

Walmart
Save money. Live better.



BUS478 Business Strategy - D200

CASE SYNOPSIS: Walmart

Prepared by Group 3

Yu Dan Chen

Xi Li

Wei Tan

Rainy Yang

Yina Zhao

Professor: Jerry Sheppard

Submitted: March 20, 2013

History of the Company

Wal-Mart Stores Inc, is an American multinational retail corporation, headquartered in Bentonville, Arkansas, United States. The first Walmart store was opened in 1962 in Rogers, Arkansas by Sam Walton. Sam started the company with the vision of being the lowest price retailer at anytime and anywhere. In the 1970s, Walmart started to growth nationally, proving Sam's vision had widespread appeal. In the 1980s, Walmart reached one billion dollars in annual revenue to overtake its main competitor, K-mart, to become the leader of the retail industry in the US. During the same period, the first Sam's Club store was opened, serving larger quantity of products to small businesses and individuals, and the first Walmart Supercenter was opened, which combines a supermarket with general merchandise. By 1990, Walmart had become the biggest retailer in the world, with stores in the US, Mexico, Canada, China and the United Kingdom. In the year 2000, Walmart founded Walmart.com, which allows customers to shop online. Since then, Walmart has continued to expand its business internationally through acquisitions, joint ventures and greenfield investments.

However, in 2006, Walmart closed up and sold all 85 of its stores in Germany to the German company Metro. It has been suggested that they had realized that Walmart's U.S. approach to business did not translate into success in the German market. In the same year, Walmart also withdrew from the South Korean market and sold all 16 of its outlets there for similar reasons. In 2007, Walmart introduced its new slogan, "Save Money Live Better," to replace founder Sam's "Always Low Prices, Always" slogan. Though Walmart's revenue has continually grown, the revenue growth rate has declined from an annual average of 7.35% over the last 10-years to 5.09% over the last five years, and even more recently to just 3.39% growth over the last three years.¹

The Organization Today

With its new slogan, “Save Money and Live Better”, Walmart continually focuses on its price leadership strategy while also aiming to provide customers with higher quality and healthier goods.

Although Walmart began as household and consumer department store, Walmart's revenues have shifted and it is now more of a grocery retailer as groceries accounted for 54% of revenues in 2011.²

In another move away from its lowest possible cost roots, Walmart has stated it is committed to global responsibility such as preserving the environment by pushing forward with a sustainability initiative.

Walmart nowadays operates retail stores in various formats worldwide, which include discount stores, supermarkets, supercenters, restaurants, warehouse clubs, Sam’s Clubs, and neighbourhood markets, as well as Walmart.com and Samsclub.com. To operate these stores Walmart employs approximately 2.2 million associates worldwide, including over 1.4 million in the US.

Walmart has three operating divisions, as Table 1 shows: Walmart U.S., Sam's Club, and Walmart International. Among them, Walmart U.S. is the company's largest division, and accounted for US\$264 billion, or 59.5% of total sales for financial year 2012.³

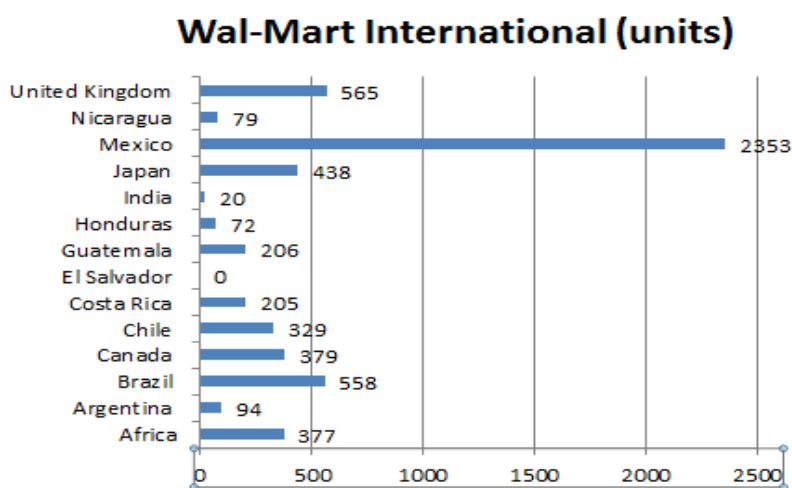
Table 1: Profit of Walmart’s Three Business Segments:

Fiscal Years Ended January 31, (\$ in millions)

	2012			2011			2010	
	Net Sales	% of Total	% Change	Net Sales	% of Total	% Change	Net Sales	% of Total
Walmart U.S.	\$264,186	59.50%	1.50%	\$260,261	62.10%	0.10%	\$259,919	64.20%
Walmart International	\$125,873	28.40%	15.20%	\$109,232	26.10%	12.10%	\$97,407	24.00%
Sam's Club	\$53,795	12.10%	8.80%	\$49,459	11.80%	3.50%	\$47,806	11.80%
Net Sales	\$443,854	100.00%	5.90%	\$418,952	100.00%	3.40%	\$405,132	100.00%

As of January 31, 2013, Walmart operated more than 10700 retail units, as Figure 1 shows, under 69 business names, in 27 countries. Walmart U.S. accounted for 4,005 total units, Sam's Clubs accounted for 620 total units and the rest of the 6148 units operated under the Walmart International division.³

Figure 1. Walmart International Unit Counts



As Figure 1 indicates, as of 2013, the second largest number of stores by country for Walmart's was in Mexico where the company operates 2353 stores units, which account for more than 1/3 of the total units of Walmart international.³ The next three

largest store distributions by country for Walmart are the United Kingdom, Brazil and Japan.

