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Walmart, Inc. (WMT)

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CORPORATE PARTICIPANTS

Seth Dallaire

Executive Vice President & Chief Revenue Officer-Walmart US, Walmart, Inc.

OTHER PARTICIPANTS

Kate McShane

Analyst, Goldman Sachs & Co. LLC

MANAGEMENT DISCUSSION SECTION

Kate McShane

Analyst, Goldman Sachs & Co. LLC

Good morning, everyone. Thank you for joining us today. My name is Kate McShane. I am the hardlines, broadlines retail analyst at Goldman Sachs. It's my pleasure to introduce Walmart and to moderate today's fireside chat. Today, we have with us Seth Dallaire, Executive Vice President and Chief Revenue Officer of Walmart. Seth joined Walmart in 2021, having previously served as Instacart CRO and prior to that, a leader at Amazon, Yahoo! and Microsoft.

Thanks for joining us today, Seth.

Seth Dallaire

Executive Vice President & Chief Revenue Officer-Walmart US, Walmart, Inc.

Thank you.

QUESTION AND ANSWER SECTION

Kate McShane

Analyst, Goldman Sachs & Co. LLC

Q

I wondered just because this is the first fireside chat you've done at the GS retail – I'm sorry, GS Tech Conference, if we can maybe start with your background. Can we hear a little bit more about your current role at Walmart and just what brought you to Walmart in the first place?

Seth Dallaire

Executive Vice President & Chief Revenue Officer-Walmart US, Walmart, Inc.

A

Sure. And good morning, everybody. So in my current role as Chief Revenue Officer for Walmart US, I look after three pieces of business and then one organization that I'll speak to as well. So the Walmart advertising business, which is called Walmart Connect, which is a retail media network, maybe some of you may refer to it that way. The membership business, Walmart+; and the Walmart Data Ventures team, which has a data product called Walmart Luminare that Walmart suppliers can subscribe to. And additionally, I'm looking after a data team focused around customer data. That's not really a business, but a data effort within Walmart.

I joined Walmart in October of 2021, so it'll be three years coming up here in a couple of weeks. And I joined from Instacart, where I was the Chief Revenue Officer there for two years. Prior to Instacart, I was at Amazon for eight years, leading the global advertising sales and marketing teams. Prior to that, as you mentioned, Yahoo! and Microsoft. But really, my career prior to Walmart has been in technology, e-commerce or advertising or some mix of those three things.

Walmart is a – is the first non sort of tech company that I've worked out. It's a retailer that uses technology. So even we're at the retailer conferences for sure, but it's exciting to be here at a tech conference because we're using technology and investing in technology in a significant way, and enabling a lot of capability for consumers as well as for suppliers or brand advertisers that may be working with us. So we're excited to have an audience here and help people understand what we're doing and why those investments make sense.

Kate McShane

Analyst, Goldman Sachs & Co. LLC

Q

Maybe we could start drilling down then into retail media. Given the business has changed a lot over the years, can you maybe walk us through a quick history of the evolution of retail media advertising in Walmart and what it looks like today?

Seth Dallaire

Executive Vice President & Chief Revenue Officer-Walmart US, Walmart, Inc.

A

Sure. Walmart has had an advertising business for a number of years, but in different sort of executions, I guess, would be the word. Sometimes you're using third parties. Other times, maybe the investments were not as large as they should have been. So really, I would say, in the last three or four years, we've brought all of the capability in-house in terms of how we're going to build the technology to create an advertising business as well as the ability for Walmart to serve the advertisers that are buying placements from Walmart.

And that's an important distinction from the past in that we – may be outsourced some of that capability before, and now it's all sitting in-house and within the Walmart Connect team. And that allows us to really increase the

amount of investment that we're making, both on the tech side, where we're able to create tighter coupling between things that we're seeing in store or expertise with data or technology that we have in physical stores into our e-com business. But then also in terms of how we serve the suppliers or brand marketers that might be working with advertising.

We're talking to them directly. We sit with the merchant teams and the store operator teams within the home office in Bentonville, so that we can have a more complete look at the relationship, the size of the relationship, the tenor of the relationship that we might have with the supplier partner. There's no one – no intermediary sitting between us now and that allows us to have a better relationship. It allows us to activate against opportunities and realize opportunities more quickly as well.

