02-Dec-2020

Walmart, Inc. (WMT)

Morgan Stanley Virtual Global Consumer & Retail Conference

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C. Douglas McMillon
President, Chief Executive Officer & Director, Walmart, Inc.

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Simeon Ari Gutman
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MANAGEMENT DISCUSSION SECTION

Simeon Ari Gutman
Analyst, Morgan Stanley & Co. LLC

Hi, everyone. This is Simeon Gutman, Morgan Stanley's hardline, broadline and food & retail analyst. It is my distinct pleasure to welcome Walmart represented by Doug McMillon, President and CEO, to this virtual fireside chat and to our virtual conference. I think this may be Doug's first time attending, so thank you very much, we're grateful.

I'm going to read a quick disclaimer and then we'll start into the fireside. Please be aware there is a side-by-side Q&A session or webcast. You can submit questions which I have up on my screen and I'm happy to bring them into the discussion. First for the disclaimer, for important disclosures, please see the Morgan Stanley Research Disclosure website at www.morganstanley.com/researchdisclosures. If you have any questions, please reach out to your Morgan Stanley sales representative.

With that, we will begin.

QUESTION AND ANSWER SECTION

Simeon Ari Gutman
Analyst, Morgan Stanley & Co. LLC

Q

Doug, I'm going to ask, I don't know if it's the elephant in the room question of the day, but I guess we were fortunate that there was some news about Walmart+ this morning, wanted to ask about the change in the free shipping threshold from $35. I won't load up the question. I'll just leave it open ended to talk about why the change and why now?

C. Douglas McMillon
President, Chief Executive Officer & Director, Walmart, Inc.

A

Thanks, Simeon. Appreciate you inviting us to attend. We were looking for ways to reduce friction as we are all the time, and as we launched Walmart+, we heard loud and clear from customers that had purchased a Walmart+ membership that they didn't expect to have a minimum for e-commerce orders and so we were pleased as we got through the month of November that we had the outbound shipping in such a place that we felt comfortable we could remove it and still deliver with speed between now and Christmas. So we've got the capacity to do it because we hired so many people to work in our e-commerce fulfillment centers in the last few months and so we thought the timing was good. And we're excited to add that additional benefit to Walmart+.

Simeon Ari Gutman
Analyst, Morgan Stanley & Co. LLC

Q

Great. Thanks for that. So this is a two-part question. If you think about the evolution through and, I guess, during this pandemic, we've still not done. What could have Walmart done better or have had in place either before the pandemic or during the pandemic?

C. Douglas McMillon
President, Chief Executive Officer & Director, Walmart, Inc.

A

Yeah, the two things that come to mind are inventory levels and capacity for pickup and delivery orders through our stores. We've been building capacity for pickup and delivery, as you know, for years. But the surge that happened here was beyond what we were prepared for. The team did a nice job playing catch-up. We still need to build even more capacity and we're working on that. But they innovated with our pick algorithms and they hired a bunch of people. The last number we shared publicly is year-to-date, we've hired an additional 500,000 people and most of them are in the US and a lot of them are picking orders inside of our stores.

And the other thing that we would do differently is we would have built up inventory. We run a really lean inventory position as we try to drive inventory turns, and in-stock at the beginning of the pandemic was in good shape, but we weren't able to sustain in-stock levels. And that not only harmed our store experience in the early stages of the pandemic, but it harmed our ability to do pickup and delivery. We'd improved as we've gone through the year. There were times when you couldn't find an adult bike. There were times where the beef counter was really pressured. We obviously saw that in sanitizers and paper goods and some other drug grocery categories.

As we sit here today, that's in much better shape. We have some pressure based on what's happening with case counts in local towns and states where we're seeing sanitizers and paper goods under pressure. But beyond that, we're in a much better position than we were. As we released results last quarter, you saw that our inventory levels are back up.

Simeon Ari Gutman
Analyst, Morgan Stanley & Co. LLC
Q

Can I ask a follow-up on that. I mean it sounds like the reason for the light inventory is just Walmart has been a well-oiled efficient machine with regard to turns and that makes sense. Does your philosophy around the amount of inventory to hold, does that change or no? I mean you just can't really plan for these type of situations and you just have to go with them.

C. Douglas McMillon
President, Chief Executive Officer & Director, Walmart, Inc.
A

I don't think our philosophy changes. I think on the other side of pandemic, we'll be right back to managing and stocking turns at the same time.

