Strategic Analysis of Wal-Mart

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Executive Summary

Wal-Mart is the biggest retailer in U.S. and also one of the biggest multinational companies in the world. It is well-known for its low-cost structure and has been doing very well despite of the current market instability. However, it still faces threats from competitors in the retail industry and has weaknesses to be improved in the future. To help Wal-Mart achieve greater success and sustain its competency, this paper will cover an all-rounded and detailed business analysis on Wal-Mart and the industry it is currently in. The analysis will touch on different perspectives, such as Wal-Mart's strength, opportunities, weaknesses and threats. Moreover, a brief overview of the retail industry and Wal-Mart's history are provided to facilitate a deeper and better understanding of the analysis on Wal-Mart.

To help Wal-Mart better exploit its strength and opportunities and reduce threats and weaknesses, recommendations are provided for each of the four sections. I hope the recommendations will be carefully considered for proper implementation.

Overview of Retail Industry

The overall retail industry is currently experiencing a sale slowdown due to the widely spread economic crisis in US because consumers reduce their spending during weak economic time. According to an article on *BusinessWeek*, the real consumer spending declined by 3.7% in the third quarter of 2008. That was the "largest drop since the 1980 credit controls" (Cooper 10). However, the number is expected to get bigger in 2009, which means that the decrease in consumer spending will continue to worsen. It seems that 2009 is a year for consumer savings. *Journal of Business* quoted on Ken Thompson, finance director for the city of Spokane Valley. He said, "If our citizens continue to decrease their spending, then our receipts might be down more than the 6 percent" (Cole 1). With a 6% decrease in consumer spending, it would be even harder for retailers to make a profit this year.

A lot of retailers are so severely affected that they have to close its stores. For example, Circuit City closed all its stores in March 2009 and Steve and Barry's closed its anchor store this year as well. Some retailers have to reduce the selling prices to boost their sales. Costco reduced its average price on TVs by 40%. Others choose to cut jobs and save money. Macy's laid off its employees at the beginning of 2009. However, not all the retailers are experiencing sales problems. Wal-Mart is able to maintain high profit and continue to generate huge sales. I am going to analyze Wal-Mart in details for the rest of the paper. The analysis will be based on both the industry level and the company level.

Wal-Mart's History

Wal-Mart was first opened by Sam Walton and his brother James "Bud" Walton in Rogers, Arkansas in 1962. By 1970, Wal-Mart had already had 18 stores and $44 million sale revenue. In the same year, Wal-Mart also went public. Walton continued to open stores. To avoid other retailers, Walton decided to locate new stores in small and midsized towns in the 1970s. Wal-Mart expanded very fast and its profit increased dramatically. By 1980 Wal-Mart had 276 stores with sales revenue of $1.2 billion (Wal-Mart Stores).

In 1983 the first Sam's Club was started under the name of "SAM'S Wholesale Club. Four years later, Wal-Mart opened its first hypermarket called Hypermart*USA. It started off as a joint venture with Cullum Companies and the supermarket was 200,000-sq,-ft at that time. However, it was later retooled as Wal-Mart Supercenters.

Sam Walton retired as CEO in 1988. Under his outstanding leadership, Wal-Mart grew from a single store to a well-know retailer with hundreds of stores and billions of sales in the United States. President David Glass succeeded and became the CEO of Wal-Mart.

Like Sam Walton, David Glass continued to expand Wal-Mart. One year after David Glass became the CEO, Wal-Mart acquired Cullum and owned its SAM'S Wholesale Club entirely. In 1990 McLane Company, a wholesale distributor was also acquired. In 1992, Sam Walton died but David Glass did not stop expanding the business. Wal-Mart not only opened stores within the U.S. but also went beyond U.S. borders and into the international market.

Wal-Mart first went into Mexico to introduce its Sam's Clubs as a joint venture with Cifra, Mexico's largest retailer in 1992. Then it entered the Canadian market by acquiring 122 Woolco stores in 1994. In the next few years, Wal-Mart continued its international expansion. For example, it expanded into China in 1996, Germany in 1997, Brazil in 1998 and the United Kingdom in 1999. One year later, David Glass stepped down as CEO but still stayed on as the chairman of the executive committee. The former COO Lee Scott took over as the new CEO of Wal-Mart (Wal-Mart Stores).

In March 2002, Wal-Mart entered Japan and acquired 6% stake in SEIYU, one of the top Japanese retailers. At the end of the year, the stake was raised up to 36%. In the same year, Wal-Mart also "opened 107 international units, with two in Brazil, 22 in Canada, eight in China, two in Germany, three in South Korea, 59 in Mexico, two in Puerto Rico, and nine in the UK" (Wal-Mart Stores). Wal-Mart's international success was accompanied by massive domestic expansion. It opened "178 supercenters, 33 discount stores, and 25 SAM'S CLUB stores" (Wal-Mart Stores). Wal-Mart had gained significant market share and its influence was widespread in the retailing industry. *Fortune* magazine ranked Wal-Mart the largest retailer in America in 2002. Generally, 2002 marked a very crucial and successful year for Wal-Mart, which was performing exceptionally well both domestically and internationally.

Wal-Mart began to seek development in a variety of industries. In March 2004, Wal-Mart launched its online music store, which competed against its major rivals, such as Apple and Napster, by providing low-priced music downloads. Wal-Mart also introduced an urban women's apparel line called Metro 7 in 500 stores in the U.S. in August 2005.

