

# Porter's five forces analysis: walmart essay



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Five Forces Analysis of Wal-Mart Industry Threat of Competitors: The biggest threat in the US Grocery/Discount Retailer industry is competition. In particular, the main players are Wal-Mart, Kmart and Target.

These firms also face competition from wholesalers such as BJ's and Costco. Wal-Mart, as the industry leader, has adopted a cost leadership generic strategy. In the past, most firms have not been able to match Wal-Mart's "everyday low prices." The problem is that Wal-Mart's barrier to entry (economies of scale) and strength (supply-chain management) can be easily replicated with sufficient resources.

By definition, discount retailers are competing to see who can offer the lowest prices. This places a heavy burden on all firms to maintain a profit margin as they do so. Threat of New Entrants: The Grocery/Discount Retailer industry's threat of new entrants is very low. New firms would be faced with the task of beating the prices of wholesale giants immediate upon entry. Given the economies of scale, brand recognition, service, and variety of product offerings that Wal-Mart, Target, and others continue to improve on each day, this seems very unlikely. In addition, existing firms could afford to temporarily drop prices even lower in order to force a new competitor out of the market.

Suppliers' Power: The suppliers to Wal-Mart and other discounters have almost no power. Wal-Mart is notorious for pressuring suppliers to cut their margins lower and lower, and often receives criticism for this practice. Unfortunately, there is no way around this given the consumer demand for quality goods at low prices. And while a supplier might sell half of its volume

through Wal-Mart, this brand probably makes up less than 5% of Wal-Mart's sales. Relentlessly cutting costs all the time, wholesalers deal directly with suppliers and hold all the power. Buyers' Power: Buyers' actually hold a good deal of power in the US Grocery/Discount Retailer industry.

For instance, if Wal-Mart has lower prices than Target, then buyers will choose to purchase goods at the cheaper store. In this way, they force firms to continue to cut costs and lower prices. However, some small towns have only the space or demand for one retailer. In this case, the buyer has very little power, and becomes a price taker. Threat of Substitute: The threat of substitutes in this industry is also low.

Only a select number of firms offer such a variety of products available instantly for low prices. One possible substitute is online shopping. However, this does little good for perishable goods such as groceries. In addition, many discounters have developed their own website for online shopping, so consumers can access their products without having to travel to the store.