WALMART STORES INC. - A STRATEGIC ANALYSIS

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Abstract

Walmart Stores Inc. is one of the largest US and global corporation which is engaged in the business of mass merchandising retailing. This paper analyzes Walmart with respect to it's external and internal environment. PESTEL analysis reveals that Walmart's sales acts as an indicator of the US economy. SWOT analysis of Walmart reveals that there are opportnuties for Walmart in the area of online and global retailing. Walmart's analysis in relationship to other global retailers reveal that it had experienced modest growth despite the global recession between 2008 and 2009.

Keywords: SWOT , PESTEL, Walmart,

Introductory Company Overview

Sam Walton started a Ben Franklin stores in Rogers, Arkansas during the sixties.Today Walmart Stores Inc. has blossomed into top US and global retailer with a revenue of $476.29 billion and employing 21.1 million employees in its 8970 stores. The founder Mr.Sam Walton believed in doing things which others have not even thoght about and true to his belief Mr.Walton focussed on the creation of an efficient distribution system and networking the Walmart stores, distribution centers and the home office with its owned satellite. (Ghazzawi, et.a., 2014). At the heart of Walmart's business philosophy lies Sam Walton's vision of “low cost leadership”. Walmart's distribution system and its technological prowess turned out to be their core competences and the same had been geared to achieve economies of scale in the supply chain and that in turn translated into the “Everyday Low Price” on most of the merchandise which Walmart sells to its customers. With the passage of time, the US retail industry has become increasily saturated and global expansion has become important for Walmart from it's growth perspective. Also, sustainability has become one of Walmart's top priority.

Both the global expansion and sustainability will be discussed in more detail in later sections.

Industry Overview

The history of retailing in the US dates back to the reconstruction era of the post Civil War period. Prior to the Civil War, there were only a few cities with the population of more than five thousand people (Burns & Rayman, 1995), however, after that there was a shift in population from the rural areas to urban locations owing to the process of industrialization. This shift in demographics gave birth to the department stores. These department stores had single ownership for all the shops which were housed under one large arch like roof with vertical columns supporting that roof and these department stores provided the one stop shop experience (Burns & Rayman, 1995).

The early part of the twentieth century saw the rise of chain stores which rivaled the department stores. These chain stores had a centralized office which controlled several different identical stores spread over a given geographical area. After the Great Depression, the Discount Stores were born. These stores were started because the buying power of the US consumer became substantially less during the post Great Depression era and these stores were offering merchandise with affordable prices. Finally, during the sixties mass merchandisers like Walmart, Kmart etc were born.

"Mass Merchandisers are large self service stores with many departments that emphasize "soft goods" (housewares, clothing and fabrics) and staples (like Health and Beauty Aids)" (Perrault, et.al.2011). These mass merchandisers offer "everyday low price" with low profit margins and quicker inventory turnover.

The US retail industry is in its mature phase with cut throat competition. In 2008,the economic recession was triggered off by the collapse of major financial institutions like Lehman Brothers, the mortgage industry and the decrease in home values and the same had an adverse effect on every aspect of the US economy including the retail trade. The following section shows these effects.

This section highlights the US retail trade between the years of 2006 and 2013. According to the data retrieved from the US census (available at http://www.census.gov/retail/index.html#mrts,), the retail sales increased from 4.2 trillion US dollars in 2006 to 5.011 trillion US dollars. The following fig.1 shows the data represented by the chart wherein the column represents the dollars and the X-axis represents the years.

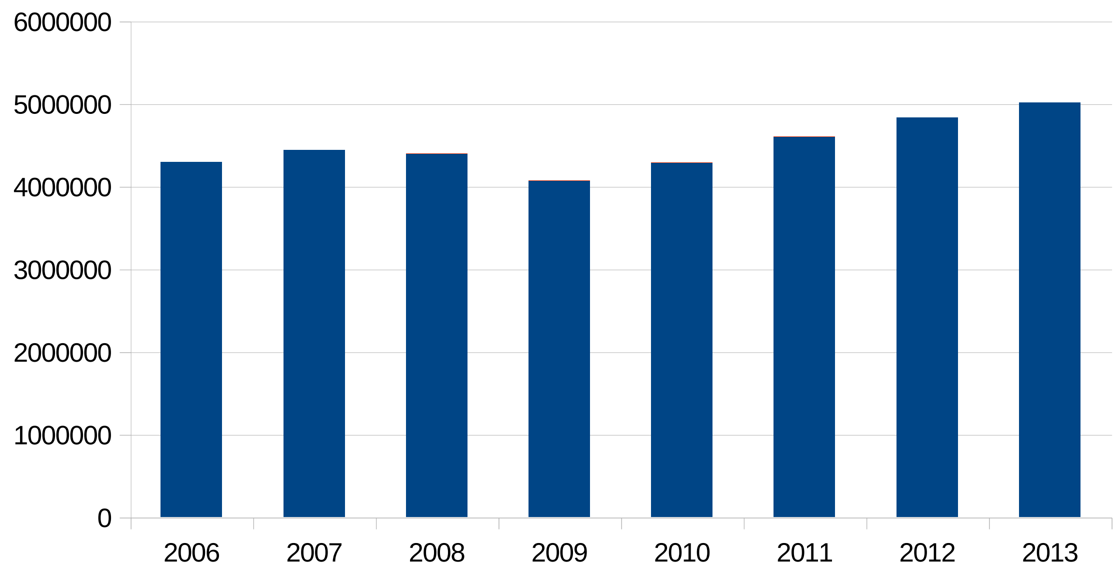

Fig.1

It is to be found that the dip between 2008 and 2009 caused the per cent change in the US retail sales to be negative and this has been reresented in the following fig.2 wherein the Y-axis represents the percent change and the X-axis represents the years 2007 through 2013.

