

How walmart is affected by porters five forces and technology essay sample

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Michael Porters competitive force model is used to displays how information technology can upgrade the competitiveness of a corporation. It is also used to develop strategies to increase competitive edge. Competitive strategy must grow out of a sophisticated understanding of the structure of the industry and the industry is constantly changing. Regardless of the industry, Michael Porters five forces will bring forward your strengths and weakness. The five forces are: The threat of new entrants, the threat of substitute products, the bargaining power of suppliers, the bargaining power of buyers and the rivalry amongst the existing competitor's. These five forces determine industry profitability because they shape the prices firms can change, the costs they have to bear and the investment required to compete in the industry. According to the five forces Wal-Mart's certain competitive condition can be clearly seen. Wal-Mart opened the first store in July of 1962 in Arkansas. The mission for Wal-Mart is to provide lower prices so people could afford to live better. In 2012 they celebrated their 50th anniversary. During this celebration Sam Walton, made it clear that the success of the company was the result of strength of the mission, people, values, and culture.

Moreover the future of the corporation was reliant on a continued commitment to strong governance and intensive focus on global ecommerce, social and mobile retailing. Information technology has supported the overall Wal-Mart business strategy and has been a catalyst in actually enabling and creating new business strategies for them. The threat of new entrants has been a concern for every company in every field.

Profitable markets always attract new competitors. If more companies come

to sell similar goods and service in the market, customers may choose another company, so it will disperse selling ability. The Internet reduces the number of barriers into the market. Years ago a new entrant would have had to overcome many obstacles to gain access into the market. New entrants had to find an advertising medium that wasn't too expensive, but at the same time could reach many prospective customers. They had to manually get the name out to the public, usually by newspaper ads, radio, and television. In addition the new store was limited to the neighborhood they were set up in and limited with their suppliers.

With the current technology, new competitors could easily open an online store without really laying out a penny. There is no need for brick and mortar stores anymore. Wal-Mart had to develop a strategy that kept them above any of these possible competitors. They designed strong relationships with suppliers, offered their employees a comprehensive health plans. In addition they created quicker, better ways of delivering the products so their competition could not get a head of them. Wal-Mart better understands the wants and needs of the customer base in the market place and then uses this information to develop and implement goods and services that meet these wants and needs better than their competitors. Wal-Mart also had to worry about the threat of substitute products. Many customers use brand recognition as part of their decision making process when it comes to buying products and buying new. They look for products they know, trust and can afford. Wal-Mart offers all the name brand products but their prices for these products tend to be lower than other stores because of the constant

improvements of the firms processes, control of logistics, and technological sophistication.

They use technology to email, tweet and offer their customers the sale prices. In addition, they recently came out with an app that allows customers to scan their receipts from Wal-Mart to compare to other local sales. Wal-Mart then gives you the difference (if any) on a gift card. Not only does this ensure that you will use Wal-Mart for their lower pricing but also guarantees that you will be back since you have an electronic gift card. The next of Michael Porters five forces that Wal-Mart covers is the bargaining power of supplies. This consists of all the sources for input or that are needed to provide services and goods. It is quite simple for the suppliers to lift the price. It also depends on how unique their product is, how much strength and control they have over management, and the cost of switching from one supplier to another. There are many different suppliers for Wal-Mart. Suppliers include both domestic and international manufacturers. Suppliers will raise or lower the price of the products supply in different business competition conditions. Wal-Mart uses several technical style software to help manager their ordering and control the cost of their items. Wal-Mart uses Enterprise Resource Planning- business management software that allows the company to use a system of integrated applications to operate the company.

