

Walmart's strengths lie in grocery, retail media, but fulfillment spells an opportunity

Article

Younger consumers and higher-income shoppers are powering Walmart's grocery growth while its physical footprint gives it an edge in retail media. Its burgeoning logistics business

could be the next big thing for the retailer—and its bottom line.

Grocery games: Grocery has buoyed Walmart over the past year as consumers, including higher-income shoppers, pulled back on discretionary spending and sought the best deals.

- Walmart US net grocery sales totaled \$247.30 billion for its FY 2023 (ending January 31, 2023), nearly 59% of total net sales.
- “We continue to gain market share in the grocery category, including with higher-income and younger shoppers,” said CEO Doug McMillon in a recent earnings call.
- While Walmart’s US grocery ecommerce sales only represent 15.5% of the company’s total grocery sales, they will grow by double digits this year, reaching \$39.91 billion and outpacing Albertsons Companies (\$5.47 billion), Amazon (\$35.46 billion), Target (\$7.72 billion), and The Kroger Co. (\$15.85 billion).

The retailer has managed to **keep prices steady amid inflation** and vowed to **keep prices low on its private label products**. On the digital side, **Walmart has revamped its website and app** in order to promote product discovery and make it an easier (and more engaging) shopping experience. We expect a focus on these two areas will help sustain Walmart’s grocery success.

Retail media’s moment: Walmart will generate \$3.16 billion in US ad revenues this year, according to our forecast. Though a far cry from Amazon’s ad revenues, Walmart has two advantages when it comes to retail media:

- **Physical footprint.** There are currently 5,283 Walmart locations across the US. This vast footprint gives Walmart the ability to reach consumers who only shop at physical stores and presents brands with countless in-store advertising opportunities.
- **Ad revenue growth.** Walmart’s ad revenues will grow 39.1% this year, 38.5% next year, and 38.0% in 2025, according to our forecast.

Walmart continues to make enhancements to its retail media network, Walmart Connect, by **adding new partnerships** and expanding **in-store media formats** like product demos and audio ads.

Special delivery: Walmart has been building its logistics capabilities, which the company is now leveraging for internal and external purposes.

- In August 2021, **Walmart launched its GoLocal service**, a last-mile delivery business that retailers can use to streamline their delivery operations. The Home Depot became the **first Walmart GoLocal customer**. **The platform has grown** to offer delivery from 10,000 retail locations and completed over 3.5 million deliveries in FY 2023.
- Earlier this year, **Walmart partnered with Salesforce** to offer Salesforce customers access to Walmart's delivery and fulfillment services, expanding its network of retail partners.
- Just a few weeks ago, **Walmart opened its first market fulfillment center** in Arkansas. The center, built within one of Walmart's stores, is powered by a proprietary storage and retrieval system, which the company says will "significantly increase the number of orders the store is able to fulfill in a day, promising faster fulfillment with lower substitutions."

These developments help Walmart streamline its own logistics operations while also providing an alternative revenue stream outside of its core retail business. It could also give Walmart an edge over its retail competitors, **possibly even Amazon**.

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