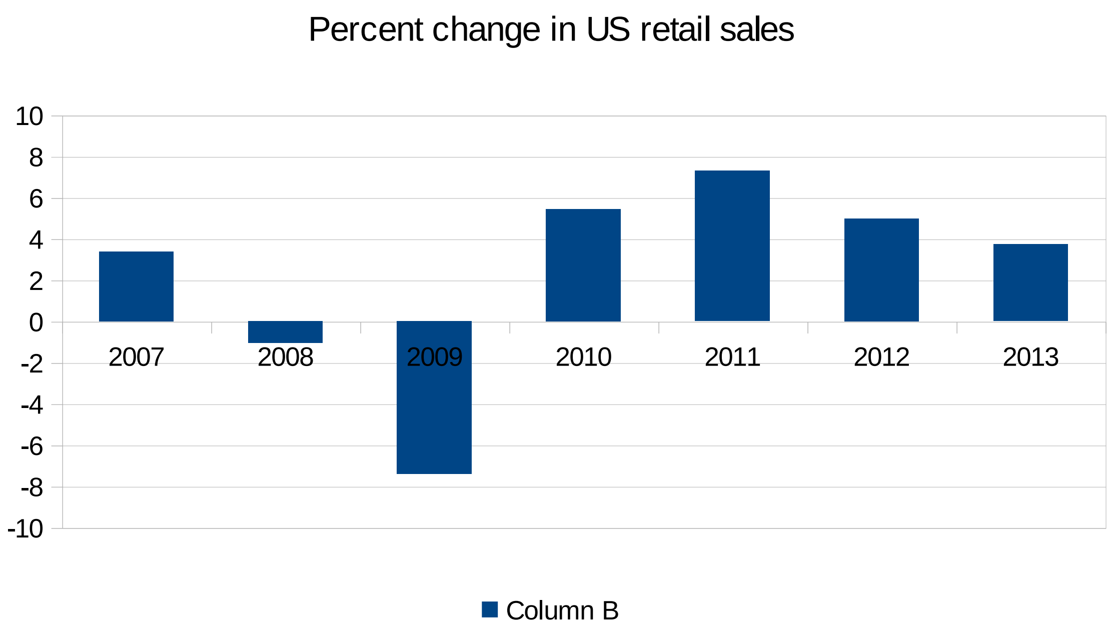

Fig.2

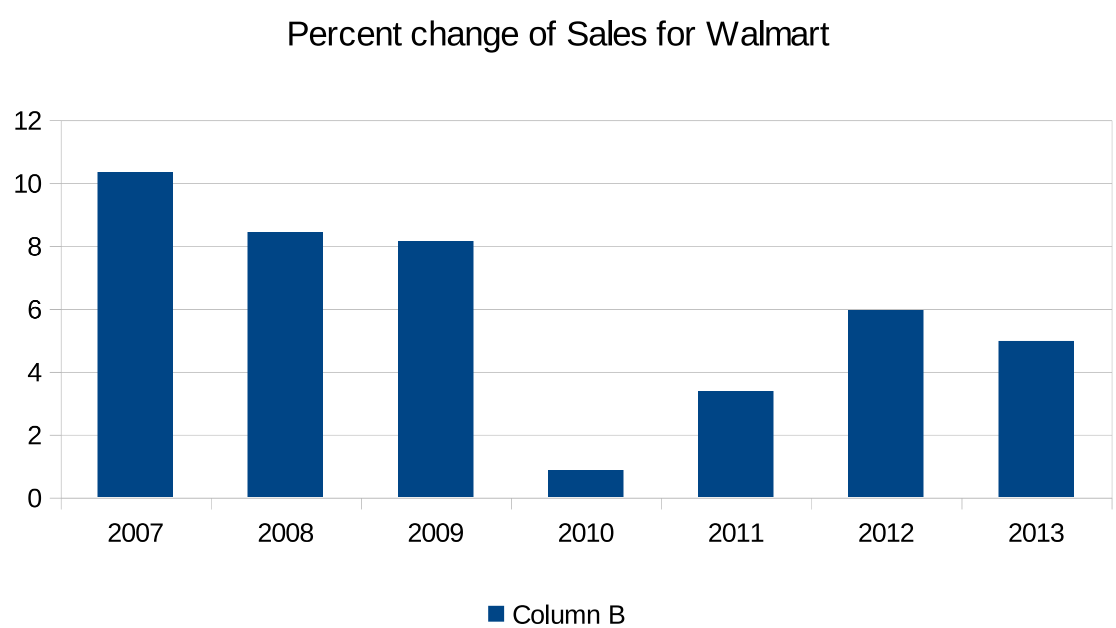

Fig.3

Despite the adversity faced by the US economy and the US retail trade Walmart showed a surprisingly positive increase in the revenues in terms of percentage chages from the previous year and the same has been shown in Fig. 3 above. The reason for this paradox will be discussed in detail in the economic section. The next section subsection will constitute a discussion about sociocultural and demographic elements in the US.

External Environmental Analysis

Sociocultural and demographic Analysis:

Zukin (1998) asserts that the baby boomer generation have been instrumental in the creation of quality consciousness amongst the consumers and the same has given rise to a quality conscious awareness amongst the sellers of products and services. The big cities have attracted a lot of immigrants and individuals pursuing alternative lifestyles and the same has created a demand for boutiques, art galleries, restaurants and retail outlets. This demand have been fulfilled by retail outlets (for instance) who cater to the diverse grocery needs of various ethnic communities. As for example, the Fiesta store chain in Houston area caters to the grocery needs of the Hispanic / Latino individuals originating from the Central and South America. The author suggests that the increased accessability of low income individuals in urban public places (like restaurants, theaters, amusement parks) alongwith an increase in migrants (and population, in general) created an exodus of an affluent class of individuals to move to suburban areas and consequently the department stores which dominated the US retail landscape were forced to open branches in the subburban areas. Eventually, during the sixties the department stores (like Mervyn's and Montgomery Ward) met with their nemesis with the emergence of mass merchandisers like Walmart / Sam's Club and Costco. The affluent individual living in the suburban areas (and commuting to work to urban areas) had started to shop for grocery / general merchandise every weekend in bulk from Walmart / Sam's Club / Costco thereby the sales of department stores in the suburban areas started to decline and eventually these units were forced to shut their doors. The warehouse / supercenter retail stores like Walmart have not only forced the suburban area department stores to go out of business but it has also forced the sales of traditional grocery retailers to decline. Hausman and Leibtag (2007) argue that ever since Walmart supercenters have started to sell grocery items in 1988, shoppers (particularly, the low income individuals) have lessened their shopping trips to Kroger and Albertsons and this resulted in decreased sales for grocery retailers like Kroger. The authors find that the low income household members tend to shop more at Walmart than the above mentioned stores.

According to data available in 2007, Walmart Stores Inc. had the following demographics in their workforce: total numbers of employees amounted to 1.3 million and the employee composition in terms of their ethnic groups were: African Americans totalled to 237000 (18.2%), Hispanics were 154000 (11.9%), Asian Americans were 42000 (3.2%), Native Americans were 15000 (1.2%). The female employees of Walmart comprised the majority of the workforce, i.e. 826000 (63.5%) of the total 1.3 million employees. Also 256,000 (19.7%) of the total 1.3 million Walmart employees were seniors aged over fifty five years. This Walmart employee diversity is also reflected in their senior management positions (i.e. board of directors) wherein three members are women, two are African american and two are Hispanic (out of a total of fifteen members).(Hemphill, 2008). The above employee composition by race, gender and age are shown in the following figure 4.

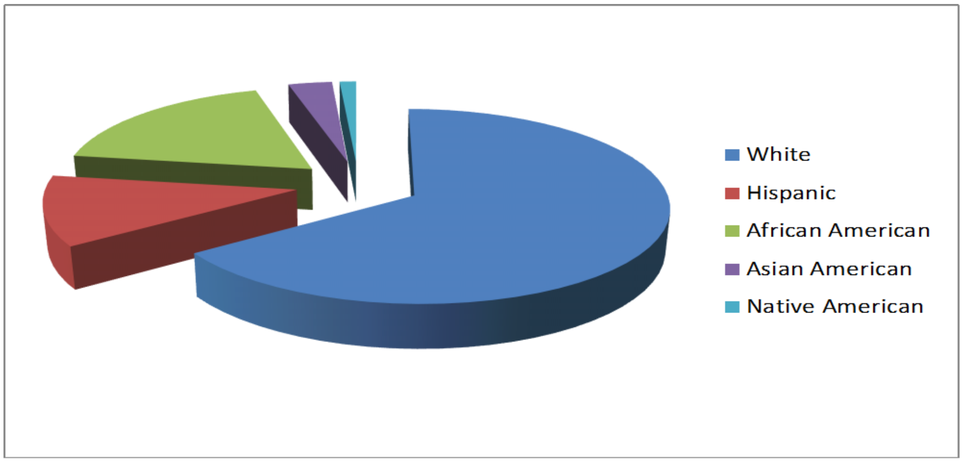

Fig.4

The above fig.4 shows the workforce composition of Walmart by ethnicity. The following fig.5 shows the employee workforce at Walmart by gender. Walmart received several recognitions for their diversity practices in their employee workforce (including its mentioning in the top 10 companies for Asian Americans by Asia Enterprise. In 2003, Walmart set up a diversity office to monitor diversity practices in terms of hiring and promoting minority employees in the company. Goals were created for the respective management employees for training, hiring and promoting minority employees and if the goals were not met a reduction of bonus of upto fifteen percent was implemented. (Hemphill, 2008). Despite the diversity practices adopted by Walmart, it was sued for gender discrmination in a class action lawsuit and the ultimate verdict went in favor of Walmart.

