

Case 6 Wal-Mart Stores, Inc., June 2015

If you don't want to work weekends, you shouldn't be in retail.

—SAM WALTON (EXPLAINING THE SATURDAY CORPORATE MEETING)

In 2015, Wal-Mart Stores, Inc. was the world's biggest company in terms of revenue—a position it had first attained in 2000 and had held for most of the intervening years.

Since going public in 1972, Walmart's record of growth and profitability was remarkable. It had increased in revenue in every single year and its return on equity had never fallen below 19%—despite the turmoil of economic recessions, war, and political crises, and the rise of e-commerce.

External circumstances had created challenges of each of Walmart's CEOs. For Doug McMillon, Walmart's fourth CEO since founder Sam Walton stepped down in 1988, the key challenges of his first year as CEO included the growing competition from online retailers—Amazon in particular—and the growing criticism that Walmart's success was built upon the efforts of underpaid employees. McMillon, at 48 the youngest CEO since Walton, had responded resolutely to both challenges. He increased investment in Walmart's Silicon Valley e-commerce development centers and, in February 2015, announced that Walmart's minimum starting pay would rise to \$9 an hour—\$1.75 above the federal minimum wage.¹

Yet, sustaining Walmart's phenomenal record of growth and profitability would be an ever more daunting challenge. As Walmart continued to expand its range of goods and services—into groceries, fashion clothing, music downloads, online prescription drugs, financial services, and health clinics—it was forced to compete on a broader front. While Walmart could seldom be beaten on price, it faced competitors that were more stylish (T.J.Maxx), more quality-focused (Wholefoods), more service-oriented (Lowe's, Best Buy), and more focused in terms of product range. In its traditional area of discount retailing, Target was proving an increasingly formidable competitor, while in warehouse clubs, its Sam's Clubs ran a poor second to Costco.

Increasing its size boosted Walmart's buying power but also brought problems. Walmart's success had rested heavily upon its ability to combine huge size with speed and responsiveness. Critical to Walmart's agility was its short chain of command and close relationship between the top management team and individual store managers. A key component in this linkage had been Walmart's Saturday-morning

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meeting at its Bentonville HQ. In January 2008, the growing size of the meeting and increasing difficulty of getting all Walmart executives back to Bentonville resulted in the company changing these meetings, which the company had described as “the pulse of our culture,” from weekly to monthly.² In 2014, McMillon made attendance voluntary.³

Increased size also made Walmart a bigger target for opponents. For years Walmart had been under attack by organized labor seeking to unionize Walmart’s two million employees. More recently, “The Beast of Bentonville” had attracted the ire of environmentalists, anti-globalization activists, women’s and children’s rights advocates, small-business representatives, and a growing number of legislators of varying political hues. In response, Walmart had become increasingly image-conscious and was a late, but enthusiastic, convert to social and environmental responsibility. The result was a series of senior appointments to new executive positions—a head of global ethics and a new executive vice president of government relations—plus more top management time spent in Washington and with the media.

Walmart’s expanding global reach also raised complex strategic and organizational issues. Unlike other successful global retailers (such as IKEA and H&M), Walmart did not have a consistent approach to different national markets: it had different strategies and operated under different names in different countries. Its performance, too, varied greatly from country to country. Although its international operations delivered most of Walmart’s growth, their profitability was inferior to that of the US business. Underlying these contrasts was the incongruity that the world’s biggest company had its roots in Bentonville, Arkansas—a town which, when Walmart became a public company, had a mere 5,508 inhabitants.

Given these challenges, how could Walmart possibly sustain its remarkable performance in the brutally competitive, fast-paced world of discount retailing?

History of Walmart

Discount stores—large retail outlets offering a broad range of products—began appearing in the US after World War II. Conventional wisdom held that cities with at least 100,000 inhabitants were needed to support a discount store. Sam Walton—an operator of Ben Franklin variety stores in Arkansas—believed that, with low prices, discount stores could be viable in smaller communities: “Our strategy was to put good-sized stores into little one-horse towns that everyone else was ignoring.”⁴ His first Walmart opened in 1962; by 1970, there were 30 Wal-Mart Stores in small and medium-sized towns in Arkansas, Oklahoma, and Missouri.

Distribution was a problem for Walmart:

Here we were in the boondocks, so we didn’t have distributors falling over themselves to serve us like our competitors in larger towns. Our only alternative was to build our own distribution centers so that we could buy in volume at attractive prices and store the merchandise.⁵

In 1970, Walton built his first distribution center, which was financed by taking the company public. Replicating this structure of large distribution hubs serving up to 100 discount stores formed the basis of Walmart’s expansion strategy. Entering a new area, Walmart built a few stores that were served initially from a nearby

distribution center. Once a critical mass of stores had been established, Walmart would build a new distribution center. By 1995, Walmart was in all 50 states.

