

Marketing: Price

Walmart Content Reading

Learning Target: *I can identify the issues related to Ever Day Low Price strategies.*

Read the article and then answer the questions.

Wal-Mart Ratchets Up Pressure on Suppliers to Cut Prices

Retailer urges them to pull back on joint-marketing efforts to bring cost down

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By Paul Ziobro and Serena Ng

Wal-Mart Stores Inc. is increasing the pressure on suppliers to cut the cost of their products, in an effort to regain the mantle of low-price leader and turn around its sluggish U.S. sales.

The retailing behemoth says it has been telling suppliers to forgo investments in joint marketing with the retailer and plow the savings into lower prices instead.

Makers of branded consumer products from diapers to yogurt typically earmark a portion of their budgets for marketing with Wal-Mart, spending on things like eye-catching

Wal-Mart's U.S. division is in the early stages of a turnaround, having just posted two straight quarters of positive same-store sales after a long slump. Low gasoline prices have helped. Photo: JOE RAEDLE/Getty Images

product displays and online advertisements.

Wal-Mart has long had a reputation for pressing its suppliers to cut costs to help lower prices, but the retailer's new leadership has embraced the concept with fresh vigor. Wal-Mart's price advantage against its competitors has been eroded, and it has steadily been losing market share in the U.S. since the recession ended, while rivals including Kroger Co. and Costco Wholesale Corp. gained share, according to data from the consultancy Kantar Retail.



With the growth of dollar stores and other discounters, Wal-Mart is facing ever more competition on price, which for many customers is the most important selling point. Photo: Joe Raedle/Getty Images

With the growth of dollar stores and other discounters, Wal-Mart is facing ever more competition on price, which for many customers is the most important selling point.

The new dictate on prices is creating tension with companies that supply the hundreds of thousands of products on Wal-Mart's shelves.

While lowering prices by shaving down marketing budgets may help Wal-Mart draw more customers, it gives suppliers less control over how their products are

displayed or promoted, and less ability to make them stand out against store brands or other rivals. That is an issue when Wal-Mart and other chains are trumpeting their private-label house brands.

The zeal on pricing is part of a push by new Chief Executive Doug McMillon and U.S. head Greg Foran to turn around Wal-Mart's core domestic business, which booked \$288 billion in sales in the year ended Jan. 31, 60% of the company's total. While U.S. sales were up 3% last year, the growth was a scant 0.5% excluding newly opened stores, and the division's profit fell.

With the heavy investments related to its promise to raise wages and the development of a vast e-commerce business, Wal-Mart has fewer options for chipping away at costs, putting suppliers in the cross hairs.

Messrs. Foran and McMillon laid out the pricing message during a private meeting with suppliers in February. They want suppliers to operate with the same everyday low cost model that Wal-Mart employs from top to bottom.

"They kept pushing, 'We're going back to basics, it's all about low pricing,' " said one supplier who attended the meeting.

Mr. Foran, who became president and CEO of Wal-Mart's U.S. business in August after leading the Asia division, plans to address Wall Street analysts Wednesday to lay out in more detail his plans for the U.S. business.

Financial arrangements between suppliers and big retailers aren't just a matter of coming to terms on volumes and a wholesale price. They often also bundle in a host of extras including slotting fees, funds for special promotional discounts and money to pay for shared marketing. The latter is particularly important for makers of branded consumer goods.

"We want to get back to a point where we are playing offense with price because of the way we go to market," Mr. McMillon said, according to a transcript. "Our pricing strategy is aimed at one objective, and that is building trust."

The effort to get suppliers to reallocate the marketing investments reinforces the company's long-standing business strategy to keep costs low, said Deisha Barnett, a Wal-Mart spokeswoman. "It's a proven business model that works," she said. "We think the smart investment is to put the dollars into price."

Former Wal-Mart employee Derek Ridenoure now works at C.F. Sauer Co., a company that supplies the retailer with spices, seasoning mixes and other packaged food products. He said a team at Wal-Mart closely monitors commodity prices and asks suppliers to reduce costs when it observes downward trends in ingredients prices.

After a long slide left soybean prices at a multiyear low recently, the retailer asked Mr. Ridenoure this year to cut his prices. Soybean oil is a key ingredient in many condiments made by C.F. Sauer.

"I pushed back initially," Mr. Ridenoure said, reasoning that soybean prices could march higher if farmers switched to other crops.

Wal-Mart's response was that if soybean prices marched higher, suppliers could take their prices up again. Mr. Ridenoure's company ultimately agreed to cut costs by giving discounts for bigger orders.



Recently, in what was widely seen as a move to pressure Procter & Gamble Co. to lower prices of its popular Tide detergent, Wal-Mart struck a deal with consumer products company Henkel AG to introduce a new premium-priced detergent brand, Persil, exclusively in its stores. Wal-Mart is selling Persil at the same price as Tide, and displaying it on shelves next to Tide.

Ms. Barnett said Wal-Mart decided to start selling Persil in the U.S. to broaden the assortment in its laundry aisle. A P&G spokesman declined to comment about its relationship with Wal-Mart, but said the company welcomes competition in the detergent business.

Wal-Mart's U.S. division is in the early stages of a turnaround, having just posted two straight quarters of positive same-store sales after a long slump. Executives at the retailer have attributed part of the increase to falling gasoline prices, which have led some shoppers to spend more and to make the longer drive to the stores.

The gains are tenuous, however, and Mr. Foran has been meeting with former executives to understand what gave the retailer an edge during its heyday. The native New Zealander is a devotee of former Wal-Mart executive and board member Jack Shewmaker, who developed the company's everyday-low-price strategy and died in 2010.

Name: _____

QUESTIONS

1. Who is Walmart telling to cut prices to?
2. What types of things is Walmart telling their suppliers to cut back on to achieve the price cuts?
3. Which competitors in the US is Walmart losing market share to?
4. By forcing supplies to cut back their promotion costs to achieve the price reductions, what do the suppliers lose in the store?
5. Branded consumer products often bundle what three things in their pricing arrangements with Walmart?
 - a.
 - b.
 - c.
6. What brand from Europe did Walmart make a deal with for laundry detergent?