

# Learn Best Practices From Walmart's Procurement Team



Walmart is nothing short of amazing when it comes to their success in the retail world.

Even with pressure to keep up with giants like Amazon, they maintain their “everyday low prices” with more than 11,500 retail units globally and their e-commerce sales.

The company employs millions on a global scale and more than a million in the United States alone.

When you consider the company grossed \$485 billion in the fiscal year ending in January 2017, and 2% of the U.S. economy by itself, it’s certainly a company worth learning from.

Walmart’s success can be attributed to three principles: scale, volume, and minimized operating costs.

By using a business model aimed at keeping margins lower than the competition and relying on sales volume to make up the difference, and keeping operating costs as low as possible, the company has risen to the top since it first began in 1950 with Sam Walton.

They're able to continue to offer their low prices for a number of reasons, though the ones that really matter are a stellar supply chain management system, leveraging bargaining power with suppliers, and minimization of overhead and operational costs.

## **What Can You Learn From Walmart's Procurement Team?**

### **Efficient Supply Chain Management**

Walmart stores use a highly technologically advanced and efficient supply chain management system to keep things as efficient as possible.

By using barcodes, radio frequency identification (RFID) technology, they've been able to get massive amounts of detailed product information attached to every product in their stores.

That information is sent to their database where it then goes to their inventory management system.

This ensures Walmart knows what it needs, how much it needs, when it needs it, and which store it needs to be in.

The system works because during the first 8 months of 2005, Walmart reported a 16% drop in the out-of-stock merchandise at the RFID-equipped locations.

Without a successful supply chain, Walmart would deal with a series of issues that negatively affect customer satisfaction and profit margins.

If customers can't find what they need in the store more often than not, they'll likely end up going to the competition to get it.

### **Deal Directly with Manufacturers**

By using direct sourcing, Walmart deals with manufacturers directly and removes the need for third parties.

With this approach, suppliers are responsible for managing inventory in their warehouses, meaning inventory management was no longer Walmart's

responsibility.

The vendor managed inventory system created a smoother flow of inventory and helps to ensure products customers want are always available on store shelves.

This process has also reduced Walmart's costs, translating to more savings for customers because they can afford to lower prices.

## **Leverage Your Buying Power**

Walmart is the number one supplier-retailer of the majority of general goods, and as such many well-known companies rely on the retail giant for more than one-fifth of their revenue.

That kind of power is what Walmart uses to keep their prices lower than the competition.

For instance, Walmart's power and pressure led to major changes for Chicago-based fan manufacturer Lakewood Engineering & Manufacturing.

In the early '90s, the cost of a 20-inch fan was \$20, and Walmart wanted the price lower. As a result of that push, Lakewood moved to an automated production and laid off workers.

This combined with pressure on their own suppliers to reduce part prices and hiring a team in China to work for 25 cents an hour, the price of a 20-inch fan in Walmart stores fell to \$10 in 2003.

Their high-volume purchases motivate suppliers to make changes to keep them happy as a customer.

The good news for you is you don't have to have Walmart's power to leverage what you do have.

You can adjust your sourcing strategy to take on a category management approach where you engage in buying bulk items from fewer suppliers.

This improves supplier relationships and allows you to negotiate better terms for fewer contracts since things are grouped together.

*90% of Americans live within 15 miles of a Walmart store.*

## **Keep Overhead and Operational Costs at Bay**

Walmart has created a cost-effective distribution network with nearly 160 distribution centers, all located within 130 miles of the stores they supply.

Regional distribution centers are placed in locations that offer lower labor and transportation costs.

This process makes cross-docking easier, to save even more money on transportation and inventory storage.

Cross-docking takes products from one truck when it makes it to the warehouse, and places them in another outbound truck heading to a store, so the products don't spend time in the warehouse.

Walmart also saves money by owning and operating their own fleet of trucks and hiring drivers themselves. According to *Arkansas Business*, by 1989 Walmart's distribution costs were 1.7% of sales.

That's less than half of Kmart's, and under a third of what Sears was spending at the time.

Reportedly, Walmart executives fly coach and share hotel rooms and other travel costs with colleagues.

They offer low-benefit healthcare plans to employees and have been under fire for their wages.

In January 2018, they announced they'd raise the starting wage of all employees to \$11 an hour - but we'll still see them succeed because of all the other actions they take to keep costs low.

## **How Planergy Can Help Your Procurement Strategy**

Planergy can help your procurement best practices in several ways. The right procurement solution plays a vital role in your supply chain and allows you to achieve AP automation from purchase requisition all the way through the three-way matching, to ensure what you ordered is what you received, and what you

paid for.

Automating the process as part of your ERP helps reduce costs multiple ways. You'll be able to better control your costs because you're eliminating manhours spent on manual invoicing and reducing potentially costly human error.

Automation ensures your invoices are paid on time, allowing you to leverage your buying power to capture discounts and better payment terms.

Budgeting and spend management are critical to keeping your prices low and profit high.

Our system ensures you can always keep an eye on any purchase's real-time budget impact, giving you control and predictability over your finances.

And perhaps most importantly, Planergy can help you ensure your organization maintains compliance across the board.

It's easy to see how well your organization is performing overall, but to look at how various regions or departments, and specific users are contributing.

Customized spend limits keep the team on the budget you set, and the Audit Trail keeps everyone accountable for their actions.

Over the long-term, you may not grow large enough to be able to match Walmart's procurement strategy, but you can use their procurement best practices to keep growth consistent and scalable.

Rather than trying to be the Walmart of your industry and sell everything to everyone, focus your efforts on improving your procurement strategy to lower costs all around.

At the same time, foster quality customer relationship management and pass your cost savings to them.

## **What's your goal today?**

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