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Walmart, Inc. (WMT)

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Executive Vice President & Chief Merchandising Officer, Walmart U.S., Walmart, Inc.

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Karen Short
Analyst, Barclays Capital, Inc.

MANAGEMENT DISCUSSION SECTION

Karen Short
Analyst, Barclays Capital, Inc.

I think we'll get started here. Good morning, everyone. My name is Karen Short, and I'm the staples and hardline retail analyst at Barclays. Today, we're very pleased to welcome Walmart to the Barclays Staples Conference. This is obviously the first of what we hope will be many appearances. As you all know, with close to $530 billion in global sales, Walmart is obviously a true global brand. To state the obvious, the list of successful global brands is very short. And clearly, Walmart is at the top of this list.

With us from Walmart, we're pleased to welcome Steve Bratspies, Walmart's Chief Merchandising Officer. Steve joined Walmart in 2005. He became Vice President of Marketing in 2007 and was promoted to his current role in 2015. Dan Binder, Vice President of Investor Relations at Walmart, and Kary Brunner, Director of Investor Relations at Walmart, are also here.

So from my perspective, Steve, you bring a very unique perspective with respect to your experience at Walmart through a wide range of economic environments but also through many changes in management. So, this discussion, I think, will be very informative and helpful. I obviously will start Q&A, but we'll open this up to the audience for questions as well. And I think you have an opening statement you need to make.

Steve Bratspies
Executive Vice President & Chief Merchandising Officer, Walmart U.S., Walmart, Inc.

I do, very quickly. First of all, thank you for having me. And thank you, everybody, for coming. I just wanted to say as we go through this discussion, like we always have to say, we may be making some statements forward-looking in the business. So, I ask you to please refer to our Safe Harbor statement on our website before we get going. But I'm excited to be here.

QUESTION AND ANSWER SECTION

Karen Short
Analyst, Barclays Capital, Inc.

Q

Okay, so, as I said, you joined Walmart in 2005. In 2007, you were promoted to SVP of Marketing. Obviously, that was right as the great recession was about to kick off. And I think it's very interesting, from that perspective, maybe what were your learnings at that time. And what would be some of the takeaways that you would bring to the environment today if we were to go into a weaker macro?

Steve Bratspies
Executive Vice President & Chief Merchandising Officer, Walmart U.S., Walmart, Inc.

A

Sure. One of the things that we really focus on at Walmart and try to stay incredibly close to is the customer and really understanding their pulse and how they feel. And the good news is, right now, all of our data and all our surveys with our customers are saying that they feel pretty good about the economy and where they are.

So, we take that as a positive as we go forward. Their financial stability, their employment, all those things are pointing to positive from our customer base. To go back to – we went through the tougher times and how we worked through that. We learned a lot about our position in the marketplace and how we run Every Day Low Price. And what customers are really looking for in their lives is consistency. And they want to have trust.

We serve a large range of income brackets inside of Walmart U.S. Our demographics cut across all those. And different people think about economic times differently. But the people who are challenged the most need consistency and they're looking for trust in the brand. And one of the things that we think Walmart does really well, from our Every Day Low Price model, is build that trust with customers and build that consistency.

And that model worked really well at that time and it works well today when times are a little bit better. So we really try to be consistent at our business, drive great value, high quality products, good service in our stores. And what I've learned more than anything, to answer your question directly, is that trust that customers have in the brand is something that really matters to them.

Karen Short
Analyst, Barclays Capital, Inc.

Q

That's helpful. And I guess maybe moving to the current, I know we have a little flag here.

Steve Bratspies
Executive Vice President & Chief Merchandising Officer, Walmart U.S., Walmart, Inc.

A

A little flag in there.

Karen Short
Analyst, Barclays Capital, Inc.

Q

You became Chief Merchandising Officer in early 2015. And I think probably 2015, 2016 is what I would consider the start of the omnichannel kind of approach. So, maybe, can you talk a little bit about shares gains you've seen, because obviously the traffic numbers have been astounding, maybe where you think it's coming from? And I mean, I also want to address it maybe from a millennial angle, what you think you're seeing with gains of that cohort.

