

Business analysis for Wal-Mart, a grocery retail chain, and improvement proposals



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1. Introduction

Abstract

This study consists on the analysis of a very big grocery retail chain and the proposal of a serial of improvements I consider that can help the company to grow in the future.

Wal-Mart Stores, Inc. is a multinational retail corporation that runs large discount superstores and warehouses. It was founded less than fifty years ago by Sam Walton and his brother Bud in Bentonville, Arkansas (USA). With sales over \$300 billion a year, Wal-Mart is considered one of world's most valuable companies. It is the world biggest employer, having more than 1.5 million workers around the globe. It has more than five thousand stores worldwide, 80% of those are in the United States. This giant corporation makes more business than its direct competitors Target, Home Depot, Sears, Kmart, Safeway and Kroger combined.¹

In order to address this business analysis, it is necessary to study the economic environment in which the company operates. Due to the fact that this corporation works worldwide, deep macro analysis and micro analysis are necessary.

Furthermore, operational strategies are important to get to know how the company is being run. Location, plant layout and quality of products are ultimate to understand the business.

Also, the study of the marketing mix of Wal-Mart is crucial. The four factors of price, product, place and promotion tell us a lot about both sides, Wal-Mart successes and failures.

Next, I study how the human resources of this huge retailer are managed. There have been many criticisms in this field and after many studies, still experts do not agree whether Wal-Mart is doing fine with employees or not.

Another very important part to analyze is the financial situation. A company of the size of Wal-Mart is so difficult to study, so only a brief view into its financial statements is done. Worldwide is known that this company is very stable and rewarding.

¹ Source: Nelson Liechtenstein, "Wal-Mart, the face of twenty-first-century capitalism", 2006

Later, before recommending some proposals to improve the company's future ventures, a SWOT analysis is done. It is necessary to have a look into the company's failures and criticisms in order to know which steps to follow in subsequent occasions.

A specific case will be studied: Wal-Mart failure in Germany. This country was one of the few places where Wal-Mart wasn't successful at all and quit the try to achieve a place in the German market.

The last step is a final conclusion, where there is a summary of the proposals made and their profitability.

Objectives

In this study, there are several objectives to accomplish in order to study Wal-Mart situation in the market. In the following table, there is a summary of them all.

| Main objective | Sub-objective |
|--|---|
| Get to know the retail sector | Evolution of the sector Importance of the sector in the economy |
| Get to know the environment | Study the PESTEL context Analyze the five forces of Porter Analyze the direct competitors |
| Analyze the company operations and processes | Study the lay out Analyze the operations Analyze system of quality |
| Analyze human resources | Analyze the human resource management and quality of job |
| Get to know the marketing mix | Study the target customer Analyze 4 P strategies (product, price, place, promotion) |
| Evaluate the financial situation | Evaluate the financial statements Evaluate the profitability of the firm |
| Perceive weak points and strong points | Study weaknesses and how to deal with them Find strengths and why they exist |
| Study the failure in Germany | Find the reasons of the failure Find solutions not to fail again |

2. Presentation of Wal-Mart and study of the retail sector

Origins of Wal-Mart

Wal-Mart was founded in 1962 by Sam Walton in Rogers, Arkansas. It was run in a foundation of serving to customers at “lowest prices anytime, anywhere”. They focus on making a difference in the lives of their customers, and helping customers and communities save money and live better. In 1969, with more than 24 stores opened, the company officially incorporated as Walmart Stores, Inc.

Wal-Mart started its public trade on the New York Stock Exchange in 1972, recording sales of \$78 million in its 51 stores. With the fast growth, Wal-Mart 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 Wal-Mart Supercenter opened. In the early 1990s, the company was the number-one retailer in the nation. Only one year after, it entered into the Mexican market, in 1995 in Canada, in 1996 in China, and by 1999 the company entered into the European Union by entering in the United Kingdom market.

In 2005, Wal-Mart made an effort when making a commitment on implement environmental measures to increase energy efficiency and announcing goals to be supplied 100 percent by renewable energy, create zero waste and to sell products that sustain people and the environment.²

Today, the company is present also in Chile, South-Africa and India.

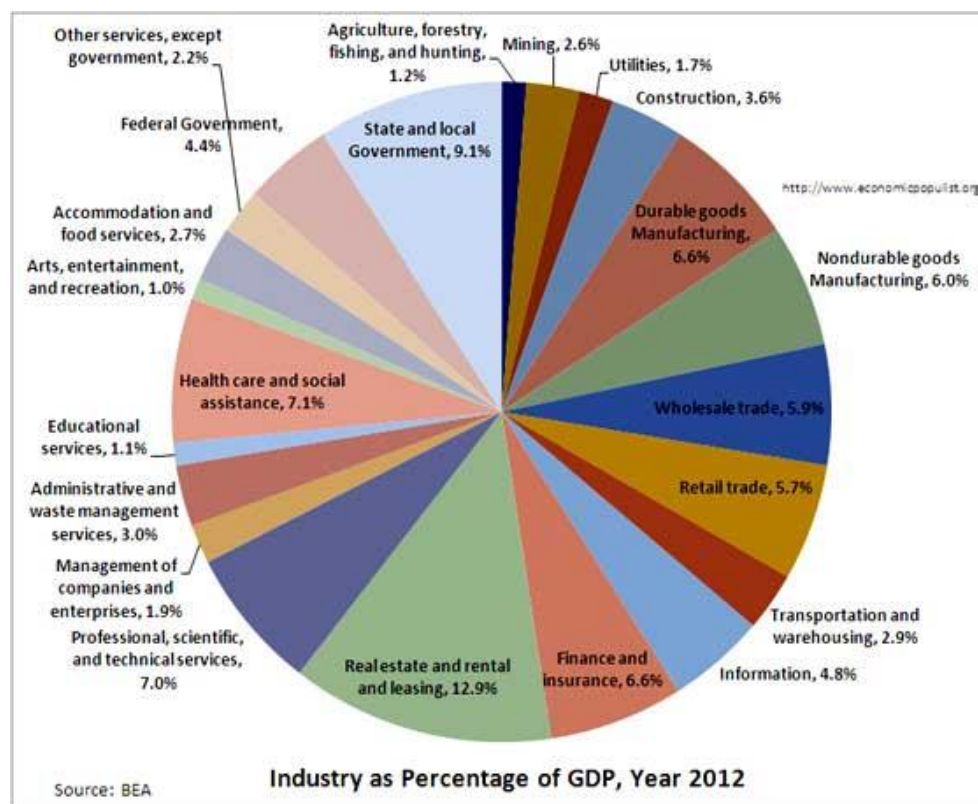
² “Sustainability Efforts Mean Big Environmental Impact at Wal-Mart” by Todd Traub 2012 – Arkansas Business <http://www.arkansasbusiness.com/article/85509/sustainability-efforts-mean-big-environmental-impact-at-wal-mart?page=all>

The retail sector in America

First of all, it is necessary to define what the retail sector means in the market. The retail industry is a sector of the economy that is comprised of individuals and companies engaged in the selling of finished products to end user consumers. Multi-store retail chains in the U.S. can be publicly traded on the stock exchange and privately owned.

The retail industry is the second largest industry in the U.S. It is responsible for approximately 12% of all the employment, with over \$3.8 trillion in sales annually (\$4.2 trillion if food is included). Although the 90% of all retail stores in the US are single-store in the U.S., they only account for less than half of all retail sales. So, the majority of all retail revenues in the industry are produced by retail chains. The biggest one of these chains is Wal-Mart.

The following chart shows the percentage of U.S.GDP by industry in the year 2012. It shows what business sectors and industries really run the economy.



Finance, insurance, real estate, rental, and leasing are an astounding 19.5% of GDP which is unchanged since before the recession. Real estate and rental and leasing by itself actually grew, whereas finance and insurance shrank their percentage of the GDP pie. Considering this sector was the cause of economic implosion, this is probably not a good thing to have it being almost 20% of the overall economy. Professional and business services overall is less, 11.5% of overall GDP. The retail trade contribution to GDP is about 5.7%.

A report³ finds that there are over 3.6 million retail establishments (including food services and drinking places) across the country, accounting for 11.9 percent of all business establishments in the US. These retail businesses directly provided 28.1 million full-time and part-time jobs in 2009. The industry's direct labor income impact was estimated to be \$770 billion or 8.7 percent of the national labor income in 2009. Also, the industry directly added \$1.2 trillion to GDP, accounting for 8.5 percent of U.S. GDP in 2009 (see Table 1).

| | Direct National Impact | Percent of U.S. Economy |
|-------------------|-------------------------------|--------------------------------|
| Establishments | 3,617,486 | 11.9% |
| Employment (Jobs) | 28,113,476 | 16.3% |
| Labor Income | \$770.1 billion | 8.7% |
| GDP | \$1.20 trillion | 8.5% |

Table 1. The Retail Industry's Direct National Impact, 2009

Source: PwC calculations

Taking into account the direct, indirect, and induced impacts, the retail industry's total employment impact on the national economy in 2009 reached 41.6 million full-time and part-time jobs, which represented the 24.1 percent of total national employment (see Table 2). The industry's total labor income impact was estimated to be \$1.49 trillion or 16.9 percent of national labor income in 2009. The industry's total GDP impact was \$2.48 trillion, accounting for 17.6 percent of U.S. GDP in 2009.

³ PwC report (august 2012) "The economic impact of the US retail industry"

| | Total National Impact | Percent of U.S. Economy |
|-------------------|------------------------------|--------------------------------|
| Employment (Jobs) | 41,620,604 | 24.1% |
| Labor Income | \$1.49 trillion | 16.9% |
| GDP | \$2.48 trillion | 17.6% |

Table 2. Total Impact of the Retail Industry on the U.S. Economy, 2009

Source: PwC calculations

According to the latest annual report released by the U.S. Commerce Department in 2013, total retail sales in 2011 were \$4.7 trillion, which represents an 8% increase over 2010 total retail sales (including food service and automotive). The 2011 increase was the largest year-over-year increase since 1999, indicating that economic recovery is well underway and that the future of the U.S. economy is expansion.

Current situation of the sector

At the beginning of 2014, there was news of store closings by the largest U.S. retail industry chains (Wal-Mart, Costco, Home Depot, Best Buy, etc.) accelerated not because the U.S. retail industry is in crisis, but because some stores and retail chains have found it difficult to compete in a fast-moving, ultra-competitive global retailing environment. The number of retailers closing or going bankrupt in 2014 is small compared to the past.

In the new market characterized by costumers buying trough Internet and by mobile shopping, it has become clear that there is a saturation of physical retail stores operated by the largest U.S. retail chains. Downsizing the size and the number of stores is a current trend in the market. This trend is expected to continue in the following years.

The customer with its online purchases is telling retail stores which preferences in buying it has, as well as how much it values buying in physical stores. The market, in response to these preferences, will have to adjust during the time. That's why it is expected many retail stores to close their doors.

3. Environment

In order to analyze in which environment does Wal-Mart operates, a PESTEL analysis will be made. Political, Economic, Social and Technological factors influence the performance of the company and so it is necessary to have a deep insight into them.

Furthermore, there are other forces that make the market be more or less attractive in relation to the overall industry profitability. To study this issue, I will resort to Porter's five forces. Three of those forces are external threats of new substitute products or services, the power of established rivals and the threat of new entrants; and the other two forces are internal threats of the bargaining power of customers and bargaining power of suppliers.

Macro analysis (PEST)

All retail companies act within a “macro environment,” or the scope of influence outside the company that determines how firms do business. Unlike the micro environment of a retail store, companies in the retail industry usually cannot change this macro environment and so should adapt to changes as they occur. Following, there is the PEST analysis of the U.S. macro environment.

Political and Legal

The United States is a federal constitutional republic in which the President is the head of both, the government and the state. The Congress and the Judiciary share powers with the national government and the federal government shares sovereignty with the state government.

There are some differences between the political system of the U.S. and the rest of developed countries. Some of them are that in the States there is greater power in the upper house of legislature, a wider scope of power held by the Supreme Court and the dominance of only two main parties. Third parties have less influence in the U.S. than in most of other developed democracies.

Due to the size of the United States, the law enforcement is in charge of local police, while the state police provide broader services. The jurisprudence applied is the common law system and are the state courts the ones that conduct most trials.

Regarding the government laws that affect retail industry, in the U.S. there are some of them worth to cite.

