

Strategic analysis of walmarts advantages in its environment



Strategic Analysis is to analyse Walmart macro-environmental and micro-environmental. The analysis methods use such as PESTLE Analysis, Porter's 5 Forces Analysis, SWOT Analysis and Competitive Advantage to analyse the corporate business environment.

PESTLE Analysis

PESTLE is the structure to investigate the volatile business environments in which Walmart operates by discovering the forces that effecting the corporate operation.

Political and Legislations Environment

As Walmart operates in the global scale; the performances of the corporate are influenced by the political and statutory law of the country invested. For instance, the employment statutory laws of a country are to ensure investors provide varieties of jobs to its population at large from flexible, locally based low paid jobs to centrally located high pay jobs (Balchin, 1994). Besides that, the 'go global strategies' has its impacts on the local retails market when a giant company such as Walmart penetrate into the country - it causes local retails shutting down due to incompetent to compete in term of its predatory pricing policy (Basker, 2007). The author indictment that Walmart paying low salary to its employees; to protect its competitiveness in its retails market but it leading to high turnover rate of its employees.

Economical Environment

For the past four years, the 'world facing global economic crisis which leading to high unemployment, increases of fuel prices, and losing consumer confidence'[1]. However, the crises assist Walmart to sustain its retail

businesses even though the fuel price escalating above US\$ 100/barrel because consumers becoming price conscious on seeking products value for money.

The strategic uses by Walmart Canada: “ 1. sharing the truckloads with the suppliers to ensure all fully loaded, 2. switching manual stocking shelves to automatic tilted shelves which will deliver next item to the front, and 3. lowering the lighting and increasing the roof insulation”, (The Star, 2008), as to reduce its operating costs.

Socio-Cultural Environment

As Walmart go globalise, the corporate has to adapt the changes of social and cultural differences because it can easily affect employees' morale in workplace and consumer experiences. Based WPP (2008), Americanisation is not easy to establish in foreign countries because of the heterogeneity of perception, language, cultural and needs especially in European, Asia-Pacific and Africa (Sorrell, 2008).

Environment and technological Environment

Environmental and technological plays a significant part in the Walmart products/services developments because it improves customer satisfaction and perception in their shopping experience and observation. Besides that Walmart is one of the fastest retailer to adopt latest technology in their business operation. For example: radio frequency identification technology (RFIT) which reduces its out-of-stock goods with this technology (Wilbert, 2006) and using thin film solar technology to boost its renewable energy uses which could produce up to 22. 5 million kilowatts hours of clean energy

annually (Walmart Stores Web Site, 2010). Besides that, Walmart adopt eco-friendly products such recycle bottle, shirt made of transitional cotton and sustainable coffees (Walmart, 2008).

Porter's 5 Forces Analysis

In order for Walmart to find an effective source competitive advantage; the Porter's five forces analysis is uses to analyse its market environment – to sustain and develop its customer foundation and ensure a profit (Collins, 2010).

Threat of substitute goods and services

Threat of substitution in supermarket/grocery store is lower on foodstuffs but moderate to high on non-foodstuffs. In food retailing industry the main concern is the convenience store and the greengrocers which easily substituted by the consumers. However, it does not position a direct threat to Walmart because their market size relatively smaller and compare to Walmart they are no match in term of the corporate ' cost leadership generic strategy' and its ' predatory pricing' of everyday low price which make difficult for a small retail chain to compete (Hayden et al., 2002).

Nonetheless, Walmart is always looking for economical substitutes on the market and to retain its loyal customers.

Threat of entry of new competitors

In supermarket/grocery stores threat of entry is minimise as it required a lump sum amount of money to build up brand name and competitiveness. However, the renowned leading food retailers have already secured its brand name globally such as ' Tesco, Carrefour, Aeon, etc'[2]. Besides that, in order

Walmart to set up a new supermarket it required extensive time and resources before the proposal authorised by the government. In addition, government protectionism[3] on local goods, suppliers and retails industry might create unforeseeable threat of entry into new market.

