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# EDITED TRANSCRIPT

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## CORPORATE PARTICIPANTS

**Duncan Mac Naughton** *Walmart U.S. - EVP, Chief Merchandising and Marketing Officer*

## CONFERENCE CALL PARTICIPANTS

**Perry Caicco** *CIBC - Retail Analyst*

## PRESENTATION

**Perry Caicco** - *CIBC - Retail Analyst*

Okay. We are happy today to welcome Walmart to our conference -- actually, again. Today our speaker is Duncan Mac Naughton, who is Executive Vice President, Chief Merchandising and Marketing Officer for Walmart U.S. Duncan joined the organization in 2009 as Chief Merchandising Officer for Walmart Canada, so he was here for I think about a year. He brings more than 25 years of experience in retail and consumer packaged goods.

In October of 2010, he moved to Walmart U.S. as Executive VP of Merchandising. So he has responsibility for all the aspects of merchandising in the US, including consumables, grocery, health and wellness, softlines and general merchandise. He also, I think, recently added responsibility for Walmart's marketing efforts, including customer research, strategy, e-commerce marketing, private brands and customer communications.

He has held leadership roles prior to being at Walmart with Kraft Foods, H.E. Butt Grocery Company and Albertsons. And just before joining Walmart, served as Executive VP of Merchandising and Marketing with Supervalu. And -- oh -- it says he has a degree in economics from the University of Wisconsin. Sorry about that, with the Badgers and the Buzzcuts.

And so anyway, with no further ado, I'll introduce Duncan Mac Naughton.

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**Duncan Mac Naughton** - *Walmart U.S. - EVP, Chief Merchandising and Marketing Officer*

That hurt, Perry. One point, one second, we would have been there.

So good morning, everyone. And Perry, thank for your gracious comments, even the stinger at the end. I certainly appreciate it. As Perry said, I did have the opportunity to live here in Toronto for a year, and I got to really appreciate the quality of life in Toronto, as well as greater Canada. And also the retail environment, of which we were competing in, which is really a great group of companies, and really got to understand the diversity of the country. So it is great to kind of be home actually, when I got to come back downtown. So thanks for the opportunity to be here.

Today I'm going to give you a brief summary of our fourth-quarter activity from fiscal 2012, a top-line review of our fiscal year and some of the key components of our success. And then I'm going to focus on some key initiatives for our fiscal 2013.

But before I get started, I've got to share with you our obligatory forward-looking statement, as I will be making some statements today that are regarded as forward-looking as regarded by the SEC. So please refer to our website for information regarding all of our SEC filings. So we won't torture you anymore with that slide. So let's get started.

I'm excited to be here, because it is great to be back in Canada, one. But two, I think we have a very good story to tell, and I am very excited to share with you some of the key momentum that is building inside of Walmart U.S.

The chart that you are looking at here shows our comp sales for Walmart U.S. for our fiscal 2012 across the four quarters, which we report on a four-five-four retail calendar, which I'm sure you are familiar with, which ended in January of 2012. So you see the year starting at a minus 1.1% comp, gained slight momentum in Q2, and really started to see some fruits of our labor in Q3 and Q4, with positive comps of 1.3% and 1.5% in Q3 and Q4.



We are very pleased with our progress throughout the year, and I will share with you some of the key components of that growth, if you will. And we ended the year with a plus 0.2% comp and total sales grew 1.5% in Walmart U.S. I am happy to tell you that strong momentum that we closed the year continues in our new fiscal year, throughout February and our current month of March.

On the next page, however, I want to share with you that the US consumer is seeing and facing some significant headwinds. And there is four key components that are of concern to our customer. The first is unemployment. I know that as border countries, you are very familiar with our economy and we depend on one another. There is 23 million Americans that are unemployed today that are either unwillingly working part-time or, quite frankly, have given up on trying to find work. So that is one of the key components of the headwinds that we are seeing.

The second is our rising gas prices, which you also see, as you have a strong oil industry here. It is bad news for the customers, and we see it continuing to grow. Our average price in the United States, average price per gallon, is \$3.91 as of this morning. And we have some urban areas where our prices are as high as \$4.50, approaching \$5.00 a gallon, which have a direct impact on the disposable income for our customer across the United States.