In fiscal year 2012, Walmart recorded annual revenue of about US\$444 billion was 5.9% above the previous year's US\$419 billion, as can be seen in Table 2.³

Table 2. Five-Year Financial Summary (\$ in millions, for fiscal years ending January 31)

	2012	2011	2010	2009	2008
Net sales	\$443,854	\$418,952	\$405,132	\$401,087	\$373,821
Net sales % increase	5.9 %	3.4 %	1.0 %	7.3 %	8.4 %
Comparable sales in the United States (1)	1.6 %	-0.6 %	-0.8 %	3.5 %	1.6 %
Walmart U.S.	0.3 %	-1.5 %	-0.7 %	3.2 %	1.0 %
Sam's Club	8.4 %	3.9 %	-1.4 %	4.9 %	4.9 %
Gross profit margin	24.5 %	24.8 %	24.9 %	24.3 %	24.1 %

Further, as Table 2 shows, net sales increased for each of the three business segments in 2012. This is a significant improvement from 2011 when Walmart US net sales fell 1.5%. Table 2 also show that in fiscal year 2010, Walmart U.S. revenue decreased by 0.7%. For fiscal 2012 Sam's Club net sales grew 8.4% compared to an increase of 3.9% in fiscal 2011 and a decline of 1.4% in fiscal 2010.

Moreover, as Table 3 shows, Walmart International unit count is increasing at a faster rate in 2012 with the addition of 1094 new units revenues rose 15.2%.

Table 3. Walmart International (\$ in millions, for fiscal years ending January 31)

	2012	2011	2010
Net Sales	\$125,873	\$109,232	\$97,407
% Change VS Previous Year	15.2%	12.1%	1.3%
Operating Income	\$6,214	\$5,606	\$4,901
Operating Income as % of Net Sales	4.9%	5.1%	5.0%
Unit Counts	5651	4557	4099
Retail Square Feet	329	287	266

This is better performance than the previous fiscal year when 450 more new units were established internationally and there was a 12.1% increase in revenue in Walmart's international segment.

Environment

The retail industry is increasingly competitive and the low cost strategy segment of retailing is perhaps the most competitive. The intense competition is not only on basis of pricing but also on store size, location, technology and reputation. Walmart's primary competitors include Target and Sears, Costco and Amazon. Specifically, Target and Sears are department stores that compete with Walmart

in general merchandise retailing. Sam’s Club competes with Costco in the warehouse retailing segment. Walmart.com and Samsclub.com both compete with Amazon in internet-based retailing.

Walmart's current market capitalization is US\$241.9 billion, while Costco and Target hold market capitalizations of US\$44.5 billion and US\$42.9 billion respectively. However, over the past few years, the Walmart's lead over other retailing giants has been greatly reduced. According to industry reports, there have been an increasing percentage of similar general merchandise items offered at Target and Walmart stores. Target has also been cutting prices to get closer to matching Walmart's everyday low price levels. In addition, Walmart has been rapidly losing market share to Costco, as Costco moves to undercut Walmart’s prices. Though all three competitors have shown revenue growth in the recent 3 year period, as is shown in Table 4, Walmart's average growth rate of 3.39% is significantly behind Costco’s average growth rate of 11.55%.⁴

Table 4. Average Growth Rate of Costco, Walmart and Target

3 Year average % growth	Costco (COST)	Walmart (WMT)	Target (TGT)
Revenue	11.55	3.39	2.46
Operating Income	15.79	5.22	6.53
Net Income	16.32	5.42	9.78
EPS	16.35	10.06	14.38

In addition, Walmart is also facing threats to its e-commerce business, as Amazon has been expanding into offering more general goods and has been growing in popularity. With an increasing number of customers preferring to shop online for all their needs, Amazon.com may gain increasing market share from Walmart.

Aside from intense industry competition, there are also political issues that impact Walmart's global expansion. Walmart's US strategy of building stores and distribution with economies of scale may not be welcomed by foreign governments which Walmart needs approvals from. Foreign governments may see Walmart's operation strategy will hurt their small size retail businesses, especially in small towns, which may result in higher unemployment of unskilled people. The governments then have higher costs for paying for those low skilled unemployed former small retailers to be retrained or to create unskilled jobs for them. Therefore, some foreign governments may create barriers for Walmart and other international retail organizations seeking to expand and consolidate the retail sector in foreign countries. Moreover, Walmart's recent issues regarding alleged bribing of Mexican officials to obtain store development approvals and violations of the US Foreign Corruption Practices Act may make Walmart much more cautious above using aggressive tactics to expand internationally, since the revelation of these allegations made Walmart shares plunged nearly 5% immediately.⁵ Shareholders will not tolerate that type of result, and will attempt to block any expansion which puts their portfolio value at risk to that extent. This may slow Walmart's international growth, and intensify the pressure on Walmart to compete domestically.

