



WALMART: HOW THE WORLD'S LARGEST PHYSICAL RETAILER IS HARMONIZING DIGITAL RETAIL

The world's biggest physical retailer towers over the retail landscape, but faces tough competition from the emerging dominance of e-commerce. How is Walmart harmonizing digital retail amid this changing landscape? There's a lot at stake for Walmart to embrace its digital counterpart.



Walmart: how the world's largest physical retailer is harmonizing digital retail

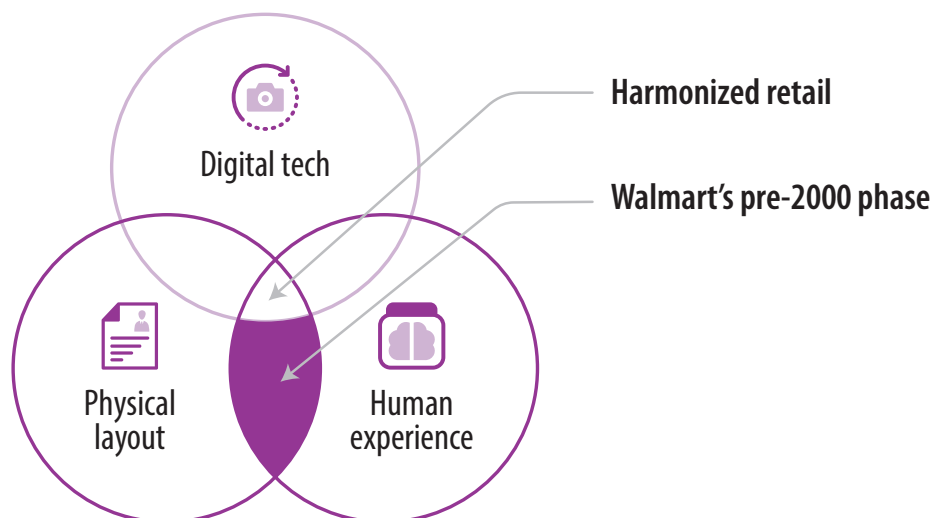
Walmart's total revenue was \$514.41 billion by Jan. 31, 2019.¹ That revenue came primarily from its physical store sales. Walmart is targeting digital retail for its future growth. In 2018, it outstripped Apple to become the third largest online retailer in the U.S., only behind Amazon and eBay.² Walmart's CEO, Doug McMillon, says the company is on course to become more of a "digital enterprise."³ Its accelerated investments in digital retail produced 40% growth in its U.S. e-commerce sales during 2018.

Walmart is a success story that caught the attention of 8,000 retail enthusiasts at Shoptalk 2019, one of retail's premier conferences. According to Forbes contributor and Red Archer Retail CEO Chris Walton, "Walmart was

the best thing at the show all week."⁴ As a leader in physical retail moving to take the lead online, Walmart makes a great case study on how to build a harmonized retail strategy.

We define harmonization as the blend of physical layouts, digital technologies and human experiences (Figure 1).⁵ In the pre-2000 era, Walmart embraced big-box stores

Figure 1. Walmart's pre-2000 phase was largely marked by physical layouts and human experiences



Source: Infosys, 2019

tailored for customer proximity. In its early days, Walmart mainly operated in a blended environment of physical layouts and human experiences.

How can harmonization help Walmart grow? One aspect is the discovery that customers who shop in store and online spend nearly twice as much as the average retail customer who shops only in a store. When customers traverse channels, whether physical or digital, a harmonized retail strategy will help bring out the strengths of every channel and have a multiplier effect across a shopper's journey.

Financial performance

Walmart has grown from \$284.31 billion in 2005 to a \$514.4 billion revenue company in 2019. The company has a compound annual growth rate of 4.33% with a \$27.8 billion operating cash flow and \$13.5 billion return to shareholders.¹

Yahoo Finance shows Walmart's share price increase by 76% over close to two decades. In comparison, an

average of the top five retailers' share price increased by 573% in the same time period (Figure 2). While Walmart's curve has fluctuated around a near-linear path, competitors follow an exponential curve. Amazon has been a major contributor to this trend since 2010. Walmart and the "Top 5 Retailer Average" follow close paths up to 2008, when Walmart briefly surpassed the Dow Jones Industrial Average and "Top 5 Retailer Average", and again until 2012, when Walmart came close.