The third component is economic growth. Unemployment being at 8.3%, we don't see any real rigor in the economy or any real optimism there. And then as you look at the United States, you may know that we are in an election year, so there is not any significant hope for any step-change improvement in the economy at this time. So our customer is in fact under that stress.

However, what excites us about being at Walmart is our customers are telling us they need low prices, they need one-stop shopping and they need a broad assortment. And I'm happy to say that the US Walmart model is working. Because the core competency and the core components of our business model are refreshingly simple, if you will.

And on the slide, you see three key components. We've defined it as our productivity loop, quite frankly. We work every day very hard to take out cost of our system, how we flow goods, how we buy goods, how we operate stores, how we work inside our home offices and our retail operations, step by step, taking costs out.

We then take those savings and we invest them in price. That price generates store traffic, which drives top-line sales. We then take that, reinvest it, as we grow top-line sales. All of that is under the guise of a very broad assortment that we share with our customer. And I will tell you that this model has been the model that has founded Walmart and continues to be very productive for us.

In the last year, consistent with this slide, we added back 10,000 items to our stores in fiscal 2012, quite frankly, wall to-wall, front to back, across all of our different programs. We added back items that our customers told us they wanted, and we also focused on new and innovative products from our suppliers that took us to the next level. So it does, in fact, resonate with our customer.

Also in 2013, as we look forward, now that we've got this strong foundation of assortment, what we are looking at is how do we really fine-tune macro space in our store and micro space inside of our category, store by store, market by market, as with Canada, we have a large geography in which we have stores.

We also had a deliberate focus on what we call on-shelf availability, which is, is the product there when you show up to buy it. Quite frankly, quite simple. We changed our metric last year from looking at what we called in-stock. And what in-stock said, is it in our system, somewhere near the store? Is it in the back room, is it in a trailer, or, quite frankly, is it available for sale on the shelf? So we changed our methodology and had great success on changing the customer experience, which directly tied to the performance in our sales. Our customers like it, and our top line likes it. So great success there.

We also added back what we call Action Alley. And you have seen that if you've been in a Walmart Canada, which I hope you have been. If you haven't, you should go there, maybe today and buy something. I know the team would like that.



But Action Alley is really item and price merchandising, pallet positions that disrupt the customer with great deals and say, wow, I need that product. And we do that around the racetrack of the store, and quite frankly, it is very effective on cross-merchandising throughout the store. We added that back in 2012 as well.

And we are very committed to price. You see the investment in price here. We've announced earlier this year that we will invest \$2 billion -- that's right -- \$2 billion in fiscal '13 and '14 together, investing in our prices. And I will give you some more flavor about how we are going to do that and the strategy as to how we look about that.

As a matter of fact, in Q4, if you looked at our results, you saw our gross margin decrease by 13 basis points, or about \$100 million, because we are in fact investing back in price as we lower our expenses. So that is the plan -- for every dollar we take out of cost or productivity, we are going to invest back in our retail price model, which of course works.

So our productivity model, quite frankly, is working. We've reduced the expenses, we've got our assortment back, and we've got good traction.

So as we look at how the customer likes it, the customer is saying, it is resonating with me. So on this slide, what you see is the four quarters of 2012 of our customer traffic. And I'm happy to tell you that in quarter four, it is the first time we've had positive US comp traffic since nine quarters. So that will tell you that the steps that we have taken -- broadened assortment, investing it in price, being on the shelf when the customer wants it, interrupting the customer with great price and product -- is working. So I am very excited about that.

And if you look at it across that holiday timeframe, which is our Q4, January was actually our strongest month, which gives us more confidence as we look forward into 2013. We had a very strong holiday, which would be primarily November and December, in our Q4. A little bit in Q3, as, for those of you that have studied us, we initiated and brought back layaway for our customers. Layaway had not been in Wal-Mart Stores for five years.

So we brought it back in mid-October, because we have many unbank customers that can't afford any kind of credit or have access to credit, so they in fact use us as a way to pay for their goods for Christmas. And I will tell you if it weren't for our layaway program, there would have been a lot of Americans that wouldn't have had Christmas, quite frankly. And I mean that sincerely. And it really resonated well with our core customer base, which is pretty exciting.

We also launched during the Q4 what we call our Walmart Christmas price guarantee, which meant it took any anxiety away from our customer that said, if I buy this in November or before all those big hot sales come, I'm going to pay too much. So we basically said, if you pay for it and somebody beats our price, we will give you the difference in a gift card. But thank gosh we had good prices all season long. But it did give that confidence for our customer day after day.

