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Walmart
The future of shopping

SMURFIT CONSULTING PRESENTING TO DOUG MCMILLON & MARC LORE

GEAROID O BRIAIN – MARIA BARRY – RUTH LALOR – ANDREW GEBELIN

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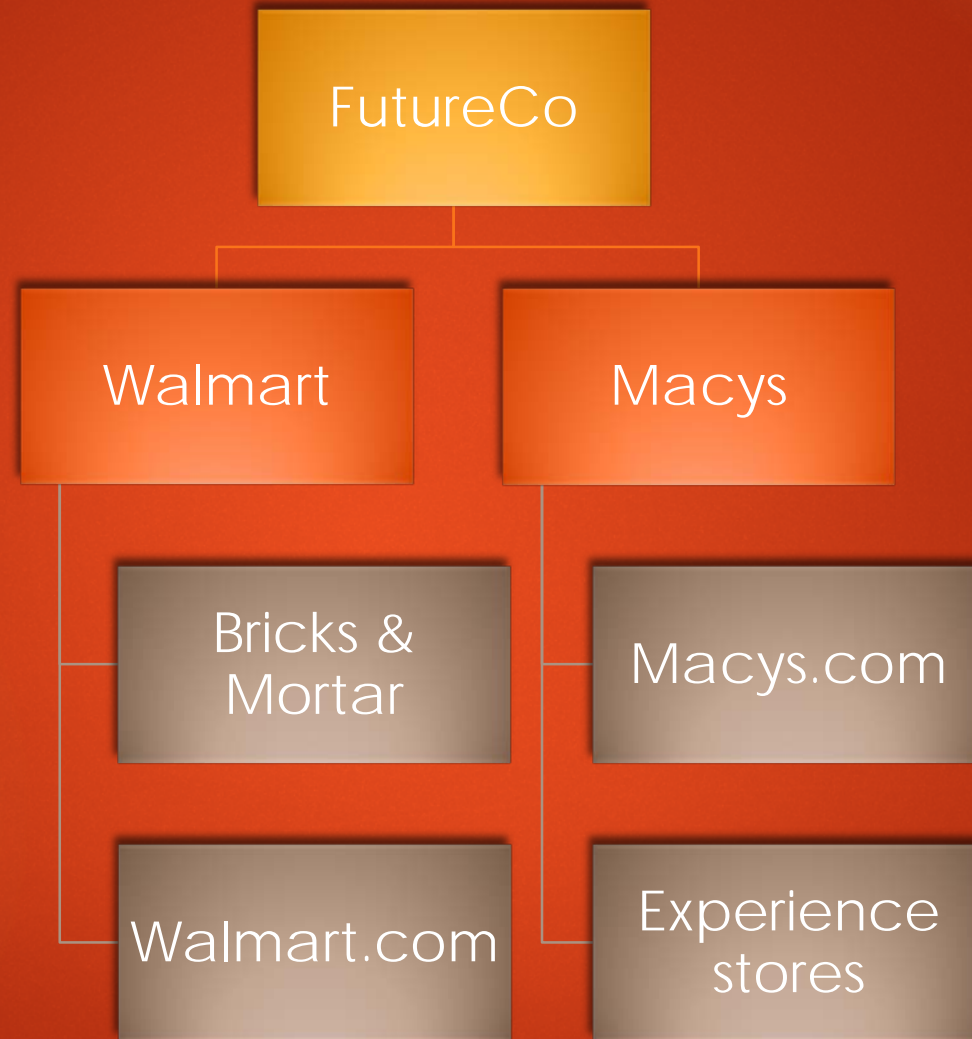# How do you protect your market share while transforming yourselves for the future of shopping?

Recommendations

FutureCo

Walmart

Macys

Bricks & Mortar

Macys.com

Walmart.com

Experience stores

One last acquisition, consolidate and build for the future

Agenda

Analysis
Maria Barry

Recommendations
Ruth Lalor

Implementation
Andrew Gebelin

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Analysis

Maria Barry

Economical
- On-line retail growth
- E-commerce sales
- Empty main streets

Social
- Convenience
- Busy customers
- Urbanization

Legal
- Employment laws
- Gender pay disputes

Challenge to balance external factors in the future

EXTERNAL ANALYSIS – MAIN COMPETITOR

	Amazon	Traditional Walmart stores
Products	Full range	Low cost and Quality
E-commerce	Strong (74.1% total sales)	Low- expanding (2.8% total sales)
Supply chain expertise	Strong	Strong
Technology	Strong	Developing
Physical presence	Low - expanding	High
Pricing	Use of algorithms	EDLP