Intensity of competitive rivalry

Rivalry in supermarket/grocery stores is commonly high due to direct competition against local supermarket, multinational supermarket such as Tesco, Carrefour, Aeon, etc. These retailers will compete against pricing, products, promotions and expansion of its stores occasionally (Duff, 2010). During post global recession 2010, Walmart profit boost 3.6 percent during second quarter from its cost cutting and strong global market growth in China, Brazil and Mexico (D'Innocenzio, 2010). In additional, the reason Walmart growth is due its emphasis on foodstuffs which helps the corporate survive during recession period compare to others retailers which more emphasis on non-foodstuffs products - suffer loses (Gregory, 2009).

Bargaining power of buyers

The buyer power is moderately high because goods especially the foodstuff in the retails can be easily substituted with other brand name since the switching cost is relatively lower. Besides that, most customers are price conscious which easily draw away by low prices since price can be easily compared and determined before purchase is done (Gregory, 2009).

Bargaining power of suppliers

The supplier's power is quite low because suppliers are always concern of losing its contract with giant retailers such as Walmart. Besides that,

Walmart easily obtain lowest goods price from the suppliers since Walmart is the leader in retail industry (Chandran, 2003).

SWOT Analysis

SWOT analysis illustrates Walmart corporate strengths, weaknesses, opportunities and threats

Strengths

Competent supplier chain management practices. To ensure Walmart products price remain competitive; Walmart carry out few techniques to lower its products costs as shown below.

Obtaining goods directly from the producers; to reduce intermediaries' costs.

Owning private transportation system; to reduce transportation costs.

Practicing cross docking technique where goods obtained from producers delivered directly to customers and by this the corporate could reduce the handling, operating and storage costs.

Providing the latest IT and communications systems; to ensure effectiveness of tracking sales and stocks besides that it helps the corporate to reduce unproductive stocks.

(Chandran, 2003)

Predatory Pricing. Walmart goals are to ensure all goods remain lower pricing. According to ICMR (2004) mentioned that Walmart goods is 20 percent lower compared to its competitors. Besides that, the corporate

manage to boost its price-conscious customers loyalty based its pricing strategy

Weaknesses

Unable to adapt to different countries. Walmart penetration into China and Germany is a failure as the corporate incapable to recognise the macro-environmental differences in those countries.

Walmart China[4]

Walmart is facing difficulty in market protectionism and its regionalism governmental across China. Besides that, the government is also eyeing and controlling foreign retailer's movement- to ensure Chinese goods are being sold in the market, and cause Walmart unable to monopolise its supply chain and business prospect - leading to higher operating costs (Huffman, 2003).

Walmart Germany[5]6

Walmart failed to comprehend with the local culture as the CEO (Rob Tiarks) ignore to learn German language and make English as official language in the management level (Knorr & Arndt, 2003); Its action has offended their Germans employees which shows that the corporate are lacking of management skills and intercultural competence in foreign countries.

High law suits against the company. According to Knorr & Arndt (2003) remarks said that Walmart Germany has against the Germany laws and regulations by disclosing financial information, predatory pricing by selling below its cost price and failed to show shareholders its business activities. It

is a serious matter where Walmart ignoring the key principles of its globalisational strategies.

Opportunities

Unemployment could be reduced as Walmart expanding its market. It will help to reduce unemployment rate and provides over 22, 000 jobs locally and internationally (Walmart, 2009).

Increase in consumer purchasing. Walmart as ' Everyday Low Price' retailer could attract lower and middle income families for its cheaper goods price especially in developing countries in Asia, Latin America, Eastern Europe, and Africa.

Threats

Walmart facing bad publicity of their stagnant salary which never increases even though the corporate is earn profit. Based on UFCW statements saying that the salary paid unable to sustain a family, and besides that the organisation challenge Walmart of their worker rights, equal opportunities and corporate responsibility (UFCW Web Site, 2009)

The competitor's threats facing by Walmart is Kmart, Target, Home Depot, Kroger, Aeon, etc.

Competitive Advantages

Based ICMR (2003)[7], Walmart has the most outstanding supply chain management with the use of the latest IT and communications system; e. g. barcode and RFIT to track sales and stocks inventories. Secondly, Walmart enjoy the benefits of low transportation costs as the corporate own the

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transportation system; to reduce costs. Thirdly, Walmart benefits from its bargaining power in buying large quantity of goods; to ensure the price remain competitiveness where the corporate can provide higher discounts to its customers'. Lastly, the uses of the cross-docking system which is focus on the demand chain where goods only deliver upon customer request e. g. Walmart E-tailing (Chandran, 2003).

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