And then finally, we had a great marketing program. We basically doubled down our marketing support. So what we did is we've spent twice what we had the prior quarter to drive traffic into our stores. We did it with print, we did it with media, multimedia, we did it with digital, we did it with social, and we brought customers to the store. And we were quite excited with the way the customer engaged with us.

But once again, I just want to share with you, as we exited layaway, which was a week before Christmas, so it gave us an opportunity to really -- if anybody canceled their orders to sell it, January became our strongest month. And that is what really gives us hope, because it tells us that assortment is working, price is working, in-stock is working, and the innovation that we brought back to our store is back in front of the customer working.

So as we look back at 2012, we feel very good about the strong leadership team that we have in the United States. We have the assortment back on the shelf, we're investing in price, we have positive comps, we have positive comp traffic. So we feel very good about the foundation that we jumpstart 2013.

So merchandising lines [are] quite well with our Wal-Mart, Incorporated strategy. What you see here is our merchandising priorities, which many of you may have seen this before, we call the five P's. There is a traditional four P's in marketing, plus people, which is our fifth P. And this year, we added an R. So five P's, 2.0, plus an R.

And I will talk to you about the responsibility piece. As last year, we spent a significant amount of time focusing on the fundamentals that I shared with you, basically getting the key components back in place, this year, we are going to take it to the next level. And I will share with you how we are going to do that.

At the center of that five-P slide, you see the customer. The customer is our primary focus. We listen to our customer every day. We talk to them formally and informally. And we get all sorts of feedback from our customer. Our job in merchandising is to react to that customer and make sure that we are meeting and exceeding their needs on a daily basis.

On the top of that chart, you see price. That is where we start. That is the foundation of Walmart; that is our framework of our business model. It is EDLC, EDLP, and that is our promise to our customer.

Second P is product. And that is about having the broadest assortment, one-stop shopping, so our customer can be delighted as they come into our store.

The third is place. That's the shopping experience. That is when they get to the shelf, is it there and am I delighted? It is also about the innovative items or exclusive items they didn't expect to find. And we make sure we have that in place for our customer, as well.

The fourth P is promotion. That is really about how do we take an integrated approach to what they saw outside the store came to life inside the store. And also, from a marketing perspective, how do we want to talk to our customer across the business?

And then finally, people. Two-fold. We invest in our associates internally. How do we help them develop? And then secondarily, our supplier on the external side from our supplier relationships. What is our collaborative model going forward?

So that is kind of the basis of five P's. And then in responsibility, we have three key initiatives that I will walk you through shortly, about what we are focused on in the business.

For the first P, price. This is an exciting slide if you have my job, right? So we are going to invest \$1 billion in retail price in fiscal 2013. We are going to drive that price investment in two key areas, in our food business and our consumable business. That is because it drives traffic, it drives interest and it drives great relevance with our customer.

Our job as merchants and operators then is to convert that traffic on the other side of the store, which is the general merchandise side of that store. So we can convert in softlines and general merchandise and make sure that we build that basket and make it profitable.

That \$1 billion investment is all going to be funded by our own productivity improvements. So what you will see throughout the year, as I referenced, is a bit of margin decrction, but all funded by our productivity and expense savings that we are reinvesting back in the business.

I am also very excited about the price investment because we re-engaged with Nielsen, and we now have local data on pricing, item by item, market by market. Whether we compete against a high/low retailer or an EDLP or a hybrid, we can see what products sell for what price in what marketplace so that we are ensuring that we will have price leadership and price separation across our categories and across the United States. This is a big investment for us; we feel very strongly about this, and of course, it is the heritage of how we do business.

So to set that up, I want to share with you -- we feel so good about it, we are going to be pretty proud about it and tell our customer about it. And what I want to do is share three commercials with you. The first and the third are really about this price campaign. And you are going to hear, the first one is a national campaign where we are talking to Walmart customers that perhaps may have shopped somewhere else and then they become aware of some of the great prices that we have and all the broad assortment that we have.

The third one, you will see from a specific market in Sacramento of an individual that shopped at a competitor that realized the savings that they can have on their basket in a Walmart store. And the middle one is really a -- we will be celebrating our 50th anniversary this summer, and part of



that heritage is we have always been looking at cost and price. And it is, I think, a brand building, if you will, recognition of an associate that worked with us for 50 years.

