Asda's IT Separation from Walmart Costs Soar to Nearly £1 Billion, Project Extended

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Asda's ongoing IT separation from its former majority owner, Walmart, is projected to cost nearly £1 billion, as the supermarket giant allocates an additional £175 million to finalize the project. The "Project Future" initiative, initiated following Asda's £6.8 billion acquisition by the Issa brothers and TDR Capital in 2021, has faced significant cost escalations and timeline extensions.

Originally budgeted at £189 million with an anticipated three-year completion, the project is now expected to extend into the third quarter of its fourth year. Asda has informed bondholders that the total costs have already reached £900 million and will continue to rise this year. Walmart has agreed to an extension beyond the initial February 2025 deadline to mitigate potential penalties.

The escalating costs are raising concerns about the financial impact on Asda, the UK's third-largest supermarket, as it endeavors to strengthen its market position. To manage expenses, Asda has recently implemented workforce reductions, including the elimination of over 200 IT-related positions, following the transfer of 135 roles to Tata Consultancy Services (TCS) last year. Further cost-saving measures, including additional overseas outsourcing, are under review.

These cost-cutting strategies come amidst efforts to address declining profitability and market share under Chairman Allan Leighton's leadership. Asda has experienced a decrease in market share from 13.7% to 12.6% over the past year, making it the only major UK grocer to report declining sales during this period.

Despite these challenges, Asda is actively expanding its convenience store presence. The retailer has converted 234 sites into Asda Express stores by the end of last year and plans to open additional standalone stores, aiming for 300 new convenience locations by 2026. This expansion strategy is designed to reinforce Asda's presence in local communities across the UK.