

The Economic Club of New York

474th Meeting
110th Year

Doug McMillon
President and Chief Executive Officer
Walmart

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Interviewer: Alan Murray
Chief Content Officer, Time, Inc.
Editor-in-Chief, Fortune

Introduction

Chairman Terry J. Lundgren

Welcome to the 474th meeting of the Economic Club of New York in our 110th year of operation. My name is Terry Lundgren. I'm the Executive Chairman of Macy's, Inc. and Chairman of the Economic Club of New York. I was saying to Doug that this is a really great day because not just that we have the head of the largest retailer and company in the world here to speak with us, but also because it's cold outside, we're selling sweaters, you know, and coats. And the whole lobby was filled with these red jackets and these blue jackets. And all of those jackets mean that they're going to be in the Macy's Thanksgiving Day Parade. So that just put a big, old smile on my face when I went walking through the lobby here. And I think even Doug would appreciate the excitement of Thanksgiving for retailers.

So, the Economic Club is the nation's leading nonpartisan forum for speeches and conversations on the subjects that are related to economic, social, and political issues. More than 1,000 prominent speakers have spoken to our Club over the last century and have left a very strong tradition of excellence. I'd like to take a moment to welcome and thank our Centennial members who are seated in the front tables here. Those are individuals who have contributed at least \$10,000 to the Club, and that's really the financial backbone of our organization. We really need that to do the many events that we accomplish. We've done, I think we're on our number 34 for the year so far. We'll have a couple more still remaining in the calendar year. So, we're a very

active club and we are required to do many of these out of the funds of our organization. The Centennial Society is what helps us accomplish that.

I'd also like to welcome students who are here. We have the Fashion Institute of Technology right here in New York, who are here today, and I'm sure anxious to listen to Doug's comments. I'm also pleased to welcome the 2017 fellows class. This is our pilot class. These are individuals who are mid-career to upper positions but on their way, we think, to C-Suite positions, and we're exposing them to the Club and look forward to them being full-fledged members over time.

It's a great pleasure for me to welcome to the Club a good friend and our guest speaker, Doug McMillon, who is the President and CEO of Walmart. As many of you may remember, we tried to get Doug here in March and Mother Nature would not have it. We had that massive snowstorm as you recall. Actually, it turned out to be a fizzle. It wasn't nearly as big as advertised, but unfortunately we had to cancel the event because the trains weren't working. We couldn't get our members here. So, we're glad there's no issues today and that we have Doug rescheduled.

Walmart's mission is for its customers to save more and live better, and I think they're accomplishing great things under Doug's leadership. Walmart is bringing together the stores and logistics networks and the digital experience all together with new capabilities, which I'm sure he's going to be talking about, all geared toward enabling the consumer to shop whenever,

however, and wherever they want and choose. Each week, nearly 260 million customers and members visit Walmart's more than 11,600 locations under 59 banners in 26 countries plus their e-commerce business, which is also in 11 countries.

From February of '09 through 2014, Doug ran the international business for Walmart. And prior to that, he ran Sam's Club, which at that time had 48, I think \$48 billion worth of revenues back then. And so, the Walmart international business has 800,000 employees in 26 countries around the world and over 6,000 stores.

So, during his long tenure at the company, Doug's been a champion for his customers, for his associates, and for the culture of that company. In 1984, he started as an hourly summer associate at a Walmart distribution center. And in 1990, while pursuing his MBA, Doug rejoined the company as an Assistant Manager of one of the stores in Tulsa, Oklahoma. And then he moved into merchandising and to the Buying Training Program and his career went from there and had a number of successful roles, really covering pretty much all aspects of what Walmart represents today. He's a true merchant at heart and has a sense about where the consumer is heading.

And Doug has served on the board of Walmart stores since 2013 and currently is the Chair of the Executive and Global Compensation Committees. In addition, he serves on the Board of Directors of the Consumer Goods Forum and the U.S.-China Business Council, the Crystal

Bridges Museum of American Art. And if you haven't been to, if you go to Bentonville, you have to go to this extraordinary museum. It really is something very special that was created by one of the Walton family members and definitely worth seeing. He also serves on the Dean's Advisory Board for the School of Computer Science at Carnegie Mellon, the advisory board of the Tsinghua University School of Economics and Management in Beijing, China, the executive committee of the Business Roundtable and the Dean's Advisory Board for the Walton College of Business at the University of Arkansas.