Simeon Ari Gutman
Analyst, Morgan Stanley & Co. LLC
Q

So I'd like to maybe jump a little bit further into what I was going to ask because there's been some market share discussions in the past couple of quarters that you may have lost some ground in a couple of categories maybe in grocery, maybe in some other hardline categories. Can you talk about that? I think maybe it ties into inventory. I know we've discussed with you publicly about store hours. Can you talk about share loss? Why hasn't Walmart, I guess, kept pace? I mean you're clearly gaining share relative to, let's say, consumer spending, but in certain categories over the last couple of quarters.

C. Douglas McMillon
President, Chief Executive Officer & Director, Walmart, Inc.
A

Yeah. It boils down to food and consumables. Our general merchandise business has been really strong in absolute terms and in share terms which we feel great about, and it's nice to have so many GM categories where we're growing share. But food and consumables out of stocks were a big issue. Our store hour limitations are another one. But also think customers were just wanting to stay safe. So they were looking for stores that were closer, stores that were smaller, stores that might not have as much traffic in kind of avoiding people. And when we ran out of stocks in the early phase, they had no choice but to go try and find it somewhere else. So all that contributed to what happened with share. I'm not really bothered by it. I don't think that's something that's a long-term issue. And I think I understand what happened. In absolute terms, it's been a really strong year financially and so I think that speaks for itself.

Simeon Ari Gutman
Analyst, Morgan Stanley & Co. LLC
Q

Yeah. And look realizing, right, it's hard to look into the crystal ball for next year, but as you think about that, I guess does it help you cushion or at least think about lapping some of the surge that occurred, the fact that you should be better in stock in certain categories or some of these categories that you didn't have full inventory position and maybe those were one-time shift from goods, from services that you may not be able to sort of recapture in 2021?

C. Douglas McMillon
President, Chief Executive Officer & Director, Walmart, Inc.
A

Yeah. We've never lapped a year like this, so we won't be able to predict it perfectly. But I do think that improving in-stock levels will be one of the things that will help us lap it better than we would have otherwise and it'll be across the box. It won't just be in food and consumables, but we had a lot of general merchandise categories that were sold out. If you had asked me to describe a scenario before the pandemic started where we would have been sold out of puzzles and fabric, I don't think I could have come up with one. I mean it's just such an unusual situation. So no doubt, we'll have weird comparisons as we go through next year, but the underlying strength of the business and the positioning of the business we feel good about, and pickup and delivery are going to continue to grow. More advanced forms of delivery like Walmart in-home will grow in time and so we're positioned well, and as in-stock gets better, it'll help not only the store experience, but will help those newer parts of our business too.

Simeon Ari Gutman
Analyst, Morgan Stanley & Co. LLC

Q

Thanks for that. So one of the key things that we think about, I think, as a key investor debate is the customer base and look Walmart is the largest retailer in the US both physically and then if you combine digital and presence. Your core customer, if you look at the demographic, tends to spend almost all of their disposable income and we think Walmart gets a large share of that and therefore some of the incremental revenue growth that Walmart has experienced over the last several years both in-store and digital seems to be coming from new customers since you're growing taking market share, so can you talk about how the customer base is expanding, is this a key success factor for you and then in any evidence that you can point to of how that customer base is expanding?

C. Douglas McMillon
President, Chief Executive Officer & Director, Walmart, Inc.

A

We have seen expansion so much of – if you just focus on the US, just remind everybody, we operate in multiple markets but if I just focus on the US, a lot of America shops at Walmart and I'm still kind of blown away at times. I was just recently looking at what percentage of US households were physically inside of a Walmart store in the last month or the last 90 days and that's still a really high number and they're using pickup and delivery. But just actually come into the store it's pretty incredible. So a lot of existing customers, so growing share of wallet obviously a priority and we've seen that happen not just this year, but beyond this year. It's great to have the general merchandise share growth that we've had during the course of this year, but we're also attracting new customers and we saw that really start to happen when we launched pickup and delivery and started to scale it.

You may remember, we've shared with you before that when people rate our steaks, they actually rate us as having a higher quality steak when they use pickup and delivery than they did when they came in the store. When they came in the store, they had to do work. They experienced our store environment, they went to the checkouts. When they just did pickup or delivery, it was more pure delight and so everything tasted better. I mean it's just a reality that people's perception changed and so I think that the more affluent customers certainly people that are really focused on time are taking advantage of some of these newer things that we're doing and that's going to enable us to continue to expand in terms of new customers along with just our pure e-commerce business.

And those customers may have a slightly higher amount spend from a discretionary point of view, but it is a little – I'll just wrap up by saying it's a little challenging when you think about the Walmart customer to characterize us any way that's different than how you would characterize America. Our bell curve as it relates to income level, our bell curves as it relates to distributions, as it relates to other characteristics. They pretty much match the United States. So we've got a lot of wealthy customers just as we have other customers that are so focused on their budgets.