While Wal-Mart continued to make progress to increase its market share, a problem occurred in its management team in 2006. Wal-Mart's Vice Chairman stepped down because he "was accused of misusing more than $500,000 in company funds, pleaded guilty to fraud and tax charges in January 2006. In August he was sentenced to 27 months of house arrest and ordered to pay $400,000 in restitution to his former employer" (Wal-Mart Store).

Soon after the lawsuit of its Vice Chairman, Wal-Mart resumed back to its original operation quickly. In 2007, Wal-Mart became the first retailer to enter into a contract with *Hollywood* studios, which had permitted Wal-Mart to sell movies and TV programs online through <walmart.com>.

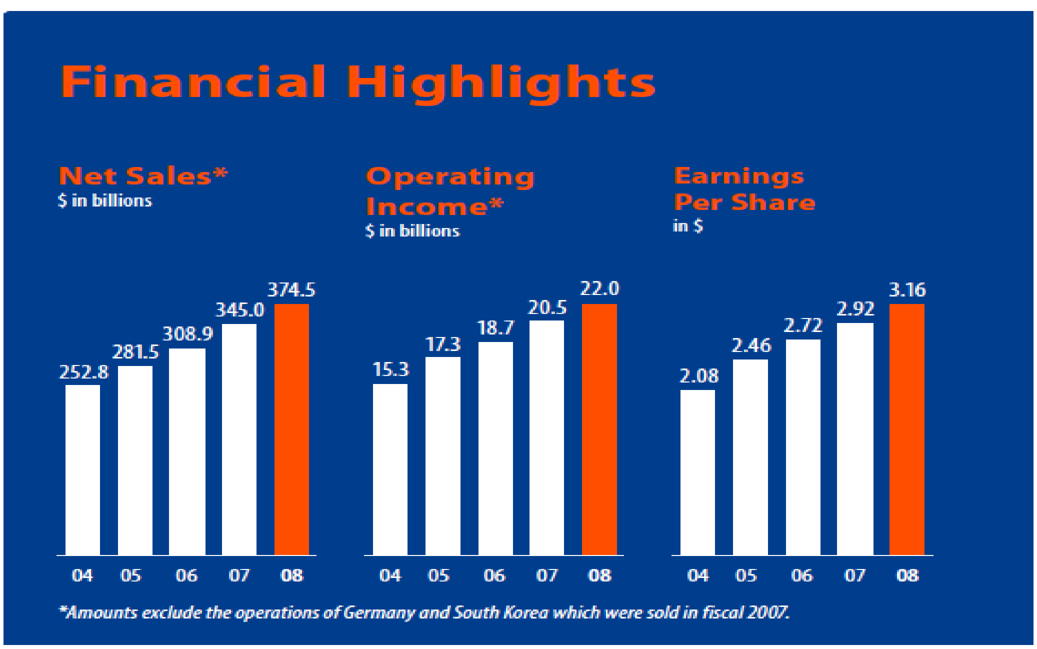
On February 1, 2009, the CEO Lee Scott retired and Mike Duke became the new CEO. Lee Scott's true legacy is not very well known to the public. He "change[d] the corporate culture from boots to suits" (Kapner 68). During his management term in Wal-Mart, he had to fight not only external wars with competitors but also internal wars. There were several management team members who used to be Sam Walton's old friends, known as the "boots" due to their devotion to cowboy boots. They wanted to divide the power of Lee Scott and change the existing management structure. In the end, Lee Scott removed all of them regardless of their long term of service for the company.

Strengths of Wal-Mart

Wal-Mart is famous for its everyday low-cost structure. Based on its official website, the whole purpose of Wal-Mart is to save people's money so they can live better. Thus, Wal-Mart offers goods with high qualities but at lower prices than other retailers. In this way, Wal-Mart has a comparative advantage over its competitors in terms of price. This helps Wal-Mart win customers over from other retailers.

How can Wal-Mart achieve its low-cost structure? The answer comes from its supply chain. Wal-Mart firmly upholds its policy to suppliers that "on basic products that don't change, the price Wal-Mart will pay, and will charge shoppers, must drop year after year" (Fishman 68). In other words, Wal-Mart keeps its promise of "everyday low price" by trying to squeeze its suppliers' profit margins and to get for the lowest price possible on the condition of guaranteed quality of goods. Since Wal-Mart is very influential in the retail industry, it has successfully bargained with its suppliers. With a lower cost of the same supply than any other stores, Wal-Mart is able to provide customers with the same goods with a significantly lower price. This is how Wal-Mart has built its low-cost, high-quality image.

Other than the low-cost structure, Wal-Mart also has a sustainability advantage over other retailers. This can be illustrated by the fact that Wal-Mart is able to enjoy a profitable return in the current economic downturn despite of the fact that many retailers are badly affected and sales slowdowns and losses are occurring more frequently than ever. Based on the financial statements of Wal-Mart, its net sale in 2008 and 2007 are US$374,526 and $344,992 respectively. The sales revenue in 2008 is 8.2% increase from the sales revenue in 2007 and the sale increase in 2007 is 11.7 % from the previous year (See Appendix). It is illustrated by the following chart, which displays net sales, operating incomes and earnings per share of Wal-Mart from 2004 to 2008.



Wal-Mart's excellent performance is mainly driven by a strategy it has adopted. The strategy is to reduce inventories, to expand into foreign markets and to increase market shares by emphasizing low prices especially when the US dollar is weakening. First, Wal-Mart managed to increase its inventory by just 0.7% when the sales increased by 5.8% (Wal-Mart Official). Then Wal-Mart started its massive international expansion. It increased its international stores from 2,181 in 2006 to 2,757 in 2007 and 3,121 in 2008. In the developed market, Wal-Mart has 342 stores in U.K.. In addition, it has many successful operations in developing markets in China, Mexico, Brazil and Argentina where provide a lot of growth opportunities and also bigger markets for Wal-Mart to acquire.