So if we could, I would like to roll those videos.

(video playing)

What I like about that ad campaign is it is all about price, it is local, it is responsive and it is not my basket, it is their basket. Because that is what the customer cares about, not the 100 items that I might care about. So I think it has got some great relevance.

So let's go to the second P, product. We are focused very much on new, local, quality and innovation. And I just want to give you a quick top line of some of the key focus areas that we have across the store by department. We will start with food. Obviously, first, we are investing in price. We've talked about that.

The second piece is a deliberate focus on fresh. And in fresh, two key areas, is meat, where we have last year launched a USDA choice beef program, which is a premium beef product, to really upgrade the level of beef that we can offer our customers. And this year, we are really focused on engaging with our customer and converting them into our meat department. So as they come in the store, we can become a destination for meat products inside of Walmart.

The second area is produce, about making sure our product quality spec is right, and then really focusing on the flow of produce, as how can we make sure that we have the freshest product on the shelf and ensure that we have more freshness at home for our customer.

And the third would be micro-clustering. I talked about those 10,000 items. Many of those came in our food and consumables area. How do we make sure store by store, neighborhood by neighborhood, with the diversity of America, that we actually are reflecting what the customer wants? And in that, with the Nielsen data, we can make sure that we have the right data from Seattle to Florida or from Maine to San Diego. So working very closely with our partners there.

In consumables, again, invest in price. The second piece is modular integrity, which means do we have the holding capacity and the right brands by store in a very key opportunity area for us in the store. We are very strong in consumables.

The third area of consumables would be customer activation, like baby days or activating things like Walmart loves pets and engaging the customer with these products.

Next business would be health and wellness, and we are open-arm embracing some of the folks in the United States that have lost some pharmacy benefits. So we are really looking at how do we welcome them into our stores, as well as showing the value in our OTC value lines, to make sure the customer really understands how they can save in health and wellness when they shop at Walmart, in addition to the savings they can have with our strong pharmacy program.

The next area would be softlines, and start with apparel. Our apparel business, we've been working on for quite some time. We are focused on two things, quite frankly. It is quality and it is basics. It is working with our suppliers to improve the quality of the garments that we sell in our stores. And the second is making sure that we stand for basics, because that is what our customer wants. 50% of our sales will come from basic items. And when I say basic, I mean underwear, socks and denim. It is that simple. And that is what the customer wants from us, that is what they expect from us, so we are focused there.

The next 40% of our fashion pyramid, if you will, would be called fashion basic. And that is like a polo shirt with a stripe on it, so we are not getting crazy here. And then the last 10% is what we will call trend, and that would be more for Missies and Juniors, working with domestic suppliers on high-turn fashion product. Our customer wants basic and they want quality, and we will deliver it.



In Home, it is about item and price merchandising, right? It is big displays, it is an appliance with a great price. And it's also ensuring we have good, better, best assortment in our stores across all our categories in Home, and we will do that quite well.

In general merchandise, it is continue to develop and build on the authority we've built in key categories, like sporting goods, fishing, fabrics. We made great, great strides forward last year. We will take it to the next level. We are also focused on solutions for our customer, so we're launching a program called Projects Made Simple. So if you want to change out your faucet, we actually have all the components -- believe it or not, so you don't have to do go somewhere else -- and we will tell you how to do it right at Walmart. So that is what the customer is looking for. And we are also adding new brands across our general merchandise business. So I am pretty excited about that.

I want to share one more commercial with you, if you will allow, and it has to do with our meat launch, just so you can get an appreciation for how we are communicating it. So if we could run the meat commercial, please.

(video playing).

So the third P is place. I talked to you about some of the changes that we did and the methodology of how we track it. Our on-shelf availability from the beginning of the year to the end went up 665 basis points, up to about the mid-90s. So this year is OSA 2.0, which is about using our POS system in a systematic approach to saying predictably when will we be out of stock, so we can make sure we have on-shelf availability for our customers, particularly during those high sales velocity weekends that we have in our stores. So I am very excited about what OSA 2.0 can do around this key initiative.

The fourth P is promotion. That is really about the seamless integration of outside the store, inside the store and how do we bring it to life. So what the customer sees on TV, what they see on Facebook, what they see on their mobile when they are walking around the store is right in front of them in the cart rail and Action Alley, and it is coming to life for them at the store.