Steve Bratspies
Executive Vice President & Chief Merchandising Officer, Walmart U.S., Walmart, Inc.
A

Sure. We've been pretty pleased with the share gains that we've had the last couple of years. Some of that has come from the omnichannel business. And the approach that we're taking is we want customers to choose Walmart. And whether that means you want to sit at home and you want us to ship things directly to you, we're happy to do that. If you want to come to a store and pick it up, that's great, too. If you want to just shop like a normal customer and come every single day off the shelf, that's great also. So we're really working on building that omnichannel experience that you talked about. And what we've seen is our best customers tend to shop multiple channels with us, multiple access points to us.

So we're working on creating that stickiness for those customers. And we've gotten better at it over the last couple of years. We continue to expand online grocery. That will be in about 3,100 stores by the end of the year. We're delivering out of our stores. That will be over 1,000 stores by the end of this year. So we're continuing to find new ways to serve customers and they're responding. They respond to the price. They're responding to the improved quality of the product. They're responding to us making their lives easier.

And we refer to this taking friction out. In the past, it was mostly about price. Walmart was about price and that's why customers came to us. Today, time and convenience are increasingly important. So we have to do both. And a lot of the added services have been focused on how do we drive convenience while we continue to lean into that price proposition.

Karen Short
Analyst, Barclays Capital, Inc.
Q

What about on the merchandising front in terms of appealing to again more of the millennial?

Steve Bratspies
Executive Vice President & Chief Merchandising Officer, Walmart U.S., Walmart, Inc.
A

Yeah. What we found is they're more receptive to private brands than generations before. So that business is building with them. But I would tell you they're receptive to private brands because private brand offerings out there, not only ours but even competitors, are just better than they used to be in the past. We've invested a lot in quality. We're running our private brands like a national brand would run it today.

My background is in the CPG world before I came to Walmart and running large brands. And the discipline of running a large brand with packaging, pricing, all those things that millennials are starting to respond to, we're working on the mix across our entire store, improving our apparel department, improving our electronics department and all those different things that millennial group seems to be responding to.

Karen Short
Analyst, Barclays Capital, Inc.
Q

And maybe can you talk actually along those lines, I think in 2018, at the Analyst Day, you talked about space and how space may adapt within the store. I mean, in some of the meetings you talked about the apparel stats and things like that. Talk about how you're thinking about space optimization today and as we look forward.

Steve Bratspies
Executive Vice President & Chief Merchandising Officer, Walmart U.S., Walmart, Inc.
A

Sure. As you can imagine, it's an incredibly important asset. When we build stores, what we really do is we build retail space and we build shelf space. So managing that asset very effectively is something that's really important to us. So we're undertaking, have been undertaking, a large initiative that we refer to sometime as re-working the farm and thinking about what should the layout of a store be, which categories should be growing, which ones should be contracting, which ones just need to be changed and modernized.

So, you mentioned electronics and apparel, those have been a big focus for us. Our electronics program is called Entertainment of the Future. It's rolled out to a lot of stores. It'll be in the vast majority of the chain by the end of next year. And that's about creating a different environment, and space is changing inside of that. Media is shrinking. Things like computers and cameras are a lot smaller. Expanding our TV wall, expanding video games and different things to create a different environment. So we're really working on space from a macro perspective and from a micro perspective.

We have a lot of tests going on right now that will drive greater efficiencies in our stores, a deeper shopping experience and better shopping experience. So, space is incredibly important and we continue to build and try different things. And you'll see a lot of changes in our stores.

Karen Short
Analyst, Barclays Capital, Inc.
Q

Any hints that you can give on things that you're testing?

Steve Bratspies
Executive Vice President & Chief Merchandising Officer, Walmart U.S., Walmart, Inc.
A

Yeah, so a couple things. We're testing a new layout in home, a new layout in sporting goods. You'll see something. We're beyond testing now. We're going to be combining seasonal space in our stores, so if you think the traditional – think Halloween for example, think the traditional set in our stores where we do costumes and all the decor, but candy is often over in a different part of the store. We're going to be building sections inside of the store to put seasonal together.

