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CHANGING U.S. GROCERY LANDSCAPE

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ABSTRACT: - Walmart operated discount department stores and grocery stores worldwide. With little early competition Walmart grew and achieved a global scale which assisted in lowering costs and lowering prices. When Walmart reached saturation, it entered the grocery business. Eventually, Walmart started to face competition in its domestic market from Costco, which competed on value, and Amazon, which competed on convenience. Additional competition came from smaller footprint discount grocers, such as Aldi and Lidl. Walmart's dominance was its reputation for low prices and its excellent distribution network to stores. Organization moved products from distribution centers into store shelves efficiently. Consumers found the lowest price at Walmart, but the substantial price transparency of the Internet meant that they might always click around to see if they might find a better deal elsewhere, such as with Amazon.

The substantial growth of e commerce created both opportunities as well as a significant new competitor, Amazon. Walmart's dominance was its reputation for low prices and its excellent distribution network to stores. Home delivery emerged globally as one of the biggest puzzles in the food business as consumers increasingly opted for convenience.

Competition for food dollars grew both from formats that compete on value, such as Costco and Walmart, and on convenience, such as Amazon. Supermarkets ramped up their investments in private brands to differentiate themselves from competitors and build customer loyalty. As prices surged, store brands, also known as private labels, became an even more attractive option for inflation-fatigued shoppers who looked to switch from pricier name brands.

Key Words: - Bricks and mortar, distribution systems, e-commerce, private label, supply chain,

I. INTRODUCTION

Walmart Inc., American multinational retail corporation, operated discount department stores and grocery stores worldwide. Walmart moved into the grocery business in the late 1990s. (Walmart, 2016B). In 2019, 65 percent of Walmart's US$510.329 billion sales came from U.S. operations (Walmart, 2016) (Walmart, 2020).

With little early competition Walmart grew and achieved a global scale which assisted in lowering costs and lowering prices. When Walmart reached saturation, it entered the grocery business with its Super Store concept. This allowed Walmart to leverage their brand and attract new customers. Most competitors were regional and lacked the scale and efficiency of Walmart. The next initiative was to expand internationally. This allowed Walmart to maintain revenue growth and to compete in markets where they could create a competitive advantage, but also to counter the entry of Tesco (UK) and Carrefour (France) in international markets (Hill, 2003).

Eventually, Walmart started to face competition in its domestic market from Costco, which competed on value, and Amazon, which competed on convenience. Additional competition came from smaller footprint discount grocers, such as Aldi and Lidl, which offered a smaller selection of products, often private labels, and lower overhead costs (Wall Street Journal, 2022B).

Walmart, in response to the challenge, pulled back from international locations to focus on its domestic business. While not as successful as other locations Walmart remained in China to gain a better understanding of home delivery alternatives and because of significant sourcing.

E-Commerce Competition

The substantial growth of e commerce created both opportunities as well as a significant new competitor, Amazon. The entry and rapid expansion of low-cost competitors, such as Aldi and Lidl, in the U.S. bricks and mortar grocery market offered challenges.

Remaining competitive required big-ticket investments by Walmart. It spent $14 billion as it improved its supply chain and added automation in its distribution channels. Such improvements made online sales more efficient and profitable (Huddleston Jr., 2021)).

Amazon, one of Walmart’s major competitors, has a history of acquiring successful start-ups and companies. The most prominent acquisition was the purchase of Whole Foods Market in 2018. The chain operated almost five hundred stores in North America as well as the United Kingdom and was widely known for its organic selection. The Whole Foods purchase gave Amazon direct access to sustainability-oriented consumers and their information, as they shopped in stores for their food. Amazon collected and analyzed data to better serve its customers (Maamoun, 2020).

Walmart’s dominance was its reputation for low prices and its excellent distribution network to stores. It moved products from distribution centers into store shelves efficiently. However, it lacked the skills and coordination ability to move those products from stores to customers’ homes. Amazon changed its prices constantly, which made direct price comparisons difficult. Consumers might find the lowest price at Walmart, but the substantial price transparency of the Internet provided the opportunity for price comparison to find a better deal elsewhere with Amazon, for instance (Maamoun, 2020).

International Operations

As of April 30, 2022, Walmart operated 10,585 stores and clubs in twenty-four countries, operating under forty-six different names. Walmart's international operations comprised 5,250 stores (Walmart, 2022A) (Walmart, 2022C) and 800,000 workers in twenty-three countries outside the United States.

In fiscal 2019 Walmart's international division sales were US$120.824 billion, or 23.7 percent of total sales (Walmart, 2016A) (Walmart, 2020). The international expansion was an outcome of saturation in the US market and the ability of Walmart to dominate in markets they entered as well as a first mover strategy against global retailers Tesco and Carrefour.

