Crafting and executing strategy – walmart case analysis essay sample

[Business](), [Company]()

Wal-Mart Stores, Inc. faces a plethora of problems in just the past five years including a barrage of public criticisms calling for a change in the management strategies of Wal-Mart. The underlying problem or fundamental issue is the cost-based competition that Wal-Mart intensified through its obsession for cost minimization. In a way, Wal-Mart commenced and intensified price wars. Wal-Mart achieved sales less than its target so that it cut back prices during the holiday season and other occasions on various items including back to school products. By decreasing its price, Wal-Mart intended to draw more customers to make more purchases and enable the company to achieve its targeted sales (Thompson, Strickland & Gamble, 2007). The decline in sales was due to the saturation of the market as well intensifying competition resulting to demolition campaigns against Wal-Mart.

2. 0 Secondary Problems

Cost-based competition finds expression in specific short-term and long-term problems that Wal-Mart experienced. This finds expression through the reputation of Wal-Mart as a corporate bully because of its aggressive strategies sourcing and marketing its retail products. 2. 1 Short-Term Specific Problems

One specific short-term problem of Wal-Mart is the continuous price cuts it implements every year and even every season intended to make Wal-Mart as the retail store offering the lowest price. This was necessary for Wal-Mart to fulfill its promise of offering low prices always. As such, it needed to engage in continuous price promotions in order to achieve its promise. However, this also constituted a problem for Wal-Mart since its cost-based competitive strategy became subject to scrutiny not only by its competitors but also by employee and consumer groups (Thompson, Strickland & Gamble, 2007). This is also a dilemma since Wal-Mart cannot suddenly decrease its price because it will not be able to fulfill its marketing message to the public but it also had to exercise care in its pricing strategy. Wal-Mart develops themed justifications for decreasing its prices to sway public opinion from the criticisms towards its cost-cutting practices to the benefits that the low prices can bring to consumers that would eventually redound to the benefit of the other stakeholders. 2. 2 Long-Term Specific Problems

Criticisms that created problems for Wal-Mart come from four areas with the problem developing and accumulating over the years. First problem is the claims by small businesses comprising direct competitors of Wal-Mart that its aggressive product sourcing and marketing strategies have greatly and adversely affected small businesses. This problem developed as Wal-Mart expanded its market to the rural areas resulting to the displacement of the small retail stores in many rural areas and its pricing strategy prevented the small retail firms from competing. Second problem is the claims of manufacturers that Wal-Mart engages in unfair dealings or negotiations with producers and suppliers. Rubbermaid is one well-known producer that publicly accused Wal-Mart of aggressively negotiating in order to set an unfair price for its products.

This is a problem because suppliers can band together to pressure Wal-Mart to purchase products for resale at a higher price that the company is bidding for. This could hurt the cost-effectiveness strategy of Wal-Mart. Third problem is the claims of its employees of gender discrimination in its promotional practices, non-payment of benefits and overtime pay, and locking employees inside the stores. These claims adversely affect the reputation of Wal-Mart and affect the morale of its workforce. Fourth are claims of consumer groups that Wal-Mart of contributing to the degradation of the community and natural environment because of its large stores and supporting the proliferation of sweatshops and child labor in developing countries. These also adversely affect the reputation of Wal-Mart in the market that could defeat its low cost operations and marketing strategies. (Thompson, Strickland & Gamble, 2007) 3. 0 Analysis

The financial condition of Wal-Mart to support its strategic position depends on three measures, which are profitability, solvency, liquidity and stability (Thompson, Strickland & Gamble, 2007). Data on the financial condition of Wal-Mart provides a justification of the strategic measures taken by Wal-Mart together with the indication of the need for change and the appropriate changes necessary in ensuring the long-term success of the multinational retail company. In terms of profitability, Table 1 shows that the aggregate of sales in all the stores has experienced highs and lows in sales in the different months for the three financial periods from 2004 to 2006. However, on the average, it becomes apparent that Wal-Mart experienced declines in store sales by as much as 1. 02 between 2004 and 2005 and . 44 between 2004 and 2006, although total sales in 2006 constituted an increase by . 58.

This coincides with the aggressive cost reduction strategy of Wal-Mart because it experienced drops in store sales. This meant that it had to employ means of drawing consumers to its stores via promotional activities and price cuts. It also had to decrease costs in other areas that explains its aggressive negotiation strategies with suppliers and producers and the heightened competitive strategy against its direct competitors. The effect of its strategy is the increase in total store sales in 2006, although lower than sales in 2004. Shifts in store sales directly affect profitability since revenue together with cost are the determining factors of Wal-Mart's profitability. (Wal-Mart, 2008a) Table 1: Total Sales of all Stores

	FYE04	FYE05	FYE06
January	5. 7	2. 5	4. 7
February	2. 6	6. 2	4. 1
March	0. 7	4. 4	4. 3
April	4. 6	5. 9	0. 9
May	2. 1	2. 2	2. 5
June	2. 7	3. 2	4. 5
July	4. 6	0. 5	4. 4
August	6. 9	2. 4	3. 3
September	6. 0	2. 8	3. 8
October	4. 5	0. 7	4. 3
November	3. 9	3. 0	4. 3
December	4. 3	2. 5	2. 2
Annual Average	4. 05	3. 03	3. 61

