Case 6 Wal-Mart Stores Inc., June 2012

> If you don't want to work weekends, you shouldn't be in retail.
>
> —SAM WALTON (EXPLAINING THE SATURDAY CORPORATE MEETING)

Wal-Mart's shareholders' meeting on Friday June 1, 2012 was to have been the culmination of the company's 50th anniversary celebrations—50 years previously, founder Sam Walton had opened his first store in Rogers, Arkansas. About 6,000 shareholders and employees (including 2,000 from Wal-Mart's international operations) gathered at the University of Arkansas's Bud Walton Arena to be hosted by Chairman Rob Walton (son of the founder) and entertained by Justin Timberlake, Lionel Ritchie, Juanes, and Celine Dion.

Despite the massive build-up to the meeting, *Forbes* described it as "a gloomy affair."[1] The "one big happy family" festive atmosphere typical of Wal-Mart events had been overshadowed by disquiet over the Mexican bribery scandal that had erupted in April 2012 concerning payments by Wal-Mart Mexico to local officials to facilitate the issue of building permits for new Wal-Mart stores, Wal-Mart's initial attempt to cover-up the incident only exacerbated the problem.

Yet, despite the mood of disappointment and suspicion that had affected Wal-Mart's relations with employees and investors alike, the business was in rude health. On May 17, Wal-Mart had reported results for the first quarter of its financial year. Sales were up 8.6% on the previous year, operating income was up 8.3%, and return on equity for the 12-month period was 18.1%. The day before the shareholders' meeting, Wal-Mart's stock hit an all-time high.

For all of Wal-Mart's huge size—with 2.2 million employees, it was the world's biggest private-sector employer and was second only to ExxonMobil in terms of sales—a constant theme of the chairman, Rob Walton, and the CEO, Mike Duke, was Wal-Mart's continuity with its roots: continuity as a family-owned company, continuity of its low-price strategy, and continuity of its small-town values. Yet, for all this emphasis on Wal-Mart's timeless character, it was clear to Duke that times were changing for Wal-Mart.

As Wal-Mart continually expanded its range of goods and services—into groceries, fashion clothing, music downloads, online prescription drugs, financial services, and health clinics—so it was forced to compete on a broader front. While Wal-Mart

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could seldom be beaten on price, it faced competitors that were more stylish (T. J. Maxx), more quality-focused (Whole Foods), 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. In warehouse clubs, its Sam's Clubs ran a poor second to Costco.

Increasing size boosted Wal-Mart's buying power but it also brought problems. Wal-Mart's success had rested heavily upon its ability to combine huge size with remarkable speed and responsiveness. Critical to this 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 Wal-Mart's Saturday-morning meeting at its Bentonville HQ. In January 2008, the growing size of the meeting and increasing difficulty of getting all Wal-Mart 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]

Increased size also made Wal-Mart a bigger target for opponents. For years Wal-Mart had been under attack by organized labor seeking to unionize Wal-Mart'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, Wal-Mart 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.

Wal-Mart's growing geographical scope also raised complex strategic and organizational issues. Unlike other successful global retailers (such as IKEA), Wal-Mart did not have a consistent approach to different national markets: It had different strategies and operated under different names in different countries. Moreover, its success varied greatly from country to country. While most of Wal-Mart's growth was outside of the US, its international business was significantly less profitable than that of the US. Wal-Mart's transformation into a multinational corporation presented a challenge for its identity and culture, both of which were firmly rooted in its southwestern US, small-town heartland.

In his address to the 2012 shareholders' meeting, Mike Duke focused almost exclusively on Wal-Mart's culture and values:

> If we look back on our success over the past 50 years and ask the simple question: "Why Wal-Mart and not another retailer?" I believe there's a simple answer. It's the culture, it's the beliefs, and it's the enduring values that live within us and are expressed through our actions every day. No matter who we are or where we come from, our values pull us together and keep us together. They constantly push us forward to become a better and stronger company. This is my message to you today: The values that built Wal-Mart, defined Wal-Mart, and sustained Wal-Mart for the past 50 years will drive our success and make us proud for the next 50 years . . .
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> But we cannot slow down. We have to accelerate — pushing, leading, experimenting, innovating. It's not enough just to keep up. We have to stay out in front. And as we do that, we must continue to hold tight to the values that have always made us special. I believe what we believe will only become more important in the complex and rapidly changing world ahead.