We've combined a service counter in the back of our stores. So, traditionally, we had the paint counter. We had the sporting goods counter. And in many stores, we had the auto care center desk. And we're moving now towards combining all of those into one desk, which is easier for the customer to shop, easier for us to staff and give them better service. So you're going to see constant change in the space.

Produce is another one. You know, we've spent a lot of time on produce. We have a different set today. We rolled that across the country. We're headed towards our national meeting with all of our store managers in two weeks at Indianapolis. We have all the store managers there. And we're going to show them Produce 2.0, which is the next set and take that even further. So we're looking at the entire store to make it better and make it more convenient for customers over time.

Karen Short
Analyst, Barclays Capital, Inc.
Q

So actually along those lines, on produce, since you mentioned it, I guess from following Walmart for a while, it seems like, you know, 2016, obviously, you started to get your momentum back, but fresh was still somewhat elusive, and it seemed to really kind of, from my observation, kick in in mid-2018. So, maybe can you give a little color on why you think that was harder and why it took a little longer to get that category?

Steve Bratspies
Executive Vice President & Chief Merchandising Officer, Walmart U.S., Walmart, Inc.
A

Fresh is just hard. It's really hard and it takes a little bit longer. All the initiatives coming together at one time and we really thought about this holistically and thought about how do we start resourcing all the way through the register in our store and, quite frankly, into the customer's home, so they have a greater, longer freshness for their produce.

And we're working with our suppliers differently. We're changing our supply chain set. We're moving product faster and more efficient, so it stays fresher. How we receive in the back room is different. The process on the floor of how associates cull merchandise and stock merchandise is different. It takes all of those things sinking up to really make a meaningful difference. Plus we changed the layout in the store. So, I think if there was a delay, it was more about how do we get all of those steps to sync up at the same time, so you can see a marked improvement in the business.

Now, that said, we think there's a lot of opportunity in front of us. And we don't think we're as good as we need to be. I like to talk about fresh. It's a journey, not a destination. You never actually get there and there's always things you can do to improve, and we're continuing to work on all of those things, but we're starting to see some momentum in the business. We like where we are. And with Produce 2.0, which we're going to talk to our managers about, we're going to go even further.

Karen Short
Analyst, Barclays Capital, Inc.
Q

With specifically Produce 2.0, is there a training component to that or it's more about visual?

Steve Bratspies
Executive Vice President & Chief Merchandising Officer, Walmart U.S., Walmart, Inc.
A

I can't go into too much detail because we haven't even talked to our store managers about it yet. So, I don't want to go too far. But it's a lot about visual set and experience inside the store that the customer will see directly.

Karen Short
Analyst, Barclays Capital, Inc.
Q

Okay, So, another area of focus I think on, I would seem, optimization as well is health and wellness. I know there was an announcement and it was unofficial. Wondering if there's any color you could give on the strategy just broadly.

Steve Bratspies
Executive Vice President & Chief Merchandising Officer, Walmart U.S., Walmart, Inc.
A

Sure.

Karen Short
Analyst, Barclays Capital, Inc.
Q

Without spoiling this.

Steve Bratspies
Executive Vice President & Chief Merchandising Officer, Walmart U.S., Walmart, Inc.
A

Yes. There was obviously an announcement about a store in Dallas, Georgia, which we'll get a lot more details about. But I think when you think about health and wellness for us, first, you start with we have a pretty big business already with pharmacy, optical, our OTC business. It's roughly 10% to 11% of our total business.

So it's a meaningful business to start with that we've built over the years and continue to grow. But the way you should think about it is, if think about a Supercenter and you think about our approach, we try to meet lots of different needs for lots of different customers and have one-stop shopping. We're trying to think through that same model, how that could apply to health and wellness and to healthcare.

And the announcement, as you say, for that store in Georgia, we'll explain a lot more about that in a couple of weeks when we talk about that officially. But the mindset is how do you give customers a broad assortment of choices at the Walmart value price. That is one of the biggest challenges in healthcare today.

Karen Short
Analyst, Barclays Capital, Inc.

Q

Okay. That's helpful. So, maybe just talking about merchandising in general, I mean, I guess there's not attention, but we know you're trying to push a lot through the stores and there's a lot of changes. But the stores also are managing labor and trying to reduce costs more broadly. So can you maybe talk about that balance just holistically?