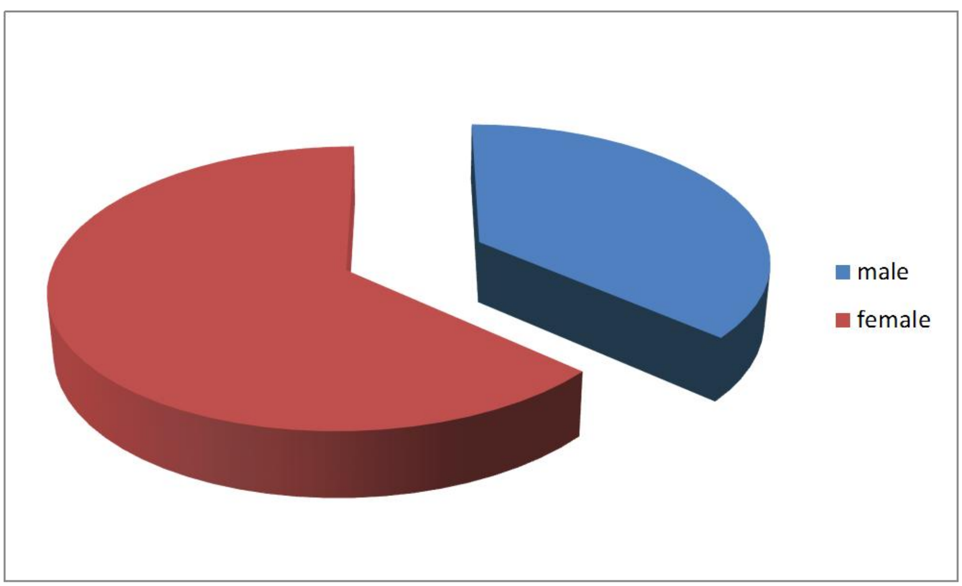

Fig.5

The following section consists of a macro and micro economic analysis.

Economic Analysis:

Macro-economic and Micro-economic Analysis :

Jantzen et.al. (2009) finds that Walmart sales is sluggish when the overall condition of the US economy improves and vice versa. In particular, the authors find that Walmart sales improves when personal income (including disposable income) in the US deteriorates (and vice versa). Also, this study finds that the increase of jobless claims in the US corresponds to an increase in Walmart sales and vice versa. This phenomena has been displayed in Figs. 1, 2, and 3 above. In particular, it is seen from fig.2 and fig.3 above, as the percent change in US retail sales increased in 2010, the corresponding Walmart retail sales percentage decreased whereas the percentage of Walmart retail sales between the recession and post recession years of 2008 and 2009 held steady around eight percent (increase) and the corresponding US retail sales shows a decrease of one percent and seven percent.

The following table in Fig.6 shows the US GDP per capita and the Walmart sales between 1991 and 2004. A multiple regression analysis has been performed and the results discussed.

Year	US GDP per capita	Walmart Revenues
1991	24405.2	32.6
1992	25493	43.88
1993	26464.8	55.48
1994	27776.6	67.34
1995	28782.2	82.49
1996	30068.2	93.62
1997	31572.7	104.85
1998	32949.2	117.95
1999	34620.9	137.63
2000	36449.9	163.83
2001	37273.6	191.3
2002	38166	217.8
2003	39677.2	244.5
2004	41921.8	256.32

Fig. 6

In the above fig.6, the US GDP/capita is in thousands of US $ and Walmart revenues in billion US $.

The following Fig.7 displays the regression output corresponding to fig.6 above.

Regression Statistics	
Multiple R	0.9864088151
R Square	0.9730023506
Adjusted R Square	0.9707525465
Standard Error	12.768825075
Observations	14

ANOVA

	df	SS	MS	F	Significance F
Regression	1	70513.303	70513.303	432.48314	8.837993202E-011
Residual	12	1956.5147	163.04289		
Total	13	72469.818			

	Coefficients	andard Err	t Stat	P-value	Lower 95%	Upper 95%	Lower 95.0%	Upper 95.0%
Intercept	-297.85092824	20.819326	-14.30646	6.67E-009	-343.2123417817	-252.489515	-343.21234178	-252.4895147
X Variable 1	0.0131238443	0.0006311	20.796229	8.84E-011	0.0117488642	0.01449882	0.0117488642	0.0144988244

Fig. 7

The above fig 6. displays a dataset consisting of the US GDP per capita in thousand US dollars units and Walmart revenues in billion US dollars between 1991 and 2004. The US GDP per capita is assumed to be the independent variable or the X variable and the Walmart revenues is assumed to be the dependent variable or the Y variable.

(http://dss.princeton.edu/training/Regression101.pdf#page=2)). Here, the p value corresponding to the X vaiable 1 (Fig.7 above) is 8.84/100000000000 = 0.00000000884 which is less than 0.05 so the relationship between the US GDP /capita and Walmart revenues is statistically significant. Also, as seen from the Fig. 7 above, R square value is 0.9730023506 which implies that 97 % of the variance in the data given under the Walmart revenues is explained by the US GDP per capita .(Fig.6)

Furthermore, the coefficient of correlation of the data displayed above in the Fig.6 is 0.9864088 which implies that there is a strong positive correlation between US GDP /capita and Walmart revenues between 1991 and 2004.

The regression equation may be formulated as follows:

Walmart Revenues = -297.85092824 + 0.0131238443 * US GDP / capita

According to Hausman and Leibtag (2007), the impact of the opening of a new shopping outlet in a given area is the difference of the consumers' expenditure before and after the opening of the new shopping outlet assuning the utility of the consumer to be constant and the authors name this phenomenon as the compensating variation. The authors find that the compensating variation of the lower income individuals is higher than individuals belonging to higher income category. In other words whenever a new shopping outlet opens up its doors in a given neighborhood, the number of shopping visits to the new stores is higher amongst the low income individuals as compared to high income individuals.

The following fig. 8 displays the data representing Walmart Revenues per emloyee between 2006 and 2010 and the corresponding Walmart revenues.

Year	Walmart Revenues per employee	Walmart Revenues
2006	171636	308945
2007	181575	344992
2008	178241	374307
2009	191505	401204
2010	194388	408214

Pearson	0.9129335889
RSQ	0.8334477377
Interept	-364462.117960717
Slope	3.9897449594

Fig.8

Regression Statistics	
Multiple R	0.91293359
R Square	0.83344774
Adjusted R Square	0.77793032
Standard Error	19394.3961
Observations	5

ANOVA

	df	*SS*	*MS*	*F*	*Significance F*
Regression	1	5646789698.638	5.65E+009	15.012364	0.0304337269
Residual	3	1128427802.562	376142601		
Total	4	6775217501.2			

	Coefficients	*Standard Error*	*t Stat*	*P-value*	*Lower 95%*	*Upper 95%*	*Lower 95.0%*	*Upper 95.0%*	*Upper 95.0%*	*Upper 95.0%*	*Upper 95.0%*
Intercept	-364462.118	189121.3199784	-1.927134	0.1495863	-966330.5639764	237406.328	-966330.564	237406.32805	237407.32805	237408.32805	237409.32805
X Variable 1	3.98974496	1.0297234176	3.8745792	0.0304337	0.7127054736	7.26678445	0.712705474	7.2667844453	8.2667844453	9.2667844453	10.266784445

