

# Walmart's Business Strategy: A case study of cost leadership and technological innovation

Business

## The Business Strategy of Walmart – A Case study

Introduction:

Walmart has continued to retain the top position on the Fortune 500 list for a consecutive fifth year. The brand has continued to grow based on its everyday low prices strategy and has taken fast advances into the digital market. The brand that started as a small discount retailer in Rogers, Ark in 1945 has spread through US and to several other parts of the globe. It is investing heavily in technology so its customers can shop from anywhere anytime. It is in a bid to win market share away from its rivals Amazon, Target and Costco. While its Sam's club has kept struggling with Costco, the earlier investments that the brand made in groceries seem to have started paying off.

At the core of Walmart's business model is price leadership. The brand has led the US retail market through its lowest prices. Today, it operates more than 11000 physical stores in 28 countries and has ecommerce websites in more than 11 countries. The focus of Walmart is now on creating a seamless experience for its customers whether they are shopping from their mobiles or in the stores. The brand employs [around 2.3 million workers](#) whom it calls associates. 1.5 million of them are working in US. This is a discussion of the business strategy that Walmart has adopted and the kind of wins the brand has registered with its help.

### **Everyday Low prices**

The cornerstone of Walmart's business strategy is its everyday low prices. The brand sells a very large range of products and its focus always remains on providing the least prices. The millennial customers are interested in three things. They are convenience, low prices and product quality. From grocery and entertainment to all kinds of products, Walmart provides a large assortment of products. The strategy is to attract the customers with low prices and keep them engaged with discounts and shopping convenience. Its low prices strategy is a real winner and the reason is that most Americas are obsessed with low prices and many of them will not shop unless there is a discount or sale attached. The millenials customers are even more addicted to lower costs and shopping convenience. They would like to shop at their own terms and would not shop unless there is a big discount label attached to the product like 50 or 70%, they would not buy the product. With time, Walmart's obsession with low prices has grown deeper. Now, Walmart is looking for more growth and a larger share of the retail pie. For that it is ready to eat into others' share

using every strategy possible. However, the way it has managed to keep its prices the lowest is the biggest challenge before its competitors. In 2017, it has invested even more into lowering its prices and that has also helped it generate better revenue, [more than \\$485 billion](#). It reduced prices on key items in select markets. Consumers have grown addicted to lower prices and the retailers offering least prices have seen block buster growth. All these factors have resulted in price deflation and further drop in prices across the retail industry seems inevitable. Overall, the level of competition is going to be tougher and since some non US brands have also entered the industry with low cost offerings, there is bound to be more competition. Walmart is in the lead position and it has grown even bullish about prices and sales.

Walmart has decided to fight not only on the basis of prices but to get an even bigger share of the pie, it will also focus more on customer convenience. It is why it has raised the bar for operations and customer service across its stores. Among the other several things that have helped Walmart carry out its business strategy is also its reputation for being the most customer friendly brand. The question is – “what are the most important factors that have kept driving Walmart’s growth”.

## **Four Important factors driving growth of Walmart**

Investopedia notes four factors that have driven the growth of the Walmart’s modern retail model. While the philosophy is still the same that was there since the foundation of the brand, the retail giant has kept modernizing its operations whose role in the efficient model of Walmart has grown bigger with time.

- Large sales volume made possible by a large customer base and scale of operation.
  - A highly efficient supply chain system that maximizes productivity and reduces outlays.
  - Low operational and overhead costs
  - Use of bargaining power to grab the least prices from the suppliers (a very important strength for a large scale retailer that plays the most important role in its price advantage).
1. **Large sales volume:** The largest retailer of the world has grabbed the largest market share based on its pricing model. There are two more things about it. They are its widespread operation and a large array of products. These things mean a double deep penetration into the retail market. Out of its more than 11000 stores, 4600 are there in the US. If customers can find almost everything at your store, and that too at the lowest prices and with the same convenience that everyone wants then you know how easy it is for such a retailer to be America’s favourite. This is how Walmart achieves large sales volumes. With

time Walmart's focus on customer convenience has kept rising and that is because fighting just on the basis of prices is not enough. When you focus on better quality then you must complement your prices with customer convenience. So, Walmart built multiple store formats. Its three formats are: **Supercenters, Discount Stores and Neighborhood Markets.**

**Supercenters:** Walmart adopted this store model in the year 1988. These are generally 182,000 square feet in area and employ around 300 associates. As given on the Walmart website "Walmart Supercenters provide a one-stop shopping experience and combine a grocery store with fresh produce, bakery, deli and dairy products with electronics, apparel, toys and home furnishings. Most of; them remain open 24 hours, and may also include specialty shops like banks, hair and nail salons, restaurants, or vision centers" (Walmart, 2017).

