

Walmart stores essay sample

[Business](#), [Marketing](#)



In May 2009, Wal-Mart began revamping the electronics departments in its 3,500 U. S. stores to make them much more interactive and roomier. The company wants all the business that Circuit City's failure left and also wants Best Buy and Amazon's business. Wal-Mart now carries more sophisticated electronics products such as Research in Motion Ltd.'s Blackberry smart phones, Palm Inc.'s Pre smart phone, and Blu-ray disc players. In June 2009, Wal-Mart began selling Dell Inc.'s new Studio One 19 touch-screen computers. In July 2009, Wal-Mart broke ranks with most other large corporations by announcing support for legislation that would require employers to provide health insurance to employees, a centerpiece of President Obama's effort to provide near-universal coverage to Americans. As the largest private employer in the United States, Wal-Mart desires to level the playing field with its rival firms because it already provides health insurance to all its employees.

The U. S. Chamber of Commerce has actively fought against such legislation for several years. During the recession of 2008-2009, Wal-Mart was the Dow's top performer. Headquartered in Bentonville, Arkansas, Wal-Mart's sales rose from \$374.3 billion in fiscal year 2008 to \$401.2 billion in 2009 while net income rose from \$12.7 billion to \$13.4 billion. For more than a decade, Wal-Mart has been growing by leaps and bounds and rolling over large competitors such as Kmart as well as thousands of small businesses. Financial statements are shown in Exhibit 1 and Exhibit 2. (Note: Wal-Mart's fiscal year ends January 31.)

In 1995, Wal-Mart ended a five-year battle with local leaders of Bennington, Vermont, and opened its first store in that state, thereby laying claim to

having stores in all 50 states (see Exhibit 3). The Bennington store was Wal-Mart's 2, 158th store. To get approval for this store, Wal-Mart abandoned its usual 200, 000-square-foot store near a major highway exit and instead located in a downtown building containing just 50, 000 square feet.

Environmentalists in Vermont say the rural character of the state is endangered by “ sprawl-mart development.” Other chains, such as Kmart, have operated in Vermont for years, so some residents are mystified by the current controversy. As of the end of fiscal 2009, there only four Wal-Mart stores in Vermont.

Wal-Mart does not have a formal mission statement. When asked about Wal-Mart's lack of a mission, Public Relations Coordinator Kim Ellis recently replied, “ We believe that our customers are most interested in other aspects of our business, and we are focused on meeting their basic consumer needs. If, in fact, we did have a formal mission statement, it would be something like this: ‘ To provide quality products at an everyday low price and with extended customer service . . . always.’ ”

Found on the company's Website is a statement pertaining to the culture of Wal-Mart. “ As Wal-Mart continues to grow into new areas and new mediums, our success will always be attributed to our culture. Whether you walk into a Wal-Mart store in your hometown or one across the country while you're on vacation, you can always be assured you're getting low prices and genuine customer service that you've come to expect from us. You'll feel at home in any department of any store . . . that's our culture.” The Wal-Mart culture is

based on three basic beliefs of Sam Walton: 1) respect for the individual, 2) service to our customers, and 3) strive for excellence.

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EXHIBIT 1 Consolidated Statements of Income (amounts in millions except per share data) Fiscal Year Ended January 31

2009 2008 2007

Revenues:

Net sales \$401, 244 \$374, 307 \$344, 759

Membership and other income 4, 363 4, 169 3, 609

\$405, 607 \$378, 476 \$348, 368

Costs and Expenses:

Cost of sales 306, 158 286, 350 263, 979

Operating, selling, general and administrative expenses 76, 651 70, 174 63, 892

Operating income 22, 798 21, 952 20, 497

Interest:

Debt 1, 896 1, 863 1, 549

Capital leases 288 240 260

Interest income (284. 00) (309. 00) (280. 00)

Interest, net 1, 900 1, 794 1, 529

Income from continuing operations before

income taxes and minority interest 20, 898 20, 159 18, 968

Provision for Income Taxes:

Current 6, 564 6, 897 6, 265

Deferred 581 (8) 89

7, 145 6, 889 6, 354

Income from continuing operations

before minority interest 13, 753 13, 269 12, 614

Minority interest (499) (406) (425)

Income from continuing operations 13, 254 12, 863 12, 189

Income (loss) from discontinued operations,

net of tax 146 (132) (905)

Net income 13, 400 12, 731 11, 284

Net Income per Common Share:

Basic income per common share from

continuing operations \$ 3. 36 \$ 3. 16 \$ 2. 93

Basic income (loss) per common share

from discontinued operations 0. 04 (0. 03) (0. 22)

Basic net income per common share \$ 3. 40 \$ 3. 13 \$ 2. 71

Diluted income per common share

from continuing operations \$ 3. 35 \$ 3. 16 \$ 2. 92

Diluted income (loss) per common share

from discontinued operations 0. 04 (0. 03) (0. 21)

Diluted net income per common share \$ 3. 39 \$ 3. 13 \$ 2. 71

Weighted Average Number of Common Shares:

Basic 3, 939 4, 066 4, 164

Diluted 3, 951 4, 072 4, 168

Dividends declared per common share \$ 0. 95 \$ 0. 88 \$ 0. 67

Source: Wal-Mart, Annual Report (2009).

