

External environment analysis



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External Environment Analysis MGT/488 October 21, 2010 Patti Berlin

External Environment Analysis Sam Walton began Wal-Mart in 1962 and opened the first store in Rogers, Arkansas (History, 2010, p. 1). Walton was not new to the retail industry and had traveled the United States to learn as much as possible about the industry. Walton knew that customer needs were important to success and he wanted to know as much as possible about the industry to meet those demands. Sam Walton experienced strong competition from retailers such as Target and Kmart when he decided to expand the company.

Currently, many retailers compete with Wal-Mart; however, the company has diversified to tire servicing, pharmaceuticals, home improvement, and in-store restaurants. Wal-Mart is presently capable of competing in a wide-ranging market. Wal-Mart operates throughout the world in various segments including super centers, neighborhood markets, discount stores, and the Wal-Mart website. Wal-Mart's net sales for the 2010 fiscal year were approximately \$405 billion, a 1% increase from 2009 (Walmart Annual Report, 2010, p. 15). Wal-Mart also experienced 5. % increase in operating profit from \$22, 798 million in 2009 to \$23, 950 million in 2010 (Walmart Annual Report, 2010, p. 15). Further, net profits increased from 7% from \$13, 400 million in 2009 to \$14, 335 million in 2010 (Walmart Annual report, 2010, p. 30). Wal-Mart's reputation for low prices, product variety, and convenience has enabled the company to grow significantly and expand globally. Wal-Mart has capitalized on its strengths to increase successes. According to Pearce & Robinson (2009) Wal-Mart redefined discount retailing and outperformed the industry in profitability by 4. % of sales—a 200%

improvement. Four resources—store locations, brand recognition, employee loyalty, and sophisticated inbound logistics—allowed Wal-Mart to fulfill customer needs much better and more cost effectively than Kmart and other discount retailers (p. 173). Wal-Mart has set the precedent for retailing through its innovative logistics, distribution, and online sales capabilities. Although the financial reports illustrate much strength for the company, weaknesses are prevalent within the corporation as well. Wal-Mart experiences the most difficulty in expanding into market areas.

Many small towns throughout the United States deny Wal-Mart from penetrating the local market because of the economic affects Wal-Mart is known for. Many small businesses are forced to close because of the inability to compete with Wal-Mart's pricing. Wal-Mart appears to have a capable organizational structure; although some flaws are prevalent that create challenges for the company. Offering the lowest prices and meeting customer needs is a goal Wal-Mart is successful in maintaining. However, reducing costs has created a conflict within the organization's culture.

Cutting costs has helped meet customer needs but only at the apparent expense of the employees. The savings consumers receive are gained by cutting corners with employee compensation and benefit programs.

Inadequate wages and forcing employees to work without pay, has affected employees negatively and poor customer service is a result. This practice has caused employees to lose respect for the company and that attitude has transpired to the customer. Forcing employees to work off the clock is unjust and detrimental to the company's culture and consumer needs.

These issues have created a negative image of Wal-Mart and a major reason the company experiences difficulty in penetrating new markets. Further, legal issues are viewed poorly by the public and reduce continuity. External Business Market: Wal-Mart's Continuity Plan Creating a strategic business continuity plan includes analyzing possible risks. Important factors to consider when developing a continuity plan are employees, equipment, and data. In the event of a disaster, the company must be prepared to continue operations. Therefore, employees, equipment, and data are required. ...a firm's external environment is divided into three major areas: the general, industry, and competitor environments" (Hitt, Ireland, & Hoskisson, 2009, p. 35). External influences can be composed of " demographic, economic, political/legal, sociocultural, technological, and global" (Hitt, Ireland, & Hoskisson, 2009, p. 35). Wal-Mart experiences immense competition because of the organization's product variety. Regardless of Wal-Mart's market strength, Hitt, Ireland, & Hoskisson (2009) state: Wal-Mart faces substantial competitive rivalry as Target, Costco, Kroger, Safeway, Walgreens, CVS, and Best Buy are beginning to increase their sales and market shares. However, Wal-Mart's market power cannot be ignored. The greater a firm's capacity to favorably influence its industry environment, the greater the likelihood that the firm will earn above-average returns (p. 36). Different types of industries may need to maintain different elements to guarantee they continue to operate in the event a disaster occurs. An organization must assess and establish vital operating functions and prepare to use these functions to ensure the business can operate in the event of a disaster.

Wal-Mart's strategic business continuity plan is affected by competitors and the external business market. Wal-Mart must recurrently evaluate its continuity plan and adjust for alterations internally and externally. General, Industry, and Competitor Environments Although competition is fierce, Wal-Mart benefits from success. Discount pricing and distribution capabilities differentiate Wal-Mart from its competitors. Hitt, Ireland, & Hoskisson (2009) state: ...rivalry between Wal-Mart and many of its competitors is intense. In fact, competitors have been making inroads into Wal-Mart's market share.