Lastly, Wal-Mart sustains its profits by increasing revenue in both developed and developing international markets. The reason why Wal-Mart can raise its international revenue is partially because of its low-cost, high-quality products. However, there is another reason which is Wal-Mart took advantage of the declining value of the dollar by boosting sales in these international markets. When the purchasing power of the US dollar decreases, the values of other currencies relatively increase. By conducting operations overseas, Wal-Mart is able to earn profits in foreign currencies, which, then, can be converted back to U.S. dollars. The amount of U.S. dollars converted will be more than it used to be. Based on the *Wall Street Journal* "the weak dollar added $106 million to profit and about $1.7 billion to sales" (McWilliams A2). For the last quarter of 2007, its market share rose by 1.7%.

Opportunities

Currently, I think there are two opportunities Wal-Mart should capture and maximize its total revenue. They are:

1. Continue its international expansion in its existing developing markets, which means to acquire more market shares in the developing countries in which it has already established operations.
2. Opening international stores in new markets.

It seems that the weakening dollar gives Wal-Mart a great market growth opportunity. Thus, Wal-Mart should take this opportunity and further develop its international expansion into those developing markets where its existing operations are located. This is because Wal-Mart has already gained knowledge about the local cultures and consumer tastes, which will facilitate Wal-Mart to start the operations of its new stores on the right track immediately.

As I mentioned in the previous section, Wal-Mart has already had many branches in emerging markets all over the world, such as China, Mexico, Brazil, and Argentina. To take advantage of the opportunity Wal-Mart has gotten right now, Wal-Mart should increase its stakes in these countries. For example, the Latin America offers a big market. Wal-Mart's future in that market is bright. However, Wal-Mart only has 10 Supercenter stores in Argentina (Wal-Mart Official). Compared to its operations in other developing countries, Wal-Mart has the least number of stores in Argentina. Since Wal-Mart has already adapted to the local business environment in Argentina, Wal-Mart should continue to open more stores there and try to capture the market share as much as possible.

Another reason why Wal-Mart should increase the number of stores in those developing countries is because operations in these countries are already proven to be able to help Wal-Mart increase its revenue when domestic market is saturated with competitors and is not functioning as strongly as before. According to a news article in the *Wall Street Journal,* the sales growth in these emerging markets alone rose by 19% in 2007 (McWillams A2). Therefore, the importance of these developing markets should be highly valued.

To capture greater profits, Wal-Mart not only should expend the size of its existing operations in developing countries by opening more stores but also consider entering into new markets, e.g. Singapore. Singapore is a modern country in Southeast Asia (see the following picture)

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Wal-Mart has never entered Singapore before, which means a Wal-Mart store in Singapore will be definitely something new and exciting for Singaporeans to visit. More importantly, Singapore is a good choice to set up business. According to Singapore government's official website, Singapore is ranked as the world's easiest country to conduct business and the second in the world as the city with the best potential for investment for 14 years. The government is ranked No.3 worldwide and No.1 in Asia for having the least corruption in its economy. Singapore government also welcomes multinational corporations to set up foreign investments by introducing a variety of financial assistances and incentives. Here are some government aids that Wal-Mart should consider applying to if it is going to Singapore:

- Development Expansion Incentives (DEI)
- Investment Allowance
- Regional Headquarter Award

DEI is a tax incentive that "provides preferential corporate tax rates on all qualifying profits above a pre-determined base within a set period" (Singapore). The benefit of it is tax liability deduction. The only requirement for DEI is that significant economic benefits must be generated by Wal-Mart in Singapore.

Investment Allowance is also a tax incentive. It is a capital allowance to reduce the costs of equipments that either apply new technology or increase the efficiency of the operations. If Wal-Mart needs to buy any types of equipment that is never used before, such as high-technology devices, or equipment that can improve the efficiency of its operations. Wal-Mart may consider applying to this incentive to get a tax exemption.

If Wal-Mart wants to set up a regional headquarter in Singapore and to use Singapore as a base to monitor activities in other countries in Southeast Asia, Wal-Mart can also apply for *Regional Headquarter Award*, which provides either tax incentives or grants to foreign investors in order to help them succeed. This means the assistance provided by this scheme is customized to each individual company's needs.

Other than the variety of incentive schemes the Singapore government provides to attract foreign corporations, the government also makes it easier for foreigners to find a location for their businesses. There are many different choices for businesses to pick as their place of operations. "From three-storey former shophouses in the conservation areas to towering office blocks, there will be something suitable for your business" (Singapore). This is why a lot of foreign companies have been attracted to do businesses in Singapore. The government categorizes business locations into different groups. Here is the entire list of options from which foreign companies can choose both within and outside Singapore:

- Business Parks
    - International Business Park
    - Changi Business Park
    - iPark
- Specialized Industrial Parks
    - Petrochemicals
        - Jurong Island
    - Wafer Fabrication
        - Tampines
        - Pasir Ris
        - Woodlands
    - Advanced Display

        - Tampines
    - Biochemical
        - Tuas Biochemical Park
        - Biopolis
    - Logistics
        - Airport logistics at Changi
        - Chemical Logitics at Jurong Island
    - Food
        - MacPherson
        - Tuas
- Overseas Industrial Parks
    - Batamindo Industrial Park
    - Bintan Industrial Estate
    - Vietnam Singapore Industrial Park
- Technopreneur Parks
    - The Enterprise @ Jurong East
    - iAxil @ Singapore Science Park
    - Technopreneur Center @Bukit Merah - Suntec City
    - Technopark @ Chai Chee

Business Parks are similar to business centers where there are clusters of various companies in those parks. *Specialized Industrial Parks* are company zones divided according to the types of industries, such as petrochemicals, wafer fabrication, advanced display, biochemical, logistics, and food. *Overseas Industrial Parks* are business locations beyond Singapore. These parks are mainly for factories and other industrial businesses and are usually for heavy industrial development. *Technopreneur Parks* provide locations for companies, which utilize and develop high technology, such as R&D and scientific experiments. Below is a map of Singapore, which shows the locations mentioned by list.

