MHE-FTR-045
1259927628
REV: MARCH 18, 2017

TEACHING NOTE

Walmart

Case Overview

The case describes recent changes CEO Doug McMillon made to address the competitive threat of e-commerce to Walmart, including the closing of stores (for the first time in its history) and the $3.3 billion acquisition of Jet.com. The case reviews the history of Walmart and its historical core competence of being a low-cost provider. Walmart's top leadership team is introduced; and the majority family ownership of the almost $500 billion company in terms of revenues is highlighted. The case then describes Walmart's competition and details current competitive challenges including online retail, international expansion, and wage pressures in its domestic market.

An evaluation of Walmart suggests it needs to continue to dominate physical retail as it adapts to e-commerce. This likely requires international expansion to maintain economies of scale, purchasing power, and establish consumer relationships in new markets. However, Walmart cannot ignore that it is at a price disadvantage online because of its stores, and it needs to add value to retain customers. Adding convenience by bundling its retail operations with things that cannot be bought online (e.g., gas, haircuts, nail salon) with convenience of online ordering and dedicated curbside pick-up (hybrid retail model) are steps it can begin to take in shifting to an e-commerce world.

Key Concepts

- Intended and emergent strategy
- International strategy
- Core competencies
- Core rigidities
- Competitive advantage
- Diversification
    - Geographic
    - Online

Professors Frank T. Rothaermel and David R. King prepared this case from public sources. The authors gratefully acknowledge Tapa Sitaula for research assistance. This case is developed for the purpose of class discussion. This case is not intended to be used for any kind of endorsement, source of data, or depiction of efficient or inefficient management. All opinions expressed, and all errors and omissions, are entirely the authors.

- Firm growth
- Family-controlled business
- Value chain
- VRIO analysis
- Implementation of strategic initiatives

Suggested Discussion Questions

1. Consider the history of Walmart. Is Walmart's success best described as an intended or emergent strategy?

2. **Evaluate changes in Walmart's general environment (e.g., PESTEL analysis) to identify trends that represent both opportunities and challenges. What trends are the most important for Walmart's future?**

3. **Evaluate the competitive forces for the retail industry to identify the forces controlling its profitability (e.g., five forces analysis). Is Walmart positioned for long-term profitability? What changes can Walmart make to increase its competitiveness?**

4. **Evaluate characteristics of Walmart and its resources to identify whether it has a competitive advantage (e.g., VRIO analysis). How sustainable is Walmart's competitive advantage? How transferable are Walmart's advantages to new markets?**

5. **Compare the cost structure and value chain activities of Walmart and Amazon. What are the implications for how Walmart has traditionally competed and how it will compete in the future?**

6. **Evaluate Walmart's international expansion to where it has done well and where it struggled. What characteristics does it have in common, or what can help explain the differences?**

Suggested Answers

1. Consider the history of Walmart. Is Walmart's success best described as an intended or emergent strategy?

Walmart evolved from its initial discount stores in 1962 to a global behemoth today, and several events including the closure of Sam Walton's first Ben Franklin store suggest an emergent strategy. After founding the first store in 1962, Walmart focused on entering small towns. This enabled Walmart to use its buying power from operating multiple stores to offer lower prices than existing mom-and-pop

stores. This often led to other local stores closing and the small market prevented new competitors from entering. Once Walmart was established regionally, it used its growing buying power and investments in warehouses and information technology to expand and compete against established retailers in larger cities. The consistent focus by Sam Walton to offer low prices likely represents an intended strategy, as he set a policy early to check competitor prices and undercut them to gain market share.

2. **Evaluate changes in Walmart's general environment (e.g., PESTEL analysis) to identify trends that represent both opportunities and challenges. What trends are the most important for Walmart's future?**

Information in the case relates to important changes in Walmart's general environment. See **Exhibit TN-1**.

In **Exhibit TN-2**, different trends are summarized in the format of PESTEL analysis to identify opportunities and threats.