Harmonized retail strategy

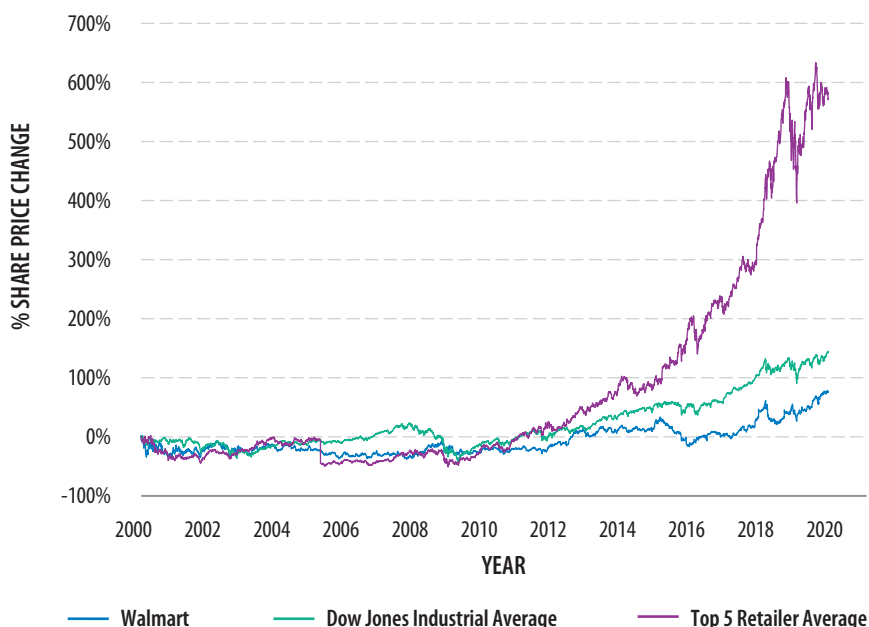
Walmart's focus on digital investments is evident from its allocation of capital expenditures. Capital expenditures on e-commerce, technology, supply chain and other partnerships went up by 15.42% for fiscal year 2019. On the other hand, capital expenditures on new stores and clubs declined to only \$313 million, one-third of the allocation in fiscal year 2018, which was \$914 million.¹

Walmart believes a stronger digital portfolio will build a more holistic customer value proposition. While Walmart is directing consumers to shop online, its harmonization strategy goes beyond that to identify the digital channel to, in turn, feed its more robust physical infrastructure. How is this put into action?

Here are several interesting ways customers are using digital in Walmart stores:

- Walmart has added 1,700 in-store "pickup towers" in its U.S. stores. They are like vending machines for online orders. The customer scans a barcode on his or her phone and can quickly pick up an online order without waiting in line at customer service.
- Sam's Club, the members-only Walmart-owned warehouse club, is getting more digital with its Scan & Go app. Customers can scan items as they shop and pay on their phones, completely avoiding the checkout line.
- At a first-of-its-kind Sam's Club test store in Dallas, Texas, Walmart is trying an Amazon Go-like approach with mobile checkout, in-store navigation and digital shelf labels, which make it easy to change prices or move items around. There's even an augmented reality app to transform the shopping cart into a pirate ship or longhorn to entertain the kids. There are no cashier lines. The Scan & Go app is the only way to check out. A camera system tracks how customers move through the store and notes their favorite items.