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EXHIBIT 2 Consolidated Balance Sheets (amounts in millions
except per share data)

January 31

2009 2008

ASSETS

Current Assets:

Cash and cash equivalents \$ 7, 275 \$ 5, 492

Receivables 3, 905 3, 642

Inventories 34, 511 35, 159

Prepaid expenses and other 3, 063 2, 760

Current assets of discontinued operations 195 967

Total Current Assets \$ 48, 949 \$ 48, 020

Property and Equipment, at Cost:

Land 19, 852 19, 879

Buildings and improvements 73, 810 72, 141

Fixtures and equipment 29, 851 28, 026

Transportation equipment 2, 307 2, 210

Property and equipment, at cost 125, 820 122, 256

Less accumulated depreciation (32, 964) (28, 531)

Property and equipment, net 92, 856 93, 725

Property under Capital Lease:

Property under capital lease: 5, 341 5, 736

Less accumulated depreciation (2, 544) (2, 594)

Property under capital lease 2, 797 3, 142

Goodwill 15, 260 15, 879

Other assets and deferred charges 3, 567 2, 748

Total Assets \$ 163, 429 \$ 163, 514

LIABILITIES AND STOCKHOLDERS' EQUITY

Current Liabilities:

Commercial paper \$ 1, 506 \$ 5, 040

Accounts payable 28, 849 30, 344

Accrued liabilities 18, 112 15, 725

Accrued income taxes 677 1, 000

Long-term debt due within one year 5, 848 5, 913

Obligations under capital leases due

within one year 315 316

Current liabilities of discontinued operations 83 140

Total current liabilities \$ 55, 390 \$ 58, 478

Long-term debt 31, 349 29, 799

Long-term obligations under capital leases 3, 200 3, 603

Deferred income taxes and other 6, 014 5, 087

Minority interest 2, 191 1, 939

Commitments and contingencies

continued

EXHIBIT 3 End-of-Year Store Count Wal-Mart Stores, Inc.

Grand Total

State Discount Stores Supercenters Neighborhood Sam's Clubs Markets

Alabama 6 90 5 13 114

Alaska 4 4 — 3 11

Arizona 9 62 22 16 109

Arkansas 15 66 8 6 95

California 140 35 — 37 212

Colorado 9 56 — 16 81

Connecticut 29 5 — 3 37

Delaware 4 5 — 1 10

Florida 39 161 25 42 267

Georgia 7 126 — 22 155

Hawaii 8 — — 2 10

Idaho 3 16 — 2 21

Illinois 57 90 — 29 176

Indiana 15 84 3 16 118

Iowa 11 47 — 8 66

Kansas 9 48 3 7 67

Kentucky 11 73 7 8 99

Louisiana 6 77 5 12 100

Maine 10 12 — 3 25

Maryland 31 13 — 12 56

Massachusetts 39 7 — 3 49

Michigan 19 65 — 26 110

Minnesota 19 42 — 13 74

Mississippi 5 59 1 6 71

Missouri 27 91 — 15 133

Montana 3 10 — 1 14

Nebraska — 30 — 3 33

Nevada 4 26 11 7 48

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continued

EXHIBIT 2 Consolidated Balance Sheets—continued

January 31

2009 2008

Shareholders' Equity:

Preferred stock(\$0. 10 par value; 100 shares

authorized, none issued — —

Common stock (\$0. 10; 11, 000 shares authorized,

3, 925 and 3973 issued and outstanding at

January 31, 2009, and January 31, 2008, respectively) 393 397 Capital in

excess of par value 3, 920 3, 028

Retained earnings 3, 660 57, 319

Accumulated other comprehensive (loss) income (2, 688) 3, 864

Total Shareholders' Equity 65, 285 64, 608

Total Liabilities and Shareholders' Equity \$163, 429 \$163, 514 Source: Wal-Mart, Annual Report (2009).

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EXHIBIT 3 End-of-Year Store Count Wal-Mart Stores, Inc.—continued Grand Total

State Discount Stores Supercenters Neighborhood Sam's Clubs Markets New Hampshire 16 11 — 4 31

New Jersey 46 3 — 10 59

New Mexico 3 31 2 7 43

New York 40 52 — 17 109

North Carolina 23 107 — 22 152

North Dakota 1 10 — 3 14

Ohio 24 119 — 30 173

Oklahoma 14 71 16 8 109

Oregon 14 16 — — 30

Pennsylvania 42 83 — 23 148

Rhode Island 7 2 — 1 10

South Carolina 8 63 — 9 80

South Dakota — 12 — 2 14

Tennessee 4 103 6 16 129

Texas 40 297 33 72 442

Utah 2 30 5 8 45

Vermont 4 — — — 4

Virginia 18 71 1 16 106

Washington 19 28 — 3 50

West Virginia 2 35 — 5 42

Wisconsin 25 58 — 12 95

Wyoming — 10 — 2 12

United States Totals 891 2, 612 153 602 4, 258

International

International unit counts and operating formats as of January 31, 2009:

Discount

	Country	Supermarkets	Store	Supercenters	Hypermarkets	Other	Total
	Argentina	—	—	22	—	6	28
	Brazil (1)	155	—	34	71	85	345

Canada (2) — 256 56 — 6 318

Chile 46 76 — 75 — 197

China — — 132 103 8 243

Costa Rica 25 122 — 6 11 164

El Salvador 30 45 — 2 — 77

Guatemala 29 109 — 6 16 160

Honduras 7 36 — 1 6 50

Japan 264 — — 106 1 371

Mexico (3) 163 67 154 — 813 1, 197

Nicaragua 7 44 — — — 51

Puerto Rico 31 7 8 — 10 56

United Kingdom 307 — 30 — 21 358

Grand Total 1, 064 762 436 370 983 3, 615

1. “ Other” format includes 22 Sam’s Clubs, 23 cash-n-carry stores, 39 combination discount and grocery stores, and 1 general merchandise store.

2. “ Other” format includes 6 Sam’s Clubs that were closed in March of fiscal 2010.

3. “ Other” format includes 91 Sam’s Clubs, 279 combination discount and grocery stores, 83 department stores, and 360 restaurants. Source: Wal-Mart, Annual Report (2009).

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History

No word better describes Wal-Mart than growth. In 1945, Sam Walton opened his first Ben Franklin franchise in Newport, Arkansas. Living in rural Bentonville, Arkansas, at the time, Walton, his wife Helen, and his brother

Bud operated the nation's most successful Ben Franklin franchises. " We were a small chain," said Walton of his 16-store operation. " Things were running so smoothly [that] we even had time for our families." What more could a man want? A great deal, as it turned out.

Sam and Bud Walton could see that the variety store was gradually dying because supermarkets and discounters were developing. Far from being secure, Walton knew that he was under siege and decided to counterattack. He first tried to convince the people in top management of Ben Franklin to enter discounting. After their refusal, Sam Walton made a quick trip around the country in search of ideas. He then began opening his own discount stores in small Arkansas towns like Bentonville and Rogers. The company opened its first discount department store (Wal-Mart) in November 1962. The early stores had bare tile floors and pipe racks. Wal-Mart did not begin to revamp its image significantly until the mid-1970s, and growth in the early years was slow. However, once the company went public in 1970, sales began to increase rapidly. When it initially went public, 100 shares of Wal-Mart stock would have cost \$1, 650. Now, those 100 shares are worth over \$6 million.

Such retailers as Target, Venture, and Kmart provided the examples that Wal-Mart sought to emulate in its growth. The old Wal-Mart store colors, dark blue and white (too harsh), were dumped in favor of a three-tone combination of light beige, soft blue, and burnt orange. Carpeting, which had long been discarded on apparel sales floors, was put back. New racks were put into use that displayed the entire garment instead of only an outer edge.

Sam Walton died in 1992. Bud Walton died in 1995. Wal-Mart's 1995 Annual Report was dedicated to Bud. Sam Walton once said about Bud, "Of course, my number-one retail partner has been my brother, Bud. Bud's wise counsel and guidance kept us from many a mistake. Often, Bud would advise taking a different direction or maybe changing the timing. I soon learned to listen to him because he has exceptional judgment and a great deal of common sense."

In 2000, H. Lee Scott was named president and CEO of Wal-Mart. In February 2009, Mike Duke became the new president and CEO when Scott retired from the position. According to Duke, "Our Company is so well positioned for today's difficult economy and tomorrow's changing world. We have an exceptionally strong management team, able to execute our strategy, perform every single day, and deliver results." Exhibit 4 shows Wal-Mart's organizational chart.

Divisions

Wal-Mart Stores

Most Wal-Mart stores are located in towns of 5,000 to 25,000. On occasion, smaller stores are built in communities of less than 5,000. As indicated in Exhibit 3 for fiscal 2009, Wal-Mart, Inc. currently operates domestically 891 Wal-Mart discount stores, 2,612 Supercenters, 602 Sam's Clubs, and 153 Neighborhood Markets. Most of Wal-Mart's \$405.6 billion in fiscal 2009 sales came from Wal-Mart stores and Supercenters. Exhibit 5 provides a breakdown of net sales per division, and Exhibit 6 provides other pertinent

financial data per division. International sales accounted for approximately 24.6 percent of total company sales in fiscal 2009.

This is up from 9.13 percent in fiscal 2008. For fiscal 2009, Wal-Mart operated internationally in 13 countries and Puerto Rico, with 762 discount stores and 436 Supercenters. In 2003, Wal-Mart grouped its smaller discount stores, such as the one in Bennington, Vermont, into a new Hometown USA program. This strategy allows the company to give special attention to customers in smaller markets in rural America. Hometown USA consists of the stores are less than 50,000 square feet and are under one regional manager. The idea is to enable these stores to develop locally and with a different mix from the large prototypes. Although these stores represent Wal-Mart's heritage, they had become lost in the shuffle as the company opened 120,000- to 150,000-square-foot stores.

