

Walmart competitive strategy analysis



Q. 1. Walmart competitive strategy

Walmart began its operations with two steps ahead of its competitors, the company began with removing a few links in the chain, working directly with the manufactures to cut costs. Sam Walton, the founder of Walmart selectively purchased bulk merchandise and transported directly to the stores instead of a warehouse, saving time, money and space.

Supply chain gives support to company's competitive strategy, and efficient management of the chain results in achievement of those strategies. The big box companies like Walmart, influence the behavior of suppliers and apply pressure to them to alter the mix of shopping alternatives for customers.

Supply chain management plays a major role in achieving a company's competitive strategy, by shaping its procurement functions, inventory management, transportation designs, distribution. All these again in turn adds value to the brand or the company.

Walmart's competitive strategies and supply chain management

- Low cost strategies

Walmart's focus is on low cost, medium quality products, but to achieve the competitive edge over its competition, Walmart has to sell at costs lower than its competition. Walmart achieves lowest cost due to its excellent supply chain. Several factors come in to make this possible, like procurement of products in bulk, and since Walmart transports directly to stores it saves on storage charges, collaborations with suppliers for better pricing, they achieve economies scale by transporting huge volumes of materials in a

single run, especially due to the fact that Walmart has its own fleet of trucks. All these factors contribute in a small but collectively a huge difference in margin, thus Walmart achieves its low cost strategy through efficient management of its supply chain.

- Value orientation

In addition to low costs, Walmart has to provide better value to their customers in order to retain them, and to keep them satisfied, the value can be better service, no stock outs or delay in deliveries, differentiation in product mix, availability of products when and where they need them. This is achieved by Walmart due to its efficient logistics network, which comprises of their own fleet of trucks giving them better control over the movement of products, and because of their vendor management and inventory management they have a very high responsiveness. As a result, Walmart has been able to expect close to 100% order fulfilment on merchandise.

- Market control

Apart from better performance within the company it is important to create a barrier for new entrants to keep the competitive advantages, especially small competitors which focuses on a specialized product mix, like electronics stores, small retailers, fashion apparels store. These stores have the advantages of better product differentiation, and easy access to the products. This has to controlled by providing products at a much lesser cost so that customers are attracted more to these big box stores giving less room for emergence of smaller retailers. This can be achieved my direct procurement from manufactures in very large quantity on a regular basis, which these small retailers fail to do, due to their small scale of operations.

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Further, special collaborative efforts with the vendor will give access to new products and exclusive sale of products in Walmart.

- Integration of technology for better shopping experience

With increase in trends for online shopping, Walmart has also recently launched their mobile application coupled with their e-shopping site to provide easy access to their products sitting at home and get their products delivered at home. It was very important for Walmart to adopt this to stay competitive in the market especially with the emergence of e shopping sites like Amazon. To achieve this Walmart made collaborations with vendors and with special information sharing systems, which enables Walmart to get orders and then the product can be directly delivered to the customer doorstep.

- Vendor partnerships

Walmart strategically sources its suppliers who supply products at the best possible price, and ensures that they are able to meet the demand. Then Walmart enters into a partnership with the vendor offering them potential for long term, high volume purchases, in exchange of lowest possible price. Further, Walmart constructed a very efficient communication and relationship network with their suppliers to improve material flow with lower inventories.

Walmart has a very efficient inbound logistics using JIT inventory, and better transport management due to their own trucks with better fuel efficiency, and loading more material on movement avoiding empty trucks, by buying large blocks of material. Technology enables to track the movement of goods

and tracking inventory levels and to create highly efficient transport routes, and manage reverse logistics properly.

Q2. Supply chain risks

Risk is any uncertainty that might affect the running of any operation, it might either jeopardize the entire operation or delay it by sometime. In terms of supply chains, a risk is anything that alters the operation of the chain at any point, like budget overshoots, delay in delivery times either by supplier or to the end customer, goods destroyed in transit, natural disasters causing closure of roads or affecting the operational area etc.

