

Walmart beats expectations in Q2 as inflation drives shoppers across income brackets to seek deals

Article

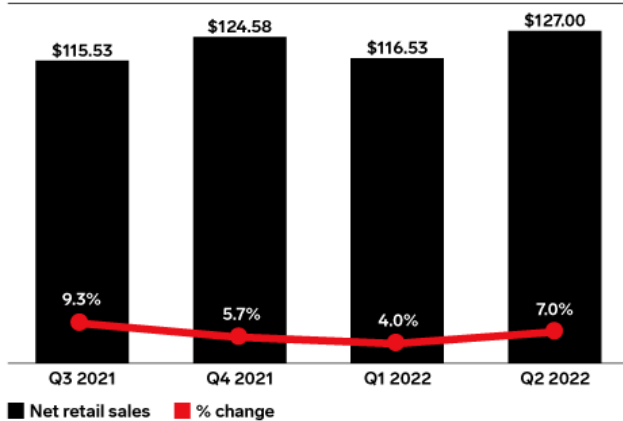
The news: Despite warning last month of inflation's hit to profits, **Walmart's** revenues beat analysts' expectations in Q2 as its low grocery prices wooed a wider array of shoppers.

- **Revenues rose 8.4% year-over-year (YoY)**, to \$152.9 billion, per its earnings statement.
- **US comparable sales increased 6.5% YoY**, driven mostly by low double-digit growth in grocery comp sales.

Everyday low prices: With grocery costs taking over consumers' budgets, shoppers are gravitating toward retailers like Walmart that offer the most value.

- That includes middle- and higher-income households: CFO **John David Rainey** told CNBC that **roughly 75% of Walmart's grocery share gains came from shoppers with household incomes of \$100,000 or more.**
- At the same time, sales for Walmart's private labels grew twice as fast in Q2 compared with Q1 as more shoppers traded down. Rainey said on Walmart's earnings call that a growing number of consumers are opting for cheaper options like hot dogs and canned tuna as they look for ways to cut their grocery bills.

Walmart Inc. Net US Retail Sales, Q3 2021-Q2 2022
billions and % change vs. same quarter of prior year



Note: includes net retail sales for Walmart and Sam's Club
Source: company reports; Insider Intelligence calculations, Aug 16, 2022

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Inventory pressures: While Walmart said it made progress selling excess inventory in Q2, the retailer is **still saddled with surplus apparel, electronics, and home goods** as shoppers continue to pull back on discretionary spending.

- Walmart's US inventory was 26.5% higher YoY, due partly to inflation but also to a more aggressive inventory strategy to avoid out-of-stocks.
- The retailer has **slashed prices and canceled billions of dollars in orders** to help rightsize inventory, which should put it in a better position going into the holiday season.
- General merchandise comp sales decreased by mid-single digits in Q2, although strong back-to-school sales starting at the end of Q2 should give the retailer a lift in the next quarter.

The flywheel effect: Walmart is relying on revenues from its subscription business, as well as its retail media network [Walmart Connect](#) and [GoLocal delivery service](#), to help offset reduced margins on sales of physical goods.

- The retailer's **global advertising business grew almost 30% YoY**, a slight slowdown compared with the previous quarter, although the number of active advertisers increased 121%.
- Walmart **surpassed 1 million deliveries with GoLocal** in less than a year.
- In its [latest bid to boost Walmart+ signups](#), the retailer announced **members will receive a free subscription to Paramount+** starting in September. But that may not be enough to entice consumers away from **Amazon Prime**.

The big takeaway: Now that it has a handle on its inventory problem, Walmart is better equipped to weather inflationary challenges than most retailers. Its ability to negotiate better prices with suppliers and absorb more price increases enables the business to keep customers loyal, even amid strong competition from discount retailers.

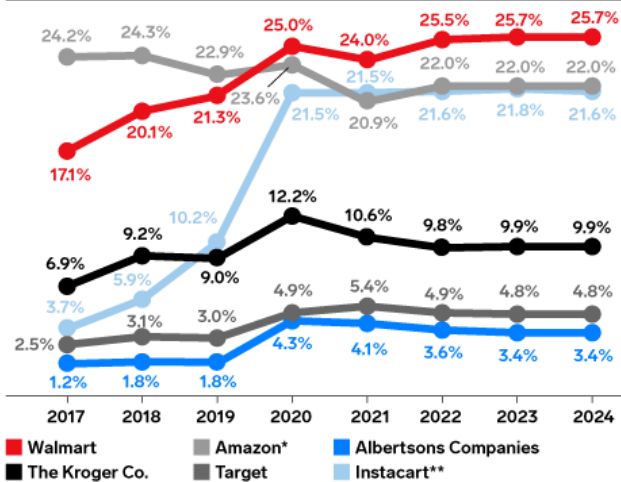
While growing its non-retail businesses will help Walmart better compete with Amazon, the retailer shouldn't lose sight of its advantages—namely, its dominance in grocery.

- “Groceries account for 55% of Walmart's sales—more than any other category—and we expect the company's grocery ecommerce sales to represent 27.6% of the total grocery ecommerce market this year,” said **Brian Lau**, forecasting analyst at Insider Intelligence “This will support Walmart's No. 2 position in the US ecommerce landscape.”

[Dive deeper: See what our forecasting and retail & ecommerce analysts had to say about the earnings.](#)

US Digital Grocery Sales Share, 2017-2024

% of total grocery ecommerce sales



Note: represents the gross value of grocery products sold on the retailer site (browser or app), regardless of the method of payment or fulfillment; includes delivery and pickup, and sales from third-party delivery services; excludes fuel; *includes Amazon Fresh, Amazon Pantry, and Whole Foods delivery and pickup; includes direct and marketplace sales; **sales of grocery products ordered via Instacart's site/app; excludes taxes and tips
Source: eMarketer, Aug 2022

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