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EXHIBIT 4 Wal-Mart's Organizational Chart

Source: Developed from Wal-Mart, Annual Report (2009).

Wal-Mart stores generally have 36 departments and offer a wide variety of merchandise, including apparel for women, girls, men, boys, and infants. Each store also carries curtains, fabrics and notions, shoes, housewares, hardware, electronics, home supplies, sporting goods, toys, cameras and supplies, health and beauty aids, pharmaceuticals, and jewelry. Nationally advertised merchandise accounts for a majority of sales of the stores. Wal-Mart has begun marketing limited lines of merchandise under the brand name Sam's Choice. The merchandise is carefully selected to ensure quality

and must be made in the United States. Wal-Mart has also developed new apparel lines, such as the Kathie Lee career sportswear and dress collection, Basic Equipment sportswear, and McKids children's clothing. President and CEO-Mike Duke

EVP and Chief Financial Officer-Thomas

Schoewe

EVP and Chief Administrative Officer, Wal-

Mart U. S.- Thomas Mars

President and CEO, Sam's Club-Brian

Cornell

Treasurer

Chief Executive Officer, Wal-Mart

International Douglas McMillon

Executive Vice President, President and Chief Executive

Officer, The Americas, International Division Craig Herkert

EVP Membership, Marketing & E-Commerce,

Sam's Club-Cindy Davis

EVP, Chief Marketing Officer, Wal-Mart U. S.-

Stephen Quinn

EVP, Chief Merchandising Officer, Wal-Mart

U. S.- John Fleming

EVP, Chief Information Officer-Rollin Ford

EVP, Logistics and Supply Chain, Wal-Mart

U. S.-Johnnie Dobbs

EVP and General Counsel, Wal-Mart Stores,

Inc. Jeffrey Gearhart

EVP, Corporate Affairs and Government

Relations-Leslie Dash

EVP, People Division M. Susan Chamber

EVP, Risk Management, Insurance and

Benefits Administration-Linda Dillman

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EXHIBIT 5 Net Sales by Operating Segment (amounts in millions) Fiscal Year
Ended January 31

2009 2008 2007

Percent Percent Net Percent Percent Net Percent

Net Sales of Total Increase Sales of Total Increase Sales of Total Wal-Mart U.

S. \$255, 745 63. 7% 6. 8% \$239, 529 64. 0% 5. 8% \$226, 294 65. 6%

International 98, 645 24. 6% 9. 1% 90, 421 24. 1% 17. 6% 76, 883 22. 3%

Sam's Club 46, 854 11. 7% 5. 6% 44, 357 11. 9% 6. 7% 41, 582 12. 1% Total

net sales \$401, 244 100. 0% 7. 2% \$374, 307 100. 0% 8. 6% \$344, 759 100.

0% Comparable Store Sales

Fiscal Year Ended January 31

2009 2008 2007

Wal-Mart U. S. 3. 2% 1. 0% 1. 9%

Sam's Club 4. 8% 4. 9% 2. 5%

Total U. S. 3. 5% 1. 6% 2. 0%

Source: Wal-Mart, Annual Report (2009).

EXHIBIT 6 Wal-Mart Stores Segment

Wal-Mart U. S. Segment

Segment Net Segment Operating Income

Sales Increase Segment Operating Income as a Percentage of
from Prior Income Operating Increase from Prior Segment

Fiscal Year Fiscal Year (in millions) Fiscal Year Net Sales

2009 6. 8% \$18, 763 7. 1% 7. 3%

2008 5. 8% 17, 516 5. 4% 7. 3%

2007 7. 8% 16, 620 8. 9% 7. 3%

Sam's Club Segment

Segment Net Segment Operating Income

Sales Increase Segment Operating Income as a Percentage of
from Prior Operating Income Increase from Prior Segment

Fiscal Year Fiscal Year (in millions) Fiscal Year Net Sales

2009 5. 6% \$1, 610 -0. 5% 3. 4%

2008 6. 7% 1, 618 9. 3% 3. 6%

2007 4. 5% 1, 480 5. 2% 3. 6%

International Segment

Segment Net Segment Operating Income

Sales Increase Segment Operating Income as a Percentage of
from Prior Operating Income Increase from Prior Segment

Fiscal Year Fiscal Year (in millions) Fiscal Year Net Sales

2009 9. 1% \$4, 940 4. 6% 5. 0%

2008 17. 6% 4, 725 10. 8% 5. 2%

2007 29. 8% 4, 265 24. 8% 5. 5%

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Sam's Clubs

Sam's Clubs are membership only, cash-and-carry operations. A financial service creditcard program (Discover Card) is available in all clubs. In addition to Discover Card, Sam's have also recently started accepting MasterCard for payments. As of February 2009, business members paid an annual membership fee of \$35 for the primary membership card, with a spouse card available at no additional cost. The annual membership fee for an individual member is \$40 for the primary membership card, with a spouse card available at no additional cost. The Advantage Plus Program offers additional benefits and services such as automotive extended service contracts, roadside assistance, home improvement, auto brokering, and pharmacy discounts. The annual membership fee for an Advantage Plus Member is \$100.

