

# Walmart Won't Rest on Laurels

# WALMART

BENTONVILLE, Ark. — Walmart had a profitable fiscal 2015, with net profits of \$16.2 billion on revenue of nearly \$486 billion.

For the fourth quarter, Walmart reported a 12% increase in profit, as revenue rose 1.4% to nearly \$132 billion. Executives said lower gasoline prices apparently fueled spending at its stores during the holiday shopping season. Sales at Supercenters open more than a year rose 1.5% in the quarter, while same-store sales at smaller Neighborhood Markets increased by 7.7%. “Walmart U.S. delivered better-than-expected comp sales, Sam’s Club had its best performance of the year, and Walmart International had solid sales and profitability,” Doug McMillon, the company’s president and chief executive officer, said during an earnings conference call on February 19.

McMillon also announced that the company planned to pay its lowest-level workers at least \$9 an hour starting this spring, above the \$7.25 federal minimum wage, and that it would increase that to \$10 next year. Including

similar increases at Sam’s Clubs, the company expects 40% of its U.S. workers, about 500,000 people, to receive raises, at a cost of \$1 billion a year. Walmart, the nation’s largest private employer, also said that department managers would receive a minimum wage of \$13 per hour this year and \$15 next year. And the company announced plans to give workers more control over their schedules. By 2016, some hourly workers will have fixed schedules, and all associates will know their schedules at least two and a half weeks in advance.

“In addition, we’ll provide them with more resources and training to enable merit-based career advancement and higher levels of pay,” McMillon said. “Of course,

for a number of years, associates have had the opportunity for competitive health care and 401(k) benefits, as well as access to bonus incentive opportunities, discounts and educational programs. These programs will continue to be available to current and future associates. We’re also launching an innovative program for future associates that will allow them to join Walmart at \$9 per hour or more, receive skills-based training for six months, and then be guaranteed at least \$10 per hour upon successful completion of that program. Sam Walton used to say that our people make the difference. I share the same philosophy. Overall, these are strategic investments in our people to reignite the sense of ownership they have in our stores.”

The company said it employs 1.3 million associates at its 5,187 stores and clubs nationwide, and that the average, full-time hourly wage is \$12.96. Last year Walmart said it promoted about 170,000 people to jobs with more responsibility and higher pay.

As of March 31, the company operated 3,421 Supercenters in the United States, 647 Sam’s Club outlets, 613 Neighborhood Markets, 466 Walmart Discount stores and 40 small-format stores under the Amigo, Supermercado, Walmart Express, Walmart on Campus and Super Ahorros banners.

Walmart International had 6,301 stores as of March 31. Worldwide, Walmart operates under 71 banners in 27 countries and employs 2.2 million associates. Walmart International is currently the fastest-growing part of the business.

“I’m pleased with our performance in International, David Cheesewright, president and CEO of Walmart International, said during the conference call. “We’ve been able to produce solid results and operating income growth despite operating in a very challenging, competitive retail environment. As one

of our key priorities, we continue to accelerate our e-commerce business by offering multiple ways for our customers to shop,” Cheesewright said. “Whether in stores, online, pickup or mobile, we aim to give our customers the ability to shop in whichever way they want. We’ve also made progress in building a platform for sustainable growth in China, and have experienced success in improving our overall price perception, as well as the quality of our fresh offering. We also continue to make progress on our commitment of actively managing our existing portfolio. You’ve seen us make strategic decisions such as closing underperforming stores and divesting noncore parts of our business in order to strengthen our foundation.”

Same-store sales increased in three of its five largest international markets — Mexico, Canada and Brazil — in the fiscal fourth quarter, which ended January 31. Comps declined in the United Kingdom and China, Cheesewright said, due primarily to food deflation and intense competition in the United Kingdom and government austerity measures and deflation in key categories in China.

E-commerce was a bright spot for Walmart in fiscal 2015, said Neil Ashe, president and CEO of global e-commerce. “For the full year and for the fourth quarter, we outgrew the e-commerce market globally,” Ashe said, with Walmart’s e-commerce sales rising by 22% from the previous 12 months, benefitted by a 25% increase in gross merchandise value.