- Truth in advertising laws: dictate the messages companies may convey when trying to convince consumers to purchase products and services. Any violations of these regulations lead to very expensive financial penalties that exceed any possible monetary damage the consumer can suffer. It's illegal to make false or deceptive claims with advertising regarding products and services. The Federal Trade Commission is in charge of enforcing false advertising laws at the federal level.
- Seeking punitive damages: allow customers wronged through deceptive advertising practices to seek punitive damages from the offending business.
- Consumer protection laws: aims to avoid misleading marketing campaigns as a means to drive sales numbers.
- Misleading discount prices: dictates that it is illegal that companies make consumers believe there is a discount in prices of products/services if it does not exist.

Social

Having a look into the demographics of the U.S., the majority of the ethnicity is white (72.4%), followed by black/African American (12.6%), Asian (4.8%) and others.

The most common religion is Christian, accounting for 78.2% of the population, no religion 16.2%, Judaism 2%, and some Buddhism, Hinduism and Muslims, approximately 1.7%.

The U.S. consumer is characterized for being very powerful and demanding. The increasing power and activism of clients make the retail stores to be in a continuous

contact with them. Products launched must be fashionable and consumer-centric products in order to create an engagement with the customer.

Environmental

There was not a big public awareness of ecology as a whole, but the population is beginning to grow some concern for these problems.

Lately, the profile of the consumer is changing and now the consumer is becoming a person who makes deliberated decisions based on his lifestyle desires and his willingness to take his part of responsibility to take care of environmental impact. And so, there is an expectation that companies do the same in their products and services.

Issues like conservation, deforestation, kind of energy used, waste, use of pesticides air, water and marine pollution, are every time more often in the customer minds.

Micro analysis (Porter's five forces)

Due to its expansion around the world, Wal-Mart has to face a lot of competitors from different countries with different kinds of competition. Primary competition includes department stores like Kmart, Target, ShopKo, etc. Moreover, many other smaller retailers focus on a small niche market, which can also compete successfully against Wal-Mart by the use of specialization strategies.

Threat of substitute products and services

Wal-Mart already faces a great bunch of physical small and big retail stores. Nevertheless, they are other retailers that can compete very aggressive against Wal-Mart by specializing in certain products or by selling their products worldwide via Internet.

On the one hand, there is a tendency in retail to do not specialize in one good or service, but to deal in a wide range of them. What that means is that what one store

offers it is likely to be found at another store. Retailers offering products that are unique have a distinct or absolute advantage over their competitors.

On another hand, although most people still prefer to go shopping by car, this competition has to be taken seriously and analyzed deeply.

Nowadays, the five top value retailers are Wal-Mart, Target, Costco Wholesale, Meijer and BJ's Wholesale. They all together generate almost half a trillion dollars in annual sales. In contrast, the e-commerce giants Amazon.com and Dell Direct, posted combined U.S. sales of \$38.8 billion.

Despite these online transactions account for less than 15% of total retail sales, Amazon.com is increasing its sales year by year, which means that e-commerce is gaining a bigger market share and so this companies competition cannot be underestimated.

Threat of new entrants

One field in which Wal-Mart should be aware of the importance of new competitors is in the e-commerce and m-commerce. As it was said in the previous paragraph, Amazon is leading this part of the online business.

Also, there is a trend of decreasing number of independent retailers. The vast majority of retail stores in any mall are chain stores. Although there are barely no barriers to start up a store in the U.S., the ability to establish good supply contracts and be competitive is every time harder. The vertical structure of chain stores together with their centralized purchases gives them a competitive advantage over independent retailers.

Competitive rivalry within the industry

Due to the expansion around the world, Wal-Mart is also facing a lot of competitors in different countries through very different kinds of competition.

Direct competition includes the big retailer chains that compete directly with Wal-Mart and they are the following.

| | Company | 2012 USA Retail Sales (\$000) ▼ | Sales Growth ('12 v '11) | Worldwide Retail Sales (\$000) | USA % of Worldwide Sales | 2012 Stores |
|----|-------------------------|---------------------------------|--------------------------|--------------------------------|--------------------------|-------------|
| 1 | Wal-Mart | \$328,704,000 | 4.0% | \$467,896,000 | 70.3% | 4,570 |
| 2 | Kroger | \$92,165,000 | 6.6% | \$92,165,000 | 100.0% | 3,538 |
| 3 | Target | \$71,960,000 | 5.1% | \$71,960,000 | 100.0% | 1,778 |
| 4 | Costco | \$71,042,000 | 10.6% | \$97,062,000 | 73.2% | 435 |
| 5 | The Home Depot | \$66,022,000 | 6.4% | \$74,754,000 | 88.3% | 1,965 |
| 6 | Walgreen | \$65,014,000 | -1.2% | \$66,977,000 | 97.1% | 7,821 |
| 7 | CVS Caremark | \$63,688,000 | 6.7% | \$63,863,000 | 99.7% | 7,472 |
| 8 | Lowe's | \$49,366,000 | 0.2% | \$50,521,000 | 97.7% | 1,715 |
| 9 | Safeway | \$37,532,000 | 1.6% | \$42,237,000 | 88.9% | 1,418 |
| 10 | McDonald's | \$35,593,000 | 4.2% | \$88,290,000 | 40.3% | 14,146 |
| 11 | Amazon.com | \$34,416,000 | 30.4% | \$61,093,000 | 56.3% | - |
| 12 | Best Buy | \$34,411,000 | 1.1% | \$45,385,000 | 75.8% | 1,500 |
| 13 | Sears Holdings | \$30,727,000 | -9.2% | \$36,102,000 | 85.1% | 3,229 |
| 14 | Macy's | \$27,610,000 | 4.9% | \$27,686,000 | 99.7% | 841 |
| 15 | Publix | \$27,485,000 | 1.9% | \$27,485,000 | 100.0% | 1,230 |
| 16 | SUPERVALU | \$27,457,000 | -6.3% | \$27,457,000 | 100.0% | 2,404 |
| 17 | Ahold USA / Royal Ahold | \$25,845,000 | 3.1% | \$62,260,000 | 41.5% | 772 |
| 18 | Rite Aid | \$25,392,000 | 0.5% | \$25,392,000 | 100.0% | 4,623 |
| 19 | Apple Stores / iTunes | \$23,998,000 | 34.6% | \$26,790,000 | 89.7% | 255 |
| 20 | TJX | \$19,422,000 | 11.6% | \$25,719,000 | 75.5% | 2,335 |

Table: Kantar Retail 'Top 100 Retailers in 2013'

As it is seen in the table, 70% of Wal-Mart sales are from the U.S., so the competitors that most affect its performance are the ones operating in this country.

Kroger, Target, Costco, The home depot, Walgreen and CVS Caremark, are the biggest direct competitors, as they offer very similar variety of goods to their customers. Kroger and Target only operate in U.S. territory while the rest have stores in foreign countries. It means that Wal-Mart also has to deal with their competence abroad.

Target is one of the largest retail stores after Wal-Mart. Target's strategy is that they are able to deliver discount goods with a higher quality and a bigger product variety compared to Wal-Mart. 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 Wal-Mart's \$35,000 per year⁴.

Another kind of competition is the indirect competitors. It occurs when a new distribution company is opening stores and units daily to serve a large affluent consumer base.

Convenience stores are a popular retail store group, and with more than 120,000 stores, they account for 350 billion dollars annual revenue. These stores sell a limited variety of food, cigarettes, groceries, candy and magazines, and sometimes also fuel. Normally, they are located in high traffic locations. Some cases of these competitors are Circle K, On the Run and Sunoco Aplus.

Also vending machines are becoming popular around the U.S. There were about 5,000 machines in 2013 that produced annual revenue of 6 billion dollars. The products sold in these machines are drinks, candies, snacks, coffee and sandwiches. Machines are owned by franchises that rent space in high traffic areas (office space or commercial buildings).

Bargaining power of customers

This force involves the ability of the buyers to put the company under pressure and it is much related to the regulations of the territory in which the firm operates.

⁴ Thomas, K. (2010). Wal-Mart SWOT Analysis

Individually, customers have very little bargaining power with retail stores, but as a whole, if buyers demand high-quality products at low prices, it makes retailers to adapt to their expectations.

In the case of Wal-Mart, the customers are considered to have great power because they have many alternatives where to buy.

The clients have a lot of information available, which means that when they have to purchase any product, they can check prices in different stores. That's why the clients are considered to have great power in the U.S.

Bargaining power of suppliers

Due to its size, Wal-Mart can make or break a small supplier. It is because companies are very dependent on Wal-Mart buys and so suppliers have very little power against it.

On the one hand, Wal-Mart has pushed its suppliers to be more efficient and has worked for making prices lower and more beneficial for its customers.

On the other hand, the company has pushed its suppliers at a level that it almost gave them no choice when forcing the vendors to decrease prices at level that many can barely afford. The firm often offers treatments to its suppliers that sometimes are not fair in the way that they do not lead suppliers to raise benefits. Nevertheless, most of the vendors accept those contracts because of the great influence Wal-Mart makes on their turnover. Put it in another words, a company that sells 30% of its products to Wal-Mart finds it hard to reject the retail offer even if it is not the most desirable treatment they wish to sign.

So, it can be said that the bargaining power of suppliers is very low in the case of Wal-Mart.

4. Operational analysis

In this chapter, there will be an analysis of the operation management of Wal-Mart. We will study the firm's business practices to create the highest level of efficiency possible. The operations management goal is to balance costs with revenue to achieve the highest net operating profit possible.

In order to display how this retailer conducts its operations, we will analyze three different strategic forces: location, operations and supply chain processes and quality system.

Location

Location is a key success factor, as it influences customers in the way of how to they go shopping, and suppliers in the way of how do they bring the products into the store.

As it was stated by a consultant at the Federal Reserve Bank of Minneapolis, Thomas J. Holmes, "Wal-Mart has an incentive to keep its stores close to each other so it can economize on shipping". It is said that Wal-Mart uses economics of density. It means that the logistics strategy followed is to have a dense stores network to make it easier and quicker to deliver the products.

In the following figure, it can be seen the spread of the Wal-Mart stores and distribution centers. Having a look into the evolution of the new openings of the firm, it is clear that a radiating system has been implemented.

The reason of this system is that the retailer applies the strategy of Just in Time. Having all the stores very close located, many costs can be reduced and faster shipping will be possible.

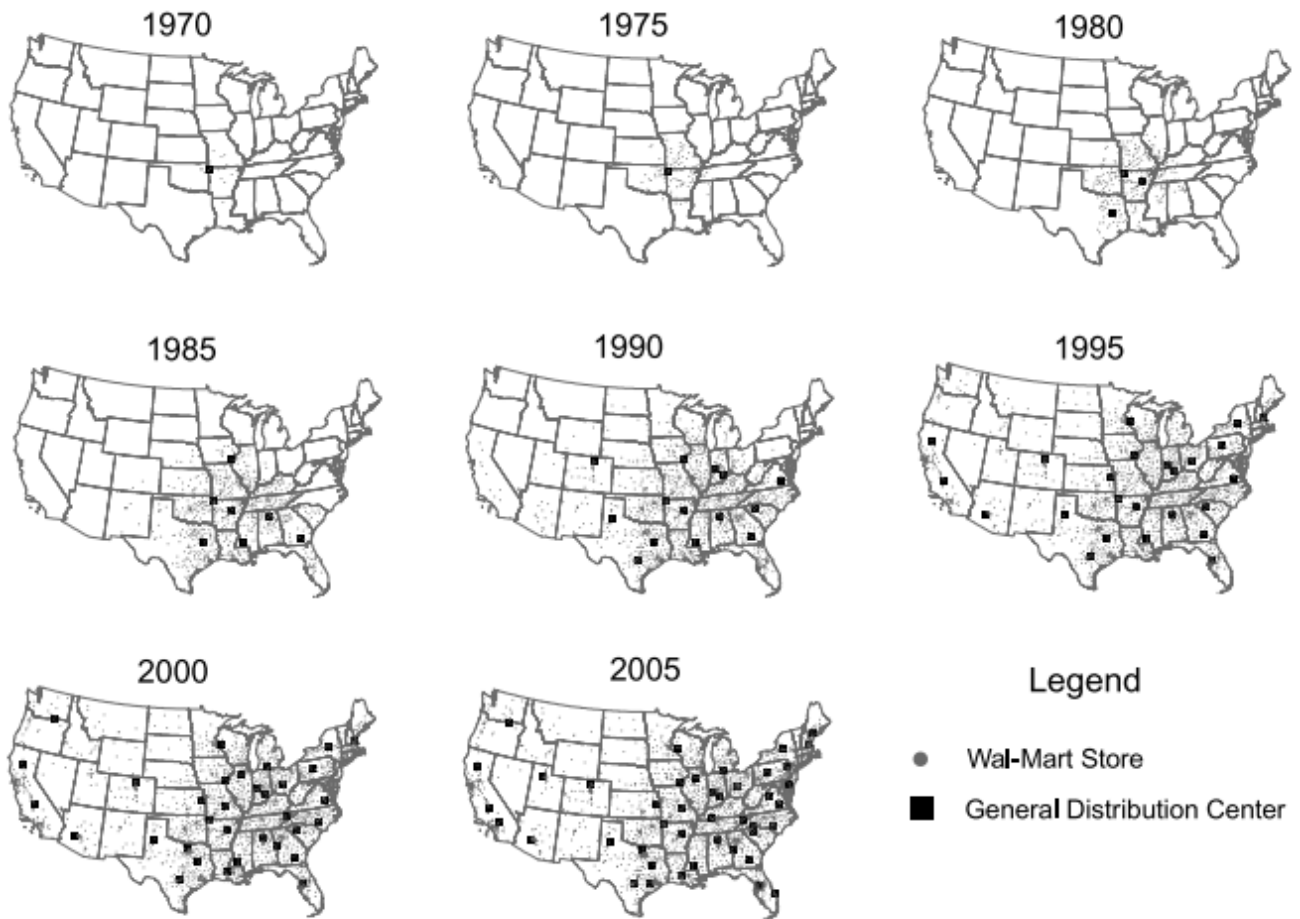


Figure: Diffusion of Wal-Mart stores and distribution Centers
 Source: University of Minnesota, Minneapolis (2011)

