

## THE AUDACITY: WALMART CANADA'S UNILATERAL DEMAND

What if your neighbor told you in order to build their new home, they would need all their neighbors to pitch in a portion of the cost. Well, this past Friday, Walmart Canada made just such an announcement. Under the guise of "sharing in the investments", they issued a demand of 1.25% cost reduction on everything Walmart buys, plus 5% for anything sold via its ecom channel; forever! To be clear, the demand from vendors/suppliers is to cover Walmart's \$3.5 billion investments over the next 5 years. Translation, "Hey neighbor, I'm building my house, pay for it!"

Walmart is clearly and willfully blind to the current state of suppliers and market conditions. Many are suffering massive sales declines, increased costs and general market risk uncertainty. People are being laid off, manufacturing jobs are being lost – the pain is real. This is not sustainable. Do you threaten your partners with exorbitant demands? Of course not. It is both disingenuous and clearly not a partnership. Vendors that acquiesce to these demands do so at the expense of their employees and ultimately their own demise.

Instead of working with suppliers to find better solutions for the future and truly engage with one another, Walmart decided to declare war - margin by decree. Submit and suffer the consequences or stop ship and suffer the consequences. It is in this fog of war that other retailers will likely follow, just to keep pace.

On Friday's supplier call, newly appointed CEO Horacio Barbeito, said he wanted to "reignite supplier relationships." It is now clear he truly meant what he said – light them on fire.

### Concepts to Consider

- How will Canadian suppliers navigate this demand for pure profit transfer, with one expected from Sobey's and Loblaws?
- How will supplier decisions in Canada impact other markets, notably the U.S.?
- If there is reciprocity, by all means engage. However, rewarding extortion, only begs for more. Don't be a glutton for punishment.

For those vendors prepared to invest with Walmart in this demand, ask yourself if they will invest in you the next time you open an office or manufacturing facility to better serve Walmart customers.

As one contemplates all this, consider last year, Walmart posted an Operating Income of over \$20 billion. In the past month, Marc Lore, Walmart's U.S. Ecom CEO since 2016, has sold over \$20 million of his Walmart stock.

At nPOWER Group, we don't work with retailers.

Unlike many other consultancies, we don't play both sides.

And, we do not believe in these "war-like" tactics; but we do know how to handle them.

Leo Notidis & Brian Poeschel