The other thing, just for information, is we plan about 80% of the in-store features from our home office in Arkansas. And the balance of that is filled out by the store operators, what is relevant to their local stores and how can they customize their programs to their local marketplace. And we give them ample space if they want to add more than that 20%. As you know, we run some pretty large stores, so they can actually really put a local twist to our national programs as they may.

The fifth P is people, and there is really two components. It is really about our internal piece and then the external relationship that we have with our suppliers. Internally, we are investing in tools for our associates. We have quite a challenge. We are going to deliver \$1 billion in productivity savings. How do we invest that in price? The second is an investment in leadership development. And then also to ensure that every one of our associates, the 1.2 million people, have individual development plans that we can make sure they are getting professionally enriched careers.

Externally, it is all about supplier collaboration. It is a win, win, win. It is a win for the supplier, it is a win for Walmart, and ultimately it is a win for our customer. So we build joint business plans with our key suppliers, sending mutual targets, and have great transparency and scorecards to keep one another accountable, to make sure that we are hitting our growth objectives.

So that is a bit of the five P's as you think about it. Responsibility has got three key components to it, if you will. The first is a sustainability index. And we are working with the Sustainability Consortium, which is a group of not-for-profit organizations, some non-government and some corporations, that help us guide our buyers and our suppliers to make sure that we are building products that are better for our environment. So all the way from conception to how we dispose of the product, steps all the way, including transportation, how do we maximize the efficiency so that we are building sustainable products. And then we scorecard our suppliers and hold them accountable to make sure that we can help those that are struggling and also learn from others and share best practices across the business.

The second would be the women's economic empowerment initiatives, which is a pretty exciting piece here. Last year, we announced that we would invest \$20 billion in women-owned businesses by the year of 2016. When I say invest, I mean procure from women-owned businesses products that they are making for our customers. And this makes great business sense, because it is a great reflection who is shopping in our store.

We also have tools available to our suppliers so we can find ways to empower women that are working on farms and in factories. So we work very closely with our suppliers and say, how can we really help the women-owned businesses in the United States.

The third piece is the healthier food initiative. We really feel that you shouldn't have to be affluent to afford healthy food. So how do we take the cost out and make it very affordable for folks? That is piece one.

The second piece is how do we help the customer navigate it throughout our store. So in February of this year, we announced the Great for You icon that you can see on our slide here. And that is a way to help our customer navigate through our stores and say, this is good for you product. Because our customer told us, I get it, but every package claims the same thing, so which one should I eat. Everyone says it is better for you. So we are going to actually work with third parties to make sure that we can identify that for our customer. And we are also working closely with our suppliers to ensure that we are taking out sugar, we are taking a trans-fats and we are reformulating products, not only our own, but our suppliers' products, to make sure that we are delivering on this initiative. So I am pretty excited about the responsibility initiatives that we have for our business.

So let's jump into a couple other key areas of interest at Walmart. One is the operational improvements. We are working very hard on enhancing our customer experience while we drive leverage and how do we get cost out of that business. And as they say, time is money.

The slide here I think is pretty compelling. Every one second that we can save at Walmart is worth \$12 million. So when you think about transaction -- how do we help our customers move through the cashier line faster -- every second, \$12 million. So in this slide, we are showcasing self-checkout. That is a reflection of two things; the customers want to get in, they want to get out.

And they also have embraced technology. Everybody is walking around with a smartphone. So people aren't intimidated by technology anymore. So we can meet the customer's need. We can also make sure that we are using technology appropriately. And we can save some money for the customer. And what do we do? We put that back in price. So every one of these pennies we save, we invest back in that \$1 billion in price.

So the operators are working very hard across this. This is just one example of many, many productivity initiatives that we have.

The second piece is how are we leveraging all the channels in today's space, digital, online, e-commerce, and how do we think about talking to our customer. So there is three key components to that. The first is how do we drive traffic. So that is through television, it's through digital, it is through social, it is through print.

The second is once they are in the store, how do we drive that conversion. And that is that retail team, and it is bringing it to life. It is demos, it is Action Alley. It is a way to help customers solve dilemmas like the product solutions that I talked about.