Currently, Wal-Mart has 4,205 stores among the U.S. territory, 633 Sam’s Club (a Wal-Mart chain of warehouse clubs that sell groceries and general merchandise in large quantities to small businesses) and 6,119 International stores. The firm operates in a total of 10,957 stores in 27 countries under 71 banners⁵.

From a study made by the Federal Reserve Bank of Minneapolis in 2006, we know that the median distance to a Wal-Mart in the United States is 4.2 miles (see following table). For those areas of the country with less than 5,000 people within a five-mile radius, the median distance to a Wal-Mart is 14.3 miles. It means that the closest place where any American citizen can go shopping is Wal-Mart.

⁵ Wal-Mart website information (February 2014)

Median Distance (Miles) From Wal-Mart Stores by Population Density

| Federal Reserve Districts | Total population within 5 miles* (in thousands) | | | | | |
|-----------------------------|---|---------|------|-------|--------|----------|
| | All | Under 5 | 5–25 | 25–50 | 50–250 | Over 250 |
| All | 4.2 | 14.3 | 7.2 | 3.7 | 3.1 | 4.4 |
| District 1 (Boston) | 4.6 | 14.8 | 7.5 | 4.6 | 3.3 | 6.2 |
| District 2 (New York) | 7.1 | 15.3 | 8.7 | 4.9 | 4.4 | 8.9 |
| District 3 (Philadelphia) | 4.3 | 14.5 | 8.3 | 5.4 | 3.6 | 3.3 |
| District 4 (Cleveland) | 4.4 | 11.7 | 8.1 | 3.3 | 3.4 | 4.2 |
| District 5 (Richmond) | 4.7 | 13.3 | 7.6 | 3.9 | 3.1 | 5.9 |
| District 6 (Atlanta) | 3.7 | 13.1 | 6.6 | 3.4 | 2.8 | 3.5 |
| District 7 (Chicago) | 4.4 | 13.4 | 8.0 | 3.8 | 3.3 | 4.3 |
| District 8 (St. Louis) | 4.3 | 11.7 | 3.9 | 2.9 | 2.6 | 5.4 |
| District 9 (Minneapolis) | 6.3 | 23.4 | 6.9 | 3.2 | 3.0 | 6.3 |
| District 10 (Kansas City) | 3.2 | 16.0 | 4.1 | 2.4 | 2.6 | 2.5 |
| District 11 (Dallas) | 3.0 | 13.9 | 6.0 | 3.0 | 2.5 | 2.8 |
| District 12 (San Francisco) | 4.1 | 21.3 | 10.0 | 5.6 | 3.4 | 3.6 |

Table: MEDIAN DISTANCE (MILES) FROM WAL-MART STORES BY POPULATION DENSITY
Source: The Federal Reserve Bank of Minneapolis 2006

Another important thing worth to mention is that the locations preferred by Wal-Mart to open a new store are places close to highways where it is easy for supplier trucks to get there, but also for customers. Big parking areas are paramount for the firm when opening a new store, as the vast majority of clients go shopping by car.

Also, having stores close one to another facilitates the exchange of employees or managers. It makes it easier for the firm to translate and create the business values and “Wal-Mart culture”.

Operations and Supply Chain Processes

The main goal of Wal-Mart is to provide consumers with quality products at the lowest price possible while still being profitable and having a high return in investment. To be able to do that, the retailer has to be able to operate at a lower cost than its competitors by drawing upon a very efficient operational management.



In order to achieve that goal, when Wal-Mart enters a new region, it builds a new distribution center in a central location. After, new stores are opened around it in order to save on delivering issues. Also, it makes the company to open new stores at a very small additional cost. (N. Liechtenstein)

Another behavior that is characteristic of the retailer is that it has a great control over the supply chain. The company keeps low prices by bulk buying to enjoy quantity discounts, squeezing suppliers on price, instituting competitive bidding for contracts, working with vendors to keep inventories low using methods such as Just-in-Time purchasing or Vendor-Managed Inventory. In fact, the firm uses an Electronic Data Interchange (EDI) with the suppliers. This system cuts the costs of ordering products and paying bills. It gives vendors a direct insight of the inventory levels of each product at each store. This information is available for all Wal-Mart vendors, who can use it to reduce their inventory costs, improve operations efficiency and test the potential of new launched products.

The use of this system has made that Wal-Mart gains control over the schedule of the reception of products, which leads to an accurate flow of product among stores. This advantage has enabled the retailer to develop a system of refilling the stores twice per week, while other direct competitors work at a rate of twice per month. This strategy

makes it easier for people working on the department of sales to analyze and forecast sales.

Another strategy to save costs is by offering high volumes of standardized products, offering basic products and limiting customization of service. Production costs are reduced by the use of fewer and standard components and limiting the number of models produced. Expenses are kept low by paying low wages and locating facilities in cheap rent areas. Other cost reductions used include outsourcing, saving production costs, increasing asset capacity utilization, and minimizing costs of distribution, R&D and advertising.

It is remarkable too, that the firm uses the high asset turnover approach. This means selling products very quickly having a very high volume of output. This approach means that fixed costs are spread over a larger number of units of the product, resulting in a lower final unit cost. The firm is willing to take advantage of economies of scale and experience curve effects.

Also, Wal-Mart uses a cross-docking inventory system. This process consists on truckloads from a specific supplier arriving to a Distribution center and unloading all the products. Then, the content of it is split on smaller lots that, together with other split lots from other trucks, are carried by smaller trucks to be distributed to other stores. This strategy decreases the storage costs significantly, and so final prices are lower.

In addition, Wal-Mart has its own transportation system which helps in shipping merchandise from its own warehouses to the rest of stores. In this way, the firm restocks the stores more rapidly. Together with a highly developed data program that allows the retailer to have instant reports of items in demand, Wal-Mart has become a very flexible and competitive company.

Quality System

Retail stores are the ones that have a connection with the final consumer, not the supplier. As the final member that puts the product directly into the customer`s hands, they hold final accountability for the safety of products.

In the case of Wal-Mart, the firm has not been known for having the highest quality products in the past, a great effort has been made to improve that.

The company has incorporate many quality control measures and has required its suppliers to achieve the same quality level. In fact, before the company orders the merchandise, it requires the vendor to send a sample of the product to check if it meets the requirements.

One big step made in regard of increasing standards of quality was made in 2007. A letter (following image) was sent to all suppliers of the chain stating that the retail store was requiring that the producers “have their factories certified against one of the internationally recognized Global Food Safety Initiative (GFSI) standards.” Suppliers were given until the end of 2009 to adhere to the GFSI framework and if not, they will stop doing business with the retailer.



Wal-Mart Vice President of Food Safety Frank Yiannas said that the target of the letter was to standardize food safety requirements at a high level because many of the vendors were doing good but working on different ways.

Beyond the GFSI Standards, the firm has implemented other initiatives such as:

- Deli meats: Associates are trained in hygiene and the company's no-bare-hand policy and adhere to sanitation practices. Also, there is a policy that all deli meats have to be produced with a natural inhibitor that ensured that Listeria could not grow to more than a log during the product's shelf-life.
- Beef Safety Initiative: the retailer launched an initiative requiring that all beef suppliers implement interventions to reduce enteric pathogens by two logs (99% reduction). Beef slaughterhouses were to introduce interventions that would reduce the pathogens by five logs (99.99% reduction).
- Sprouts. Because sprouted seeds tend to be involved in foodborne disease outbreaks, Wal-Mart interrupted sales of sprouts. However, the firm is working with industry and researchers to develop a safer product.

Because Wal-Mart is very strict with its suppliers, the firm itself also enforces quality practices among the stores. All of the store refrigeration is monitored 24/7, which is not a common retail practice because it is very expensive. Also, to ensure that stores are conforming to the company's food safety standards, processes, conditions, and expected behaviors, every store is audited every month by a third party.

Wal-Mart keeps food safety in check through its Sustainable Paperless Auditing and Record Keeping (SPARK) system. This technology uses Bluetooth communication and temperature-measuring devices to create a data-driven, self-inspection system by which food safety is monitored and managed in each store and club.

5. Marketing mix analysis

Following, we will analyze the marketing mix of Wal-Mart. We will go through the 4 P's of marketing: price, product, promotion and place (distribution). Also, it is important to know how the firm approaches to its clients, and for that, we will analyze the target customer.

Target customer

Due to the great range of items sold by the firm, all kind of public can be in one way or another needed of a product sold by Wal-Mart. Not only the firm sells grocery but also electronics and office supplies; movies, books and music; home furniture and patio; clothing, shoes and jewelry; baby and kids items; toys and video games; fitness and sports products; auto and home improvement items; photo and gifts; party supplies; pharmacy, beauty and health products; pets products and many other seasonal items.

On the one side, as the policy of the firm "Save money. Live better" (the previous one was "Always Low Prices") bears out, the profile of the targeted customer is one with a narrow budget and is willing to buy its products under the lowest price possible. So, the middle-class price-sensitive customer with a family of 4 members is the most likely to go buying in Wal-Mart.

On other side, Wal-Mart has a great ability to market its merchandise in unique targeted ways. The firm is following a customer intimacy strategy, which means segmenting and targeting the markets accurately and then tailoring offers to match the demands of those segments. The retailer uses a Modular Category Assortment Planning System (MCAPS), which examines store traits and historical selling data to plan the layout of products to best suit a specific market. This data helps the company to find the purchasing patterns of target customers.

Wal-Mart targets specific customers based on their income but also markets based on population. Based on that, the firm has developed four store formats and it is a key factor deciding which one to use in each location. The four retail formats developed by Wal-Mart are the following ones.

- Discount Stores: with 1568 stores (40 departments and limited grocery) it is the company's leading retail format by number of stores (trend of converting to Supercenters). The potential customer base is at least 150,000 people, mainly concentrated in small towns and rural areas with little competition. The consumer target by income is between \$60,000 and \$25,000.

- Supercenters: with 1258 stores (40 departments and full line grocery) is the largest format that added a full-line grocery store to a Discount Store with specialty departments. The potential customer base of 76,000 people (needed to get into the break-even point) use to be concentrated in small towns and rural areas with less competition. The consumer target by income is from \$75,000 to more than \$25,000.

- SmallMarts or Neighborhood Markets: with 49 stores, it is limited to drug, grocery and photo processing. It is located in suburban areas where consumer target has an income between \$75,000 and \$25,000.

- SAM's Clubs: with 525 stores, it is a large warehouse club that offers bulk buying and rapidly changing assortments of relatively little stock keeping unit. It addresses a more affluent market segment with consumer target by income greater than \$75,000 to \$40,000.

Pricing strategies

In this paragraph, we will address the low-price strategy followed by the retailer as well as how it has affected other retailers.

