

Applying traditional strategic thinking tools management essay

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Sustainable Solutions Paper—Applying Traditional Strategic Thinking Tools to Your Sustainable Solutions Paper, Part I

Wal-Mart is the world's largest and most profitable retailer, with \$44 billion in 1992 sales and 380, 000 employees. Its growth from a single store in Rogers, Arkansas to almost 2, 000 bright, attractive stores in 43 states is legendary in American business. Sam Walton was central to the legend. He built his empire on a belief in providing value for the customer and empowering employees, who are called associates. The Wal-Mart culture is built on obtaining the most current information about what customers want, getting the best ideas from employees about how to run the stores well, and sharing some of the profits with employees. Stakeholders have always been a key consideration in any decision making process at Wal-Mart and creating value for them has remained a top priority. Wal-Mart has four parts to its current corporate strategy. These include dominance in the retail market, expansion in the United States and international markets, creating the image of a positive brand along with company recognition and lastly, branching out into new sectors of retail. Wal-Mart's corporate management strategy involves selling high quality and brand name products at the lowest prices. In order to keep low prices, the company decreases costs by using advanced electronic technology and warehousing. It also negotiates deals for merchandise directly from manufacturers, eliminating the middleman. While the success and continued growth of Wal-Mart is a testament to the success of its strategy, there is always room for improvement. In the current climate of information technology and continual innovations, it is always better for a company to continue revisit its strategy in light of the changing conditions.

Stakeholder Identification and Value Analysis

While trying to decide a feasible and workable strategy, the first job is to identify and evaluate the stakeholders as their claims, interests and rights have to be considered. Wal-Mart's strategy is also influenced by the stakeholders. These can be classified into two main categories: the market stakeholders who have a financial stake in what the company does and what policies it pursues and the non-market stakeholders which includes those individuals or groups who have a non-economic or political stake in the strategies adopted by Wal-Mart. Market stakeholders include the stockholders, Wal-Mart executives, employees, communities where Wal-Mart is located, customers, non profit organizations, other retailers, online retailers, and gasoline retailers. Stockholders have a very real stake in the company as dictated by the returns on their investment depending on the value of their stocks. Apart from their salary, top executives at Wal-Mart also receive stock options which not only supplement their salaries but also provide the greater part of their income to them. Thus, they have economic stakes in wanting the stock values to rise. Other employees, even those who do not own shares in the company, have stakes as their salaries are derived from the company. Wal-Mart employs more than 885, 000 people nationwide at the moment and the livelihoods and financial status of these employees depends on Wal-Mart. All of the communities where each outlet of Wal-Mart is located also have a very real economic stake in how well the company does. As local employees are preferred for most of the jobs at Wal-Mart, every branch of Wal-Mart creates great employment opportunities for the people. These communities depend on Wal-Mart not only for jobs but also for

a place to purchase their daily necessities at low prices. As the country's largest grocery retailer, Wal-Mart is a popular choice for a lot of people. Wal-Mart continually strives to lower prices but the ability to keep prices low depends on the success of the company. Thus, it is in the economic best interest of these consumers to have to pay less for goods. The Wal-Mart foundation gives funding to a lot of non-profit organizations and if the company does not do well, the Foundation would also be affected. According to the Wal-Mart Good Works Foundation, 97 percent of their funding goes to non-profit organizations in the communities where their stores are located. Other retailers have a stake in Wal-Mart's success as success is inevitably accompanied by expansion. Once a Wal-Mart is opened in a particular community, it affects the success of other retail stores located there. As the number 1 on the Fortune 500 list, Wal-Mart has the leverage to lower its prices and drive other retailers out of business. Although Wal-Mart's online sales constitute a small percentage of their overall sales, the website is a low cost way for Wal-Mart to deliver goods to consumers who live in communities without Wal-Mart stores. In 1996, Wal-Mart made its first partnership with the gasoline industry. Today, Wal-Mart has contracts with companies such as Murphy Oil USA, Sunoco, and Tesoro Petroleum. Other gasoline retailers are affected as they can not match the services and low prices offered by Wal-Mart. Non-market stakeholders include labour unions, international retail stores and politicians. Wal-Mart does not let its employees join unions. It believes that it offers better benefits and compensation plans to its employees. Wal-Mart has a policy of continually expanding and opening stores in other countries as well. Wal-Mart must align itself with the public