Inevitably, this expansion took Walmart from small and medium-sized towns to major conurbations, where it met stronger competition from other discount chains.⁶

Different Store Formats

Sam Walton experimented continually with alternative retail formats—this continued under Walmart's subsequent CEOs:

- Sam's warehouse clubs were wholesale outlets which required membership: they offered products in multipacks and catering-size packs with minimal customer service.
- Supercenters were large-format stores (averaging a floor space of 178,000 square feet, compared with 105,000 square feet for a Walmart discount store and 129,000 square feet for a Sam's Club). They combined a discount store with a grocery supermarket, plus other specialty units such as an eyeglass store, hair salon, dry cleaners, and photo lab. They were open 24 hours a day, seven days a week.
- Neighborhood Markets were supermarkets with an average floor space of 42,000 square feet.
- Walmart Express convenience stores of about 12,000 square feet were launched in 2013.
- Walmart also built a substantial online business through its websites www.walmart.com and www.samsclub.com. Its online presence was extended through its online pharmacy and music download service. A key feature of Walmart's online strategy was its integration of web-based transactions with its physical presence allowing online customers to pick up at their local Walmart store—with same-day pickup for items that were in stock.

International Expansion

Walmart's international expansion began in 1991 with a joint venture with Mexico's largest retailer, Cifra SA, to open discount stores and Sam's Clubs in several Mexican cities. By 2000, Walmart had entered six overseas countries. Table 1 summarizes Walmart's international development.

Walmart's overseas expansion followed no standard pattern: sometimes it entered through greenfield entry, sometimes through joint venture, and in some countries it acquired an existing retailer. Its overseas operations have met with varying degrees of success. In the adjacent countries of Mexico and Canada, Walmart was highly successful. In Germany, Walmart sold its 85 stores to Metro after eight years of losses. Walmart also withdrew from South Korea in 2006. In Japan, its Seiyu chain has found profitability elusive. In October 2014, Walmart announced the closure of 30 of its Japanese stores.⁷

China presented Walmart with its biggest opportunity and greatest challenge. The perils of China's highly politicized market became apparent to Walmart in 2011 when the now-deposed regional leader, Bo Xilai, closed 13 Wal-Mart Stores in Chongqing for alleged mislabeling of meat. Despite ambitious growth plans—in April 2015 CEO

TABLE 1 Walmart stores by country, January 2015

Country	Stores	Notes
US	5,163	Included 3,407 Supercenters, 470 discount stores, 647 Sam's Clubs, 639 Neighborhood Markets, and other small formats
Mexico	2,290	In 1991 formed JV ^a with Cifra. Chains include Walmart, Bodegas, Suburbia, VIPs, and Mercamas. In 2000, Walmart acquired 51% of Cifra and took control of the JV. By 2003, Walmart Mexico was the country's biggest retailer
Canada	394	Entered in 1994 by acquiring 120 Woolco stores from Woolworth and converting them to Walmart discount stores
Argentina	105	Entered 1995: greenfield venture
Brazil	557	Entered 1995: JV with Lojas Americana, includes Todo Dia, Bompreço, and Sonae stores
China	411	In 1996, built a Supercenter and Sam's Club in Shenzhen. Continued to grow organically, then in 2006 acquired Trust-Mart with its 102 stores
UK	592	Entered 1999 by acquiring Asda. Operates Walmart superstores, and Asda supermarkets and discount stores
Japan	431	Entered 2002: acquired 38% of Seiyu; 2008, Seiyu became a wholly owned subsidiary of Walmart. Mainly small stores, some superstores
Central America	690	Acquired CARHCO, a subsidiary of Royal Ahold in 2005 with stores throughout Central America
Chile	404	Entered January 2009 by acquiring Distribución y Servicio SA
India	20	Entered May 2009; JV with Bharti Enterprises
Africa	396	Entered 2011, acquiring 51% of Massmart Holdings Ltd; 305 stores in South Africa, also stores in Botswana, Ghana, Lesotho, Malawi, Mozambique, Namibia, Nigeria, Swaziland, Tanzania, Uganda, and Zambia
Total	11,453	

Note:^aJV = joint venture.**Source:** www.walmartstores.com.

Doug McMillon announced plans to open 115 more Walmart's in China by 2017—finding sites for new Wal-Mart Stores was an ongoing problem. Walmart's China strategy also involved integrating its growing network of stores with its online presence through its 51% stake in online retailer Yihaodianh.⁸

In every country Walmart entered, it was forced to adapt its retailing system to the specific circumstances of each country's consumer habits and preferences, infrastructure, competitive situation, and the political and regulatory environment.

