TUCK SCHOOL OF BUSINESS AT DARTMOUTH

WILLIAM F. ACHTMEYER
CENTER FOR
GLOBAL LEADERSHIP

no. 2-0013

Wal-Mart Stores, Inc.

Founded by Sam Walton, the first Wal-Mart store opened in Rogers, Arkansas, in 1962. Seventeen years later, annual sales topped $1 billion. By the end of January 2002, Wal-Mart Stores, Inc. (Wal-Mart), was the world's largest retailer, with $218 billion in sales. (See Exhibit 1 for comparative financial data.)

Wal-Mart's winning strategy in the U.S. was based on selling branded products at low cost. Each week, about 100 million customers visited a Wal-Mart store somewhere in the world. The company employed more than 1.3 million associates (Wal-Mart's term for employees) worldwide through more than 3,200 stores in the United States and more than 1,100 units in Mexico, Puerto Rico, Canada, Argentina, Brazil, China, Korea, Germany, and the United Kingdom. (The first international store opened in Mexico City in 1991.)

In 2001, *Fortune* magazine named Wal-Mart the third most admired company in America, and the *Financial Times* and PricewaterhouseCoopers ranked it as the eighth most admired company in the world. The following year, Wal-Mart was named number one on the *Fortune 500* list and was presented with the Ron Brown Award for Corporate Leadership, a presidential award that recognized companies for outstanding achievement in employee and community relations.

Wal-Mart enjoyed a 50 percent market share position in the discount retail industry. Procter & Gamble, Clorox, and Johnson & Johnson were among its nearly 3,000 suppliers. Though Wal-Mart may have been the top customer for consumer product manufacturers, it deliberately ensured it did not become too dependent on any one supplier; no single vendor constituted more than 4 percent of its overall purchase volume. Further, Wal-Mart had persuaded its suppliers to have electronic "hook-ups" with its stores.

About 85 percent of all the merchandise sold by Wal-Mart was shipped through its distribution system to its stores. (Competitors supplied to their retail outlets on average less than 50 percent of the merchandise through their own distribution centers.) Wal-Mart used a "saturation" strategy for store expansion. The standard

This case was written by Professor Vijay Govindarajan and Julie B. Lang T'93 of the Tuck School of Business at Dartmouth. The case was based on research sponsored by the William F. Achtmeyer Center for Global Leadership. It was written for class discussion and not to illustrate effective or ineffective management practices.

Sources: **The Quest for Global Dominance: Transforming Global Presence into Global Competitive Advantage** by Vijay Govindarajan and Anil K. Gupta ©2001 by John Wiley & Sons, Inc. Chapter 4. **What Management Is: How it works and why it's everyone's business** by Joan Magretta, ©2002 The Free Press. **Sam Walton, Made In America: My Story** by Sam Walton, ©1992 Doubleday. http://www.walmart.com

© 2002 Trustees of Dartmouth College. All rights reserved.

To order additional copies, please call 603-646-0898.

was to be able to drive from a distribution center to a store within a day. A distribution center was strategically placed so that it could eventually serve 150-200 Wal-Mart stores within a day. Stores were built as far away as possible but still within a day's drive of the distribution center; the area then was filled back (or saturated back) to the distribution center. Each distribution center operated 24 hours a day using laser-guided conveyer belts and cross-docking techniques that received goods on one side while simultaneously filling orders on the other.

The company owned a fleet of more than 3,000 trucks and 12,000 trailers. (Most competitors outsourced trucking.) Wal-Mart had implemented a satellite network system that allowed information to be shared between the company's wide network of stores, distribution centers, and suppliers. The system consolidated orders for goods, enabling the company to buy full truckload quantities without incurring the inventory costs.

In its early years, Wal-Mart's strategy was to build large discount stores in small rural towns. By contrast, competitors such as Kmart focused on large towns with populations greater than 50,000. Wal-Mart's marketing strategy was to guarantee "everyday low prices" as a way to pull in customers. Traditional discount retailers relied on advertised "sales."

Management Systems

Each store constituted an investment center and was evaluated on its profits relative to its inventory investments. Store-level data on sales, expenses, and profit and loss were collected, analyzed, and transmitted electronically on a real-time basis. The data could be analyzed by region, district, store, department within a store, or even at the level of an item within a department.

One of the significant costs for retailers was shoplifting, or pilferage. Wal-Mart addressed this issue by instituting a policy that shared 50 percent of the savings from decreases in a store's pilferage among that store's employees through store incentive plans.

Early in Wal-Mart's history, Sam Walton implemented a process requiring store managers to fill out "Best Yesterday" ledgers. These relatively straightforward forms tracked daily sales performance against the numbers from one year prior. Recalled Walton, "We were really trying to become the very best operators—the most professional managers—that we could.… I have always had the soul of an operator, someone who wants to make things work well, then better, then the best they possibly can."[1] His organization was really a "store within a store," encouraging department

[1] Joan Magretta, *What Management Is: How It Works and Why It's Everyone's Business* (The Free Press, 2002),189.

managers to be accountable and giving them an incentive to be creative. Successful experiments were recognized and applied to other stores. One example was the "people greeter," an associate who welcomed shoppers as they entered the store. These greeters not only provided a personal service, their presence served to reduce pilferage. The "10-Foot Attitude" was another customer service approach Walton encouraged. When the founder visited his stores, he asked associates to make a pledge, telling them, "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 him if you can help him."[2]

In return for employees' loyalty and dedication, Walton began offering profit sharing in 1971. "Every associate that had been with us for at least one year, and who worked at least 1,000 hours a year, was eligible for it," he explained. "Using a formula based on profit growth, we contribute a percentage of every eligible associate's wages to his or her plan, which the associate can take when they leave the company, either in cash or in Wal-Mart stock."[3] In 2001, Wal-Mart's annual company contribution totaled $486 million.

Wal-Mart also instituted several other policies and programs for its associates: incentive bonuses, a discount stock purchase plan, promotion from within, pay raises based on performance not seniority, and an open-door policy.

Discussion Questions

1. What is Wal-Mart's strategy? What is the basis on which Wal-Mart builds its competitive advantage?

2. How do Wal-Mart's control systems help execute the firm's strategy?

---

[2] http://www.walmart.com

[3] Sam Walton, *Sam Walton, Made In America: My Story* (Doubleday, 1992), 132.

Exhibit 1 Comparative Financial Data on Selected Companies

	Five-Year Average: 1995-2000				
	Wal-Mart	Kmart	Sears	Target	Walgreen
Five-year return on equity (percentage)	19.9	4.8	20.8	17.9	18.3
Five-year sales growth (percentage)	15.4	1.3	3.2	9.4	15.3
Five-year net income growth (percentage)	18.1	Neg	-5.7	32.4	19.3
	2000 Data				
Sales ($B)	191.3	37.0	40.9	36.9	21.2
As percentage of sales:					
Cost of goods sold	77	77	66	69	72
Gross margin	23	23	34	31	28
Selling and administration	16.5	19.0	23.3	22.2	21.3
Operating income	6.2	3.9	11.0	9.3	6.9
Net Income	3.3	-0.7	3.3	3.4	3.7
Inventory turnover	7	4	5	6	6
Return on equity (percentage)	20	-4	20	19	18