The Wal-Mart strategy follows the patterns of cost leadership. The company has a competitive advantage because it offers the lowest cost of operation in the industry. By having the lowest costs in the industry, the retailer also offers to its customers the lowest prices in the market, that's why a price leadership is also implemented.

Several recent studies have found that Wal-Mart charges lower prices than competitors. A survey made by UBS Warburg in 2002 studied 100 grocery and non-grocery items in 5 grocery stores in three markets with and without Wal-Mart grocery stores. It was found that Wal-Mart's prices were 17-39% lower than competitors' prices

over superstores, mass merchandisers and club stores (SMCs) for a similar array of products.

In the following table it is shown first the average price of 24 different grocery items between the years 2001 and 2004 using a sample of 175 cities.

| Product | Description | Average Price |
|--------------------|--|---------------|
| Bananas | Price per lb. | 0.50 |
| Lettuce | Head of iceberg lettuce | 1.09 |
| Potatoes | 10 lb. sack | 3.49 |
| Canned Tomatoes | 14.5 oz. Hunts/Del Monte | 0.98 |
| Canned Peaches | 29 oz. Hunts/Del Monte/Libby's/ Lady Alberta halves or slices | 1.67 |
| Canned Sweet Peas | 15 oz. Del Monte/Green Giant | 0.79 |
| Frozen Corn | 16 oz. whole kernel | 1.18 |
| Eggs | 1 dozen grade A or AA large eggs | 1.03 |
| Milk | 0.5 gal. whole milk | 1.82 |
| Margarine | 1 lb. Blue Bonnet/Parkay sticks | 0.81 |
| Parmesan Cheese | 8 oz. Kraft cannister grated parmesan | 3.58 |
| Frying Chicken | whole uncut, price per lb. | 0.99 |
| Ground Beef | Price per lb. | 1.86 |
| Pork Sausage | 1 lb. package, Jimmy Dean/Owen | 3.24 |
| T-Bone Steak | Price per lb. | 7.58 |
| Canned Tuna | 6 oz. chunk light tuna, Starkist/Chicken of the Sea | 0.67 |
| Bread | Price per oz. for loaf with lowest cost per oz. | 0.04 |
| Coffee | 11.5 oz. can or brick, Maxwell House/Hills Brothers/Folgers | 2.54 |
| Cereal | 18 oz. Kellogg's/Post corn flakes | 2.63 |
| Shortening | 3 lb. can Crisco all-vegetable shortening | 3.20 |
| Sugar | 4 lb. cane or beat | 1.58 |
| Soda | 2-liter Coca Cola, excl. deposit | 1.17 |
| Dishwashing Powder | 75oz Cascade dish washing powder | 4.05 |
| Tissue | 175-count Kleenex tissues | 1.35 |

Table: Average nominal grocery prices for 2001 – 2004

Source: American Chamber of Commerce Research Association

In the next chart, it is shown the price differences between the average price of items surveyed and the prices found at Wal-Mart.

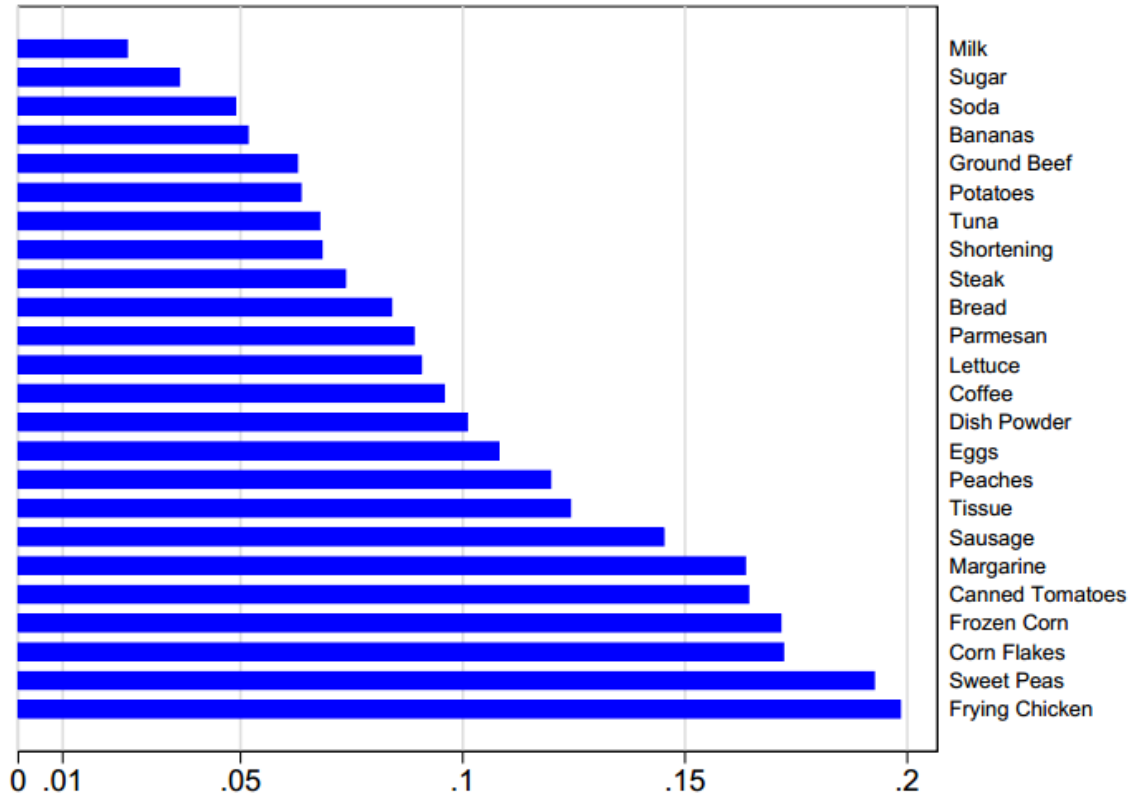


Figure: Raw price differences by product bought at Wal-Mart

Source: American Chamber of Commerce Research Association

It is easy to see that Wal-Mart has been offering discounts that go from 0.25% to 2% on products necessities on a daily-basis.

- **Pennies strategy**

The average cost of a product that integrates a shopping basket bought at a Wal-Mart store is \$3. The strategy applied since the very beginning of Wal-Mart was to sell the product at \$2.97. The founder Sam Walton believed that the habits of the consumers will change when introducing this price strategy, and he was absolutely right.

The main reason why Wal-Mart gained so many clients was just that it offered products at just some pennies cheaper than the rest of its competitors. Investments in technology and innovation in communication system allowed the firm to be able to afford that strategy and still make benefits out of it.

The strategy of offering the lowest prices of the market has been followed so many years that nowadays the vast majority of the consumers believe that if they go shopping Wal-Mart, they will for sure find the cheapest price available.

Wal-Mart's domination of the market and access to the largest number of customers in the USA allows the firm to continuously drive down consumer prices.

Wal-Mart has used this resource to dominate the market for a full range of ordinary consumer products through economies of scale and of scope.

- **Effect on SME's**

Wal-Mart's prices advantage ranges from 8% to 39%, depending on the market and the selection of products. When the retailer charges lower the prices, other competitors are forced to do the same. Emek Basker, a doctor in Economics, finds this effect to be larger in small cities.

Specifically, the statistical study of Basker showed that Wal-Mart price advantage over competitors for products averages approximately 10%. On average, competitors' response to Wal-Mart's entry is a price reduction of 11.2%, mostly due to smaller-scale competitors. The response of bigger supermarket chains is often less than half that size.

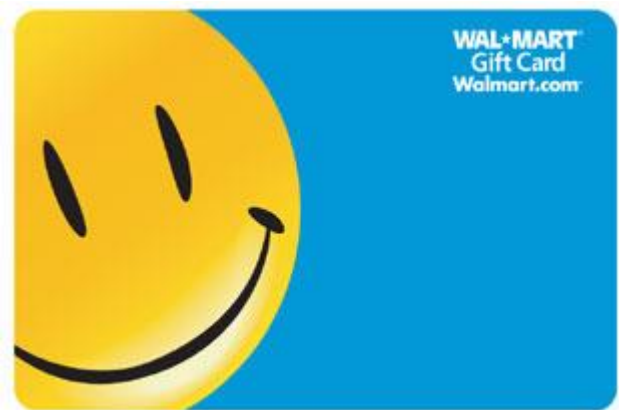
Each new Wal-Mart reduces the competitor's demand, and it has been estimated that an average of four retailers close in town after five years of Wal-Mart operating there. Sometimes Wal-Mart is beneficial for families as it saves about \$1000 family's costs per year. Nevertheless, the mega retailer sometimes offers prices so low that it is accused for the use of predatory pricing (setting prices below cost in order to put out of the market some competitors).

Promotion strategies

The main promotion strategy is to offer consumers the “lowest price always”. The retailer is known for spending less money on advertising than the rest of its bigger competitors. While they spend about 2.1% of their budget in advertising, Wal-Mart only does 1%. It reckoned that the retailer shows about 13 circulars per year.

Wal-Mart has invested a lot of resources on social media campaigns. The advertising launched includes circulars, newspaper ads, website publicity, commercials, yellow pages, mass mailers and electronics newsletters.

The firm, which is expanding to higher-quality apparel and other merchandise, has run ad campaigns in Vogue magazine, and has de-emphasized its trademark Smiley in TV ads, which is linked to its low price mantra.



Promotion strategies followed by the retailer include discounts, coupons, samples, and many others. Following, there are some of them.

- Weekly deals: a set of products sold with a great discount that varies every week.
- Ad match: if the client finds a cheaper price at any other competitor's advertisements, Wal-Mart matches prices to lower the cost of identical products.⁶
- Coupons: when the client combines an item on rollback or everyday low prices with a manufacturer coupon. Wal-Mart accepts manufacturer's coupons both, if the coupon is printed by the company or by the client.
- Black Friday: day after Thanksgiving in the United States, when some retailers offer special promotions and open early to draw in customers. Wal-Mart always sees an upward spike in sales and considers this to be the start of the holiday shopping season.

Also, it is very useful the tool used by the company to help online customers when buying. The firm uses the technology "how you browse and shop" to show clients advertisements that are more relevant to them.

Product strategies

The retailer has not been known for following a product differentiation. Nevertheless, it is remarkable the effort the retailer is doing in its purchases to suppliers to increase the quality of its products.

Also, the company has its own brands (house brands), under which the products are sold. These house brands account for 40% of total sales, and the most popular one is the brand Great Value. This one in particular sells groceries in the shields of baking, breakfast & cereal, beverages, canned goods & soups, condiments, sauces & spices, meal solutions, grains & pasta and snacks, cookies & chips.

⁶ <http://corporate.walmart.com/ad-match-guarantee>



Other generic brands are Sam’s Choice (a retail brand in food and selected hard goods), equate (brand used for consumable pharmacy and health and beauty items), Mainstays (low cost alternative of bedding, ready to assemble furniture, and home decor), Ol’Roy (dog food), White Stag (woman clothing), George (man clothing), Parent’s Choice (a brand for baby products), and many smaller ones.

Distribution strategies


When analyzing the distribution strategies, we will study by which channels the customer can get to buy its products.

The firm sells both by traditional stores (discount stores, supercenter, neighborhood markets and express stores) and via online (e-commerce format). Its store operations are categorized into following.


As it was said before, most of Wal-Mart’s sales come from physical stores. Nevertheless, the firm has created a very powerful website through the one the client can buy online. In the website www.walmart.com, the client can find the weekly discounts, download the manufacturer’s coupons, read customers reviews, sign-up for a newsletter, find the closest store and the most important one, the customer can buy online. Shipping is free if the cost of the purchase exceeds \$50. Also, the order can be track after being paid.

Special gifts for Mom's special day

Gift Cards ▾ Registry ▾ Store Finder ▾ Weekly Ad ▾ Track My Orders ▾ Help

Walmart 


Trending Now 6 My Store Maplewood

All ▾ Search Go  My Account ▾ Hello, Sign In

Value of the Day

- Electronics & Office >
- Movies, Music & Books >
- Home, Furniture & Patio >
- Clothing, Shoes & Jewelry >
- Baby & Kids >
- Toys & Video Games >
- Sports, Fitness & Outdoors >
- Auto & Home Improvement >
- Photo & Gifts >
- Crafts & Party Supplies >
- Pharmacy, Health & Beauty >
- Grocery, Household & Pets >
- Mother's Day
- See All Departments

FREE SHIPPING on nearly everything* [Learn More >](#)
*On orders of \$50 or more.