Sam Walton and His Legacy

Walmart's strategy and management style was inseparable from the philosophy and values of its founder. Until his death in 1992, Sam Walton was the embodiment of Walmart's unique approach to retailing. After his death, Sam Walton's beliefs and business principles continued to guide Walmart's identity and its development.

For Walton, thrift and value for money were a religion. Undercutting competitors' prices was an obsession that drove his unending quest for cost economies. Walton established a culture in which every item of expenditure was questioned. Was it necessary? Could it be done cheaper? He set an example that few of his senior

colleagues could match: he walked rather than took taxis, shared rooms at budget motels while on business trips, and avoided any corporate trappings or manifestations of opulence or success. For Walton, wealth was a threat and an embarrassment rather than a reward and a privilege. His own lifestyle gave little indication that he was America's richest person (before being eclipsed by Bill Gates). He was equally disdainful of the display of wealth by colleagues: "We've had lots of millionaires in our ranks. And it drives me crazy when they flaunt it ... I don't think that big mansions and flashy cars is what the Walmart culture is supposed to be about."⁹

His attention to detail was legendary. As chairman and CEO, his priorities lay with his employees ("associates"), customers, and the operational details through which the former created value for the latter. He shunned offices in favor of spending time in his stores. Much of his life was spent on the road (or in the air, piloting his own plane) making impromptu visits to stores and distribution centers. He collected information on which products were selling well in Tuscaloosa, why margins were down in Santa Maria, how a new display system for children's clothing in Carbondale had boosted sales by 15%. His passion for detail extended to competitors' stores: as well as visiting their stores, he was known to count cars in their parking lots.

Central to his leadership role was his relationship with his employees, the Walmart associates. In an industry known for low pay and tough working conditions, Walton created a unique spirit of motivation and involvement. He believed fervently in giving people responsibility, trusting them, but also continually monitoring their performance.

After his death in 1992, Sam Walton's habits and utterances became enshrined in Walmart's operating principles. The "10-foot attitude" pledge reflected Sam Walton's request to an employee that: "I want you to promise that whenever you come within 10 feet of a customer, you will look him in the eye, greet him and ask if you can help him."¹⁰ The "Sundown Rule"—that every request, no matter how big or small, gets same-day service—became the basis for Walmart's fast-response management system. "Three Basic Beliefs" became the foundation for Walmart's corporate culture:

- *Service to our customers*: "Every associate—from our CEO to our hourly associates in local stores—is reminded daily that our customers are why we're here. We do our best every day to provide the greatest possible level of service to everyone we come in contact with."
- *Respect for the individual*: Walmart's emphasis on "respect for every associate, every customer, and every member of the community" involves valuing and recognizing the contributions of every associate, owning "what we do with a sense of urgency" and empowering "each other to do the same," and "listening to all associates and sharing ideas and information."
- *Striving for excellence*: this comprised innovating by continuous improvement and trying new ways of doing things, pursuing high expectations, and working as a team by "helping each other and asking for help."¹¹

Sam Walton's iconic status owed much to his ability to generate excitement and fun within the seemingly sterile world of discount retailing. Walmart's replacement of its mission slogan—"Everyday Low Prices" by "Save Money, Live Better"—was intended to reflect Walton's insistence that Walmart play a vital role in the happiness and well-being of ordinary people.

Walmart in 2015

The Business

Walmart described its business as follows:

Wal-Mart Stores, Inc. ... helps people around the world save money and live better—anytime and anywhere—in retail stores or through our e-commerce and mobile capabilities. Through innovation, we are striving to create a customer-centric experience that seamlessly integrates digital and physical shopping. Physical retail encompasses our brick and mortar presence in each market where we operate. Digital retail is comprised of our e-commerce websites and mobile commerce applications. Each week, we serve nearly 260 million customers who visit our over 11,000 stores under 72 banners in 27 countries and e-commerce websites in 11 countries.

Our strategy is to lead on price, invest to differentiate on access, be competitive on assortment and deliver a great experience. Leading on price is designed to earn the trust of our customers every day by providing a broad assortment of quality merchandise and services at everyday low prices (“EDLP”), while fostering a culture that rewards and embraces mutual respect, integrity and diversity. EDLP is our pricing philosophy under which we price items at a low price every day so our customers trust that our prices will not change under frequent promotional activity. Price leadership is core to who we are. Everyday low cost (“EDLC”) is our commitment to control expenses so those cost savings can be passed along to our customers. Our digital and physical presence provides customers access to our broad assortment anytime and anywhere. We strive to give our customers and members a great digital and physical shopping experience.