Currently, there are several options for Wal-Mart to choose a location for its operations. First, if Wal-Mart only focuses on retailing and has absolutely no plans to go into the manufacturing sector. I think *Business Parks* is the most suitable choice for Wal-Mart among all the other parks. There are three *Business Parks*. They are *International Business Park*, *Changi Business Park* and *iPark*. Wal-Mart can choose any of the three. However, if Wal-Mart wants to be close to any supplier, like food suppliers, for easy transportation and accessibility of supply, Wal-Mart can also choose *Food Industrial Parks* within the *Specialized Industrial Parks*. There are two locations for *Food Industrial Parks*, which are MacPherson and Tuas. If Wal-Mart plans to set up a regional headquarter in Singapore, a combination of both *Business Parks* and *Specialized Industrial Parks* may be a good idea. In this way, Wal-Mart can have its offices in *Business Parks* and its stores in *Specialized Industrial Parks*. Finally, if Wal-Mart wants to have more than one store in Singapore, it can have some grocery stores in *Business Parks* and the others in *Specialized Industrial Parks*.

Weaknesses

Although Wal-Mart is doing better than other retailing companies in the current economy, its image and reputation are seriously affected by the criticism from labor unions and environmentalists. Wal-Mart has been charged with a number of lawsuits on different issues, such as discriminations, wage issues, environmental problems and other issues involving child labor and bad working conditions.

Wal-Mart has been filed several charges on discrimination. For example, 6 female workers who represented 500,000 other Wal-Mart workers filed a charge against Wal-Mart in 2001. They claimed that they were being sex-discriminated by Wal-Mart. Later, Wal-Mart had two more lawsuits on discrimination. One of them was a charge of discrimination against disabled people in 2005 and Wal-Mart lost $7.5 million to the plaintiff. The other was a racial discrimination lawsuit in 2007. Several African-Americans filed a charge of racial discrimination against Wal-Mart and they claimed that Wal-Mart discriminated against them during the recruitment of over-the road truck drivers based on their race. Although Wal-Mart denied the charge, it still agreed to pay $17.5 million (Turner 10).

Environmental issues also occurred. In 2001, Wal-Mart was charged $1 million for the violation of environmental acts. Five years later, Wal-Mart was involved in another environmental pollution case. It was charged with polluting the water at 24 locations in 9 states in the U.S.. Since Wal-Mart lost the lawsuit, it had to pay a $3.1 million fine for the violation of the Clean Water Act (Wal-Mart Stores).

Wal-Mart's image continued to be scrutinized by wage problems. In 2002, Wal-Mart closed its German branch in July. A lot of workers went on a protest because of the disagreement on wage settlement. The strike lasted two days. In February 2004, Wal-Mart was brought into a case of unpaid overtime hours by its current workers. They claimed that Wal-Mart forced them to work overtime without paying anything from 1994 to 1999. Wal-Mart lost the case and was asked to pay overtime compensation to workers. Two years later, Wal-Mart was charged with forcing labor to work overtime and over the weekends again and agreed to pay $78 million as compensation to involved workers. The same issue continued in 2007, Wal-Mart, once again, agreed to pay $33.5 million for the violation of overtime labor law to more than 86,000 workers who said they were forced to work through breaks without being paid.

Around the same time, there were a lot of criticisms of Wal-Mart on other issues. In January 2005, Wal-Mart lost $135,540 due to a lawsuit of 24 violations of child labor laws. Its working condition added another problem. Wal-Mart was accused of "using hazardous equipment such as chain saws, paper balers, and fork lifts" (Wal-Mart Stores). There was also a charge of employing illegal immigrants as cleaners in U.S. stores and paid $11 million to the government to settle the charge.

Based on a news report in the *New York Times*, Wal-Mart has 63 pending cases in 24 states so far and has agreed to pay around $352 to $640 million to settle all of them, depending on the number of claims that workers file. The charges that Wal-Mart's workers filed against Wal-Mart have shown an unpleasant relationship between the company and its workers (Greenhouse B1).

The reduced employees' health benefits is another example that shows the needs for Wal-Mart to improve its relationship with employees. In 2003, Wal-Mart reported that it applied cost control methods by cutting employees' health benefits. Some examples of the measures taken are:

> Waiting period required for new employees before they can sign up for benefits;…procedures the company's health insurance will not cover, including child vaccinations; percentage decrease in the average spending on health benefits for Wal-Mart's covered employees (Bernard B1).

Cost control measures are necessary to a company's success. However, the company should also take care of its employee relations while striving for better performance. Thus, Wal-Mart should learn from all those lawsuits and take actions to create a better image among employees and worker's unions. Thus, I propose three recommendations.