Originally from Jonesboro, Arkansas, Doug graduated from the University of Arkansas with a bachelor of science in business administration and then later earned his MBA in finance from the University of Tulsa.

We're delighted to not only have Doug, but to have Club member and the Chief Content Officer for Time, Inc, and Fortune editor-in-chief, Alan Murray, to ask questions. And this will be a conversation that will be on the record. Gentlemen, please take your seats and begin the conversation. (Applause)

DOUG McMILLON: Lead the way, Alan.

ALAN MURRAY: Thank you for doing this. So, I don't know where you want to start...

DOUG McMILLON: Can I just say hello and thanks for having me?

ALAN MURRAY: You can try that. Yes, go ahead.

DOUG McMILLON: It's an honor to be here, Terry. Thanks. Terry's been a little bit of a coach to me on retail these last few years and I appreciate that very much. And I hope it doesn't stop.

ALAN MURRAY: Well, let's start with retail then. I mean these are tough times for brick and mortar retailers. I'll leave Macy's out of the conversation, but, you know, Penney's, Sears, a record number of bankruptcies, Toys "R" Us.

DOUG McMILLON: You want to start on a positive note, in other words. (Laughter)

ALAN MURRAY: No, it is a positive note because you've had 13 straight quarters of increases in same store sales. So, how have you escaped this wave that seems to be pulling everyone else down?

DOUG McMILLON: Well, this is an hourly conversation, so let's not spike the football in the end zone yet, but the team is making progress. Maybe a way to answer the question to start with is to say that a few quarters ago, I picked up the phone and called our former CEO, David Glass, and said thank you for putting us in the food business. We really appreciate that very much. If

you go back to the early 90s, David was leading the company and he took us into international markets, converted the discount store to a super-center, was starting to build a new business called Sam's Club, all at the same time, which is just amazing to me looking back on it. So there's been periods in our history where we've driven a lot of change. And Sam Walton was a change agent from the beginning. And what we've inherited today is a culture that embraces change. If I were in front of a group of Walmart associates like this, I could say something like, the only thing that's constant at Walmart is...there must be some Walmart people here...that's the answer you get back. So we have a constant purpose. We save people money so they can live better. It comes from words that Sam spoke shortly before he passed away. And we have four core values that form the cultural behavior that we're trying to navigate towards, but underpinning that are some big ideas like servant leadership and embracing change. So, these last few years, we, as a leadership team, have leaned hard into driving change with the customer being on our minds as we try to figure out, not only how to save them money on a broad assortment, but as the internet has redefined retail, save them a lot of time. Because if you break down retail into price, assortment, and experience, there's innovation happening in all three areas, in particular, experience. And we are trying to unleash and resource our people to drive change in a faster manner and we've started to speed up.

ALAN MURRAY: But now, when you talk about the internet, clearly the big competition that you face is Amazon – more so than any other brick and mortar retailer. And you've got some pretty big burdens, right? You've got more than 4,000 stores here in the U.S., 11,000 stores

nationwide. Those are expensive to maintain. You've got hundreds of thousands of associates who man all those stores. And then on top of that, Amazon seems to have free money. Its investors are willing to throw money at it regardless of profits. How can you hope to win when you have those weights holding you back?

DOUG McMILLON: They aren't weights or burdens. In fact, a good strategy is built on your assets. And so, what we have – amongst other things – are great people with a culture of servant leadership, and we have assets in our distribution centers and stores that can be leveraged. So, it may feel counter-intuitive, but if you invest in those stores, which we started with a few years ago, let's invest in our people, give them the technology and training they need, etc., you can drive store traffic, particularly because we sell such a breadth of categories at an everyday low price. And you can come up with ideas like online grocery where you order on your mobile app and pick up at the store, or a Scan and Go function at Sam's Club where you skip the checkouts, or an automated tower where the FedEx and UPS associates just put the box into the tower and the customer walks in, scans a code on their phone, and the box pops out and they're ready to go, ideas like digital returns. What we're trying to do really is to create a customer-led, seamless experience that saves people time in addition to saving money.

ALAN MURRAY: So, knowing that, if you were starting from scratch today, how would you do it differently?