Currently, our operations comprise three reportable business segments:

- Walmart U.S. is our largest segment and operates retail stores in all 50 states in the U.S., Washington D.C. and Puerto Rico, with three primary store formats, as well as digital retail. Walmart U.S. generated approximately 60% of our net sales in fiscal 2015, and of our three segments, Walmart U.S. is the largest and has historically had the highest gross profit as a percentage of net sales...
- Walmart International consists of operations in 26 countries outside of the US ... and includes numerous formats including supercenters, supermarkets, hypermarkets, warehouse clubs, including Sam's Clubs, cash & carry, home improvement, specialty electronics, restaurants, apparel stores, drug stores and convenience stores, as well as digital retail. Walmart International generated approximately 28% of our fiscal 2015 net sales. The overall gross profit rate for Walmart International is lower than that of Walmart U.S. because of its merchandise mix.
- Sam's Club consists of membership-only warehouse clubs and operates in 48 states in the US ... Sam's Club accounted for 2% of our fiscal 2015 net sales ... [M]embership income is a significant component of the segment's operating income. As a result, Sam's Club operates with a lower gross profit

TABLE 2 Walmart: Performance by segment (year ending January 31)

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Sales (\$billion)											
Wal-Mart Stores	191.8	209.9	226.3	239.5	255.7	259.9	260.3	264.2	274.4	279.4	288.0
Sam's Clubs	37.1	39.8	41.6	44.4	46.9	47.8	49.4	53.7	56.4	57.2	58.0
International	56.3	62.7	77.1	90.6	98.6	97.4	109.2	125.9	134.7	136.5	136.2
Change in sales (%)											
Wal-Mart Stores	10.1	9.4	7.8	5.8	6.8	1.6	0.1	1.5	3.9	1.8	3.1
Sam's Clubs	7.5	7.3	4.5	6.7	5.6	1.9	3.5	8.8	4.9	1.3	1.5
International	18.3	11.4	30.2	17.5	9.1	(1.2)	12.1	15.2	7.4	1.3	0.3
Operating income (\$billion)											
Wal-Mart Stores	14.2	15.3	16.6	17.5	18.8	19.3	19.9	20.3	21.1	21.8	21.3
Sam's Clubs	1.3	1.4	1.5	1.6	1.6	1.5	1.7	1.8	1.9	1.8	2.0
International	3.0	3.3	4.3	4.8	4.9	4.9	5.6	6.2	6.4	5.1	6.2
Operating margin (%)											
Wal-Mart Stores	7.4	7.3	7.3	7.3	7.3	7.4	7.6	7.7	7.7	7.8	7.4
Sam's Clubs	3.5	3.5	3.6	3.6	3.4	3.1	3.4	3.4	3.3	3.2	3.4
International	5.3	5.3	5.5	5.2	5.0	4.5	5.1	4.9	4.7	3.8	4.5

Source: Wal-Mart Stores, Inc. 10-K reports.

rate and lower operating expenses as a percentage of net sales than our other segments.¹²

Table 2 shows sales and profits for these three business segments.

Performance

Table 3 summarizes some key financial data for Walmart during 2003–2015. Table 4 compares Walmart to its leading competitors.

Wal-Mart Stores' Operations and Activities

Purchasing and Vendor Relationships

The size of Walmart's purchases and its negotiating ability made it both desired and feared by suppliers. As a Walmart vendor, a manufacturer gained unparalleled access to the US retail market. At the same time, Walmart's buying power and cost-cutting fervor meant razor-thin margins for most suppliers. Purchasing was centralized. All dealings with US suppliers took place at Walmart's Bentonville headquarters. Would-be suppliers were escorted to one of the spartan cubicles on "Vendor Row" where they prepared themselves for an intimidating and grueling encounter: "Expect a steely eye across the table and be prepared to cut your price," counselled one supplier.¹³ Another observed: "All normal mating rituals are verboten. Their highest priority is making sure everybody at all times in all cases knows who's in charge ... They talk softly, but they have piranha hearts, and if you aren't totally prepared when you go in there, you're in deep trouble."¹⁴ To avoid dependence on individual suppliers, Walmart limited the total purchases it obtained from any one supplier. The result was an asymmetry of

