Wal-Mart: A Case Study

Why Wal-Mart?
- 2002: Becomes world's largest company
- #1 on Fortune 500 list
- 2003: #1 on Fortune's "most admired" list
- Seen as best run business in US
- (slipped to 24 as of 2012)
- Triumph relied on its use of IT
  - Operational efficiency
  - Integration into culture and structure of business

Huge Part of Economy
- Star role in productivity improvements of late 1990s
  - McKinsey estimated 25% of overall national improvement was from Wal-mart
- As of 2012
  - 2.2 million "associates" (employees), 1.4 million in US
  - More than 4,200 stores in USA (most Supercenters)
  - Worldwide, 10,400 stores in 27 countries
  - $444 billion in sales

Forbes 400 List
- Wealthiest People in America 2013
  1. Bill Gates ($72bn)
  2. Warren Buffett
  3. Larry Ellison
  4. Charles Koch
  5. David Koch
  6. Christy Walton & Family ($35bn)
  7. Jim Walton ($33bn)
  8. Alice Walton ($33bn)
  9. S Robert Walton ($33bn)
  10. Michael Bloomberg

The Dark Side...
- Many people believe that Wal-Mart
  - Sucks life out of small towns
  - Discriminates against women managers
  - Exploits its suppliers
  - Crushes attempts to unionize
  - Forces unpaid overtime from its workers

1: Origins & Culture of Wal-Mart
Early History

- Begins in Arkansas, 1962
  - Local discount retailer
  - Discount stores took supermarket approach for general goods.
  - No frills, but undercut dept. stores 10-15%.
  - Cutting costs to minimum is crucial
  - Poor customers in poor towns in poor state
  - Initial management approach
    - Low prices through intense focus on efficiency
    - Stay close to customers to keep them happy
      (challenge: maintain this as firm grows)

Sam Walton

- Colorful personality
  - Obsessed with cost control
  - Always checking on own stores and competitors
  - Very hands on manager
  - Miserly control of costs
    - Executives share rooms when traveling

Initial Strategy

- Sam Walton operated “Ben Franklin” discount store franchises since 1950s
- Walmart is similar but
  - Targets only small (<10,000 people) towns
  - Uses own warehouses to provide “big city” value in remote places (previously 75% of revenues go on buying goods)
  - Until late 70s, faced little competition

Corporate Culture

- Built in Walton’s image
  - Strong operational focus
  - Distrust of glitz and complexity
  - Keep concern with every store
  - Claim concern with customers and employees
    - “Wal-Mart cheer” (1977)
    - “Associates,” greeters, etc.

Isolation & Centralization

- 35 Regional Managers (as of early 2000s)
  - All live in Bentonville, no regional offices
  - Mon-Thurs visiting their stores
  - Friday & Saturday meet at HQ
  - IT enables centralized control & micromanaging of stores
  - Rely on internal promotions
    - Believe in uniqueness of culture
    - Store managers move around a lot
    - Hard to integrate Silicon Valley culture – makes challenges for web commerce

(Discuss Mortenson)
Milestones I: New Formats

- 1983: Sam’s Club discount stores
  - Copies successful format of Price Clubs
  - Mostly cash sales, to business
- 1988: First Supercenter
  - Merges a supermarket into some stores
  - Very low margin industry, but brings in more traffic
  - Risky at time, today 20% of total sales are food
- 1999: Neighborhood Markets
  - Smaller stores for urban areas

Milestones II

- 1990: Becomes largest US retailer
- 1992: Begins international expansion
  - Today, biggest retailer in Mexico, Germany, Canada (all via acquisitions).
  - UK - biggest clothes retailer (“George”)
- 1992: Sam Walton dies
- 2001: Becomes America’s biggest food retailer
- 2002: Becomes world’s biggest firm

1980s are crucial

- Begins to attract national attention
- Starts to enter larger markets
  - Meets competitors in middle sized towns
  - Serves most of US except West, Northeast
- Still smaller than many rivals
  - but manages to grow faster, under price them
- How?

2: Wal-Mart Strategy & Logistics

Secret of Its Success

- Same goods for less
  - By early 1990s, charges 2-4% less than key discount competitors
  - But it makes money, they lose it
  - By 2002, K-Mart, Woolworths and most local competitors are bankrupt
- How?
  - Strategy: Create operational efficiencies
  - IT is a key part of this

The Supply Chain

- Progress of materials from origins to final consumer
  - e.g. Factory -> Distributor -> Store -> Customer
  - “Supply Chain Management” used to describe improvement of efficiency, flexibility of supply chain
Network in 1985

Distribution Centers
- "Hub and Spoke" system
- Builds efficient distribution center
- Rings it for 200 miles with stores (average 150 stores)
- Never opens isolated stores
- Proximity of stores allows efficient use of trucks
- Uses real-time inventory information to resupply efficiently
- By 1990s, new facilities have
  - 135 receiving doors for unloading
  - 35 dispatching docks to load onto store-bound trucks
  - 8.5 miles of computerized conveyors between, reading barcodes
- New article mentions 24 miles?