DOUG McMILLON: I would definitely want the 4,600 super-centers that are within ten miles of 90% of the country.

ALAN MURRAY: Would you want them that big?

DOUG McMILLON: Yes. The super-center is a great format, but to answer the first question first, those stores – as we learned in the U.K. – can act, not only as a great store experience, but you can pick from them like a distribution center. And this online grocery business that we've launched and now is in 1,000 stores and headed to 2,000, has the highest NPS scores that we've seen in recent times because moms with kids in car seats love the idea of ordering on their mobile app in the morning and on their way home from school having us pop it in the trunk for them so that they can save time. You cannot do that without a food distribution system that puts it close to the customer. Food, fresh food, perishable food is hard to do. Throwaways, if you don't have scale, can eat into your profitability, so it would take the distribution centers, would take the stores, and it would take the associates. And we have proven so far that if you invest in those stores, including investing in price, you can drive store traffic, which creates this strong underpinning for the business, so that you have time to learn an e-commerce business, which frankly we are still very much doing. We have a long way to go to be good at e-commerce. And the kind of double benefit is that when you build an e-commerce business and become more of a digital company, you can find ways, using those stores and your digital capabilities, to create an omni-experience that really saves people time.

ALAN MURRAY: I assume that's the logic that's driving, that drove Amazon to purchase Whole Foods, so it has a physical footprint. Do you think they will buy more physical stores over time?

DOUG McMILLON: Take a look at what Alibaba did this week in China, investing in RT-Mart. There, I think, is an understanding now that you have to be digital and physical. The future is going to be not driven exclusively by technology, but by people. And the term that we've started using inside the company is that we want to be people-led and tech-empowered. And what we're trying to say is that the humanity of Walmart matters, not the other way around. We use technology. We always have and we're using it more now, but it's not a tech-first company. We're not a tech company. We're a people company.

ALAN MURRAY: So, you'd rather have your cards than their cards?

DOUG McMILLON: I wouldn't trade cards with anybody.

ALAN MURRAY: So, there's a demographic shift going on as well, both among baby boomers as they get older and among millennials as they sort of settle down. People, there's an increasing desire of people to live in places where they can walk to stores, you know, walk around the neighborhood. Do you have a solution for those people? Traditionally, Walmart stores were kind

of, as you say, within ten miles, but you had to drive a couple of miles to get to it.

DOUG McMILLON: Well, there are a lot of people that live around the super-centers but the neighborhood market plays a role in that process and e-commerce plays a role in that process. Our answer would be mostly an e-commerce answer. And we're learning how to do delivery. We've got this test that I'm really excited about, which may not mean a lot in the short term, but I believe that the internet and technology are being hired to do anything that people don't want to do in their lives and to serve up things you might want to do. So, the more of your life that becomes digital, the better – given that data and the algorithms that are written – companies are going to be able to serve you. Your digital alter ego is going to exist and help you save time and not spend time on things you don't want to do. And this test we're doing with August Home in one market is to actually deliver your food all the way into your refrigerator and pantry so that you don't have to do that anymore. So, I can imagine, for people with money – and remember, not everybody has money – we should talk about that too – for people with money that really can put a premium on time, you are going to get to a point where you can say, hey, my entire life, my entire adult life, have wanted to be in stock on Heinz ketchup, 64 ounce, and this particular orange juice, and these eggs. And we're just going to be keeping you in stock in your home like we keep stores in stock today. And so we don't need to build a store to do that, that necessarily lets people in, although in the short term you pick from the stores and longer term in some markets. In China, we're doing it with a dark store. We have an investment in a last-mile, last-kilometer delivery company that runs up and down the apartment buildings. And that company is

helping us deliver into apartments in a really fast, like one hour or less period of time for about \$1. Now, the economics in China are different than they are in the U.S. but these principles of delivery, save the customer time, that's built on an ability to pick from store, and again the stores have dual functions, is what we're seeing happening around the world.

ALAN MURRAY: How quickly is it happening?

DOUG McMILLON: Super-fast in China. I was in Mexico a few weeks ago. It's happening there in a pretty big way. But there is a bit of a bifurcation – so many people around the world, including in this country, still are driven by value more than time. When I was growing up, my dad used to tell me the difference between me and you, son, is that, you know, I will spend time to save money and you will spend money to save time. The problem with that is the money is mine. (Laughter) But I've been wired to try and save time since childhood. And, you know, what we're trying to figure out is how to let people who are watching their last penny still be able to save time and not have to have a tradeoff there.