Simeon Ari Gutman
Analyst, Morgan Stanley & Co. LLC

Q

Great. And related to that, there was a point consistently that Walmart was making acquisitions, especially brands adding to the e-commerce platform, some of which have been sold, some of which were still part of the platform. Was the strategy there to add assortment or was it more to add these new customers? And I'm sure it's a combination of both. And I'm curious where the sort of the priority there was.

C. Douglas McMillon
President, Chief Executive Officer & Director, Walmart, Inc.

A

The priority was to add assortment and the acquisitions that we made that were specifically aimed at that were more successful than some of the others. We were trying a number of different things and learning from them and not all of them worked. But the assortment acquisitions like in shoes with Shoes.com, Hayneedle for home, those really worked. So we picked up a team. We picked up some volume, which meant the suppliers cared more about us. We picked up brands that we didn't otherwise have. And over time since those acquisitions, we've migrated the teams and the assortment and the brands over to Walmart.com and strengthened that brand which is what we're trying to do.

Simeon Ari Gutman
Analyst, Morgan Stanley & Co. LLC

Q

Great. I have some questions in the webcast. I see them, I just want to let the audience know they'll get asked. I'm just going to continue because I think this is a good transition. I want to start transitioning into e-commerce. And I wanted to ask, Doug, if you can talk about the third-party and first-party marketplace and a little bit of a chronology because I covered the business at a time in which Walmart was more committed or at least thought maybe making a bigger bet on the [ph] 1P bet (12:28) business. Now it's evolved to a larger bet on the 3P business. So curious about the thought process there, the transition. And then how much do you think especially during the pandemic or in general do you think your e-commerce growth has been held back by not having a full or as big of – a big third-party marketplace as some of your competitors?

C. Douglas McMillon
President, Chief Executive Officer & Director, Walmart, Inc.

A

Yeah. Well, to attract third-party sellers, you need volume, and to get volume, you've got to build a first-party business. So I think sequentially, we did a number of things in parallel. But if you look at this aspect, it was sequential to say let's go build a first-party business and as that volume grows and that traffic grows which really accelerated after we bought Jet, then the third-party sellers are going to want to come. And the team a few years ago started building out some very basic marketplace capabilities for sellers. Nothing fancy and not a lot of volume, but they came anyway. And they really wanted to have a way to sell to people that was beyond what they were currently doing. They don't want to be married to just one platform. They want to have diversification.

So there's been a lot of demand from sellers. We curate more than some other people do. We qualify sellers. We care about the quality. We care about the shipment time. We care about the customer experience. And so we've metered out kind of the expansion of that marketplace based on that and some other things, and now we're to a point where we got scale in first-party, we got some capacity from a fulfillment point of view that enabled us to create a fulfillment service for marketplace sellers which helps them and helps the customer experience improve because more often we're able to put things in one box and more frequently we're able to ship it fast.

So now we're getting to a point where this marketplace has really become big and is a good customer experience and getting better, and we have a lot of runway as it relates to not only fulfillment services but other types of marketplace seller tools because we're so far from being excellent at this yet. So we look at that as headroom as expansion space and are excited about it and then this year accelerated all of that. Last quarter we shared that our marketplace grew triple digits and that's on a relatively small number in Walmart terms, but not a small number in absolute terms. So it's really starting to become a big business. So we'll keep adding first-party brands, we will keep adding some first-party assortment and in parallel we'll build out the marketplace including the services to support it which will help customers be able to find what they're looking for more often at Walmart.

Simeon Ari Gutman
Analyst, Morgan Stanley & Co. LLC

Q

Is there a timeframe in which certain capabilities still need to be added whether it's digital or supply chain so that you can say, hey, we are putting our best foot forward with a third-party or is it just – is it an evolution and we've heard in the past around the assortment that, hey, we want to get bigger and there is a certain – the 80-20 rule, certain key – one million SKUs, you can capture a certain portion of sales. Is your philosophy around that changing, is it more important to make sure that you're fully assorted on a longer tail of merchandise?

C. Douglas McMillon
President, Chief Executive Officer & Director, Walmart, Inc.

A

Yeah. I think it's more of an evolution to answer your first question. It'll just keep getting better all the time and capacity will continue to expand from a supply chain point of view. The 80-20 rule in life still applies to an extent, but it's an 80-20 rule against a much larger population. So we do want to sell more than what's in our stores and we can build a really big torso and tail business from a 1P and 3P point of view which will be helpful with margins and give us room to make sure we can deliver value while delivering for shareholders at the same time.