Distribution II
- Builds "cross docking" facilities
- Goods moved from supplier truck to store-delivery truck without loading into warehouse
- Relies on computerized scheduling, ties to suppliers
- Expands scope to support food products for Supercenters
- By 1993
  - Wal-Mart spends 3.7% of sales on "in-bound inventory"
  - Competitors spend 4.8%
  - Another estimate is 1.3% versus 3.5% for K-Mart

Organic Growth
- Steadily builds new stores
- Doesn't buy other chains
- Builds stores
  - In cheap locations with room for expansion
  - From standard, efficient design (no acquisitions)
  - With only 10% (vs. 25%) of space for storage (relying on logistical superiority)

3: Role of IT in Supporting this Strategy

IT Applied to Key Areas
- Challenge is to keep efficiency, focus as firm grows
- In retail, especially low-margin retail, key challenges are:
  - Moving stuff around efficiently (logistics)
  - Having right stuff to sell
  - Minimizing overhead
  - Wages, real estate, warehouse/stock costs
- IT used to improve all these areas
IT Investment
- Exception to general lack of frills
  - Walton demanded strong business case
- First computerization in 1974
  - Track products at service centers
- First network installed in 1977
  - BUT:
    - Spent less overall on IT (1.3% in 1992) than competitors

Early Network User
- Powerful server in every store
  - Networked to HQ via private satellite in 1983
  - Central monitoring of inventory systems
  - (also videoconferencing)
- Data used to “profile” each market
  - thousands of variables
  - predicts demand, optimizes stock
- Benefits
  - Lower costs for stock in warehouse
  - Less risk of being stuck with unwanted products
  - Motto: run the business one store at a time.

IT Projects in 1980s
- Laser scanners to read Universal Product Codes
  - Introduced in 1983, finished by 1988
  - 2 years ahead of Kmart
- Early adopter of hand-held scanners tied to inventory computer via radio
- Computerized refund tracking
  - reduces shoplifting

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Partners with Suppliers
- Pioneering effort with Proctor & Gamble
  - Permanent team of 70 P&G people in Bentonville
- Sets up computer link for automatic resupply according to Wal-Mart computer forecasts
  - Daily uploads of actual sales data
  - Lets suppliers understand customers better
- By 1988, have “continuous replenishment”
  - Send as needed, pay monthly
  - New kind of relationship, not just paperwork saving
  - Manufacturers manage customer inventory

Pioneered EDI
- By 1994 (before “e-commerce” invented), Electronic Data Interchange handles orders for
  - 3600 vendors
  - 90% of dollar volume
- Part of overall distribution strategy
  - New kind of relationship with suppliers, not just database or paperwork saving

Pushes Suppliers Hard
- Demanding
  - Today, few mass-market suppliers can afford not to do business with Wal-Mart
- Insists on
  - Very low prices (lower than competitors)
  - Heavy fines if not
    - Delivered exactly (to the hour) when promised
    - Packaged exactly right
    - With low defect rate
(Discuss Girard and Fishman)

Internet in 1990s
- Wal-Mart was slow adopter of web
- Lots of negative press
- Internet firms laugh at
- Physical assets viewed as encumbrance
- Early critics underestimated its strengths
- Hugely more efficient than Amazon.com in its early days
- But has it left it too late to take online seriously now Amazon has caught up?

IT Culture Integrated into General Business
- CIO = Chief Information officer
- Top Computer Person
- Some get famous in banks, airlines, etc.
- See interview with Kevin Turner (now Chief Operating Officer at Microsoft)
- David Glass was big influence
- Former CEO, background in finance
- Logistics focus
- Also responsible for IT

Discuss Lundberg (Interview with Turner)

Lessons
- Align IT with strategy and “core competencies”
- Apply it where it will make the most difference (will not always be operations)
- Use IT to leverage existing culture of firm
- Use IT to enable new business processes
- Start with process idea, not technology
- High IT spending <> effective use
- Avoid hot and immature technologies

4: Current Challenges
Reputation Peaked About 2003

- High turnover in workforce (about 50% a year)
- Pulling out of some international markets
  - All 85 stores in Germany closed, South Korea
- More bad publicity
  - Attempts to push out long-term workers, replace with part timers
  - Low proportion of employees with health insurance (44%)
- Launches some green initiatives, PR campaigns, etc. to improve public perception

Recent Trends

- Growth continues, but slows in US.
  

Share of US Sales DROPS with Recovery from Great Recession

2014 Updates

- Back to #1 spot as world’s biggest company
- Finally raises pay above minimum wage ($7.25 Federal) paid to 500,000 associates
  
  April 2014: Scheduled $9 minimum
  
  Feb 2015: Scheduled $10 minimum
- Will somewhat rebalance profits between investors & workers
  
  2007: $183,500 revenue & $9,938 in profit per employee
  
  By 2014, revenue up 18%, profit up 22%, but pay had been stagnant (NY Times)