Wal-Mart Stores Inc.

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Company Conference Presentation

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Call Participants

EXECUTIVES

Neil M. Ashe
Executive Vice President, Chief Executive Officer of Global Ecommerce Business and President of Global Ecommerce Business

ANALYSTS

Matthew J. Fassler
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Unknown Analyst

Presentation

Matthew J. Fassler
Goldman Sachs Group Inc., Research Division

So good afternoon, everyone. On behalf of once again we want to welcome you to lunch in the middle section of this day. Thinking about the progression of our program today, we've already heard from one of the world's largest retailers in Home Depot, certainly some of the world's smallest but most exciting retailers on some of our panels this morning and some really interesting innovative and disruptive companies including those and some of those in businesses were Walmart in fact is operating with dominant market share, thinking about insta cart art and. And I think I'm going to be very appropriate, robust back-to-back couple of sessions here. Obviously, first, starting out with Neil and then after Neil with our private equity panel.

It's my pleasure to introduce Neil Ashe to you and engage with Heath in this discussion this morning. Neil is the President and CEO of Global E-commerce, for Walmart, and as you know Walmart operates an e-commerce business well in excess of $10 billion globally, [indiscernible] $12 million globally. He joined.

Neil M. Ashe
Executive Vice President, Chief Executive Officer of Global Ecommerce Business and President of Global Ecommerce Business

That was a lot of money, better model, man.

Matthew J. Fassler
Goldman Sachs Group Inc., Research Division

Neil joined Wal-Mart in 2012 to lead the company's global e-commerce division which develop strategies, platforms and application across the company, once again on a global basis. Prior to that, he had been the President of CBS and Jurassic. And prior to, that he was CEO of CNS as well as other roles and functions in the past. delighted to have you join us in the global economy particularly at this one which we've been aiming for, for many years and we moved away from your annual meeting in part to try to make this happen and we're very happy that and Carol we are able to make that reality.

So the first question I want to ask you relates to your customer base and as you -- as an e-commerce enterprise with your wings, to what degree do you expect that your e-commerce efforts would broaden your customer base beyond your existing Walmart retail customers?

Neil M. Ashe
Executive Vice President, Chief Executive Officer of Global Ecommerce Business and President of Global Ecommerce Business

So first of all, thank you, all, for spending some time with us. Thank you for the generous introduction, and I'm excited to be here with you and I hope we are both a big exciting and innovative company to hit in all 3 of your points of introduction. So maybe I'd start by saying what is e-commerce and where do we think that's going and then how does it relate to the customer of Walmart. If we look through with, I was bumped into you mentioned, and bump into some investors on the way in here and we've all many of us lived through the progression of the Internet he does as well as you've seen the -- as the -- the different ways have changed, the customers' expectations have cumulatively changed and seemed to clarify

over time around what they want. And in commerce, we think that, that's going to happen significantly which is that commerce is going to clarify for the customer and we think the customer is going to have less relationships, not more relationships, then they're going to look for people that can provide them the services, the goods in the manner in which they would like to receive them. And so I'd paint a picture of commerce for you in the future where you can go to someone you trust, you can find everything you need at a low price and you can get that in any way that you want it. And not every person wants it the same way, and not every person wants it the same way every time. So if one could create an experience that is hand device to acquire, so whether that's your mobile phone, your tablet, your desktop or your eyes, and you can procure that whatever it is that you want to buy, wherever it is that you want, whether you want it in your home, whether you want it to be placed in your car in a pickup setting or you want to walk in a store and get it, that is in the future of commerce. And so to do that, we've talked about building best-in-class e-commerce, marrying it with the assets of the retail to win this vision we're describing as the integration of digital and physical. And so we think, Matt, that, that applies to all customers. So and then if you put a filter on kind of Walmart's customers, Walmart's customer is a value content individual. So I don't know the exact numbers, but round numbers, 85% of the people that -- in the U.S. are going to shop at Walmart at least once this year. And so we think about this e-commerce and this integration of digital and physical as a way to both expand that addressable market, because that means there's 15% that were not to develop a deeper relationship with those customers who are shopping with us, whether that's a general merchandise or for grocery. And it's to add an element of service to our brand that is not traditional and Market discount retailer. So I think that for Walmart has brand permission to sell everything to everyone and our sweet spot is that value conscious customer. And now with the integration of digital and physical, we can offer them price assortment, experience and access in ways that no one else can.