> We all know our three basic beliefs: respect for the individual, service to our customers, striving for excellence. These are the pillars of our culture. But there's a foundation on which they stand. It's made up of enduring values that we all share, that truly make us special, that connect us all at a human level.[3]

Duke went on to articulate five core values which he identified as the bedrock of Wal-Mart's success:

- *Integrity:* the basis of trust and exemplified by Sam Walton;
- *Opportunity:* "If you work hard, develop your skills, and do a good job, you can advance at Wal-Mart . . . nearly 75% of the store management team started as hourly associates."
- *Family and community:* "We aren't just associates and customers in our stores. We're people who grew up together, worship together, and live on the same streets. We're friends and neighbors. At Wal-Mart, we are family and community."
- *Work with a purpose:* "Our purpose is helping our customers save money so they can live better . . . At Wal-Mart, you better believe our work adds up to better lives and a better world."
- *Responsibility:* "When you're given so much, you have a responsibility to give back and do good. Wal-Mart is making food healthier, our planet greener, and the communities we work in and live in stronger. We're making a difference—a big, big difference."

These values would provide the basis for Wal-Mart's future success:

> We can't possibly envision what the world, what retailing, what Wal-Mart will look like in another 50 years. But if we stay true to the foundation that Sam Walton built, we'll continue to be a better company, a stronger company and a prouder company. And over the next 50 years, there will be no limit to the good we can do around the world. We'll help millions more customers do what they aspire to do for themselves and their families—to save money and live better.[4]

History of Wal-Mart

Between 1945 and 1961, Sam Walton and his brother, Bud, developed a chain of 15 Ben Franklin franchised variety stores across rural Arkansas. At this time, the first discount retailers (large-format stores offering a broad range of products) were appearing in large towns (it was believed that a population of 100,000 was necessary to support a discount store). Sam Walton believed that, if the prices were right, 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."[5] The first Wal-Mart 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 Wal-Mart:

> 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.[6]

In 1970, Walton built his first distribution center, and in the same year took the company public in order to finance the heavy investment incurred. Replicating this structure of large distribution hubs serving up to 100 discount stores formed the basis of Wal-Mart's expansion strategy. By 1980, Wal-Mart had 330 stores across the South and into the Midwest. By 1995, Wal-Mart was in all 50 states. Geographical expansion was incremental. In developing a new area, Wal-Mart built a few stores that were served initially by extending distribution from a nearby cluster. When a critical mass of stores had been established, Wal-Mart would build a new distribution center. As Wal-Mart became a national retail chain, so it entered more developed retailing areas, including larger cities, where it met stronger competition from other discount chains. In its early days, the local Wal-Mart was the only discount store in town—by 1993, 55% of Wal-Mart stores faced direct competition from Kmart and 23% from Target.[7]

Different Store Formats

Wal-Mart experimented continually with alternative retail formats. Some, like Helen's Arts and Crafts and Dot Deep Discount Drugstores, were unsuccessful. Others—Sam's warehouse clubs, Supercenters, and Neighborhood Markets—grew rapidly:

- Sam's warehouse clubs were not retail outlets: they required membership and were not open to the public. They carried a limited range of products with most items offered in multipacks and catering-size packs, and customer service was minimal. The business model was to maximize economies in purchasing, minimize operating costs, and offer members very low prices. Supercenters were Wal-Mart's large-format stores (averaging a floor space of 187,000 square feet, compared with 102,000 square feet for a Wal-Mart discount store and 129,000 square feet for a Sam's Club).
- Supercenters were modeled on the European concept of the hypermarket that had been pioneered by the French retailer Carrefour. A Supercenter combined a discount store with a grocery supermarket: in addition, a Supercenter incorporated 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.
- Wal-Mart 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.

International Expansion

Wal-Mart's international expansion abroad began in 1992 when it established a joint venture with Mexico's largest retailer, Cifra SA and opened discount stores and Sam's Clubs in several Mexican cities. By 1998, Wal-Mart had entered Europe, Asia, and South America. Table 1 summarizes Wal-Mart's international development.

TABLE 1 Wal-Mart stores by country, January 2012

Country	Stores	Notes
US	4,479	Included 3,029 Supercenters, 629 discount stores, 611 Sam's Clubs, 196 Supermarkets, and 14 small formats
Mexico	2,088	In 1991 formed JV with Cifra. Chains include Wal-Mart, Bodegas, Suburbia, VIPS, and Mercamas. In 2000, Wal-Mart acquired 51% of Cifra and took control of the joint venture. By 2003, Wal-Mart Mexico was the country's biggest retailer.
Canada	333	Entered in 1994 by acquiring 120 Woolco stores from Woolworth and converting them to Wal-Mart discount stores.
Argentina	88	Entered 1995: greenfield venture
Brazil	512	Entered 1995: JV with Lojas Americana. Includes Todo Dia, Bompreço, and Sonae stores
China	377	In 1996 built a Wal-Mart Supercenter and Sam's Club in Shenzen. Continued to grow organically, then in 2006 acquired Trust-Mart with its 102 stores
UK	541	Entered 1999 by acquiring Asda. Operates Wal-Mart superstores, and Asda supermarkets and discount stores
Japan	419	Entered 2002: acquired 38% of Seiyu; 2008 Seiyu became a wholly owned subsidiary of Wal-Mart. Mainly small stores but some superstores
Costa Rica	200	Acquired 30% of CARHCO, a subsidiary of Royal Ahold in 2005. Shareholding later increased to 51%.
El Salvador	79	
Guatemala	200	
Honduras	70	
Nicaragua	73	
Chile	316	Entered January 2009 by acquiring Distribución y Servicio SA
India	15	Entered May 2009; JV with Bharti Enterprises
Africa	347	Entered 2011 by 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	10,130	

Source: www.walmartstores.com.