Fig. 9

The data displayed in the Fig.8 shows the revenues per employee at Walmart and the total Walmart revenues between 2006 and 2010. This data has been retrieved from Multiline Retail Industry Profile: Global (2011). The Walmart Revenues per employee between the years of 2006 and 2010 has been assumed to be the independent variable (X variable 1 in the Fig.10 above) and the corresponding Walmart Revenues has been assumed to be the dependent variable. As seen from the above Fig. 9, the Pearson coefficient is 0.9129335889 which suggests that there is a strong positive correlation between Walmart Revenues per employee and Walmart revenues. As seen from fig.9 above the value of R square is 0.8334477377 which implies that 83 % of the variance in Walmart revenues in Fig.9 above is explained by Walmart Revenues per employee. As seen from the fig.10, the p value corresponding to the predictor variable Walmart revenues per employee (X variable 1) is 0.0304337 which is less than .05 and this implies that the relationship between the Walmart Revenues per employee and walmart revenues is statistically significant. The regression equation (Fig.9) may be formulated as:

Walmart revenues per employee = -364462.117960717 + 3.9897449594 Walmart Revenues

The following section discusses the technology application in retail with reference to Walmart.

Technology:

Walmart is the technology leader of retail organizations in the following four aspects (Freeman et.al., 2011):

1)Data Warehousing: Walmart has the world's largest private database which is accessible to it's employees and partners in the supply chain (the same eliminates the cost of over or under production by the supplier). In 1987, Walmart built the largest private satellite communication system so a to improve the reliabilty of access to its datawarehouse. In 1991, Walmart spent an additional $4 billion to create their own data warehouse Retail Link.
2)Data Enabled suply Chain Coordination: Walmart had been instrumental in creating a business support system called Collaboative Planning, Forecasting and replenishment (CPFR) which has become very popular with the supplier community and it is also an industry benchmark.
3)Product codes and bar code labels: Walmart played a leadership role in order for the retailers to be use CPFR with the help of electronic and quantity data usage.
4)Radio Frequency ID tags: Walmart also has a leadership role in the inventory control process by being able to track the movement of certain high dollar merchandise (like TV) from the shipment stage at warehouse to delivery stage at its stores. This lessens the chances of the items being misplaced or stolen.
5)E-Recruiting: Walmart alongwith Google has started an e-recruiting (alongwith an integrated testing of the candidates) and this makes the recruitment process more efficient. The following section discusses the Physical / Ecological impact of Walmart's business operations.

Physical/Ecological: In order for Walmart to continue to be in the low cost leadership role, it concluded in 2005 that it needs effeciency in all aspects of its operations and so it adopted a sustainability goal which included the following:

1)To be supplied 100 % by renewable energy
2)To create zero waste
3)To sell products that sustain the people and the environment (like organic grocery items and easily recyclable packaging of products) (Stankeviciute et.al., 2012)

In 2009, Walmart created another sustainability goal for itself: It would built facilities which would be 25-30 % energy efficient. Walmart Canada has some of its stores use solar power to generate electricity. (Stankeviciute, et.al., 2012)

The consumers are becoming increasingly aware of leading a healthy lifestyle by consuming healthy food and suppporting the cause of environmental protection. According to Lai et.al. (2010), the National Marketing Institute in the US expects the market segment of consumers looking for environmentally friendly products / services to be worth $845 million by this year (2015). Furthermore, businesses are becoming proactive in response to consumers who are inclined to protect the environment and those who lead a healthy lifestyle. Walmart has successfully reduced the Carbon Dioxide emission by four hundred thousand tons per year. Walmart has been using hybrid trucks in its distribution / logistics system to increase their fuel efficiency by twenty five percent.

The following section discusses about Globalization.

Globalization and Porter's model and application:

In the US and Europe the retail industry is in the mature phase of the product lifecycle and consequently it has become increasingly challenging for retailers to expand / grow their respective businesses in these areas and as a result of these retailers like Walmart, Tesco, Carrefour, Target, Costco and others have opened stores in Asia, South America, Australia and elsewhere. Globally, the total value of retail market had amounted to $1634.4 billion and this retail market had been subdivided into the following: Americas 39.3%, Asia – Pacific 31.9 %, Europe 25.2 % and rest of the world 3.6%. (Datamonitor, 2010)

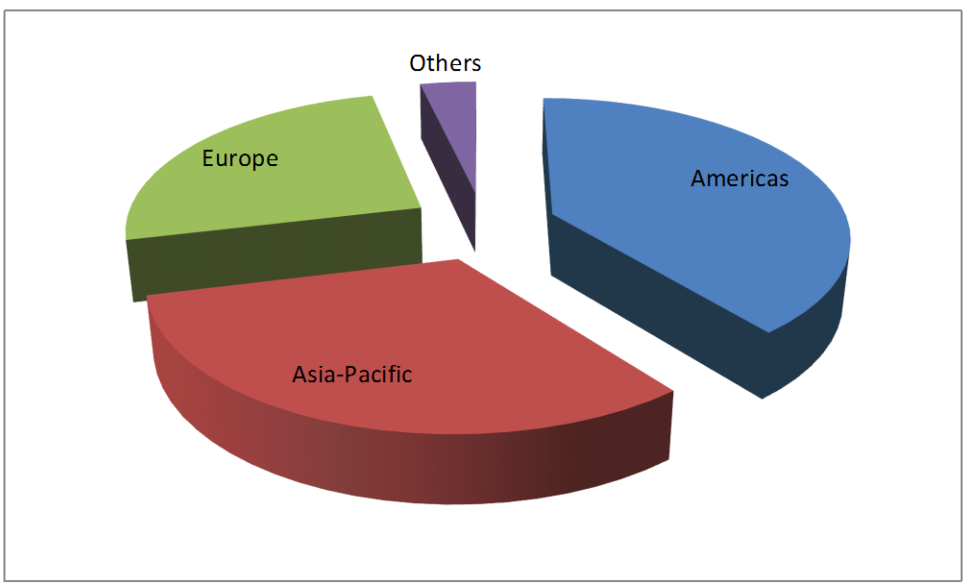

Fig.10

As shown in Fig.10, the Americas is the largest component of the retail market with a value of $642.31 billion, followed by Asia -Pacific at $521.37 billion and Europe at $411.68 billion. The emerging markets of Brazil and China has been under the radar of retailers like Walmart and Carrefour. The advent of the supercenters and clubs / warehouses in the US during the sixties have increased intense rivalry between companies like Walmart / Sam's Clubs, Costco, Target, Kmart. Besides the price wars between these and other mass mercahndisers / retailers, ardent efforts are made to provide superior customer service to meet / exceed customer expectations and promoting in store / private label brands.

The following section gives an overview of the global retailers alongwith an application of the Porter's model / five forces analysis in global retailing scenario.

Overview Global retailers:

Metro AG: Metro has it's roots in Germany. It operates in four different formats, i.e. Metro Cash & Carry, Galeria Kaufhof, Media Markt & Saturn and Real. It has 2100 outlets in Europe, Asia and Africa. (Datamonitor, 2010). Metro Cash & Carry primarily serves as a business intermediary catering to the needs of restaurants,hotels, independent retailers and others. Real stores primarily sells grocery intems like milk, cheese, meat, sausage etc in the European markets like Germany, Poland, Russia, Ukraine and Turkey. Metro's Media Markt sells electronic products and the Galeria Kaufhof operates in Germany and Belgium and sells sporting goods and clothing items.