Risks can be classified into two categories,

1. External Risks

These are due to outside influence, such as natural disasters, wars, outbreak of pandemic disease, act of terrorism, theft, political turmoil in the operating country, etc. since the whole chain of supply runs through various countries and working with several external entities and bodies, any problem with their internal factors becomes an external risk for our organization. These risks are somethings that the manager has no control upon.

2. Internal Risks

These are more common risks which appear on every activity of the supply chain, and are generally under the control of the manager. Risks like late deliveries, stock levels, IT failures, human error etc. these risks are minor but can spread in the whole chain and can affect the operation of other activities

also. These risks seldom have major consequences, but there have been cases where it proved to be quite fatal to company's operations.

Supply chain vulnerability

A supply chain comprises of various activities that are linked with each other, a risk can be at any of the links or stages of production or service. That risk which can compromise that operations of the production or service stage or the weak link in the chain is the vulnerability for the organization. Identifying past disruptions in operations, and knowing the weaknesses in the organization, and identifying the misses or near misses experienced in the past are the methods used to identify the vulnerabilities in the organization.

Identifying the vulnerabilities in the organization are very important because it is a form of a warning to the managers for the worse to come. Often near misses are left unmonitored as these are minor incidents are thus the warnings are not noticed and this gives way for future fatality.

Supply Chain Resilience

Every supply chain has some or the other vulnerability, at times even the best of the best supply chain management fails to handle the situation, but the ability to still operate under such circumstance, and to return to its original or desired state of operation after the disturbance is the resilience of the supply chain.

How to overcome supply chain risks

Risks in supply chain are on a rise, with the increasing complexity of the supply network and global reach of the chain, risks are increasing all the time. There is a perception among managers that the business is becoming riskier.

Hence it is important to understand what and why the risks are, and to overcome them. This can be done by following the three important steps,

1. Identifying risks

There are various activities in various stages of supply chain, first is identifying risks in each activity and finding out their related activities, and make an ordered list. And then studying these activities to find out the risks.

2. Analyzing the risk

After identifying the risk, managers have to prioritize the risk based on the level of impact they have on the supply chain and their probability of occurrence. Risks which have higher consequence or impact have to be concentrated upon more than the risks with minor impact. But the probability of occurrence of the risk is also important for prioritizing risk. Managers should give highest priority to those risks which has the highest probability of occurrence and the highest level of consequence if occurred. It does not mean that the risks with low probability should be ignored, but they may not occur at all.

3. Dealing with the risk

Now the manager has a list of prioritized risks, he now has to plan and design a response to those risks which will help tackle the risk without

jeopardizing the operation of the business. If there are a lot of risks, then there must be adequate solutions to deal with it too. There are various solutions or responses to deal with the risk, the most basic ones are, prevention, taking measures so that the event does not occur, mitigation- to make room for the event and focusing on reducing the impact or to respond based on the actual impact of the event and acting on it to solve.

An example of robust supply chain management

In March 2011, when the Great East Japan earthquake struck, although Nissan's plants remained undamaged, there was a large shortage of supply for materials and components which halted the production operation of the company, the halt in production amounted to a shortage of around 40,000 vehicles. Car output in Japan fell 52.4 percent and its exports 12.5 percent during the month. Six of their production facilities in Iwaki and Tochigi, and 50 of the company's critical suppliers and affiliates suffered severe damage in the disaster.

(Source: Shiga, T. (2012). *Nissan Sustainability Report*. Retrieved from http://www.nissan-global.com/EN/DOCUMENT/PDF/SR/2012/SR12_E_P008.pdf)

Again when the Thailand flood hit the parts of Bangkok, Nissan was ready with their risk management strategy, and had learnt from their previous experience and the measures they took in Great East Japan Flood, and developed a more resilient supply chain. Nissan developed a continuous readiness plan that focused on earthquake emergency response plan

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encompassing its suppliers, and a business continuity plan was developed and a disaster simulation training was included.