Simeon Ari Gutman
Analyst, Morgan Stanley & Co. LLC

Q

Is there any update – and this is from the audience. Is there any update on next day SKU availability? I think at launch, it was 220,000 or the extent of the progress with third-party merchants broadly within e-commerce which I think you partially answered.

C. Douglas McMillon
President, Chief Executive Officer & Director, Walmart, Inc.

A

Yeah. I think we – I can't remember if we recently shared the first answer. But both continue to grow. It's important that we add a number of – add to the number of items that we're doing same day and next day. I think maybe the kind of part that was missed in that question is the significance of learning how to pick general merchandise SKUs in a supercenter. So we've got about 120,000 items in a supercenter for a long time. We were just picking food and consumables because we could pick it accurately. It was harder to pick toys and apparel and other things. But we've learned how to do that in a way that's really satisfying to customers. So in the last 12 to 24 months, that's really changed. So that capacity in those GM items including an ability to do pharmacy delivery and pharmacy curbside have all fit together in a way that we've been able to serve more customers effectively.

Simeon Ari Gutman
Analyst, Morgan Stanley & Co. LLC

Q

Great. I'm going to transition a bit to, I guess I'd call, the profitable growth. So some of the financial framework that has guided Walmart over the past few years. You've been delivering against it, which is this balancing of growth and margins following the big investment, what was it, in 2015, I think it was. Can you share the debates that you still or you currently have regarding this whether or not to invest faster or more or letting more flow to the bottom line?

C. Douglas McMillon
President, Chief Executive Officer & Director, Walmart, Inc.
A

Yeah. It is important to manage earnings as we grow the top line of course. And I think you characterized it well. We just have a large set of choices and a lot of variables that we can play with to try and deliver a combination of top and bottom line and return that we ultimately want to deliver. What's changed this year is because of the e-commerce growth, we've been able to reduce losses in the e-commerce area through the combination of apparel and home first-party really growing in the contribution profit of apparel and home being positive and improving combined with the marketplace growth, which helps with profitability. And then thirdly, the leverage of fixed costs that you get when sales grow this much.

So that's like oxygen pouring into the room that gives us even more flexibility as we look ahead to decide what we want to go do next and what the pace should be. And sometimes the constraint is human bandwidth. Do we have all the right people in the right jobs to go get it done? Financial investments can also be a gating factor as we try to manage earnings. I think as most folks would probably realize, Walmart thinks long term. We're trying to position this company for the next generation of retail. So if we feel like that we should be investing more to try and accelerate that positioning, we'll do it. And we've demonstrated that over time. But I think we've also demonstrated that as we make those investments we can deliver or communicate as we go. And if you're in Walmart stock for a longer term horizon, you'll definitely reward it from that.

Simeon Ari Gutman
Analyst, Morgan Stanley & Co. LLC
Q

May I ask regarding this profitable growth? When we were in the beginning months or so of the pandemic and it looked like the cost of operating was going off at least temporarily, there were a lot of, I guess, visions of how retail margins could evolve in even a post-COVID world. Curious how you're thinking about if that thought process has evolved, are retailers and like I say broadly obviously speaking through the lens of Walmart, should be more profitable post this episode and balancing all the different forms of fulfillment which seem somewhat more efficient versus labor costs and operating stores, and curious I know you haven't commented about this, but has the thinking sort of evolved throughout the pandemic and what the future of sort of retail profit looks like.

C. Douglas McMillon
President, Chief Executive Officer & Director, Walmart, Inc.
A

Yeah. [ph] No (20:51), how precisely I can answer it. Let me try to describe components and then we'll figure out what that adds up to. I think the headline I would start with is the business model of Walmart is changing. We drive the top line differently and we drive the bottom line differently. We start to see the company make money in advertising income. We're building a fulfillment services business. Financial services are an opportunity for us. Health and wellness is an opportunity for us. I think the composition, if you just looked at a bar chart of revenue and profit of Walmart, will look different in five years' time than it looks now. And it looks different now than it did five years ago. Walmart+ membership income and other things will come together to create that diversified view of profit and revenue and GMV. So that is interesting.

So now if you got these other income streams building, how much of those do you flow through to investors, how much of it do you reinvest to make sure the company is positioned for the future, those are the kinds of choices we're making and will continue to make. I do think we'll see wage inflation continue and we want to pay our people more. I mean I don't think any of you would argue with us that our frontline associates deserve to be rewarded and have delivered during the course of this year, and that's really important to us. I mean they have been courageous and they have shown up and stepped up every day during this pandemic in this country and in others.