Matthew J. Fassler
Goldman Sachs Group Inc., Research Division

In fact just a follow-up on that briefly so I live in an apartment building in Brooklyn, New York and there's no Walmart in Brooklyn, New York and I do see walmart.com in the lobby, which is really one of my first ways of assessing who's progressing into organic scale outside their core customer base, if you will. What are you seeing in terms of the actual penetration beyond customers as you know to be or think to be co-Wal-Mart customers so far?

Neil M. Ashe
Executive Vice President, Chief Executive Officer of Global Ecommerce Business and President of Global Ecommerce Business

I have this conversation, when I first got to Walmart a few years ago, I was talking to Mike, who was the CEO at the time and we were talking about trying to get a store in the New York and we'd been working at it forever. And so why we are working so hard to get a store in New York he still can do hundreds of millions of dollars. And I said we already have a hundreds of millions of dollars of store in New York. And Matt, it's universally true that we can expand the platform. So obviously, we're serving significant user base in New York City, all 5 firms, we don't have a store here. We see that both on a delivery perspective as well as from a pickup perspective. So on the pure general merchandise side, the 2 largest stores for pickup surround New York City. So that's the pull of demand for Walmart. Everything you want at a low price. So that's kind of where we started. Now as we expand the offering and we have a significantly higher-quality e-commerce experience that we built over the last 3 years. So over the last 3 years, we built a talented environment in Silicon Valley, we built an Internet technology company inside the world's largest retailer, which has allowed us to replatform both on a technology and a pro forma perspective so that we can do what I said earlier which is deliver best-in-class e-commerce experience, we expand even further. And then when we add like shopping in Denver, we start to see that all come together for our customer, we can provide them literally everything that they want.

Matthew J. Fassler
Goldman Sachs Group Inc., Research Division

And so you touched on that a little bit when you talked about building a technology company inside the world's largest retailer, how do you find the competition for talent -- bringing talent in Silicon Valley into Walmart and especially as you start to expand your footprint outside of that area?

Matthew J. Fassler
Goldman Sachs Group Inc., Research Division

I think that was candidly the biggest question we have when we started on this journey was, can we get the talent that we need? Can we compete effectively in Silicon Valley for that talent? And so we set about a very purposeful strategy to do that. I'm obviously not a retailer by background, I grew up in Internet technology world and all of my team is the same way, we've brought some people over from the retail organization but we're largely consumer Internet folks that -- and so we built this company as an Internet technology company that was relevant inside of Walmart. So the first thing we did was to find significant value proposition. So everyone who's come to join our team has heard some flavor of the falling which is come for the purpose help people save money so they can live better. Come because you want to solve really hard problems because we got them strategic technical operating financial. Come because you're intrigued by scale, we can solve those problems in ways that others can't. And come because we're putting together a group of people in an environment at a point of time that is special that you would want to be a part of. It's been incredibly successful. So over the last 3 years, the job market in Silicon Valley ebbs and flows, but we're always over an 80% close rate on offers that we make. The people that we are competing for, for -- to get from and/or competing to for talent are the people that you would expect, Google, Facebook, LinkedIn, Yahoo!, et cetera. So we're really, really pleased about that, and that's allowed us to do this replatforming exercise and it's allowed us to scale.

Matthew J. Fassler
Goldman Sachs Group Inc., Research Division

Can you talk about the platforms. So you have, and we hear about it on The Street, your customers experience, but can you talk about what it has to done and if you go from a period to what the application's been and how you feel it has upgraded your capabilities and customers experiences?

Neil M. Ashe
Executive Vice President, Chief Executive Officer of Global Ecommerce Business and President of Global Ecommerce Business