Wal-Mart's overseas expansion followed no standard pattern: sometimes it entered through greenfield entry, sometimes through joint venture, in some countries it acquired an existing retailer. Its most successful overseas operations were in the adjacent countries of Mexico and Canada. The UK and China were also major markets for Wal-Mart. In several countries Wal-Mart had struggled to establish itself. In Germany, Wal-Mart sold its 85 stores to Metro after eight years of losses. Wal-Mart withdrew from South Korea in 2006. In Japan, its Seiyu chain has been a consistent loss maker.[8]

Faced with market saturation in the US, China's vast market potential became increasingly attractive to Wal-Mart's top management. Yet, growing its presence in such a complex and highly politicized market presented major challenges for Wal-Mart. In 2011, Wal-Mart became a target for the now-deposed, populist party leader Bo Xilai. In Mr Bo's regional stronghold, Chongqing, 13 Wal-Mart stores were closed for two months after mislabeling ordinary pork as organic. In 2012, Wal-Mart was forced to slow its pace of expansion in China because of the difficulty of finding suitable sites for its big-box, single-floor stores.[9]

The biggest challenge for Wal-Mart's international expansion was the need to adapt its retailing system to the specific circumstances of each country it entered. Each country was distinguished by differences in consumer habits and preferences, infrastructure, the competitive situation, and the political and regulatory environment. One indicator of the diversity of Wal-Mart's retail environments was the great variety in its store formats outside the US—ranging from 5,000 sq. ft. Mexican *bodegas* to the 31,000,000 sq. ft. Sam's Club in Shanghai.

The most striking feature of Wal-Mart's performance in overseas markets was its inconsistency: from outstanding success (Mexico) to dismal failure (Germany). Its strongest performance was in adjacent countries (Mexico and Canada).

Sam Walton

Wal-Mart'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 Wal-Mart's unique approach to retailing. After his death, Sam Walton's beliefs and business principles continued to be the beacon that guided Wal-Mart's identity and its development.

For Sam 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. Every now and then somebody will do something especially showy, and I don't hesitate to rant and rave about it at the Saturday morning meeting. I don't think that big mansions and flashy cars is what the Wal-Mart culture is supposed to be about."[10]

His attention to detail was legendary. As chairman and chief executive, he was quite clear that 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. Most 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 his own: as well as visiting their stores, he was known to count cars in their parking lots.

Central to his leadership role at Wal-Mart was his relationship with his employees, the Wal-Mart associates. In an industry known for low pay and hard 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 operating principles. For example, Wal-Mart's "10-foot attitude" pledge is based on Sam Walton's request to a store 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."[11] The "Sundown Rule"—that every request, no matter how big or small, gets same-day service—has become the basis for Wal-Mart's fast-response management system. "Three Basic Beliefs" became the foundation for Wal-Mart's corporate culture. These beliefs comprised:

- *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*: associates, customers, and members of the community involved valuing and recognizing the contributions of colleagues, owning "what we do with a sense of urgency" and empowering "each other to do the same," and communicating by "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."[12]

Sam Walton's ability to attract the affection and loyalty of both employees and customers owed much to his ability to generate excitement within the otherwise sterile world of discount retailing. He engendered a positive attitude among Wal-Mart employees and he reveled in his role as company cheerleader. Wal-Mart's replacement of its mission slogan, "Everyday Low Prices" by "Save Money, Live Better" was intended to reflect Walton's insistence that Wal-Mart played a vital role in the happiness and well-being of ordinary people.

Wal-Mart in 2012

The Business

Wal-Mart describes its business as follows:

> Wal-Mart Stores, Inc. operates retail stores in various formats around the world and is committed to saving people money so they can live better. We 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 everyday so our customers trust that our prices will not change under frequent promotional activity . . . During the fiscal year ended January 31, 2012, we generated net sales of approximately $443.9 billion.
>
> Currently, our operations comprise three reportable business segments: the Walmart US segment; the Walmart International segment; and the Sam's Club segment.
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> - Our Walmart US segment is the largest segment of our business, accounting for approximately 60% of our fiscal 2012 net sales and operates retail stores in various formats in all 50 states in the US and Puerto Rico, as well as Walmart's online retail operations, walmart.com.