“In the U.S., we had record sales on Cyber Monday and Cyber Week,” he added.



## Looking for Better Ways To Serve the Customer

BENTONVILLE, Ark. — In his first eight months as president and chief executive officer of Walmart’s U.S. business, Greg Foran made at least 116 unannounced visits to Walmart stores for a firsthand look at the retailer’s “core operations.”

“Whether it is walking with the third-shift overnight managers in Wichita or stocking the shelves with our associates in Sioux Falls or talking about out-of-stocks with customers on the sidewalks of Nashville or listening to customer calls at our call centers, it’s been a busy few months,” Foran said in April during a “strategic update” of analysts on the repositioning plan Walmart unveiled in October.

“We want this year to be the year of improving our stores so by the time we hit the holiday season our stores are clean, tidy, well merchandised and run by engaged associates,” Foran added.

Areas for improvement include assortments, store design, employee training, inventory quantity and product flow, he said. As Walmart works to enhance the customer experience, it will make significant investments in its e-commerce platform as well as in higher wages for employees, Foran said.

Walmart also will reestablish itself as a leader on price, he said. “We have opportunities in price, and whilst we have pockets of leadership, in more competitive markets our gap is too small and, against some competitors, we

are beaten,” said Foran, a native of New Zealand who joined Walmart in 2011 and spent two years as president and CEO of Walmart China.

“What is more, we lost a little bit of our muscle for reacting quickly, and we have strayed from executing some of our EDLP [everyday-low price] principles consistently,” Foran said.

Walmart is developing tools that will aid the retailer in competitive pricing, he said. “We are looking at how we source products in a very systematic, sensible way, including commodity pricing, especially as we see some of these materials falling worldwide.”

As it works to push down prices, Walmart is negotiating the “very best price” from suppliers so it can pass along the savings to customers, Foran said.

Walmart is in a stronger position than any retailer in the world to integrate its physical stores with its digital marketing capabilities, Foran said.

“The big prize for us in the future is the integration of digital and physical,” he added. “We have some good ideas in that space, and we’ve got to make sure that we develop the tools and technology to get there.”

Walmart will remain focused on growing sales and market share, he said. “I believe Walmart is the greatest retailer in the world, and I am truly honored that it’s in our DNA to be always looking for better ways to serve customers.”

### WALMART

#### FINANCIAL RESULTS (1/31/15)

**SALES:**  
\$485.65 billion (+2%)\*

**SAME-STORE SALES:**  
+0.5% (U.S. only and excluding fuel at Sam’s Clubs)

**NET INCOME:**  
\$16.18 billion (+1.7%)\*\*

**NET MARGIN: 3.3%**

#### OPERATIONS

**HEADQUARTERS:**  
Bentonville, Ark.

**FISCAL YEAR-END STORE COUNT:**  
United States (including Puerto Rico): 5,163, including 470 discount stores, 3,407 Supercenters, 647 Sam’s Clubs, 599 Neighborhood Markets, 23 Amigo, 13 Walmart on Campus, 3 Super Ahorros, 1 Walmart to Go.  
International: 6,290

**PRIOR YEAR-END STORE COUNT:**  
United States (including Puerto Rico): 4,835, including 508 discount stores, 3,288 Supercenters, 632 Sam’s Clubs, 346 Neighborhood Markets, 24 Amigo, 20 Walmart Express, 12 Walmart on Campus, 3 Super Ahorros, 2 Supermercado.  
International: 6,107

**DOMESTIC BANNERS:**  
Walmart, Walmart Supercenter, Sam’s Club, Neighborhood Market, Amigo, Walmart on Campus, Super Ahorros, Walmart to Go

#### RANK

1 in sales

\*Sales represent total revenues. Net sales rose 1.9% to \$482.23 billion, while membership fees/other income rose 6.3% to \$3.42 billion.  
\*\*Earnings comparison is based on continuing operations, with results for the most recent year reflecting about \$162.2 million in after-tax charges for wage and hour litigation and about \$97.3 million in after-tax charges for the closure of some 30 stores in Japan. Earnings in the prior year reflected about \$853.6 million in after-tax charges.

