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Christian Burbach

University of Nebraska - Lincoln

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Walmart Strategic Analysis

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By Christian Burbach
Bachelor of Science in Business Administration
Economics
College of Business

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Faculty Mentor:
Marijane England, Ph.D., Management

Abstract

Walmart is a large retailer operating out of the United States with a presence in 26 countries globally. It is a retail store that specializes in selling a wide variety of items, namely groceries, apparel, auto products, electronics, and many other items. This paper will examine Walmart to indicate its strategic goals and provide an analysis on their industry and position in their industry. External factors affecting Walmart will be discussed in this paper as well. The retail industry is dominated by a few key players in a heavily competitive field. To explore Walmart, information will be provided through the Porter's Five Forces model, a PESTE macro environment analysis, and SWOT analysis. The strategy and possible future directions for Walmart are then discussed.

Keywords: Walmart, Retail, Technology, Competitor, Strategy, Supply Chain

Walmart Strategic Analysis

Introduction and Background

Walmart is a large retail corporation in the United States that operates thousands of grocery stores and department stores in the United States. It is headquartered in Bentonville Arkansas and was founded by Sam Walton in 1962. Over its history, it has grown exponentially, and additionally operates under the market title Sam's Club, which operates as a wholesale version of Walmart Grocery. However, Walmart does not simply operate in the United States alone. As of January 31, 2021, Walmart owns and operates over 11,000 stores throughout the world. In total, Walmart operates stores in 26 countries. By revenue, Walmart is the largest company in the world, bringing in \$548.74 billion annually, according to a Fortune 500 list from January (Staff). Walmart is additionally the largest grocery retailer in the United States, and 65% of its revenue came from operations in the United States alone. Walmart is a publicly traded company but is also considered a family-owned business, as Sam Walton's family owns over 50% of Walmart through a holding company, Walton Enterprises. Walmart is traded under stock symbol WMT and has a market capitalization of 396 billion dollars as of April 18th, 2021.

Walmart was founded by Sam Walton, who formerly worked at JC Penny. The company incorporated as Wal-Mart Inc. in 1969 and quickly grew out of the Arkansas area. By the 1980s, Walmart was rapidly growing, and by their 25th anniversary of doing business, Walmart had over 1,000 stores nationwide. Much of Walmart's early success can be attributed to Sam Walton's model of going to locations and setting up his discount retail stores. Additionally, Walton merged Walmart with Price Club in 1983, which had been a warehouse chain. By 1985, Sam Walton was the richest man in the United States, with his personal fortune in Walmart at that time being worth \$3 billion.

In 1991 Walmart began to expand internationally and continued to grow at an exponential pace even after Sam Walton's death from bone cancer in 1992. Its everyday low prices way of doing business, by setting bargain prices for its products every day instead of just once in a while, catapulted its model ahead of everyone else's, especially as it scaled. Furthermore, Walmart's immense inventory allowed shoppers to find everything they needed houses under one roof, and its business promoted suburban growth which was booming throughout the 1980s, 90s and 2000s. Walmart's integration with supply chain partners played an integral role in its dominant position as well.

Throughout Walmart's history, it had rivals, but those rivals have evolved overtime as the company has grown and matured. In the early day's Walmart's rivals could have been considered the small mom-and-pop stores that stretched across America. Walmart emerged onto the scene in suburban areas as a model of providing many services and products under one roof. As Walmart would offer grocery, department store items, and service items under one roof, smaller stores found it difficult to impossible to be able to compete with Walmart in quantity, and they found it near impossible to match Walmart's everyday low-price guarantee. Walmart was able to use its supplier relationships to compete for the best possible price by buying things consistently and in bulk, and then would offer those items at rates cutthroat to the smaller stores in the surrounding areas, which were completely unable to compete.

Walmart then was able to take on larger department stores, principally of which was Sears. Sears had a longstanding reputation as being the department store of the United States, founded as Sears Roebuck in the 1800s, the Sears catalog was famous for having nearly everything imaginable in it for sale. However, due to Walmart's business model of supplier relationships and rapid expansion into suburban areas, it found itself able to not only compete

with Sears but grow faster than Sears at the exponential growth rate set forth by Sam Walton in the 1980s.