Believing that their business model translated internationally Walmart embarked on an international expansion strategy in 1991, with the first Sam's Club store in Mexico City (Hill. 2003). However, expectations internationally failed to remain consistent. Walmart left Japan after 18 years. It sold its stake in a local supermarket chain and continued its retreat from slow-growing global markets in favor of e-commerce (Wall Street Journal, 2020). Walmart agreed to sell U.K. grocer Asda Group Ltd. Walmart said it expected to recognize a noncash after-tax loss of about $2.5 billion. Walmart said it would sell its retail operations in Argentina in a deal that would result in a noncash after-tax loss of about $1 billion (Wall Street Journal, 2020).
In early 2018 Walmart signaled a move from slow growth and struggling international operations. Since then, it has gradually remade its international operations, including buying Indian e-commerce startup Flipkart for $16 billion and investing in e-commerce operations in Canada and Mexico (Wall Street Journal, 2020).

Two years ago, Walmart retained a big bricks-and-mortar presence in many international locations, including China, Mexico, Canada, and Central America (Wall Street Journal, 2020).

To achieve dominance in the U.S., Walmart squeezed out supply-chain inefficiencies and pressed for the he best price from suppliers. This strategy often failed to translate in overseas markets, such as Japan and Korea (Wall Street Journal, 2020).
Walmart’s operation in Indonesia closed due to the 1997 Asian financial crisis (Pintak,1998).

Western firms, lured by a once surging Chinese economy, found China brutally competitive and fraught with regulatory hurdles. Brands such as Walmart partnered with one of China's e-commerce giants or bowed out. Amazon.com Inc. sold its third-party online marketplace in China to a competitor after years of declining market share (Wernau, 2019). Walmart's experience showed how hard it was for Western firms, even those with the resources of Walmart, to thrive in China's increasingly state-led and slowing economy (Lin and Nassauer, 2022).

Delivery emerged globally as one of the biggest puzzles in the food business as consumers increasingly opted for convenience. Organizations were tricky and finding a profitable business model was complicated due to the large upfront costs to get close to the customer (Wernau, 2019).

Walmart scaled back on other promising international locations, selling control of its stores in the U.K., Brazil, Japan, and Korea but kept its retail presence in China (Lin and Nassauer,2022). China was home to vast manufacturing and sourcing operations that Walmart relied on for low-priced goods. In addition, they said, operating stores in China helped Walmart stay abreast of trends in retail and e-commerce (Lin and Nassauer,2022).

Amazon's history included acquiring successful start-ups and companies. The most prominent acquisition was the purchase of Whole Foods Market in 2018. The chain has almost five hundred stores in North America as well as the United Kingdom and was widely known for its organic selection. The Whole Foods purchase gave Amazon direct access to sustainability-oriented consumers and their information, as they shop in stores for their food. Amazon was known for using data it collects to better serve its customers (Maamoun, 2020).

In contrast, Walmart's dominance was its reputation for low prices and its excellent distribution network to stores. Organization moved products from distribution centers into store shelves efficiently. However, it lacked the skills and coordination ability to move those products from stores to customers' homes. Amazon also changed its prices constantly, which made direct price comparisons difficult. Consumers found the lowest price at Walmart, but the substantial price transparency of the Internet meant that they might always click around to see if they might find a better deal elsewhere, such as with Amazon (Maamoun, 2020).

German deep discounters go big in America

Competition for food dollars grew both from formats that compete on value, such as Costco and Walmart, and on convenience, such as Amazon.

The US grocery industry was highly fragmented. Publix, Wegmans, and Safeway were strong regional brands. Walmart, Costco, Target, and Kroger operated coast to coast. While foreign grocers Tesco (UK), Carrefour (France) and Loblaws (Canada) failed to establish a significant US presence, Walmart financials (Exhibit 1) show a giant behemoth that became the world's largest grocer (Exhibit 2) and repositioned itself to compete in the global shift to e commerce (Exhibit 3). Was this enough to compete with Amazon, Aldi, and Lidl?

While Aldi and Lidl were unknown compared with Costco, Target, and Walmart, they were among the top ten grocers globally (Exhibit 2). They achieved this through a similar strategy of lower prices and selling a limited selection of store brands (private labels).

Store Brands, Private Labels, and Generic Brands

Supermarkets were ramping up their investments in private brands for years to differentiate themselves from competitors and build customer loyalty.

As prices surged, store brands, also known as private labels, became an even more attractive option for inflation-fatigued shoppers who looked to switch from pricier name brands. Store brands were anywhere from 10% to 50% cheaper.

Leading national brand manufacturers created private labels for multiple retailers. In the late 1990s more than half of brand manufacturers made private label goods (Meyerson, 2022).

