

Strategic Analysis For:



Business 478 D200 Group 6

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History

Walmart was founded in 1962 by Sam Walton in Rogers, Ark. It is an American multinational retail corporation that runs chains of large discount department stores and warehouse stores. They focus on making a difference in the lives of their customers, and helping customers and communities save money and live better. In 1969, the company officially incorporated as Walmart Stores, Inc. Walmart started its public trade on the New York Stock Exchange in 1972. With the continued rapid growth, Walmart was operating in 11 states with 276 stores by the end of 70's decade. In the 1980s, the first Sam's Club opened, serving small businesses and individuals, and the first Walmart Supercenter opened, combining a supermarket with general merchandise. In the late 1980s and early 1990s the company rose from a regional to national giant, Walmart was the number-one retailer in the nation. In 2000s, Walmart focus on offering customers a seamless shopping experience, whether they are online, in a store or on a mobile device. Also, during these times, Walmart put some effort in implement several environmental measures to increase energy efficiency. Today, the company has grown to be the world's largest and arguably, the most emulated retailer (History Timeline, 2013).

Current situation

According to Fortune Global 500 list in 2013, Walmart is the world's second largest public corporation in world. By 2012, the company employs 2.2 million associates worldwide and serves 200 million customers each week at more than 10,000 stores in 27 countries (History Timeline, 2013). David Glass, the CEO of Walmart, states out the two objectives that they focus on:

- I. Providing the customers what they want, when they want it, all at a value.
- II. Treating each other as we would hope to be treated, acknowledging our total dependency on our associate-partners to sustain our success.

With the balance growth, Walmart is a \$466 billion company. In addition, Walmart's net sale achieve \$274.5 billion, with the international contributed \$132.5 billion by 2013 (Walmart 2013 Annual report, 2013).

Due to the expansion around the world, Walmart is also facing a lot of competitors in different countries with different kinds of competition. Primary competition includes department stores like Kmart, Target, ShopKo, etc. Moreover, some smaller retailers focus on a small niche market, which can also compete successfully against Walmart.

General Environment

- **Social** --- The social cultural segment is concerned with a society's attitudes and cultural values. A major social cultural trend is the continued growth of suburban communities. The increasing number of people living in the suburbs has a number of effects. Walmart continues expanding its current store capacity to include new products and services for customers. Walmart will build new supercenters in previously unexplored regions in Canada, which includes plans for 37 new stores in the next fiscal year (Canadian Press, 2013). In America alone, Walmart established 4,017 stores in central and convenient locations to serve communities (Global Responsibility, 2013).
- **Political/legal** --- Walmart must carefully analyze the business-related policies. Competition laws, taxation laws, and labor training laws are areas in which policies can affect Walmart's operation and profitability a lot. Walmart is facing an issue regarding discrimination of employees based on their gender. Women are discriminated by not allowing them to sit in supervisory and managerial levels (Walmart: An Analysis, 2008). There are said to be pending lawsuits waiting for Walmart's notions as the company has allegedly went against the labor laws. This negative reputation could result in a loss of competitive advantages, sales, and possibly Walmart's reputation as the world's leading retail company. Therefore, engaging in gender equality practices will help contribute to Walmart's success.
- **Demographic** --- For Walmart, demographic segments are analyzed on a global basis, because it operates internationally. Demographic segments is concerned with many areas such as population size, age structure and geographic distribution. Walmart is using its wealth of sales and inventory data to

segment based on demographics, allowing it to market to specific age, ethnicity and income brackets (Brian, 2006). By analyzing the demographic segment, Walmart will know their customers better, so better services could be provide.

- **Economic** --- Walmart is always sensitive towards economy growth, their sales model which depends on low margins of profit and a high volume of sales, could alter relatively fast. When economy doing well, Walmart's low price strategy would be of less importance to customers, in the other hand, during a time of recession Walmart goal of high volume of sales would be threatened. As a result of the previously mentioned points, Walmart should conduct a thorough study before entering an unbalanced economy (Walmart, 2013).
- **Technological** --- Walmart embraced technology to become an innovator in the way stores track inventory and restock their shelves (Traub, 2012). Walmart has invested heavily in its unique cross-docking inventory system, which can help Walmart to achieve economies of scale to reduce the costs. With its successful system, Walmart is able to responds quickly at demand changing, maintain low costs and satisfy its customers. The effort that Walmart put into the supply chain management makes the company become the leader of this area
- **Global** --- Walmart focus on the global market, the company expands into many different countries. However, there are different cultures and laws apply to in different countries, which may increase the risk and expenditure of the company to enter into a new market.

Industry environment

The retailing industry is comprised of the sale of products and merchandise from a static location, such as a store, or by mail, or online. Retailers purchase products from manufacturers, importers, or wholesalers, and then separate the products via their channels before proceeding to sell the goods directly to consumers.

Walmart is the industry leader in retail industry. Its product differentiated in many ranges. Other retailers focus on specific market. For example, Sears focus on furniture, Best-Buy focus on electronic device. In recent years, on-line retail industry grows so fast. Amazon is the leader in online retail industry. Amazon also goes international and does well.

Competitors

Walmart faces increasing competition from local, regional, national and international retailers. Competitors can benefit from the same low offshore manufacturing costs that Walmart has. For the scope of this assignment, we will focus on Walmart's North America market and briefly touch on the competition in some foreign markets. In North America, Walmart's primary competition includes department stores like Target, Kmart, Canada's The Real Canadian Superstore, and Mexico's Commercial Mexicana. Competitor of Walmart's Sam's Club division are Costco. Meanwhile, several smaller retailers, primarily dollar stores, have been able to find a small niche market and compete successfully against Walmart for home consumer sales.

