Walmart competitive advantage essay

Pankaj Ghemawat (2007) introduced the triple A strategy to help better analyze the competitive advantage of a firm outside the home country. As shown in figure 2, the framework focus on the adoption of local responsiveness, aggregation of economies of scale and arbitrage of absolute economies under the globalization of markets. He argued that company must allocate one or more factors as to compete globally. Walmart is achieving the three competitive advantages simultaneously. As discussed above of the Walmart China, the company is taking the local responsiveness as through CSR event.

Secondly, Walmart also realized economies of scale by selling bulks of commodities right off pallets, through its Sam's Club under membership. Walmart also captured the benefits of arbitrage by constantly improving its logistics to lower the transportation costs and improve the efficiency. Porter (1985) also identified two basic types of competitive advantage: lower cost and differentiation (Figure 1). And these two types of competitive advantage led to three competitive advantage strategies: cost leadership, differentiation and focuses (Porter, 1985). Cost leadership is defined as the lowest cost producer in that industry (Porter, 1985).

Differentiation, on the other hand, is a firm which seeks to become unique from its industry in the eyes of buyers (Porter, 1985). Three generic Strategies (Porter , 1985) According to Porter's analysis on competitive advantage, Wal-Mart has a cost advantage more than a differentiation advantage in the retail industry. The main Walmart vision is " Saving people money so they can live better". It shows that Walmart tried their best to offer the lowest prices for their customers and the best way to lower the prices is to lower the cost for Walmart. Figure 2: Share of Walmart US Sales of Total US Retail Sales (Supply chain igest, 2012) First of all, it is important to have a glance of Walmart performance in US. From figure 2, it indicated that Walmart has an increasing trend in the share of US retail sales (Gilmore, 2012). From Figure 3, the green portion is the international sales contribution, the red portion is the Sam's club sales contribution and the blue portion is the US stores sales contribution (Gilmore, 2012). It clearly indicated that there is a continuous growth in Walmart annual sales from 2001 onwards, with the growing contribution of the international sales (Gilmore, 2012).

Both figure 2 and 3 shows that Walmart has been improving over the last ten years and it is sure that it has its own competitive advantage in order to improving their sales over time. There are mainly two competitive advantages for Walmart: supply chain management and the stores location strategy. Figure 3: Walmart Annual Sales Growth 2001 to 2011 (Supply Chain digest, 2012) The first one is about supply chain management. Supply chain includes purchasing, operations, distribution and integration (University of San Francisco , n. d.).

Walmart did very well on the supply chain management with three major strategies: vendor partnership, cross docking and advance technology (University of San Francisco , n. d.). Walmart used vendor partnership as a mean to obtain a lower price from suppliers with a large volume of purchases (University of San Francisco , n. d.). Walmart is then able to offer a lower price to their customers and practices its promise to its customers. The next strategy that Walmart used to lower its cost is crossdocking (University of San Francisco , n. d.).

Crossdocking is a method of transfer of goods from suppliers to customers without entering the warehouse or storing in the distribution centers for a long period of time (Kulwiec, 2004). Crossdocking is a good mean to save transportation cost and also storage cost. The last strategy is the advance technology that Walmart used in supply chain management. Walmart invested a lot on technology in order to predict the consumer demand and therefore, has a better control on the inventory level to avoid over-stocking (University of San Francisco , n. d.). The second one is about Walmart store location strategy.

There are actually two elements: the location and the price of lands. Walmart chooses carefully on locations. The first store opened in 1962 was located in a small rural town where rilvaries are less than urban and suburban locations (Gerdeman, 2012). Then, Walmart waited until they had developed sufficient resources before they moved on to a new store (Gerdeman, 2012). Walmart tends to have their big box store near a convenient highway exit to improve the accessibility of their stores (Holmes, 2011). Figure 4. Diffusion of Wal-Mart stores and general distribution centers

Walmart also has a dense network of stores which shown on Figure 4 (Fettiq, 2006). The density level of the Walmart stores and the distribution of their general distribution centers work together to lower the logistic cost and facilities the transfer of experienced managers and personnel (Fettiq, 2006). The second element is the price of land. Walmart purchases lands instead of depending solely on lease in order to reduce rental cost (Halkias, 2012). Walmart also received subsidies and reduced-price land from local government to build new stores and distribution centers (Mattera & Purinton, 2004).

Therefore, Walmart is able to lower their cost and remains competitive in the market through acquisition of lands and subsidies. Walmart has its own competitive advantages in the retail industry. Walmart obtains lower product cost through reducing the inventory carrying cost through crossdocking. It has a large range of products in stores for consumers to choose from in order to suit different demands. It also offers a highly competitive price for consumers so as to comply with its mission to “ Save Money, Live Better”. On the other hand, Walmart also benefits from its location strategy which helps reduce distribution cost and operation cost.