Although store brands competed with manufacturers' national brands, manufacturers often created excess capacity on their production lines. To generate additional profits, brands used that extra capacity to produce private labels. Other brand manufacturers produced private labels as an incentive for retailers who rewarded to reward them with better shelf space and better placement for their own national labels (Meyerson, 2022).

Private brands often carried profit margins that were 20% to 40% higher than national brands because stores did not pay the advertising, distribution or other markup costs embedded in major brands' prices. In the mid-20th century, retailers developed their own labels to claw back bargaining power from dominant suppliers and kept their prices in check. Now, stores created more leverage to introduce their own labels (Meyerson, 2022).

Amazon

Walmart, the emblem of suburbia, was moving tentatively into Amazon's metropolitan heartland when it developed its online strategy. The challenge was to attract online shoppers without cannibalizing the ones who visited the stores (Economist, 2021).

More than half of Walmart's domestic sales were groceries. That gave it protection from Amazon. If Amazon mastered cashier less shopping, it changed the buying of groceries as it did everything else, from bookselling to cloud-computing (Economist, 2021).

Walmart took a page from retailers like Apple and Amazon that built an ecosystem of products and services to deepen loyalty and win customers' wallets when it launched Walmart+. Amazon Web Services (AWS) was Amazon's profit engine, helping it offset the challenging economics of selling items it must pick, pack and ship (Repko,2021).

Fifteen years ago, Walmart committed itself to Internet retailing when Amazon was just a small blip on the radar, selling books. That changed as Amazon dominated the digital marketplace and overtook Walmart in terms of its stock market value. Walmart continued to seek a firm foothold in the online domain, but it was not alone struggling to compete with Amazon in cyberspace. It did become the largest and most prominent example of how Amazon transformed the retail landscape. In addition to Amazon's long-standing advantages of low overheads achieved because it did not need to invest in physical stores; vast inventory unlimited by any reliance on square footage in stores; and a unique recommendation algorithm, it continued to invest heavily in its fulfillment capabilities. By achieving the ability to offer same- and next-day delivery regularly, Amazon became a primary source that consumers relied on to meet their immediate consumption needs (Maamoun, 2020).

Competition in the Industry

The competition among three similar but different European controlled grocers disrupted the industry by not only changing buying habits but presenting a challenge to Walmart, Costco and Amazon.
Walmart, in response to the challenge, pulled back from international locations in Germany, Japan, and the United Kingdom among others to focus on its domestic business. While not as successful as other locations Walmart remained in China to gain a better understanding of home delivery alternatives and because of significant sourcing.
Was it possible for Walmart to remain competitive in the long term?

Exhibit 1: Walmart Financials

Walmart Inc.

Consolidated Statements of Comprehensive Income

	Fiscal Years Ended January 31,		
(Amounts in millions)	2022	2021	2020
Consolidated net income	$ 13,940	$ 13,706	$ 15,201
Consolidated net income attributable to noncontrolling interest	(267)	(196)	(320)
Consolidated net income attributable to Walmart	13,673	13,510	14,881
Other comprehensive income (loss), net of income taxes			
Currency translation and other	2,442	842	286
Net investment hedges	(1,202)	(221)	122
Cash flow hedges	(444)	235	(399)
Minimum pension liability	1,974	(30)	(1,244)
Other comprehensive income (loss), net of income taxes	2,770	826	(1,235)
Other comprehensive (income) loss attributable to noncontrolling interest	230	213	(28)
Other comprehensive income (loss) attributable to Walmart	3,000	1,039	(1,263)
Comprehensive income, net of income taxes	16,710	14,532	13,966
Comprehensive (income) loss attributable to noncontrolling interest	(37)	17	(348)
Comprehensive income attributable to Walmart	$ 16,673	$ 14,549	$ 13,618

See accompanying notes.

Walmart Inc.
Consolidated Balance Sheets

(Amounts in millions)	As of January 31, 2022	2021
ASSETS		
Current assets:		
Cash and cash equivalents	$ 14,760	$ 17,741
Receivables, net	8,280	6,516
Inventories	56,511	44,949
Prepaid expenses and other	1,519	20,861
Total current assets	81,070	90,067
Property and equipment, net	94,515	92,201
Operating lease right-of-use assets	13,758	13,642
Finance lease right-of-use assets, net	4,351	4,005
Goodwill	29,014	28,983
Other long-term assets	22,152	23,598
Total assets	$ 244,860	$ 252,496
LIABILITIES AND EQUITY		
Current liabilities:		
Short-term borrowings	$ 410	$ 224
Accounts payable	55,261	49,141
Accrued liabilities	26,060	37,966
Accrued income taxes	851	242
Long-term debt due within one year	2,803	3,115
Operating lease obligations due within one year	1,483	1,466
Finance lease obligations due within one year	511	491
Total current liabilities	87,379	92,645
Long-term debt	34,864	41,194
Long-term operating lease obligations	13,009	12,909
Long-term finance lease obligations	4,243	3,847
Deferred income taxes and other	13,474	14,370
Commitments and contingencies		
Equity:		
Common stock	276	282
Capital in excess of par value	4,839	3,646
Retained earnings	86,904	88,763
Accumulated other comprehensive loss	(8,766)	(11,766)
Total Walmart shareholders' equity	83,253	80,925
Noncontrolling interest	8,638	6,606
Total equity	91,891	87,531
Total liabilities and equity	$ 244,860	$ 252,496

See accompanying notes.