**Discount stores:** The first Walmart discount store had opened in Rogers, Ark. Now, there are hundreds of them spread across US. These discount stores are smaller in size compared the super-centers. Each one of them employs around 200 associates and has a wide assortment of products on offer. They are 106,000 square feet in area and these stores are brightly lit, well arranged and good looking shopping spaces focused at maximizing consumers' shopping pleasure. The product range on offer at these discount stores include electronics, apparel, toys, home furnishings, health and beauty aids, hardware and more.

**Neighborhood markets:** A crucial thing that Walmart has always kept in mind that to address consumer needs on a larger scale and without compromising on convenience. The neighbourhood markets are another store category that sell a wide range of products and had been designed keeping in mind needs of the communities looking for pharmacy, affordable groceries and merchandise. Each of these markets are around 38000 square feet in size and have 95 associates working there. While smaller in size compared to the two previous formats, the neighbourhood markets still cater to several important needs of the community. They offer a large range of products fresh produce, meat and dairy products, bakery and deli items, household supplies, health and beauty aids and a pharmacy.

In this way, Walmart has used its store mix to serve its customers well. Together, these stores cater to the needs of a very wide range of customers from nearly all classes. For the millenials and the middle class, Walmart is an important shopping destination. While its primary source of competitive advantage is the least pricing strategy, to strengthen it, the brand has used better store models, larger product assortment and additional customer convenience. With a stronger competitive advantage, the brand has been able to penetrate the market deeper. Another important factor that remains hidden from customers' eyes and has a central role in Walmart's business strategy is its innovative supply chain management.

**Walmart's Supply Chain Innovation for competitive advantage**

Researchers often highlight the role of innovative supply chain management in retail. Walmart's more than 150 distribution centers have played a central role in strengthening its business. Its distribution system is one among the largest in the world and serves a large number of stores, clubs and also caters to the customers directly. Its transportation system has a fleet of 6,100 tractors, 61,000 trailers and more than 7,800 drivers. This network of Walmart's distribution centers ships general merchandise, dry groceries, perishable groceries, and other specialty categories to its consumers daily. Walmart has also kept six disaster distribution centers that are placed strategically across US and are stocked well that in case a natural disaster happens, help can be sent without any delay to the communities. The shipping centers employ more than 600 people each who upload and unload more than 200 trailers every day. Each of them is 1 million square feet in size or larger. They are built to cover a circle of more than 150 miles radius and supports 90 to 100 stores.

An important part of Walmart's supply chain management is its logistics management. There are several great facts to know about Walmart's logistics strategy. It owns a private fleet of trucks and employs a team of skilled truck drivers. Its fleet is one of the largest and the safest. These drivers drive 700 million miles every year to deliver to the stores and clubs. With its large team of drivers, Walmart constantly works to ensure that they move merchandise in a responsible and sustainable manner. The focus is again on efficiency and on reducing empty miles. So, Walmart advises its drivers to follow the most efficient routes. This way, it achieves three things – minimum wastage of time by driving minimum empty miles, low fuel consumption and maximum merchandise delivery with least environmental impact. From 2005 to 2014, Walmart achieved 87.4% higher efficiency for its logistics fleet. In this way, the leading retail brand has been able to maximize its efficiency using such optimization techniques.

Walmart has also focused on the use of technology for better results from its business. Its supply chain system is considered to be the most advanced and efficient in terms of technology. It was a pioneer in terms of using barcodes and RFID for a better inventory management system. Inventory management is a crucial part of managing a great retail system. If you know how much of what is needed when, you can manage a large retail system efficiently. Walmart has also managed a more effective and efficient supply chain system by having a direct relationship with the manufacturers. In this way by eliminating suppliers and handing them over the responsibility to manage inventory in its warehouses, the brand could manage smoother inventory flow with less irregularities and better availability of products on the shelves. This has also led to higher cost effectiveness and better savings which can be transferred to the customers in the form of lower prices of products. A shared database between the company and its suppliers helps manage better supply of inventory. All the required information from PoS (Point of Sale) data to warehouse inventory and the retail sales data is stored in the shared database from where it is relayed to all the participants in the entire system. This easy sharing of data is enabled by the private satellite system Walmart owns.

## **Lower Operational Costs**

Walmart had managed low operational and overhead costs. However, owing to high pressure from various sources in the recent times, it made several improvements to make its image in the market and among its customers better. It has improved its employee wages and their working conditions. Earlier they were subjected to very high pressure work conditions and paid lower salaries. The situation has grown a lot better after Walmart made changes to its HR strategy. However, based on its financial strength, Walmart can pay its employee high wages and still retain a large part of its profits. Its financial clout also helps it bargain for very low prices from its suppliers. These profits are then passed to the customers in the form of lower prices. Thus, size and scale have helped Walmart achieve an important competitive advantage.