Yes. So those of you who know what Internet companies go through the platforming, it can be a daunting experience so we literally changed the plane in there. We didn't change the engines on the plane, we didn't change the seats on the plane, we didn't change the fuselage, we changed the whole plane. We build a cloud. We built backend logic system. We built sites, apps and mobile web experiences. And we built all the tools necessary to run e-commerce business. So we built a commerce operating system. And we've done that inside of 3 years. And so the benefit of that, Matt, is first of all, from obviously the customer's perspective. So they have significantly better experience at walmart.com that's allowed us to significantly scale their assortments. So we have gone from 700,000 items to selling 7 million items. You now have a personalized shopping experience that you didn't have on Walmart before. We built, obviously, a very effective and highly scalable personalization capability. We built the search engine, so you can find what it is that you're looking for at Walmart. And also, we can serve that, so the replatform, it goes all the way through how you find an item. So we serve a promise up in every item page where and when you're going to get something. Then we have complicated algorithm to determine exactly how to serve that, so we can meet the customer service and -- customer service requirement as well as deliver efficient cost. We built new fulfillment centers, these are physical assets but powered by the technology that allow us to serve that more efficiently, I'm on my way to see one of them after I leave you guys here today. So those come online so that we can now have a holistic experience, I can have the highest quality Internet experience, mobile app experience, I can find everything that I am looking for and I can get it served in a manner in which I expect.

Matthew J. Fassler
Goldman Sachs Group Inc., Research Division

You touched on this one, you mentioned personalization, but what kind of effects have you seen from personalization particularly as your search engines gotten better and you have taken this from being sort of a product catalog online to more of a shopping experience?

Neil M. Ashe
Executive Vice President, Chief Executive Officer of Global Ecommerce Business and President of Global Ecommerce Business

Yes, it's a great question, and where does it go even from there? So we think about how we interact with the customer on a pool basis. So we want -- we've increased frequency 30% over that period on a per customer basis. We've increased depth of relationship with customers on a per customer basis through that. So we want you to be able to come and feel like you belong at Walmart. Not at walmart.com or in the mobile app, but at Walmart. And so that we're also taking that experience with you on your mobile device when you walk into a store. So now you can take e-commerce both at the store and the web and now mobile bringing the web back into the store, so that holistic relationship improves as you go to the store also. You see things like savings capture and other ways that we're doing that, so that we are starting to tie together the entire experience for our customer which is driving our frequency and will hopefully drive the economics of the business.

Matthew J. Fassler
Goldman Sachs Group Inc., Research Division

Can you talk about how purchasing behavior differs online from in-store? Is it a stop purchase? Is it a fill in purchase? What does that composition of the basket look like both quantitatively and also category ones if you would.

Neil M. Ashe
Executive Vice President, Chief Executive Officer of Global Ecommerce Business and President of Global Ecommerce Business

Yes, so I think we are statistically relevant or equivalent to e-commerce in general which is that the general merchandise shop online is generally a handful of items and it spans the categories which you all know the penetration I do online. So started in the transaction categories like electronics and it's moving to home, groceries I'm sure you saw Naraj, I'm guessing he's here, at wayfarer, the home category into apparel into other categories and then kind of grocery is that big one at the end, which is very different. Our shop online, here's the difference between an e-commerce shop and a store shop. Obviously, the supersetter was the first place that brought all those things together, so you could go you shop for bananas and TVs in the same place, well, walmart.com now is starting to do the same thing as we start to expand the grocery offering and provide that. So the online shop is not defined by that kind of shop in my opinion, Matt. Now, grocery is entirely different. What we're seeing there as in EU and Japan and in what we are doing also how we have in China, now we're launching the market here is that they are very much training the customer to be, okay, I understand this is my weekly or biweekly shop and we would expect that kind of path to continue.

Matthew J. Fassler
Goldman Sachs Group Inc., Research Division

Great. And so how do you end up leveraging and how important does the store network end up being for you? Right now you are fulfilling primarily out of the 3 distribution centers. Does that store network ultimately end up being an asset for you in terms of getting closer to customers?

Neil M. Ashe
Executive Vice President, Chief Executive Officer of Global Ecommerce Business and President of Global Ecommerce Business

So we think of the -- -- I'll start from the customer and work our way back in. So back to that vision I described of the integrated experience, we want to be where you want us to be. So do you want us to get this to your door or to -whether it's at home or at work. So that obviously requires some less delivery. But we have 4,500 points of presence and 600 - 500, 600 clubs around the country where someone can interact with us and so we're -- and people want that. So there's a customer interaction point. Obviously, not everything we sell online is in each one of those stores. And the fundamental economics of commerce, as you know, are throughput economics. We -- you need to have throughput to drive down cost in order to make low prices. And so we don't use every one of our stores as a fulfillment note, but we use many of them. And then as you alluded to, 3 is not the exact number, but we have built this backbone for e-commerce dedicated fulfillment facilities which carry significantly more items and our high throughput have the ability to pick that out of one at a time. So all of that, and this is very important, is tied together by one of the most efficient transportation networks in the world. And part of the reason it's one of the most efficient is it has the highest amount of throughput. So I think the way to think about this going forward is the stores are one piece of this, the transportation is one piece of that, but we're leveraging the throughput of the retail network to lower our cost to serve on e-commerce network.