Sam's offers bulk displays of name-brand merchandise, some soft goods, and institutional-size grocery items. Sam's Clubs usually offer over 3, 500 items, which are used most often by the consumers they serve. Each Sam's also carries jewelry, sporting goods, toys, tires, stationery, and books. Most clubs have fresh-food departments, such as bakery, meat, and produce sections.

Sam's is a \$46. 8 billion business that is starting to grow again. The clubs were never designed to sell merchandise categories, but rather items. Furthermore, because the number of items is limited to around 2, 000 for the wholesale part of the business and between 1, 000 and 1, 500 for personal and individual use, it is very important for the items to be appropriate for the location. Also, the items have to come and go seasonally, so continuity by

category is not appropriate. Thus, there is a problem for buyers who are item merchants and compete for space in the clubs.

At the end of fiscal 2009, Wal-Mart had a total of 602 domestic Sam's Clubs in operation. Sales for the Wal-Mart's Sam's Clubs segment increased by 5.6 percent in fiscal 2009, compared to fiscal 2008.

Supercenters

Wal-Mart's Supercenters combine groceries with general merchandise, giving customers one-stop shopping. As shown in Exhibit 3, Wal-Mart operated 2,612 domestic and 436 international Supercenters in fiscal 2009.

Supercenters constitute the company's fastest growing division, and management is extremely pleased with them. Currently, the limitation is distribution, and Wal-Mart is working hard to expand its food distribution capabilities. Most of the Supercenters replace Wal-Mart stores, so they have a jump-start on the general merchandise side of the store, whereas food has tended to build slowly. However, the company has gained market share more quickly than planned. Wal-Mart likes to locate Supercenters near the strongest food retailers so their facilities will "either get better or be run out of town." The Wal-Mart Supercenter is one of the most important retail concepts on the landscape at this time. As with the discount stores, their real competitive impact comes not in the year they open but in the third year because they have a maturation curve that's more like a Wal-Mart store than a food store.

Also, the one-stop convenience aspect of the stores has such broad appeal that it is drawing a larger customer audience on a regular basis.

Supercenters are continuing to get better in many categories and are attracting a higher income audience, in addition to their traditional customers. Supercenters provide mart carts and are all one-story buildings, making the stores handicapped accessible. Wal-Mart's Supercenters average 186, 000 square feet of retail space. They usually employ between 200 and 550 associates, contingent on store size and consumer needs. The company's broad assortments and everyday low prices are very compelling; extensive advertising is not needed. This represents an enormous saving over the competition. Furthermore, as Supercenters move more into food distribution, they gain a major cost advantage over Super Kmart and Super Target.

The Supercenters are designed with wider aisles, directory signs, departmental directories, and 24-hour service. They are usually equipped with a customer service desk and scanning registers to provide more efficient checkout procedures. 68 AMIT J. SHAH AND MICHAEL L.

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Neighborhood Markets

Wal-Mart's Neighborhood Markets first began operations in 1998 and are generally located in markets with Wal-Mart Supercenters. The Neighborhood Markets offer customers groceries, pharmaceuticals, and general merchandise. These Markets are 42, 000 square feet and usually employ 80 to 100 associates. They provide about 28, 000 items to customers, including

fresh produce, meats, and dairy items; one-hour photo processing; drive-through pharmacies; pet supplies; and household chemicals. For fiscal 2009, Wal-Mart operated 153 Neighborhood Markets.

International

As indicated in Exhibit 3, for fiscal 2009, the company had 318 Wal-Mart brands in Canada, 1, 197 in Mexico, and 56 in Puerto Rico. The company operated over 3, 600 Wal-Mart brand stores internationally. Mexico is home to Wal-Mart's oldest and most extensive international operations. Wal-Mart de Mexico is strengthened by strong customer support, and the opening of several new stores in the near future is planned. Wal-Mart maintains a strategic competitive focus on global positioning. Wal-Mart expanded into the international markets so that customers everywhere will associate their name with low cost, best value, greatest selection of quality merchandise and highest standards of customer service. The fact that the International segment has grown to nearly \$100 billion in sales shows the potential of this market.

In December 2008, although known for its megastores, Wal-Mart launched a pilot program in China and entered the convenience store market under the name " Smart Choice" or Hui Xuan in Chinese. These are only 300 square meters in size and meant to serve the needs of the local community. In May 2009, company indicated it will observe the performance of these pilot stores and determine whether to expand this idea. Wal-Mart currently employs 70, 000 employees in China.

Nationally and internationally, Wal-Mart has been faced with the United Food and Commercial Workers Union, trying to persuade employees to become part of the union. Wal-Mart has strongly opposed unions in its stores. They argue that the company is structured so that employees derive the most benefit and best conditions by working directly with Wal-Mart, as opposed to through a union. Recently, employees in Canada rejected the union. China is now seeing the same pressures from the union as were seen in Canada.

Community involvement, responding to local needs, merchandise preferences, and buying locally are all hallmarks of the International Wal-Marts, just as they are in the United States.

