WAL★MART®

CASE STUDY

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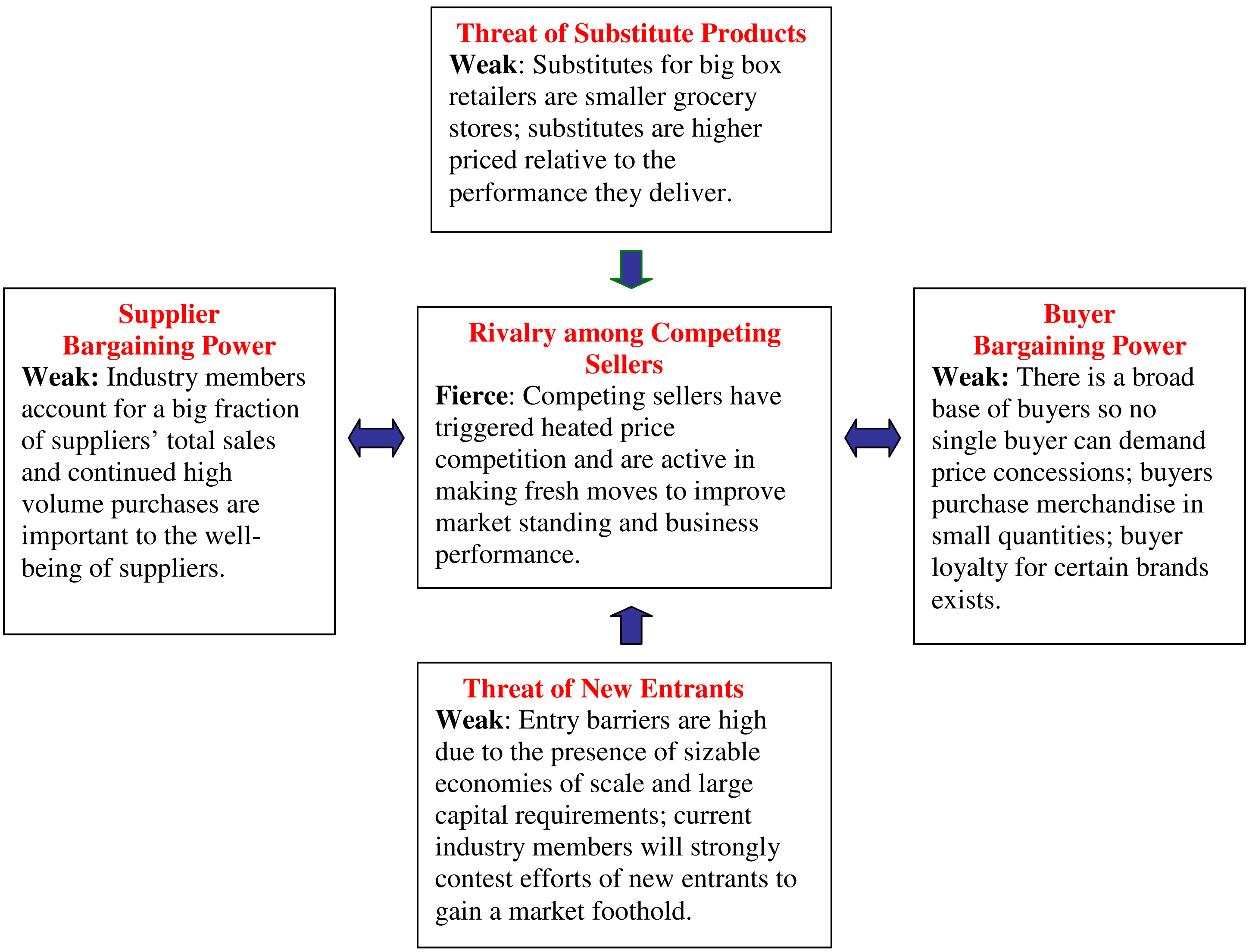
ECON 136 – Business Strategy
February 27, 2006

INDUSTRY ANALYSIS

The retail industry is dominated by few retail giants, with Wal-Mart competing in several retail categories. Wal-Mart competes against Kmart and Target in the general merchandise retailing; against Costco in the warehouse club segment; and against Kroger, Albertson's and Safeway in the supermarket retailing. Competition among retailers centers on pricing, store location, variations in store format and merchandise mix, store size, shopping atmosphere, and image with shoppers. Further analysis provided by the following figure diagnoses the competitive environment of the retail industry.

Five Forces Model of Competition



WALMART'S STRATEGIES

CORE STRATEGY

The core feature of Wal-Mart's strategy is overall low-cost leadership. It attracts a broad spectrum of customers by supplying a wide selection of the lowest-cost general merchandise. Wal-Mart achieves a cost advantage by controlling its cost drivers and relentlessly wringing cost efficiencies out of its supply chain.

COMPLEMENTARY STRATEGIES

To strengthen its competitiveness, Wal-Mart collaborates closely with suppliers with strong brand-name who are dominant in their category, who have full product lines, and who can bring in new and better products to retail shelves. Wal-Mart's procurement personnel spends considerable time meeting with vendors, understanding their cost structure, and learning how a vendor could cut down its costs in order to capture win-win relationships for both parties.