Steve Bratspies
Executive Vice President & Chief Merchandising Officer, Walmart U.S., Walmart, Inc.

A

Absolutely. You're trying to drive growth and you're trying to manage your costs at the same time and what you learn is that they're actually connected. And I talk to my merchants, my buying team all the time. And you think about four big lines in our P&L. You obviously have sales. You have the gross profit line. You have the wage expense. And you have op income at the bottom.

There's a whole bunch of pieces in-between. But those are the four really big components inside of our P&L. And from a merchandising perspective, we don't manage and control the wage line in our store, but we drive a lot of the work that stores have to do. So, we are very conscious and spending a lot of time on driving efficiency and not just thinking about product and not just thinking about price, but thinking about how that product gets shipped fully through the supply chain, how it gets displayed on the shelf with shelf-ready trays and inventory levels and all those things that actually make us better at the shelf, drive in-stocks, but allow the stores to reduce the actual work that needs to get done.

And I think the difference that you're seeing in our business is as we're getting leverage in SG&A and how we continue to control those costs, is the reason it's working and I think it's going to work in the long term is we're changing the work. We can go in and cut hours and that's actually relatively easy to do in the short term, but we all know that catches up with you and the experience in the business starts to erode. But we're really focused on changing the work in the store, so we can be more efficient. Some of that is driven by us in merchandising by giving the stores a simpler assortment, a better assortment, managing the inventory levels.

A lot of it is drawn by new capabilities and technology inside the stores, so how we unload in the back of our stores with things like the FAST Unloader makes it simpler and we can do it with fewer people. So, we can put those people towards customer service. How we do shelf work and robotics that we're adding to track that. We added self-checkouts to the front of the store, changes the way we model dramatically inside the store. So, our productivity focus is really on changing the work. When you change the work, you can create the leverage inside the P&L versus us just cutting, because that's a short-term play.

Karen Short
Analyst, Barclays Capital, Inc.

Q

Okay. And then, I guess just thinking about observations of Walmart overall and more so in the last couple of years, it definitely seems to me that there was a time period where there was a bit of a stigma maybe of shopping at Walmart and that has completely dissipated, from my observation.

So, maybe wondering if you could talk to that a little bit and then what you're seeing from brands who were perhaps reluctant to sell into Walmart previously.

Steve Bratspies
Executive Vice President & Chief Merchandising Officer, Walmart U.S., Walmart, Inc.

A

Sure. Well, I'm glad to hear you to say that, first of all. That's good to hear. Yeah. We spend a lot of time on the customers and the customer experience. And, you know, look, we're a discount mass merchant. I mean, that's who we are and that's who we're always going to be. And I want to make sure that we don't move away from that.

But at the same time, we have a lot of opportunity to improve the experience, improve the assortment. And you know we track customer data very closely. We get customer experience data weekly, real-time, and it's actually the first thing that we talk about every single week at our U.S. officers meeting.

So, we have a meeting of all the U.S. officers Monday afternoon. And the first topic is the customer, all the time, and it's data on NPS scores on our Clean, Fast and Friendly scores, which is a core metric coming out of our stores. And we look at them in total at a macro level and we look at them on a micro level. We take individual instances and understand why did this customer have a good experience or why did this customer have a bad experience, and we learn from it. And often, that drives specific action out to our stores immediately, if we need to focus on this, we need to change this. Sometimes, it's a short-term fix. Sometimes, it's a longer-term fix. But we get really granular with the customer.

And we've been really focused on that. So we measure it. We understand who they are, what they are, what they're doing. But then that experience that they have in the store, you know, our stores are cleaner. We've moved space around. The product quality is better. We've invested in price. Our associates are friendlier. It's all those different components that connect together to drive it.

But you know, I'm glad to hear that that is done. We work very hard on it, and we track it very closely. We don't take it for granted. It's something that we work on every single day. And the more business we're doing, the happier our customers are, certainly has a commercial interaction with us as we talk about new brands and how we want to bring them into our stores, so it's all connected.

Karen Short
Analyst, Barclays Capital, Inc.