Target would be Walmart's direct competitor. Target is the second largest retail stores after Walmart. A strategy for Target is that they are able to deliver discount goods at a higher quality as well as offer more product variety to its customers compared to Walmart. This strategy attracts high-income customers and generates higher revenue. Their main customer base has an average income of \$50,000 per year compared to Walmart's \$35,000 per year (Thomas, 2010). Target also aims to expand globally with its acquisition of 200 Canadian Zellers stores.

Target isn't the only one slowly eating away at Walmart's retail lead. Costco is also outperforming Sam's Club by most measures. Costco grew 26.1% from 2008 to 2012, more than double the rate of Sam's Club. Costco is also larger than Sam's Club, with \$97.06 billion of revenue last year versus \$53.8 billion, so it's growing more quickly from a bigger base (Hoium, 2013).

Walmart also faces fierce competition within their foreign markets in German and South Korea. Walmart entered into German market in 1997 and remained a second player behind Aldi with a 19 percent share. In 2006, Walmart announced its withdrawal from Germany. Its stores were sold to German company Metro. After entered into the South Korean Market in 1998, Walmart withdrew and sold all 16 of its South Korea outlets to Shinsegae, a legal retailer, for \$882 million (Patrick Hayden, 2002). Shinsegae re-branded the Walmart as the E-Mart stores.

Strategy

- **Business-level Strategy**

Walmart uses a combination strategy of cost leadership and differentiation. They provide a wider variety of products and services with the same or better quality at a price that is cheaper than their competitors can provide. Walmart concentrates on finding ways to lower their costs by constantly rethinking how to complete their primary and support activities to reduce costs still further while maintaining competitive levels of differentiation. Their successful supply chain management is an important way helping them to implement the cost leadership strategy. They has effective inbound logistics by using just-in-time inventory. And they have cut costs from outbound logistics by creating better fuel efficiency in their trucks, getting more pallets on a load, and decreasing empty miles driven by their trucks (Dess, 2012). Walmart also reduces costs by buying in large blocks. Technology plays a key role in Walmart's supply chain too, it allows Walmart to accurately forecast demand, track and predict inventory levels, create highly efficient transportation routes, and manage customer relationships and service response logistics (Walmart's Keys to Successful Supply Chain Management, 2013). In conclusion, Walmart's successful overall cost leadership/differentiation strategy leads to high entry barriers for competitors.

- **Corporate-level Strategy**

The major reason behind the success of Walmart lies in the fact that the company believes and concentrates on the strategy of single business, which means more than 95% of its revenue comes

from their grocery business. Over 30 years, the strategy of single business has been contributing greatly to the success of Walmart, they have never believed in the concept of diversification for the sustenance of its growth and also its advantages at the competitive level (Market entry strategies of Walmart in the international arena, 2013).

- **International-level strategy**

Walmart has been able to successfully enter into the global market because of the use of multinational business strategy. This strategy involves that customers of different countries are treated differently and hence productivity and profitability are high. It is imperative for Walmart to cater every region's differences in product preferences; thus, they work under the "Different Stores for Different Folks" philosophy (Walmart: An Analysis, 2008).

Strategic Challenge

- **Globalization**

Whether you are a local mom and pop shop or a multinational Fortune 500 company, neither can ignore the realities of globalization and the affect it has had on company processes, from supply chain to target consumers (Physioc, 2013). As a multinational Fortune 500 company, Walmart is also facing the challenges by globalization. Firstly, there is a challenge from the suppliers of Walmart. When the company expand to other countries, they should have different suppliers, because of the different market they targeting. In this situation, supplier relationship management is an important issue for Walmart. In addition, understanding the culture where Walmart operates is crucial. Culture can influence Walmart's operation in different ways, especially in the beginning, such as there are language problems, pricing difficulties and culture collisions (Hasim Dear, 2013). Walmart must be able to handle these difficulties in a way that is satisfying also for the other part.

- **Technology**

In the Information age, the development of network technology has a significant effect on the retail industry. This effect be reflected in the following aspects:

1. Network technology break space and time barriers. Store's location is no longer important.
Traditionally, the location for retail store is critical, because it affects customer flow and sales directly. In the information age, network technology break through the geographical limitation, retailers nowadays can expand their market globally. Therefore, Walmart cannot purely rely on the location anymore, but to focus on market-based management of innovation.
2. Selling methods change. Technology changes customers' behavior from "store shopping" to "home shopping". They can save a lot time by easily shop online. This change lead to operational changes for retailer. Online store will become the mainstream of global business model. Apply to Walmart situation, it is way behind Amazon in the area of online shopping. To catch up, Walmart's huge organization inertia will be a barrier for them to respond quickly (Banjo, 2013).
3. Development of information technology also affects Walmart's human resources. Technology could replace some man power, and for those remaining employees, constant training will be needed for them to be competent. Changes in human resources will be a challenge for Walmart, because laying off could lead to some social issues such as unemployment, and training would mean money and time have to be sacrificed.
4. Technology could lower Walmart's profit margin. Network has enabled people to find all the product information online, which means searching for the best price become relatively easy. In addition, technology could also lower the competitors' cost which include communication costs, labor force costs, purchase costs, infrastructure cost and searching cost, so they could also provide the products with lower price. Therefore, the price war between retailers are fiercer, resulting in profits in retail industry be further reduced. Apply to Walmart situation, because Walmart's core competitive advantage is low price, it will face more challenges in the future.

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