The ultimate outdoor space

Dining Sets from **\$149**

Get patio furniture **for less.**

[Shop All Patio & Garden](#)

Another remarkable fact about Wal-Mart is that its stores are very easy accessible. A part of the fact that online purchases are available, the customers are also able to contact them 24 hours a day 7 days a week, which helps with the customer satisfaction aspect of the whole business.

6. Human resources management analysis

In a company, which has chosen low price strategy, one should not expect high salary or the best customer service and highest prices, paid to its suppliers, because such company has to be oriented towards low cost in every area.

Wal-Mart has a workforce of 2.2 million associates globally, 1.3 million in the U.S. It is estimated that every store the firm opens, creates 300 new jobs. According to the retailer, women constitute 57% of the U.S. workforce, 27% of the corporate officers, and comprise 20% of the Board of Directors.

As Wal-Mart publishes in its website, about 75% of the store management teams started as hourly associates, and they earn between \$50,000 and \$170,000 a year (similar to what firefighters, accountants, and doctors make).

It can be said that the company implements three managing people strategies, which are the following ones.

- Motivation

Motivating employees into the company culture was one of the founder's goals. Wal-Mart tries to make employees feel part of the company because in all levels of positions. This company motivates employees in many different ways. For example, the retailer uses the term "associates" to refer to its "employees". Also, the workers are treated by their first name (also only the first name appears on the ID badge). This behavior stimulates a family-oriented business instead of a boss-oriented one.

Moreover, people at Wal-Mart are full with respect regardless of their position. Beside the way of treating people, Wal-Mart also encourage people through health care benefit and financial benefit. Most workers at Wal-Mart can get a health insurance at a very low price which includes primary doctor, pharmacies, vision, and dental. Nevertheless, the company is lately refusing to give health insurance to employees working less than 30 hours per week. There are many controversial issues about it, because the managers vary workdays of employees very often, depending on store traffic and sales figures.

Wal-Mart also had implemented a cash incentive plan for employees to get additional income depend on company's performance.

Also, there is the door open policy, which allows all associations to express their problems to the managers to find the solution.

- Promotion

Another activity that motivates the workforce is promotion. Because Wal-Mart is willing to make people become involved with the firm, it had developed many learning programs to prepare them to get higher positions. As the firm publishes in its website, about 160,000 people are promoted every year to jobs with more responsibility and higher pay.

Nonetheless, Wal-Mart has been criticized for promoting few women to salaried managers. Issues about sex discrimination have occurred due to the absence of formal criteria for promotion. Men are often moved up to management ranks through training offers, while many women stay anchored in positions they held for years.

Also, as a result of the Great Recession, all economy has shrunk and many job opportunities are gone. Bill Simon, current CEO of Wal-Mart U.S., suggested last March 2014 that “workers should look elsewhere if they want to make more money and have access to better benefits”.

- Hiring business owners

Wal-Mart also recruits many small business owners because they possess the entrepreneurial characteristics of penny saving. Moreover, Wal-Mart hires external people who have experience in business management or expertise in a specific division to back up certain business areas.

Many have been the achievements of the giant retailer in the human resource management, or as they call it, people management. Nevertheless, the company has had some **troubles with its workforce** for not respecting the law. Wal-Mart is criticized specially for its stiff antiunion tactics. It has been sued in at least 30 states for

demanding its employees to work off-the-clock hours. Other reasons of criticism have been for allowing young employees to work too late at night, for not providing them with meal breaks and for hiring contractors that employ illegal immigrants. (Robert Whaples).

About the effect that Wal-Mart causes on wages when it comes to town, it has been estimated by Barry Eidlin, Bill Lester and Arindrajit Dube that the firm pushes down wages in the general merchandise and grocery sectors by a little 1%. Part of the small negative effect of Wal-Mart on wages arises because some competitors are unionized and unionized retail workers' wages are 11% higher than average.

7. Financial analysis

In this chapter, we are going to analyze the financial situation of Wal-Mart, as well as its evolution in the last four years. We will go briefly through the financial statements of the income statement, balance sheet and cash flow, and then we will analyze some ratios that will show the stability of the firm.

INCOME STATEMENT

The income statement, or profit and loss statement, shows the company's revenues and expenses during one fiscal year. This financial statement indicates how the revenues (the money earned from the sale of products and services before expenses) are transformed into the net income (the result after all revenues and expenses have been accounted). It exhibits the revenues recognized for the period and the costs charged against these revenues, including depreciation and amortization of fixed assets and the effect of taxes.

Following, there is the evolution of the income statement for the last 4 years of Wal-Mart. Numbers are showed in millions of U.S. dollars.

| Currency in Millions of US Dollars* | 2011 | 2012 | 2013 | 2014 | Total growth |
|---|-------------------|-------------------|-------------------|-------------------|---------------|
| Revenues | 421.849,00 | 446.509,00 | 468.651,00 | 476.294,00 | |
| TOTAL REVENUES | 421.849,00 | 446.509,00 | 468.651,00 | 476.294,00 | 12,91% |
| Cost of Goods Sold | 314.946,00 | 334.993,00 | 352.297,00 | 358.069,00 | 13,69% |
| GROSS PROFIT | 106.903,00 | 111.516,00 | 116.354,00 | 118.225,00 | 10,59% |
| Selling General & Admin Expenses, Total | 81.361,00 | 85.025,00 | 88.629,00 | 91.353,00 | |
| OTHER OPERATING EXPENSES, TOTAL | 81.361,00 | 85.025,00 | 88.629,00 | 91.353,00 | 12,28% |
| OPERATING INCOME | 25.542,00 | 26.491,00 | 27.725,00 | 26.872,00 | 5,21% |
| Interest Expense | -2.205,00 | -2.320,00 | -2.249,00 | -2.335,00 | |
| Interest and Investment Income | 201 | 161 | 186 | 119 | |
| NET INTEREST EXPENSE | -2.004,00 | -2.159,00 | -2.063,00 | -2.216,00 | 10,58% |
| EBT, EXCLUDING UNUSUAL ITEMS | 23.538,00 | 24.332,00 | 25.662,00 | 24.656,00 | 4,75% |

| | | | | | |
|---|------------------|------------------|------------------|------------------|----------------|
| EBT, INCLUDING UNUSUAL ITEMS | 23.538,00 | 24.332,00 | 25.662,00 | 24.656,00 | 4,75% |
| Income Tax Expense | 7.579,00 | 7.924,00 | 7.958,00 | 8.105,00 | |
| Minority Interest in Earnings | -604 | -688 | -757 | -673 | |
| Earnings from Continuing Operations | 15.959,00 | 16.408,00 | 17.704,00 | 16.551,00 | |
| EARNINGS FROM DISCONTINUED OPERATIONS | 1.034,00 | -21 | 52 | 144 | -86,07% |
| NET INCOME | 16.389,00 | 15.699,00 | 16.999,00 | 16.022,00 | -2,24% |
| NET INCOME TO COMMON INCLUDING EXTRA ITEMS | 16.389,00 | 15.699,00 | 16.999,00 | 16.022,00 | -2,24% |
| NET INCOME TO COMMON EXCLUDING EXTRA ITEMS | 15.355,00 | 15.720,00 | 16.947,00 | 15.878,00 | 3,41% |

*Data at 31st January

Source: Businessweek

As it can be seen, the revenues have been increasing every year, going from \$421,849 million in 2011 to \$476.294 million. It says that a total growth of 12,91% has occurred during those 4 years. Nevertheless, having a deeper insight into the numbers, it is possible to observe that the rise of the revenues has decreased during the time. From the year 2011 to 2012, revenues growth was a 5,85%, the next period the growth accounted for 4,96%, and from 2013 to 2014 just a 1,63%.

If we take a look into the growth of the gross profit, we can see the rise of the last 4 years has been very similar to the one of the revenues, as the cost of goods sold has followed the same pattern than the revenues. In total, the growth of that period has been a 10,59%.

The operating income, or the earnings before interests and taxes, presents the profit realized from the business' operations after taking out operating expenses. Looking at the evolution of this number we see that it has been increasing in the first 3 periods but from 2013 to 2014, it decreased. The current EBIT is of \$26.872 million, which means a total growth of 5,21% compared to 2011.

Finally, if we look at the Net Income to common excluding extra items (following chart), we see a high rise in the period 2012 to 2013, but a decrease of 6,31% in the last period, mainly due to an increase in Selling General & Admin Expenses and an increase in interest expenses. Nevertheless, this Net Income decrease is not worrying because somewhat part of it comes from the continuous investments the company does when opening new stores.



BALANCE SHEET

The balance sheet is a financial statement that shows the company's status in a certain point in the time. This statement summarizes the company's assets, liabilities and equity, in order to let investors, shareholders and other interested parties know what the company owns and owes.

Following, there's the balance sheet of the last 4 fiscal years.

| Currency in Millions of US Dollars | 2011 | 2012 | 2013 | 2014 | Total growth |
|--|-------------------|-------------------|-------------------|-------------------|---------------|
| Assets | | | | | |
| Cash and Equivalents | 7.395,00 | 6.550,00 | 7.781,00 | 7.281,00 | |
| Trading Asset Securities | -- | 2 | 29 | -- | |
| TOTAL CASH AND SHORT TERM INVESTMENTS | 7.395,00 | 6.552,00 | 7.810,00 | 7.281,00 | |
| Accounts Receivable | 5.089,00 | 5.937,00 | 6.768,00 | 6.677,00 | |
| TOTAL RECEIVABLES | 5.089,00 | 5.937,00 | 6.768,00 | 6.677,00 | |
| Inventory | 36.437,00 | 40.714,00 | 43.803,00 | 44.858,00 | |
| Prepaid Expenses | 1.324,00 | 868 | 1.002,00 | 1.087,00 | |
| Deferred Tax Assets, Current | 1.636,00 | 815 | 520 | 822 | |
| Other Current Assets | 131 | 89 | 37 | 460 | |
| TOTAL CURRENT ASSETS | 52.012,00 | 54.975,00 | 59.940,00 | 61.185,00 | 17,64% |
| Gross Property Plant and Equipment | 154.489,00 | 160.938,00 | 171.724,00 | 178.678,00 | |
| Accumulated Depreciation | -46.611,00 | -48.614,00 | -55.043,00 | -60.771,00 | |
| NET PROPERTY PLANT AND EQUIPMENT | 107.878,00 | 112.324,00 | 116.681,00 | 117.907,00 | |
| Goodwill | 16.763,00 | 20.651,00 | 20.497,00 | 19.510,00 | |
| Long-Term Investments | 738 | 588 | 581 | 716 | |
| Deferred Tax Assets, Long Term | 327 | 738 | 757 | 1.151,00 | |
| Other Long-Term Assets | 3.064,00 | 4.130,00 | 4.649,00 | 4.282,00 | |
| TOTAL LONG-TERM ASSETS | 236.648,00 | 250.755,00 | 259.846,00 | 261.473,00 | 10,49% |
| TOTAL ASSETS | 180.782,00 | 193.406,00 | 203.105,00 | 204.751,00 | 13,26% |
| | | | | | |
| LIABILITIES & EQUITY | | | | | |
| Accounts Payable | 33.676,00 | 36.608,00 | 38.080,00 | 37.415,00 | |
| Accrued Expenses | 18.701,00 | 18.154,00 | 18.808,00 | 18.793,00 | |
| Short-Term Borrowings | 1.031,00 | 4.047,00 | 6.805,00 | 7.670,00 | |

| | | | | | |
|---|-------------------|-------------------|-------------------|-------------------|---------------|
| Current Portion of Long-Term Debt/Capital Lease | 4.991,00 | 2.301,00 | 5.914,00 | 4.412,00 | |
| Current Portion of Capital Lease Obligations | 336 | 326 | 327 | 309 | |
| Current Income Taxes Payable | 157 | 1.164,00 | 2.211,00 | 966 | |
| Other Current Liabilities, Total | 47 | 26 | -- | 89 | |
| TOTAL CURRENT LIABILITIES | 58.603,00 | 62.300,00 | 71.818,00 | 69.345,00 | 18,33% |
| Long-Term Debt | 40.710,00 | 44.180,00 | 38.485,00 | 41.772,00 | |
| Capital Leases | 3.150,00 | 3.009,00 | 3.023,00 | 2.788,00 | |
| Minority Interest | 3.113,00 | 4.850,00 | 5.914,00 | 6.575,00 | |
| Pension & Other Post-Retirement Benefits | 803 | 664 | 684 | 350 | |
| Deferred Tax Liability Non-Current | 3.641,00 | 4.617,00 | 4.373,00 | 5.110,00 | |
| Other Non-Current Liabilities | 2.220,00 | 2.471,00 | 2.465,00 | 2.556,00 | |
| TOTAL LONG-TERM LIABILITIES | 53.637,00 | 59.791,00 | 54.944,00 | 59.151,00 | 10,28% |
| TOTAL LIABILITIES | 109.127,00 | 117.241,00 | 120.848,00 | 121.921,00 | 11,72% |
| Common Stock | 352 | 342 | 332 | 323 | |
| Additional Paid in Capital | 3.577,00 | 3.692,00 | 3.620,00 | 2.362,00 | |
| Retained Earnings | 63.967,00 | 68.691,00 | 72.978,00 | 76.566,00 | |
| Comprehensive Income and Other | 646 | -1.410,00 | -587 | -2.996,00 | |
| TOTAL COMMON EQUITY | 68.542,00 | 71.315,00 | 76.343,00 | 76.255,00 | |
| TOTAL EQUITY | 71.655,00 | 76.165,00 | 82.257,00 | 82.830,00 | 15,60% |
| TOTAL LIABILITIES AND EQUITY | 180.782,00 | 193.406,00 | 203.105,00 | 204.751,00 | 13,26% |

*Data at 31st January

The current assets accounted for \$52.012 million in 2011, number that increased the two following years up to \$59.940 million in 2013. That big rise what provoked by an increase in cash and equivalents and in inventory, mainly. During the 2014, the current assets reached the \$61.185 million, meaning that the current assets enhanced a 17,64% during the 4 years period.