So some level of wage investment, although productivity through structure change and automation is also in this equation. So when you net it all out, the way that we feel about it is we're kind of in control of that choice like we can decide how much we flow to the bottom line with this set of choices and how much we invest to position for the future and I don't think it should be in Walmart's – it shouldn't be our goal to maximize profitability in the next two years or the next three years. Our goal should be to have a sustainable model that delivers a lot of cash over time as we position the company for the next generation of retail and that's what we're trying to do. So not every retailer is going to be in that position, but the way we feel about it is we'll get to decide what that profitability looks like in the short term and long term.

Simeon Ari Gutman
Analyst, Morgan Stanley & Co. LLC

Q

Yeah and related to that and this is also conceptual, Doug, is that Walmart's productivity, right, sales are growing and you really haven't changed the asset base, right, the number of stores principally, the supercenter, the number of those aren't changing. So you're sweating, in theory, the assets more than you have in the past. You are building supply chain infrastructure to support this added demand. And I guess at some point that gets optimized, which I think we talked about in an earlier meeting today. And that gets optimized, so it would seem that at some point there could be some upward pressure on the margin line as that continues to occur. And let's say if large companies, large retailers with scale continue to sort of gain share, curious how you think about that obviously tying into your earlier response or on balancing growth and returns.

C. Douglas McMillon
President, Chief Executive Officer & Director, Walmart, Inc.

A

I agree with what you said conceptually. I think between here and there, we've got work to do to automate some of the things that we do. They're investments to be made in robotics. They're at store level, near stores depending on where centroid thinking drives us to place a mini fulfillment center, for example, and automation within our distribution centers and our fulfillment centers. So things are happening in parallel. You've got an evolving business model that makes money in different ways. You're running the core business and innovating within that. And you're investing so that the economics continue to improve over time. So this mutually reinforcing ecosystem that we're building this connected flywheel, I think, is a more attractive business model as it relates to earnings in return. But we haven't built it all out yet. And we've kind of had a timeline and then the pandemic happened since somethings really gets accelerated. So now is an interesting moment in time to think about what kind of pace do you want to keep going forward and as you would guess that's what we're talking about.

Simeon Ari Gutman
Analyst, Morgan Stanley & Co. LLC

Q

Open-ended question on fulfillment. The way I wrote mine out is what is the future fulfillment? We have two from the webcast that are tied into this. Doug, you mentioned you're going to be building fulfillment business. Will this include building a logistics network that delivers all the way to the home? Another question as part of this, is Walmart US testing micro fulfillment centers or dark stores for the grocery business? I want to put all of this in there. I [ph] rode mini DCs, neuro (25:45), to me last miles very interesting question because your biggest etail competitor has their last mile network. It seems like you're going towards that, but you're also partnered with third-party. So realize this is an evolving question based on the volume that you do, but where does the fulfillment picture look like in, call it, five years.

C. Douglas McMillon
President, Chief Executive Officer & Director, Walmart, Inc.

A

Yeah, I do think it'll be hybrid for us as it relates to the last mile like we do with our private fleet today. There'll be some services that we want to provide in Walmart homes, an example. We're having an associate involved. This is going to be important and necessary to get the experience that we want, but to scale fast and to have excessive bandwidth when you need it, I think having third-party relationships will also be helpful. And there'll be a degree of automation that will happen back in our big centers and in some markets closer to customers that will help enable inventory management and speed in a way that works in a more cost effective way than what we've got now. I think all those pieces are coming together and you can see them. It's going to be exciting to see how technology autonomous vehicles come to mind because we're talking about last mile. But it'll be computer vision.

Obviously, we're putting AI to work more often within our business than we were before. The tech modernization efforts that we talked about back in February have continued. We're a little ahead of plan as it relates to the multi-year plan we shared with you in February. Those critical enablers are moving along so that some of the stuff above the surface can happen. That doesn't mean that we had to wait for it all. I think what John and the team have done with drones has been fun. We've got several experiments and several partners happening right now, and we're learning. And all those things are going to be possible and work economically whether it's a basket being delivered all the way into your refrigerator or a set of boxes being dropped at your doorstep or a drone bringing an [ph] each or a couple of eaches to your fast (27:47). I think all those things are going to happen and it's not going to be a long time from now.

Simeon Ari Gutman
Analyst, Morgan Stanley & Co. LLC

Q

Just to press on that, I guess could it be a good thing, let's say you don't have your own last mile, your own internalized last mile fleet at this point. But you're mixing in a lot of things, you're testing a lot of things, you mentioned drone and autonomous. I mean is this a good thing you're sort of taking maybe as a pay or steady as she goes type of approach. I don't know if that's the way to look at it or you say, look, I'd rather have a last mile logistics in place today, so I can deliver that – even higher level of service.