ALAN MURRAY: Quite a challenge. So along those lines, I mean you did a really interesting thing a couple of years ago, which was basically go to your board and say, without, as I understand it without a business plan, without an ROI..

DOUG McMILLON: We had a plan...

ALAN MURRAY: Well, okay, but you said we need to raise wages for our associates, right? I mean it wasn't, the Sam Walton way was tell me how that's going to cut prices in the stores. You're spending billions of dollars. Explain that decision.

DOUG McMILLON: Yes, so what happened is that coming back from international into the U.S. business, started going to stores unannounced, all times of the day around the country, and walking into the stores, seeing what the customer was experiencing, asking the associates what they needed, talking to store managers. And after doing that for a few weeks around the country, what you find is the answers are the same. And so our associates told us we need to invest in hours, because the service levels need to improve. Our inventory levels are too high, we need to bring those down. Sure could use some new form of technology. We're not competitive against that company or that company on wages, could use another \$1 per hour, etc. And so we started talking and it was in conjunction with the board about the fact that the store experience could be dramatically improved. We could many of those things, including reducing inventory, which has magical impacts on the rest of the business. And the first thing that we needed to do was to re-engage our people. Let them know that we cared about them, that we were going to re-source the business, and that started with raising the wage rate. So, it was a \$2.7 billion incremental investment. And the way we said it to everyone is we're going to move to \$9.00 to start, but you've got to remember the starting wage rate is not the story. The story is what happens to the averages? What happens to the top end? So the whole thing shifts up. And then a year later we're

going to \$10. And it was not possible, and not smart actually, to cut expenses in other areas to pay for all of that. So we had a day here in New York in October of '15, which I will always remember, where we shared how much that was and our stock price fell by, our market cap fell by \$21 billion in a day I think. So that was a difficult day.

ALAN MURRAY: That was, did you think, hey, maybe this wasn't the right thing to do?

DOUG McMILLON: No. Clearly the right thing to do. What we knew was that our plan, which included more than a wage rate, now more advanced forms of training. We've opened about 150 academies in the U.S. that are distributed around the country and we've got another 50 more that by the end of January will be open. So we'll have 200 academies. These are classrooms – now that the inventory levels in the back room are down – classrooms in the back of the store where we bring people together to teach them customer service skills, retail math, how to use technology. We've given them new hand-held tools, new applications, digital apps that live on their hand-held tools to help them do the work more efficiently, and frankly in a more enjoyable fashion than what we did before. So we had this plan that included an investment in our people and over time an investment in price to get our productivity loop moving. And our board was very supportive of giving us some time to do that. What I would have been worried about on that day is how long will it take to show people that this works? And frankly, it happened a little faster than what I would have expected it to happen. The customers responded, as the inventory levels came down, in-stock levels went up, prices have come down. And retail is not magical,

whether you're talking about e-commerce or you're talking about stores. It's low price or value on quality goods. It's breadth of assortment, which today meets first party and third party marketplace. It's, you know, incredible what the assortment looks like compared to what it was when I was growing up. And then it's experience, and experience is – whether it's in the store or online – all about removing pain points for customers so that they're gone. So if you go through a retail store experience or others and you think about, does anyone want to go to the checkouts? No. Does anyone enjoy an out-of-stock? No. So, take all those problems, and today what we're trying to learn how to do, and in some cases having success, is using technology and a digital mindset to solve those problems so that friction goes away and they have a great experience. And that's it. If you get value, assortment, and experience right, you're going to have a future.

ALAN MURRAY: And did the associates have a lot to do with, the associates must have a lot to do with the experience?

DOUG McMILLON: Big time. So, today, you can be in a store, we'd go see a department manager, somebody who manages a category like drug/grocery. I was walking with an associate not long ago and we might say to this young lady I met in Oklahoma City, tell me how your job is different now that you're using this hand-held device and these apps and you've been through the academy. And she would say, well, we used to have multiple paper processes. I was running to the back room. I was trying to find my inventory. Now, I can stand in this section. I can understand if we have the right planogram and modular. I can handle a price change. I can see if

we're in stock. I know where my inventory is and I haven't had to run to the back room once.

