

GLOBAL SUPPLY CHAIN FOCUS

Walmart this week announced a sweeping plan to consolidate its global procurement functions and reduce the use of intermediaries in its global sourcing processes, leading to savings of billions of dollars per year.

It turns out that Walmart, the world's largest importer, still relies on the use of sourcing intermediaries for the bulk of its global sourcing initiatives, buying less than 20% of its goods directly from offshore suppliers.

In addition, it often operates in a very decentralized mode, with each of the 15 countries where it operates buying goods from the same suppliers, esp. for its growing private label brands.

Now, Eduardo Castro-Wright, Vice Chairman at Walmart, says the company's goal is to switch that ratio, so that within a few years it is buying direct from the manufacturer for 80% of its purchases.

If it can do that and gain additional benefits from centralized purchasing, Castro-Wright estimates the potential cost reduction from taking out the middleman mark-up of 5-15%, depending on the category, leading to billions in savings. (Walmart's global sales are about \$400 billion.)

The move to more direct procurement will be facilitated by greater centralization of its sourcing operations.

Castro-Wright says Walmart has established four global merchandising centers for general goods and clothing, including an office in Mexico City focused on emerging markets. It is



Walmart to Centralize Global Sourcing, Reduce Use of Middlemen

Company Buys Less than 20% Direct Currently; Sees Savings Potential of 5-15%

SCDigest Editorial Staff

also planning to shift to direct purchasing of its fresh fruit and vegetables on a global basis, rather than working through import companies and agents.

The program has already been piloted over the past year. A test on combining the purchase of fresh apples across the US, Mexico and Canada resulted in savings of 10%. As a result, Walmart intends to accelerate centralized North American procurement for all fresh fruits and vegetables.

By the end of 2010, Walmart also plans move to direct procurement of linens and towels for its North American stores, as

well as its clothing for its Faded Glory line and for licensed Disney character clothing.

It plans to expand the procurement strategy to other categories, including seafood, frozen food and dry packaged groceries, and to set up direct buying offices in such countries as Brazil, Chile, South Africa and New Zealand.

In 1999, Walmart acquired the grocery chain Asda in the UK, and still operates there under that banner. Castro-Wright told the Financial Times that Asda had expertise in direct sourcing, which Walmart was now planning to leverage across the globe.

The move might not only lead to reduce cost of purchased goods, but other supply chain efficiencies. It may enable Walmart to better plan and consolidate incoming shipments through improved visibility to the entire PO lifecycle.

Noted SCDigest editor Dan Gilmore: "At one level it is surprising that Walmart currently does so little direct

global procurement given its volumes, but on the other hand maybe not," Gilmore said. "The company also has a history of studying things for awhile before acting, and it always keeps overhead low. So, using intermediaries for awhile may have made perfect sense before moving it more in-house, even if later than many other retailers."

A test on combining the purchase of fresh apples across the US, Mexico and Canada resulted in savings of 10%.