In addition, Table 2 below also shows profitability through net sales. Although total store sales dropped in 2005 and picked up in 2006, profitability shows a consistent increase from 2004 to 2006, even in 2005 when store sales dropped. This means that if Wal-Mart experienced drops in revenue, it also took control of its costs in order to ensure an increase in profit. This supports the action of Wal-Mart of being aggressive in negotiating with suppliers and even rationalizing its labor cost and other expenditure areas. The continued increase in profit constitutes a justification of its strategies. (Wal-Mart, 2008b) Table 2: Financial Highlights of Wal-Mart

| 2004| 2005| 2006|

Net Sales| $252, 792| $281, 488| $308, 945|

Cost of Sales| $195, 922| $216, 832| $237, 649|

Income from Continuing Operations | $ 9, 096| $ 10, 482| $ 11, 408| Diluted Earnings per share from continuing operations| $ 2. 08| $ 2. 46| $ 2. 72|

Long-term debt| $ 17, 088| 20, 087| $ 26, 429|

Return on assets| 9. 7%| 9. 8%| 9. 3%| Return on shareholders' equity| 22. 4%| 23. 1%| 22. 9%| (dollar amounts in millions, except per share data)

With regard to solvency, Table 2 above shows that its long-term debt has increased from 2004 to 2006. This means that either Wal-Mart obtained debt for investment or utilized its assets in investment areas. Its return on assets increased in 2005 and decreased in 2006. This implies that it was able to gain more from its investments in 2005 when compared to 2006. Nevertheless, its increasing profit means that Wal-Mart remains solvent and able to meet its debts. Again, its aggressive strategy that heightened cost-based competition played an important role in its continued solvency. (Wal-

Mart, 2008b) In terms of liquidity, Table 2 above shows that the return on investment increased in 2005 but decreased in 2006. Shareholder value decreased although profitability was consistent. This is perhaps due to the criticisms that the company is facing that could have affected the value of shares. Nevertheless, income and earnings from continuing operations consistently increased from 2004 to 2006.

As such, Wal-Mart experienced problems brought about by criticisms but it was able to control the impact of these to the company, which reflects positively on the strategic action of the company. (Wal-Mart, 2008b) Lastly, stability depends on the ability of Wal-Mart to address its problems and ensure viability in the long-term. While it is true, that Wal-Mart has been able to benefit from its cost-based competitive strategy, the criticisms raised by different parties need consideration, especially since the continuity of its cost-based strategy depends on this. In addition, its cost-based strategy opens the question on the viability of this strategy in the long-term especially since there is a limit within which Wal-Mart can drop prices to balance profitability with shareholder interests such as employee welfare, supplier and producer partnership, and customer value creation that all target firm viability in the long-term. (Wal-Mart, 2008b) 4. 0 Criteria for Evaluation

Three criteria for evaluation apply to the case of Wal-Mart. First is the achievement of a year-on-year floor total store sales increase of twenty percent. This is necessary to ensure continued growth for Wal-Mart in the long-term. This Second is the fulfillment of a year-on-year floor profit of ten percent. The utilization of a floor value as target ensures that Wal-Mart would be able to continue meeting its responsibilities in the long-term. These targets imply that Wal-Mart has to device a strategic plan that allows it maintain the targeted levels of growth and profitability while at the same time keeping criticisms from various parties at bay. Third is the contribution to customers by maintaining its low cost value offering as equal or slightly lower than its but incorporating these with the other values that customers look for such as quality, accessibility and reliability. Fourth is the contribution to employees by enforcing the minimum wage for all its starting employees, completing an evaluation of salary rates and graduations, and giving all the legal benefits to its employees. 5. 0 Alternatives

There are a number of alternatives to cost-based strategy especially differentiation as well as other forms of value creation targeting the different criticisms constituting the short-term and long-term problems of Wal-Mart. 5. 1 Short-Term Alternatives

An alternative to cost-based strategy is differentiation. This means that instead of lowering the prices of its products, Wal-Mart can instead offer low-priced wide range of competing products to empower customers to make their personal choice. The problem with low-cost retailing stores is that they rely only on lowering price and end up triggering price wars. 5. 2 Long-Term Alternatives

Long-term alternatives address the long-term problems previously discussed. Wal-Mart can absorb small businesses instead of displacing them through joint ventures especially the shops that provide specialty and unique products. In this way, it can also actualize product diversity. Wal-Mart can also select quality manufacturers and negotiate a balanced agreement on price and volume together with the offer of incentives for long-term partnership. The company can implement a transparent reward system as incentive for performance improvements. Value creation for customers occurs through 6. 0 Recommended Strategy

6. 1 Short-Term Recommended Strategy

Augmenting the value of low prices with other differentiating values such as diversity of products and complete range of products to draw consumers to shop because of the low prices and other benefits would not necessitate triggering price wars. 6. 2 Long-Term Recommended Strategy

Employment practices that are better than its competitors at a cost meeting its targeted gains can allay the criticisms of stakeholders. 7. 0 Justification of Recommendations

Lowering prices does not ensure long-term benefits because of the risk of triggering price wars that Wal-Mart itself cannot win. Augmenting low prices with other consumer values not only draws consumers but also enables the company to achieve long-term growth. This can even enable the company to tap into new market segments. Its competitors could copy this but Wal-Mart just has to innovate on improving value offerings.

Creating a better working environment addresses the bulk of criticisms against the company based on its labor practices. This not only improves the working environment that affects productivity but also creates a more positive public perception of the company. 8. 0 Implementation, Control and Follow-up

Integrating the value of low price with other consumer values as well as improving the working environment by offering competitive wages and providing benefits happens by shifting organizational culture towards the balancing of stakeholder interests and prioritizing resource allocation. The obstacle is cost but improved productivity takes care of this problem. Selecting appropriate marketing and management strategies would prevent the recurrence of these problems.

References

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