Q

And actually, maybe just switching gears, since we were talking about brands, but switching to private label. That's also been a big area of focus, both in food and non-food.

Steve Bratspies
Executive Vice President & Chief Merchandising Officer, Walmart U.S., Walmart, Inc.

A

Yeah.

Karen Short
Analyst, Barclays Capital, Inc.
Q

Maybe just update the audience on kind of the evolution.

Steve Bratspies
Executive Vice President & Chief Merchandising Officer, Walmart U.S., Walmart, Inc.
A

Sure. And I mentioned a little bit of this earlier, but let me just go back and talk about how we've gotten to where we are. In the past, in my opinion, we didn't do a particularly good job of running what was then private label. And we've really evolved into a model of private brand and running our brands with the same discipline that a branded manufacturer would run.

So how we think about product quality, how we think about pricing, how we think about packaging and promotion, display, how we source the product, how we drive an innovation pipeline, all the things that a traditional branded manufacturer does, we've built that capability in-house. And it's made a huge difference in our business in our ability to go to market, and the customers are responding to it and they're choosing it more and more.

And you mentioned this. It's not only the grocery side of the house, but it's in general merchandise side of the house. We just [ph] re-launched (19:04) three new apparel brands this year, which are making a difference in our business. We've had great success back in sporting goods with Ozark Trail and Hyper Tough in the hardware business. So we've got great private brands. We're managing them much better than we have in the past. But the thing that I think is really important is remember that we used to say on the side that we're a house of brands and we think about it that way, and we still are and we still always will be because customers want brands, and they continue to come for that brand innovation.

And one of the really most important parts of brands is it's we how run Every Day Low Price. So, it's hard for you to compare private labels between different retailers. But if we have this bottle of water, you know the price in our store, you know the price in a different store. And it makes a lot easier to run Every Day Low Price. So, brands are incredibly important to us, but, at the same time, as the customer has changed a little bit, as brands have changed how they go to market a little bit, private brand has become increasingly important and a big opportunity for us.

Karen Short
Analyst, Barclays Capital, Inc.
Q

How do you, in terms of private label – and this is obviously a food question, [ph] not non, too, (20:14) but how do you think about the price gap versus the brands and then how do you think about price gap, say, versus the hard discounters? Because I think that would lead into my next question, [ph] what was it, 2016, too, (20:27) the hard discounters were going to take over the world and I think most would now say that it doesn't come up that much.

Steve Bratspies
Executive Vice President & Chief Merchandising Officer, Walmart U.S., Walmart, Inc.
A

Yeah.

Karen Short
Analyst, Barclays Capital, Inc.
Q

So, and part of it is your success, I would say.

Steve Bratspies
Executive Vice President & Chief Merchandising Officer, Walmart U.S., Walmart, Inc.

A

So, price gap, to start with, really varies by category. And it often depends upon the actions of the brands inside those categories. So, we have rough targets of price gaps across different categories, but they're not that precise and we tend to let it play out over time. Some categories, you'll see really big price gaps. Some, you'll see smaller. If you see a really big price gap, tends to be that we would believe that the brand is priced too high, which goes back to cost structure and all those different things. But we do want to keep the gap.

But our pricing on private brands is we're going to make a good margin on our private brands and we want to be priced appropriately in the marketplace. And some of that does tie to the hard discounters, right? Most of their business is private brand. They have a few national brands but most of it is private brands. And our private brands need to match up against those. And we feel very good about our quality versus them.

We have a much broader assortment, which we think is attractive to the customers. But we're very focused on making sure that we're sitting right with them on price and taking away the reason for a customer to choose a hard discounter versus Walmart particularly. So, we negated the price gap. And then we offer a much broader assortment of full produce, all the different services we have in our store. So, we like that model matched up against a hard discounter, but you have to have that price right on private brands to do it and you have to have a really good fresh produce department.

Karen Short
Analyst, Barclays Capital, Inc.

Q

So, I guess in terms of private label, what inning would you say you're in, in terms of the evolution, both the separate question for food and non-food?

Steve Bratspies
Executive Vice President & Chief Merchandising Officer, Walmart U.S., Walmart, Inc.