TABLE 3 Wal-Mart Stores, Inc.: Financial summary 2003–2015 (year ended January 31; \$billion unless otherwise stated)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Net sales	230	256	285	312	345	375	401	405	419	444	469	476	486
Net sales increase (%)	5.5	12.0	11.3	9.5	11.7	8.6	7.2	1.0	4.4	5.9	5.0	1.6	2.0
US same-store sales increase (%)	6.0	4.0	3.3	3.4	2.0	1.6	3.5	(0.8)	(0.6)	1.6	2.4	(0.5)	0.5
Gross margin (%)	22.6	22.3	22.8	23.1	23.5	24.1	24.3	24.9	24.8	24.5	24.3	24.3	24.3
SG&A ^a expense as % of sales	17.4	17.5	18.0	18.2	18.5	19.1	19.4	19.7	19.4	19.2	19.0	19.3	19.4
Interest, net	0.8	0.7	0.9	1.2	1.6	1.8	1.9	1.9	2.0	2.1	2.1	2.2	2.3
Income taxes	4.4	5.1	5.6	5.8	6.2	6.9	7.1	7.4	7.5	7.9	8.0	8.1	8.0
Operating income	13.3	15.2	17.3	18.7	20.5	22.0	22.8	24.0	25.5	26.5	27.7	26.9	27.1
Net income	8.0	9.1	10.3	11.2	11.3	12.7	13.4	14.4	16.9	16.3	17.0	16.0	16.4
Current assets	30.7	34.5	38.9	43.8	47.6	47.6	48.8	48.8	52.0	54.9	58.8	61.2	63.3
Inventories	24.4	26.6	29.8	32.2	33.7	35.2	34.5	32.7	36.4	40.7	43.8	44.9	45.1
Property and equipment	51.4	58.5	68.1	79.3	88.4	97.0	95.7	102	105	110	113	115	114
Total assets	94.8	105	120	138	152	164	163	170	181	193	200	205	204
Current liabilities	32.5	37.4	43.2	48.8	52.2	58.5	55.3	56.8	58.6	62.3	67.2	69.3	65.3
Long-term debt ^b	19.6	20.1	23.3	30.1	30.7	33.4	34.5	39.5	43.7	47.0	41.4	44.6	43.7
Shareholders' equity	39.5	43.6	49.4	53.2	61.6	64.6	65.3	70.5	68.5	71.3	76.3	76.3	81.4
Current ratio	0.9	0.9	0.9	0.9	0.9	0.8	0.9	0.8	0.9	0.9	0.9	0.9	1.0
Return on assets ^c (%)	9.0	9.0	9.3	8.9	8.8	8.5	8.4	8.7	9.3	8.4	9.1	8.2	8.4
Return on equity ^d (%)	21.0	21.0	22.6	22.5	22.0	21.0	21.2	21.2	24.6	22.8	23.0	21.0	20.8
Other data (units)													
US stores ^e	3393	3551	3702	3856	4022	4141	4258	4314	4418	4479	4625	4835	5173
International units ^f	1272	1355	1587	2285	2757	3121	3615	4099	4587	5287	5783	6107	6290
Employees (millions)	1.4	1.4	1.6	1.8	2.1	1.9	2.1	2.1	2.1	2.2	2.2	2.2	2.2

Notes:^aSG&A: sales, general, and administration (cost of doing business).^bIncluding long-term lease obligations.^cNet income before minority interest/average assets.^dNet income/average shareholders' equity.^eFor 2012–2015 includes overseas Sam's Club outlets.^fFor 2012–2015 excludes overseas Sam's Club outlets.**Source:** Wal-Mart Stores, Inc. 10-K reports.

TABLE 4 Walmart and its competitors: Performance comparisons (\$billion unless otherwise stated)^a

	Walmart		Target		Dollar General		Costco	
	2013	2014	2013	2014	2013	2014	2013	2014
Sales revenue	476.3	485.7	71.3	72.6	17.5	18.9	105.2	112.6
Operating Income	26.9	27.1	5.2	4.5	1.7	1.8	3.1	3.2
Total net income	16.0	16.4	2.0	(1.6)	1.0	1.1	2.0	2.1
Inventories	44.9	45.1	8.8	8.8	2.6	2.8	7.9	8.5
Total current assets	61.2	63.3	11.6	14.1	3.2	3.5	15.8	17.6
Total assets	204.8	203.7	44.6	41.4	10.9	11.2	30.3	33.0
Total current liabilities	69.3	65.3	12.8	11.7	1.8	2.0	13.3	14.4
Long-term debt	41.8	41.1	12.6	12.7	0.0	2.6	5.0	5.1
Total liabilities	128.5	122.3	28.3	27.4	5.5	5.5	19.5	20.7
Shareholder's equity	76.3	81.4	16.2	14.0	5.4	5.7	10.8	12.3
Financial ratios								
Gross profit margin (%)	24.8	24.8	29.5	29.4	31.1	30.7	12.6	12.6
Operating margin (%)	5.6	5.6	7.3	6.2	9.7	9.45	2.9	2.9
Net profit margin (%)	5.2	5.1	2.8	1.2	5.7	5.8	1.9	1.9
SG&A ^b expense/sales (%)	19.2	19.2	21.2	20.2	21.1	21.3	9.7	9.7
Depreciation and amortization/ sales (%)	0.03	0.03	0.02	0.02	0.08	0.09	0.07	0.07
Total asset turnover	2.3	2.4	1.6	1.7	1.7	1.7	3.7	3.6
Inventory turnover	8.1	8.1	6.1	5.8	4.9	4.9	12.3	12.0
Long-term debt/equity	0.6	0.5	0.8	0.9	0.5	0.5	0.5	0.4
Current ratio	0.9	1.0	0.9	1.2	1.8	1.8	1.2	1.2
Operating income/assets (%)	13.4	13.3	11.2	10.5	15.7	16.2	10.4	10.1
Return on equity (%)	21.0	20.8	12.5	10.6	18.7	19.8	18.9	18.1

Notes:

^aThe table shows data for the financial years that correspond most closely to calendar years 2013 and 2014.