Other than policy implementations, Nissan understood the need for alternate responses and hence it studied what type of cars were at risk of supply shortage in sites all over Japan and Thailand, and avoided this shortage to impact operations in other parts of the world like the US, Europe and China by using countermeasures.

Despite the earthquake and tsunami, global Nissan production still hit an all-time high in the year 2011, rising 24.5 percent to 4.21 million units.

Japanese output alone rose 4.6 percent to hit 1.07 million cars.

(source: Co, N. M. (2011, April 27). Japan factories gear up for recovery.

Retrieved November 14, 2016, from <http://www.nissan-global.com/EN/REPORTS/2011/04/110427.html>)

Q3. Challenges and risks in global supply chain

Every company operating today has to face competitive pressure and due to demanding customer, companies are operating on a global scale. There are many challenges and risks that a manager will face when operating in such vast scales, like economic, political, logistical, cultural differences and structural challenges of their own organization. The level of complexity that supply chains operate in today, require a highly coordinated flow of materials, data, and finance across international borders.

The manager operating in a multi-national environment has to strategically source raw materials from locations that offer lowest procurement costs,

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manufacture and assemble products in countries which offer cheap labor, and market them in high demand locations. But the major risk in operating in such agile environment is an event of natural disaster, in example for Nissan's 2011 case, the company's manager faced the challenge of production halt due to a series of natural events, but the supply chain manager shifted the production deficiency of the effected plant to other resourceful production area, thus making profits even in such situation.

The major challenges involved with globalization are:

- Economic challenges

Operating in multiple nations will have multiple impact on costs and financials of an organization, like tax rates, duties, exchange rate, inflation etc.

- Infrastructural challenges

Availability of modes for transport, number and nature of intermediaries like banks, warehouses, and transport agencies, logistical systems, types of documentation etc. these challenges makes the organization to consider changes or restructuring strategies or structure of their operations.

- Competition

The competitive environment in the global market can create challenges in terms of customer service levels, cost settings, and profit margin. Hence the manger has to consider all the factors depending on the market and strategically price the product and other services associated with the product.

- Political factors

Factors such as stability of the government in the host country, regulations and restrictions, sanctions and support etc. has a direct impact on the operational strategy of the organization.

- Administrative factors

When we talk of global operations, there is a conflict between central management and local management, and wider the chain, wider the scope for conflict, this creates a potential for delay, uncertainties, and hence requires a greater coordination, communication and monitoring.

(source: Manuj, I., & T. Mentzer, J. (2008). Global Supply Chain Risk Management. *Journal of Business Logistics* , 29 (1), 133-155.)

There are several benefits that comes with globalization of operations, but only with a certain amount of risks involved,

- Increasing complexity

The manufacturing process itself has become more complex due to globalization, companies outsource more of their operations to globally distributed supplier networks, today manufacturing needs to manage multiple product lines, and each product has multiple parts coming from different suppliers from different part of the world. In addition, the managers need to manage the logistics for these movements. If there is a failure at any junction, the entire chain might be disrupted and production may be halted. This creates extreme amounts of reliance on suppliers and contractors thus increasing in uncertainty.

- Operations in regions less familiar to the organization implicates risks of cultural differences, variance in skill levels, legal systems, different expectations of quality levels. And also more distant the operations are from the organizations usual zone, the control over the regions are reduced.
- Operating globally involves travels over long distances, and to utilize economies of scale, companies transport large quantities of goods at once, this means the risk of more stock in transit, greater chances of loss and bigger lead times.
- Risk of failure of product design, or risk of product failure due to other reasons like deficiency in technical skills, infrastructure inadequacy, government policies etc. product designs may fail maybe because of inadequacy in quality, or demand for different types of product in different regions, which the company may not satisfy.
- Lack of data

Companies operate with several suppliers and different markets, there needs to be adequate amounts of data available with the manager to make an informed decision. If the manager lacks data, but has to take decision regardless the companies is exposed to increased risk of occurrence of an undesirable event. Thus there is a need for a proper communication and collaboration systems in the global supply chain.