Kate McShane

Analyst, Goldman Sachs & Co. LLC

Q

And then retail media is the – currently the fastest expanding digital marketing channel. What is the reason behind the rapid growth of retail media for Walmart?

Seth Dallaire

Executive Vice President & Chief Revenue Officer-Walmart US, Walmart, Inc.

A

Well, I would say just retail media, writ large, it's a huge opportunity. And the reason why is that as a retailer, you have an opportunity to understand and prove with certainty via first-party data that an investment of a certain amount will yield some type of action that you can observe at the cash register, if you will.

So when you invest in a particular type of placement, you can understand, okay, did that create awareness with the consumer? Did it, in fact, drive trial? Did it drive a purchase or conversion? If so, was it the first time that the conversion happened? Or is the consumer new to the category? The type of information that you're able to glean from that investment is different than it is in other mediums.

And I don't – I won't be dismissive of other mediums because they do have value. But if you don't have that view of the cash register ring, then it may – you may make assumptions about the sort of performance of that media investment. Linear broadcast advertising is a great example of this. You show the ad, but you may not understand if someone saw the ad, did they actually then take some action or come into the category to make a purchase for that promoted product. Whereas you see those things pretty clearly and with real fidelity when you're in the e-comm space.

So retail media is benefiting from that type of certainty, but the – it hasn't always been that way. There – if I rewind the tape to when I was – in 2012, let's say, when I first joined Amazon, there was no discussion really of retail media as a distinct sort of advertising medium. And so its evolution to where it is today, I think, is important validation that, in fact, it works and that there's real demand to understand if we're speaking to a customer in this retail environment, what – if you can see what's happening, can you share that with us so that we can serve that customer better.

But the notion of a media network is really, I think, predicated on some scale. There's lots of discussion around retail media in the advertising industry. And as you mentioned, it's growing quickly. But in addition to the investments in the category growing quickly, the number of retailers that are bringing forth some opportunity to advertise is also growing quickly.

And the distinction that I would draw is really a retail media network is one where a retailer has a certain amount of scale within their owned and operated stores, whether they're physical stores or digital stores. And as opposed

to a smaller scale or a retailer without scale or that's really niche where you don't have scale and you're maybe more – you have a loyalty program where you may have a data broker type of relationship that may look more similar to what a data broker might look like, where you don't have people or customers coming to your site frequently at scale, where you could message to them in a way that would be performant for your business. You're actually using that signal on third-party inventory.

That's a – it's a big distinction because the demand side that's for advertisers or that represents advertiser demand is looking for scale. And they're just – there aren't that many places that you can go to get retailer scale at a national level. Walmart is one of them. And we do it both in the digital space and in the physical store space as an omnichannel retailer.

Kate McShane

Analyst, Goldman Sachs & Co. LLC

Q

I think one of the areas that investors are still trying to understand as Walmart does grow these alternative revenue businesses is that it really is an ecosystem. And so at the end of the day, we think that it would be best to understand the role of Walmart Connect, along with marketplace and fulfillment and how it's creating an ecosystem of value. So can you maybe explain that interplay, maybe specifically between advertising, marketplace and fulfillment?

Seth Dallaire

Executive Vice President & Chief Revenue Officer-Walmart US, Walmart, Inc.

A

Yeah, sure. So we're making big investments in the marketplace, and you had my colleague, Manish, on stage last week speaking to some of those investments. But the benefit of having a strong marketplace is that we're able to offer a lot of assortment, a lot more assortment of product to customers. And our physical stores are, by nature of being physical, limited in the amount of shelf space or the types of products that we can offer to customers at any given time.

You don't have that limitation in the digital and e-comm space. You have a unlimited amount of shelf space, if you will. And as consumers are deciding, hey, I'm actually – my expectation is that I can find any product I want in an e-commerce environment, then if you don't have that assortment, then you run the risk of not being able to serve that customer really well.

So Walmart has made a lot of investments in driving the marketplace and bringing in more marketplace sellers in the interest of having more assortment for the end customer. And the way that that sort of works as an order of operations is that if you're a marketplace seller, you're bringing your assortment to a e-commerce player like Walmart. You're going to say, okay, now that I've given you my assortment, I need to have some way to create awareness with the customer who's shopping in your environment that my product is available.

And maybe it's a category that Walmart has, but the assortment has been limited because of the physical store space or maybe it's a category where you have a number of new entrants that are looking to compete with more established players, and they're looking for the capability to do that when customers are shopping. And that's where advertising is really the accelerant for the Marketplace business.