Internal Issues

Distribution Centers

Wal-Mart has distribution centers nationwide. Some of them are grocery distribution centers and also a small number are import distribution centers. Wal-Mart's distribution operations are highly automated. A typical Wal-Mart Discount Store has more than 70, 000 standard items in stock. Supercenters carry more than 20, 000 additional grocery items, including perishables. As a result, such items have to be ordered frequently. Associates use handheld computers that are linked by radio-frequency network to area stores. To place orders, each store wires merchandise requests to warehouses, which in turn either ship immediately or reorder. Wal-Mart computers are linked directly to over 200 vendors, making deliveries quicker. Wal-Mart has one of the world's largest private satellite communication systems, which enables it to control distribution. In addition, Wal-Mart has installed point-of-sale bar code scanning in all of its stores.

Wal-Mart owns a fleet of truck-tractors that can deliver goods to any store in 38 to 48 hours from the time the order is placed. After trucks drop off merchandise, they frequently pick up merchandise from manufacturers on the way back to the distribution center. This back-haul rate averages over 60 percent and is yet another way Wal-Mart cuts costs. With an information systems staff of 1, 200 and system links with about 5, 000 manufacturers, Wal-Mart leads the industry in information technology. This means Wal-Mart is dedicated to providing its associates with the technological tools they need to work smarter CASE 6 • WAL-MART STORES, INC. — 2009 69

everyday. With this technology, Wal-Mart is getting better, quicker, and more accurate information to manage and control every aspect of their business.

Walmart. com

Wal-Mart is in the retail business, which also includes Internet e-tailing. The Internet has interesting aspects and will definitely serve a growing market throughout the 21st century. Profits are not easily made over the Internet, and issues of cost of delivery, merchandise returns, and data security are top concerns prior to building business over the Internet. Wal-Mart moved into the Internet arena in 1996 with the introduction of Wal-Mart On-line, and then it relaunched the site on January 1, 2000, as Walmart. com. Wal-Mart looks at Internet retailing as another store with possibility, but without walls. Walmart. com, with its headquarters located in the San Francisco Bay Area, is a wholly owned subsidiary of Wal-Mart Stores, Inc.

This location choice affords Walmart. com access to the best pool of Internet executive and technical talent. The company was able to attract a top retail

management talent in Jeanne Jackson as the CEO of Walmart. com. This venture combines the better of two worlds, technology and retailing, in order to provide customers easy access to more things at Wal-Mart 24 hours a day and 7 days a week. Its distinct purpose is to provide consumers with a convenient and rewarding online shopping experience. Walmart. com will have a separate management team and board of directors. Ultimately, it might choose to go public; however, Wal-Mart Stores will retain a majority ownership of the new venture. Walmart. com provides easy access 24/7/365 to more than a million products. Items ordered online can be shipped to the customer's homes for a modest fee or free shipping to the customer's nearest Wal-Mart store. In addition Wal-Mart is developing new services such as music downloads and 1-hour photos.

Operations

Wal-Mart's expense structure, measured as a percentage of sales, continues to be among the lowest in the industry. Although Walton watched expenses, he rewarded sales managers handsomely. Sales figures are available to every employee at Wal-Mart. Monthly figures for each department are ranked and made available throughout the organization. Employees who do better than average get rewarded with raises, bonuses, and personal recognition. Poor performers are only rarely fired, although demotions are possible. All employees (referred to as " associates") have a stake in the financial performance of the company. Store managers earn as much as \$100, 000 to \$150, 000 per year. Even part-time clerks qualify for profit sharing and stock-purchase plans. Millionaires among Wal-Mart's middle managers are not uncommon.

Executives frequently solicit ideas for improving the organization from employees and often put them to use. The Walton family and management (as insiders) own nearly 44 percent of Wal-Mart stock. These holdings are worth nearly \$28 billion today. Continuing a Walton tradition, Wal-Mart invites over 100 analysts and institutional investors to the field house at the University of Arkansas for its annual meeting in mid-June. During the day-and-a-half session, investors meet top executives as well as Wal-Mart district managers, buyers, and 200,000 hourly salespeople. Investors see a give-and-take meeting between buyers and district managers. Employee Benefits

Wal-Mart management takes pride in the ongoing development of its people. Training is seen as critical to outstanding performance, and new programs are often implemented in all areas of the company. The combination of grassroots meetings, the open-door policy, videos, printed material, classroom and home study, year-end management meetings, and on-the-job training has enabled employees to prepare themselves for advancement and added responsibilities.

Wal-Mart managers stay current with new developments and needed changes. Executives spend one week each year in hourly jobs in various stores. Walton himself used to travel at least three days per week, visiting competitors' stores and attending the opening of new stores, leading the Wal-Mart cheer, "Give me a W, give me an A . . ." Wal-Mart encourages employee stock purchases. During fiscal 2008, participants could contribute up to 50 percent of their pretax earnings, but not more than statutory 70

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limits. Associates may choose from among 13 different investment options for the 401(k) component of the plan and 14 investment options for the profit-sharing component of the plan. For associates who did not make an election, their 401(k) balance in the plan was placed in a balanced fund. Associates' 401(k) funds immediately vest, and associates may change their investment options at any time. Associates with three years of service have full diversification rights with the 14 investment options for the profit-sharing component of the plan.