To expand its geographic coverage, Wal-Mart's domestic strategy is "backward expansion." The company opens stores in small towns surrounding a targeted metropolitan and saturates each area before moving into new territory. International expansion involves a combination of new store construction and acquisition. As Wal-Mart enters foreign markets, it intends to "remain local" by customizing its offering to match the taste and preferences of local buyers and operating through the management of natives of the foreign countries.

Wal-Mart also employs simultaneous offensive initiatives on many fronts. Experiments in store layout, merchandise displays, store color schemes, and promotions are always under way. Wal-Mart also engages in preemptive strikes especially when it enters a new market by securing a dominant position in the geographic area and forcing smaller retailers out of business.

SUPPORTING STRATEGIES

Marketing and Sales: Wal-Mart meets customers' needs with four different retail concepts: Discount stores, Supercenters, Sam's Clubs and Neighborhood markets. **Technology**: Wal-Mart is a first-mover in upgrading and improving its technological capabilities. It uses computers, satellite, and information systems in communicating with vendors, electronically purchasing orders, tracking sales and inventory, identifying slow-selling items and squeezing costs out of the supply chain. **Distribution Center Operations**: Several labor-intensive tasks had been automated and cost-efficient system of conveyors, bar-coding and handheld computers have been utilized to continuously streamline distribution operations.

	1970	2004	CAGR
Sales	$31 million	$256 billion	30.38%
Profits	$1.2 million	$9.0 billion	30.00%
Number of Stores	32	4,906	15.95%

As a measure of its success, Wal-Mart's sales since it became a public company in 1970 to 2004 grew at a compound average growth rate (CAGR) of 30.38%, which is unprecedented growth. The company's profit growth rate of 30% is exceptionally attractive and clearly shows the profitability and sustainability of its strategies. The increase in the number of stores is quite lagging and this is an indication of Wal-Mart's expansion potential. Overall, Wal-Mart's financial results indicate that the company is doing exceptionally well.

SWOT ANALYSIS

Strengths

♦ Cost advantages over rivals. Cost-effective supply chain management practices.

♦ Distinctive competence in distribution systems; automated and efficient distribution of goods into its stores, from manufacturers to its fleet of delivery trucks that made daily deliveries to surrounding stores.

♦ Company's strong "We Sell for Less" brand image and reputation that generates loyal consumers.

♦ Economies of scale advantages in distribution, advertising, and procurement.

Weaknesses

♦ A strategy that does not have proprietary protection and therefore can be copied by competing retailers who "wal-martificates" their supply chain. (Lack of sustainable competitive advantage).

♦ Weak presence in major metropolitan areas.

♦ Plagued with annual turnover rates of 45%.

Opportunities

♦ Expansion into new geographic areas; saturating the U.S. market with Supercenters and globalizing Wal-Mart operations.

♦ Acquisition of smaller retail chains to (1) increase market share; (2) take advantage of economies of scale; (3) reduce number of competitors.

♦ Entering into alliances or joint ventures that can expand the firm's market coverage and boost its competitive capabilities.

♦ Integrating backwards to further control cost in merchandise production.

Threats

♦ Increasing intensity of competition that may squeeze profit margins.

♦ Federal lawsuit claiming discrimination against women in pay, promotions, training and job assignments.

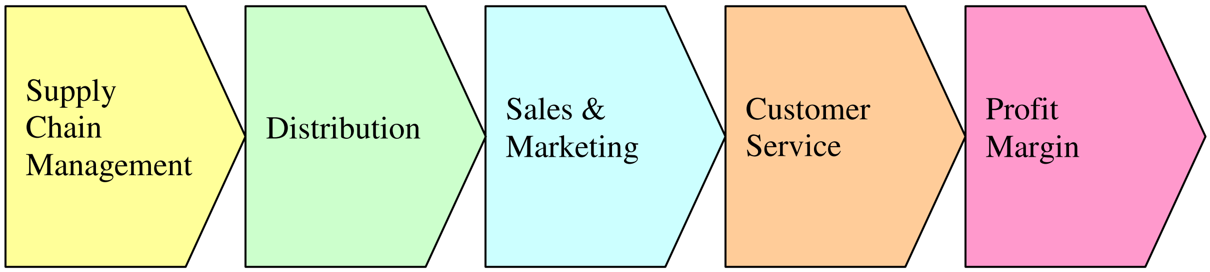
♦ Fierce local resistance to Wal-Mart entry into the community.

♦ Combative labor unions pressuring Wal-Mart to raise its wages and benefits.

♦ Bad publicity.