Wal-Mart does not only use this software to work with supplies but they also use it for product planning, improvement to manufacturing, sales and marketing. In addition Wal-Mart instituted a RFID tag system in all their

warehouses. By implementing the Radio Frequency Identification Data, they open communication to retailers more effectively and efficiently. This also gives Wal-Mart and their suppliers an accurate inventory level, it helps reduce costs, increase sales, and a great competitive advantage. Wal-Mart is recognized for bringing the latest RFID technology systems to its logistics operations. The information technology strategy offers a centralized approach for worldwide operations as a one size fits all supply chain system to be utilized around the globe. The RFID technology is another critical asset Wal-Mart's business plan from inventory control to suppliers and improved customer relationships are why Wal-Mart is known as the leader in retail. Wal-Mart's top 300 suppliers are required to put the RFID tags on all their products, if they want to do business with them. Suppliers using the tags benefit by communication immediate information to the retailer and product manufacturer giving Wal-Mart the competitive leverage in retail industry by inventory control.

Another improvement Wal-Mart has made with its suppliers is installing the point of sale system. The installed point of sale scanning equipment enables Wal-Mart to know what customers are buying and consequently to tell manufacturers what to produce and where to ship the items. The relationship between Wal-Mart and its suppliers had been traditionally adversarial. But in the 1980's Wal-Mart teamed up with Proctor and Gamble to design a better way of doing business with their suppliers. Rather than seeing them as competitors, vying for power and the maximum share of the profit, Wal-Mart began to see them as partners. Wal-Mart redesigned business processes and

built an integrated computer system called Retail Link. Essentially Retail link exchanges stock replenishment data between the two companies independent brokers and other intermediaries, this improved their product supply. As a result both the firms achieved improvement in operating costs and they were both now able to respond more quickly to changing local market conditions and requirements. The Retail link system provides Wal-Mart suppliers with sales information, updated eight times a day, about every product that is sold in every store.

The cost of this information, to the supplier, however is the responsibility of making resupply decisions. In addition, Wal-Mart does not pay suppliers until all their products sold; this discourages suppliers from misusing the system and over ordering. Wal-Mart has been able to achieve a leading position and the lowest cost structures in the industry due in small part to the early adopting of information technology enabling the effective management of the supply chain. Michael Porter also spoke about the bargaining power of buyers. Wal-Mart has help to overcome this force by designing a database that collects information on each item scanned and sold per minute at each point of sale. Each day Wal-Mart uploads 20 million transactions to a centralized database. The organization uses this information to perform market-based analysis. Wal-Mart learns everything they have to about their customers so that they could market items correctly. Low prices are the primary attraction for Wal-Mart target customers, the 45 million mostly low income Americans who shop at these stores. But, the collective purchasing power of these buyers has declined over the past couple of years. Wal-Mart

had to learn new ways to reach every possible customer regardless of financial wealth. Wal-Mart's database was able to break down the spending habits of all its customers into different groups based on financial wealth.

The most affluent Wal-Mart customer tend to buy low end consumables priced barely above cost while shunning away from higher margin items such as clothes and furniture. To the selective middle income shopper it would seem that quality, style, service, and even store aesthetics increasingly matter as much as price alone. Reinvigorating Wal-Mart's customer focused culture was a key focus of the firm, having the evidence to know what your customer wants and when they want it, allows Wal-Mart to focus their business strategies accordingly. Wal-Mart's data management is designed to achieve optimal logistics and operations management control. The definition of data management reflects Wal-Mart's successful outcome to customers by having excellent communications with suppliers, product managers and the best retail inventory link. This allows Wal-Mart to achieve its optimal goal of everyday low prices. Combining data management with their other RFID tag software systems allow information technology infrastructure to operate and transfer data at high speeds between store computers and central systems in order to maintain a real time database.