That's a digital company versus a paper-based or analog company. There are opportunities to do that all over Walmart.

ALAN MURRAY: And one of the things that makes Walmart special is you have massive amounts of data and you're constantly looking, measuring, adjusting, as I understand it.

DOUG McMILLON: We have a lot of data. The reality is we don't put it to work like we can and should and that's one of the journeys that we're on.

ALAN MURRAY: So one of the things that's going to happen on that journey, I assume, is that you're going to introduce some technology that eliminates jobs.

DOUG McMILLON: I think in retail, with turnover, we'll be able to handle a lot of the changes we go through attrition. So, here's what we're trying to do. There are things about retail that are not enjoyable. Probably a lot of people here worked in retail at some point in your life. Finding inventory in the back room is not always a joy. There are things that you don't like. So, some of those things can be automated, and think task level, rather than job level. And as we eliminate those, what we'd like to do is to have jobs that pay more, that work more on customer service and merchandising. There's only so much we can do from the home office to merchandise a store well. If you live in that community and you worked in that store, you know more about

what you should be featuring in the action alley or on end cap than someone from Bentonville, Arkansas does. And so we're letting them buy more inventory, select what they sell, have skin in the game. And they're able to, back to the example I gave you of this associate with her apps, she's able to spend more time when a customer comes through, saying how can I help you, can I help you find something, how's your day? That's what we're trying to migrate to. So, the academies are important. So if you think of Walmart as a ladder, you know, the bottom rung is that starting wage rate. It might be a college student. We want to provide healthcare. We have a great healthcare program with a lot of choice embedded in those. Quarterly bonuses for hourly associates, 401-K, those kinds of basics. And then as you go up that ladder, if you're willing to take on more responsibility, you can become an assistant manager, a store manager. Today, about two-thirds of our management started as hourly in this country, and the wage ranges from \$50,000 to \$170,000 a year. So you can go into, you know, small towns in the middle of America, and the best paying job in town is the Walmart store manager. Better than a doctor or a lawyer. And people aspire to do that. And if we put the rungs in the right place and you can climb up, you know, somebody like me and many others can climb that ladder.

ALAN MURRAY: Ten years from now, will there be far fewer associates at the average Walmart store?

DOUG McMILLON: There will be fewer associates in the Walmart store and there will still be a bunch of associates in the Walmart store, and we will see the wage rate continue to go up. So,

what we would love, not just for Walmart but for retail, is to earn a better reputation about the jobs themselves. And we, through our foundation, give, we've given \$100 million to try and help shape retail to be better work, while we're investing the company's money to try and make Walmart a better place to work.

ALAN MURRAY: Do you, more generally, worry about the effect of technology, artificial intelligence on jobs and job availability – both for your associates and for your shoppers?

DOUG McMILLON: I do think that all of us – Walmart, private sector, public sector – need to be figuring out how we change our educational system and maybe other incentives to get ready for the future of work. And I would be more concerned, if I were a politician, about the impact of technology on jobs than I would trade. I'd be focused on what's happening in the world of technology. It's hard to predict exactly what's going to happen. History would say we'll find a way to evolve to future work. I believe that's true. And in our case, we're seeing some signs of it like this online grocery business that we've launched. We have personal shoppers, so that when you place your order on the app, there's someone picking your order to make sure you got that tomato that you wanted, etc. and we have that ready for you. We've created 19,000 of those jobs in the last couple of years. So, I think we're just, as we go, going to learn how to equip people to be ready for those jobs. And that's why we needed the foundation of the academies.

ALAN MURRAY: Walmart's made a huge commitment to the environment over the course of

the last decade. You've signed on to the, or you're supportive of the Paris Climate Agreement.

Can you talk about why?