Matthew J. Fassler
Goldman Sachs Group Inc., Research Division

And just to follow up on that, what kind of popularity have you seen in terms of pick up in-store?

Neil M. Ashe
Executive Vice President, Chief Executive Officer of Global Ecommerce Business and President of Global Ecommerce Business

So right now we think about general merchandise and grocery and grocery separately. So over time, we think that customer will kind of merge those, but they don't now. And so they are different. So it varies. The pickup portion of our general merchandise e-commerce business has trended down. It was as high as about half and has trended down. Part of that is the offer that we are giving you to get items at home and part of it candidly is we needed to improve the pickup experience in the stores which we're doing. So that will trend now, and it's I think it's 20, 25 percentage now. Grocery has behaved differently. So as U.K. where delivery was the first option, obviously, delivery was 100%. As we've added pickup, towards that in U.K., it has shot up as a percentage. And it makes sense, right, because who here liked the cable Guy and who wants to be there when you're -- if you have to be there when your groceries are -- generally, you have to be there when your groceries are delivered. That's pretty -- that could be hit or miss proposition no matter how good you are. And so that's a drive pass Wal-Mart, I can pull in, have my groceries in my car 5 minutes and be on my way, that's the customer experience that people would want. So in trying to project where we are going to be, in fact, what I think sets us apart is we can get both of those right. We can get delivery to your door right and we can get the pickup experience in our store right. And then you can choose which one you want, when. And we think that's what the customer wants going forward. We want you to have a relationship with Walmart and we want to serve that relationship more effectively than anyone else can.

Matthew J. Fassler
Goldman Sachs Group Inc., Research Division

I want to follow up on one of your answers to question, what it takes to get pickup optimized for you? What are the enhancements that you're making in your stores and in your network to get where you want to be?

Neil M. Ashe
Executive Vice President, Chief Executive Officer of Global Ecommerce Business and President of Global Ecommerce Business

Couple of things. One is we've improved the technology that powers kind of the online equivalent of where's my order? We're improving that. The second is we're improving the physical experience in our stores. So it's easier for you to find the -- it's more obvious where it is and how to do it. And the third is where improving how we staff that experience. And then, finally, we're improving how we know you're there. So how you can check in. We haven't spoken about Sam's Club at all so I'd use them as an example here. So if you were -- if any of you shareholders that -- and went to the club there, we've dramatically improved the pickup experience at Sam's Club. You can check in at the front door via kiosk at any or a drive-through kiosk, you can have -- we positioned the pickup experience in the front of the club. We'll load your car truck and you're on your way. As a result of that, Matt, both business members, as well as advantage members, consumer members have increased their shop. So we are trying to -- we've always given customers that price and value, and now we're trying to give them back time as well.

Matthew J. Fassler
Goldman Sachs Group Inc., Research Division

So I want to move on to the question of economics of e-commerce which could be I think is an entire session in and of itself ahead of time. Starting off by -- you have probably more so than most a full on e-commerce direct delivery business and you have an omni-channel business and they are, of course, one and the same but they probably have different economic profile, can you talk about the difference in economics for Walmart based on fulfillment mode, what customer chooses here?

Neil M. Ashe
Executive Vice President, Chief Executive Officer of Global Ecommerce Business and President of Global Ecommerce Business