Source: Walmart, April 2022B, Annual Report

Exhibit 2: Top Ten Global Grocers

Source: Canadian Grocer, 2019, https://canadiangrocer.com/10-largest-food-retailers-world-sales.
1.Walmart

In-store net sales for 2019: $503 billion
Online net sales for 2019: $49 billion

2. Costco
In-store net sales for 2019: $151 billion
Online net sales for 2019: $7 billion

3. 7-Eleven Holdings
In-store net sales for 2019: $120 billion

4. Kroger
In-store net sales for 2019: $119 billion
Estimated online net sales for 2024: $9 billion.

5. Schwartz Gruppe
In-store net sales for 2019: $117 billion
Estimated online net sales for 2024: $3 billion.

6. Aldi
In-store net sales for 2019: $108 billion

7. Carrefour
In-store net sales for 2019: $106 billion
Estimated online net sales for 2024: $6 billion.

8. Aeon
In-store net sales for 2019: $82 billion

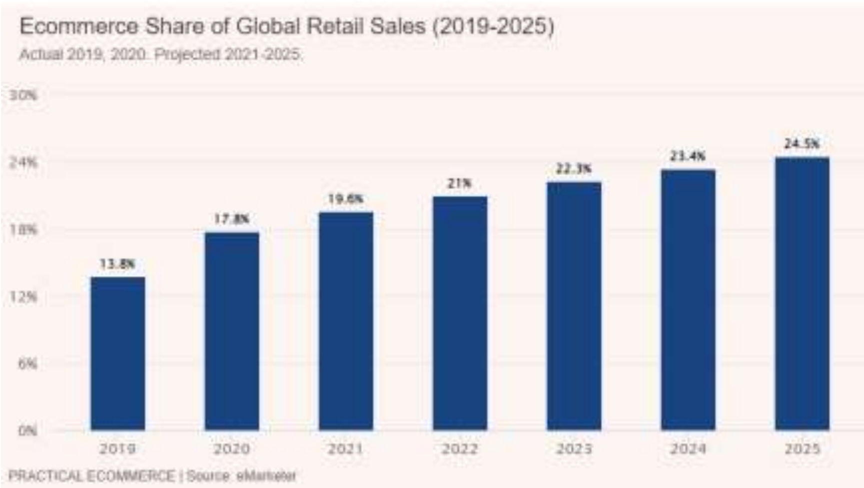
9. Tesco
In-store net sales for 2019: $82 billion
Online net sales for 2019: $4 billion

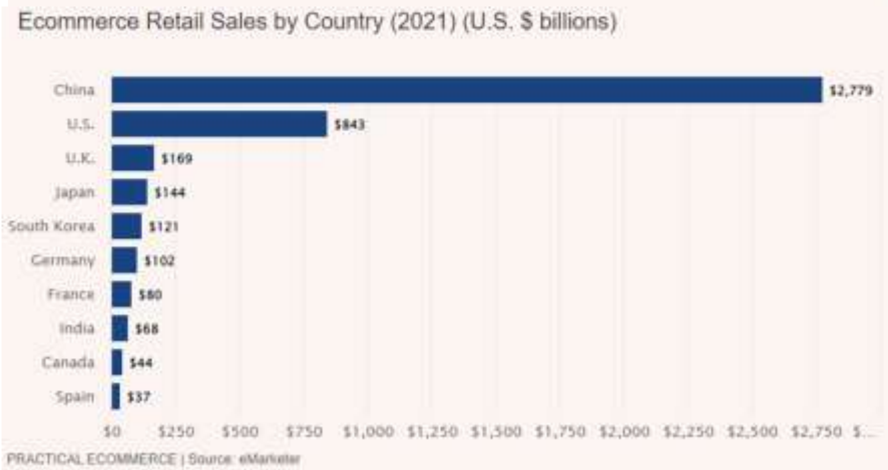
10. Target
In-store net sales for 2019: $71 billion
Online net sales for 2019: $7 billion

Exhibit 3: E-Commerce Sales

Source: e Marketer, 2020, https://www.practicalecommerce.com/charts-ecommerce-share-of-global-retail-sales

E-commerce Sales:





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