The third is how do we drive advocacy? We have 13 million Facebook fans at Wal-Mart, which is the leading fan base in the United States. So how do we leverage that relationship real-time and turn it into a benefit for our customers as well as us? And we communicate through Facebook, My Wal-Mart Store. So it is specific to what is going on in that store, products that we have available there, so it is new innovation product. If it is at holiday time, it might help them with some dilemmas. So that is a very intimate relationship that we are building through social media. So very excited about that.

And then finally, leveraging Walmart.com, and that is -- we have a strong Walmart.com business that really gives us endless assortment, if you will, and also leverages the assets of our store. So a customer can say I want to order this off of Walmart.com, but I want it delivered to the store right down the street. Our site-to-store initiative is actually delivering about 60% of the sales through site-to-store. So it is telling us that the customer wants to be multichannel. So we can get free shipping, broad assortment, right down the street. So whether they have a small store or a big store, WalMart.com can help solve that dilemma. So we are seeing great success there.

Real estate, pretty exciting topic for us at Wal-Mart this year. We will spend \$6.5 billion to \$7 billion in real estate this year at Walmart U.S. We will build 210 to 235 new stores, 80 to 100 of which will be what we will call small stores, a Neighborhood Market or Express Stores, if you've been in our stores in the US. That will basically put 14 to 15 million additional square feet on the ground in Walmart U.S.



So what you see on this slide is really a balanced approach of the comp store initiatives that I shared with you, as well as a very robust market-share-driven real estate strategy, which will continue to put more stores across the United States.

So key takeaways, I think they are pretty straightforward, but I want to just make sure you got them. First, feel very good about the leadership that is leading the business at Walmart U.S. The second is we are very confident and very excited about that we have the right strategy and it is working -- low cost, low price, broad assortment.

We are seeing results. You saw the comp traffic, you saw the comp positive traction; you've also seen some of the merchandising in the store. And I shared with you we've carried that momentum into our fiscal 2013.

Third, the merchandising improvements have traction and also has traction with our supplier partners.

Four, we are integrating our stores and our online. That is the magic, because we have almost 4000 stores in the United States. How do you take that digital universe and really activate it at the local level?

And then five, we have a very, very strong real estate plan this year, which is going to put a lot more stores on the ground, which is exciting for us.

So I appreciate your listening to our program, watching some of my advertising. And Perry, I will turn it back to you for questions.

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## QUESTIONS AND ANSWERS

**Perry Caicco** - CIBC - Retail Analyst

All right. Thanks, Duncan. The central message, I guess, here is that the renewed investment is a renewed investment to drive lower prices, to really build the customer base. When you identified that as a problem, how much of the problem was customer perception versus reality?

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**Duncan Mac Naughton** - Walmart U.S. - EVP, Chief Merchandising and Marketing Officer

I think that is the magic of retail, that balance between perception and reality. And if you looked over the prior, say, three years, Perry, we started to get more promotional in the way we communicated with our customer. We call them atomic rollbacks. And we took large-pack sodas and sold them for \$5.00. We took big gallons of ketchup and sold them for \$1.00. We just did all sorts of very aggressive pricing.

So the customer said, are you really everyday low cost, and can I in fact trust you every day to fill my basket? Because the magic of our story is basket savings, and that is why I think our campaign is so strong.

So I think we did fracture some of that. So that is why we are so focused on consistent price, price separation, price leadership, creating the awareness through marketing, working tightly with our suppliers and making sure when the customer comes in, they are delighted at their total basket savings.

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**Perry Caicco** - CIBC - Retail Analyst

So in that context, what becomes the role of your rollback program?

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**Duncan Mac Naughton** - Walmart U.S. - EVP, Chief Merchandising and Marketing Officer

Rollbacks are still alive. Our customers still -- even EDLP customers love a rollback. Everybody loves a deal. So consistent with our rollbacks, they are long-term rollbacks. They typically would be seasonal, 90 days in nature. They may be for the summer or for the fall or for the holiday. But we are still very invested in the rollback program.

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**Perry Caicco** - CIBC - Retail Analyst

You are one of the rare people that has got to work on both sides of the border. And so just kind of wondering if you can contrast for us the Canadian and American Walmart operations. And perhaps a little bit, too, about the contrast between the Canadian and American consumer.

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**Duncan Mac Naughton** - Walmart U.S. - EVP, Chief Merchandising and Marketing Officer

Sure. Yes, actually, it was a great opportunity to have both opportunities. One of the real surprises to me, actually, is Americans think Toronto is just another big city in North America. But in fact, it is a wonderful city of great diversity. And as you really start to look at the products that we sell in Wal-Mart Supercenter US versus Canada, only just slightly less than 20% are the same UPCs, if you think about that.