There is not a clear ecological concern that falls as an opportunity or a threat. Walmart operates a system of stores and warehouses that are organized for efficiency, but have a large footprint. Walmart has already taken steps to minimize the impact of their stores and driven changes in their supply chain.

In considering the most important trends for Walmart, they likely reflect technological and sociocultural trends driving changes in people's shopping habits to increasingly involving e-commerce. Further, trends suggest Millennials make a majority of their purchases online and with mobile phones.

3. **Evaluate the competitive forces for the retail industry to identify the forces controlling its profitability (e.g., Five Forces analysis). Is Walmart positioned for long-term profitability? What changes can Walmart make to increase its competitiveness?**

A firm's industry environment is evaluated with Porter's Five Forces analysis, shown in **Exhibit TN-3**.

The below summary provides the main ideas from an analysis related to Five Forces.

Buyer Power: Individual buyer power from the standpoint of order size and threat of backward integration is low. However, buyer switching costs are low and price comparison apps (including Walmart's) give buyers price information. In the past, Walmart has depended on convenience and overall low prices to retain customers based on location advantages that are eroded by e-commerce.

Threat of Substitutes: Walmart sells a mix of branded products and store brands, such as "Great Value" and "Equate", or it limits the threat of substitute products by offering customers a substitute for branded products. While other store brands and price comparison apps serve as substitutes, it has to be balanced with the convenience of getting shopping done in one location at the same time.

Threat of Entrants: Traditionally, Walmart has limited the threat of entry through its presence in smaller towns that could not support multiple retailers and its system of stores and warehouses providing economies of scale that would require significant capital investment to duplicate. However, its customers are price sensitive and display low switching costs. This has made Walmart vulnerable to e-commerce and Amazon.

Supplier Power: A historical advantage is Walmart's power over suppliers, as it is the largest retail outlet. For example, ~15 percent of P&G's revenue comes from Walmart. Additionally, suppliers increasingly have other customers, such as Amazon that have buying power.

Industry Attractiveness/Rivalry: The attractiveness of the consumer retail market is relatively low as Walmart has a profit margin of ~3 percent. This reflects that the level of rivalry in consumer retail is high. As already mentioned, consumers have low switching costs and Walmart's investment in stores and its warehouse network ($154 billion in capital) represent an exit barrier.

Overall, the industry environment suggests Walmart may not be set up for long-term profitability, and it needs to evaluate its competitive advantage.

4. Evaluate characteristics of Walmart and its resources to identify whether it has a competitive advantage (e.g., VRIO analysis). How sustainable is Walmart's competitive advantage? How transferable are Walmart's advantages to new markets?

Competitive advantage can be evaluated using VRIO analysis. Historically, Walmart has had a cost advantage by integrating its retail stores with warehouses and IT systems with suppliers. A VRIO analysis can outline the combination of stores, warehouses and IT integration with suppliers does combine to offer a sustainable competitive advantage, but only for Walmart's system of physical stores (see **Exhibit TN-4**).

However, e-commerce has removed portions of the value chain by eliminating the need for physical stores for customer purchases. Further, people are increasingly shopping online and this is increasingly true for the growing demographic of Millennial consumers. When considering Walmart.com, a VRIO analysis would suggest competitive parity; however, this does not consider that online retailers have a cost advantage from not having stores. The combined implication is that Walmart likely has a temporary competitive advantage with its physical stores and it is at a competitive disadvantage (based on cost) for online retail. The overall implication is that Walmart is less capable to compete on price because its store footprint will mean its cost structure is higher than e-commerce retailers. This contributed to the acquisition of Jet.com, a company with customers but less purchasing power.

In considering transferability of Walmart's capabilities, its advantage for physical stores can be expanded internationally. However, Walmart has mixed success in duplicating its Everyday Low Price (EDLP) model overseas, and its system of physical stores may be a disadvantage in transferring its skills to e-commerce. As a result, Walmart acquired Jet.com and made Marc Lore CEO of e-commerce, and in 2016 Walmart was able to grow sales both in its traditional stores and online.