TABLE 2 Wal-Mart: Performance by segment (year ending January 31)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Sales ($billion)											
Wal-Mart Stores	139.1	157.1	174.2	191.8	209.9	226.3	239.5	255.7	259.9	260.3	264.2
Sam's Clubs	29.4	31.7	34.5	37.1	39.8	41.6	44.4	46.9	47.8	49.4	53.7
International	35.5	40.8	47.6	56.3	62.7	77.1	90.6	98.6	97.4	109.2	125.9
Sales increase (%)											
Wal-Mart Stores	14.1	12.9	10.9	10.1	9.4	7.8	5.8	6.8	1.6	0.1	1.5
Sam's Clubs	9.7	7.8	8.8	7.5	7.3	4.5	6.7	5.6	1.9	3.5	8.8
International	10.6	14.9	16.7	18.3	11.4	30.2	17.5	9.1	(1.2)	12.1	15.2
Operating income ($billion)											
Wal-Mart Stores	10.3	11.8	12.9	14.2	15.3	16.6	17.5	18.8	19.3	19.9	20.3
Sam's Clubs	1.0	1.0	1.1	1.3	1.4	1.5	1.6	1.6	1.5	1.7	1.8
International	1.5	2.0	2.4	3.0	3.3	4.3	4.8	4.9	4.9	5.6	6.2
Operating income/sales (%)											
Wal-Mart Stores	7.4	7.5	7.4	7.4	7.3	7.3	7.3	7.3	7.4	7.6	7.7
Sam's Clubs	3.5	3.2	3.3	3.5	3.5	3.6	3.6	3.4	3.1	3.4	3.4
International	4.1	4.9	5.0	5.3	5.3	5.5	5.2	5.0	4.5	5.1	4.9

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

- Our Walmart International segment consists of retail operations in 26 countries. This segment generated approximately 28% of our fiscal 2012 net sales. The Walmart International segment includes numerous formats of retail stores, restaurants, Sam's Clubs and online retail operations that operate outside the US.
- Our Sam's Club segment consists of membership warehouse clubs operated in 47 states in the US and Puerto Rico, as well as the segment's online retail operations, samsclub.com. Sam's Club accounted for approximately 12% of our fiscal 2012 net sales.[13]

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

Performance

Table 3 summarizes some key financial data for Wal-Mart during the period 1994 to 2006. Table 4 shows Wal-Mart's recent performance compared with other discount retailers.

Wal-Mart Stores' Operations and Activities

Purchasing and Vendor Relationships

The size of Wal-Mart's purchases and its negotiating ability mean that Wal-Mart is both desired and feared by manufacturers. As a Wal-Mart vendor, a manufacturer gains unparalleled access to the US retail market. At the same time, Wal-Mart's

TABLE 3 Wal-Mart Stores, Inc.: Financial summary 1998–2012 (year ended January 31)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Net sales	165	191	218	230	256	285	312	345	375	401	405	419	444
Net sales increase (%)	19.6	15.8	14.1	5.5	12.0	11.3	9.5	11.7	8.6	7.2	1.0	4.4	5.9
US same-store sales increase, (%)	8.2	5.0	5.9	6.0	4.0	3.3	3.4	2.0	1.6	3.5	(0.8)	(0.6)	1.6
Gross margin (%)	21.2	21.5	21.1	22.6	22.3	22.8	23.1	23.5	24.1	24.3	24.9	24.8	24.5
SG&A[a] expense as % of sales	16.4	16.5	16.6	17.4	17.5	18.0	18.2	18.5	19.1	19.4	19.7	19.4	19.2
Interest expense	0.8	1.1	1.1	0.8	0.7	0.9	1.2	1.6	1.8	1.9	1.9	2.0	2.1
Income taxes	3.3	3.7	3.9	4.4	5.1	5.6	5.8	6.2	6.9	7.1	7.4	7.5	7.9
Operating income	9.1	11.4	12.1	13.3	15.2	17.3	18.7	20.5	22.0	22.8	24.0	25.5	26.5
Net income	5.4	6.3	6.7	8.0	9.1	10.3	11.2	11.3	12.7	13.4	14.4	16.9	16.3
Current assets	24.4	26.6	28.2	30.7	34.5	38.9	43.8	47.6	47.6	48.8	48.8	52.0	54.9
Inventories	20.2	21.6	22.7	24.4	26.6	29.8	32.2	33.7	35.2	34.5	32.7	36.4	40.7
Fixed assets	36.0	40.9	45.8	51.4	58.5	68.1	79.3	88.4	97.0	95.7	102.3	105.0	110.0
Total assets	70.3	78.1	83.5	94.8	104.9	120.2	138.2	151.8	163.5	163.2	170.4	180.8	193
Current liabilities	25.8	28.9	27.3	32.5	37.4	43.2	48.8	52.2	58.5	55.3	56.8	58.6	62.3
Long-term debt[b]	16.7	15.7	18.7	19.6	20.1	23.3	30.1	30.7	33.4	34.5	39.5	43.7	47.0
Shareholders' equity	25.8	31.3	35.1	39.5	43.6	49.4	53.2	61.6	64.6	65.3	70.5	68.5	71.3
Current ratio	0.9	0.9	1.0	0.9	0.9	0.9	0.9	0.9	0.8	0.9	0.8	0.9	0.9
Return on assets[c] (%)	9.5	8.7	8.5	9.0	9.0	9.3	8.9	8.8	8.5	8.4	8.7	9.3	8.4
Return on equity[d] (%)	22.9	22.0	20.1	21.0	21.0	22.6	22.5	22.0	21.0	21.2	21.2	24.6	22.8
Other data (units)													
US discount stores	1,801	1,736	1,647	1,568	1,478	1,353	1,209	1,075	971	891	898	706	629
US Supercenters	721	888	1,066	1,258	1,471	1,713	1,980	2,256	2,447	2,612	2,620	2,913	3,022
US Sam's Clubs	463	475	500	525	538	551	567	579	591	602	611	609	611
US Neighborhood Markets[e]	7	19	31	49	64	85	100	112	132	153	185	190	196
International units	1,004	1,071	1,170	1,272	1,355	1,587	2,285	2,757	3,121	3,615	4,099	4,587	5,651
Employees (thousand)	1,140	1,244	1,383	1,400	1,400	1,600	1,800	2,100	1,900	2,100	2,100	2,100	2,200