Because when you walk one of our big Supercenters here and you walk one down in the States, you think, well, it is just the same old stuff. Only about -- slightly less than 20% is the same. So just that as an overview, I think.

And obviously, the Walmart Canada operation, which I know it is going to be back here in Toronto in a few weeks to talk all about that, is really focused on growing food in their Supercenter base. So wherever we can help them. But they've done a nice job recognizing the diversity of Canadians, from Eastern Canada to Central Canada to Western Canada, about the different needs of fresh food and what roles they play.

I would also tell you that I've seen the Canadian customer -- my perspective would be -- is willing to cross-shop retailers maybe more than Americans. They tend to stick in a channel down in the United States. But there are some similarities there, but I think there are some important differences. I think the magic of our Company is how do you differentiate not only by country, but within country, by community.

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**Perry Caicco** - CIBC - Retail Analyst

There seems to be some glimmer of hope in the US economy, probably for the first time in quite a while. It is kind of an odd question, but does that concern you a bit, that consumers might turn away from value-oriented retailing? How do you feel about your role in that? I know in the past, the Company has shifted with consumers and it has not always proven to be successful. How do you feel about that over the next couple of years?

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**Duncan Mac Naughton** - Walmart U.S. - EVP, Chief Merchandising and Marketing Officer

It is a great question, actually. And when you think about -- I shared with you the headwinds our customers are seeing. But the affluent customer is doing all right in the United States. One of the things we learned when we changed our strategy, we lost that affluent customer because we took selection away from them. So as we've added back these 10,000 items, we've been very focused on making sure that we have a bookend approach to assortment.

So we have opening price point for that value-seeking call it dollar-store or high-discount shopper. But we also have the mainstream product, but we also have a premium offer, so that people that are willing to or want to pay for features and benefits on the higher end of the scale, we will be able to deliver that. And the USDA choice beef program is one of those examples of, people want premium eating experiences, we are going to have it there for them.



So actually, I see this as an opportunity for us. And I think one of the reasons our January business was strong is as they came back to Walmart for the holiday, because of our strong reputation in variety and price, is they recognized, wow, they brought a lot of stuff back. This is Walmart. And I think that is part of the attraction. So I see it as an opportunity.

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**Perry Caicco** - CIBC - Retail Analyst

One of the big topics up here of course is the growth of ethnic communities and how to service them. You guys obviously service every community in the US. You deal, obviously, with many, and obviously Hispanic would be probably the biggest of what would you call the ethnic communities in the US. How have ethnic related strategies impacted how you manage the business? I know you guys are big on localization. Just square that a bit with the growth of those kinds of communities.

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**Duncan Mac Naughton** - Walmart U.S. - EVP, Chief Merchandising and Marketing Officer

It is a great opportunity for us, actually, in the United States, and I tell you it is a work in progress. We have been quite good at what we call Store of the Community, which is really localizing store by store what is relevant to that customer. And inside of that, there is huge opportunities with the growing Hispanic customer, particularly in California and Arizona and Texas and in Florida.

But those, based on their ethnic origin, may be very different. So even in Miami, we will have stores that are 20 miles apart that have very different assortment across that Hispanic food mix. So if -- I talked to you a little bit about micro clustering. This is really the year of us fine-tuning our assortment store by store that says, this is very specific to this area and this store. And we are working with our supplier and our Nielsen partners and our buyers are fine-tuning that. So we see a huge opportunity across the food mix, as well as the non-food mix of how people interact with products.

So we are -- we are really leaning into it, if you will, on Store of the Community. Same thing with African-American, Indian, Asian customers. We have great data that we can really satisfy the customer. I'd say we are good at it, and I think we are going to be great at it.

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**Perry Caicco** - CIBC - Retail Analyst

You know, another big topic up here, of course, is multinationals flowing into the country, which has put pressure on retailers to differentiate themselves. I know the differentiation issue has been a big issue for Walmart over the course of time, because again, as strategy has changed, your differentiation of the retailers has either expanded or contracted.

In an ideal world, what is the differentiation point for Walmart in the US? What is the -- how different does the store need to be from the variety of competitors you have -- not just Target, but everybody else?