Walmart Stores Inc.: It is the largest retailer in the US and the world. It originates from the US and operates in the supercenters, clubs, neighborhood markets and discount stores. It's clubs operation are to be found in the US and it caters to the needs of individuals and small businesses. It's International division operates in Brazil, Argentina, Mexico, UK, China etc.

Carrefour originates in France and operates 15937 stores across Europe, asia and Latin America. Carrefour's cssh and carry outlets cater to the needs of small business owners and Carrefour operates cash and carry stores in Brazil, Argentina and Columbia under the brand name Promocash and Altacadao.(Datamonitor, 2010)

Tesco Plc is a UK based grocery retailer operating in various retail store formats ranging from Tesco extra hypermarkets, Tesco supermarkets, Tesco Metro city center stores and Tesco express convenience sores. These stores offer primarily grocery items and non food items like electrical merchandise. Tesco has 2715 stores in the UK.

The following sections discusses the Porter's model / five forces analysis with respect to the above global retailers.

In his revolutionary five forces model, Micael E.Porter argues that the comprehension of the five forces,(i.e. the threat of new entrants, the threat of substitutes, the supplier power, the buyer power and the degree of rivalry) and their theoritical underpinnings reveal the reasons behind the profitability in a given industry (Porter, 2008). The five forces model provide a firm / strategists a theoritical knowledge about the anticipation and influence of competition and profitability in a given industry. Porter (1980) further argues that competition and profitability in a given industry is only impacted by it's (industry's) structure and profitability. The following are the five forces according to Porter and their application to the global retailers /retailing.

Buyer Power: The buyer power has been found to be weak because customers who shop at Walmart (for instance) prefer to buy items based on the least price and they end up buying Walmart in store branditems like *Great Value* brand milk (instead of *Borden* brand milk) or *Faded Glory* brand jean pants instead of Levi Strauss brand jean and those customers who do not want Walmart in store brand merchandise go to other business selling different brands have very little or no impact on Walmart's profits. So, Walmart has a strong influence on consumer shopping preferences in terms of price / branding etc.

Supplier Power: Since Walmart, Careefour, Metro and Tesco have a wide range of suppliers and there is a cut throat competition amongst suppliers to do business with these global retailers and their switching cost is low, they (the global retailers) enjoy a wide range of options to procure merchandise from a wide array of suppliers. While the dominance of these global retailers over the smaller suppliers exist, however, it is offset by suppliers of name brands like Coca-Cola whose products are in high demand (and they are sought after by the global retailers) and hence the supplier power has been found to be moderate (Datamonitor, 2010).

Threat of New entrants: The entry barriers for a new retailer competing against Walmart, Tesco, Carrefour or Metro are high because the customers are loyal to the brands (and corresponding price) offered on products / services by them, moreover, substantial investment is required to compete with the above retailers. Two major threats of new entrants exist in the area of speciality stores (offering is few brands at higher prices like cosmetics stores selling Revlon products) and online retailing which is increasingly appealing to Generation X and Generation Y market segment. . So, the threat of new entrants has been assessed to be moderate (Datamonitor,2010).

Threat of substitutes: While there is no real threat of substitutes in retailing, the retailing channel may pose as a threat. As for example the online retailing may pose a limted threat in terms of products (non grocery items as for instance) and market segment (indiviividuals born during the eighties or nineties would prefere online shopping rather than individuals born during the forties or fifties). So overall there is a moderate threat of substitutes in this industry (Datamonitor, 2010)

Degree of rivalry: The degree of rivalry amongst the leading global retailers Walmart, Carrefour, Metro and Tesco (together these retailers enjoy about 6.7% of the global market share) is reduced by the presence of several other retailers, however, the intensity of their rivalry is increased in online retailing because buyers are not deterred by high switching costs. Infact, the switching costs for the buyers are low and so they can shop any brand from any retailer and this creates a price war on similar product offereings. So, the degree of rivalry is found to be strong. And it is also healthy for this industry (Datamonitor 2010, Porter, 2008).

The following section discusses the relationship of Walmart with respect to it's global and domestic competitors.

According to Zhu et.al. (2009), Walmart and Kmart prefers to operate in markets wherein low wages, low income, minorities, single parent families with vehicles are predominant whereas Target prefers to operate in markets wherein high income/wages white population are predominant. The authors find that the entry of Walmart in a given market does not affect Target's operations, however, Kmart's operations are affected because it struggles to compete with Walmart on prices.

The following portion provides relevant information about Walmart in relation to it's global competitors.

Year	Walmart	Metro	Carrefour	Tesco
2007	344.9	64.33	114.28	68.38
2008	374.3	67.95	120.98	75.85
2009	401.2	65.52	118.76	86.44
2010	408.2	67.25	125.34	91.27

Fig.11

The above table in Fig.11 represents the total revenues of Walmart and its competitors Metro, Carrefour and Tesco between 2007 and 2010. The figures represent billion US dollars. In fig.12, the total revenues are compared between Walmart, Metro, Carrefour and Tesco. In fig. 12, series 1, series 2, series 3 and series 4 represent the years 2007, 2008, 2009 and 2010 respectively. Fig 13 represents the percentage change in terms of gain / losses recorded by the firms between 2007 and 2010. It is interesting to note that Walmart's revenue increased by 7.18% (between 2008 and 2009) and Tesco.

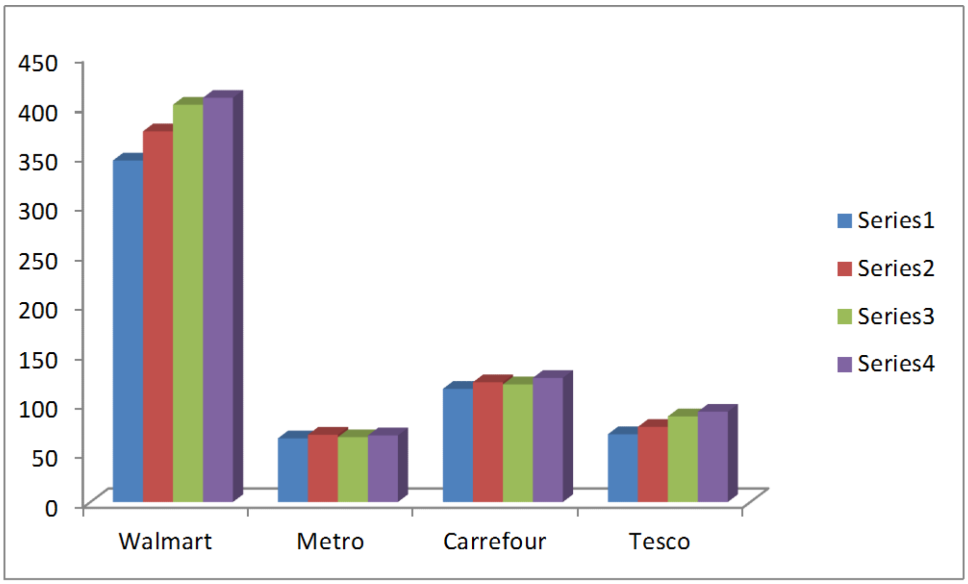

Fig.12

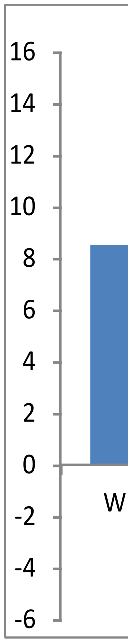

Fig.13

It is also interesting to note that the recession years of 2008 and 2009 adversely affected the total revenues of Metro and Carrefour which registered decreases in revenues amounting to -3.57 % and -1.83 % respectively.

