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## Wal-Mart Asks Suppliers to Cede Control of Deliveries (Update1)

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(Updates stock trading in 14th paragraph.)

By Chris Burritt, Carol Wolf and Matthew Boyle

May 21 (Bloomberg) -- Wal-Mart Stores Inc., the world's largest retailer, is seeking to take over U.S. transportation services from suppliers in an effort to reduce the cost of hauling goods.

The company is contacting all manufacturers that provide products to its more than 4,000 U.S. stores and Sam's Club membership warehouse clubs, said Kelly Abney, Wal-Mart's vice president of corporate transportation in charge of the project. The goal is to take over deliveries in instances where Wal-Mart can do the same job for less and use those savings to reduce prices in stores, he said.

"It has allowed our suppliers to focus on what they do best, manufacturing products for us," Abney said in a telephone interview yesterday from Bentonville, Arkansas, where Wal-Mart is based. "With lower costs usually comes increased sales."

Under the program, Wal-Mart is increasing the use of contractors, as well as its own private fleet of trucks, to pick up products directly from manufacturers and transport the goods to its distribution centers and stores. The retailer currently moves most goods only from its distribution centers to stores.

The plan allows Wal-Mart's fleet of 6,500 trucks and 55,000 trailers to carry more per truck and improve on-time delivery rates, said Leon Nicholas, a director at consulting firm Kantar Retail. Wal-Mart would also have more sway in negotiating fuel prices, he said.

"They are reaching further back into the supply chain," said Cambridge, Massachusetts-based Nicholas, who has spoken with vendors about the move. "It is an effort to ultimately reduce costs of goods sold, which will ultimately increase their gross margins. They believe they can ship and transport product more efficiently than the suppliers can."

### Cost Disconnect

The price cuts Wal-Mart is seeking are twice as much as the cost for transporting goods in some cases, said officials from two suppliers. In two instances, Wal-Mart asked for a 6 percent reduction in the price it pays for products based on its own cost calculation, while suppliers estimated the actual expense was equal to about 3 percent, the people said.

"There may be a disconnect when we walk into the room on what that cost might be," Wal-Mart's Abney said. "But we work collaboratively. As soon as a supplier shares the data, almost always those differences are quickly resolved."

Abney said Wal-Mart has thousands of suppliers and he has taken part in talks with more than 100. Some manufacturers have already shifted their deliveries and associated costs to Wal-Mart, he said.

### Lowering Expenses

One side effect of the plan is that manufacturers may face increased transportation costs on deliveries to other retailers as they lose scale, said Randy Huffman, a former Wal-Mart executive who now runs GBD 360, a Bentonville consulting firm that works with suppliers.

"That aligns with Wal-Mart's taking cost out of the supply chain for their benefit and not their competitors," he said. "Suppliers are going to have to apply that increased freight cost somewhere, so it's more than likely it will be passed onto other retailers."

Wal-Mart is looking to defray expenses after saying this week that sales at U.S. stores open at least a year fell for a fourth straight quarter. Mike Duke, who took over as chief executive officer last year, pledged in October that costs would rise slower than sales.

Since then, Wal-Mart has sharpened its focus on transportation expenses, escalating talks to take over trucking from suppliers this year, Abney said.

Wal-Mart fell 20 cents to \$51.10 at 10 a.m. in New York Stock Exchange composite trading. Before today, the shares had dropped 4 percent this year, compared with a 0.8 percent decline for the Standard & Poor's 500 Consumer Staples Index.

### Trucker Mike

The retailer has sought to offer goods like cereal and laundry detergent for less to lure shoppers back to stores, and lowering transport costs provides room to do that. The strategy is part of what Wal-Mart calls its "productivity loop" -- efficiency reflected in lower bills at the cash register.

The loop is already the theme of a national commercial, where a truck driver identified as Mike touts the system, saying packing fuller loads has cut fuel costs and retail prices. Last year, Wal-Mart truckers logged 749 million miles, or about 100 million miles less than in 2008, according to spokesman Lorenzo Lopez. That trimmed expenses by almost \$200 million, he said.

A Wal-Mart truck coming from a distribution center in Bentonville to stores hundreds of miles away may pick up goods from manufacturers on the way home, said Don Lanham, Milwaukee-based director of consumer products at Clarkston Consulting.

"It's efficient, economical and environmental to have fully loaded trucks, not empty ones," said Lanham, whose firm advises suppliers to Wal-Mart and other retailers. "Those Wal-Mart trucks are all over the United States."

#### Price Cut Pledges

Shoppers are seeing the benefits, with Wal-Mart pledging on May 18 to cut prices on 22 items families routinely purchase for an average savings of 30 percent.

As for the suppliers, they may have to give in even if their other transport expenses rise, given Wal-Mart's status as the world's largest retailer, said Vic Gallese, an independent retail consultant based in Fort Worth, Texas.

"The vendors might say, 'My other overhead costs will rise,'" said Gallese, who has spent 25 years in the industry. "And Wal-Mart will say, 'That's your problem.'"

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