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**Duncan Mac Naughton** - Walmart U.S. - EVP, Chief Merchandising and Marketing Officer

Sure. You know, price is a powerful thing. And I think as we look back in our 50 years' of experience, when we invest in price and we take cost out and continue to lower our prices, it resonates with the customer. So I would say that is number one.

But the other key point is the broad assortment, that you can't take for granted that we can select for our customer. We've tried that before; it doesn't work very well. The customer wants what they want. So we have the fortunate ability have very large stores, so we are able to actually offer significant assortment in all the categories that we participate in.

So we compete, quite frankly, with almost every retail channel. It is a wonderful day in my life when you get up and everything is working. But when you really think about it, we've got great competitors in the United States in each one of the channels. And one of the things I experienced here in Canada was the same thing; I mean, you've got some of the finest -- well, one of the finest drugstore retailers in the world, that was just

here. Great food retailers, nationally, right here in Toronto, as well as by province. It is unbelievable what I learned here about how strong and pure you have to be to your strategy and run the Walmart play to be Walmart and be successful.

And in the United States, our customers told us, price, broad assortment, good experience, be in stock when I want you there, and they will come.

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**Perry Caicco** - CIBC - Retail Analyst

You've got, obviously, a large and complex worldwide business, which would lead us to believe that there must be some process for the sharing of best practices across borders. How does that work inside Walmart, and is that still an opportunity for the Company going forward? These are very distinct markets and the Company's evolved very differently in these markets. How do you view that?

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**Duncan Mac Naughton** - Walmart U.S. - EVP, Chief Merchandising and Marketing Officer

Sure. That is one of the most exciting things about being with Walmart, when you have access to all the different retail initiatives across the United States as well as the world. And if you think about -- well, Mike Duke just set up global sharing practices to make sure that we enable sharing best practices. And he basically just put an executive in, Rollin Ford, that is really responsible for global consumer insights, global sourcing, global sharing of best practices. So that we are really centralizing the best of the best in our country and of our Company that we can then share with the user countries.

And I will tell you, as an American, you like to think you always have the best ideas. But quite frankly, a lot of the great ideas in our Company come outside. It is all around the world. If you look at Mexico, for instance, we have a very strong multi-format strategy down there that we are learning from as we think about how we may want to compete differently in the United States. Because they run different formats, different size boxes, different brands, and they do that very successfully.

UK has a wonderful food business as well as an e-commerce business that we can learn from in the United States, with our new acquisition in South Africa. These are categories that we have, quite frankly, very little or limited knowledge in that we can bring back to the United States or other countries in the world and really start to learn from.

We can also integrate that, if you will, with our suppliers. Because we have many global suppliers that work with us in the business, and when you think of the possibility of two global companies working together to change the game for our mutual customer, it is pretty exciting.

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**Perry Caicco** - CIBC - Retail Analyst

And what role do you see e-commerce playing for you guys going forward? I know you have -- again, it is a place where strategy has changed over the course of years and it's been a topic that has been around forever. I know you've put resource against it and pulled resources back from it and back and forth. How do you see, from your position, the sort of e-commerce online merchandising evolving, given your central strategy to deliver low prices?

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**Duncan Mac Naughton** - Walmart U.S. - EVP, Chief Merchandising and Marketing Officer

Sure. Global e-commerce and Walmart.com specifically to the US and Walmart.ca here in Canada, significant investment and part of our growth pattern. If you really think about how the customer's shopping today, it is seldom do you not see somebody using their smartphone in the aisle for either product information or price transparency. Our goal then is how do we tie that back to our e-commerce strategy to make it easier for our customer.

So if it is a pure e-commerce from site to home, what we want to figure out and leverage is the multichannel opportunity, like our site-to-store. How do we sweat the assets that we already have on the ground that help people understand what is in our store today? Or, by the way, we have

stores in most zip codes in the United States; we are probably only 10 miles away from you. We would get it there in 30 minutes. So how do we leverage today's assets and technology?

So the business is looking not only globally, but specifically by country, how do we leverage that. I see great opportunities for endless aisle, from assortment, from meeting needs real time for our customer. So very important for us.

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**Perry Caicco** - CIBC - Retail Analyst

Great. That's good for today. Thank you, Duncan. Great.

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**Duncan Mac Naughton** - Walmart U.S. - EVP, Chief Merchandising and Marketing Officer

Thank you very much.

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