relations firms in other countries and strictly adhere to their laws in order to be operable. Politicians have various stakes in Wal-Mart and may desire or oppose opening of a store in their community for multiple reasons. It might prove to be beneficial for the community, however, where there is significant union presence, Wal-Mart's presence in a community may be undesirable. Politicians may also rely on Wal-Mart for campaign funding. A value analysis identifies and selects the best value alternatives for designs, materials, processes, and systems. Decisions made by Wal-Mart are influenced by its stakeholders. Wal-Mart's power position regarding the key policy issues and stakeholders is quite strong. The company manages its relationship with its key stakeholders in a manner so as to maximize the tactical advantage of Wal-Mart. With hostile groups such as labor unions, complaining former employees, or even local ad hoc opposition groups fighting to keep Wal-Mart out of their community, the company uses every means available to win. With its extensive resources, the company has no problems in hiring the best lawyers to fight those who challenge it. In addition, the best public relations strategy firms are hired to make commercials for its stores and to create and propagate the best possible image. As regards government relations, the goal is to keep a low profile, and to keep government regulators away. Corporate communication is also important and Wal-Mart maintains contact with the US Congress through its DC office and lobbying staff. The strategic and tactical advantage of Wal-Mart in implementing a political and public affairs strategy is the use of its financial resources. Wal-Mart also has a Political Action Committee with most of the donations being given to Republicans possibly due to their favorable business related legislation.

Republican candidates are less likely to vote for legislation that raises the minimum wage or impose extra regulations or taxes on business. The company lags in its way of dealing with communities and unions so lawsuits occur frequently. Although it does not allow unions, the parsimonious employee wage compensation practice, dependence on part-time workers, and unfair shift scheduling practice is often complained against.

General Force Analysis

The business world has undergone many changes in the last decade due to the rise of information technology bringing changes in systems and processes. This is further compounded by the changing demographics and social structure of society. In addition, the economy is growing and increased globalization has created many opportunities. Economics- In the 1970s, while the retail industry became highly competitive, the economy became weak due to inflation. Wal-Mart targeted small towns to introduce low priced products. During the 1980s Wal-Mart grew rapidly due to increasing diversification. Local chambers of commerce supported Wal-Mart because they believed that it helped the local economy by providing good quality products at low prices. As gasoline becomes more expensive, Wal-Mart has displayed a desire to move in on gas stations. However, with its lower prices Wal-Mart has helped keep inflation low in the economy. Wal-Mart has also increased the economy's potential to produce by investing in more capital, by using all its factors of production more efficiently, and by helping suppliers operate more efficiently. The higher supply potential raises productivity, lowers consumer prices, and increases real consumer

purchasing power. Technology- A decade ago Wal-Mart trailed K-Mart, which could negotiate lower wholesale prices due to its size. Part of Wal-Mart's strategy for catching up was a point-of-sale system, a computerized system that identifies each item sold, finds its price in a computerized database, creates an accurate sales receipt for the customer, and stores this item-by-item sales information for use in analyzing sales and reordering inventory. Aside from handling information efficiently, effective use of this information helps Wal-Mart avoid overstocking by learning what merchandise is selling slowly. Wal-Mart's inventory and distribution system is a world leader. Over one 5 year period, Wal-Mart invested over \$600 million in information systems. Wal-Mart uses telecommunications to link directly from its stores to its central computer system and from that system to its supplier's computers. This allows automatic reordering and better coordination. Knowing exactly what is selling well and coordinating closely with suppliers permits Wal-Mart to tie up less money in inventory than many of their competitors. At its computerized warehouses, many goods arrive and leave without ever sitting on a shelf. Only 10% of the floor space in Wal-Mart stores is used as an inventory area, compared to the 25% average for the industry. Wal-Mart is also making a run at large discount electronic retailers like Best Buy and Circuit City in keeping with the new trend of online shopping.