A

Sure. What inning? We're probably in five. We've come a long way. We made a huge difference, but there's a long way to go. And I think we can get a lot better. I think we've got work to do on consistency of quality. I think our quality has moved, but we can go and we'll find a product that we're not happy with all the time. My wife is a big user of our private brands, so she tells me all the time. So, I'm sending texts to the team all the time. This one is good. That one needs work. So, they know where the feedback is coming from all the time. But there's always work to do. We can get sharper on price. I think we have packaging work to do with consistency. So, there's lots of work to do, but we've come a long way and it's showing up in the results.

Karen Short
Analyst, Barclays Capital, Inc.

Q

Maybe going back to brands a little bit, I think actually what you've said in the past is success in e-commerce is actually helping success with brands. So can you maybe talk about that a little bit because I think that's one of the reasons that you've been able to get more some of the brands that might have been elusive.

Steve Bratspies
Executive Vice President & Chief Merchandising Officer, Walmart U.S., Walmart, Inc.

A

Yeah, absolutely. E-commerce and online is a huge leverage point in terms of relationships of brands and how we grow. And there's two different ways to think about it. There's some very large established brands who want to start online, just kind of they slowly work their way there. We build a relationship. We show how we do business and we can hope to move those online. And some of them will come into stores. At the same time, we only carry 100,000 to 120,000 SKUs in a Supercenter. So, you can't carry everything.

And our job is to figure out what is that best assortment to be able to do that. And what's the fastest-moving, most necessary products for people to have close to where they are. But there is clearly this ability to open up kind of the brand vortex and attract new people by using e-commerce. Some of them will come to the stores. Some of them will only stay online and that's fine. But it opens up different relationships and different discussions, for sure.

Karen Short
Analyst, Barclays Capital, Inc.

Q

Okay. Maybe on the pricing journey a little, obviously, first quarter, you had very strong gross margins. And I would hesitate to have any investors think that that would have been the new norm. And you were all very clear on what worked well in Q1. But Q2, you also talked about increasing price investments. So maybe talk a little bit about where you are on that journey and, again, two separate questions for food versus non-food.

Steve Bratspies
Executive Vice President & Chief Merchandising Officer, Walmart U.S., Walmart, Inc.

A

Sure. Let me talk about food in particular first. We sit down and we lay out a very disciplined budget for what we think price investment is going to be for the year. And it varies a little bit quarter-by-quarter, but more because of geography. In other words, like, if you take a market, you might hit more stores in Q2 than you hit in Q1 as we kind of roll across the country. So that creates some of the variability in the quarter. And I wouldn't want you to think, oh, we've changed because we spent a little more in Q2 than in Q1. That's kind of planned out for the year as we go.

In grocery, where are we in the journey? In terms of reaching the entire country, we're pretty far along. There's a little more work to be done to cover all the different markets the way we want to. But then, there's the constant downward pressure on pricing. One of the key components to Every Day Low Price is we keep a downward pressure on pricing, be smart about how we do it. We use a lot of data and a lot of analytics to understand where we should spend, how much we should spend. And we've learned over the last four years.

We're doing it differently today than we did four years ago because we've gotten smarter about it, and we understand what works. And we're going to continue to do it because customers are responding. Our units are up. Our traffic's up, our bigger baskets, all the different core metrics that you would want the customer to respond to, they are responding. So we're going to continue to do that on the grocery side.

On the general merchandise side, we start off in, what I would tell you, a more advantaged position than you do in the grocery side. We have bigger price gaps starting today than we did when we started on the grocery side. But that said, we have work to do in general merchandise. And that will be kind of a next big phase that we'll go into to make sure that we drive price advantage, because, particularly in general merchandise, you have to think about the online piece as well.

And we want to run a consistent price online and in the stores. That's what our customers expect. There's a lot of friction when a customer sees two different prices. So our objective and, in most cases, we're doing it today, is we run a consistent price online. That creates pressure because of competitors, so we're going to have to start doing some more investment online, particularly in areas like electronics and apparel and hardlines as we go into the future. So there's more to come.

Karen Short
Analyst, Barclays Capital, Inc.