Notes:
Figures in parentheses denote a loss.
[a]SG&A: sales, general, and administration (cost of doing business).
[b]Including long-term lease obligations.
[c](Net income before minority interest, equity in unconsolidated subsidiaries, and cumulative effect of accounting change)/Average assets.
[d]Net income/Average shareholders' equity.
[e]And other small-format stores.
Source: Wal-Mart Stores Inc., 10-K reports.

TABLE 4 Wal-Mart and its competitors: Performance comparisons ($billions except where noted)

	Wal-Mart		Target		Dollar General		Costco[a]	
	2010	2011	2010	2011	2010	2011	2010	2011
Sales revenue	418.90	443.80	65.70	68.40	13.04	14.81	76.26	87.05
Operating Income	25.50	26.50	5.20	5.30	1.27	1.49	2.08	2.44
Total net income	16.90	16.30	2.90	2.90	0.63	0.77	1.32	1.54
Inventories	36.44	40.71	7.50	7.90	1.77	2.01	5.64	6.64
Total current assets	52.01	54.98	17.20	16.40	2.37	2.28	11.71	13.71
Total assets	180.78	193.41	43.70	46.60	9.55	9.69	23.82	26.76
Total current liabilities	58.60	62.30	10.00	14.20	1.37	1.51	10.06	12.05
Long-term debt	40.69	44.07	18.10	16.50	3.29	2.62	2.14	1.25
Total liabilities	99.30	106.37	28.10	30.70	6.86	6.53	12.89	14.19
Shareholder's equity	71.25	75.76	15.40	15.80	4.05	4.67	10.83	12.00
Financial ratios								
Gross profit margin (%)	24.91	24.80	30.44	30.12	32.04	31.73	10.83	10.69
Operating margin (%)	6.09	5.97	7.91	7.75	9.77	10.07	2.72	2.80
Net profit margin (%)	4.03	3.67	4.41	4.24	4.82	5.18	1.73	1.77
SG&A[b] expense/sales (%)	19.67	19.41	20.40	20.61	22.24	21.67	10.28	9.97
Depreciation and amortization/sales (%)	1.81	1.83	3.04	3.07	1.32	1.76	1.04	0.98
Total asset turnover	2.32	2.29	1.50	1.47	1.37	1.53	3.20	3.25
Inventory turnover	11.50	10.90	6.09	6.05	5.02	5.03	12.06	11.71
Long term debt/equity	0.57	0.58	1.18	1.04	0.81	0.56	0.20	0.10
Current ratio	0.89	0.88	1.72	1.15	1.73	1.51	1.16	1.14
Operating income/assets (%)	14.10	13.72	11.90	11.37	13.30	7.91	5.56	5.76
Return on equity (%)	23.72	21.52	18.83	18.35	15.49	16.42	12.22	12.85

Notes:
[a]FY ends in August.
[b]SG&A: sales, general, and administration (cost of doing business).

buying power and ferocious cost cutting results in most suppliers having their margins squeezed until they are razor-thin. Purchasing is centralized. All dealing with US suppliers takes place at Wal-Mart's Bentonville headquarters. Would-be suppliers are escorted to one of the cubicles on "Vendor Row." Furnishings comprise just a table and folding chairs . . . sometimes not even chairs. Suppliers regard the experience of selling to Wal-Mart as intimidating and grueling: "Once you are ushered into one of the Spartan little buyers' rooms, expect a steely eye across the table and be prepared to cut your price."[14] Another vendor commented: "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."[15] To avoid dependence on any one supplier, Wal-Mart limits the total purchases it obtains from any one supplier. The result is an asymmetry of bargaining power: Wal-Mart's biggest supplier, Procter & Gamble, accounts for about 3% of Wal-Mart's sales, but this represents 18% of P&G's revenues.