^bSG&A: sales, general, and administration (cost of doing business).

Sources: Company 10-K reports.

bargaining power: Walmart's biggest supplier, Procter & Gamble, accounted for about 3% of Walmart's sales, but this represented 18% of P&G's revenues.

However, Walmart's relationships with its suppliers were anything but arm's-length, Walmart involved itself in its suppliers' employment and environmental policies, imposing detailed requirements monitored through third-party audits. By 2012, Walmart's *Standards for Suppliers Manual* ran to 46 pages.

Collaboration involved a constant quest for efficiencies through enhanced cooperation—though Walmart received a disproportionate share of the resulting cost savings. Walmart's arrangements with P&G were a model for these relationships. Electronic data interchange (EDI) began in the early 1990s and within two years there were 70 P&G employees based at Bentonville to manage sales and deliveries to Walmart.¹⁵ EDI was extended to almost all Walmart's US vendors. Through Walmart's "Retail Link," suppliers could log onto the Walmart database for real-time store-by-store information on sales and inventory for their products. This collaboration allowed suppliers and manufacturers within the supply chain to synchronize their demand projections under a collaborative planning, forecasting, and replenishment scheme, resulting in Walmart achieving faster replenishment, lower inventory, and a product mix more closely tuned to local customer needs.

Warehousing and Distribution

Since the 1980s, Walmart has been a world leader in distribution logistics. While most discount retailers rely heavily on their suppliers and third-party distributors for distribution to their individual stores, 82% of Walmart's purchases are shipped to Walmart's own distribution centers from where they are distributed in Walmart trucks. The efficiency of the system rests on Walmart's hub-and-spoke configuration. Distribution centers (the hubs) are typically over a million square feet, operate 24/7, and serve between 75 and 110 stores within a 200-mile radius. Deliveries into distribution centers are made either in suppliers' trucks or Walmart trucks, then deliveries are made to Walmart stores. The grouping of Walmart stores allows trucks to deliver partial loads to several Walmart stores on a single trip. On backhauls, Walmart trucks bring returned merchandise from stores and pick up from local vendors, allowing trucks to be over 60% full on backhauls.

Walmart continuously adapts its logistics system to increase speed and efficiency:

- Cross-docking allows goods arriving on inbound trucks to be unloaded and reloaded on outbound trucks without entering warehouse inventory.
- "Remix" adds an additional tier to Walmart's distribution system: third-party logistic companies made small frequent pick-ups from suppliers allowing Walmart a five-day rather than a four-day week ordering cycle from suppliers.
- The international extension of Walmart's procurement system involves direct purchases from overseas suppliers, rather than through importers, giving Walmart direct control of import logistics. In 2002, it established a global purchasing center in Shenzhen and another in Shanghai. In Baytown, Texas it created a four-million square foot import distribution center.¹⁶
- Walmart pioneered the use of radio frequency identification (RFID) for logistics management and inventory control.
- In 2008, Walmart introduced a new system of packing trucks—allowing a better use of their capacity.

The fact that Amazon's warehousing and supply chain system was built almost entirely by logistics managers poached from Walmart is indicative of Walmart's leadership in this area.¹⁷

In-store Operations

Walmart's management of its retail stores was based upon satisfying customers by combining low prices, a wide range of quality products carefully tailored to customer needs, and a pleasing shopping experience. Walmart's store management was distinguished by the following characteristics:

- *Merchandising:* Wal-Mart Stores, Inc. offered a wide range of nationally branded products. Between 2006 and 2009, it had expanded its range of brands, focusing in particular on upscale brands. Traditionally, Walmart had placed less emphasis on own-brand products than other mass retailers; however, after 2008, Walmart greatly increased its range of private-label products. Its "Store of the Community" philosophy involved tailoring its range

of merchandise to local market needs on a store-by-store basis—a goal that was facilitated by Walmart’s meticulous analysis of point-of-sale data for individual stores (see below).