Concerning the long-term assets, the same trend has occurred. The company increased its property plant and equipment at a higher rate in the first three years than in

the last one. The amount went from \$236.648 million in 2011 to \$261.473 million in 2014.

And so, that same evolution had the total assets, which accounted for \$180.782 million in 2011 and went up to \$204.751 million in 2014, with a total growth of 13,26%.

Having a look into the liabilities of Wal-Mart, they went up from \$109.127 million in 2011 to \$121.921 million last year. That means an increase of 11,72% in the past 4 years. The reason of this is that the company has got long-term financing to pay its investments but also to it has more accounts payable (short-term).

Concerning the equity, it has increased from \$71.655 million in 2011 to \$82.830 million, an increase of 15,60%. The increase in the account was a result of the raise of the retained earnings during the 4 years. This account went up to \$76.566 million in 2014, from the \$63.967 million in 2011.

CASH FLOW

The following cash flow statement represents the changes in the company's cash during a certain period. It shows how profitable the company is in the sense of how able it is to turn its earnings into cash.

This statement is composed by three sections: cash flow (CF) from operations, CF from Investing and CF from financing. Following, there is the CF statement of Wal-Mart of the last four years.

| Currency Millions of US Dollars | 2011 | 2012 | 2013 | 2014 | Total growth |
|---|-------------------|-------------------|-------------------|-------------------|---------------|
| NET INCOME | 16,389.00 | 15,699.00 | 16,999.00 | 16,022.00 | -2.24% |
| Depreciation & Amortization | 7,641.00 | 8,106.00 | 8,478.00 | 8,870.00 | |
| DEPRECIATION & AMORTIZATION, TOTAL | 7,641.00 | 8,106.00 | 8,478.00 | 8,870.00 | |
| Other Operating Activities | 2,342.00 | 2,206.00 | 1,226.00 | 1,332.00 | |
| Net Cash from Discontinued Operations | -1,034.00 | 21 | -52 | -144 | |
| Change in Accounts Receivable | -733 | -796 | -614 | -566 | |
| Change in Inventories | -3,205.00 | -3,727.00 | -2,759.00 | -1,667.00 | |
| Change in Accounts Payable | 2,676.00 | 2,687.00 | 1,061.00 | 531 | |
| Change in Income Taxes | -- | 994 | 981 | -1,224.00 | |
| Change in Other Working Capital | -433 | -935 | 271 | 103 | |
| CASH FROM OPERATIONS | 23,643.00 | 24,255.00 | 25,591.00 | 23,257.00 | -1.63% |
| Capital Expenditure | -12,699.00 | -13,510.00 | -12,898.00 | -13,115.00 | |
| Sale of Property, Plant, and Equipment | 489 | 580 | 532 | 727 | |
| Investments in Marketable & Equity Securities | -202 | -3,548.00 | -316 | -15 | |
| CASH FROM INVESTING | -12,193.00 | -16,609.00 | -12,611.00 | -12,298.00 | 0.86% |
| Short-Term Debt Issued | 503 | 3,019.00 | 2,754.00 | 911 | |
| Long-Term Debt Issued | 11,396.00 | 5,050.00 | 211 | 7,072.00 | |
| TOTAL DEBT ISSUED | 11,899.00 | 8,069.00 | 2,965.00 | 7,983.00 | |
| Long Term Debt Repaid | -4,443.00 | -4,584.00 | -1,478.00 | -4,968.00 | |
| TOTAL DEBT REPAYED | -4,443.00 | -4,584.00 | -1,478.00 | -4,968.00 | 11.82% |

| | | | | | |
|-----------------------------------|-------------------|------------------|-------------------|-------------------|---------------|
| Repurchase of Common Stock | -14,776.00 | -6,298.00 | -7,600.00 | -6,683.00 | |
| Common Dividends Paid | -4,437.00 | -5,048.00 | -5,361.00 | -6,139.00 | |
| TOTAL DIVIDEND PAID | -4,437.00 | -5,048.00 | -5,361.00 | -6,139.00 | |
| Other Financing Activities | -271 | -597 | -498 | -1,210.00 | |
| CASH FROM FINANCING | -12,028.00 | -8,458.00 | -11,972.00 | -11,017.00 | -8.41% |
| Foreign Exchange Rate Adjustments | 66 | -33 | 223 | -442 | |
| NET CHANGE IN CASH | -512 | -845 | 1,231.00 | -500.00 | -2.34% |

Source: Businessweek

The **cash flow from Operations** is the main source of the company's cash. It tells us about the ability of the firm to internally produce cash as opposed to funds coming from other outside financing or investing sources.

The trend seen in the evolution of the CF from operations is the same that we observed in the Income statements. There was a little 2,5% growth from the year 2011 to 2012, a bigger increase of cash during the period 2012 to 2013 of 5,5%, and a decrease of 9,1% from 2013 to 2014. The component that most provoked this decrease in cash was the Net income, as it went down last year. Also, change in accounts payable together with the change in income taxes has influenced the decrease of cash. The first one because the company had less accounts pending to pay, and second one because the firm had to pay a difference in its taxes, which was of \$981 million in 2013 (not paid) to \$1.224 million in 2014 (paid).

The **cash flow from investing** is mostly formed by outflows, such as capital expenditures, purchases of securities or business acquisitions. The most important part of this section is the "capital expenditure", which refers to the funds used to acquire or upgrade physical assets such as property, industrial buildings or equipment. This type of investment is made by companies to maintain or increase the scope of their operations.

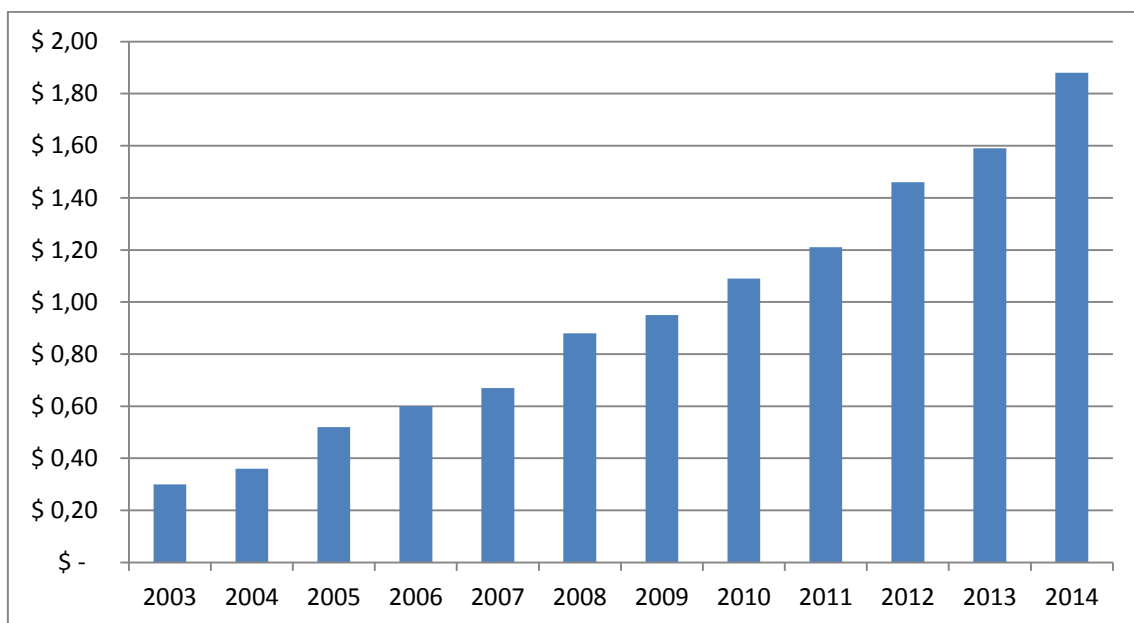
In the case of Wal-Mart, the global evolution of the cash from investing has been steady. The remarkable account of this section is the capital expenditure as it represents \$13.115 million and the cash gains from selling property, plants and equipment, is only \$727 million.

The **cash flow from financing** usually is composed by outflows, as it normally represents where the company gets the money from to do its operations. This section shows the ability of the company to borrow and repay its debts. For investors, the most important component of this section is the dividend paid, as it shows the payment that the firm hands out from the corporation's earnings. Also, it is paramount to analyze the evolution of liabilities.

Between the years 2011 and 2013, Wal-Mart decreased its debts from \$11.899 million to \$2.965 million. Nevertheless, due to the entrance of the retailer in new international markets, it had to increase its financing sources up to \$7.983 million.

The total debt repaid has been a number quite stable, as it only moved from \$4.443 million in 2011 to \$4.968 million in 2014.

Finally, it has to be mentioned that the firm keeps a policy of paying higher dividends every year, and since 1974 Wal-Mart has kept its word. As it can be seen in the following chart and in the cash flow statement, the dividends paid increased every year at an average rate of 2%.

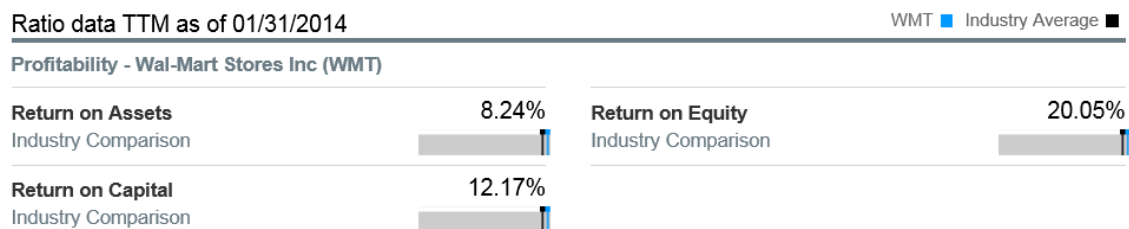


Source: Own elaboration with data from Wal-Mart website

MARKET RATIOS⁷

In order to have an overview on how is Wal-Mart doing in the market, it is necessary to compare its results to the average of the retail sector. Following, there are some economic ratios obtained from Businessweek.





Having a look into **profitability ratios**, which show the ability of the firm to meet its short-term obligations using assets that are most readily converted into cash, we see that Wal-Mart is doing better than the average of the industry. Its return on assets is 8,24%, the return on equity is 20,05% and the return on capital is 12,17%. In all the cases, Wal-Mart performs better than the average of its competitors.



Looking into the **asset turnover** ratios, which show the firm's efficiency to use its assets to generate sales, we see the same trend. The company performs better than the industry average, with a total assets turnover of 2.3x, a fixed assets turnover of 4.1x, an accounts receivables turnover of 70.9x and an inventory turnover of 8.1x. All these numbers manifest the main characteristics of the retail industry like the short time it takes to a retailer to sell its inventory products. For example, Wal-Mart inventory turnover is 8.1x, which means that on average, the products stay in inventory only 45 days before they are sold ($365/8.1$). Another characteristic of the big chains of retailers is that they collect very quickly their credit sales. If we take the receivables turnover, we see that Wal-Mart collects its sales in a bit more than 5 days ($365/70.9$). It means that most of the sales are immediately charged.