Yes, sure, so let me talk about kind of the macro kind of Walmart and then dive in and I'll use Walmart the specifics for a second. So first on the macro, obviously, we're investing pretty aggressively in e-commerce for really 3 reasons. One is because we know that's what we need to do for our customer to meet this vision that we described. The second is because we're demonstrating we're getting pretty good at it and so we're increasingly confident of the enterprise as we go through that. And third, because we can afford it, it's the right amount of investment for us to do the scale. And so then -- but the last piece of that also is we're doing it at multiple places, so we're doing it in the U.S. and we're doing it in Walmart, we are doing it in Sam's Club and we are doing it in international market. So we are growing these businesses all at the same time. So we are an independent entity, we would be scaling these more sequentially than we are right now. So then if you break down the unit economics, I'll tell you a bunch of things that you already know. Commerce is a throughput business so -- and that's throughput on the fulfillment side and that's throughput on the customer relationship side. So on first on the fulfillment side. It's a law of physics problem, we -- you need inventory close to where someone is and you need to get it there as efficiently as possible. And so that's why we turned on stores as the outer ring of that network and that drives the cost down, so we think about it as fulfillment and transportation, what's the transportation cost to get you the item, the amount of fulfillment. The effectiveness of our stores depends on what you buy. So if you buy in what's in that store, they are highly effective and we get you those. And those are things that you would expect, consumables, higher DM and lower margin items that are already in the super center. And then the fulfillment network, it's highly efficient if you buy more stuff at the same time. So again, throughput. And then, finally, on the customer, we want to drive frequency and we want to drive share of wallet, so that traffic umbrella is effective for us. We've been very successful in the last 3 years scaling the traffic piece of the e-commerce business. So at Walmart, I think comes core we passed Apple last month, so we are now the third-largest traffic site and that's candidly without fully activating the stores yet. So those are largely new customers on top of stores. So we think that closing the loop with those customers and then delivering our brand experience that is Walmart and Sam's Club provides another depth function of growth for us. That -- so taken together, a deeper penetration of relationship with more customers, deeper penetration with those customers and then a throughput, a higher share of their purchases and then effective throughput through the fulfillment network ultimately drive the economics.

Matthew J. Fassler
Goldman Sachs Group Inc., Research Division

We do have some microphones around the room, questions, raise your hand, we'll get through the time that we have. Let's start with the one on the back.

Unknown Analyst

What's the best way -- you've been talking about for a couple of years now I think increasing investment at e-commerce. What's the best way for us as shareholders and investors to think about or look at that as being proactive positive growth versus the sense of competitive issues?

Neil M. Ashe
Executive Vice President, Chief Executive Officer of Global Ecommerce Business and President of Global Ecommerce Business

Well, I think about this, I'm not sure that they matter, to be perfectly honest with you. So I'm used to have living in a smaller environment. So it's a smaller company at which point you're trying to get big, right. And so that was one of the -- I told you about the associated value proposition, we're like, okay, what's the mission as we bring people into the organization. If you're recruiting at Silicon Valley and say we are going to build the biggest commerce company in the world. People, okay, we are already that. So what is the -- how do we think about that? I think about that the same way from this customer perspective is we want more customers and we want a deeper relationship with the customers that we already have. Is that offensive or is that defensive? I think the answer is yes, because we already are always so big, obviously there's share shift. I don't think it's a secret that we're as an organization probably is slow to this because we couldn't get our heads around cannibalization, which is ironic, because as you know every physical retailer when they add new square footage contemplates the concept of cannibalization. So I'm not sure why it's any different in this environment. So I think ultimately, we'll be measured on do we grow the enterprise or not? And that's how we feel -- that's how we think about it. And are we growing Walmart? Are we growing Sam's Club? Are we growing our penetration in Brazil and China and the U.K.? And are we investing the appropriate amount to do that? And we feel really good about kind of where we're going on all 3 of those.

Matthew J. Fassler
Goldman Sachs Group Inc., Research Division

One here and then if we can get a mic up here.

Unknown Analyst

Good afternoon, Neil. I had 2 questions. One on economics, and then one on the differences in fulfilling grocery versus general merchandise. So on investments, this year, guys you talked to us $0.69 hit from incremental investment in e-commerce, if I add up all the increments over the last several years, that would suggest that you are over $1.5 billion in losses for e-commerce. Is that software engineers? Or what is that number? Because it's a big one? And what's the duration path to profitability?