5. Compare the cost structure and value chain activities of Walmart and Amazon. What are the implications for how Walmart has traditionally competed and how it will compete in the future?

Walmart is facing significant challenges as its prior advantage in providing low cost is being threatened by is capital investment in stores when more and more shopping is moving online. Confronting this challenge likely requires a dual focus on costs that is consistent with its history, and adding customer value that may be less consistent with its history. Options for each can be assessed using Value

Chain analysis to identify opportunities to lower costs and differentiation to add value. See **Exhibit TN-5** for a value chain cost analysis.

Examples of how Walmart can lower its costs include:

- Aggressively close unprofitable stores
- Consolidate warehouse system
- Offer partial load shipping service to better utilize trucks
- Continue to pressure suppliers to reduce costs
- Expand internationally
- Expand private label products

See **Exhibit TN-6** for a value chain differentiation analysis.

Examples of how Walmart can add value include:

- Focus on things people buy in person and bundle them to continue the appeal of Walmart as a "one-stop shop". For example, in consumer goods food and alcohol, as well as furniture remain items that are typically purchased in a store. There are also things that cannot be bought online (yet), such as:
    - Gas
    - Haircuts
- Online order & Curbside pick-up
- Increase customer loyalty
    - Promote own credit card
    - Walmart apps
- Shipping: Free for online order and in-store pick-up; membership like Prime

6. Evaluate Walmart's international expansion to where it has done well and where it struggled. What characteristics does it have in common, or what can help explain the differences?

This question provides an opportunity to apply the CAGE Distance Framework to evaluate current and potential international markets (see **Exhibit TN-7**).

DONE WELL

Canada. Walmart has successfully expanded into Canada where consumers were similar to the U.S. Walmart's entry into Canada was aided by an acquisition of Woolco stores that gave it economies of scale and employees with local experience.

Mexico. Walmart's experience in Mexico has been successful following an initial joint venture with Cifra, but it has had to adapt its approach with a smaller store format.

STRUGGLED

Brazil. Walmart has struggled in Brazil where there are many cultural differences and it apparently did not learn from the need to adapt stores to Mexico. Walmart also faced stronger competition in Brazil from Carrefour and was impacted by the fall in global commodity prices that led to a recession that hit Brazil's middle class. Walmart has also struggled with Brazil's tax system.

China. Walmart initially strayed from its traditional everyday low price model to try and target China's emerging middle class with more upscale goods. While it has shifted back to a EDLP, Chinese customers were used to buying in smaller quantities in more trips, and the government banned free plastic bags.

Note: Walmart's entry into **India** is too recent to be able to judge its success. As of 2017, Walmart only had 28 stores, and India's population is over 1.3 billion people. Meanwhile, Walmart has 4,177 stores for 321 million people in the United States.

COMMON CHARACTERISTIC

Walmart has been more successful moving into markets that were closer culturally and geographically to its home operations in the U.S. Walmart was also more successful when it leveraged local experience through a joint venture (Mexico) or acquisition (Canada). Meanwhile, it has struggled when it has entered markets more different from the U.S. (Brazil/China) and where there were already established competitors (Brazil).

Walmart's problems in Brazil and China come from a liability of foreignness, or unfamiliarity with cultural and economic environments that are further away from the U.S. While closer to the U.S., Walmart still benefited from working with local firms (Canada/Mexico) (see **Exhibit TN-8**).

Additional Resources

1. Articles

- International Monetary Fund global growth projections: http://www.imf.org/external/pubs/ft/weo/2016/update/01/
- Millennials purchasing habits: http://www.businessinsider.com/most-of-millennials-purchases-take-place-online-2016-6
- Dobbs (2014) provides a useful template for discussing Porter's 5 forces, see: http://www.emeraldinsight.com/doi/full/10.1108/CR-06-2013-0059.
- In 2016, Walmart took back management of its gas stations: (http://www.usatoday.com/story/money/2016/02/04/walmart-to-operate-own-gas-stations-going-forward/79809480/)
- Amazon expansion into private-label consumer brands: https://www.wsj.com/articles/amazon-to-expand-private-label-offeringsfrom-food-to-diapers-1463346316