So you can load in as much inventory as you want into a marketplace. But if you're not turning the inventory, you will quickly lose the attention of that marketplace seller community. They're a very sophisticated group of operators. And they understand that being in front of the customer at the time that they are conducting a product-related search or their wandering around and researching a product in the digital environment is critical.

So if you have the advertising capability that enables that, you have the – then the marketplace seller has the opportunity to win that sale. And once they win the sale, the machine will start to learn, okay, well, this product that was purchased is a relevant result to serve back to a customer because someone clicked on it and bought it. I'm speaking in generalities here.

But that is then a expected value that that machine might say, okay, that's great because now, we maybe normally wouldn't have served that brand. We would serve the brand or the products that we normally see sell. So when a marketplace seller has the opportunity to introduce their product and drive that trial and ultimately sale, it's really important for the e-comm business and then proof points to the seller community that, in fact, they can be successful in that e-commerce environment.

So that marketplace investment and assortment really important for the customer experience, having advertising capability for the marketplace sellers so that they can, in fact, introduce the product to the customer or drive the sale. It's also a critically important part of the business. So the two are very tightly coupled.

Kate McShane

Analyst, Goldman Sachs & Co. LLC

Q

Maybe we can move on to Walmart+ since that is another area of your responsibility. And on Walmart's recent earnings call, you shared that Walmart+ continues to grow double digits. We wondered if you could talk, too, about the shopping behavior of the Walmart+ members, how it may differ from non-members? And how does the customer income demographic differ when using Walmart+?

Seth Dallaire

Executive Vice President & Chief Revenue Officer-Walmart US, Walmart, Inc.

A

Well, maybe building on some of the marketplace conversation as well. The primary benefits of the Walmart+ membership are delivery-oriented in nature. So we will have free delivery. We do a great job of delivery for perishable fresh like grocery trip items. And we get a lot of really strong positive feedback from members about their experience there and how we've improved it over the past two years.

The observation that I would share about that exercise is that the – we've been using a measure called the perfect order score to understand like how well are we fulfilling member orders in terms of what they're looking for, could be marketplace item, are we able to deliver it in a timeframe that they like. Are we able to over a grocery order of, let's say, 20 items or more, able to fulfill that order with very few substitutions or things that we couldn't find because we were out of stock.

And as we've put more emphasis against that fulfillment of – and offering the perfect order to members, what we found is there's a causal relationship between the acquisition of new members, but then also the retention of those members. So we're paying really close attention to the quality of what we're delivering in terms of the order to the member because that makes a real difference for them.

On the marketplace side of the business. While we do a great job of the perishable like fresh and consumables traditional grocery item order, the asynchronous sort of general merchandise order, an iPhone charger, a T-shirt, a back-to-school item, that is an area that improves and our ability to serve the customer improves as we drive more assortment.

So the marketplace efforts that we're putting there to push assortment and create more assortment in those general merchandising categories, really important for the membership program as well because there are going to be trip occasions that a food or a grocery trip will – that a customer will look to Walmart to fulfill.

But we want to make sure that we're able to meet them for the sort of onesie, twosie, if you will of, hey, I need something like it was shared earlier this morning, an air mattress that we need to get today. Are we able to meet those types of demands from a consumer standpoint and the marketplace helps us there, which then sort of obviates the membership as well.

In the membership file, we have a group of members that looks very similar to the US consumer base. So we're serving both customers at the high end with higher household income as well as customers that have lower household income.

One thing that was sort of not intuitive to me when I joined Walmart was that the – we have a number of members that are paying for membership that are also using government assistance to shop with us. And we offered a program as a result, called Walmart+ Assist, which is a discounted membership program to meet specifically the needs of that consumer base.

Now to me, like that group, maybe wasn't obvious to me that they would have the amount of discretionary income to pay for a membership. But what we found when we talked with those members was that, they were doing the math of taking public transportation or taking an Uber or a Lyft to the store or filling up gas in their own vehicle to drive to the store.

And then they were identifying there's some anxiety about identifying is someone using government assistance. They're doing all that math to say, look, at that particular price for the membership, if I can have the groceries delivered to me and not – and save the cost of the public transportation or the trip or the fuel, this actually works.