The telecommunication is able to let Wal-Mart know what's required and ability to obtain products along with getting the merchandise to the customer faster. This speed will improve customer happiness, which ensures the customer will be back for future purchases. Not only does technology allow Wal-Mart gather and analyses sales information, they also

collect, cross reference and study information in approximately 10, 000 categories, including ethnicity, and demographics collected from customer loyalty programs. In addition they follow weather patterns, and even local sport preferences. Wal-Mart uses technology to retrieve the data and to figure out projected sales, trends and volumes of items they will need. By using predictive technology and applying these to the data, Wal-Mart has been able to predict something before it happens. Lastly of Michael Porters Five forces is the competitive rivalry of existing customers. As mentioned previously, Wal-Mart teamed up with several of its competitors so that they all benefited with lower pricing and easier supply contractors.

They realized that they were better working together than against each other. Although those competitors are real and do exist, Wal-Mart is confident that they are not as big of a threat as the online stores now available to customers. Although the Internet has not provided a substitute competitor to Wal-Mart, it has enabled online stores like Amazon to become more popular. Amazon used ecommerce as a mechanism to penetrate the market and grow within. Wal-Mart has realized that its consumers are going digital and is taking some big steps to overcome Amazon and other companies like it. While Wal-Mart is much bigger than Amazon, they are the market leader in online space. Wal-Mart is now aggressively pursuing the digital arena so much so the business strategy sees Wal-Mart's objective, to be the leader in global ecommerce. However unlike Wal-Mart, Amazon does not have an integrated supply chain. Supply chain and logistics management is Wal-Mart's strength and apparently it is Amazon's weakness. Wal-Mart has

devised a plan to take on Amazon and do ecommerce right. Wal-Mart has already begun to recruiting specialist from other companies that have ecommerce and technology skills to work in Wal-Mart's own IT department.

Wal-Mart in addition acquired a better search engine that would allow for a faster, easier shopping experience for their customers. Wal-Mart's website has more advantages as it provides customers with 24 hour a day, seven day a week service. In the Wal-Mart website, customers can read detailed information about the market items. Contact details are easily accessible, and it is also convenient for customers to search for the products by using the new search engines. Since Wal-Mart is known for collecting it's data and using it to target more efficiently, they are able to send out email blasts about promotions, sales, new products and exciting gift offers. Wal-Mart is also aiming to lead in same day shipping and same day in store pick up, this is yet another attribute that Amazon could not compete with. Recently Wal-Mart has invested tons of money to improve their mobile app. All Wal-Mart's programming is done in house with no outsourcing and very little reliance is placed on third party software. The intellectual property contained within the software is seen as part of the competitive advantage and as such security and secrecy are paramount.

All companies that sell software programs to Wal-Mart are bound by a non-discloser agreement, which would prevent them from selling similar software to other companies, especially competitors. Wal-Mart is leveraging their deep experience and extensive knowledge to bring and sustain their competitive advantage. The information systems division of Wal-Mart is

aligned to the business mission of “ helping customers save money and live better”. They are committed to increasing the competitive advantage of the business. As the worlds greatest retailer Wal-Mart is looking for the best and brightest ways to become a trailblazer in innovation and technology. In addition one of Wal-Mart’s best competitive advantage is the number of stores. The Porters Five Forces will affect selling conditions, to some degree, but as the world’s most common major retail store; it will stand tall.

The threat of substitute products, buy power, supplier power, threat of new entry and competitive rivalry, for Wal-Mart, will only encourage them to perfect itself according to the problem and shortcomings that need to be improved. Wal-Mart has utilized several information systems through out the course of its history such as: point of sale, satellite communications systems, data warehouses, retail link systems, electronic data interchange, RFID tags, web based platforms and search engines to help secure its place as one of the best and biggest retail stores. Technology is intertwined with virtually every aspect of Wal-Mart’s business practices from the initial inventory accumulation from suppliers to the customer relationship efforts, which keeps them ahead of the competition. In conclusion, although Porters Five forces do come into play, Wal-Mart has created advanced technology that will help them overcome anything that comes in their way of success. They have not only planned for tomorrow but for the years to come. Technology is outlined in every aspect of Wal-Mart’s future plans, so I believe that they will stay as the leading retail store for many years to come.