Free research paper on strategic analysis of walmart

Business, Company

Introduction

This business analysis report considers the financial performance, prospects, strengths and opportunities, weaknesses and threat, and the general competitive strategy of Wal-Mart in order to give a strategic recommendation on the future direction of the firm. Different tools such as ratio analysis, 4ps of marketing and SWOT analysis are used in this analysis to give strategic recommendation for the future direction of the firm

Company overview

Wal-Mart is the world's largest retailer with more than 2. 2 million employees. In the U. S. Wal-Mart operates more than 4, 000 stores, including more than 3, 000 supercenters that deal in general merchandise and groceries, 610 Sam's Club warehouses, and increasing number of smaller stores (Wal-Mart, 2013). The international division accounts for 28% of sales and is the fastest growing with more than 5, 600 locations. Wal-Mart has emerged as an international powerhouse with stores in 26 countries. By 2012, Wal-Mart had surpassed 10, 000, with more than half of them located outside the U. S. Major foreign markets include the UK, Mexico, and Japan. The company was opened by Sam Walton in 1962, with the first store in Arkansas and went public in 1970.

Financial analysis

Profitability ratios

Liquidity/Financial Health

Financial results of Wal-Mart for the fiscal year 2012looks quite good. The revenue went up by 5. 95% compared to a growth of 3. 34% in 2011. Income before depreciation also went up by 8. 1$ from $4. 4 billion to $ 5. 8 billion. The major driver for profit and revenue increase was because of increase in Wal-Mart international sales, which went up by 15%. the firm operates in three segments: Wal-Mart U. S. (61% of sales and 74% of profit, Wal-Mart international (27% of sales and 20% of profits, and Sam's Club (12% of sales and 6% of profits. Wall Mart international has a strong position in Mexico, China, Brazil, and India. In general, the results are positive.

Strengths

Walmart has built a reputation as a low cost retailer. According to the company's website, the sole purpose of Walmart is to save people's pockets to enable them live better. As such, Walmart offers customers high quality goods at lower prices compared to other retailers. In this way, Walmart has a comparative advantage over its competitors in terms of prices. This has helped the firm to win customers from other retailers.

One would ask how the firm achieves its low cost. Wal-mart achieves this from its supply chain. Walmart has a policy that requires that suppliers must drop prices they charge on basic products that do not change (Cravens & Piercy, 2009, p. 195). This allows the company the company to keep its promise of " everyday low price" by suppressing profit margins of suppliers and get the lowest price possible while maintaining quality of goods. Being an influential retailer in the industry, Walmart has successfully bargained with its suppliers.

The excellent performance of the firm is mainly driven by a strategy it has adopted. This involves reducing inventories and expanding into foreign markets. The company increased its international stores from 2, 757 in 2007 to about 5, 600 stores in 2012. The increased international presence has enabled Walmart to achieve economies of scale and consequently lower prices.

Opportunities

Currently, there are two opportunities that Walmart should consider exploiting in order to capture and maximize its revenue. They include:

- Opening international stores in new markets
- Continue its international expansion in markets it already operates in by increasing the market share in the developing countries it already operates in.

Apparently, the U. S. is still recovering from the effects of global recession and this gives Walmart a market growth opportunity (Crouch, 2008, p. 32). As such, Walmart should continue expanding its international presence in developing market where it already operates. Since Walmart already has background information on consumer tastes and cultures, this will facilitate starting new stores in developing markets. As aforementioned in the preceding section, Walmart already has many stores in emerging markets, such as Mexico, China, Argentina, and Brazil. Walmart needs to upgrade its stakes by taking advantage of the opportunity.

Weaknesses

Although Walmart has a better performance compared to its competitors, the company has a bad image and reputation because of criticism from environmentalists and labor unions. The firm has been charged in court with several lawsuits on different issues, such as wage issued, discriminations, environmental issues, among other issues involving bad working conditions and child labor. Such charges have resulted in losses amounting millions of dollars in compensation. For example, Walmart paid $33. 5 million for violation of overtime law to more than 86, 000 workers, who claimed that the company failed to pay them for despite forcing them to during breaks.

Threats

In addition to internal problems such as labor issues, Walmart also faces some external threats posed by its competitors and the economy. Walmart is still recovering from the effects of global recession that reduced the demand and purchasing power of consumers. There are many competitors in the industry, that have the same capacity to expand and grow into the emerging markets.

Competitive strategy

The slogan of Walmart is " Spend Less, Live Better". The company offers quality products at lower prices compared to its competitors. The firm reported an increase of 3. 6% in net income due to cost cutting (Walmart, 2013). Customers continue to reduce their spending due to a slow economy, and Walmart remains the option due to low-cost. Customers forfeit visiting local groceries and opt for Walmart stores because of the discount. Another strategy applied by the firm is high volume operation. Walmart offers the lowest prices in the retail industry, yet it still manages to remain competitive. The company operates in large scale that enables it to benefit from economies of scale and pass the benefits to the consumers. Walmart differentiates itself by not only offering low prices, but by ensuring customer satisfaction. The aim of the company is to create a loyal customer base by ensuring an advanced data management and highly motivate employees than any other competitor.

4ps of Walmart

Product

Walmart is a multinational retailer with wide variety of products available to its wide base of customers. The broad range of product categories include college essentials, Electronic items, crafts, gifts, movies, home appliance, jewellery, funeral, grocery among others. In short, the firm has a wide variety of products for use from household need to sporting goods.

Price

The business model practiced by Walmart does not involve in-house manufacture of products. The company procures all its supplies across the globe in bulk in an attempt to benefit from economies of scale. This enables the firm to sell its products to customers at 15% lower price compared to other competitor. Walmart use various pricing concepts to that focuses on customers and induce a purchasing behavior through discounts. The founder of Walmart, Sam Walton invented the term " Always low prices" and Everyday low prices". This implies that each product bears a different discount prices based on time and demand of the hour.

Place

Promotions

Walmart practices internal promotional activities, which include pricing strategies and sales promotion through product bundling. The company's online stores is a major source of revenue through placement of online gifts by customers. Pricing strategies applied by Walmart such as " Everyday low prices" help stimulate sales (Lamb, Hair & McDaniel, 2011, p. 231). The company also runs attractive slogans, which entices customers to take purchase decision.

Recommendations

Owing to many strengths and opportunities, Walmart should focus their energy on potential weaknesses and strengths. There are some recommendations that would help the company reduce liability, expand, maintain reputation, and decrease social criticism. The company should embark on a mission to improve its brand image as a retailer that offers the lowest price in the industry. The firm should also acquire established brands rather than expanding through acquiring own brands. The company has failed to maximize profits as evidenced by profitability ratios. The firm should venture into the sales of new and trending products to capture additional market share. In order to solve the problem of social criticism, Walmart should engage in local community events through sponsorships.

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