And so we've put a lot of effort around addressing that end of our membership – our customer base to try to bring them into membership as well as working on the other side of the spectrum with the higher household income members, where if we're sitting outside the catchment area for grocery delivery, you don't live near a Walmart, for instance, how do we make a Walmart+ membership or shopping at Walmart interesting to you? And that's, again, where the marketplace and having great assortment is really an important part of the offer.

So if we can compete with assortment and we bring that assortment forward in a way that reinforces our everyday low price positioning, then we think we have a really compelling offer for membership and just for e-commerce writ large with people that maybe haven't shopped at Walmart before because they're living in an area that is outside the – where there isn't a physical store immediately available to them.

Kate McShane

Analyst, Goldman Sachs & Co. LLC

Q

So it sounds like the key factors that differentiate Walmart+ is execution, fulfillment/delivery, assortment. What about just any other kind of offers for the Walmart+ subscriber? How do you approach that?

Seth Dallaire

Executive Vice President & Chief Revenue Officer-Walmart US, Walmart, Inc.

A

Well, we talk with our members all the time. And so we want to understand. Yes, you love what is it about the delivery benefit that we do well that you want more of? And they're very vocal and give us great feedback about that. But then also, we asked them, are there other benefits that we might be able to offer to you? So streaming benefit is an important benefit, we heard from our members about.

And so we have a relationship with Paramount+, where that's part of the membership program, and we see great usage of that benefit, in addition to the delivery benefit. We just launched a benefit in QSR with Burger King last week or two weeks ago. And we're already seeing really strong usage of the discounts that you get for eating at Burger King.

And that – those third-party benefits are important components of the membership program because we want to make sure that we're meeting the member in – across all sorts of aspects of their lives, even if it's not immediately within the context of shopping. And we're going to take our cues from members around what types of benefits are most interesting to them.

And some of them are third-party like the QSR streaming benefit. And then there will be others where there are services that we offer in the store, like auto care center or money services that we may consider as well.

Kate McShane

Analyst, Goldman Sachs & Co. LLC

Q

If we can maybe move on to the last area of your – of what's under your purview, which is the Data Ventures. It seems to be growing really well with Walmart calling out strong results on the last quarterly call as well. I think a background around what Data Ventures is would be helpful. And just what solution is it providing for your supplier partners in terms of what insights they're gaining?

Seth Dallaire

Executive Vice President & Chief Revenue Officer-Walmart US, Walmart, Inc.

A

So the Data Ventures team created a product called Walmart Luminare. Walmart Luminare is a set of features and data that our suppliers subscribe to. And it's an enhanced set of data that relates primarily to inventory positions and allows for interrogation of data via different technical capabilities that Walmart had not provided in the past.

So we may be able to serve information about store-level data or store – or data about inventory positions at a store-level grain in an API function that a supplier's enterprise may want to really drill down on and use to create more efficiency through their organizations. That Luminare data is primarily based on inventory positions and things that are adjacent to advertising investment.

So one question that we are getting from the suppliers that are subscribing to Luminare is, help me understand that if I'm seeing this particular purchasing or trends in terms of sales in one particular region, and it could be timely. Let's say that a seasonal candy might be an example. We happen to have a position where we have more inventory than we'd like in Valentine's Day candy in this particular – in these stores here, and we have less than we'd like were sold through on these other stores here.

How do I manage my advertising investment in a way where I'm not advertising in the regions or the customers that can't get the product because it's sold out? And how do I increase advertising or create more awareness in the areas where the inventory is available or we may – it may be moving more slowly? So those are the types of couplings and bridges we'll build between the two products so that when we're working with the supplier, they can see inventory change position based on investments they may be making in advertising. That kind of gets back to your retail media question earlier.

But we're also seeing some important ways that that data is being used through supply chain and through the way that suppliers show up or their brands show up in our stores. So if we know that a supplier is sending inventory or employees to check on inventory on a very specific route, let's say, it could be San Francisco on Monday and Mill

Valley on Tuesday and Oakland on Wednesday. If that route is inefficient because your inventory position in Oakland, for instance, on Wednesday, it's like you've got product there, but in Mill Valley, you're out of product.

You would obviously flow the product or flow your fleet into those stores to improve the position. If we're able to supply that data to the partner and we're able to get that data to a supplier with real recency, then they can use it to improve the sales in the store.