Demographics/Social/Cultural- By 2004, Wal-Mart was the largest employer in private industry worldwide as it counted over 1.3 million associates among its fold. With temporary or hourly workers, it also provides employment opportunities for the youth. With the culture of personalized shopping experience at mom and pop stores becoming extinct in today's fast

paced world where convenience and low prices are valued more, Wal-Mart's popularity has soared. It has also witnessed great success in other countries, despite encountering some cultural barriers such as countries where large, faceless retail stores are frowned upon. With the increasing importance of successful advertising, Wal-Mart has invested heavily in marketing and public relations. Government/Legal- in expansion abroad, Wal-Mart has faced such legal restrictions as price floors fixed in Japan. In terms of its employment practices, Wal-Mart has frequently faced lawsuits due to its low wages and discrimination against women. Global- Globally, Walmart has adopted the philosophy of 'different store for different folks' which has helped it overcome a lot of cultural, legal and political barriers to make Wal-Mart successful worldwide.

Porter's Five Forces Industry Analysis

An analysis of the Porter's five forces of the discount retail industry and Wal-Mart reveals the threat of new entrants, threat of existing competition, threat of substitutes, bargaining power of buyers and bargaining power of suppliers. The threat of new entrants is considered potentially low as discount retail industry is a highly competitive environment with typically large players contending for market shares. In addition, price is the primary factor for competition and it is difficult for new players to achieve low prices by investing in the processes and practices which established, entrenched players like Wal-Mart can operate. Finding steady and stable suppliers is also difficult. Existing competition consists of such companies as Sears, Target, PriceSmart, Kmart, etc. Wal-Mart has an advanced logistics and distribution

structure, revolutionary technology to sustain all stages of its business a popular and easily recognizable brand name, a lot of stores nationwide, and considerable financial resources to beat its competitors. However, competitors such as PriceSmart should not be underestimated. The threat of substitutes is low. Consumers can buy from small mom-and-pop stores or specialty stores but these do not have as wide a variety of products or as low prices as Wal-Mart. On-line shopping is also a poor substitute for those goods which are consumed daily or are perishable as the transportation costs may be too high and delays may cause the goods to expire. Bargaining power of suppliers is low as they depend on the retailers to distribute their products to the end consumers and can not discount the role of retailers. Wal-Mart has a wide variety of goods as well as thousands of stores in the U. S. and worldwide. This gives great negotiating power with suppliers as well as greater flexibility in selecting and doing business with a diverse number of suppliers and vendors. Owning over 4, 000 trucks means that Wal-Mart can also do a lot of operations by itself without needing outside vendors. It also has some of its own private-label products customized to local needs. Bargaining power of buyers is considered medium. Switching costs for buyers is low and they can easily switch to the seller offering them the lowest prices. The quality of the products being offered at different stores is also usually the same. However, most buyers choose those stores which are located conveniently near to their homes and switching may mean having to travel greater distances. In addition, Wal-Mart has a large and loyal customer base in different areas in the country and around the world.

Detailed Value Chain Analysis

According to Porter, a company's values are placed in these nine elements:

general administration, human resources, research and development, procurement, inbound logistics, operations, outbound logistics, sales and marketing, and service. General administration is smart and successful with human resources being a combination of local people and experts. People from headquarters are sent to local stores to acquire information about competitors and work in the local stores. This ensures open lines of communication and coordination between headquarter and local stores.

Therefore, Wal-Mart can respond quickly to customer needs, take remedial actions, and beat competitors. Human resource and interaction practices between the company and its associates are based on motivation, respect, close communication and clear incentives. Despite low wages, employees have abundant benefits such as health care plans, retirement schemes, profit incentives, and stock purchase plans. Employees have a say in operations, open communication with their superiors and high growth opportunities. This ensures a friendly and happy working environment for employees. low wages let the company keep prices low, however, problems of employee abuse do crop up. Research and development, especially in the realm of information technology and superior computer systems, continues and is implemented to improve operations and lower costs. In addition, they strive to develop systems which are easy to use and implement. Wal-Mart's process of procurement involves decreasing its buying expenses as much as feasible so that prices can be kept low. The company procures goods directly from the manufacturers cutting out the need and expense of intermediaries.

