

Corporate Strategy

Class 15 Case

Wal-Mart Stores' Discount Operations

I. Discount Detailing

- Discount stores extended the low margins approach to general merchandise by charging gross margins that were 10%-15% lower than those of conventional department stores.

II. Wal-Mart's Discount Stores

1. History

- A full-line discount store needed a population base of at least 100,000.
- Build warehouses to buy in volume at attractive prices and store the merchandise.

2. Purchasing and Distribution

- Wal-Mart used in-store terminals to wire merchandise requests to a central computer. The central computer would either transmit the requests to the Wal-Mart distribution center that supplied the store, or, if stocking levels there were low, reorder the merchandise.
- Only 20% of the inbound merchandise was shipped directly from the vendors. The rest passed through Wal-Mart's two-step hub-and-spoke distribution network. One of Wal-Mart's 400-plus truck-tractors would bring the merchandise into a distribution center, where it would be sorted automatically onto another truck and delivered to the store – usually within 48 hours of the original request.
- Wal-Mart opened its first distribution center – a 72,000-square-foot facility – at its headquarters in Bentonville, Arkansas, in 1970. The initial cost of that distribution center was \$5 million; it was meant to serve 80 to 100 Wal-Mart stores within a 250-mile radius. By 1978, the company's radius of operations had widened to 400 miles.
- By the end of 1985, Wal-Mart operated 3.9 million square feet of distribution space in five locations.

3. Store Operations

- Lowest level for building rentals' reasons: (1) an increase in sales per average square foot from \$110 in 1979 to \$171 in 1985 and (2) the bargain-basement acquisition, in the 1980s, of the leases for 120 Kuhn's Big-K and Woolco stores.
- Each store had 36 merchandise departments.
- Wal-Mart placed more emphasis on hard goods (hardware, housewares, automobile supplies, and small appliances).
- Wal-Mart had led the industry in 1971 by installing a computerized system to track inventory.
- Wal-Mart was switching to electronic scanning of the Uniform Product Code (UPC) at the point of sale.

4. Marketing

- Consumers shopped at Wal-Mart primarily for the price-sensitive categories of health and beauty aids, housewares, and appliances.
- Wal-Mart was very competitive in terms of prices.
- Its philosophy is "everyday low prices".
- Wal-Mart was running 13 promotions a year: one each month except in December, when it ran two. Promotional prices were 10%-20% below everyday ones.
- Wal-Mart's advertising expenditures had averaged 1.1% of sales in the second half of the 1970s. Circulars and newspaper advertisements accounted for the bulk of this figure.
- In 1985, however, it spent \$16.3 million on spot TV, almost entirely in major metropolitan markets.
- In 1985, Wal-Mart was using computer aided design to develop a program that would suggest a merchandise mix for each store.

5. Human Resources Management

- At the end of 1985, Wal-Mart employed over 100,000 full-time and part-time employees.
- The annual report for the fiscal year ending January 31, 1986, was typical. Its cover highlighted the word *people*.
- The report went on to add, Wal-Mart's 'Our People Make the Difference'.

6. Administration

- Wal-Mart's administrative style emphasized frugality.

7. Diversification

- Wal-Mart opened do-it-yourself hardware and lumber stores in the mid-1970s, then quickly closed them. But in 1983 and 1984, it started three new ventures: dot Discount Drug, Helen's Arts and Crafts, and Sam's Wholesale.
- Wal-Mart had opened its first Sam's Wholesale Club in 1983 in Oklahoma City. It added two more that year, 8 in 1984, and 12 in 1985.
- Wal-Mart also claimed that because of the company's discounting experience, Sam's was more viable in smaller areas than competing warehouse clubs.