### **International Presence:**

Around the world, Walmart sells high quality goods and fresh and nutritious food at low prices and thus saves its customers precious money. Prices can be an important differentiator and cost leadership is the biggest source of competitive advantage for Walmart. Now, it is growing at a large scale and has expanded to the foreign markets. Its international wing operates 6200 retail stores in 27 countries and under 67 banners. From Japan to Chile, its operations are spread far and wide and more than 800,000 of its associates serve more than 100 million customers a week. The brand is also investing in social and environmental initiatives in each of the markets it serves. Sam's club is an important brand of Walmart of which 650 are in US and 100 in foreign nations. It targets families and entrepreneurs. Sam's club employs around 100,000 associates in US and the average size of each club is 134,000 square feet. The products and services it offers include high-quality bulk groceries, consumables, general merchandise, specialty services, including travel, auto buying, pharmacy, optical, hearing aid centers, tire and battery centers and a portfolio of business operations support services. Main focus of its products and services are the small business owners and it serves around 500,000 of them every day. A large part of its target audience are the microenterprises that have less than seven employees. Sam's club also supports their growth through business initiatives, philanthropy, research and stakeholder engagement.

### **Technological Innovation for better customer service**

Walmart has also made fast move into ecommerce. It has a global e-commerce segment with its base in Silicon valley, California that leads all the online and mobile innovation for Walmart. The innovation center of Walmart has some brightest minds that are working to provide the customers a seamless experience whether they are shopping online, mobile or in stores. Along with data and social insights these data scientists are working to deliver a more personalized experience to its customers. In this way, it has transformed the shopping experience for its customers. Its main website receives more than 100 million unique visitors every month and this

number has kept growing every year. Walmart has also worked to connect the online and in-store experience and using its mobile apps and shipping options like Home free, site to store, pick up today, shop from store and same day delivery, the brand has made shopping even convenient for the customers. Customers have unique needs and Walmart is using a variety of services to fulfil these unique needs. Its size and scale helps it serve its customers more effectively and cutting edge technology has helped it bring customer service to the next great level. In this way, using price leadership and technological innovation, the brand has created a great retail system that is more effective and efficient than the competitors.

### **Growing presence around the world:**

the number of Walmart stores internationally has grown fast. In [2017, the retail giant had total 11695 stores](#) of which 6363 were located outside US and 5332 were located in United States. The highest percentage of its stores outside US are located in Mexico where there are 2411 Walmart Stores (2017) operational. Apart from it, United Kingdom had 631, Canada 410 and Brazil 498 stores operational in 2017. Walmart is also increasing its presence in China where it had 439 stores operational in 2017. The Asian economy is growing at a very fast rate which makes China and India important markets for Walmart. It is buying a controlling stake of roughly 77 percent in Indian Ecommerce brand Flipkart to make its entry into the Indian markets. The brand is paying around 16 Billion US dollars for this purchase. Without this deal the legal barriers in India would not have allowed Walmart to enter the market. Moreover, India has a very large retail market and plenty of scope for Walmart which will be a formidable challenge for the existing big and small retail brands there. Walmart's entry into the Indian market also means lower prices and major competition for local brands.

### **Conclusion:**

There are several reasons that Walmart has proved good for America. One of them is how it has pushed the line for savings for people. It has helped millions of its customers save money and that is possible by merging a few things. Scale, size, technology and shopping convenience have helped Walmart generate the advantage which you call popularity or brand loyalty. However, to achieve this kind of advantage is not as easy because Walmart too had to cut down on overhead and operational costs. In the recent years it changed its HR strategy and grew more focused on employee welfare. This was a smart step because it has helped it bring some more positive reputation because maligned reputation can easily translate to financial loss. Now, it is even bullish about growth and prices. So, the brand is investing in technology and lower prices and has planned to invest billions in these. Its international expansion has also happened fast and the most crucial thing is that Walmart despite being at the lead position is concerned about competition. The retail market of US has kept growing hotter. Several non US brands have also entered the market and there are some which are armed with a price advantage. Walmart could clear more of the competitive pressure given that it focuses more on groceries. Its competitive advantage has kept growing stronger with time and since the brand is now concerned for its social image, it is investing in employees, social responsibility and community welfare. The pressure that used to come with a job at Walmart has

reduced. So, overall Walmart has grown better for America and now is in the run to become useful for the world.