First, Wal-Mart should introduce policies that forbid any unpaid and forced overtime. All overtime work can be progressed only with employees' voluntary permission and overtime pay, which is 20% higher than the normal wage must be paid to involved workers. The overtime pay will increase to 25% higher during public holidays and weekends. Other than that, Wal-Mart's management teams should obey labor standards set by both U.S. institutions and international organizations, such as the United Nations and Organization for Economic Cooperation and Development which issue recommended guidelines for multi-national corporations to deal with labor issues. At least, the general internationally accepted standards for employment and labor relations should be strictly enforced in every Wal-Mart store all over the world. These standards include:

- Freedom of association (i.e the right to organize and to bargain collectively)
- Equal employment opportunity and non-discrimination
- Prohibitions against child labor and forced labor
- Basic principles concerning occupational safety and health
- Consultation with workers' groups prior to carrying out substantial changes such as workforce reductions and plant closures
- Grievance or dispute resolution procedures
- Use of monitors (internal or external) to audit employment practices (Schuler).

Second, to prove Wal-Mart's sincerity in building a cordial relationship with labor unions, Wal-Mart should support workers to join labor unions. Labor unions usually fight for workers' benefits and represent them to speak up when they are at a disadvantage. Every employee should be given the right to join labor unions or become labor representatives. Facilitating services, such as providing the contact information of labor representatives and social workers should be made available to employees. Extensive consultation with labor unions should be engaged before Wal-Mart makes any important decision that will affect its workers, such as downsizing and closure of a particular store.

Wal-Mart improved its health benefits later but the effect of the cut may not be completely erased away from deep inside its employees' hearts. Therefore, Wal-Mart should improve employees' health benefits even more to show its intention to become a better workplace for employees than before. For example, Wal-Mart should completely eliminate the waiting time for new employees to sign up for medical benefits. Right now, Wal-Mart charges $8 per employee for health coverage per month nationwide (Wal-Mart Official). Although the amount is affordable, the health benefit is still not very attractive compared to its competitors, such as Whole Foods, which provide free health benefits for employees after 800 service hours (Whole). Thus, to attract more employees and retain current one, Wal-Mart should provide free health care benefits for all employees, including both full-time and part-time workers, after 700 hours of service.

Threats

Wal-Mart not only has internal labor relations issues, but also faces some external threats posed by the economy and its competitors. Although Wal-Mart has consistently good sales performance overall, it does have sales problems in certain areas, such as the apparel line. In 2007, the sales of clothes declined from 5% to 15% throughout the entire apparel industry (Johnson 28). The decline did not only hurt traditional clothes retailers, like Ann Taylor Stores and Talbots, but also hurt Wal-Mart's apparel sales.

Wal-Mart's huge pressure resulting from low apparel sales is because of the decrease in personal-consumption expenditure on clothes in weak economic time (Barrie 21). This can be illustrated by an article in *BusinessWeek*. The article analyzes consumer behaviors by providing estimated figures: "nearly 130 million customers shop its 3,200 U.S. stores a week. Yet just 45% shop the whole store, estimates research firm William Blair & Co. And 40% of regulars stick to low-margin basics, bypassing higher-margin sections such as apparel" (Berner 67).

That is not the worst. What's even worse is the competition in the apparel industry becomes more intense nowadays with a large number of other companies entering in the same field. The competition increases even more as a result of the globalization of markets. As a result, customers demand more than before, such as higher quality and better service; many businesses have to enter into price competitions in order to revive their sales and fight for higher profitability and greater growth opportunities. Thus, Wal-Mart has to come up with a new way of playing the game due to the dramatic changes in the rules.

Wal-Mart has already taken actions to improve it competency in the increasing competition. It has decided to consolidate its apparel purchasing operations by moving the apparel office to New York. It will layoff 700 to 800 workers at its headquarter because Wal-Mart plans to launch a major remodeling of its existing stores and set up more operations in New York. This is because Wal-Mart realized that its corporate headquarter in Bentonville is just not a place for fashion operations. However, New York is one of the world centers of fashion. Thus, almost all the apparel operations are moved to New York: design and development will be conducted in New York; marketing strategy and campaigns will be launched there; selling and purchase of the clothes will occur there; preseason planning and brand merchandise will be implemented there as well. The only things still left in Bentonville are "in-season planning, replenishment, pricing, and modular development," which is simply known as store shelving (Boyle).

With such a change, Wal-Mart hopes to revitalize its apparel operations and generate satisfying sales numbers. This particular change may help Wal-Mart increase sales in the future. However, Wal-Mart cannot solely count on it. Other changes should be accompanied with it to make the entire consolidation plan more effective. Therefore, I have made several recommendations on what else Wal-Mart should implement to its apparel operations. They will be discussed in details in below.

First, Wal-Mart needs to the change the store layout and shelving for the apparel section. Walking through the apparel section in certain Wal-Mart stores, it is not hard to find problems on store shelving and layout. For example, based on my experience of shopping in a Wal-Mart store in China, I found the store ran short of certain women's sizes for several best-selling brands; some men's brands were mixed and messed up. Customers slipped in a brand from another brand and sale associates did not notice or sort it out. It could cause a lot of confusion and take some time to find a t-shirt of certain brand from a pool of unsorted clothes. In addition, some popular brands were placed around the corners or way back near the wall where customers could easily bypass without noticing them.

All of these can be the reason why some good brands do not sell well. To increasing the buying of apparel, Wal-Mart needs to provide convenience for customers. In another word, Wal-Mart should place those best-selling items at an eye-catching spot, like somewhere in the first row or a front line, so customer can notice them easily. Moreover, sale associates should constantly do a good job in shelving. Different brands have to be sorted, separated and put into different places on shelves. Whatever is running out of stocks, replenishment should occur immediately. With all these changes being carried out, consumers will have greater accessibility to the products, which will lead to a higher sales volume of clothes. Therefore, the performance of the apparel line is expected to improve.