C. Douglas McMillon
President, Chief Executive Officer & Director, Walmart, Inc.

A

I don't know. I don't know which one would have been better. If we tried to do it all on our own, we would have made mistakes and overinvested in some places, I'm sure, by going fast and scaling, and we have scaled. A lot of deliveries are happening now via third-party. We know what the demand looks like. Our [ph] limited run (28:51) demand has been more related to in-stock levels and picking capacity through the supercenters than the customer. So we know what demand looks like now and we can work on optimizing it and figure out which components we want to own and which ones we don't want to own. And we like partnering with people. We do some things on our own obviously. I mentioned our private fleet is a great example, but we also work with common carriers. And on last mile, I think we'll be working with a number of people and have different ways to go about solving a problem for the customer and that feels smart to me. You can't perfectly predict the future, but you can position yourself to react to it.

Simeon Ari Gutman
Analyst, Morgan Stanley & Co. LLC

Q

Going to go back to Walmart+, we have a question from the audience and I have one as well, and I think I'll just wrap them into one. Look, does Walmart+ ever look like, and I'll say it, Amazon Prime? I think there's been a lot written, given the construct of what Walmart+ is that, look, Walmart is sort of staying in its lane right now and being prudent, right, leveraging your asset base and leveraging the strength in grocery and not playing out of its territory yet. But given your scale and your capabilities, it would seem like you would have a pretty viable solution to what's out there – or a competitive solution to what's out there in the market [ph] by itself (30:10), I'll stop with my long-winded question and open it up.

C. Douglas McMillon
President, Chief Executive Officer & Director, Walmart, Inc.

A

Yeah. It's, I suppose, never a good thing to do to copy someone else's strategy. You've got to use your own assets, your own capabilities. Great strategy is driven by what you have and who you are and what you're capable of doing. And we've tried to launch Walmart+ leveraging things that are related to Walmart. Obviously people want delivery from supercenters and this membership lets them buy unlimited deliveries in bulk. The scan and go feature, I think, is going to be super interesting to watch, particularly as we get through holiday and started to teach more customers what that's like. We've had scan and go at Sam's for a longer period of time and members love it. It's a great experience and I think that'll be an increasingly important feature to customers as we try to remove all of the friction related to their store experience. And then we own fuel stations and we have relationships with fuel providers that have enabled us to have a nice amount of coverage for the fuel discount.

So I think those three things make sense. We'll add other things over time that broaden the appeal of Walmart+. Our goal is not to, in the first year, figure out how many Walmart+ memberships we can sell. For one reason, we don't have the capacity that we would like to have through the stores for pick and delivery of the entire supercenter assortment. And we don't want to let anybody down. So one of the worst things we could do would be to sell a bunch of Walmart+ memberships and then have them be dissatisfied because they can't get fast delivery times or slots.

So we'll be investing in that capacity, adding features to walmart.com to expand its appeal at a pace that enables that NPS score to stay high. So I realized we're going to face some pressure to share numbers and to scale this really quick. This is not a Disney+ or Netflix membership for streaming. It requires capacity. It requires humans. This is a different product, but it'll be a Walmart product. And I think it will be important over time. It will be an important piece of the puzzle, but we'll still be EDLP on the shelf. We'll still have all these other things that make Walmart Walmart.

Simeon Ari Gutman
Analyst, Morgan Stanley & Co. LLC

Q

Yeah. And I think that's a great answer and it's reasonable. I mean I will say I might be one of those who would want to hear some of the membership statistics, but in reality, right, we don't hear what your Sam's Club membership looks like, so and I don't think we're going to – I guess it doesn't seem important at this stage, but I guess the question I would ask then is the Walmart+ basically you're selling it or you're getting memberships from an existing customer. Are you happy with the level of newness that's bringing and is it changing the complexion of the basket size with the initial members?

C. Douglas McMillon
President, Chief Executive Officer & Director, Walmart, Inc.

A

Yeah. It is, as you would guess, a combination of existing customers and new customers. I think it's important to realize, Simeon, that online grocery when we initially launched it attracted a lot of new customers. So when we say new today is it somebody that's been doing business with us for a year or 10 years. We have a lot of people that in recent times have joined us because of the ability to pick and deliver from the supercenter, so there's been this expansion of new customers on top of a really large existing customer base. It's already happened and now you layer Walmart+ on top of that and the people that love it are the ones that are heavy consumers of delivery from supercenters which again now includes general merchandise, not just food and consumables. So that's the killer app within Walmart+, it's the delivery component from the supercenters. But we can bolt on top of that and add to it with things like fuel discounts, scan and go, and other things in the future. And as we do that, I think we'll have other waves of new customers that join. Retaining them is the key. The high NPS score for these types of services has got to be there so that people will renew.