Neil M. Ashe
Executive Vice President, Chief Executive Officer of Global Ecommerce Business and President of Global Ecommerce Business

So, I think you might have overstated a little bit, but let's call it a big number for a round number purposes and where is that. Really, 3 key areas: one is people, two is the technology platform, three -- well, four, three is the fulfillment networks and four are scaling markets. And let me kind of reverse of those. I mentioned this earlier, we're doing all these markets at the same time, so that's going to cost us in an investment level. Two is on the fulfillment network as you build these they were different than the store economics in that you have a higher upfront capital and the growth rolled into them and it's ultimately larger over time. And you would expect that the economics of that facility to be a lower margin but higher return in general in the fulfillment capabilities. And then on technology, as a percentage of revenue basis, each day we're probably lower invested versus what the ideal would be as a standalone entity, but we've had significant performance through that platform. And that platform then has applicability to think of it as a commerce operating system. So it's everything from what the customers sees to what the merchant sees to what operator sees. And a lot of the analytics and capabilities that then can apply to so for my colleagues, right sitting here, he'd tell you throughout international he'd say what you guys are doing is really, really impressive and really cool, but if we can apply the rest of the business, it's a total game changer. So how would that investment level go over time? I report to the board on a quarterly basis. I report to Doug and Charles on a weekly, monthly basis. So there's a lot of scrutiny in that number, it is pretty smart folks that say hey this is the right level and maybe some think we should go faster and we want to prove out the economics. So you'll see us continue growing faster than the market which is obviously where we are. And you'll see us improve profitability over time. And I think, candidly, the lines will blur also as you start to see the benefits of what we're doing from this commerce operating system, customer relationship, e-commerce impact the broader enterprise and the Walmart brand and then the Sam's brand.

Matthew J. Fassler
Goldman Sachs Group Inc., Research Division

Great. Good question.

Unknown Analyst

Neil, you briefly mentioned your reporting relationship. Could you speak to the success metrics you and your senior colleagues are measured against, particularly the portion of those success metrics have shown variable compensation and then how that might vary between your shop and all the different stores in terms of stuff the stores you're selling?

Neil M. Ashe
Executive Vice President, Chief Executive Officer of Global Ecommerce Business and President of Global Ecommerce Business

Yes, so I think you guys all know how we're are compensated but I would say it's highly performance driven, it's combination of annual incentive compensation, which is largely driven by operating income, in our case, operating income and sales, and then a longer-term performance shares, which are driven by largely by sales and return on investment. The e-commerce businesses are compensated based on total company performance, so I am paid on total company performance. And then my team is paid, which is the same as my colleagues, my peers, Greg and Dave and Rosen and such. And then our team is focused on that, they are paid on that and they are also paid on the individual performance of both Global eCommerce and then the folks who have Walmart, folks that work on Sam's Club. So that's and that's also performance-driven across the enterprise. And so back to the talent question, we are part of the broader enterprise and we want to be part of the broader enterprise and we intend to drive the performance of the broader enterprise. That means we lose out on some talents, because we don't offer a lottery ticket, but we do tied to the success of the enterprise. And I feel that, that's very important because ultimately back to these, basically, these 2 questions which are okay, show us how this investment performs for the customers, we should have a deeper relationship with customers at Walmart and that should drive a better financial return for the enterprise. So we need the organ to be growing inside the organ effectively and we don't want either to reject the other candidly. And we feel like we've found the balance that's proven successful for us.

Matthew J. Fassler
Goldman Sachs Group Inc., Research Division

While we get a mic over the corner, I want to make sure there's a question that our team and for and that relates to grocery, so we've had so far today [indiscernible] we have in SIM card, there are a lot of different business models that are growing and making their way across the market. It might be that all of them will work. You are the biggest grocery retailer, certainly in the U.S. if not the world, I don't know the latter for fact before I do no, you know awful lot about logistics. And you were pretty slowly I think relative to perhaps some others in grocery, but you seemed to have picked up the pace certainly with testing and experimentation. How do you expect this to shake out for you based on what you have seen and particularly with what you've seen in pickup which you've been talking more about as an organization?