- *Decentralization of store management:* Individual store managers were given greater decision-making authority in relation to merchandise, product positioning within stores, and pricing than was typical in discount retailing where such decisions were concentrated at head office or at regional offices. Similar decentralized decision-making was apparent within stores, where the department managers (e.g., toys, health and beauty, consumer electronics) were expected to develop and implement their own ideas for increasing sales and reducing costs.
- *Customer service:* Discount stores were open from 9am to 9pm weekdays, with shorter hours on weekends. Supercenters were open continuously. Despite the primacy of low costs allowing low prices, Walmart sought to engage with its customers at a personal level. Within stores, employees were expected to look customers in the eye, smile at them, and offer a verbal greeting. Walmart’s “Satisfaction Guaranteed” program assured customers that Walmart would accept returned merchandise on a no-questions-asked basis.

Marketing and External Relations

At the core of Walmart’s strategy was Sam Walton’s credo that “There is only one boss: the customer” and the belief that value for customers equated to low prices. Hence, Walmart’s marketing strategy was built upon its slogan “Everyday Low Prices.” Unlike other discount chains, Walmart did not engage in promotional price-cutting.

“Everyday Low Prices” also permitted Walmart to spend less on advertising and other forms of promotion than its rivals. Its advertising/sales ratio in 2012 was 0.55%—most of its rivals had advertising/sales ratios of between 1.5 and 3.0% (Target’s was 2.0%). Nevertheless, Walmart advertising budget of over \$2 billion exceeded that of any other retailer.

The image that Walmart communicated was grounded in traditional American virtues of hard work, thrift, individualism, opportunity, and community. This identification with core American values was reinforced by a strong emphasis on patriotism and national causes.

However, as Walmart became a target for pressure from politicians, NGOs, and labor unions, it was increasingly forced to adapt its image and business practices. In 2005, Walmart committed itself to a program of environmental sustainability and set ambitious targets for renewable energy, the elimination of waste, and a shift in product mix toward environmentally friendly products.¹⁸ Two years later, Walmart published the first of its annual sustainability reports.

Commitment to social and environmental responsibility was part of a wider effort by Walmart to broaden its consumer appeal and counter the attempts by activist groups to characterize Walmart as a heartless corporate giant whose success was built upon exploitation and oppression. The desire to reposition and renew Walmart’s relationship with its customers and with society culminated in a 2008 company-wide image makeover that included a new corporate logo, a program of store redesign, and the replacement of its “Everyday Low Prices” tagline with “Save Money. Live Better.”¹⁹

Human Resource Management

Walmart's accommodation of external pressures also extended to changes in its human-resource practices. Walmart's approach to human resource management reflected Sam Walton's beliefs about relations between the company and its employees and between employees and customers. All employees, from corporate executives to checkout clerks, are known as "associates." Walmart claims that its relations with its associates are based on respect, high expectations, close communication, and clear incentives.

In common with other discount retailers, Walmart's employees received low pay. In April 2015, full-time employees earned an average of \$13 an hour; part-time employees, \$10. However, starting pay was about \$8 an hour for in-store employees. Benefits included a company health plan that covered almost all employees and a retirement scheme for employees with a year or more of service. Performance-based bonuses extended to hourly as well as salaried employees and a stock purchase plan was also available.

Walmart's decision, in February 2015, to increase hourly rates for about 500,000 of its US employees to a base rate of \$9 an hour in 2015 and \$10 by 2016 (costing about \$1 billion annually) was in response to external and internal pressures. Labor unions had long sought to recruit Walmart employees. Walmart resisted unionization in the belief that union membership created a barrier between the management and the employees in furthering the success of the company and its members. However, at several of its overseas subsidiaries Walmart worked closely with local unions.²⁰ Internal pressures were of greater concern. Walmart's rates of pay and employee scheduling practices were attacked by OUR Walmart—an association of current and former Walmart employees formed in 2011.

The careers page of Walmart's website opens with the words: "Innovation. Collaboration. Transformation. And lots of fun." Orchestrating employee enthusiasm and involvement was a central feature of Walmart's management style. Opportunity for advancement was a key incentive: 75% of Walmart managers (including CEO Doug McMillon) had started as hourly employees. Close collaboration between managers and front-line employees infused every aspect of Walmart's operations. Employees were encouraged to use their initiative and to be flexible, especially in relation to serving customers and identifying opportunities for cost saving. They received continual communication about their company's performance and about store operations.

Walmart's human resource practices are an ongoing paradox. The enthusiasm it generates among employees helps to generate a level of involvement and empowerment that is unusual among large retail chains. Yet, the intense pressure for cost reduction and sales growth frequently results in cases of employee abuse. In several adverse court decisions, Walmart has been forced to compensate current and former employees for unpaid overtime work and for failure to ensure that workers received legally mandated rest breaks. However, a class action suit alleging systematic discrimination against Walmart's female employees was rejected by the Supreme Court in 2011.