- Walmart and P&G relationship strained: https://www.wsj.com/articles/wal-mart-and-p-g-a-10-billion-marriage-under-strain-1465948431
- Walmart competitors gain buying power: http://seekingalpha.com/article/2786485-wal-marts-real-problem-competitors-can-match-its-buying-power
- Walmart enters new price war: https://www.thestreet.com/story/14017336/1/walmart-takes-a-hatchet-to-its-grocery-prices-as-it-declares-war-on-aldi-and-kroger.html

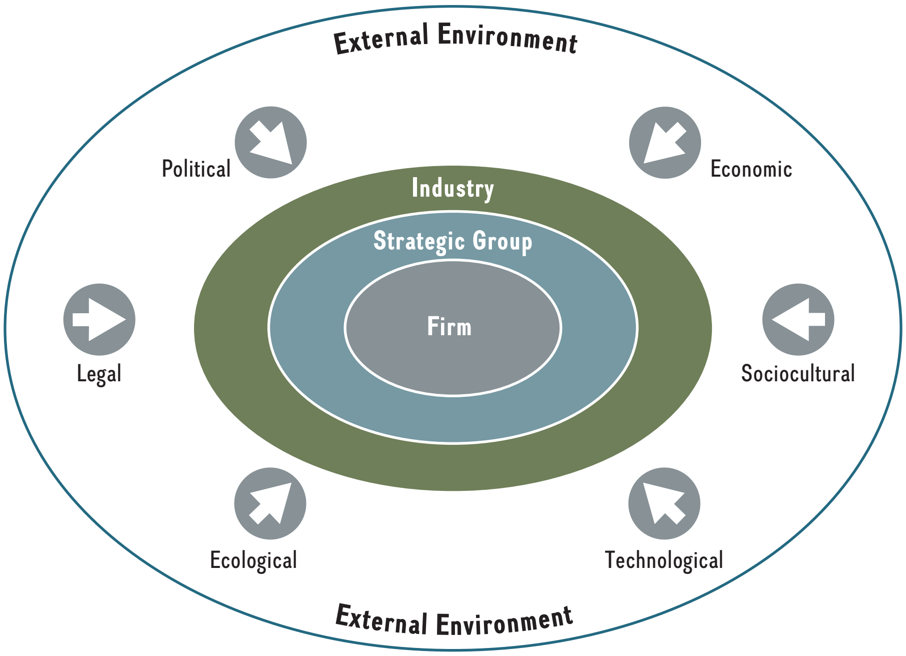
2. Videos

- Walmart advertisement showing savings: https://www.youtube.com/watch?v=D5DLhZROoCU
- Walmart YouTube channel: https://www.youtube.com/user/WalmartCorporate
    - Company history: https://www.youtube.com/watch?v=D5xKm8tf9Ks&list=PL88162F88E2C69AB5 (9:50 min)
    - Sam's Club timeline: https://www.youtube.com/watch?v=v_CaWD1r8d0&index=3&list=PL88162F88E2C69AB5 (2:15 min)
    - America Jobs: https://www.youtube.com/watch?v=-pQzkh0L-cM&feature=youtu.be (2:12 min)

3. Websites

- Walmart
    - Smartphone payment: https://www.walmart.com/cp/3205993
    - Sustainability: http://corporate.walmart.com/global-responsibility/sustainability/
- Smart Style hair salons are often located in Walmart stores, see: https://www.smartstyle.com/.
- Walmart credit card: https://www.walmart.com/cp/walmart-credit-card/632402
- P&G SEC filing listing Walmart as a key customer: https://www.sec.gov/Archives/edgar/data/80424/000008042413000063/fy201310kannualreport.htm

EXHIBIT TN-1 The Firm Within Its External Environment, Industry and Strategic Group, Subject to PESTEL Factors