Q

Okay. And then, with respect to e-commerce, you've talked about introducing more general merchandise into the grocery pickup. Can you maybe just update everyone on where you are in that part process?

Steve Bratspies
Executive Vice President & Chief Merchandising Officer, Walmart U.S., Walmart, Inc.

A

Sure. When we started grocery online pickup, it was truly grocery, and we limited it to that. One of the components of growth, both from a top-line perspective and, quite frankly, improving margin over time, is to get more general merchandise items into that grocery pickup basket. So we're starting to expand that. We've got a lot of items that are now available on the site for grocery pickup. We need to change – we need to stop referring to it as grocery pickup and that's an internal thing. It's also going to be curbside pickup because a vast majority of a store will be available for curbside pickup.

But we're in that process. It's early. We're still training the customer, too, that that's available and how they can think about it. But it makes a significant difference in the margin over time, so we need to continue to drive that mix basket and make the online grocery basket look like a traditional Walmart basket from a mix perspective. Online grocery basket today is 2X a normal basket, but mix is a little bit different and we need to get that GM mix into online grocery.

Karen Short
Analyst, Barclays Capital, Inc.

Q

Okay. So, I'm going to eventually turn this to the audience, but I have to ask about tariffs before I do that. So, maybe a little update, I mean, I think List 1 to 3 was pretty manageable, maybe just some color on what you saw on elasticity from a customer perspective on anything you did raise prices on?

Steve Bratspies
Executive Vice President & Chief Merchandising Officer, Walmart U.S., Walmart, Inc.

A

Yeah. Yeah. And List 4 makes it tougher. There's no doubt about that. So, I was really proud of how the team handled Lists 1 through 3. And there were a few prices that we did have to change to go up, but we didn't see any change in our unit projection of where we thought it would be. So, that was absorbed. But we were very focused and targeted on how we did it. We didn't let any of our price gaps slip. And we maintained price leadership in all of the things that we did, so we ran our model inside that well.

List 4 gets tougher. It covers a lot more of the product. But the approach that we're going to take to List 4 is the same approach that we took to List 3, which is we literally go through item-by-item. And that's what our buyers do and look at what's the impact on that item, how does that item mix out inside of its category and inside of the larger business? Is it a growth segment? Is it not a growth segment? Is it a direct import versus domestic import or how much inventory do we have already in-country that we can leverage? What mix do we expect? There's a whole bunch of different levers that a buyer can pull to understand how to manage that.

So, our goal is to offset as much as we possibly can, either through negotiation or managing mix. We have the advantage of an entire box to manage. I've got grocery and I can manage things across. So, that's going to be our objective.

That said, at a last resort, if we have to raise prices, we'll do that to manage our margin to be to where we need to be. But we're going to run the Walmart model, which is we want to lead on price. We want to keep prices lower and keep downward pressure on prices and not let them creep up. And that's what we're going to apply to the tariff situation.

Karen Short
Analyst, Barclays Capital, Inc.

Q

So, just to be clear, on items that you do finally come with a realization you may have to raise, you'll maintain a gap or you'll be the last to raise or how?

Steve Bratspies
Executive Vice President & Chief Merchandising Officer, Walmart U.S., Walmart, Inc.

A

Both. That, our normal pricing strategy, is we want to move less and later. So, we're going to try to apply that as best we can. It's not perfect in terms of how we do that, but we're going to maintain our price gaps and continue to be the market price leader.

Karen Short
Analyst, Barclays Capital, Inc.

Q

Okay, maybe just with a couple minutes left, I'll see if there's any questions in the audience. I don't know if there's any hands. All right, well, I'll keep going.

Steve Bratspies
Executive Vice President & Chief Merchandising Officer, Walmart U.S., Walmart, Inc.

A

Okay.

Karen Short
Analyst, Barclays Capital, Inc.

Q

On data analytics, obviously, you have a lot of data. And I think you've talked about leveraging that data a little bit more, maybe some color on where you think you can go with that and like what level of granularity you actually have down to the actual customer.

Steve Bratspies
Executive Vice President & Chief Merchandising Officer, Walmart U.S., Walmart, Inc.

