

# Walmart's Jet Loses Propulsion

Article

**B**y many measures, Walmart had a successful fourth quarter. Revenues, online sales and in-store traffic were all up.

On Tuesday, **Walmart** US reported a 2.6% comparable sales gain for Q4, and said its total revenues increased 4.1% to \$136.3 billion. For the full year, US ecommerce revenues hit \$11.5 billion, and online sales grew 44%.

Three key takeaways from the company's Q4 2017 earnings call:

**Online sales growth is slowing.** Online sales grew 23% in Q4 2017, compared with 29% in the same quarter of 2016. Additionally, the online sales growth rate was down from 50% in Q3 2017. This is attributed partially to the cooling off of the online sales boost Walmart got from the September 2016 Jet.com acquisition, but also due to unexpected “operational challenges,” according to Doug McMillon, President and CEO of Walmart, said on the earnings call. Specifically, online out-of-stocks for basic, everyday items, which occurred because warehouses were disproportionately stocked with holiday items like electronics and toys.

"Twenty-three percent growth is healthy, but still ranks below Amazon's growth rate. A big positive, however, is that growth could have been higher if Walmart didn't run out of stock of some products," said eMarketer principal analyst Yory Wurmser. "As the company learns how online shoppers use its site, it should be able to maintain a healthy growth rate."

**Walmart is shifting marketing tactics.** It turns out that the coveted big-city, higher-income, younger shoppers Jet.com promised to bring are more expensive to acquire than Walmart.com customers. “We've been investing more in Walmart.com on a national basis and reducing marketing investment in Jet except in certain urban markets. Due to this change, Jet will not grow as quickly as it did in the early days, but it will be well-positioned where we've chosen to focus the brand,” McMillon said.

In other words, there is still a geographic and demographic divide. Walmart thrives in Middle America but isn't top of mind in larger cities, especially not for ecommerce. Amazon is still the go-to for digital shoppers looking for convenience and value online.

**Grocery continues to outperform.** A majority of Walmart's revenues (56%) **came from grocery** in fiscal 2017, and the retailer is devoting more attention to the digital sales component. “Walmart.com, including online grocery, is and has been the key driver of our ecommerce growth, and that will continue,” McMillon said. The company expects ecommerce sales to grow 40% in 2018, driven in part by the ramping up of online grocery. Customers that buy groceries on Walmart.com spend more in total with the retailer; consequently, Walmart is “nearly doubling” the number of US locations that offer fulfillment of online grocery orders.

Continuing Walmart's digital push to stay competitive with Amazon, the omnichannel retailer is leveraging one of the 63 shuttered Sam's Club stores, in Memphis, as an ecommerce distribution hub, with plans to open similar centers around the US in 2018.