Wal-Mart: A Case Study

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Week 6
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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 12th now as growth slows)
- Triumph relies on its use of IT
  - Operational efficiency
  - Integration into culture and structure of business

Forbes 400 List

- Wealthiest People in America 2003
  1. Bill Gates
  2. Warren Buffett
  3. Paul Allen
  4. Helen Walton
  5. S. Robson Walton
  6. John Walton
  7. Jim Walton
  8. Alice Walton
  9. Larry Ellison
  10. Michael Dell

Huge Part of Economy

- Star role in productivity improvements of late 1990s
  - McKinsey estimate 25% of overall national improvement is from Wal-mart
- As of 2006
  - 1.6 million "associates" (employees)
  - More than 4,000 stores in USA (most Supercenters)
  - 2,700 stores in 14 countries outside US
  - $316 billion in sales

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

Recent Problems (2006)

- High turnover in workforce (about 50% a year)
- Pulling out of some international markets
  - All 85 stores in Germany closed, South Korea
- Stock price falling for several years
- More bad publicity
  - Attempts to push out long-term workers, replace with part timers
  - Low proportion of employees with health insurance (44%)
- Attempts to burnish image – see Fortune

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 paces (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
  - 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

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

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

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

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.

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)

Network in 1985

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

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 conveyers 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)

3: Other IT Initiatives

Pioneered EDI

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

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

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

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

With Internet

- Wal-Mart is slow adopter of web
  - Lots of negative press
  - Internet firms laugh at
  - Physical assets viewed as encumbrance
- They don't realize its advantages
  - Hugely more efficient than Amazon.com
  - Can afford to take its time

No Celebrity CIO

- CIO = Chief Information officer
  - Top Computer Person
  - Some get famous in banks, airlines, etc.
  - See interview with Kevin Turner
- David Glass was big influence
  - Former CEO, background in finance
  - Logistics focus
  - Also responsible for IT

RFID Tags: New Project

- RFID = Radio Frequency Identification
- Passive tag, carries unique ID
  - 18 bytes to 128K of data
  - Costs about 10 cents (will drop)
- Possible applications
  - Complete checkout automation
  - "Smart shelves" (incl. shoplifting elimination)
- More than 1,000 stores, 600 suppliers by Jan 2007
- Challenge: "total visibility" for Wal-Mart means
  - estimated 7.5 million terra bytes (7,500,000,000 gigs) of data daily (according to Infoworld – sounds high to me)

Lessons

- Align IT with strategy and "core competencies"
  - Apply it where it will make the most difference
  - (will not always be operations – think Microsoft or Sony)
  - 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