were on the ASDA trip last week?

So I'll spend more time talking about ASDA.

ASDA is the second-largest online grocer in the UK. We have -- let's see -- 12,000 trucks. Or, no, 1,000 trucks; 12,000 associates. We travel a million miles a week, delivering groceries.

We have over-indexed on share through e-commerce growth in ASDA. And the story for most of e-commerce is around general merchandise. But ASDA and the UK market are standouts for grocery.

We've learned a lot from grocery in ASDA. And so we also in China made a 51% investment in a company called Yihaodian. Yihaodian is one of the fastest -- I think it is the fastest-growing e-commerce business in China.

Largely focused on the Tier-1 cities serving fast-moving consumer goods to customers in Shanghai, Beijing, Guangzhou -- on a same-day basis. And on a next-day basis in about 45 tier cities around the country.

We're really, really excited about the growth in China.

As you know, the broadband penetration in China has passed the US. And so we expect that market to be a massive e-commerce player in the future.

So taken all together, we're growing where the growth is. We are focusing our efforts on places where the economies are growing; where consumers are moving into the middle-class. Where commerce and technology and the internet are transforming how people live. So we can be there to serve them with e-commerce.

But at the biggest-picture level, if you can receive a package, we can serve you via e-commerce. Whether you're in New York City or Timbuktu, you can shop at WalMart.com and we can get you what you want and need.

Taken together, this is what we believe is a new vision of commerce. So a lot of the conversation about the new vision of commerce is about e-commerce. And how can e-commerce transform all commerce.

I was with Mark Andreessen the other day. And he had a post that said, "Hi. Retail is dead." And so I tweaked him about it and he said, "Well that's not what I actually said. I just said parts of retail are."

We think that our new vision of commerce is the right vision of commerce. Which is, commerce centered around the customer.

So taken from the perspective of the customer, I said her expectations are changing. Your expectations are changing. The fact that you all equally answered what you think is most important for e-commerce, highlights the importance of that.

We need to deliver a commerce experience that's tailored to you by you through the combination of online, of stores and of mobile.

So taken all together, you can tailor the commerce experience for yourself.

So as we talk about the developments we've made over the last year and are in the process of making this year, let's talk about them from the perspective of that customer.

So when you go to WalMart.com now and you search in our search box, you can find exactly what you need. You can find it faster, more efficiently than you can anywhere else on the web.

So you can count on us to have price which is comparable to the rest of the low-price players on the internet. And consistent with our brand promise. All of that's powered by technology that we've built in the last year.

It's not easy to do.

So if I were to brag about my associates back in San Bruno, we built a search engine in a short period of time. And we launched that with a relatively small number of people. And we launched that.

But the big deal is that we change it literally every day and every week. So it improves every day and every week.

The importance of owning a search engine for yourself is that it allows you to deliver a significantly wider assortment effectively to a customer. And so as we focus on what we're doing this year, we're going to expand. This year and beyond, we're going to expand the assortment dramatically at WalMart.com. So we've already started that process. And we're accelerating that process, now, all driven by the developments in our technology platform.

Today, I tried to check on my -- I got the mobile site. But today or tomorrow, you'll see a new homepage for WalMart.com. So that new homepage highlights how we think people are shopping today.

So a traditional e-commerce experience where you search, a trending section where you can browse. Where you can find the things around the web that people think are cool. That we think over time, we can personalize to you. Then finally, a store experience. How can you find a store that's close to you?

I'd highlight that we will continue to change that homepage. So this is just another example of elements of our global-technology platform rolling out.

When you take that online shopping experience and you combine it with stores, you can satisfy how you want to shop with us. So would you like to pay with cash? If you log onto anyone else's website, you can't do that. But at Wal-Mart, you can.

And that's important to our customers. Many of whom, as you know, are unbanked -- or some who choose just not to use a credit card.

So we launched, "Pay With Cash," so you could have exactly the same experience online as any other shopper. The only difference is, you pay at a cash register at one of our 4,000 stores.