Our operators also look at the data to say, okay, if I'm actually trying to fulfill this particular basket of goods for a customer that ordered, and I'm noticing that we have not picked this particular product, 5 times today or 10 times today. It's on the shelf, meaning I went to the shelf because it was in the list of products that I was supposed to buy. I couldn't find it. Do I have the ability to understand if the inventory is actually in the store, just happens to be in the back of the store and bring it out to the front? So that we can then improve on the perfect order scores that I mentioned earlier.

So we are using this data and supplying it in ways that allow for more capability on the enterprise side, and we're getting feedback from them about things that they want, different data types or different data signals that they can use to improve the product. But then we're also – our own operators are using that data as well to make the experience better.

Kate McShane

Analyst, Goldman Sachs & Co. LLC

Q

So for Walmart, the experience is getting better because of this. And then for the suppliers, I would imagine there's efficiencies and cost savings that they are benefiting from as well. How do you manage that relationship that they are asking for more? Is that something that you're monetizing? And then from a frequency standpoint, a communication standpoint, how are you handling that?

Seth Dallaire

Executive Vice President & Chief Revenue Officer-Walmart US, Walmart, Inc.

A

Well, that's really where the sort of technology component of an organization or how technology companies operate is an important new skill for Walmart, and where I'm helping to try and lead. So normally, you would get that type of feedback from a user or a subscriber customer. And it's important for us to have that – the feedback as a list of things that they might want built into the product.

So if we're offering you the opportunity to influence a product road map and how frequently are you asking the question is the information that you're getting back or the audience that's giving you those feature requests representative of the broader group. So we're doing – we're being intentional about creating those groups and then getting that feedback, then we can bring all of that feedback in and evaluate scope of the work.

How long will it take us to build that capability? What do we believe the commercial value of providing or building that capability might be? And then we stack rank these things and actually then move forward and include them as part of our product road map and our build for the following year. But we're not building these products in isolation or by ourselves.

It's important that we get feedback from suppliers around help me understand more about Walmart's business or how I'm working with Walmart, so that I can better serve your customer. And that will help us then lower cost structure across the business and continue to deliver on the everyday low price positioning we have with customers.

And that's similarly true with our advertising products. It's not unique to Walmart Luminare and to Data Ventures. We have deep relationships with the advertising community and marketing communities that place hundreds of billions of dollars of advertising globally, and they give us feedback, more of this, less of that.

Here are areas where Walmart is uniquely positioned relative to other places we place media so dial that up, or here are things that we need you to improve upon in order for you to earn more investment from us or prove that your investments are working. And we build – we take the same process, we build – take that feedback, put it into product road maps and then build it. But those are technology investments for Walmart. And we need – we were investing in engineers. We're investing in product, people to help enable that so that we grow selfishly businesses that sit within my organization, for instance.

Kate McShane

Analyst, Goldman Sachs & Co. LLC

Q

And just in the last couple of minutes here trying to tie it all together. We hear from Walmart CFO, John David Rainey, mentioned that advertising and membership currently are about 20% of overall EBIT for Walmart. And while that's a global statistic, I know the US business is a very big part of that. So kind of tying everything that we just talked about, how are you seeing these newer, higher-margin businesses becoming a more important part of the overall enterprise strategy?

Seth Dallaire

Executive Vice President & Chief Revenue Officer-Walmart US, Walmart, Inc.

A

Well, they help us serve customers better, for one thing. So advertising enables discovery of new product categories. It enables better purchasing for customers, better awareness about what's available and at what price. So we'll continue to invest there. And if the investments that we're making there and the businesses we're building there are delivering a certain amount of operating income, then we have the optionality to reinvest those – that income into different parts of the business.

We could put it into price, into reinforcing everyday low prices with customers. We could use that – those monies to invest in more technology or more capability through other parts of the org, like our supply chain or logistics networks.

So everything that we're doing in the revenue organization and the teams that I'm looking after are really in service first of a better customer experience. But then economically, if they're driving a benefit for us as well, it allows us to then invest those funds in areas that also will have benefit for the customer experience that people have become – like – so like shopping with Walmart is all about everyday low prices. And like – as long as we're reinforcing that behavior with our customers in that position in their mind, then we think we're set up for the future and these businesses are critical to enabling that.

Kate McShane

Analyst, Goldman Sachs & Co. LLC

Great. That's all the time we have. Thanks so much for joining us today.

Seth Dallaire

Executive Vice President & Chief Revenue Officer-Walmart US, Walmart, Inc.

Thank you. Yeah.

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