Neil M. Ashe
Executive Vice President, Chief Executive Officer of Global Ecommerce Business and President of Global Ecommerce Business

So retail is a hard business. Internet is a hard business, so Internet retailers are really hard business. Grocery is the hard business. So grocery, Internet, retail is a really, really hard business and we like that. So we've been shopping things for a while, we've been 15 years at, I think, or 10 or 15 years, way beyond my tenure. And in EU and Japan, so we've been and Superama, Mexico, we've been doing it, we have some experience about it. And you have seen now the spectrum, if you've seen, you have seen dedicated field of dreams model, build it they will come and build demand to it and push profitability out and you see a model effectively within, go pick some peoples stores. Each is a hard business. So the reason you haven't seen us go faster in the U.S. is that the customer hasn't really adopted it yet. And obviously the difference in the U.K. and the U.S. is obvious, it's 5x the number of people and 25x the amount of space. So the question is how and when? And so do we believe that there will be e-commerce for groceries and the customers will? Yes. Are we building the ability to serve those customers effectively? Yes. We're testing in multiple markets that look different than in Phoenix, Northwest Arkansas. And we're taking everything that we've learned at that and we are applying it to how we are doing it here. The customer reaction so far has been very positive. So we feel and -- yet, it is a really, really hard business to execute. And so we feel like we're -- you hit on the key themes. One is we're around the country. Two is we serve a lot of customers. Three is we're really good at logistics. And fourth, we have a lot of throughput. So -- and then five, we've got great technology and consumer Internet experience. So now you put all those things together and we feel like we have the right play successfully groceries over time. We've got to move at the pace of the customers. So will we continue to do what we're doing? Absolutely. Will we look to do more? Sure, and we're pacing it, we are pacing it with the customers.

Unknown Analyst

So a lot of this being a customer-centric, you want to be indifferent to what the customer wants to do, whether it's purchasing online or purchasing in store. At what point do you guys become financially indifferent to what the customer does? And even if it is not, hey, third quarter of 2017, what are the things that are going to be required in order to get to that point?

Neil M. Ashe
Executive Vice President, Chief Executive Officer of Global Ecommerce Business and President of Global Ecommerce Business

Yes, I think that's a great question. We need throughput in each of these different pieces and then it all works. So -- and we need to combine our fulfillment capabilities in ways that others can't to realize that advantage largely around inventory placement and transportation. So we are indifferent when we get enough customers doing any one of those things, which we are confident that we can do because we have a lot of customers than we already have a lot of. We already have a lot of those notes in place. So it's -- they vary, that's through grocery end shopping, that's through pickup, that's through the fulfillment. And we're on that path and we feel good about the direction. When exactly? It varies based on place, but hopefully really those are the keys and we feel like we are downrange on them.

Matthew J. Fassler
Goldman Sachs Group Inc., Research Division

Neil, one question I wanted to ask because you guys recently made investment there is China. It's been tough, just about everybody tries to do it with traditional retail or online. What do you think Walmart brings to that? And what do you see as being the opportunity to there?

Neil M. Ashe
Executive Vice President, Chief Executive Officer of Global Ecommerce Business and President of Global Ecommerce Business

Yes, for those of you who don't know, we own 51% of a business called [indiscernible], which is basically like our businesses, it's focused on value conscious female, maybe a little higher end Tier 1 sees, largely around what in China they call home goods, which is really groceries, consumables, essentials. And we feel really good about that business. We also operate China retail. We -- that market is obviously highly competitive and has changed, but we feel really good about that collection of positioning. So female have value conscious, home goods, a combination of the future of our Internet and our retail assets. It's differentiated market position there. So -- and it's a big market at a long-haul, so we'll be there.

Matthew J. Fassler
Goldman Sachs Group Inc., Research Division

Another recent announcement, announcement but certainly revelation, is that you're watching shipping past which is essentially for lack of a better way to describe it, program on Amazon, you're going to charge a fee, annual fee and provide free delivery, I'm sure you'll clarify the definition as you would.

Neil M. Ashe
Executive Vice President, Chief Executive Officer of Global Ecommerce Business and President of Global Ecommerce Business

I would do, would present it differently.

Matthew J. Fassler
Goldman Sachs Group Inc., Research Division

And that event, if you would talk about what your game plan is, what your thought process is in launch of that, how you expect evolve it? And in particular the differences from Amazon in terms of that emerge with that program?

Neil M. Ashe
Executive Vice President, Chief Executive Officer of Global Ecommerce Business and President of Global Ecommerce Business

So we would present it as unlimited shipping at a low price. So for $50 a year, you can buy over 1 million items as many times as you want, have them delivered to your door in 3 days or less. I think the positioning is obvious. It's for those who want reliable shipping at a predictable cost and that's this is for them. We spend a lot of time talking to customers about what they cared most about and we hit that sweet spot. They cared about predictability and they cared about low cost, and so that's what we've delivered. As you know, we've launched it as an invitation-only, and we have done that for a combination of reasons. One, we want to make sure we can do it. Two, we want to make sure that we understand what the customer behavior is. And we ultimately think that it will drive frequency, that it will drive a deeper relationship with Walmart and we think it provides an interesting contrast which is highly brand relevance, what you exactly I think what you would expect us to do, be reliable and deliver at low cost.