We obviously ship product to our stores. I think it's fair to say we ship more product to our stores than anyone else in the country, because we want to give you that option. Would you like to save a little money and not pay for shipping. And pick it up while you're already at our store?

That's proven to be incredibly popular with our customers, with about a little less than half of our product is shipped to our stores, where customers pick them up.

Then how do we create this one-customer, one-Wal-Mart feeling? Well most importantly, we need to make sure everyone's on the same page. So this year, we rolled out credit to our stores for e-commerce sales that happen in their trading areas.

So we don't compete with ourselves for customers. We compete with everyone else for customers. And all of our associates share in our success.

Over the course of this year, you'll see us roll out lockers in test, this year. How can we use those points of presence more effectively than anyone else? And we've proven tests over the last year to pick from our stores. So that we can use the inventory in our stores to serve customers more effectively. And if they choose, faster in the marketplace through same-day delivery.

And finally, that super-computer that we talked about in your pocket at the beginning. So how can we transform your shopping experience for you, by you, with the phone in your pocket?

So we've committed significant resources to mobile. And as a result, when you shop with us, you can shop with us anywhere, anytime, anyhow you want.

Through your mobile device, you can take all the benefits of e-commerce into the store with you. All the things you've come to expect from e-commerce. "Can I get reviews? Can I know how this compares to other products? Is this the only item in this category that I should consider? Or are there others?" Just because I'm here.

Well now you can take that experience with you into any one of our stores, with our app.

But you are already in our store. And you obviously want to have a better experience in your store. So for all of you who have our iPhone app, I'd encourage you to launch it as you walk into our store.

And it will transform, as you walk through our door, to what we call "in-store," mode. And if choose to be in in-store mode, then you have all the benefits of e-commerce directed at your store experience.

So you have maps of where you can find things. You have "search," for what's available in the store. And importantly, you can check yourself out as you go along.

So as you add items to your basket, you can scan them, put them in your basket, see a running total of your shopping experience. Walk to a register, scan a QR code, pay with your credit card or cash and be out the door.

So we've rolled that to about 200 of our units in the US. And we will roll that later, as we continue to improve that process.

But it's all about delivering that shopping experience, which is dedicated to you. How can we deliver this new vision of commerce for you that is directed by you, tailored to you. And tailored by you?

So what does all this mean?

We are -- e-commerce -- is the next growth engine for Wal-Mart. We've won in successive waves of retail; whether it be the discount stores, the wholesale clubs, grocery or international. Now we're focused on e-commerce.

We're doing it the same way we've done all these other waves of retail. Which is, we're building best-in-class capabilities, which allow us to do things for customers

that no one else can do.

But only we can combine that best-in-class e-commerce with the assets of the world's largest retailer. When we do that, we create the next-generation of commerce. We create an experience that no one else in the marketplace can deliver.

So with that, Bob, I'll answer any questions.

Questions And Answers

A - Bob Drbul {BIO 3131258 <GO>}

So we're going to go back to the audio response. Now that you've heard Neil's presentation, we have one final question for you. So if we could click that up on the screen.

So do you expect that you will shop at WalMart.com in the coming year? Yes or no?

A - Neil Ashe {BIO 5665242 <GO>}

Please don't make me grovel. Up from 25. Look at the growth we could expect from WalMart.com.

A - Bob Drbul {BIO 3131258 <GO>}

That's value-adding, Carol. I'm sure Mike knows that. Okay. So now, I have some questions. I don't know if the audience has some questions, pretty flexible in terms of how we go from here.

Yes. We can start with the audience. Go ahead.

There are some big-box retailers that have 40 patch websites within their website. Do you guys have similar issues where you have 100s of patch sites within your website, since you're such a big website?

Can you speak to that process. And how tough it is to --

A - Neil Ashe {BIO 5665242 <GO>}

To migrate to a common-technology platform? So that's -- we don't have the problem to that degree. No.

We do have-- We do operate different sites in the different markets around the world, which is how we're pulling together this global-technology platform.