Year	Walmart	Metro	Carrefour	Tesco
2007	8.1	3	5	8
2008	8.2	1.6	3	7.7
2009	8.6	1.5	0.7	5.7
2010	9.3	2.5	1.1	5.1

Fig.14

The fig.14 represents the return on assets percentages of Walmart, Metro, Carrefour and Tesco.

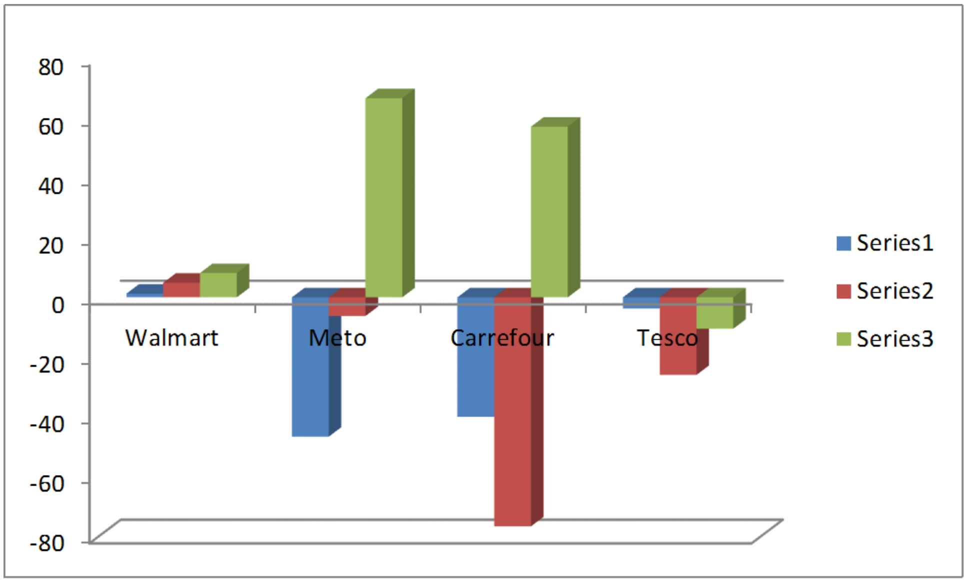

Fig. 15

The analysis of percentage change of the Return on Assets of the above firms have been shown above in Fig.15 and it is found that Walmart registered a modest increase between 1.2% to 8.1%whereas Metro, Carrefour and Tesco were more dramatic in this rspect. . Metro registered an incrase in its profitability of -46.6 % to 66.6%. Tesco has been suffereing in the decrease of profitability from-3.75% to -10.52% and Carrefour also registered an increase of it's profitability between -40% to 57%.

The following section discusses the SWOT analysis of Walmart and also a scenario analysis of Walmart.

SWOT analysis of Walmart

*Strengths:*Walmart's major strengths are it's distribution and information technology. As early as 1969, Walmart computerized its distribution centers and by 1987 it became the largest private satelleite owner (to enhance its communication between its home office, distribution center and the retai outlets) and by 1991 it spent an additional four billion US dollars to start it's own (largest) data warehouse known as RetailLink (Basker, 2007, Freeman et.al, 2011, Hitt et.al). Walmart's distribution system is the other major factor of it's strength and success. Walmart had been one of the first retailers to computerize it's distribution centers thereby reducing the labor cost in the processing of its shipments. (Bhasker, 2007). Apart from this Walmart has a cost efficient fleet of trucks operated by highly skilled, professional and reliable drivers. Thess core competences help Walmart leverage competitive advantage and augments it's low cost leadership strategy and the most recent strategy adopted by Walmart is "remix", i.e. quicker replenishment of out of stock merchandise and restocking its stores' shelf spaces more frequently and cost effectiively (Cassidy, 2005). Walmart Stores Inc. has three divisions, i.e. Walmart Supercenters which offers one stop shop experience to it's customers (at everyday low price) with a wide product assortments in grocery and non -grocery merchandise. In 2005, Walmart srpassed Kroger as the largest grocery retailer in the United States.Walmart also operates it's Neighborhood Markets in major US urban areas and these are Food & Drug combo stores. The Sam's Club division of Walmart Stores Inc. caters to the needs of small business owners who buy items in bulk and also to the upscale customers who look for look for brand names like Bose sound systems items from electonics. (Datamonitor, 2014).

Weakness:

Walmart Stores Inc. had been sued by Betty Dukes (who was a female employee of a Walmart store in California) for discrimination in terms of pay and promotions on the basis of gender. It had been the largest class action civil lawsuit in the US history and it went in favor of Walmart. Drogin (2003) performed some rigorous statistical analysis and concluded that women earn less than men in hourly and salaried positions. The author finds that despite the fact that seventy five percent of the female employees outperforming the male countrparts, it had been the male hourly employee making about $1.16 per hour more than their female counterparts (on an average by the end of 2001). Women at Walmart received 346 fewer promotions (than men) to the co- manager position and 155 fewer promotions (than men) into the store manager position.

In 2003, Betty Dukes, a female employee of Walmart California was discriminated in terms of her pay raises and promotion and she left Walmart and started the largest class action lawsuit against Walmart (which Walmart won) (Bowers, 2003) but this gave impetus to some Walmart employees from California to call a strike (which is illegal because of Walmart's policies). They striked because they wanted fair wage rate increase. So, Walmart closed these stores in California and subsequently in Oklahoma, Texas and Florida and terminated the striking employees. This had created a negative image of Walmart in the media, however, Walmart reopened these stores and rehired these employees. (Logan 2014)

Opportunities:

The opportunities for Walmart are primarily two fold, i.e. online market and international markets. The online retail sales in the US increased from $168.1 billion to $263.3 billion in 2013 (Datamonitor, 2014) and Amazon.com is easily the number one online retailer with a focus on low price on its products and customer shopping convenience. Subject to FAA approval, Amazon plans to use mechanized flying drnoes to deliver products to it's customers (Donici, 2012). Walmart operates it's online business via Walmart.com and it is the second most visited website (after Amazon) (Datamonitor, 2014). Walmart seeks to increase its international presence in the field of e-Commerce. In China, Walmart has teamed up with Yihaodian (in 2012) to cater to the needs of an increasingly expanding online chinese market. Walmart-Yihaodian combine offer the online chinese customers over 75000 items. In an effort to leverage it's corecompetence in distribution system, Walmart has constructed a gigantic distribution center in central Indiana and this warehouse primarily stocks merchandise purchased by customers via Walmart.com. So it is aptly known as the E – commerce hub. (Szakonyi, 2014).

In order to justify the expansion of Walmart's online business, a scenario analysis has been performed in the following pages.

Scenario analysis:

Scenario : Walmart's move to increase operating expenses to expand it's online business

Total Revenue	485.65	558.5	582.78	607.06	631.35	679.91	728.48
Cost of Revenue	365.08	363.02	349.67	333.88	473.51	611.92	327.81
Gross Profit	120.57	195.47	233.11	273.18	157.84	67.99	400.66
Operating Expenses	93.41	139.62	174.83	212.47	252.54	305.96	364.24
Operating Income	27.16	55.84975	58.278	60.70625	-94.7018	-237.969	36.42375

Fig. 16

In the above fig16., column 2 represents Walmart's total revenue for the fiscal year ending in January, 2015 and it is $485.65 billion and the corresponding cost of revenue is $365.08 billion, the gross profit is $120.57 billion, operating expenses is $93.41 billion and operating income is $27.16 billion. (data has been retrieved from Walmart Financial Statements (2015) available at http://finance.yahoo.com/q/is?s=WMT&annual)

It is assumed that Walmart will increase it's operating expenses (including general and administrative expenses, marketing and advertising expenses etc.) primarily to increase it's online business via Walmart.com. The following scenarios has been hypothesized.