Matthew J. Fassler
Goldman Sachs Group Inc., Research Division

You have a marketplace. I think the investment community probably doesn't understand that as well as any given marketplace. I believe you have millions of, 7 to 10 millions, something along those lines. Can you talk about the role of marketplace in your broader e-commerce separate and talk about these results and the success you have challenges?

Neil M. Ashe
Executive Vice President, Chief Executive Officer of Global Ecommerce Business and President of Global Ecommerce Business

Yes, so first and foremost, we think about the marketplace as the opportunity for assortment expansion. Assortment expansion allows us to have a more consistent relationship with the customer, whether or not they buy that stuff for and we do think that there's a -- there's -- you don't sell everything you offer obviously. And so we're focused on providing access to everything that you would want so that you would shop with us more. And that's been highly successful for us. As you can see from our results, is outpacing sales growth as we've grown that in the U.S. and in other markets, China, Brazil, et cetera, around the world, and we'll continue to do that because we think, number one, first and foremost, it drives that deeper customer relationships that I was describing earlier. Over time also it is a financial driver, so it's -- it is a commission business and so we don't take inventory risk or execution risk. And then, finally, put that all together and we want to be the footprint that you and the customer trust to come shop with us.

Matthew J. Fassler
Goldman Sachs Group Inc., Research Division

We have time for 1 or 2 more questions from the audience or up here on the podium.

Neil M. Ashe
Executive Vice President, Chief Executive Officer of Global Ecommerce Business and President of Global Ecommerce Business

I think we've worn them out.

Matthew J. Fassler
Goldman Sachs Group Inc., Research Division

Last question, Savings Catcher, and this is kind of a broader question. Walmart has no traditional discount oriented loyalty program. And I know you have been talking more and more about the different ways you have to capture data. Obviously, your business being probably about one of the key ones, but I want to talk for a moment about Savings Catcher, what is that teaching you, if you will, for the online business about customers who are thinking about pricing?

Neil M. Ashe
Executive Vice President, Chief Executive Officer of Global Ecommerce Business and President of Global Ecommerce Business

So as many of you know, I'm sure everybody knows, Walmart is founded on the principle of everyday low price, that everyday low price means that you provide the same access to all of your customers and you smooth, you don't do high low and those sorts of things. And so we never had a pay for you loyalty card. I think, we think we are entering a new environment on the relationship status, which is that we don't need to pay you to be our friend. And if you look at the breakage on loyalty program, I think that's borne out, whether it's the airline miles or other things. What we do need to do is provide you services that are of value so that you want to be a part of them. So Savings Catcher is an outstanding example of that. So it's a service, it's an element of trust that says, hey, I have a relationship with Walmart, I'm trusting you to save and obviously it's a win when you don't get any and the vast majority of the transactions don't, but we've initiated a relationship. And so when I described that now taking the e-commerce platform experiences on mobile device and taking it back to the store with you, that's where we are headed with that which is that we want you to want to tell us your when you show up at Walmart so we could provide you a better service, and we can do it more efficiently via technology than any retailer ever could have done it before, whether that's Savings Catcher, whether it's pickup in store, whether that's extended aisle when you're in the stores, those sort of things. We're now closing that loop so that -- so we know who all our customers are and we can scale that relationship with them. We know a lot about them, of course, and we want them to want to get benefit from telling us who they are and allowing us to take care of their experience to them.

Matthew J. Fassler
Goldman Sachs Group Inc., Research Division

Thank you for that. Next up in this room, don't go anywhere, we have our private equity panel but before that starts, please join Heath and I in thanking Neil for his time.

Matthew J. Fassler
Goldman Sachs Group Inc., Research Division

Thank you.

Neil M. Ashe
Executive Vice President, Chief Executive Officer of Global Ecommerce Business and President of Global Ecommerce Business

Thank you.

Matthew J. Fassler
Goldman Sachs Group Inc., Research Division
Thank you.