As Walmart grew throughout the 2000s, it inevitably crossed paths with the phenomenon of online sales. Amazon became Walmart's largest competitor during the 2000s and continues to be Walmart's chief competitor today. Amazon, which grew in prowess throughout the 21st century and is Walmart's chief competitor today through its massive online sales presence, creates an existential threat to Walmart's business model and Walmart is continuing to adapt to. Walmart already has a significant supply chain presence, but what it lacked is the online shipping presence Amazon currently dominates with.

External Environment Analysis

External analysis of the external environment is essential for Walmart due to their presence in the business community that can continuously be affected by factors outside of Walmart's control. The PESTEL analysis offers a macro environmental analysis and breakdown of factors in Walmart's environment, be they political, economic, social, technological, and environmental factors. These factors can affect the performance and activities of the business over the long term. It is essential for them to be considered for the long-term business strategies of the business in question.

The PESTE analysis is a macro analysis. On the other hand, the Porter's Five Forces analysis is an analysis based on the industry of the selected business. The Porter's Five Forces analysis reviews an industry and business competitive environment. It reviews the organizational economics of the business and determines the viability of the business – and its potential profitability.

PESTE

PESTEL is an acronym for a macro environmental analysis that stand for the effect of political/legal, economic, social, technological, and environmental factors on an industry. In this strategic analysis the factors will be looked at in that order.

The first factor to consider is the political factors affecting the retail industry and specifically Walmart. Walmart has long been demonized by the press and select politicians during its history for “destroying the little guy”, “unfair pay for working”, and dehumanizing its employees with its cheap labor rates and its cutthroat prices. Walmart has faced political pressure over the years for its position on these stances and has argued that although its wages sometimes are at the minimum wage level for its lowest paid employees, it is the largest employer of any employer in some states. States such as Alabama, Florida, Georgia, Indiana, and Illinois have Walmart listed as their largest employer, just to name a few. Recently, Walmart has argued in favor of raising the minimum wage as of late, which has garnered the goodwill of some of Walmart’s key political detractors. This political shift in Walmart’s ideology can be met with some skepticism about Walmart’s true motives, however, as Walmart is more than capable of paying its employees the higher minimum wage. Walmart also began mass installation of self-checkout options in preparation for a possibility higher wages, which is something its competitors may not as easily afford. If the minimum wage is increased, it actually may help Walmart long term, as its competitors will have to pay their employees more, which will cut into the competitors’ small margins.

The political and legal environment are closely related. Walmart currently has more opportunities legally, than potential problems. Food safety regulations and employment regulations are issues that Walmart has enough capital to handle going forward. Many of

Walmart's competitors have no such capital to handle this legal issue and will be challenged by them in ways Walmart can afford not to be. One threat to Walmart's success could be tax reform. However, Walmart and their lobbyists and accounting directors would be expected to find nearly every legal loophole to handle this legal threat in ways its competitors might not be able to afford.

Economic conditions have been favorable for Walmart. The covid situation has forced many businesses to be declared non-essential, and many of Walmart's natural competitors have shuttered their doors, some never to return. In Walmart's case, every United States location has been deemed essential, and Walmart has been doing record sales in this past year as of the economic conditions in the United States. It has the largest revenue out of any company in the world and has a stranglehold on supply lines throughout the United States and the world (Debter). Walmart can exercise its might through its supply lines by setting terms for companies to offer their products in Walmart's shelf space. This will be touched on more in later analysis segments of this paper.

Sociologically, Walmart has been instrumental in American culture throughout its rise and even today. Walmart made demographic challenges created by suburban sprawl much more manageable through its industry leading cost reductions and its thousands of anchor stores. Through its employment of thousands of employees, families across the United States and the world are directly affected by Walmart's presence and are dependent on the job opportunities Walmart provides, both directly and indirectly. It can be argued that Walmart is not only responsible for job creation directly through the jobs Walmart offers, but Walmart is also responsible for the supply chain jobs throughout the world which feed into its stores and to customers worldwide.

Technologically Walmart is facing its biggest battle and threat yet, as it goes toe to toe with Amazon in the ecommerce marketplace. Walmart has massive room for improvement but is not totally defenseless. It can weaponize its supply chains against the supply chains of Amazon. However, Walmart has made it a major strategic objective to go after improvement of its technological side of the business and has begun utilizing business analytics and data, as well as increasing business automation to remain competitive in the face of immense threat from Amazon.