Prior to January 31, 2008, associates were fully vested in the profit-sharing component of the plan after seven years of service, with vesting starting at 20 percent at three years of service and increasing 20 percent each year until year 7. Effective January 31, 2008, associates are fully vested in the profit-sharing component of the plan after six years of service, with vesting starting at 20 percent at two years of service and increasing 20 percent each year until year six. Annual contributions made by the company to the United States and Puerto Rico Profit Sharing and 401(k) Plans are made at the sole discretion of the company. Expense associated with these plans was \$945 million, \$890 million, and \$827 million in fiscal 2008, 2007, and 2006, respectively.

Company contributions can be withdrawn only on termination. If employment with the company is terminated because of retirement, death, or permanent disability, the company contribution is fully vested (meaning the entire amount is nonforfeitable). If termination of employment occurs for any other reason, the amount that is nonforfeitable depends on the number of

years of service with the company. After completion of the third year of service with the company, 20 percent of each participant's account is nonforfeitable for each subsequent year of service. After seven years of service, a participant's account is 100 percent vested.

Predatory Pricing

Does Wal-Mart engage in predatory pricing? Three independent pharmacies in Conway, Arkansas, filed a suit, claiming Wal-Mart was deliberately pricing products below cost to kill competition. Wal-Mart argued that it priced products below cost not to harm competitors but to meet or beat rivals' prices. Chancery Court Judge David L. Reynolds on October 11, 1996, found Wal-Mart guilty of predatory pricing and ordered the company to pay the pharmacies \$286, 407 in damages. The judge also forbade Wal-Mart from selling products below cost in Conway in the future.

Wal-Mart appealed the ruling to the Arkansas Supreme Court, which reversed and dismissed the case. It is Wal-Mart's policy that its store managers monitor the retail prices charged by competitors in their respective market areas and lower prices for highly competitive merchandise without regard to the cost of individual items. This price is frequently below Wal-Mart's cost of acquiring some of these products in highly competitive markets. The stated purpose of Wal-Mart's pricing policy is to "meet or beat" the retail prices contemporaneously charged by competitors for highly competitive, price-sensitive merchandise; to maintain "low-price leadership" in the local marketplace; and to "attract a disproportionate number of customers into a store to increase traffic."

The store's pricing practices with regard to specific articles did not violate the Arkansas Unfair Practices Act section prohibiting vendors from selling at or below their cost. The mere proof of below-cost sales was not sufficient to prove a violation of the act absent intent to destroy competition. There was no evidence showing exactly which individual items were sold below cost, the frequency of those sales, the duration of the sales, and to what extent the sales existed.

Diversity Among Employees

Sam Walton was admittedly old-fashioned in many respects and Wal-Mart store policies reflected many of his values. For example, store policies forbid employees from dating other employees without the prior approval of the executive committee. Also, women are rarely found in management positions. However, promotions have recently been made so there are now women in senior officer positions. Walton also resisted placing women on the board of directors; however, there are three women on the board at this time. Wal-Mart is an Equal Employment Opportunity/Affirmative Action (EEO/AA) employer, but it has managed to get away with certain past discriminatory policies.

Wal-Mart has instituted several initiatives to increase the recruitment and promotion of women and minorities, including the following:

- A mentoring program encompassing more than 750 women and minority managers
- A women's leadership group, in partnership with Herman Miller and ServiceMaster, to develop opportunities for high-potential female managers

- Store internships during the summer for college students between their junior and senior years, with 70 percent of them for women or minorities.
- Expansion of its business with minority- and women-owned companies by more than 25 percent in 2008
- Creation of a Hispanic scholarship fund for Hispanic high school students
- Recognition in 2008, as one of the “ Best Companies for Asian Pacific Americans” Sustainability

According to CEO Mike Duke, “ Sustainability is an important part of our culture. It helps us to remove waste, lower costs and provide savings to our customers.” Its initiative, “ Sustainability 360°,” is a companywide effort to take sustainability beyond Wal-Mart’s direct footprint to encompass Wal-Mart’s associates, suppliers, communities and customers. “ Wal-Mart’s environmental goals are to be supplied 100 percent by renewable energy; to create zero waste; and to sell products that sustain our resources and the environment.” In 2009, Wal-Mart pledged to double its use of solar energy in California. In addition, in February 2009, Wal-Mart Foundation announced it will donate \$5. 7 million for the creation of green jobs in the United States. Also, in its stores, home efficiency products to conserve and reduce electricity and water are prominently featured. Philanthropy and Community Involvement

Wal-Mart’s community involvement year after year is phenomenal. According to the Chronicle of Philanthropy, the Wal-Mart Foundation is the largest corporate cash contributor in America. In 2009, Wal-Mart and its foundations gave \$423 million in the communities it serves, an increase of 25. 5 percent

over 2008. In 2006, through its foundation, charitable partners, and donations from customers and associates, Wal-Mart provided more than \$415 million in cash and in-kind merchandise to more than 100, 000 organizations around the world. More importantly 90 percent of donations were at the local level where they can have the greatest impact. Education is a primary beneficiary of Wal-Mart charitable giving. Some examples follow:

- 2009, \$1 million grant from the Wal-Mart Foundation for education, job-training, and entrepreneurial support programs for women and girls
- 2009, \$5 million to help 128 Red Cross chapters prepare for disasters
- 2008, a \$12. 5 million letter of credit from Wal-Mart Foundation to expedite construction of Martin Luther King, Jr. National Memorial

- 2008, Wal-Mart stores provided 70 million meals to families in need
- 2008, Wal-Mart Foundation donates \$5 million to YouthBuild USA to re-engage out-of-school youth nationwide

- 2007, Wal-Mart Stores, Sam’s Clubs and the Wal-Mart Foundation gave more than \$296 million to 4, 000-plus communities in the United States
- 2007, donated \$4 million in cash and products to those affected by natural disasters

- 2007, Wal-Mart gave \$5 million in cash and \$35 million in products to America’s Second Harvest food banks to help feed the nation’s hungry. Wal-Mart’s previous efforts were recognized in May 2002 when President George W. Bush honored Wal-Mart with the prestigious Ron Brown Corporate Leadership Award. This award is presented to the best corporate citizens in America. It recognizes companies that have demonstrated a deep level of

commitment to empower employees and communities while also advancing in business interests. Wal-Mart's corporate citizenship extends well beyond U. S. borders and into every country in which the company operates. CASE 6

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Marketing

The discount retailing business is seasonal to a certain extent. Generally, the highest volume of sales and net income occurs in the fourth fiscal quarter, and the lowest volume occurs during the first fiscal quarter. Wal-Mart draws customers into the store by radio and television advertising, monthly circulars, and weekly newspaper ads. Television advertising is used to convey an image of everyday low prices and quality merchandise. Radio is used to a lesser degree to promote specific products that are usually in high demand. Newspaper advertisements and monthly circulars are major contributors to the program, emphasizing deeply discounted items, and they are effective at luring customers into the stores. Efforts are also made to discount corporate overhead. Visitors often mistake corporate headquarters for a warehouse because of its limited decor and "show." Wal-Mart executives share hotel rooms when traveling to reduce expenses.

The company avoids spending money on consultants and marketing experts. Instead, decisions are made based on the intuitive judgments of managers and employees and on the assessment of strategies of other retail chains. Wal-Mart censors some products. The company has banned recordings and removed magazines based on lyrics and graphics; it has also stopped marketing teen rock magazines. Wal-Mart advertises a "Buy American"

policy in an effort to keep production at home. Consequently, Wal-Mart buyers are constantly seeking vendors in grass roots America. In Tulsa, Oklahoma, Zebco, the fishing equipment company, responded to Wal-Mart's challenge by bucking the trend toward overseas fishing tackle manufacturing. Zebco created more than 200 U. S. jobs to assemble rods and to manufacture bait-and-cast reels. The company's bait-and-cast reels are the first to be manufactured in the United States in thirty years.

Competitors

Target has now become a fierce competitor of Wal-Mart and is ranked second among discount retailers with sales of nearly \$65 billion with 366,000 employees. As of February 2, 2009, Target had 1,681 domestic Target stores including 239 Super Targets and ranks 28th on the Fortune 500 list. Target has created a niche for itself by offering more upscale, fashionable merchandise than that of Wal-Mart and has earned a reputation for inexpensive, chic merchandise.

Kmart used to be the main competitor for Wal-Mart, but in 2001 it declared bankruptcy. During 2002 Kmart shut down 600 stores in the United States, Guam, Puerto Rico, and the U. S. Virgin Islands. However, under new management, Kmart's stock increased dramatically in 2004, which allowed it to buy Sears for \$11 billion. Now Kmart operates as a subsidiary of Sears Holding and follows Target in third place among discount retailers with sales of \$17 billion.

Costco Wholesale Corporation is also a competitor of Wal-Mart. Costco competes with the Sam's Club segment. They are the largest wholesale club

operator in the United States, just ahead of Sam's. Costco currently has 550 warehouses, 403 in the United States and the rest dispersed from Canada to Japan. Most recent comparisons show that while the Sam's Club division of Wal-Mart brought in over \$44 billion in net sales. Costco finished the year at just over \$72 billion.

Future

What strategies would you recommend to current CEO Mike Duke? How can Wal-Mart benefit from Internet retailing? How aggressively should Wal-Mart expand internationally and where? Should Wal-Mart expand the convenient store concept in China and other markets? Should Wal-Mart get a foothold in Europe before competitors seize the initiative? Should Wal-Mart expand further in Mexico, the United States, or Canada? Should Wal-Mart make further acquisitions, like its Woolco acquisition in Canada? Is Wal-Mart's rate of growth of Supercenters too fast? What private-label products should Wal-Mart consider developing? What can Wal-Mart do to improve its Sam's Clubs operations? Develop a three-year strategic plan for CEO Mike Duke.