⁷ Source of ratios: Businessweek

Asset Turnover - Wal-Mart Stores Inc (WMT)

| | | | |
|------------------------------|---|--------------------------------------|---|
| Total Assets Turnover | 2.3x | Accounts Receivables Turnover | 70.9x |
| Industry Comparison |  | Industry Comparison |  |
| Fixed Assets Turnover | 4.1x | Inventory Turnover | 8.1x |
| Industry Comparison |  | Industry Comparison |  |

The short-term solvency ratios intend to provide information about the firm's liquidity, it means, the ability of Wal-Mart to pay its debts over the short run without stress.

As we can see, the retailer again is in an advantageous position, as it overcomes the industry average in both rates, current and quick ratio. The first one refers to the amount of money the company has ready to use (short term) per each dollar it owes in the short term. In this case, the retailer does not have enough current assets to pay its liabilities, but it is a normal situation in the retail industry, as shops tend to store considerable quantity of inventory. Wal-Mart in particular has \$0,9 in current assets for every \$1 in current liabilities.

Credit Ratios - Wal-Mart Stores Inc (WMT)

| | | | |
|----------------------|---|---------------------|---|
| Current Ratio | 0.9x | Quick Ratio | 0.2x |
| Industry Comparison |  | Industry Comparison |  |

If we take a look into the long-term solvency ratios we will see the firm ability to meet its obligations in the long term. As we can see by the debt/equity ratio, the Wal-Mart uses a high proportion of debt compared to equity to finance its assets. That's why the retailer can potentially generate more earnings than it would have without this outside financing. In fact, about 60% of the firm's financing comes from liabilities.

Long-Term Solvency - Wal-Mart Stores Inc (WMT)

| | | | |
|--------------------------|---|---------------------------------------|---|
| Total Debt/Equity | 68.4x | Total Liabilities/Total Assets | 59.5x |
| Industry Comparison |  | Industry Comparison |  |

If we take a look into the growth over the prior year, we will see what we already noticed when analyzing the company's financial statements: there has been a decrease in the growth of the revenues.

Growth Over Prior Year - Wal-Mart Stores Inc (WMT)

| | | | |
|---------------------------------|--------|-------------------------------|---------|
| Total Revenue | 1.63% | Tangible Book Value | 1.61% |
| Industry Comparison | | Industry Comparison | |
| EBITDA | -1.27% | Gross Profit | 1.61% |
| Industry Comparison | | Industry Comparison | |
| Receivables | -1.34% | Inventory | 2.41% |
| Industry Comparison | | Industry Comparison | |
| Diluted EPS Before Extra | -3.37% | Capital Expenditures | 1.68% |
| Industry Comparison | | Industry Comparison | |
| Cash From Ops. | -9.12% | Levered Free Cash Flow | -30.49% |
| Industry Comparison | | Industry Comparison | |

Not even the giant Wal-Mart was immune to the global economic slowdown in 2013, and the last hard US winter. Wal-Mart's total revenues for the year to Jan 2014 grew only by 1.6%, the lowest rate since 2010, and net income backed up almost 6% for the year. Other similar stores' sales in the US decreased 0.4% overall for the last year. Currency devaluations influenced heavily Wal-Mart International's revenue, while profits were dented by reverses in emerging markets such as Brazil, China and India, where the retailer pushed through a set of charges for store closures, employment lawsuits and tax investigations.

One of the few sides were Wal-Mart had a good news was that it achieved a 30% jump in global e-commerce revenues, going over \$10bn. However, the retail group knows that trading remains challenging as the current quarter (January to April 2014) was also below expectations. The last step taken by the new CEO Doug McMillon's was to invest heavily in new small outlets in the US, a strategic movement that will also impact profitability for the current year

8. SWOT analysis

Following, we will proceed with the SWOT analysis. This technique studies the performance of the company taking into account two different perspectives: internal (Strengths and Weaknesses) and external (Opportunities and Threats).

Internal analysis

STRENGTHS

On one side, Wal-Mart has very powerful strengths that allow it to be the retail market leader nowadays. Some of them are the following.

Scale of operations: Wal-Mart is the largest retail company in the world. With more than \$400 billion revenue and more than 10.000 stores, it exercises great buyer power on suppliers to reduce prices. Also, its size allows the company to benefit from economies of scale, which in time conduce to a lower price of products for the final consumer.

Wide range of products: the retailer sells a bigger variety of products than any of its retail competitors. Grocery, health and wellness, apparel, entertainment, electronics and so many other products are sold in its shelves. Also it is remarkable the fact that Wal-Mart sells both, brand products and own label products, that are even cheaper.

Competitive in information systems: the retailer was the developer of many technological and innovative advances, as the bar code. Lately, the company has launched an app called Scan & Go with which users can scan and bag merchandise and pay at a self-checkout kiosk after presenting the data from their phones. These kinds of facts have given the firm the leader position in the retail market. The company saves money due to its extensive information systems that track orders, inventory levels, sales and many other related data in real time. All the information is immediately processes and with it, strategic decisions are made, so they are likely to be very efficient.

The effective management of supply chain leads to cost savings that are paramount for the competitive advantage of the firm. In fact, logistics is one of the most important Wal-Mart keys for success.

The cost leadership is another one of the firm strengths. The retailer has placed in the market as the lower cost option for consumers. When every person thinks about a cheap place where to get their groceries, they immediately associate the term cheap with Wal-Mart, and this is in part thanks to their slogans “Always low prices” (old one) and “Save money. Live better” (current one). The retailer sells products at very low prices than competitors do, builds warehouse style superstores that contain extensive range of products and doesn’t offer extra benefits or services.

Wal-Mart International operations is also a strength factor in the way that most U.S. Wal-Mart competitors only operate in U.S. territory. However, the retailer has earned about \$135 billion in sales in 2013, from their foreign businesses.

WEAKNESSES

On another side, there are some weaknesses on which Wal-Mart should work.

The company, in its aim to make cost savings, has been disrespectful with its employees and so it has been involved in cases of labor related lawsuits. The firm is criticized for poor conditions, unpaid overtime work, paying low wages and female discrimination. Reputation has been damaged and many people reject to work for the retailer for those reasons.

Wal-Mart does not follow a differentiation strategy, as some of its competitors do. It can cost it to lose some customers if it comes the time when customers have more income and do not make their purchases only taking into account prices. If that happens, the cost leadership will be ineffective and the retailer will need to create a new strategy offering something else than a cheap item.

High turnover of employees is another weak point in the retailer history. The company loses many employees that find other jobs with better labor conditions or high skilled and so they quit. This costs the company a great amount of money as it has to train new staff very often.

Negative publicity also tarnishes the corporate reputation of the Wal-Mart, which is criticized for bribery practices and poor work conditions.

Another weakness is the declining prices and decreasing margins. With the increase in operational efficiencies and import operations of Chinese goods in the U.S. market, Wal-Mart has seen how its gross margins become lower in certain product categories due to this price decline.

External analysis

OPPORTUNITIES

If we take a look into the market in which Wal-Mart works, we will see some opportunities for the company to grow and improve, but also some threats that need to be faced.

Some of the opportunities that Wal-Mart can benefit from are the following ones.

A good chance for the firm is to keep on investing on International operations because they grew at a faster rate than sales in the home market. Foreign markets offer new opportunities for Wal-Mart's growth and provide new experience for the company as it operates quite differently abroad than in the home market. Specifically interesting are the emerging markets. The retailer already operates in Brazil, Mexico, China and India but it should increase its presence in these markets to sustain future growth.

It has been demonstrated the popularity of the own label products of the firm as their sales grew 40% in the last 10 years. That's why Wal-Mart could increase the number of private label products and earn higher profit margins.

Also, there is an increasing concern of health issues. Customers are willing to buy healthier food in stores, so Wal-Mart could increase the range of healthy grocery to earn more out of this part of the business.

Another chance lays on the online shopping. The current trend shows that the online retail sector grew by 4,7% in the U.S. during the year 2013. Due to the size of the company, it has an advantage to expand and for getting a good presence in the online market. In fact, the firm is already working on this field and it offers convenience to

pick up the goods ordered online in its physical stores offering at the same time even lower prices than at the store and without any additional charge.

Wal-Mart has an opportunity to enter into the banking industry. Every month the retailer receives about \$140 million of payments through debit cards, credit cards and electronic check transfers. Establishing its own bank Wal-Mart could save cash on third-party electronic payment processing.

Another opportunity for the retailer to improve its image is to put efforts on social welfare. Green ethics are in fact becoming part of Wal-Mart values. Saving in electricity by creating self-sufficient supercenters, reducing greenhouse emissions, making shorter shipments to save in oil, investing on renewal energies are some examples. In fact, according to the EPA, Wal-Mart is the third-largest U.S. corporate consumer of green power, renewable sources with high environmental benefits.

THREATS

As well as opportunities, the company has to deal with less beneficial market factors, threats that have to be faced in order to keep its market share.

There is a conflict of interests when Wal-Mart tries to improve its operations to become a more green company. It is true that Wal-Mart has room for improvement but given its size and business identity of a low-price retailer, it is hard to think how far the company can go in this scope. Industrially-produced goods, as for example pork meat will be cheaper to produce and sell than from a grass-fed, free-range pig on a small ecologic farm. Nevertheless, the company is trying to work on this threat, and is building sustainable facilities. Wal-Mart has raised a goal to design a store that is 25% to 30% more energy efficient and will produce to 30% less gas emissions.

Increasing competitor's power has to be taken into account. Some competitors like Target, Costco, Amazon and Tesco are putting huge efforts to eliminate price differences that Wal-Mart enjoys. The low prices are the main advantage of the firm so if it happens, Wal-Mart will lose clients and will experience increased competition from them in the future.

Another threat to face is the international barriers. Depending on the industry, regulatory compliance can be an obstacle when entering a new market and sometimes a long and cumbersome process.

The resistance from local communities is another factor to face. Wal-Mart has a negative impact on local retailers as some of them lose their clients and end up closing their businesses after a couple of years Wal-Mart opens in the area. This affects not only the retailers but their families and the community as a whole.

Another threat in international markets is that economies are changing quickly. In the case of China, country where Wal-Mart buys nearly 80% of its merchandise, the government is trying to raise the value of the national currency, the Yuan. In the case it happens, the retailer will have to pay more for the products coming from its Chinese suppliers.

The last of the threats is that Wal-Mart has saturated the market as it is often competing with itself. It is estimated that there is a fair amount of cannibalization going on when Wal-Mart opens up a stores. In some cases, 20 percent of a new store's sales come from existing Wal-Mart stores.



9. Wal-Mart failure in Germany

Most of the times, when Wal-Mart enters a new market, it becomes successful. Cases like Mexico, Canada, Argentina, Brazil, China and the UK bear it out. Nevertheless, there are two countries where the firm's strategy failed obstreperously. These countries were South-Korea and Germany.

Wal-Mart entered into Germany in 1997 with the acquisition of two German companies: Wertkauf and Interspar. Wal-Mart never succeeded in that country, though, and after almost a decade of trying and losing hundreds of millions of dollars, it sold its assets to its German competitor Metro and left the market.

In this section, we will analyze deeply the main mistakes that the retailer did in the German market that led it to the failure.

ENTRANCE INTO THE GERMAN MARKET

With the largest economy in Europe, Germany comprised around 15% of Europe's annual retail market in 2001. In 1997, Wal-Mart moved into the German market by acquiring the Wertkauf chain (24 stores) and the unprofitable Interspar chain (74 stores). The two chains made up by that time less than 3% of the market. The Interspar stores were in poor repair and in poor locations. The leading German retailer was Metro Group followed by Rewe Group. Germany's top ten retailers captured 30% of the total retail sales in 2001.

Wal-Mart's initial strategy was to redecorate the stores to improve appearance and implement a price leadership through cost leadership as they were doing for so long in the U.S. market. The idea was to improve the supply chain system and incorporate new scanning systems, centralized distribution and high quality customer service.

MAIN MISTAKES MADE

Analysts still argue about the reasons behind the failure of Wal-Mart in Germany. Following, there are the most important failures the retailer did.

First of all, the firm didn't consider enough was that Germany had some land-use regulations that needed attention. The country had limits over store hours (6:30pm closing and Sundays closed all day); price regulations (prohibiting retailers to sell under costs); and stringent zoning requirements (stores were not allowed to size more than 800m² in locations not designed for retailing). Also, Unions were more influential than their U.S. counterparts.