Figure 2. Walmart's share price change trails behind the Dow Jones Industrial Average



Source: Infosys, 2019

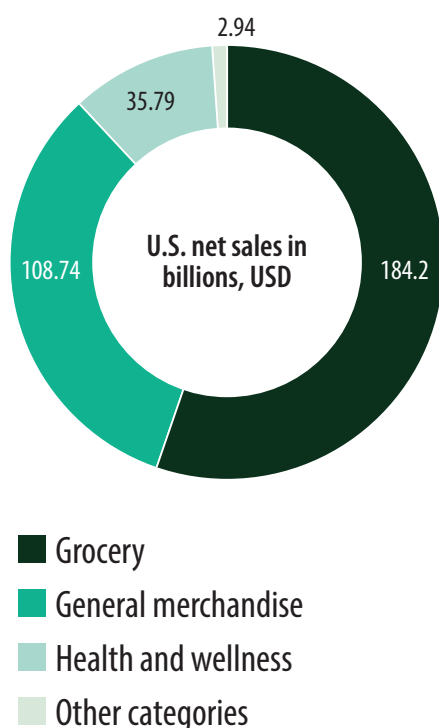
Walmart was able to leverage its stores as assets to grow its e-commerce business. While still a small fraction of Walmart's total revenue, e-commerce sales increased 40% during 2018.¹ Digital commerce makes up \$15.7 billion of Walmart's U.S. merchandise sales, \$6.7 billion in international sales and \$2.7 billion in Sam's Club sales. All combined, that's \$25.1 billion in sales from e-commerce.

A harmonized retail strategy helps combine the strengths of all channels thereby creating a multiplier effect for shoppers

Merchandise and partnerships go digital

Walmart has a two-pronged strategy for different customer segments. First, Walmart aims for convenience by creating cheaper ways to interact with

Figure 3. Walmart's U.S. net sales by merchandise category



Source: Walmart, 2019

the brand digitally. In Mexico, where most customers don't have bank accounts, Walmart launched Cashi, which serves as a digital bank account. Customers can exchange cash for digital currency at Walmart stores. The virtual currency is deposited into their mobile devices and can be used at physical stores, online or to pay bills digitally.

Second, Walmart is investing in high-end brands like Bonobos and Jet.com. Bonobos brings in unique, private-branded clothing, while Jet.com targets higher-income, millennial shoppers.

Walmart's grocery business is booming — making up 55.54% of Walmart's net sales (Figure 3). The number of people grocery shopping on Walmart.com was 37.4% in 2019, up from 25.5% in 2018.⁶ Walmart continues to target online grocery retail by experimenting with in-home grocery delivery services in several cities. It is also expanding its grocery business to Canada, Mexico and China. Similar to buy-online-pickup-in-store, Walmart's curbside grocery pickup service plans to reach customers near 3,100 stores and grow to become a \$35 billion channel by 2020.⁷ This is an important area where digital can bust long checkout lines, a major pain point for today's mobile shoppers. Returns are also made easy with a Mobile Express Returns feature that helps customers return items to a nearby Walmart store.

General merchandise is the second largest category, with a 32.79% contribution to new sales. Walmart partnered with Lord & Taylor for high-end dresses and Fanatics for sports apparel, among other brands. Walmart voice order came out of a voice-shopping partnership with Google Home. Like Google, Walmart is building platforms through partnerships that exist across categories like stores, marketplace, logistics, digital entertainment and so forth.

Harmonization goes beyond digital tech

Walmart entered the new millennium targeting digital retail. The company is using digital technology for harmonization, but hitting the sweet spot goes beyond digital tech capabilities. It must work in tandem with physical layouts and human experiences to stay at the intersection of harmonized retail. Walmart is doing that through store remodeling and associate training.

An amalgamation of human experiences and physical layouts will help Walmart up its harmonized retail game

Walmart spent \$11 billion on plans to remodel 500 stores in 2019.⁸ As far as physical store remodeling goes, choosing the right digital investments is crucial. Walmart has autonomous scanners and floor cleaners. While scanners check side counters to increase efficiency with in-stock levels, floor cleaners carry cameras to track data on Walmart's product features and feed it into a FAST Unloader system to prioritize restocking.

One of Walmart's key success areas is associate training. The CEO calls Walmart a "people business" and investing in associates a strategic priority. Fast-track leadership programs also push the bar in talent and competitiveness.

Walmart has identified a strategic play for the future by focusing on digital adoption that can complement its stronger physical and human experience counterpart, and consistently hit the harmonization sweet spot.

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