Strong physical presence – main differentiator

INTERNAL ANALYSIS-COMPETENCIES

Physical stores – extensive physical distribution

Supply chain expertise

Strong retail networks

Location plus supply chain

INTERNAL ANALYSIS - FINANCIALS

- Largest company be revenue ($485.9 billion 2017) – ahead of Amazon in overall revenues

- Online sales growth rose 63% in Q1 2017 vs 23% in Q4 2016

- No R&D expenditure

- Stagnant operating profit from 2014 to 2017

- Large fixed asset base ($ 114 billion)

Profits are stable and strong fixed asset base
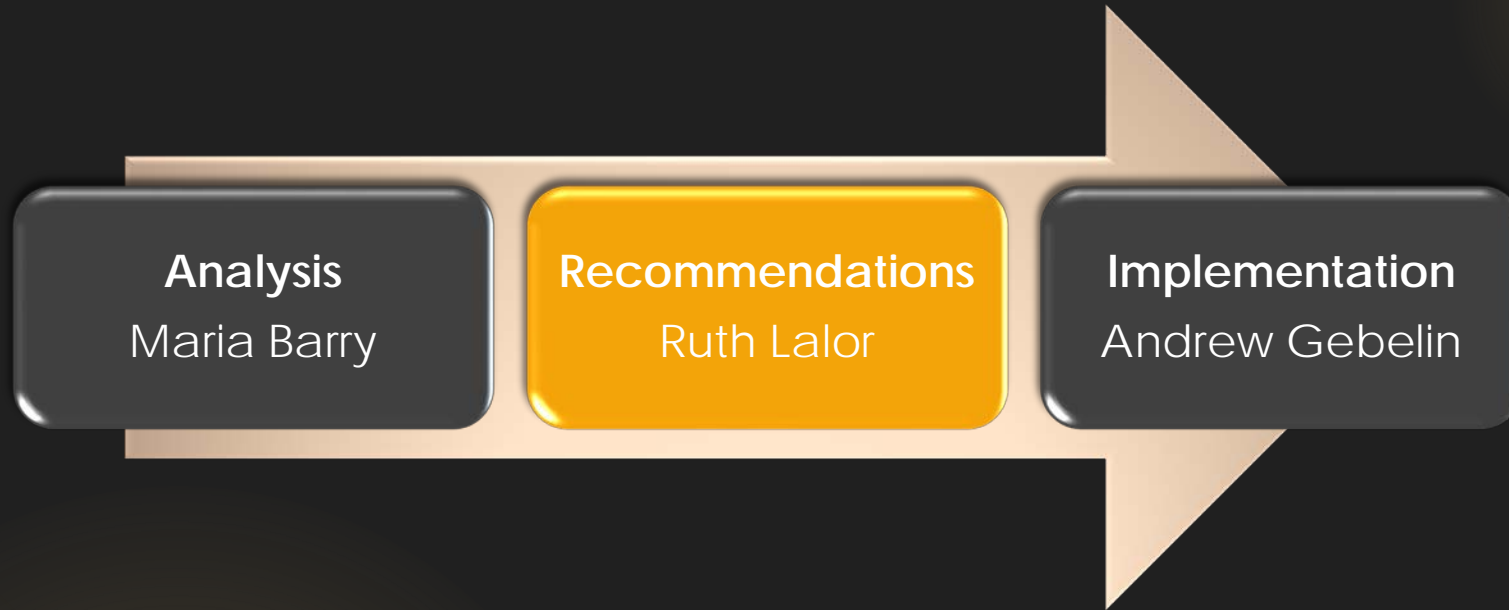
INTERNAL ANALYSIS - FOCUS

Traditional Walmart Stores

- Low price/quality
- General population (low/middle income)
- Rural and suburban customers

New Acquisitions

- Mid to premium brands
- Millenial customer base
- Urban customers

Two competing visions

Analysis	Recommendations	Implementation
Maria Barry	Ruth Lalor	Andrew Gebelin

Recommendations & Alternatives

Ruth Lalor

The Challenge

W

How can we grow scale in our online business & expand our target market?