Simeon Ari Gutman
Analyst, Morgan Stanley & Co. LLC

Q

Great. So we have 10 minutes. I'm going to go to the webcast and knock out a couple of these. Some of them dovetail with some topics we're going to cover. First, this is more of a shorter term question. Have you seen anything surprising in terms of customer behavior or changes that they're shopping around Black Friday, Cyber Monday given that the holiday began for most in mid-October?

C. Douglas McMillon
President, Chief Executive Officer & Director, Walmart, Inc.

A

No. I can't think of anything that's that surprising. We did see the Thanksgiving meal purchasing move forward a few days because I think people were worried they might not be able to get everything they need for their Thanksgiving meal. So there was a shift there. And not surprising, we don't have enough PlayStation fabs for people like you. But we knew that was going to be the case.

Simeon Ari Gutman
Analyst, Morgan Stanley & Co. LLC

Q

Yeah. Yeah. I can't figure out how to play those things anyway. I'll ask about healthcare. There's a couple of questions in the queue about it. Mine would have been very open ended. Just what does Walmart Healthcare look like post-COVID and I don't know if your strategy really has to change at all?

C. Douglas McMillon
President, Chief Executive Officer & Director, Walmart, Inc.

A

I think it looks like an omni offer, meaning it's going to be digital and physical, and that's the magic of what we've got. We got these big boxes, with big parking lots and room to put preventative care in place, and because we're a large seller of groceries, I think over time we're going to enable people to opt in, to get some advice on what am I eating and how do I get access to preventative care at an affordable set of prices and affordable pricing menu, and with the clinics that we've opened so far, demand has been strong and people are coming to get their teeth cleaned that weren't doing that before and they're accessing a medical doctor in a preventative way and they weren't before, and it's clear and transparent pricing when you walk in and one of the most frequent questions we're getting as people enter our clinics is is that the whole story, like is that actually the price and are there other hidden fees, and we're able to say, no, that's the price. And they're pleasantly surprised and they engage. As that relationship develops, when you end up filling cavities and not just cleaning teeth, there's more margin there and the whole thing works together.

So I think what you'll see from us, we've made an acquisition of CareZone already, you'll see us build out our product roadmap with capabilities that include digital capabilities that will marry up with the physical locations that we have in a way that builds an important healthcare business and it'll be a nice additional magnet to supercenters. So over time will people still come in stores? We think yeah and specifically supercenters because it's the best format, you can do so much in it. So all this property we own and all these buildings that we have are still an advantage for us, and we're going to play to that advantage. You combine that with a great perishable offer and fresh food that gets better, and presentation that continues to improve and compelling general merchandise like right now if you went in our stores, you'd love going in the Christmas Shoppe. It feels like Christmas. It looks like Christmas, it smells like Christmas, it sounds like Christmas, people are loving that. We're still human. Put all that together and I think you end up with a really strong omni-channel business.

Simeon Ari Gutman
Analyst, Morgan Stanley & Co. LLC

Q

So from healthcare to international, because that's logical. When you started, Doug, I remember you talking about the international footprint. And I think methodically you said you would slowly step away from certain things or do – have a footprint in more asset-light ways to narrow the focus. And that's exactly what's happened. Can you talk about if that process is largely complete, it seems like it may be based on the assets that we've discussed. And then secondly, this is an unrelated part of international. But India Flipkart, why invest in India the way in which you have and has anything changed notably for us and we followed it closely? Amazon does seem to be investing more. Some of the financial regulations change maybe how PhonePe can operate or how much share they can ultimately take. But sorry, two-part, open-ended question.

C. Douglas McMillon
President, Chief Executive Officer & Director, Walmart, Inc.

A

Yeah, well, we've got to do a few things. When I think about the opportunity that we've got during this window of Walmart's history and what we're trying to get done right now being in good businesses positioned well and having the culture and way of working for innovation and speed and productivity are kind of the two things that, I think, we're working on. And as it relates to being in good businesses, there are decisions like Vudu or the decision to not invest in Jet and to transfer all those assets over to Walmart or to exit certain countries and, as you said, bet on a big opportunity like India, that all fit into that positioning headline.