Other than the physical changes on store layout and shelving, I think Wal-Mart also needs to undertake strategic changes, e.g. the reduction of some unnecessary activities to make the operation of apparel department more efficient. To achieve this goal, I recommend Wal-Mart to adapt a new system called Activity-Based Costing (ABC). ABC can help companies identify costs wasted by non-value-added activities such as cost of storing raw materials and cost of receiving inventories. Generally, there are two types of activities. One is value-added activity and the other is non-value-added. Some activities are not necessary to the operation of a company and do not add value to the final products or service the company provides at all. These activities are classified as non-value-added activities. Upon identification of these activities, the company can choose to eliminate or reduce them. According to the ABC/ABM handout, the entire process of identifying non-value-added activities is called the Process Value Analysis (PVA) and involves the following steps:

- Identify Activities.
- Identify Non-Value-Added Activities.
- Understand Activity Linkages, Root Causes, ad Triggers.
- Establish Performance Measures.
- Report Non-Valued-Added Activities.

If Wal-Mart can adapt the ABC system and apply PVA to the apparel department, it will be able to successfully identify non-valued-added activities involved in current apparel operations, which will be eliminated or minimized. As a result, the efficiency of apparel operations will be significantly improved. The costs associated with those non-value-added activities can be easily spotted. Thus, Wal-Mart will be able to reduce the wasted costs to a large extent. Therefore, the ABC system is very useful to Wal-Mart's apparel operation effectiveness. In addition, the cost-reduction feature of ABC system can also help Wal-Mart maintain its low-cost structure. This is very crucial especially when Wal-Mart needs to spend money to improve its labor and union relations. The money saved from non-value-added activities can be invested by Wal-Mart to further exploit its low-cost structure or can be used to pay workers for overtime and employee benefits to build a constructive relationship among workers and labor unions.

Another reason why the implementation of ABC system is necessary to Wal-Mart is because ABC can help Wal-Mart set a more accurate price on the clothes it sells. One of the most noteworthy features of ABC is cost allocation. Cost can be allocated through two stages. Stage One: Identify significant activities and assign overhead costs to each activity in proportion to resources used. Stage Two: Identify cost drivers appropriate to each activity and allocate overhead to the products. Cost driver is “a variable, such as the level of activity of volume, that causally affects costs over a given time span” (Horngren 849). This is a new way of cost assignment introduced by the ABC system. What special about the ABC cost allocation method is its great advantage over the traditional average method of cost assignment.

The traditional method is to use broad averages to allocate costs uniformly regardless of how much cost individual activity actually incurred. The broad averaging method often results in overcosting and undercosting. Overcosting happens when a product consume a low level of resources but is allocated high costs per unit. Unlike overcosting, undercosting happens when a product consumes a high level of resources but is allocated low costs per unit. Thus, costs are not allocated to each activity based on their expenses.

Unlike the traditional broad averaging method, significant activities are identified and classified into five categories in the ABC system:

- Unit-Level Activity
- Batch-Level Activity
- Product-Level Activity

- Customer-Level Activity
- Facility-Level Activity

After cost drivers are identified for each activity, they are further classified into three types as well. They are:

- Transaction
- Duration
- Intensity

Transaction cost drivers measure how frequent each activity is performed. Duration cost drivers measure the amount of time taken to perform each activity. Finally, intensity cost drivers measure the amount resources each activity has consumed when it is carried out.

With detailed differentiation of cost activities and cost drivers, costs are assigned to each activity proportionally to the expenses of the particular activity. In this way, the ABC system facilitates more accurate cost assignment than the traditional costing method.

With the implementation of the ABC cost allocation method to the apparel operations, Wal-Mart can, then, set the price of different clothes more accurately by taking considerations of a variety of expenses of getting those clothes in stores, such as the cost of transporting expense, the period of time the apparel has to be stored in warehouse, the research cost, the design cost, the administration cost, and selling cost. Wal-Mart will classify all of these costs according to the five categories of activities mentioned above and identify appropriate cost drivers to get an accurate amount of cost allocated to different apparel. Finally, Wal-Mart will be able to assign the price to different apparel proportionally to costs allocated.

Conclusion

After the overall analysis of Wal-Mart and the industry in which it is operating, strengths, opportunities, weaknesses and threats are identified. To help Wal-Mart achieve greater success and continue its profitable sales, Wal-Mart should exploit its strengths, utilize opportunities, improve weaknesses and remove threats. Thus, recommendations associated with each section should be carefully considered and adopted.

Appendix

WAL★MART®

2008 Financial Review

Eleven-Year Financial Summary

(Dollar amounts in millions, except per share data)

Fiscal Year Ended January 31,	2008	2007	2006
Operating results			
Net sales	$374,526	$344,992	$308,945
Net sales increase	8.6%	11.7%	9.8%
Comparable store sales increase in the United States[1]	2%	2%	3%
Cost of sales	$286,515	$264,152	$237,649
Operating, selling, general and administrative expenses	70,288	64,001	55,739
Interest expense, net	1,798	1,529	1,178
Effective tax rate	34.2%	33.6%	33.1%
Income from continuing operations	$ 12,884	$ 12,178	$ 11,408
Net income	12,731	11,284	11,231
Per share of common stock:			
Income from continuing operations, diluted	$ 3.16	$ 2.92	$ 2.72
Net income, diluted	3.13	2.71	2.68
Dividends	0.88	0.67	0.60
Financial position			
Current assets of continuing operations	$ 47,585	$ 46,982	$ 43,752
Inventories	35,180	33,685	31,910
Property, equipment and capital lease assets, net	97,017	88,440	77,865
Total assets of continuing operations	163,514	151,587	136,230
Current liabilities of continuing operations	58,454	52,148	48,954
Long-term debt	29,799	27,222	26,429
Long-term obligations under capital leases	3,603	3,513	3,667
Shareholders' equity	64,608	61,573	53,171
Financial ratios			
Current ratio	0.8	0.9	0.9
Return on assets[2]	8.4%	8.8%	9.3%
Return on shareholders' equity[3]	21.1%	22.0%	22.9%
Other year-end data			
Wal-Mart Stores Segment			
Discount stores in the United States	971	1,075	1,209
Supercenters in the United States	2,447	2,256	1,980
Neighborhood Markets in the United States	132	112	100
Sam's Club Segment			
Sam's Clubs in the United States	591	579	567
International Segment			
Units outside the United States	3,121	2,757	2,181