NON-VIABLE Options

Organic Growth

Pros

Cons

Image conflict

Loss of market share

Core competence

Simple

Slow

Separate brands

Pros

Cons

Lack of scale

Complicated

Brand image

Lack of synergy

Buy Amazon

Pros

Cons

Unlikely to sell

Legal issues

Immediate scale

Monopoly

Too expensive

These are NOT good options

	Organic growth	Continue small acquisitions	Buy amazon	Buy other large retailer
Growth	🔴	🟡	🟢	🟢
Cost	🟢	🟡	🔴	🟡
Feasible	🟢	🟢	🔴	🟢
Risk	🔴	🟡	🟡	🟡

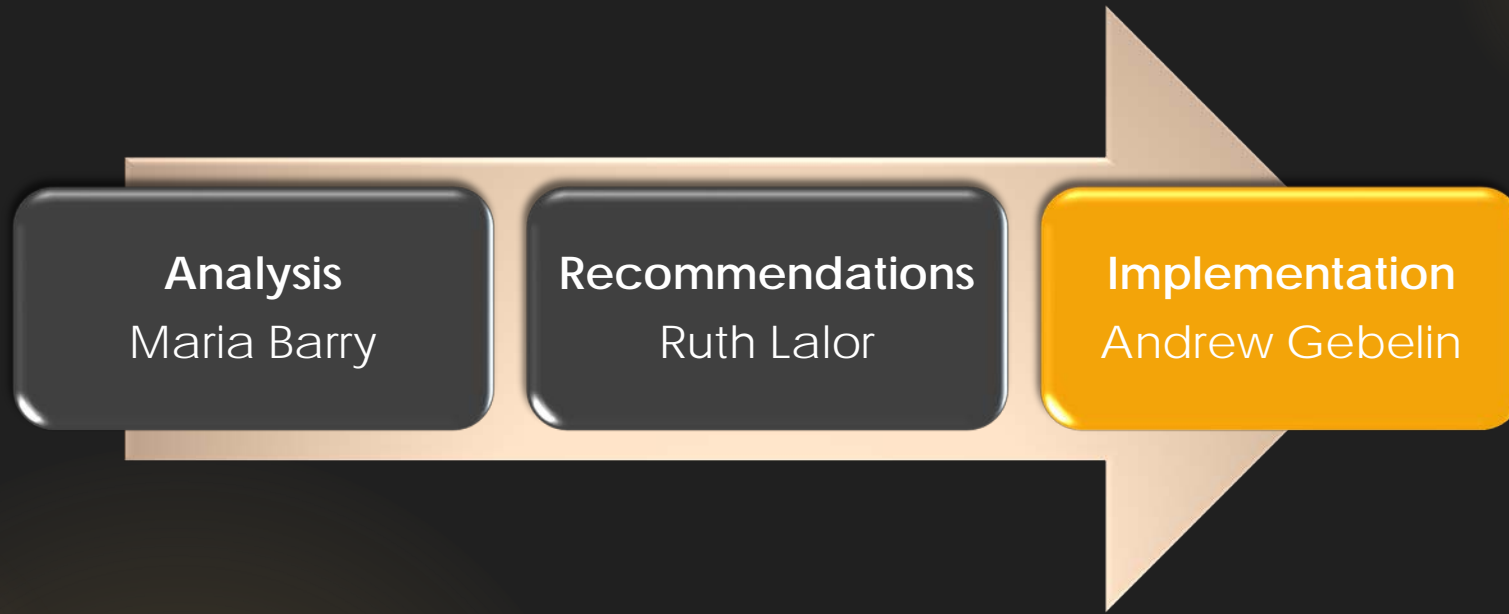Growth by single acquisition

What does the future look like?

One big acquisition: Buy Macy's for $68BN.

Aggregate non Walmart online stores onto a common marketplace called Macy's, using Jet.com technology

Use Jet.com technology on Walmart.com, no rebranding. Retain bricks and mortar Walmart