Scenario 1: Referring to the column 3 of fig.17 above, it is seen that total revenues is assumed to have increased by 15%,(of $485.65 billion from column 2), cost of revenues is decreased by 5% and operating expenses is assumed to have ncreased to $139.62 billion (up from $93.41 billion), it is seen that the gross profit increases to $195.47 billion and the corresponding operating income increases to $55.84 billion.

Scenario 2: Referring to the column 4 above, total revenues have been assumed to have increased by 20 %,(of $485.65 billion from column 2), cost of revenues have been asumed to have reduced by 5%, and operating expenses have been assumed to have increased to (30% of the total revenues) $174.83. It is seen that the gross profit increases to $233.11 billion and the corresponding operating income income to $58.27 billion.

Scenario 3: Referring to the column 5 above, the total revenues have been assumed to have increased by 25%(of $485.65 billion from column 2), cost of revenues have been assumed to have been reduced by 5%, operating expenses have been assumed to have $212.47 (35% of the total revenues), the corresponding operating income increases to $60.7 billion, gross profit increases to $273.18 billion.

Scenario 4: As seen from column 6 above, the total revenues have been assumed to have increased by 30% (of $485. 65 billion) and it is $631.35 billion, cost of revenues have been asumed to have increased to 75% (of $631.35 billion) to $473.51 billion, operating expenses is assumed to have increased to 40% of the total revenues which is $252.54 billion. So it is seen that gross profit is $157.84 billion and the operating income which is a loss amounts to negative $94.7 billion.

Scenario 5: As seen from column 7, the total revenues has been assumed to have increased to 40% (of $485.65 billion) to $679.91 billion, the cost of revenues is increased to 90% of $679.91 billion and it is $611.92 billion, the operating expenses has been assumed to have increased to $305.96 billion. It is seen that the the gross profit decreases to $67.99 and it is also seen that the operating income which is a loss amounts to negative $237.96billion.

Scenario 6: In this last scenario, it has been assumed that the total revenues have increased by 50% (of $485.65 billion) to $728.48 billion, cost of revenues is assumed to have been reduced to 45% (of $728.48 billion) to $327.81 billion, operating expenses has been assumed to have increased to 50% of $728.48 billion. It is seen that the gross rofit is $400.66 and operating income is $36.42 billion.

It is seen from the above scenario analyses that scenarios 4 & 5 generate losses of -$94.7 billion and -$237.96 billion (and the above scenarios are also depicted in the foloowing figs.) and hence increasing the operating expenses to 40% and 45% of the total revenues is not acceptable and therefore scenarios 4 & 5 (above) are rejected.

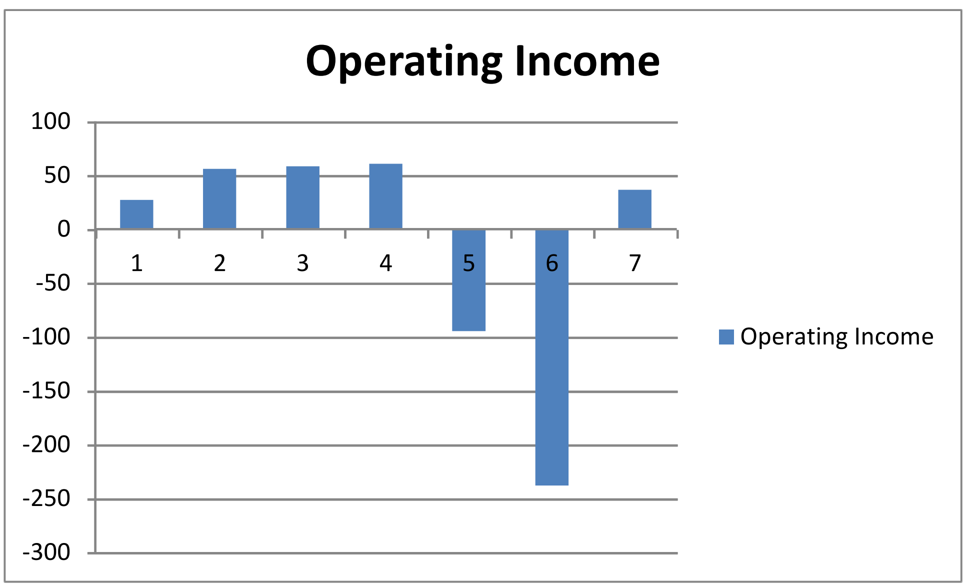

Fig.17

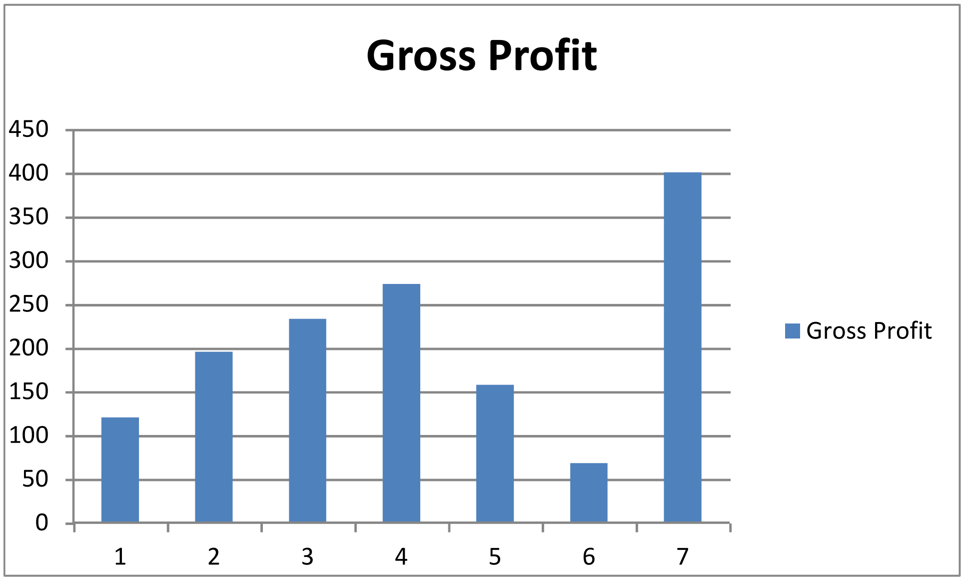

Fig.18

Fig.17 and fig.18 represent the six scenarios (columns charts marked 2-7).

It can easily be seen that scenario 3 represents perhaps the most viable scenario involving an increase in operating expenses for online business expansion. In this scenario, net income increases to $ 60.7 billion and gross profit increase to $273.18 billion.

Another area of opportunity for Walmart are the global markets of Brazil and China in particular. The retail market in Brazil had grown by 4.3% in 2013 in comparison to the previous year and in China, the retail market grew by 12 % in 2014 in comparison to the previous year. (Datamonitor, 2014). In response to this kind of growth opportunities, Walmart has invested $450 million in Brazil to revamp the existing stores and replacing the small and medium sized stores with large supercenters. In China, Walmart has been making efforts to increase operational efficiency and gain price leadership.