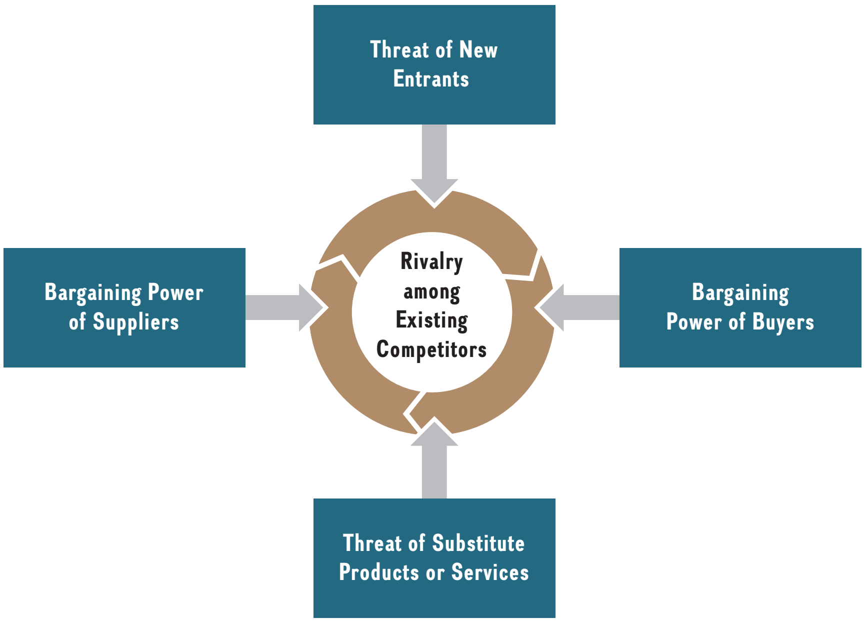
Source: Rothaermel, F.T. (2018), Strategic Management, 4th edition. Burr Ridge, IL: McGraw-Hill.

EXHIBIT TN-2 PESTEL Analysis of Walmart's General Environment

Trend	Opportunity	Threat
Political	American jobs, as largest private employer	Congressional report on taxpayer subsidization of low Walmart wages
Economic	Economic growth across developed and emerging markets	Globalization and contact with new competitors (Carrefour SA in France; Metro AG in Germany, Tesco in UK, etc.)
Sociocultural	Shift from Baby Boomers to Millennial generation as major customer group	• Growth in e-commerce • Negative social media
Technological	• Mobile phone (payment) • Customer data and personalization	• Mobile phones (price comparison) • Virtual assistants (i.e., Siri; Alexa)
Ecological	See below	See below
Legal	2012 change allowing for foreign investment in India	Changes in minimum wage laws

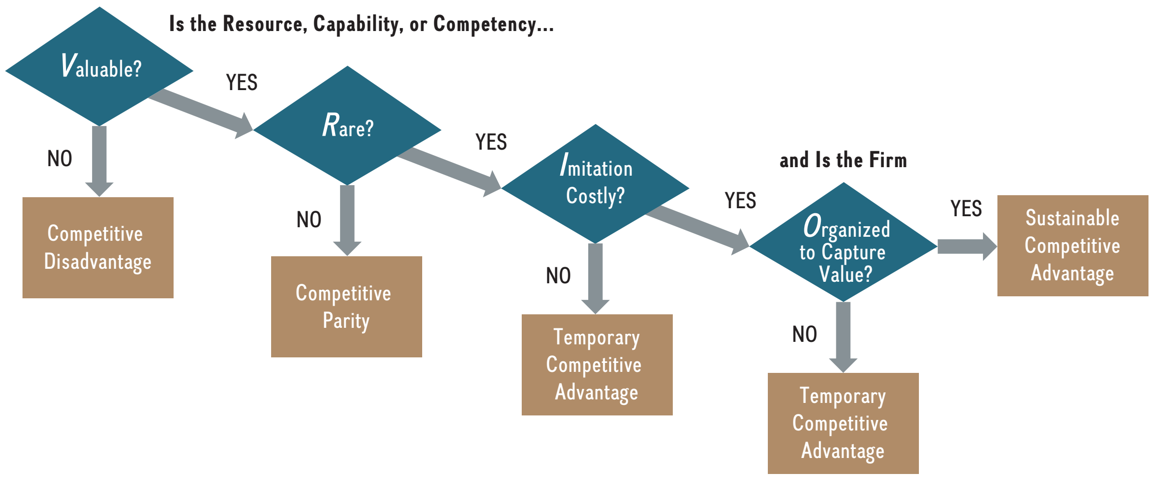
Source: Courtesy of F.T. Rothaermel.