Bonobos style stores for macys.com

Restructure, consolidate and deliver the future of shopping

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Implementation

Andrew Gebelin

Implementation: Macy's Acquisition

2018

$68BN acquisition

All share offer increases equity to $372BN

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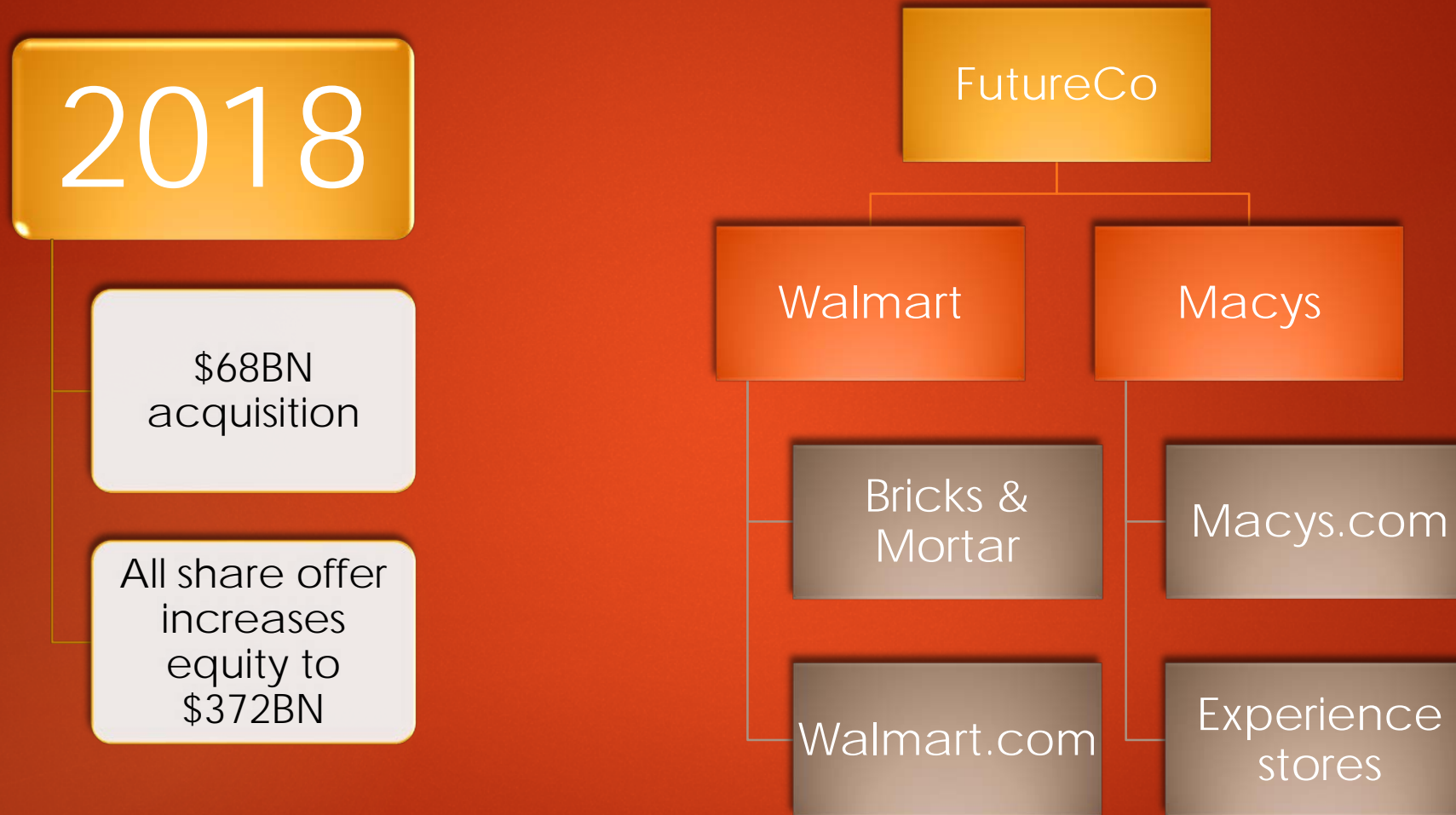
Rapid scale, two brands and target markets

Restructure & Rebrand

2019

- One-time restructuring ($100M)
- 2 operating subsidiaries under FutureCo
- Walmart headed up by new CEO appointed from within
- Macy's headed up by Lore as CEO and Andy Dunn as COO
- Rebrand with marketing campaign
  - Social media
  - Multi-brand portfolio at Macys
  - Consolidation of all physical stores (non-Walmart)
  - Implement Jet.com tech on Walmart.com

2020

- Use analytics of Jet.com to determine store locations for Macy's
- Review Macys traditional stores, rationalise
- Develop technology to disrupt shopping

Solve the image problem and innovate the future of retail

Implementation: Internal Focus

2019

- Annual capital investment of $1BN for new 'Guideshop'
- Convert planned Macy's store closures/ downsizes to Guideshops
- Build store concept into Macys.com

2020

- Invest in R&D ($30M)
  - Shopping avatar
  - Online CS
  - Omnichannel presence
- Scale knowledge to build internally

FINANCIAL IMPLICATIONS

Acquisition of Macys

Year	Item	$	% increase in profits
2018	Acquisition cost	(68 billion)	
2019	Profits	29.7 billion	+10%
2020	Profits	35.5 billion	+20%
2021	Profits	46.15 billion	+30%
2020	Profits	64.61 billion	+40%
2022	Profits	96 billion	+50%

- **5 year payback period**
- **Average yearly ROI: 60% per year**
- **NPV positive - $142.5BN (2019-2022)**

Assumptions:
- Acquisition cost: 2.5 times Macy's revenues
- Macys E-Commerce sales: $4.8 billion (17.5% of total sales) Projected total Macy's sales: $27 billion
- Projected growth in Macy's sales year on year