WAL-MART'S VALUE CHAIN

Primary Activities and Costs



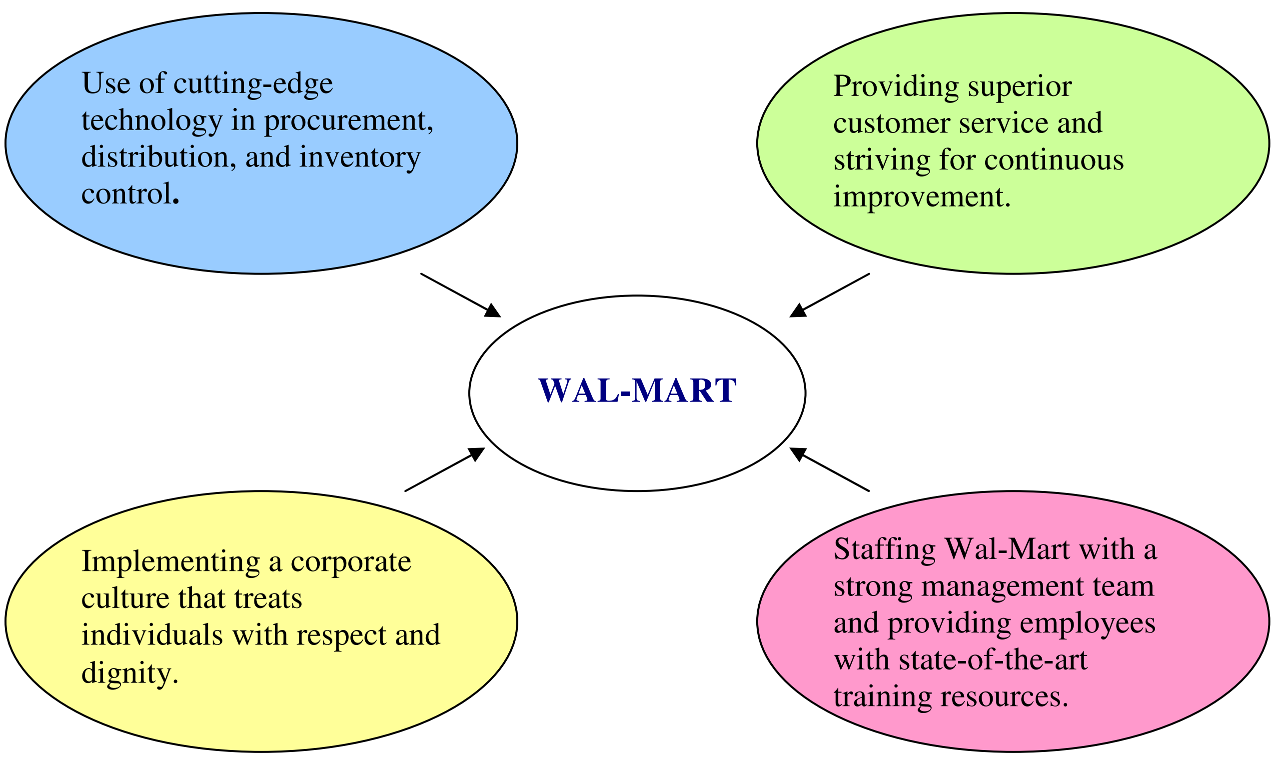
Secondary Activities and Costs

Technology and Systems Development

Human Resources Management

General Administration

WAL-MART'S STRATEGY EXECUTION PROCESS



RECOMMENDATIONS

Wal-Mart has several competitive strengths that must be turned into sustainable competitive advantages and weaknesses and threats that must be addressed to maintain its strong foothold in the retail industry. A major threat is the discrimination lawsuit the company is facing. Wal-Mart should conduct its own internal investigation of the claim and immediately rectify any wrongdoings it will find. Pressures from labor unions should also be addressed by properly compensating its employees. Although Wal-Mart has been persistent in its pursuit of driving cost down, it should not sacrifice its human resources. Offering competitive salary down to its lowest skilled workers would create more employee loyalty and increase employee productivity and morale, thereby reducing turnover rates.

Since Wal-Mart has been successful in executing its low-cost strategy, careful guarding must be implemented as other retailers attempt to imitate Wal-Mart's supply chain streamlining. In conjunction with this, Wal-Mart's first mover technology advantages should be applied in other areas of its value chain. One avenue is using technology in the continuous training, performance evaluation, and tying rewards and incentives to above average performance of associates. Doing so would make this Herculean task more doable as information systems can be automated and are more objective in labor monitoring.

Wal-Mart should project a more community friendly, environmentally concerned, and outstanding employer image. A portion of profits should be returned to the community by sponsoring charity events, scholarships, community clean-up, and the like to remedy the fierce resistance of local residents and replace it with a welcoming attitude. This should allow Wal-Mart to gain easy entry in other smaller towns and even in major metropolitan areas.

On a global scale, Wal-Mart should use strategic alliances, joint ventures, and/or acquisitions of foreign companies as the primary vehicle for entering foreign markets. Under Wal-Mart's multi-country strategy, it should transfer its competencies and capabilities country to country and then gradually build profit sanctuaries in several countries as it continues its global expansion.

Sam Walton is an exceptional entrepreneur and his business principles have proven their potency and effectiveness in Wal-Mart's decades of operations. Thus, management should consistently and conscientiously stick with his guiding principles in strategy execution.