Running the distribution centers is cost-effective with the large-scale use of refined technology such as bar code, hand held computer systems (Magic Wand) and now, RFID. Inbound and outbound logistics include a swift & reactive transportation system. More than 7000 company owned trucks are at the distribution centers. These enable transportation of goods from distribution centers to the stores within 2 days and replenish the store shelves twice a week. All the drivers are experienced and in addition, their activities are monitored routinely via a " Private Fleet Driver handbook". This ensures that the drivers to be conscious of the terms and conditions for safe exchange of Wal-Mart property as well as the general mode of behaviour. For more efficiency, Wal-Mart uses a logistics technique called " Cross Docking". This entails that the finished goods are directly picked up from the manufacturing site of supplier, organized and directly sent to the customers. This system reduces handling & storage of finished goods, doing away with the need for distribution centers and stores. Wal-Mart operations consist of three business segments: Wal-Mart Store, Sam's Club and Wal-Mart International. In marketing and sales, Wal-Mart started as offering ' everyday low prices'. Its marketing strategy relies on word-of-mouth communication and focuses on everyday low prices. This adds value for the customer because the savings from advertising and promotion allow it to offer products at low prices. Service is always efficient and designed to make the shopping experience as convenient and hassle free for customers as possible. Wal-Mart's goal is to create a pleasant shopping experience for its customers. It has achieved this by having greeters at the entrance door to

welcome customers. Customer satisfaction is ensured by accepting returned goods on a no-questions-asked basis.

SWOT/SCOT Analysis

Strengths- Wal-Mart has a well established and recognized brand name with a positive image of low prices and variety of products. The huge sales volume means it has strong bargaining power over its suppliers. Integrated technology in supply chain enables Wal-Mart to achieve high operations efficiency. The superior logistic system allows savings in transportation costs independence from outside logistics. Another great strength for Wal-Mart is the highly competent managers supplemented by a strong culture and values that are shared among associates at all levels. This can also be seen by its rise in Canada and Mexico. **Weaknesses-** solely price sensitive customers are targeted. For those wanting higher quality, Wal-Mart would not be the first choice. Wal-Mart's Sieyu chain failed in Japan where shoppers demanded high quality. Expanding in terms of product lines and geographic areas incurs the cost of loss of control in some place, hampering the ability to compete. **Opportunities-** Wal-Mart has big potential markets in Europe and Asia. Due to its financial resources, it has the option of direct investments through building its own stores or purchasing small local chains or forging strategic alliances with successful chains in some markets. **Threats-** The strain of having to maintain its market leader position is quite heavy. Due to its large variety of goods, competition is also quite diverse particularly from those competitors whose main area of concern is their merchandise offerings. Political, social and cultural problems also exist when expanding

overseas which makes the threat of failure high. All the players always try to reduce costs and achieve high operational efficiency which makes threat from competitors quite great.

Key Success Factors: Integrating the Analysis

Wal-Mart's strategy of being a low cost leader is very successful.

Implementing advanced technology to understand customer needs as well as to achieve high operation efficiency must be a continual process. The corporate culture should be adhered to including such traditions as the Saturday morning meetings. The special practices and culture of Wal-Mart should be used to differentiate it from others. Wal-Mart's focus on price sensitive customers should be maintained as this is the target market. Wal-Mart has strong opportunities to enter more markets in Europe and Asia. Keeping resources in mind, it should try to increase its product lines as well as try to improve its logistics and marketing. In expanding internationally, legal and cultural barriers should be considered thoroughly. Wal-Mart should only focus on a few markets that have the best potential and less competition. The company's past international expansion faced strategic and organization issues, and therefore, its success has been inconsistent in foreign markets. By maintaining its strengths, Wal-Mart can continue to beat the competition and minimize its threats. Wal-Mart has suitably countered environmentalists, women's and children's rights advocates, and anti-globalization activists. This has helped maintain a favorable image. Environmental sustainability should be a priority in today's world where awareness is quite high. The low wage rates should be kept as they help

keep costs down and benefits such as profit incentives, stock purchase plan and promotion opportunities compensate for lower wages. A strategy of low costs and prices through keeping employees happy, incorporating technology, careful and steady expansion as well as improving its operations, Wal-Mart can continue to go from strength to strength.