Porter's Five Forces Analysis

The Porter's Five Forces analysis of the retail industry demonstrates Walmart's tremendous advantage in many aspects. First and foremost, Walmart's primary rival in the retail sales industry is Amazon, who is the world's largest global online retailer (Debter). Walmart and Amazon's rivalry is being fought through supply chains, data, business analytics and on the online front.

There are few ways that potential new market entrants could be a threat. Walmart has built a considerable business moat through its massive size, suppliers, and reach.

Walmart has successfully pushed back against supplier power, as well. Suppliers to Walmart find themselves at a disadvantage in negotiations, as often the suppliers need Walmart more than Walmart needs them. Shelf space in Walmart is so coveted that often Walmart can set its own prices and supplier must scramble over each other in a competition to meet those prices. Suppliers also enjoy the use of Walmart's proprietary inventory system, which has been in use since the 1990s and was a pioneering aspect of Walmart's rise to dominance these last decades.

Walmart has pushed back against any forces that customers might exert to lower profitability. Walmart offers everyday low prices that rival those customers can find elsewhere..

Additionally, Walmart has offered a price match guarantee, which further creates an incentive for customer choice. Amazon is a realistic alternative to Walmart, however even after Amazon's Whole Foods acquisition, Walmart still is dominant in the local grocery business. Walmart is still by far and away the leader in grocery sales in the U.S. with 26% market share (Coppola).

Current Strategy

One of Walmart's current strategic initiatives involves becoming more sustainable and environmentally friendly. Walmart understands the importance of attracting investors who care about sustainability and the environment, as previously mentioned in the PESTE analysis. Prominent US political office holders currently have sustainability top of mind, as well. Walmart has pledged to make headway in the sustainability aspect of its business by using lower carbon emission delivery vehicles and lower carbon emissions overall. Walmart has pledged to have a target of zero carbon emissions by the year 2040. Walmart is striving to drive positive impact across global supply chains, as stated on their website. It is looking to lower waste and operate on renewable energy, with responsible recruitment to promote human dignity. While this is Walmart's proclaimed goal, it also is driven by an overarching financial incentive as well. Walmart can gain favorability with politicians through these sustainability goals attract the growing class of investors who refuse to invest in companies that are not going after these sustainability targets.

A second strategic initiative is to use technology to create an online presence that can rival the threat posed by Amazon. The world is data driven and Walmart has recognized this since its earlier days. In the 1990s, Walmart began the use of a proprietary inventory system. This system allowed suppliers to have an advantage when working with Walmart. This data driven advantage has compounded throughout the years. Amazon today is considered a leader in

data driven retail, and it is a challenge for Walmart to remain competitive. Walmart has put an emphasis on their broad data ecosystem. Walmart's main goal in leveraging big data is to optimize its shopping experience. They do so through analysis of hundreds of millions of keywords. Multiple petabytes of data are processed by Walmart on a daily basis. Walmart makes recommendations based on this data and leverages that data for suppliers to make informed decisions as well. This has been a major competitive advantage for Walmart (How big data..).

Walmart has several competitive advantages, many of which have been mentioned above but will be recapped here. Walmart is massive, and it has a massive influence over suppliers. Walmart also has the ability to offer prices at much lower prices than competitors. Walmart has its own line of private-label products – the Great Value products – which are priced lower than its name brand alternatives. Additionally, Walmart has the ability to pay employees more than its competitors. It also has the capability of replacing employees with technology at lower prices. Walmart has data collection services running 24/7. The data itself is of massive value and has provided a formidable competitive technological moat for Walmart.

Moving Forward

Walmart's greatest strengths lie in its size and global supply chains. Its largest weaknesses are the areas where Walmart is devoting a high amount of strategic focus: sustainability and ecommerce.

The major issue that Walmart will be facing in the future lies in its ability to remain competitive with Amazon. Amazon made a direct move into the retail grocery business with its acquisition of Whole Foods, and Walmart is already at a disadvantage against Amazon on the ecommerce market. Ecommerce will either make or break Walmart going forward. Walmart is continuing the focus on Big Data analytics going forward, but it will need to devote massive

amounts of intellectual capital to regain ground against Amazon. Mobile users are extremely important to Walmart, since smartphone shoppers make 4 more trips and spend 77% more in store, according to an article from Dezyre (How big data..). Walmart's mobile strategy will be a key part of their ecommerce strategy going forward, which will be a way that Walmart puts itself into a competitive advantage that would be sustainable for the future.

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