Wal-Mart experienced great difficulties in dealing with suppliers. The company did not have the bargaining power it had in the U.S. to buy goods from suppliers at low cost and also did not have a reputation of low prices with German consumers. In addition to that, customers were loyal to the domestic stores in the retailing industry including Metro, Aldi, and Rewe.

Many competitors in the German market were aware of how much the labour force cost, and so they didn't invest in merchandising, design or IT systems. After Wal-Mart entered, they copied its IT and so saved in costs. By that time, the American retailer already had invested a lot in design and creating striking stores. This, together with the lack of good contracts with suppliers, made the retailer to end up having a profit margin of 1% and being more expensive than the competence. Many clients were lost for that and for their preference to buy in a local brand store.

There were other wrong actions related to **mismanagement**.

First of all, the American employee management didn't match with German customers. The man in charge of the German Wal-Mart's operation, David Wild, was not German, which is already a mistake, as he had not any knowledge of the German market. A local person could have managed better the firm because of a previous knowledge of the market. It is paramount to be aware of which behaviours are accepted and considered normal in a country. A firm that does not take care of that can commit big errors very hard to correct.

Second, German Wal-Mart's employees had to participate in morning exercises while singing "Wal-Mart" over and over again. In their culture it was considered annoying instead of being inspiring, as it results to be for Americans staff.

Also, other practices like reporting colleagues' misconducts from the work is not something that is common between Germans. In addition, there is the fact that employees were asked to smile at every client, which was seen by German males as inviting. This is not a common behaviour in Germany at all and at the same time that clients were confused, employees felt awkward. In addition to this, German consumers were not comfortable with cashiers bagging their purchases for them. That's not a common practice in the country and they found it unclean and intrusive.

Furthermore, it is said that employees' opinions were not taken into account. Their feedback was ignored by the top management and so, possible improvements that employees could give to the firm were not being carried out.

All those situations caused frustration among the employees and morale was significantly undermined as well. This, in turn, had a negative impact on the overall efficiency of the venture.

There were also other mistakes related to the **lack of analysis** of the local market and the local customers' demands.

On the one side, the retailer didn't do a good store merchandising. Premium products were at eye level and the discount products were at the bottom. German customers disliked this distribution a lot, but in seven years the firm stayed in the country, nothing changed.

On the other side, Germany is considered to be green and environmental friendly and the customers are proud of taking actions to favour the conservation of environment, using less electricity and recycling. When Wal-Mart entered the market, with its non-reusable plastic bags and redundancy of plastic packaging, it create an annoying rather than enjoyment feeling in customers.

Also, Germans do not normally do weekly shopping, the kind of transaction that Wal-Mart depends on. Instead, Germans shop daily buying the food they need and they get to stores usually by walking, as the sore distance from the houses tend to be short.

The problem that emerged was that most of the customers were not willing to drive to Wal-Mart to make the few purchases that might be cheaper.

Products were not adapted to the German market and they tried to sell the same items in Germany than they were doing in the U.S. Wal-Mart did mistakes in everyday items, as offering pillowcases of the shape of American pillows while German pillows have different shape. This made the company to store many items that were not going to be sold ever.

As a result of all those mistakes, Wal-Mart lost many clients and ended up having huge losses in the German market and the main reason of that is just the cumulative effect of cultural factors.

CONCLUSION

Wal-Mart should have started its expansion at a lower scale or at a very large. It started with 95 stores, which were not enough to gain benefits of the economics of scale but was too large to start building a reputation for the very beginning. Nevertheless, the biggest mistake the firm made was having a lack of consumer research. Wal-Mart entered the market without an understanding of the people, the laws, or the competition. With the proper consumer research, Wal-Mart would have introduced the appropriate changes into its business approach to be successful. They would have been aware of the Germans locations preferences to shop, the regulations regarding pricing, the very competitive industry they were to face and the need of a new strategy to differentiate themselves and not depending only in low prices.

10. Improvement proposals

After having studied the whole performance of Wal-Mart in the market, we are ready now to give some improvement proposals that will let the company continue growing or at least not fail again in the case of entering a new country, as it happened in Germany.

FOR FUTURE INTERNATIONAL BUSINESS PRACTICES

In the next entrances to new markets, Wal-Mart should consider not only to do acquisitions of wholly owned subsidiaries but also other kinds of entrance strategies. There are many alternatives, such as green field investment (when the multinational company builds up new factories and stores), licensing (when the firm licensor offers some priority assets to a foreign company called licensee), franchising (arrangement in which franchisor gives rights to franchisee to use its trademarks, trade names and know-how), or joint ventures with local partners (establishing a new entity in the host country by sharing equity and resources with the local partner firm).

The recommended strategy for Wal-Mart will be to follow a joint venture. First, because the other strategies do not accurately fit with the firm's values. Probably the green field investing will increase the companies' expenses, which in time will increase the firm's price of products. The licensing and franchising will likely not be effective as the reputation of Wal-Mart in some countries is not as good as it is in the U.S. Also, if the firm decides to carry out a joint venture, it will benefit from the knowledge of the local partner of the customer's needs and culture and also from getting a local supplier, ending up being more competitive. One of the most important things to do in a joint venture is to make a good decision when choosing the partner. Wal-Mart has to be careful with which partner joins as the partner's reputation will become Wal-Mart's reputation.

Another thing to recommend to Wal-Mart is to properly protect its technology advances. When the retailer entered the German market, the competitors copied its IT and so Wal-Mart lost the only factor that was still differentiating it from its competitors. In the case that the firm follows a joint venture, precautions can be taken as it is not

necessarily to provide foreign partners with the whole IT technologies Wal-Mart uses in logistics. This technology can be applied in a way the competitors cannot make profit out of it.

IMPROVEMENT PROPOSALS FOR WAL-MART TO GROW

Although it is perceived that Wal-Mart has saturated somehow the market, the firm still has a lot of issues to work on. Following, there are a few recommendations to help the company expand, reduce liability, improve its reputation and decrease social criticisms.

In the future, the retailer should focus on expanding its Supercenter stores, because that format is more profitable and its sales are expected to grow faster than the Discount stores. Yet the operating margins are smaller in Supercenters, the growth of sales will increase the Net Present Value and this kind of stores will be more effective.

The cannibalization effect of one new Wal-Mart store taking off customers from other Wal-Mart stores has to be considerate. It has been demonstrated that opening new Supercenters increases sales by getting new shoppers and increasing sales from existing clients and less than a quarter of purchases came from consumers from other Wal-Mart stores. That's why new supercenters stores must be opened in certain separated locations. Also, the expansion of existing stores is an option, as it will increase sales by merely expanding product and service offerings.

The company should keep on investing in innovation to find ways to improve its operations to be as much efficient as possible and to be able to offer the cheapest prices in the market. As Wal-Mart follows a cost leadership strategy, maintaining low prices is paramount to keep its market share.

Another growth option will be to invest in the banking sector. Offering financial services will be a great complement to the various services Wal-Mart already offers. This strategy could be easily conducted taking into account the firm's current operations. With the amount of stores it has, the firm will only have to make little modifications in the facilities to offer that service. Also, due to the fact that the retailer has effectively implemented cost savings through a variety of information technology systems, the financial services could easily be added incorporating this strategy.

Another benefit from investing in financial services is that clients will have another reason to enter into a Wal-Mart store: doing their banking transactions and shopping all in one place.

Another field in which Wal-Mart can grow by lowering costs is by using Radio Frequency Identification with its suppliers. Using this technology will improve the distribution efficiency by reducing the need for unloading to check products and by helping in the internal function control. It is estimated that this technology could make a supply chain cost savings of 6%.

To keep on investing in the online commerce is an assured success. Wal-Mart has seen its online sales grow at a very fast rate. In fact, the Wall Street Journal published last week that the big retail chain's sales rose by 30% to \$10 billion, faster than the 20% growth of the online retailing giant's Amazon. This business opportunity cannot be ignored and Wal-Mart should make the most out of it.

International markets are another important growth potential for Wal-Mart and so the firm should keep on investing overseas. Nevertheless, the retailer must be careful not to repeat old mistakes as the one committed in Germany, when it didn't do the proper customer research. As it was said before, all kinds of entry strategies have to be studied because the strategy that fits well in one place does not have to be suitable for another one, not even when the markets are geographically close. (Remember that the successful entrance approach used in U.K. did not match with the German customer). Specifically, Wal-Mart should focus on establish stores in Europe, China and India which hold great potential to increase sales. When doing so, the retailer should establish political connections and find acquisition to expand its operations and to guide its expansion in global markets.

The company is subject to negative actions by community groups, unions, lawsuits from employees, and environmental groups. To fix that, Wal-Mart should get involved in community events by sponsoring the non-profits associations of the locations.

Another growth potential for Wal-Mart is to become more popular among small business. Many criticisms are related to the fact that SME are forced to go out the market when a new big store opens. What the retailer should do is not to compete

against them but to provide whole sale options and support them succeed. Becoming a good small businesses supplier will in turn improve Wal-Mart's reputation.

Another issue Wal-Mart should address is to adopt a friendlier corporate attitude. The retailer has damaged its image due to its labor suits and its aggressive attitude towards suppliers. It must facilitate its way into foreign markets, instead of barging in and buying up companies. If this strategy is used, Wal-Mart will improve its reputation and become more popular and this applies both, local and international areas.

Also, contributing to charity will improve Wal-Mart's image, as it is known for being one of the biggest companies that less money gives to charitable causes. The firm should be more active in this kind of affairs and with its power, try to make the world better. The company needs to fix the bad mass media of the past and make customers believe that when it opens a store in town it is going to bring improvements to the population.

By implementing some of these suggestions, Wal-Mart could expand into foreign markets at a quicker pace and also improve its image and reputation to defend themselves against its own critics.

11. Conclusion

In conclusion, Wal-Mart is the biggest retailer in the United States and the biggest employer worldwide. It is at the top of the Fortune 500 listing and it operates in more than 27 countries world-wide and is moving into new countries every year.

The main strength point of the firm is that due to the size of its operations, the company can benefit from economies of scale. Investments in information technology and logistics have lead Wal-Mart to save costs at a level that situate the firm as the cheapest option of the market. Opening new stores close to older ones following a radial net has allowed the retailer to reduce costs and time in shipping and inventory which, in turn, has permitted the firm to have lower final prices.

Cost leadership has been the best competitive advantage of the retailer during so many years but it is also important the strategy followed by Wal-Mart when targeting the market. IT resources are implemented in stores to keep track of customers' purchases habits and so tailor the products offered into the specific need of that segment of the market.

Wal-Mart has been expanding as a retailer, going through other industries including groceries, gas stations, electronics, and auto maintenance. Each year, Wal-Mart finds new ways to grow and attract new customers but, at the same time, more claims are made against the retailer by the unions and other businesses that have been forced out of business. The firm is often able to offer lower prices than many local industries and so local businesses lose revenues and end up closing down when Wal-Mart moves into town.

Although the company has been able to raise its sales since it was founded in 1962 in Arkansas, its growth decreased last year 2013 due to many factors: saturation of the market, cannibalization of its own stores' sales, harder competition and, the most influential one, the economic downturn of modern times. In addition to that, the retailer will have to face more challenges as the economy raises consumer's purchasing power.

Luxury goods will be more demanded and customers will not only look at prices when they do their purchases, as it occurs now. Cheap items will not be enough to

capture the attention of clients as the more expensive ones will be affordable so Wal-Mart will have to quickly react and adapt its operations. A differentiation strategy will be necessary and the company will have to improve its reputation to keep distances with its competitors.

The negative points of Wal-Mart are its bad reputation, the lack of differentiation strategy, international barriers and competitors. These threats can be faced by following some strategies such as investing in charity, helping local retailers, investing in green energies, being less aggressive with suppliers, letting employees to be part of labor unions, opening new stores abroad, studying the foreign markets deeply before entering, finding local partners when opening new stores overseas and keeping on working in e commerce.

Wal-Mart has great potential to grow local and international due to its size, experience and technology, but if it does not start being more humble and human, it will take the risk to lose clientele and fail enormously when the inflation and the purchase power of customers change. If it comes the time when prices at Wal-Mart become similar to the ones at Target, people will consider other issues when deciding where to buy. The problem is that Wal-Mart will not be able to struggle more than it does now its suppliers, so when the market prices go as low as possible, the retailer will have dug its own grave.

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