DOUG McMILLON: Sure. It's fun to do that in New York because my perception is that if you live here every day, your perception of Walmart may be different than the real Walmart. So, let me try to briefly tell that story. When we were young and founder-led and entrepreneurial, we focused – as most startups do – on two stakeholders – customers and associates. And we would say to each other, if you do what you need to do to serve customers and you create good jobs and care about your associates, give them skin in the game, everything else works out. Shareholders are in good shape. And don't pay attention to what the papers in New York say. And so we did that for a while. And then we got bigger and we got into the food business and societal expectations changed. And we didn't grow up fast enough. We didn't mature fast enough. So we went through a period of time where we were criticized in the media. Lots of reasons why. And our first response was to ignore it. Our second response was to be defensive. So we went through a period of time, when somebody said something about Walmart, and we had a fact that proved the other side, we would quickly push the facts out. And a few years go by and we realized, well, that's not working. And Lee Scott was our CEO, and Lee started having a conversation with the leadership group about, well, nothing we've done so far works. We know who we are. We know what we're trying to do, but the perception is a problem, so maybe we need to be more open to critics. And as we started seeking out criticism in a more aggressive way, Katrina happened. And when the Labor Day weekend flooding occurred, and you could see it happening on TV, we had

some disaster response ability and we were kind of running that play. But you could see that what the area needed, what New Orleans in particular needed, was much greater than what we were doing. And we're on a conference call during that weekend and Lee interrupts the conference call – we're all updating on what we're doing – I was responsible for Sam's Club at the time – and he said, this is really bad. And it doesn't look like the government and others are responding. So, let's do this one differently. Don't worry about how much it costs. Do whatever you can do with product, moving product, send people. We had teams from all over the country go to New Orleans, sleep in the stores, in the clubs, trying to help people. And we'll add it up later. That was Lee's direction. And so, there was a moment there, where for a few days, the country noticed what we were doing, and it reminded us of what it felt like to be proud again. So, Lee seized that moment when it was over with. And he came back to the leadership group and asked us, what would it take to feel like that every day? And because we'd been listening to critics, there was a foundation laid around sustainability. How could you shape the supply chain? What could you do with your own assets? We did an estimate and about 8% of our carbon footprint comes from our own assets – tractors, tractor-trailers, trucks, stores – and about 92% from our supply chain. And we started learning about what happened to our P&L. Like at Sam's, I was paying somebody to come get the corrugate, the leftover cardboard from shipping that we bailed in the back of the club and put out back for somebody to pick up. We were paying a fee for that. And when we started learning, we were like, wait a minute, somebody is selling that? It's a value? And my P&L went from losing money, paying somebody to haul it away, to making \$50 million a year in profit because we figured out corrugate had value. Duh! So, there were

many other places, when we started working on renewable energy, eliminate waste, sell more sustainable products – those were the three big goals. Then you could help the P&L at the same time. So, if you take packaging out of Johnson & Johnson band-aids, you can save money. And when we started talking to our suppliers, Anduril is here, Anduril was one of the leaders in this conversation – they're working – no surprise – more mature, more strategic company and person than some of us – they were already working on some of these things. So, what we started doing was convening conversations to say what could we together do? So, like today, in recent times we've eliminated over 30 million metric tons of carbon out of our supply chain together with our suppliers. And we've now set a goal to eliminate a giga-ton of carbon by 2030 with our footprint and the supply chain. So, you can use Walmart as a platform to set good policy and create shared value for all stakeholders, rather than just serving two. And that transformation originated from Katrina.

ALAN MURRAY: Wow. Do you think the relationship between business and society is changing?

DOUG McMILLON: Personally, I'm concerned about how people view, kind of the historic institutions that I grew up with, and business is one of those. And it's not, we had a politician visit us recently – we were talking about politics – and this person pointed out, well, there are failures happening all over. It's not just public, it's not just government. So, yes, private sector leaders, business leaders, CEOs, and business leaders have a responsibility with our personal

conduct, with the decisions we make, to do good.

ALAN MURRAY: More so than in the past?

DOUG McMILLON: There are gaps to be filled maybe that weren't there. I find business, Walmart, under pressure to fill gaps. People want to talk to us about education. When I was growing up, I would not have thought that a retailer would be responsible for nationwide employment or education, but you've been asking me those questions. So, I think that's an indication of the fact that we do have more pressure to do things, but most of the time it's opportunity. And we see them, we see the opportunities.

ALAN MURRAY: When the riots happened in Charlottesville, you felt the need to speak to your employees, to send out a note to all of them. I mean that's an example – I question whether 10 years ago or 20 years ago someone leading a big, complicated business like yours, with stores filled with voters of all political stripes, would have done something like that. Why did you feel the need to get involved in that mess?