So this is, I think though, speaks to a commitment that I think is a binary commitment. You either commit to be a technology company and have the -- commit to the talent,

the resources, the investment necessary to compete on technology that's equivalent to Google or Amazon or Facebook or any of the others, or you don't.

We've obviously made the choice to do that.

The transition to our global technology platform will come in waves. It will take us several years. And it comes in different stages.

So yes, we have multiple sites around the world. We don't have quite maybe the hairball mess that others might have, specifically, at WalMart.com. But we're making progress.

Q - Unidentified Participant

Yes. Hi. Other retailers have referenced keeping up a fairly high, constant level of investment in e-commerce versus the more pronounced cycles in brick-and-mortar. Where do you see the spending over time, in terms of the pace and the magnitude?

Then I was also wondering where you are in terms of dynamic pricing on the site. I think you alluded to it. But I was just wondering what the progress has been in the last year.

A - Neil Ashe {BIO 5665242 <GO>}

So If you don't mind, I'll helicopter up and talk about the business model a little bit in general. Which is, the business model for e-commerce -- the financial model -- will be faster-growth. It will be slightly lower-margin and obviously lower-investment. But that doesn't mean, "no investment."

And so, obviously retail is a Lego business, where the capital is about new units. And those new units drive new growth. We don't need new units to drive growth. But we do need a constant investment in this reinvention of technology.

So a technology platform reinvents itself every three years or so. And so you'll see that level of investment continue.

As it relates to -- we think as it relates to Wal-Mart -- that we grow through that level of investment via the leverage we get off of this platform.

So you'll never see the absolute dollar investment go down for us; you'll see it only increase. But you'll see the percentage and the impact on the company obviously change, as we grow through that. And that'll take us several years.

So our goal is to grow faster than the market. To expand margins. And then to obviously deliver our financial benefit to the company through market share and return on investment.

Your second question around dynamic pricing -- so, yes. We do have dynamic pricing on our site. There's always a lot of conversation about price harmony and should retailers price against online players and such. And the answer to that obviously is, "Yes."

But we view ourselves as an online player competing with online players. When we price dynamically at WalMart.com, it's to compete with any of the other choices that you would have from an e-commerce perspective. So we know what our customers are shopping for, because they tell us through search. Whether we have it or not.

We know what our competitors are selling through our ability to evaluate them with our technology. And we have now the ability to match and meet those prices. So that the customer knows that they can always count on us for a low price.

We don't change prices as much as our competitors do, because we think it's more consistent with our brand message to have more consistent pricing. But we are committed to competing effectively in the marketplace.

If you'd asked me that question a year ago, I would had to tell you, "Sort of." And now I can tell you, definitively, "Yes." So I can tell you, to the product, to the day, to the category, to the minute, what our price-gap is with any of our largest competitors online. And we use that information to drive our pricing strategy.

A - Bob Drbul {BIO 3131258 <GO>}

Neil -- over here.

I've heard stories of online being so successful in the UK market that retail space is being converted to residential housing. How do you think about the impact of online on Wal-Mart stores. And the impact, ultimately, on bricks-and-mortar?

A - Neil Ashe {BIO 5665242 <GO>}

Well the customer has obviously, as we've just spent a fair amount of time talking about, has changed. But what does that mean for all of retail. And what does that mean for Wal-Mart?

I'll focus on Wal-Mart, for a second, or obviously. And try and avoid talking about kind of everybody else.

But as we move to this competition for the customer, we're really competing for time and attention. And so, I think the question to ask is, "How many places get a share of your time and attention?"

So few people have brand permission to sell everything to everyone. So Wal-Mart is one of those people that has brand permission to sell everything to everyone.

So as the customer shifts and their spending shifts from electronics to groceries to other categories of general merchandise, we move with that customer. And serve that customer in all of those categories.

Those that don't have brand permission to sell other things to other categories where dramatic shifts happen have a much harder time. So-- and that's our general view of where kind of the landscape shakes out. Which we think is a very, very big opportunity for us. It's yet another reason why we're so committed to e-commerce.