Same-store sales by many of its competitors—Target, Costco, Kroger, Safeway, Walgreen's, CVS, and Best Buy—are growing two to five times faster than sales at existing Wal-Mart stores (p. 53). Public opinion in some areas has expressed distain of Wal-Mart because of its ability to drive small businesses out of the market forcing closure for local retailers. Both metropolitan areas and small towns, residents feel intimidated by Wal-Mart's presence. The retail stores are expanding into residential neighborhoods and residents are daunted with a large retail business in such proximity.

The issue the residents hold is the lack of voice they possess in protesting the expansion. Wal-Mart possesses so much market strength, and affects many aspects of the economy that the corporate giant can persuade many local governments to allow entrance. Small town communities are disconcerted with Wal-Mart's presence as well. The emergence of the large store brings negative affects to the community. Small, community-based businesses do not possess the means to compete with the retail giant.

Therefore, the small companies simply shut down and cannot fight Wal-Mart.

Some businesses attempt to persuade residents to support local business, but the low pricing and product variety proves too much to ensure prosperity. Gathering Competitor Intelligence: Business Ethics Gathering competitor intelligence and practicing business ethics often cross gray areas at times. Ethics are crucial to competitor intelligence gathering. Members of competition have searched through the opposition's trash to gain industry knowledge. Further, some companies have resorted to illegal acts, such as larceny, to obtain information.

Ethics are crucial because some acts may be legal but immoral. Disguising people as employees and searching through trash may be legal but are immoral. Hitt, Ireland, & Hoskisson (2009) state: How companies gather and interpret information about their competitors is called competitor analysis. Understanding the firm's competitor environment complements the insights provided by studying the general and industry environments. Understanding its competitor environment will continue to affect the outcomes Wal-Mart and its competitors achieve as they engage in marketplace competition (p. 6). Regardless of competition, Wal-Mart has found immense success in the retail industry. Wal-Mart is a world renowned brand name. In March 2003, Fortune ranked it as " America's most admired and the world's largest company" (Useem, Schlosser, & Kim, 2003, para. 8). With 1. 4 million employees and \$245 billion in sales, Wal-Mart had become the world's largest private employer. Wal-Mart increasingly has expanded nationally and internationally throughout recent years. " Since the 1990s, Wal-Mart grew from 14 stores in 1994 to over 1288 stores internationally by 2003" (History, 2010, p.). Wal-Mart capitalizes on its core competencies including its

employment of information technology to maintain international logistics systems. Wal-Mart gains core competencies by promoting knowledgeable people from within and externally. David Glass was one person hired who advocated the need for investing in information technology. Following Glass' advice, Wal-Mart has become one of the industry's leaders in information technology transforming inventory counting to virtually real time. Human resources management and development possess a focused strategy. As mentioned, Sam Walton desired to learn and he realized the importance of budget control. Walton instituted an open door policy and the ability to contact him at home anytime. He controlled compensation at all times for any employment level. As part of Wal-Mart's diversity, the company is a leader in the grocery industry as well. Controlling this company's extensive domain is a challenge. The organization had centralization issues and had not established regional head quarters in the U. S. regional vice presidents had to commute from the national headquarters to their regions on a weekly basis. This was costly for the company, consuming 2-3% savings of sales. The regional vice presidents currently portray Sam Walton of the past; however, managing 1.3 million workers is more complicated. Wal-Mart is multifaceted and sells products from many segments of retail (e. g. groceries, home improvement, or electronics). Hard goods, such as appliances, automotive, and home improvement have produced more sales per square foot than soft goods, such as clothing.

However, the most growth recently has developed from the grocery segment. These revenues have increased as the Wal-Mart Supercenters have grown. Although the company stocks a wide variety of goods, concentration

on specific items for different geographical areas became important. This multifarious task was delegated to managers and assisted by the organization's innovative database mining processes. Conclusion In summation, as one of the most recognizable retailers, Wal-Mart has embraced its external environment and exploited opportunities the organization has created.

Wal-Mart has remained an icon in the retail industry because of its influence on the external environment. "The greater a firm's capacity to favorably influence its industry environment, the greater the likelihood that the firm will earn above-average returns" (Hitt, Ireland, & Hoskisson, 2009, p. 36). The company's purpose to "save people money so they can live better" (Corporate, 2010, p. 1), has proven successful and the company continues to be a world leader in retail. Although Wal-Mart experiences weaknesses, its strengths overpower and result in rewards.

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