As mentioned previously, Walmart employs approximately 2.2 million employees worldwide and over 1.4 million in U.S. It has 430,000 mature associates who are 50 and older.⁶ The company's full-time hourly wage for Wal-Mart stores is \$11.75, and near the minimum legal hourly wage for part time employees.⁷ With 1.4 million US employees, Walmart's net income of US\$ 15.6B is sensitive to wage increases. A significant part of Walmart's profitability is really due to its low wages and low benefits policy.

Culture differences increase the difficulty of entering into new businesses in foreign countries.

Walmart's failure to succeed in its businesses in Germany and South Korea were showed Walmart the limits of its low price strategy, and specifically of pushing its everyday low price policy to all customers everywhere. Clearly this approach does not appeal in some foreign counties at present, and whether it is a case of educating consumers there to the benefits of low prices, or whether those customers truly have different preferences that the low price strategy does not serve remains an open question for Walmart to answer.

General economic conditions directly influence the performance of Walmart and other retail companies. In the U.S., the higher levels of unemployment, higher tax rates and overall economic slowdown all reduced consumer demand for products and services that all retailers provide, however with lower incomes many consumers who were previously buying upscale of Walmart shifted their purchases to the Walmart price/quality level and therefore Walmart was not as significantly impacted by the recession, and by continuing higher costs of living, as middle market retailers. Moreover, higher interest rates, higher fuel and other energy costs, transportation costs, foreign exchange rates fluctuations can increase Walmart costs of sales and administrative expenses.

Main Challenges

Walmart faces several major strategic challenges and needs to:

1. Increase Revenue and Maintain Market Share

Though Walmart's revenue has been continually increasing, its revenue growth rate has decreased substantially in recent years. Of Walmart's three business segments, Walmart U.S. had revenue declines in fiscal 2010 and 2011, and Sam's Clubs had revenue declines in fiscal 2010. The

International segment has continued to grow strongly. This raises the question of whether Walmart can find ways to increase its revenue growth for the Walmart U.S. segment.

2. Maintain Price Leadership Position among Competitors

Since some competitors are getting better at imitating Walmart's specialized logistics systems and the differentiation between Walmart and other retail companies is disappearing, Walmart has been losing some of its cost advantage over competitors. Walmart should refocus on its lowest price all the time orientation which led the company to its market dominating price leadership position.

3. Expand in the Global Market

The majority of Walmart's revenue is from the Walmart U.S. segment, which accounts for 59.5% of total revenue. Walmart needs to further develop beyond its U.S. focus to become a fully multinational retailer. The Walmart International segment has shown very good revenue growth in recent years suggesting there is a potential opportunity for Walmart to further invest in foreign countries. Walmart has been pushing its low cost strategy to Brazil and China recently, as those two areas have been seen as the two most profitable markets.

4. Developing a cost leadership position in Global ecommerce

With technology developing rapidly, increasing numbers of customers prefer to shop online. Therefore, Walmart needs to enhance its ecommerce strategy in order to put itself in the right position to gain future shares.

Reference:

1. Jubak, J. (2012). Can Costco thrive on Wal-Mart's international woes? Retrieved from:
<http://money.msn.com/top-stocks/post.aspx?post=30e12ef1-a8ea-4eb1-bc76-edcc4b88f3941>
2. Blythe, B.(2011). Wal-Mart's U.S. grocery sales rise 2.1%. Retrieved from:
<http://www.thepacker.com/fruit-vegetable-news/fresh-produce-retail/122014269.html>
3. Wal-Mart Stores Inc, (2013). Annual Report. Retrieved from:
<http://stock.walmart.com/annual-reports>
4. Batabyal, A. (2012). Why Costco Is a Great Stock to Own. Retrieved from:
<http://beta.fool.com/anindya7/2012/12/21/why-costco-great-stock-own/19252/>
5. Brown, A. (2012). Mexican Bribery Scandal Could Cost Wal-Mart \$4.5 Billion; Shares Down 4.7%. Retrieved from: <http://www.forbes.com/sites/abrambrown/2012/04/23/spooked-investors-sink-wal-mart-nearly-5-after-bribery-revelations-at-least-4-5b-penalty-likely/>
6. Wal-Mart Stores Inc, (2013). Corporate Facts: Walmart by the Numbers. Retrieved from:
http://walmartnewenglandcan.com/community/Corporate_Fact_Sheet.pdf
7. Qualman, N. (2010) Walmart Associates Stories. Retrieved from:
<http://walmartcommunity.mediarain.com/associates/nicholas-qualman.php>