Information Technology

Walmart was a pioneer in applying information and communications technology to support decision making and promote efficiency and customer responsiveness. Walmart was among the first retailers to use computers for inventory control, to

initiate EDI with its vendors, and to introduce bar code scanning for point-of-sale and inventory control. To link stores and cash register sales with supply chain management and inventory control, Walmart invested \$24 million in its own satellite in 1984. By 1990, Walmart's satellite system was the largest integrated private satellite network in the world, providing two-way interactive voice and video capability, data transmission for inventory control, credit card authorization, and enhanced EDI. During the 1990s, Walmart pioneered the use of data mining for retail merchandising,

The result, by now, is an enormous database of purchasing information that enables us to place the right item in the right store at the right price. Our computer system receives 8.4 million updates every minute on the items that customers take home—and the relationship between the items in each basket.

Data analysis allows Walmart to forecast, replenish, and merchandise on a product-by-product, store-by-store level. For example, with years of sales data and information on weather, school schedules and other pertinent variables, Walmart can predict daily sales of Gatorade at a specific store and automatically adjust store deliveries accordingly.²¹

Analyzing purchasing patterns also led to continual adjustments in store layout (e.g., creating “baby aisles that include infant clothes and children’s medicine alongside diapers, baby food and formula—but at the same time plac[ing] higher-margin products among the staples.”²²

Even before the onset of web-based computing, IT had played a central role in integrating Walmart’s entire value chain with point-of-sale data forming the basis for inventory replenishment, deliveries from suppliers, and top management decision making:

Combine these information systems with our logistics—our hub-and-spoke system in which distribution centers are placed within a day’s truck run of the stores—and all the pieces fall into place for the ability to respond to the needs of our customers, before they are even in the store. In today’s retailing world, speed is a crucial competitive advantage. And when it comes to turning information into improved merchandising and service to the customer, Walmart is out in front.²³

Unlike most retailers, Walmart outsourced little of its IT requirements. Walmart’s IT function was split between two groups: Walmart Technology, at the corporate headquarters in Bentonville, developed and managed technology for the stores and logistical systems, while Global eCommerce, employing over 2000 developers and engineers in Silicon Valley, developed customer-focused technologies and ran Walmart websites. Walmart’s commitment to IT was indicated by its hiring of IT professionals and its acquisition of 14 technology-based companies between February 2010 and May 2015. However, not all Walmart’s IT initiatives were successful. It was the prime mover behind the much-delayed mobile payments platform CurrentC, which was losing out to ApplePay and Google Wallet.²⁴

Organization and Management Style

Walmart’s management structure and management style reflected Sam Walton’s principles and values—especially his belief that all managers, including the CEO,

needed to be closely in touch with customers and store operations. The result was a structure in which communication between individual stores and the Bentonville headquarters was both close and personal. Traditionally, Walmart US's regional vice presidents were each responsible for supervising between ten and 15 district managers (later designated "market managers") who, in turn, were in charge of eight to 12 stores. The key to Walmart's fast-response management system was the close linkages in this system which ensured speed of communication and decision making between the corporate headquarters and the individual stores and warehouses. The critical links in this system were the regional vice presidents. Most large retailers had regional offices; Walmart's regional VPs had no offices. Their time was spent visiting stores and warehouses in their regions Monday to Thursday, then returning to Bentonville on Thursday night for Friday and Saturday meetings. On Friday, the 7 a.m. management meeting was followed by the merchandising meeting, which dealt with stockouts, excess inventory, new product introductions, and various merchandising errors. At the Saturday meeting, weekly sales data would be reviewed and the regional VPs would contact their district managers about actions for the coming week. According to former CEO David Glass: "By noon on Saturday we had all our corrections in place. Our competitors, for the most part, got their sales results on Monday for the week prior. Now, they're already ten days behind."

The two-and-a-half-hour Saturday morning meetings beginning at 7 a.m. were a manifestation of Walmart's unique management style—described by *The Economist* magazine as "part evangelical revival, part Oscars, part Broadway show."²⁵ Meetings began with a review of the week's performance data, involved question-and-answer sessions targeting examples of good and bad performance, and included presentations that focused on merchandising best practices or new product lines. Then came guest appearances—guests had included CEOs, such as Carlos Ghosn, Steve Jobs, and Steve Ballmer; celebrity entertainers; and sports stars. The meetings closed with a talk from Walmart's CEO. The meetings were relayed to Walmart offices worldwide.

However, Walmart's growing size necessitated changes to its structure and management systems. In 2010, it introduced an additional layer of management, dividing the US into three regions: North, South, and West. As already noted, the legendary Saturday meetings were also downgraded. Did these changes mean that the unique spirit and drive that had been the basis of Walmart's success for four decades were finally being overwhelmed by the size and complexity that were the products of this success?

Notes

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