

Walmart's strength in grocery helped power it through a better-than-expected Q3

Article

The news: Walmart reported better-than-expected revenues in Q3 and raised its full-year outlook as the retailer's low prices continued to attract shoppers across the income spectrum.

- **Revenues rose 8.7% year-over-year (YoY) to \$152.81 billion**, compared with the \$147.75 billion **forecast** by Refinitiv.
- **US comparable sales rose 8.2%** as Walmart continued to gain market share in grocery.

However, Walmart recorded a \$3.3 billion charge stemming from opioid-related legal settlements, causing a \$1.8 billion net loss for the quarter.

Inventory problems recede: Walmart made good progress this quarter in reducing the excess inventory it had been saddled with since the beginning of the year due to an unforeseen shift in consumer spending patterns.

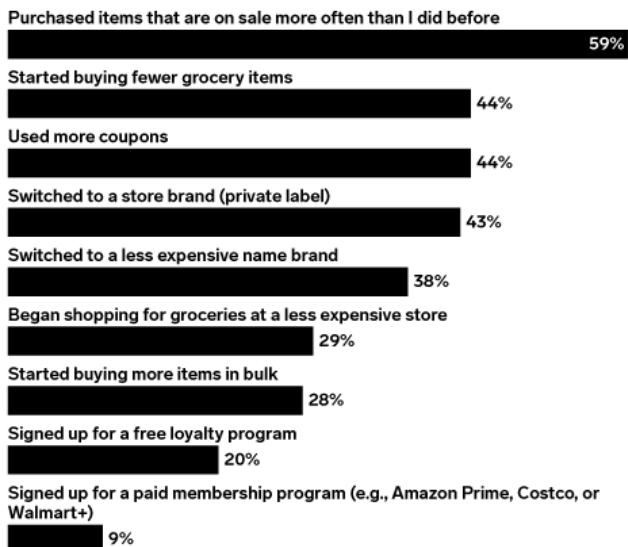
- **While inventories are still 12.6% higher YoY, roughly 70% of that increase is due to inflation**, the company said.
- Walmart continues to act aggressively to eliminate excess inventory and avoid future pileups. The retailer has ramped up promotional activity considerably—in some cases pushing suppliers to fund higher discounts on unsold goods—while canceling orders and dialing back on purchases of non-consumable and imported products.

Everyday low prices: Walmart's value proposition was key to its strong performance this quarter, enabling it to grow market share in grocery and expand its consumer base.

- **As in Q2, nearly 75% of its grocery share gain came from households making more than \$100,000 annually.**
- Even with extensive discounts, shoppers are spending cautiously, CFO **John David Rainey** told CNBC. They're buying less apparel and home goods, waiting for sales to purchase big-ticket items like televisions, and trading down in categories other than grocery, such as baby items and baking supplies.
- Shoppers are also buying more from Walmart's private labels: The retailer's penetration in the food category grew by roughly 130 basis points during the quarter.

Actions US Grocery Buyers Have Taken to Save Money at the Grocery Store, Sep 2022

% of respondents



Note: in the past two months

Source: "The Insider Intelligence Grocery Survey" conducted in Sep 2022 by Bizrate Insights, Sep 27, 2022

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Looking ahead: While Walmart's ability to right its ship in less than a year is encouraging, the retailer's projected holiday sales are less so. Like **Amazon**, Walmart anticipates sluggish growth this season: The company **expects comparable sales to rise just 3% in Q4**, excluding fuel, below the 3.5% growth expected by analysts polled by StreetAccount.

But there are signs inflation is beginning to ease in some categories, which will help Walmart keep costs down and give it some flexibility on margins. CEO **Doug McMillon** noted on the company's earnings call that Walmart has "seen some downward movement in general merchandise" pricing, a trend he expects will continue into the next year.

- **Wholesale prices rose just 0.2% in October**, less than expected, due to lower trade, transportation, and warehousing costs, per the Bureau of Labor Statistics' Producer Price Index.

Walmart's retail muscle and dominant position in grocery put it in a strong position to continue growing market share in Q4 and beyond, especially as inventory and inflationary pressures ease.

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