(source: Majta, M. (2012, October 4). Managing the risks of A globalized supply chain. *Forbes* . Retrieved from <http://www.forbes>.

com/sites/ciocentral/2012/10/04/managing-the-risks-of-a-globalized-supply-chain/#6e81c211d03c)

Q4. Uses of outsourcing models

With the increase of complexity in businesses, firms are lacking the resources they require to survive in the competitive environment. Thus firms believe that performing all the activities on their own is not always effective, and thus firms outsource a certain part of their work to outsiders who possess the technical knowledge of that activity, and who can perform the task better. This way the firm can focus on the activities that it does best and hand over the rest which is better suited for an outsider. This alliance can be done based the needs of the firm, and decide on what type of a relationship is to be established, such as 3PL, 4PL, 5PL. each of these have their own value additions and advantages, the firm has to decide what suits best for it based on what they are gaining out of the alliance. The uses of such alliances can be,

- Adding value to product

Better inventory management, product availability in the market, greater order accuracy, better after sales service etc. are the benefits gained by these alliances, this not only increases the service quality but also develops a brand reputation in the market.

- Improving market access

Partnerships with certain firms can give access to new market channels, with their already established brand reputation and idea of the market, they can help channelize the products of their partners.

- Strengthening operations

Facilities and resources can be utilized effectively, by sharing the warehouse of one partner they can save on costs for the leasing of warehouse, and also transport can be shared between them making the operation faster and cost effective.

- Adding technological strengths

Certain partnerships which share their technological strengths can be very beneficial to the firm, since they can save much time required to implement and adapt newer technologies.

- Enhancing strategic growth

Partnerships can pool in their resources and expertise to strengthen their strategies, which enables them to grow in the market and explore new opportunities which were otherwise inaccessible.

- Enhancing organizational skills

Partnerships face a lot of challenges and usually find it very difficult to accept the changes, but to be able to work together they are forced to improve their flexibility and thus learning from each other's strengths and weaknesses they improve from within and thus enhances organizational skills.

- Building financial strengths

Alliances help the firms to pool in their resources and costs of administrations can be cut down, apart from these their brand value and expertise in operations can bring in more revenues to the partnership.

Uses of 3PL

- Improve global capabilities

3PLs have on-ground knowledge of local markets, regulations and government agencies, and understanding of capacity constraints.

- Reduce costs.

3PLs help reduce costs, by saving on cost on return good and lost sales, they help the manufacturer to move larger quantities of materials with fewer assets. 3PL store the goods of the client in their own warehouses, thus reducing costs incurred in renting a separate warehouse.

- Enhance security

3PLs through their expertise provide counsel on facility and asset security, to security monitoring services.

- Achieve environmental objectives

3PLs optimize distribution networks to use fuel efficient modes of transports, and redesign the routes to reduce the overall carbon footprints.

- Improve quality

Better inventory management, product availability, and greater order accuracy are the benefits gained by 3PLs.

- Speed process change

Changes can be very easily achieved since firms don't have to change anything within, they rely on the infrastructure, technology and man force of the outside provider.

- Eliminate hand-offs

Effective communication in outsourcing

For any partnership to work efficiently a proper and clear communication is very important, this clears any doubts immediately and does not give room for errors due to miscommunication, every project has various elements to it, hence it is important for the managers to first communicate with each other within the organization, and decide what has to be outsourced and to what extent and what do they expect from the outsourcing party. Once this has been established then there should be clear communication with the outsourcing party as to what is being expected of them and what will their roles and responsibilities be. And since critical and sensitive data is handled by the service provider, it is important to convey their obligations and responsibilities before moving ahead with the contract.

Some of the important points to be communicated and discussed between the parties are,

- The third party is in an obligation to respect the confidentiality of the data shared with them in the course of operations.
- Performance measures must be agreed upon, decided by the client firm.
- Provisions for subcontracting and criteria for them should be discussed.