(1) For fiscal 2006 and prior years, we considered comparable store sales to be sales at stores that were open as of February 1st of the prior fiscal year and which had not been converted, expanded or relocated since that date. Beginning in fiscal 2007, comparable store sales includes all stores and clubs that have been open for at least the previous 12 months. Additionally, stores and clubs that are relocated, expanded or converted are excluded from comparable store sales for the first 12 months following the relocation, expansion or conversion.

(2) Income from continuing operations before minority interest divided by average total assets from continuing operations.

(3) Income from continuing operations before minority interest divided by average shareholders' equity.

2005	2004	2003	2002	2001	2000	1999	1998
$281,488	$252,792	$226,479	$201,166	$178,028	$153,345	$129,161	$112,005
11.4%	11.6%	12.6%	13.0%	16.1%	18.7%	15.3%	12.4%
3%	4%	5%	6%	5%	8%	9%	6%
$216,832	$195,922	$175,769	$156,807	$138,438	$119,526	$101,456	$ 88,163
50,178	43,877	39,178	34,275	29,942	25,182	21,469	18,831
980	825	930	1,183	1,194	837	595	716
34.2%	34.4%	34.9%	36.4%	36.6%	37.4%	37.7%	37.0%
$ 10,482	$ 9,096	$ 7,940	$ 6,718	$ 6,446	$ 5,582	$ 4,209	$ 3,424
10,267	9,054	7,955	6,592	6,235	5,324	4,397	3,504
$ 2.46	$ 2.08	$ 1.79	$ 1.50	$ 1.44	$ 1.25	$ 0.94	$ 0.76
2.41	2.07	1.79	1.47	1.39	1.19	0.98	0.77
0.52	0.36	0.30	0.28	0.24	0.20	0.16	0.14
$ 37,913	$ 33,548	$ 28,867	$ 25,915	$ 24,796	$ 22,982	$ 19,503	$ 18,589
29,419	26,263	24,098	21,793	20,710	18,961	16,058	16,005
66,549	57,591	50,053	44,172	39,439	34,570	24,824	23,237
117,139	102,455	90,229	79,301	74,317	67,290	47,066	44,221
42,609	37,308	31,752	26,309	28,096	25,058	15,848	13,930
20,087	17,088	16,545	15,632	12,453	13,650	6,875	7,169
3,073	2,888	2,903	2,956	3,054	2,852	2,697	2,480
49,396	43,623	39,461	35,192	31,407	25,878	21,141	18,519
0.9	0.9	0.9	1.0	0.9	0.9	1.2	1.3
9.8%	9.7%	9.6%	9.0%	9.3%	10.1%	9.6%	8.5%
23.1%	22.4%	21.8%	20.7%	23.0%	24.5%	22.0%	19.6%
1,353	1,478	1,568	1,647	1,736	1,801	1,869	1,921
1,713	1,471	1,258	1,066	888	721	564	441
85	64	49	31	19	7	4	—
551	538	525	500	475	463	451	443
1,480	1,248	1,163	1,050	955	892	605	568

Financial information prior to fiscal 2004 has been restated to reflect the sale of McLane Company, Inc. ("McLane") that occurred in fiscal 2004. Financial information prior to fiscal 2007 has been restated to reflect the disposition of our South Korean and German operations that occurred in fiscal 2007. McLane and the South Korean and German operations are presented as discontinued operations. All years have been restated for the fiscal 2004 adoption of the expense recognition provisions of Statement of Financial Accounting Standards No. 123, "Accounting and Disclosure of Stock-Based Compensation." In fiscal 2005, we adopted Statement of Financial Accounting Standards No. 123R, "Share-Based Payment," which did not result in a material impact to our financial statements.

In fiscal 2003, the Company adopted Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets." In years prior to adoption, the Company recorded amortization expense related to goodwill.

The consolidation of The Seiyu, Ltd. ("Seiyu"), had a significant impact on the fiscal 2006 financial position amounts in this summary. The acquisition of the Asda Group PLC and the Company's related debt issuance had a significant impact on the fiscal 2000 amounts in this summary.

Certain reclassifications have been made to prior periods to conform to current presentations.