The requirements that Wal-Mart imposes on its suppliers extends well beyond low prices. Increasingly, Wal-Mart involves itself in its suppliers' employment and environmental policies, imposing requirements which it monitors through third-party

audits. On October 22, 2008, Wal-Mart's then-CEO, Lee Scott, addressed the CEOs and factory managers of over 1,000 Wal-Mart suppliers in Beijing's Shangri-La Hotel:

> A year from now, each and every one of you who chooses to make a commitment will be a more socially and environmentally responsible company. And that will make a difference. It will make a difference for you, for Walmart, for China, for our customers, and yes, for the planet . . . We need to ask ourselves: Is a product made in a factory that is a responsible steward of the environment and our natural resources? . . . I firmly believe that a company that cheats on overtime and on the age of its labor, that dumps its scraps and its chemicals in our rivers, that does not pay its taxes or honor its contracts, will ultimately cheat on the quality of its products . . . If a factory does not meet these requirements, they will be expected to put forth a plan to fix any problems. If they still do not improve, they will be banned from making products for Walmart.[16]

By 2012, Wal-Mart's *Standards for Suppliers Manual* ran to 46 pages.

Wal-Mart combines ruthless bargaining with close collaboration with its bigger suppliers. Wal-Mart's cooperation with Procter & Gamble provides a model for these relationships. The companies began electronic data interchange (EDI) at the beginning of the 1990s. By 1993, there were 70 P&G employees working at Bentonville to manage sales and deliveries to Wal-Mart.[17] EDI was extended to almost all Wal-Mart's US vendors. Through Wal-Mart's "Retail Link" system of supply-chain management, data interchange included point-of-sale data, levels of inventory, Wal-Mart's sales forecasts, vendors' production and delivery schedules, and electronic funds transfer. Suppliers could log on to the Wal-Mart database for real-time store-by-store information on sales and inventory for their products. This collaboration gave Wal-Mart faster replenishment, lower inventory, and a product mix tuned to local customer needs; it allowed suppliers to plan their production and deliveries.

Warehousing and Distribution

Wal-Mart is 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 Wal-Mart's purchases are shipped to Wal-Mart's own distribution centers from where they are distributed in Wal-Mart trucks. The efficiency of the system rests on Wal-Mart's hub-and-spoke configuration. Distribution centers (hubs) span over a million square feet, operate 24 hours a day, and serve between 75 and 110 stores within a 200-mile radius. Deliveries into distribution centers are either in suppliers' trucks or Wal-Mart trucks, then deliveries are made to Wal-Mart stores. The grouping of Wal-Mart stores allows trucks to deliver partial loads to several Wal-Mart stores on a single trip. On backhauls, Wal-Mart trucks bring returned merchandise from stores and pick up from local vendors, allowing trucks to be over 60% full on backhauls.

Wal-Mart continually seeks ways to make its logistics system cheaper, faster, and more reliable:

- Its cross-docking system allows goods arriving on inbound trucks to be unloaded and reloaded on outbound trucks without entering warehouse inventory.

- Its "Remix" adds a new tier to its distribution system: third-party logistic companies are responsible for making smaller, more frequent pick-ups from suppliers, establishing "consolidation centers" throughout the US, then making frequent deliveries to Wal-Mart's distribution centers, allowing a five-day rather than four-week ordering cycle from suppliers.
- The international extension of Wal-Mart's procurement system involves it purchasing directly from overseas suppliers, rather than through importers, and therefore taking control of import logistics. In 2002, it established a global purchasing center in Shenzen and another in Shanghai. In Baytown, Texas it created a four-million sq. ft. import distribution center.[18]
- Wal-Mart was a pioneer of radio frequency identification (RDFI) for logistics management and inventory control.

Wal-Mart continually seeks incremental improvements to its logistics systems. In the year ended January 2009, it reported higher inventory turnover and lower distribution costs as a result of packing its trucks more tightly.