Acquisition is financially viable with 5 year payback period

FINANCIAL IMPLICATIONS

In US$ 000s	2018	2019	2020
Total revenues	534,460,000	641,352,000	833,757,000
Cost of revenues	397,381,000	476,000,000	618,000,000
Gross profits	137,000,000	165,000,000	215,000,000
Operating expenses			
R&D	0	30,000,000	30,000,000
SGA	102,853,000	97,141,000	93,518,000
Operating income	35,000,000	38,000,000	92,000,000

Assumptions:
- Overall Revenue growth: 2018 (10%), 2019 (20%), 2020 (30%)
- Increase in cost of revenues: 2018 (10%), 2019 (20%), 2020 (30%)
- SGA to increase with increase in marketing costs ($350 million over three years)
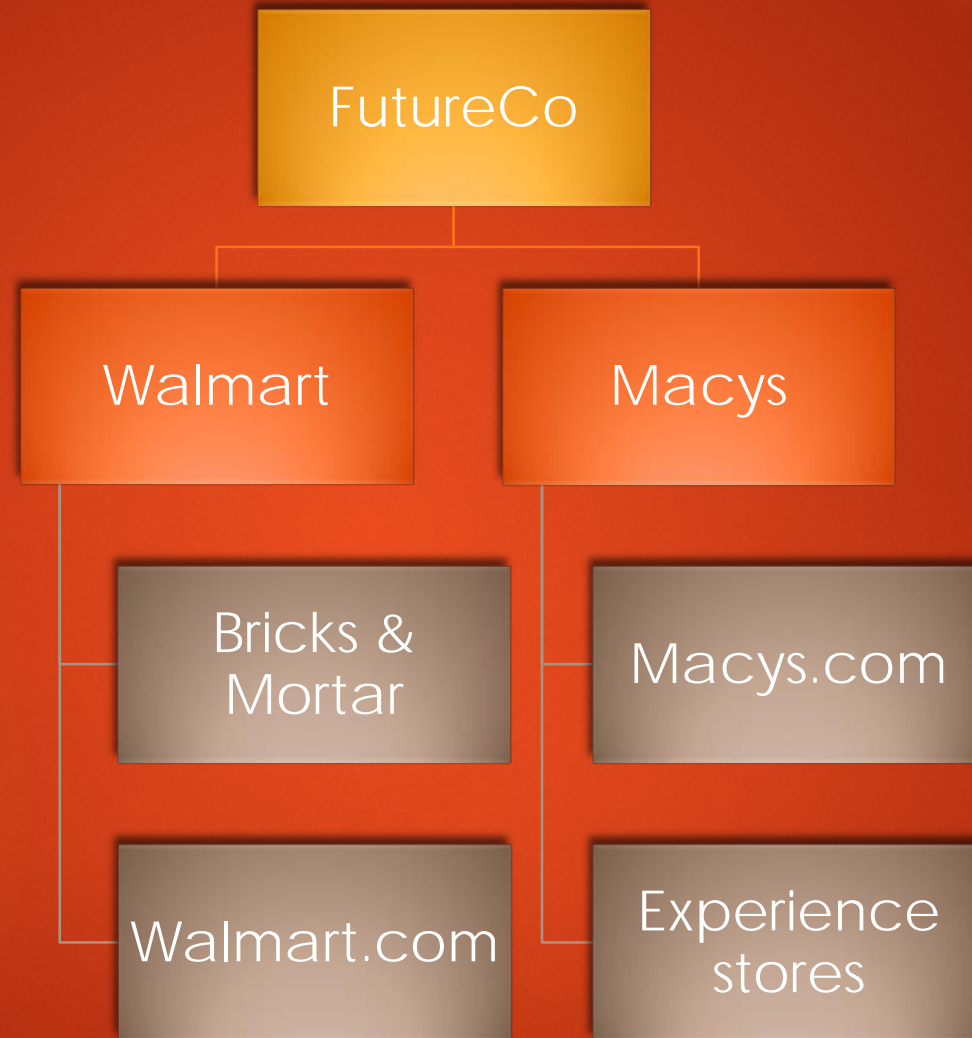
Risks

Impact

Probability

- Acquisition failure
- Low customer retention
- Slow growth
- Cannibalize Walmart business
- Bricks & mortar fail

Mitigants

Impact

Probability

Sell
Acquisition failure

Scale back
Low customer retention

Rationalise
Slow growth

Reorient
Cannibalize Walmart business

Move online
Bricks & mortar fail

The future – Any questions?

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