- In events of breach or disputes in contract, the provisions for arbitration should also be considered.
- Conditions for freedom or escape from contract should be specified after discussion in the contract.
- Performance measurement methods and their roles must also be discussed.

Supply chain relationships

3PL

Third party logistics or 3PL is a type of partnership between a company and a logistic service provider, where the outside company is given the charge to perform most or a part of the firm's operations which involves the transportation or freight management, warehouse contracting, distribution management and freight consolidation. The outsourcing can be done for all the activities of a part of it.

Example, Ryder, a 3PL provider, has engaged a fleet of 29 drivers, 23 tractors and 34 trailers to Apria Healthcare. Ryder handles around 325 shipments amounting to 90 truckloads per week through their efficient Transportation Management.

(source: Apria healthcare case study. (1996). Retrieved November 15, 2016, from <https://ryder.com/expertise/case-studies/apria>)

4PL

A fourth party logistics is an individual entity which manages the clients supply and demand chains, it is a specialist which manages the clients <https://assignbuster.com/walmart-competitive-strategy-analysis/>

multiple 3PL activities. A fourth-party logistics (4PL) provider strategy can help align and direct projects with focus towards future goals. The 4PL starts with a supply chain strategy, this strategy defines the supply chain capabilities and establishes the methodologies necessary to achieve the vision.

4PL works continuously with the client to channel projects through the established methodologies and governance. Companies can then work towards bigger goals progressively by tracking the progress periodically.

Example, Bendix produces airbrakes for the automotive industry. With locations across North America, they found it very difficult to manage the transportation. Hence, Ryder provided them a reliable, cost effective and a safe way to transport products to their clients i. e. auto manufactures, so Bendix could get back to focusing on making airbrakes.

Not only did they help with transportation of products but also,

- Overall transportation costs were reduced by \$8 Million
- A 104% sales goals were achieved in one of their warehouses.
- Overtime of labors was cut from 3% to just over 0. 9%
- Labor cost was reduced by 15%
- Throughput was increased by 180% in New Sparks warehouse.

(source: Supply chain management solutions. (1996). Retrieved November 15, 2016, from <https://ryder.com/solutions/supply-chain-optimization>)

Retailer- supplier partnerships

Retailer supplier partnerships create a space for information sharing between them, this information can be used by the supplier to plan much efficiently and helps them in forecasting future demands. Retailers give information about the point of sales, this data is used by the supplier to analyze the trend in the market and adjust the production and inventory levels with the actual sale.

Walmart for example has a very well designed retailer supplier relationship, Walmart uses VDI (vendor managed inventory) system, where the manufacturer becomes responsible for managing their product inventory in Walmart warehouse. Vendors and suppliers have direct access to the data about the inventory of their goods at Walmart stores. Hence Walmart does not need to spend for extra personnel to manage each supplier's goods.

(source: Greenspan, R. (2015, August 16). Walmart: Inventory management – Panmore institute. Retrieved November 16, 2016, from Business, <http://panmore.com/walmart-inventory-management>)

Distributor integration

A manufacturer will have several distributor depending on the scale of operation, and thus each distributor will have a certain amount of inventory, but at times there can be a huge surge in demand at one location and the distributor may not be able to handle the demand, but there might be more inventory with another distributor which is probably not going to clear soon. This type of problem can be solved if the distributors are integrated through a proper information system which pools the data from all the distributors into single database and the distributor can see if there are stocks available <https://assignbuster.com/walmart-competitive-strategy-analysis/>

with another distributor at another location and he may be able to order it to his location to fulfill the order. This improves the customer service levels and at the same time reduces overall inventory costs to the company.

Warehouse in New Zealand has a well-connected distributor database, when you want a particular product displayed in their website, catalogue, or advertisement, but is not available in a particular store that the customer goes to, then the store orders that product for the customer from another store at a different location and then the customer gets an e-mail when the product is ready for collection. This ensures that the stock everywhere is equally distributed and there is no over stocking or understocking problems in the company.

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