In-Store Operations

Wal-Mart's management of its retail stores is based upon its objective of creating customer satisfaction by combining low prices, a wide range of quality products carefully tailored to customer needs, and a pleasing shopping experience. Wal-Mart's management of its retail stores is distinguished by the following characteristics:

- *Merchandising*: Wal-Mart stores 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, Wal-Mart had placed less emphasis on own-brand products than other mass retailers; however, during 2008–2010, Wal-Mart made major investments in its range of "Great Value" private-label products. Under its "Store of the Community" philosophy, Wal-Mart has long sought to tailor its range of merchandise to local market needs on a store-by-store basis. Greater sophistication in analyzing point-of-sale data for individual stores facilitated Wal-Mart's responsiveness to local needs (see below).
- *Decentralization of store management*: Individual store managers were given considerable decision-making authority in relation to product range, product positioning within stores, and pricing. This differed from most other discount chains, where decisions over pricing and merchandising were made either at head office or at regional offices. Decentralized decision-making power was also apparent within stores, where the managers of individual departments (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 9 a.m. to 9 p.m. weekdays, with shorter hours on weekends. Supercenters were open continuously. Despite the fanatical emphasis on cost efficiency, Wal-Mart went to great lengths to engage with its customers at a personal level. Stores employed "greeters"—often retired individuals—who would welcome customers and hand out shopping baskets. Within the store, all employees were expected to look customers in the eye, smile at them, and offer a verbal greeting. Wal-Mart's "Satisfaction Guaranteed" program assured customers that Wal-Mart would accept returned merchandise on a no-questions-asked basis.

Marketing

At the core of Wal-Mart'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, Wal-Mart's marketing strategy was built upon its slogan "Everyday Low Prices." In contrast to other discount chains, Wal-Mart did not engage in promotional price-cutting.

If "Everyday Low Prices" was the foundation of Wal-Mart's relationship with its customers, then it would mean that it was 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, with an advertising budget of over $2 billion, Wal-Mart was among the world's biggest advertisers in 2012.

Wal-Mart went to considerable efforts to communicate an identity based upon traditional American virtues of hard work, thrift, individualism, opportunity, and community. This identification with core American values was buttressed by a strong emphasis on patriotism and national causes.

However, as Wal-Mart increasingly became a target for pressure from politicians, NGOs, and labor unions, it was increasingly forced to adapt its image and business practices. In 2005, Mike Duke's predecessor, Lee Scott, committed Wal-Mart 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.[19] Two years later, Wal-Mart published the first of its annual sustainability reports.

Commitment to social and environmental responsibility was part of a wider effort by Wal-Mart to broaden its consumer appeal and counter the attempts by activist groups to characterize Wal-Mart as a heartless corporate giant whose success was built upon exploitation and oppression. The desire to reposition and renew Wal-Mart's relationship with its customers and with society culminated in a 2008 company-wide image makeover that included a new corporate logo. The new logo coincided with a program of store redesign that included wider aisles, improved lighting, and lower shelves.[20]

Information Technology

Wal-Mart was a pioneer in applying information and communications technology to support decision making and promote efficiency and customer responsiveness. Wal-Mart 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, Wal-Mart invested $24 million in its own satellite in 1984.

By 1990, Wal-Mart's satellite system was the largest two-way, fully 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, Wal-Mart pioneered the use of data-mining for retail merchandising:

> At Wal-Mart, information technology gives us that knowledge in the most direct way: by collecting and analyzing our own internal information on exactly what any given shopping cart contains. The popular term is "data-mining," and Wal-Mart has been doing it since about 1990. 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 Wal-Mart 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, Wal-Mart can predict daily sales of Gatorade at a specific store and automatically adjust store deliveries accordingly.[21]

Point-of-sale data analysis also assisted in planning store layout:

> There are some obvious purchasing patterns among the register receipts of families with infants and small children. Well-thought-out product placement not only simplifies the shopping trip for these customers—with baby aisles that include infant clothes and children's medicine alongside diapers, baby food and formula—but at the same time places higher-margin products among the staples . . . The common thread is simple: We are here to serve the customer; and customers tend to buy from us when we make it easy for them. That sounds like a simple idea. But first you must understand the customer's needs. And that's where information comes in.[22]

The central role of IT was in integrating Wal-Mart's entire value chain. Point-of-sale data from store checkouts was 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, Wal-Mart is out in front.[23]

Human Resource Management

Wal-Mart's human-resource practices were based upon Sam Walton's beliefs about relations between the company and its employees and between employees and customers. All employees, from executive-level personnel to checkout clerks, are

known as "associates." Wal-Mart claims that its relations with its associates are based on respect, high expectations, close communication, and clear incentives.

Wal-Mart's employees receive relatively low pay (most hourly paid retail workers received between $6.50 and $14 in 2012). However, these rates are, on average, slightly above those paid at other discount chains. Employee benefits include a company health plan that covers 94% of Wal-Mart's employees and a retirement scheme that covers all employees with a year or more of service.