DOUG McMILLON: I didn't feel the need as much as responding to a situation. And I don't know what would have happened 15 or 20 years ago, but in today's situation, we were primarily speaking to our associates. So, here in the U.S. we employ 1.6 million people. We talk all the time about four core values. Act with integrity, strive for excellence, serve the customer, high

expectations, striving for excellence. Integrity and respect for the individual were impacted by Charlottesville, and our associates wanted to know where we stood. So, on a number of the things that we've gone public on, the conversation starts around what can we say to our people? But, anytime you want to speak to 1.6 million people, you're speaking to everybody – the internal message is the external message. So, we think about, you know, so we worked hard on crafting our response there with that being our primary audience.

ALAN MURRAY: So, we've got a number of questions that people in the audience have sent in, and I want to, I want to run some of them past you. Some of these we've already touched on. But one person asked, what are some of the traditions brought about by Sam Walton that you've had to eliminate to move the company forward?

DOUG McMILLON: I'll try to think of one, but Sam created – as I said a minute ago – a culture of change. I think what we've had to work on recently is those four core values that I was describing. We were probably over-indexing for a period of time on respect for the individual and under-indexing on striving for excellence. And what I mean by that is when you're in a replicating mode, so once the super-center formula in the U.S. got created, a number of us were just executing that plan. So when I first joined the company, that's largely what we were doing. Now we're in a situation where we have to change the plan. It's more strategic. So that requires some different behavior. But, we went through a period of time where we probably were a little too tolerant of average, mediocre performance, and so we're dialing up accountability while still

being respectful, to drive more of a performance culture. In retail, you cannot be comfortable and we have too many comfortable people.

ALAN MURRAY: How do you keep people uncomfortable?

DOUG McMILLON: It's a daily task.

ALAN MURRAY: You say that with a smile. Here's another one. Your logistics at Walmart is one of the best. Did Amazon or will Amazon create a more powerful logistics presence compared to Walmart?

DOUG McMILLON: That's going to be fun to watch. There's a lot of change happening in the supply chain. I don't know how it will end up, but what we know is we have an efficient supply chain built for what we were doing. And it still has relevance because the stores can be used to pick from, so you end up with this advantage, this double advantage that I was describing earlier, and we're innovating with our e-commerce fulfillment centers, and we have some cool things going on as it relates to automation within supply chain, the supply chain that, I think, will help us in the future. So it's being reinvented. And, you know, maybe not all, but certainly most of our business is being reinvented right now and the supply chain would be included.

ALAN MURRAY: You talked about being early in the online evolution. If this were a baseball

game, what inning would you be in, in terms of development?

DOUG McMILLON: Building the e-commerce business, we're probably still in the first inning.

ALAN MURRAY: It's very early. How important do you think voice, that's another question.

Do you think Alexa is pure hype or do you think it's a real transformational interface?

DOUG McMILLON: No, I think voice is important and will be important for a number of things.

The use cases around it today related to, you know, saving energy in your home, being entertained, those are all very relevant. As it relates to shopping, it's going to take some time to make that work. When you say to, like we have a partnership with Google Home, I'm playing with Google Home in my house – if I say to Google Home, I want milk, it now knows which 2% Horizon milk my family buys because the Walmart data, together with the Google voice device, enabled that to happen. But there are so many items, and what if you wanted to change which brand you buy? There's just a lot of work to do on voice. My guess is that, as a percent of total, voice will be an important part of the future. You know, in five years' time it'll be important, but it won't be like the whole world is voice-driven.

ALAN MURRAY: Do you worry about building that on the back of Google, letting Google have that relationship with your customers?

DOUG McMILLON: We will end up partnering with more than just Google, and we're excited about the Google relationship that we have and it's been beneficial to both of us. Data is important. And, as you would guess, that's something we've had to work through with them and will continue to. There are times when we just can't do everything and there are times when we can't move fast enough. We've been using this term inside the company that others are probably using to refer to an ecosystem. And in China what we've seen with Tencent, JD, we own 10% of JD, an e-commerce business in China. We've made this investment in this last-mile delivery company I was referring to earlier, which is a separate entity, to form a team that makes up an ecosystem so the customer gets what they're looking for. We're not going to be a digital gaming company. There are other people better at that. You know, these questions about where do you play and where do you not lead you to a point where you say I'm going to be great at this, this is my strategic choice, and I'm going to partner on this other thing. And I think in the world of technology, including voice, we'll continue to be partners.