Because as I said, we're not constrained to the trading areas of our stores, or the four walls of our boxes. We're not constrained by our brand. We're not constrained by customer expectation.

So we view this as an opportunity for us to grow pretty dramatically.

A - Bob Drbul {BIO 3131258 <GO>}

Can you just talk a little bit more about shifting sale credit, I guess you said, into local stores from e-commerce? And how you get more of a sense of cooperation than convergent?

A - Neil Ashe {BIO 5665242 <GO>}

Thank you. Yes. Sure.

We rolled out this year associate credits. Store associate credit.

So if you're the store manager or the associates in 5260, for example -- one of our super-centers -- you get revenue credit for e-commerce sales within your geographic trading area. So we make you -- all of the associates -- who are held to pretty high standards, as you know -- indifferent to whether that customer buys that item or not.

And it has had a big impact, already.

I did something very foolish, which was, I answered my phone at 7:15 the other morning when it said, "Unknown Number." Which I encourage no one to ever do.

And I talked to -- but -- I got the opportunity to talk to Mr. Richardson in Maine. And he called to say that he had been in one of our stores in Maine. And he was shopping for his son's birthday present. And he really wanted that -- an item that we didn't have in the store.

And the store associate said, "Just buy it at WalMart.com and we'll get it here within the next couple days." And he was calling to say thank you.

So that's the kind of -- when you think about those kind of 1.5 million associates we have in the US alone, now becoming advocates of this tailored shopping experience,

I think that's obviously a pretty huge advantage for us.

A - Bob Drbul {BIO 3131258 <GO>}

Yes. Can you talk a little bit about what you think the impact of internet taxation is going to be? And maybe give some examples of how it impacted in the states that already have internet taxation?

Then you mentioned pick up in store and avoid shipping costs. When will you have free shipping; free returns?

A - Neil Ashe {BIO 5665242 <GO>}

We have them now. The ship-from-store is free, now. To our stores.

As it relates to internet taxation, I have to quote Lee Scott on this, which -- he said, "All we talk about is price-gap. And how can a 5% to 10% price gap not be relevant?"

So -- pretty hard to argue with that logic. As it's played out in states that have had longer -- have had taxation equivalents longer, like New York State -- our growth is greater in New York State than it is in the general marketplace. So we think that neutralizes.

When you see a market switch -- like Texas, for example -- it doesn't happen immediately. So it's not as fluid a market as, say, the stock market is.

But we believe that over time, it's only fair that some consumers aren't subsidizing other consumers' purchases. So we think that we will find an equilibrium. Then we will all be competing on an even playing field.

A - Bob Drbul {BIO 3131258 <GO>}

Great.

Q - Unidentified Participant

Neil, I just have one.

In terms of WalMart.com, what do you know about the Wal-Mart shopper and the Wal-Mart shopper online? And like how does the online customer differ from the customer in the stores? And how much overlap really is there?

So the short answer is that if you were a WalMart.com customer, you're a significantly better customer for Wal-Mart. So you shop more online; you shop more in stores.

Demographically, because of our reach is so broad, it's hard to say, "Hi. We have this kind of customer at a store and this kind of customer online." But we believe that the

opportunity for WalMart.com is obviously to drive this deeper relationship with customer. And so the math supports that, now.

If you shop at WalMart.com, you shop more in stores. And more totally, with us.

So that's Piece A.

Piece B, obviously, is that we can reach people who either don't live near a Wal-Mart or don't choose to shop at Wal-Mart. A brown box that shows up at your door is a brown box that shows up at your door.

So we're seeing significant growth in customers that don't shop currently at our stores.

I happen to live in an area of the country where that is abundantly clear. And I hear about it all the time. So now we can serve Marin County, California, which Wal-Mart probably never will be able to serve from a physical perspective.

A - Bob Drbul {BIO 3131258 <GO>}

Right. Any final questions? No? Neil, thank you very much.

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