Wal-Mart's compensation system includes profit incentives, which extended to hourly employees. A stock purchase plan is also available to employees.

Despite strenuous efforts by unions to recruit Wal-Mart employees, union penetration remains low. Wal-Mart resisted the unionization of its employees 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. At many of its overseas subsidiaries, however, Wal-Mart works closely with local unions.[24]

Associates are encouraged to use their initiative and to be flexible, especially in relation to serving customers and identifying opportunities for cost saving. They receive continual communication about their company's performance and about store operations. Close collaboration between managers and front-line employees is a feature of every aspect of Wal-Mart's operations. Performance incentives include sharing with employees savings from reductions in "shrinkage" (theft). Wal-Mart's shrinkage rate is about half the industry average.

Orchestrating employee enthusiasm and involvement is a central feature of Wal-Mart's management style. Meetings from corporate to store level feature the "Wal-Mart Cheer"—devised by Sam Walton after a visit to Korea. The call and response ritual ("Give me a W!" "Give me an A!", etc.) includes the "Wal-Mart squiggly" in which employees shake their backsides in unison.

Wal-Mart'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. At the same time, the intense pressure for cost reduction and sales growth frequently results in cases of employee abuse. In several adverse court decisions, Wal-Mart 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 that alleged that Wal-Mart had systematically discriminated against female employees was rejected by the Supreme Court in 2011.

Organization and Management Style

Wal-Mart's management structure and management style is also a product of Sam Walton's principles and values. As Wal-Mart grew in size and geographical scope, Walton was determined that corporate executives should keep closely in touch with customers and store operations. The result was a structure in which communication between individual stores and the Bentonville headquarters was, and remains, both close and personal. Wal-Mart's regional vice presidents are each responsible for supervising between 10 and 15 district managers (who, in turn, are in charge of eight to 12 stores). The key to Wal-Mart's fast-response management system is linkage between the stores and headquarters. This was designed for speed of communication and decision making between the corporate headquarters and the operational units: stores and warehouses. The critical links in this system were the regional vice presidents. Most large retailers had regional offices; Wal-Mart's regional VPs had no offices. There 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. At the Friday meetings information from the field would be presented and shared, first thing Saturday the weekly sales statistics would be available, by Saturday morning actions would be agreed and the regional VPs would be contacting 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, and we've already made the corrections."

The Saturday morning meeting was preceded by three other key corporate meetings:

- On Thursday afternoons, the operations meeting reviewed non-merchandising matters, including inventory management, supply-chain efficiencies, and new store development. Senior executives attended together with logistics, planning, and information managers. The meetings were held standing up to encourage brevity.
- Fridays began with the 7 a.m. management meeting, which involved Wal-Mart's 200-odd senior managers, including the regional vice presidents, who returned from their territories on Thursday evenings.
- This was followed by the merchandising meeting, which involved corporate executives, regional VPs, and buyers. The meeting provided buyers with direct insights into what was selling and what was not, gave regional VPs a means to instantly solve merchandising problems in their stores, and, lastly, included reports on what the competition was doing. The meeting dealt with stockouts, excess inventory, new product ideas, and a variety of merchandising errors. By early afternoon, the regional VPs and merchandisers were emailed a "priority note" of specific actions that they should take action on by the end of the day.

The two-and-a-half-hour Saturday morning meetings beginning at 7 a.m. most clearly represented Wal-Mart's unique management style. The Saturday meetings involved information sharing, education, motivation, and fun. They began with a review of the week's performance data and then involved question-and-answer sessions targeting examples of good and bad performance. They also included presentations that focused on merchandising best practices or new product lines. The highlights were the guest appearances, which in the past have included CEOs such as Carlos Ghosn, Steve Jobs, or Jack Welch, celebrity entertainers, or sports stars. The meetings closed with a talk from the CEO. After a guest appearance at the meeting, Microsoft's CEO, Steve Ballmer commented: "I think they've got a tool that's amazing . . . The Saturday meeting is all about sharing best practices and about being accountable. It's about a culture of performance, and it's about reminding people that business has got to be executed every day. Those are disciplines every company needs."[25]

By 2008, it became apparent that Wal-Mart's increasing size was making these meetings increasingly cumbersome—not to mention the fact that Wal-Mart's largest auditorium could no longer accommodate the participants. In January 2008, Wal-Mart announced that its legendary Saturday meeting would occur monthly and would be held at nearby Bentonville High School. The Saturday meetings were relayed to Wal-Mart stores, warehouses, and offices in all the countries that Wal-Mart did business.

Some managers saw the downgrading of the Saturday-morning meeting as a long-overdue recognition that one of the world's biggest corporations could no longer be run with the same personalized, Arkansas-focused management style put in place by Sam Walton. Others interpreted it differently: Wal-Mart was losing the unique spirit and driving force that had been the basis of its success for four decades.

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