So I mean the opportunity that we have in India is enormous. Contrast that with the opportunity in Argentina. Yeah, it makes sense that we would spread our energy over a place that's got tremendous upside. So, in India, you've got this huge population, over time growing income levels. E-commerce as a percent of total was tiny. Flipkart and PhonePe are really well run with strong leaders, and we're going to take e-commerce share. So we've caught waves, the India wave and the digital wave or e-commerce wave including payment that are just going to carry us somewhere.

And you can debate, do you think Walmart will be number one in the market given what Amazon and Reliance are doing or whether we'll be number two in the market. Hey, we'll work to serve customers better than everybody – anybody else and hopefully be the biggest, but we've caught two waves here that are going to result in really valuable businesses regardless of whether we're number one or number two in the market. And I mean to say that we haven't got our sight set high there, we do, but those are really good businesses and they've done just what we thought they would do since we made the investment. And there's nothing that's changed that causes us to be concerned or to have changed our view on the investment.

And did we know that Indian regulation would figure in? Yeah, we've operated in India for more than a decade and have experienced that. Did we know that Reliance and Amazon and I'm sure many others will be super aggressive, absolutely. But we are too. And this company is becoming increasingly digital. We're learning how to put data to work. We're learning how to build digital products. And so it's interesting for me, I'm kind of over muskies now, but when you think about the really long term of Walmart, we've gone through this period of time where we focused and that still needs to increase. I think, Simeon. we're not completely done with that.

But as you build digital products that can scale globally and across boundaries, there may be expansion that in the longer term that happens, but done in an asset-light digital fashion. I mean people ask me sometimes if you took the skins off of Walmart and Amazon and Kroger and Target and Facebook and you just looked at our assets, we built a digital omni-channel business or in the process of building one. And if you look at that and look at what it's capable of, the business model is really different. And the way we would view the world in the future is different. We're under construction right now in a way that, I think, sets us up for the future. And obviously that's not all done, but it's really exciting to think about it. And the team's done a great job of getting us to the point that we're at.

Simeon Ari Gutman
Analyst, Morgan Stanley & Co. LLC

Q

Related to that and this is also driven from the webcast. And this is going to be somewhat of a quick hit since our time is running out. How big is the opportunity set to your advertising and media group business? Is this a big untapped opportunity, the advantages Walmart do – Walmart have relative to the open Internet and we haven't said the word TikTok. I know it's sort of tangential to that question. But it is that it connects the advertising world, not let's say the revenue world, but to your business. So I wanted to put that all together and at least mention TikTok, so we can go out with some Fleetwood Mac.

C. Douglas McMillon
President, Chief Executive Officer & Director, Walmart, Inc.

A

I would try to be brief. But yeah, we've got a great opportunity with advertising and it's growing. But we will constrain that in a way that doesn't harm the customer experience. Like, we can't let too many banner ads and other things happen in-store digitally that harm the customer experience. So that's the only constraint there. We've got an opportunity with digital frontends to get to a greater level of ad income and to sell more merchandise and to sell our fulfillment services, and TikTok is one of those. So when you think about what we're building, that e-commerce backend and set of capabilities can be exposed to people through a number of digital frontends. And if we have good partners, we can design that in a way that it's very seamless and intuitive to use, and that's what we're hoping to do with not just TikTok, but others as well.

Simeon Ari Gutman
Analyst, Morgan Stanley & Co. LLC

Q

Great. Last question from the audience in this last 30 seconds, private label penetration has taken a big step back this year. To what do you attribute this and how do you expect it to trend going forward?

C. Douglas McMillon
President, Chief Executive Officer & Director, Walmart, Inc.

A

Yeah, there's nothing happening there other than out of stocks. I think private brand continues to be really important. We want to sell brands because we want people to compare prices and that's easier with brands, but we want private brands that are really special and cause you to just want to come to us whether it's Walmart or Sam's Club, and that hasn't changed.

Simeon Ari Gutman
Analyst, Morgan Stanley & Co. LLC

Great. Okay. I think we'll leave it at that. Doug, I don't know if there's anything you'd like to say in conclusion. I can pause for a second, and if not, we can close it out.

C. Douglas McMillon
President, Chief Executive Officer & Director, Walmart, Inc.

I think you covered it, Simeon. Thanks for the time today.

Simeon Ari Gutman
Analyst, Morgan Stanley & Co. LLC

Thank you very much. Thank you, Doug and team, for being part of this. Congratulations on your success thus far this year. Good luck on holiday and good luck in 2021. We appreciate it.

C. Douglas McMillon
President, Chief Executive Officer & Director, Walmart, Inc.

Thanks, Simeon.