EXHIBIT TN-3 Porter's Five Forces Model



Source: Rothaermel, F.T. (2018), Strategic Management, 4th edition. Burr Ridge, IL: McGraw-Hill.

EXHIBIT TN-4 Applying the Resource-Based View: A Decision Tree Revealing Competitive Implications



Source: Rothaermel, F.T. (2018), Strategic Management, 4th edition. Burr Ridge, IL: McGraw-Hill.

EXHIBIT TN-5 Value Chain Analysis to Identify Opportunities to Lower Costs to Add Value

Element	Cost Driver
Infrastructure	Depreciation
Human Resources	Turnover
Technology Development	Productivity, frequency of new models
Procurement/Logistics	Order sizes, supplier location and power
Operations	Batch size, capacity utilization, scale, predictability of sales
Marketing	Advertising budget, reputation, sales volume
Service	Frequency of defects, warranty

Source: Courtesy of F.T. Rothaermel.

EXHIBIT TN-6 Value Chain Analysis to Identify Opportunities to Lower Differentiation to Add Value

Value Chain Differentiation Analysis
• Identify drivers of uniqueness
• Locate key linkages between firm and customer
• Select Value chain linkages where can add value
- Distinctive design
- High quality
- Frequent deliveries
- Fast order processing
- Technical support

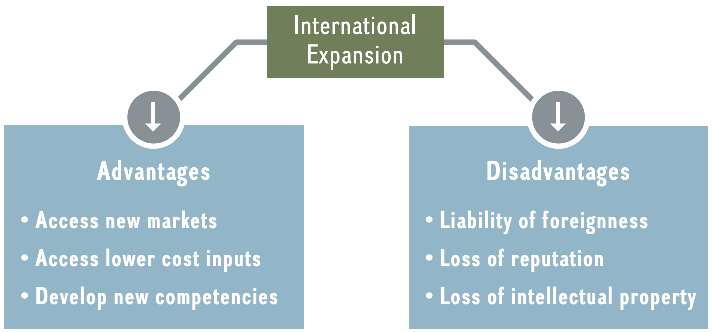
Source: Courtesy of F.T. Rothaermel.

EXHIBIT TN-7 The CAGE Distance Framework

Distance	C Cultural	A Administrative and Political	G Geographic	E Economic
between two countries increases with...	• Different languages, ethnicities, religions, social norms, and dispositions • Lack of connective ethnic or social networks • Lack of trust and mutual respect	• Absence of trading bloc • Absence of shared currency, monetary or political association • Absence of colonial ties • Political hostilities • Weak legal and financial institutions	• Lack of common border, waterway access, adequate transportation, or communication links • Physical remoteness • Different climates and time zones	• Different consumer incomes • Different costs and quality of natural, financial, and human resources • Different information or knowledge
most affects industries or products...	• With high linguistic content (TV) • Related to national and/or religious identity (foods) • Carrying country-specific quality associations (wines)	• That a foreign government views as staples (electricity), as building national reputations (aerospace), or as vital to national security (telecommunications)	• With low value-to-weight ratio (cement) • That are fragile or perishable (glass, meats) • In which communications are vital (financial services)	• For which demand varies by income (cars) • In which labor and other cost differences matter (textiles)

Source: Rothaermel, F.T. (2018), Strategic Management, 4th edition. Burr Ridge, IL: McGraw-Hill.

EXHIBIT TN-8 Advantages and Disadvantages of Walmart's International Expansion



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