Total Revenue	485.65	497.79125	509.9325	534.215	558.4975	577.9235
Cost of Revenue	365.08	339.5244	330.3974	396.1118	397.9372	401.588
Gross Profit	120.57	158.26685	179.5351	138.1032	160.5603	176.3355
Operating Expenses	93.41	102.751	104.6192	107.4215	109.2897	88.7395
Operating Income	27.16	55.51585	74.9159	30.6817	51.2706	87.596
operating income change %		104.402982327	34.9450652381	-59.0451426199	67.1048214408	70.8503508834
Gross profit change %		31.2655303973	13.4382215859	-23.0773258265	16.2611003945	9.8250937498

Fig. 19

Fig. 19 represents a scenario analysis of international expansion of Walmart. column 2 represents Walmart's total revenue for the fiscal year ending in January, 2015 and it is $485.65 billion and the corresponding cost of revenue is $365.08 billion, the gross profit is $120.57 billion, operating expenses is $93.41 billion and operating income is $27.16 billion (data has been retrived from Walmart Financial Statements (2015) available at http://finance.yahoo.com/q/is?s=WMT&annual)

Scenario Analysis (Fig.!9): Walmart's international expansion scenarios

Scenario 1: In column 3 (fig. 19), total revenues have been assumed to increase by 2.5% of $485.65 billion,cost of revenues has been assumed to have decreased by 7% of $365.08 billion, operating expenses have been assumed to have increased by 10% of $93.41 billion, the gross profit has been increased to $158.26 billion and the operating income to $55.51 billion. In terms of percent change, the operating income changes by104.4%, the gross profit changes by 31.26 % and this has been graphically depicted in Fig.20 and Fig.21. Scenario 1 is the most desirable scenario.

Scenario 2: In column 4 (fig.19), total revenues have been assumed to increase by 5% of $485.65 billion, cost of revenues has been assumed to have decreased by 9.5% of $365.08 billion, operating expenses has been assumed to have increased by 12% of $93.41 billion, the gross profit is found to have increased to $179.53 billion, the operating income increases to $74.91 billion. Operating income changes by 34.94%, gross profit changes by 13.43%and this has been graphically depicted in Fig.20 and Fig.21. This is the fourth most desirable scenario.

Scenario 3: In column 5 (fig.19), the total revenues has been assumed to have increased by 10% of $485.65 billion, cost of revenues have been assumed to have increased by 8.5% of $365.08 billion, operating expenses has been assumed to have increased by 15% of $93.41 billion, the operating income changes to $30.68 billion, the gross profit $138.1 billion. In this scenario, the operating income percent change is negative 59.04 %, the gross profit is negative 23.07%. This scenario is rejected. This scenario is represented in fig.201 and 21.

Scenario 4: In column 6 (fig.19), the total revenues have been assumed to have increased by 15% of $485.65 billion, cost of revenues have been assumed to have increased by 9% of $365.08 billion, operating expenses have been assumed to have increased by 17% of $93.41 billion, operating income increases to $51.27 billion, the gross profit increases to $160.56 billion. The percent change in operating income and gross profit are 67.1% and 16.26% respectively. In the order of preference, this is the third most desirable scenario.

Scenario 5: In column 7 (fig.19), the total revenues have been assumed to have increased by 19% of $485.65 billion, cost of revenues have been assumed to have increased by 10% of $365.08 billion, operating expenses have been assumed to have decreased by 5% of $93.41 billion, operating income increases to $87.59 billion, the gross profit increases to $176.33 billion. The percent change in operating income and gross profit are 9.82% and 70.85% respectively. In the order of preference, this is the second most desirable scenario.

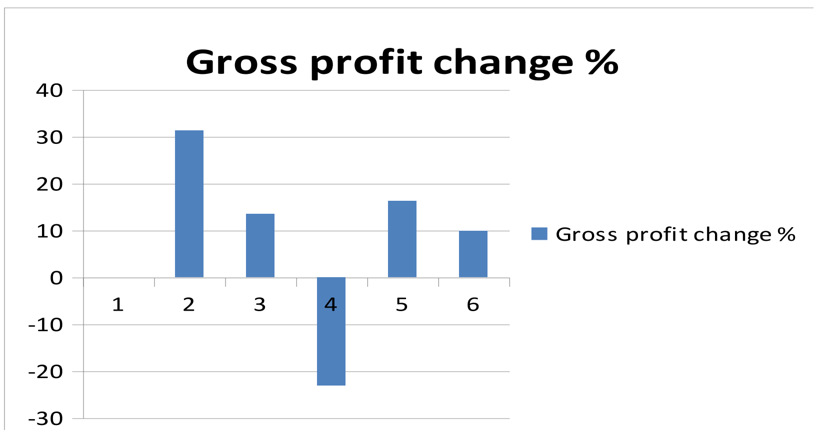

Fig. 20

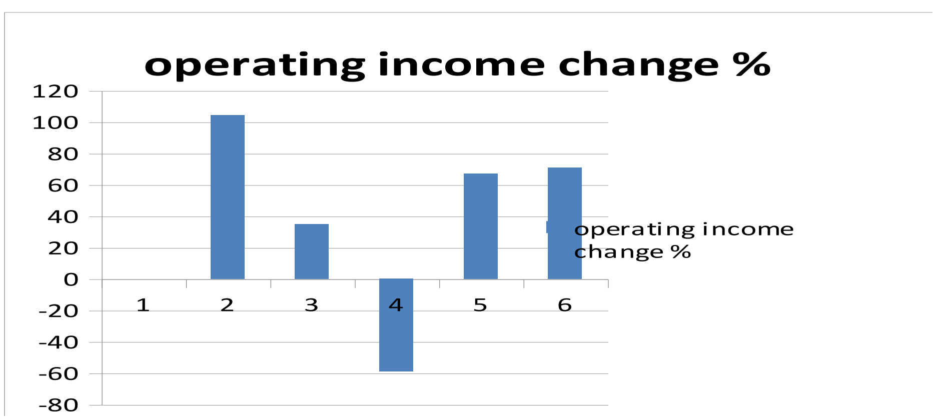

Fig.21

Walmart has availed of the opportunity of promoting label / generic brand items in the US and Europe. Ol'Roy brand pet supplies, Great Value brand grocery items, George and No Boundary brand apparel are some of the private label brands which Walmart pomotes in its retail outlets (by offering these products at a lower price in comparison to the corresponding national brands like Pedigree, Levis or Borden).

Threats: While the employees of Walmart (around 2.2 million estimated in 2014) are an asset but they can also create a negative impact on Walmart's profitability if Walmart is unable to generate savings from it's suply chain or if the revenue growth falls below it's cost of labor. The increasing federal minimum wage (Walmart pays $9 / hour to the new hires) and an increasing health insurance costs (for an increasingly ageing generatio of employees) are two main otential threats which could adversely affect Walmart's profitabilty. Besides this Target and other retailers appear to be minimizing the gap in the everyday low pricing area. Target has been able to successfully been able to generate savings from its supply chain and in net effect Target have been able to reduce prices on the merchandise which they sell. Amazon , the "Walmart of internet retailing" has also been flexing its muscles in roviding a wide assortment of products and convenience of customer shopping experiene (in the form of faster home delivery service).

Conclusion:

Walmart has successfully metamorphosed itself from a regional retail to a leading global and US mass merchandising / discount retailer. The key to it's success has been its core competences in Iinformation technology and distribution. It's opportnuities are available in the international expansion and the increase in it's internet based business via Walmart.com. Walmart has attained the distinction of acting as a barometer of the US economy and a mirror of her society. As a leader in sustainability and environmentally friendly business corporation Walmart is the benchmark. However, Walmart should be continuously improving it's employer-employee relationship, treating all it's employees fairly and without discrimination and allow it's grass root level employees to interact more easily with retail /corporate management and these management employees shold lactively isten to their subordinates and try to address their concerns so as to avoid negative outcomes like Betty Dukes vs.Walmart gender discrimination class action lawsuits.

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