A

We have down to the customer data, but we want to keep it at kind of at a mass level. We're not going to disclose the customer identity and their shopping behavior, which I think is important to us, but we're learning on data. We see it as an opportunity from a monetization perspective over time. Obviously, we have a lot. There's a lot of people who'd like to have the date that we have. We have a lot of work to do to change data into insights and make us a lot smarter about our business. I think we're average, at best, at using data. And I think we can get a lot better and we think we can turn that into a potential income stream for us down the road.

But we're at the very early stages of thinking about that and figuring out how to handle it while we still treat our customers with the level of discretion and privacy and treat them consistently. One of our principles is we try to treat customers equally. That's what Every Day Low Price is, is that you pay the same price and you [ph] say (32:03) the same price, and everyone is consistent.

We have to think about those things in a new world, right. The world is evolving in a data-driven world, in a digital world. So we have to think about what that means. But we've got a lot of work going on right now to figure out how we can capture that opportunity.

If you look back, we started one of the big innovations that Walmart was successful with was Retail Link and it was the sharing of data between the retailer and the supplier, and that was free. There was no charge for that. That was all about driving our business forward. So we want to continue to do that.

I mean, we want to drive our top-line and move our business forward. So we'll do it through that lens to understand where we can continue to grow and understand what should be free data between us and where we have an opportunity to monetize, so a lot of work to be done on that yet.

Karen Short
Analyst, Barclays Capital, Inc.
Q

Okay, switching to the store format generally, obviously, the strategy today is leverage the existing boxes. One format that really hasn't gotten a lot of comments on recently, I would say, is Neighborhood Markets. And it used to be that that was more the fill-in trips during the week or during the month, whatever it may be, maybe a little color on thinking there.

Steve Bratspies
Executive Vice President & Chief Merchandising Officer, Walmart U.S., Walmart, Inc.
A

Yeah. Neighborhood Markets are doing great. They're running strong comps, continue to improve. We're really pleased with the growth that they're driving. We're working a lot on assortment and continue to make sure that we get the right assortment from the Supercenter into the Neighborhood Market and how we drive as much consistency to make us operate a lot better. But they're still a really important part of the portfolio. If you think about they still do serve as that fill-in trip. [ph] Some people, it's stock up again, you get (33:39) everything in both formats. But if you think about Walmart and having 90% of the U.S. within 10 miles of a Walmart, Neighborhood Markets play a key role in that in filling in the gaps between Supercenters. And they're running really well. So we're pleased with them.

Karen Short
Analyst, Barclays Capital, Inc.
Q

And in terms of just overall back to, I guess, space optimization but how you're drawing different cohorts, age courts and demographics. So this kind of question was asked before. If you look at your traffic gains, can you try to identify where it's coming from because the dollars moving through the system are astronomical.

Steve Bratspies
Executive Vice President & Chief Merchandising Officer, Walmart U.S., Walmart, Inc.
A

Yeah. Traffic has been good. And we're very pleased with the traffic gains we have. And it's the fundamental underlying part of our model. We're a volume-driven model, right? We're a low-price mass merchant. We're a discount store. So we need volume and we need traffic to kind of prime the pump. The analysis on data, it's coming from everybody, like there's not one, oh, we've now picked up this customer, we've picked up that customer. I think all the different components that we've been working on are resonating with different customers, which is our proposition is better with quality products. The price is making a big difference. There's no doubt we've benefited from some of the challenges in the retail market out there and gaining traffic from that. I mean, there's no doubt that's true. But we see customers of all demographics continuing to grow with us as we launch things like online grocery, as we build private brands, as we improve our fresh business. All those things come together...

Karen Short
Analyst, Barclays Capital, Inc.

Q

Halo.

Steve Bratspies
Executive Vice President & Chief Merchandising Officer, Walmart U.S., Walmart, Inc.

A

...to give people a reason to come to us.

Karen Short
Analyst, Barclays Capital, Inc.

Yeah. I think that's a fairly good place to end. Thank you very much for your time. It was very helpful.

Steve Bratspies
Executive Vice President & Chief Merchandising Officer, Walmart U.S., Walmart, Inc.

Thank you for having me, appreciate it.