Consolidated Statements of Income

(Amounts in millions except per share data)	Fiscal Year Ended January 31, 2008	2007	2006
Revenues:			
Net sales	**$374,526**	$344,992	$308,945
Membership and other income	**4,273**	3,658	3,156
	378,799	348,650	312,101
Costs and expenses:			
Cost of sales	**286,515**	264,152	237,649
Operating, selling, general and administrative expenses	**70,288**	64,001	55,739
Operating income	**21,996**	20,497	18,713
Interest:			
Debt	**1,863**	1,549	1,171
Capital leases	**240**	260	249
Interest income	**(305)**	(280)	(242)
Interest, net	**1,798**	1,529	1,178
Income from continuing operations before income taxes and minority interest	**20,198**	18,968	17,535
Provision for income taxes:			
Current	**6,916**	6,276	5,932
Deferred	**(8)**	89	(129)
	6,908	6,365	5,803
Income from continuing operations before minority interest	**13,290**	12,603	11,732
Minority interest	**(406)**	(425)	(324)
Income from continuing operations	**12,884**	12,178	11,408
Loss from discontinued operations, net of tax	**(153)**	(894)	(177)
Net income	**$ 12,731**	$ 11,284	$ 11,231
Net income per common share:			
Basic income per common share from continuing operations	**$ 3.17**	$ 2.92	$ 2.73
Basic loss per common share from discontinued operations	**(0.04)**	(0.21)	(0.05)
Basic net income per common share	**$ 3.13**	$ 2.71	$ 2.68
Diluted income per common share from continuing operations	**$ 3.16**	$ 2.92	$ 2.72
Diluted loss per common share from discontinued operations	**(0.03)**	(0.21)	(0.04)
Diluted net income per common share	**$ 3.13**	$ 2.71	$ 2.68
Weighted-average number of common shares:			
Basic	**4,066**	4,164	4,183
Diluted	**4,072**	4,168	4,188
Dividends declared per common share	**$ 0.88**	$ 0.67	$ 0.60

Consolidated Balance Sheets

(Amounts in millions except per share data)	January 31, 2008	2007
Assets		
Current assets:		
Cash and cash equivalents	$ 5,569	$ 7,767
Receivables	3,654	2,840
Inventories	35,180	33,685
Prepaid expenses and other	3,182	2,690
Total current assets	47,585	46,982
Property and equipment, at cost:		
Land	19,879	18,612
Buildings and improvements	72,533	64,052
Fixtures and equipment	28,026	25,168
Transportation equipment	2,210	1,966
Property and equipment, at cost	122,648	109,798
Less accumulated depreciation	(28,773)	(24,408)
Property and equipment, net	93,875	85,390
Property under capital lease:		
Property under capital lease	5,736	5,392
Less accumulated amortization	(2,594)	(2,342)
Property under capital lease, net	3,142	3,050
Goodwill	16,071	13,759
Other assets and deferred charges	2,841	2,406
Total assets	$163,514	$151,587
Liabilities and shareholders' equity		
Current liabilities:		
Commercial paper	$ 5,040	$ 2,570
Accounts payable	30,370	28,484
Accrued liabilities	15,799	14,675
Accrued income taxes	1,016	706
Long-term debt due within one year	5,913	5,428
Obligations under capital leases due within one year	316	285
Total current liabilities	58,454	52,148
Long-term debt	29,799	27,222
Long-term obligations under capital leases	3,603	3,513
Deferred income taxes and other	5,111	4,971
Minority interest	1,939	2,160
Commitments and contingencies		
Shareholders' equity:		
Preferred stock ($0.10 par value; 100 shares authorized, none issued)	—	—
Common stock ($0.10 par value; 11,000 shares authorized, 3,973 and 4,131 issued and outstanding at January 31, 2008 and January 31, 2007, respectively)	397	413
Capital in excess of par value	3,028	2,834
Retained earnings	57,319	55,818
Accumulated other comprehensive income	3,864	2,508
Total shareholders' equity	64,608	61,573
Total liabilities and shareholders' equity	$163,514	$151,587

Consolidated Statements of Shareholders' Equity

(Amounts in millions except per share data)	Number of Shares	Common Stock	Capital in Excess of Par Value	Accumulated Other Comprehensive Income	Retained Earnings	Total
Balance—January 31, 2005	4,234	$423	$ 2,425	$ 2,694	$ 43,854	$ 49,396
Comprehensive income:						
Net income					11,231	11,231
Other comprehensive income:						
Foreign currency translation				(1,691)		(1,691)
Net changes in fair values of derivatives				(1)		(1)
Minimum pension liability				51		51
Total comprehensive income						9,590
Cash dividends ($0.60 per share)					(2,511)	(2,511)
Purchase of Company stock	(74)	(7)	(104)		(3,469)	(3,580)
Stock options exercised and other	5	1	275			276
Balance—January 31, 2006	4,165	$417	$ 2,596	$ 1,053	$ 49,105	$ 53,171
Comprehensive income:						
Net income					11,284	11,284
Other comprehensive income:						
Foreign currency translation				1,584		1,584
Net changes in fair values of derivatives				6		6
Minimum pension liability				(15)		(15)
Total comprehensive income						12,859
Adjustment for initial application of SFAS 158, net of tax				(120)		(120)
Cash dividends ($0.67 per share)					(2,802)	(2,802)
Purchase of Company stock	(39)	(4)	(52)		(1,769)	(1,825)
Stock options exercised and other	5		290			290
Balance—January 31, 2007	**4,131**	**$413**	**$2,834**	**$2,508**	**$55,818**	**$61,573**
Comprehensive income:						
Net income					**12,731**	**12,731**
Other comprehensive income:						
Foreign currency translation				**1,218**		**1,218**
Minimum pension liability				**138**		**138**
Total comprehensive income						**14,087**
Cash dividends ($0.88 per share)					**(3,586)**	**(3,586)**
Purchase of Company stock	**(166)**	**(17)**	**(190)**		**(7,484)**	**(7,691)**
Stock options exercised and other	**8**	**1**	**384**			**385**
Adoption of FIN 48					**(160)**	**(160)**
Balance—January 31, 2008	**3,973**	**$397**	**$3,028**	**$3,864**	**$57,319**	**$64,608**

See accompanying notes.

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