ALAN MURRAY: The technology of the, I mean the culture of the online company you acquired, I would guess is very different than the, traditionally was very different than the culture of Walmart. How do you bring those two things...

DOUG McMILLON: You're referring to Jet?

ALAN MURRAY: To Jet, yes. Marc Lore, and this is not Sam Walton. This is a very different

sort of breed of company.

DOUG McMILLON: Yes, but we were more alike than you would have guessed.

ALAN MURRAY: Really? And what would be some ways you were alike?

DOUG McMILLON: One of the things that attracted us to Marc, you know, the way that he founded Jet and the way that he thinks is aligned to the four values I was mentioning before, but maybe as importantly, Marc was a merchant using technology to serve customers, not a technologist building a business that happens to sell stuff, which frequently happens with e-commerce businesses. As a parent company, we're having to change holistically to be faster. But as it relates to these acquisitions that we've been making, we've got to give them a lot of freedom. The *Wall Street Journal* wrote a story about the beer keg at Moosejaw. So we bought this outdoor apparel company and I think at 5:00 on Fridays – I haven't attended one yet – at 5:00 on Friday the break the beer keg out and they have a drink before they go home, hopefully not driving.

ALAN MURRAY: You haven't banned that practice yet?

DOUG McMILLON: So I did. We did, I should say. You know, Walmart, we don't have a keg outside my office in Bentonville at any point. So, as you think about integration of these startups,

you have these habits. And Walmart has a lot of people and so somehow, I don't actually know, the decision was made that Moosejaw needed to discontinue the beer keg, and it was not popular within Moosejaw. And so a number of us had a conversation and decided to undo that decision and let them keep their beer keg. And then the next question was from the team at Bentonville, can we get a beer keg?

ALAN MURRAY: Yeah, when do we get our beer keg?

DOUG McMILLON: Exactly.

ALAN MURRAY: Where are you on that one?

DOUG McMILLON: You can't. Sorry. It's a duality, it's not consistent. Sorry, but we're going to protect the culture...

ALAN MURRAY: You can serve Pepsi.

DOUG McMILLON: Yes, and we do. But you have to make some decisions like that, right, to protect the culture of the place.

ALAN MURRAY: So, this is the last question because people at this point are really starting to

get hungry and we need to let them eat, but what are the, this is a question from the audience, what are the five things you hope to accomplish in the next year?

DOUG McMILLON: We have four objectives. The first one is to make every day easier for busy families – save them time, save them money, delight them, become digital, etc. enables that. Secondly, changing how we work. There's a lot of work inside the company that will cause the core business to look more like a digital, in some ways Agilent Tech business. That's underway. The third one is to deliver results and operate with discipline. One of the challenges within Walmart, we don't have free money. We're expected to make a profit. We, at the same time we have this accelerator for growth, our managing the profitability of the company. We've made a commitment to grow EPS by 5% next year. So, we're balancing those two things so that's what we mean by operating with discipline. The fourth one is building trust. We want to be the most trusted retailer. Trust is real important today. It'll be more important tomorrow. Being transparent. All the work we're doing around sustainability of the supply chains. We just wish everybody knew it. So that's important. And then the last thing would just be to go faster.

ALAN MURRAY: Great. Thank you. Thanks a lot.

(Applause)

CHAIRMAN TERRY J. LUNDGREN: Thank you, Doug. Thank you, Alan, for your questions.

And I hope you can tell from both the questions and the answers that were provided – all of the activities that make up this transformation of Walmart. And I think it's a very exciting time for your company. I think it's a very exciting time for retail. And I think what you're beginning to see is that some of these big retail companies that have been disrupted are turning into the disruptors. And so lots of exciting things, I'm sure, ahead. We have two more events that are happening for the Economic Club before the year ends. One is next week, the 29th, we have Randall Stephenson, the CEO of AT&T. Obviously, in the press every single day you're reading about that, so that should be a very interesting one. We still have some tables available, so please go back and get online and please order up. And then our final event will be a dinner with Henry Kissinger on December 5. We hope to see you all there. Please enjoy your lunch. Thanks for being here. (Applause)