Wal-Mart Update 1992

Since 1985 Wal-Mart continued its explosive and unabated growth: sales increased an average of 32% a year, defying the recessionary economic climate that affected many U.S. retailers in the early 1990's. By 1993, Wal-Mart was the largest and most profitable retailer in the world, achieving a return on equity (ROE) of nearly 32% and a market valuation more than ten times book value.[1] The company had sales of $55.4 billion in the fiscal year that ended January 31, 1993; net profits hit almost $2 billion. Wal-Mart had more than 2100 stores in 43 states.

Wal-Mart achieved this growth by expanding its core business to further geographic locations and by modestly diversifying within the retail trade. While traditionally operating in small, Southern and Mid-Western locations, the company had been edging its expansion to the outskirts of large urban cities in the north and west. The challenge for Wal-Mart was to translate its friendly, helpful "down-home" image to a city environment. Additionally, further expansion meant facing the competition directly. In 1992, only 40% of Wal-Mart stores faced direct competition from their principal rivals, K mart and Target.[2] Yet, further geographic growth would undoubtedly increase the competition with other major retailers.

Expanded retail formats fueled some of Wal-Mart's growth. The most significant new format was Sam's Warehouse Clubs, which contributed $9.4 billion in sales in 1992.

Wal-Mart also opened six Supercenters, with 14 planned for 1992. These scaled down hypermarkets ranged from 97,000 to 211,000 square feet, far larger than the typical 80,000 foot discount center. Supercenters allocated significant floor space to food. If this format proved successful, Supercenters in combination with Wal-Mart and Sam's could become the largest distributor of food in the U.S. by the end of the decade.

Wal-Mart had experimented by building four huge Hypermarkets USA stores and creating 56 Bud's Outlet Stores, which carry close-out, over-run and damaged merchandise in the familiar

Research Associate Jonathan J. Ginns prepared this case under the supervision of Professor David B. Yoffie as the basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation.

1. Emery, Schulman and Stalk, "Competing on Capabilities: The New Rules of Corporate Strategy," *Harvard Business Review*, March-April 1992, p. 57.
2. Kevin Helliker, *Wall Street Journal*, April 6, 1992, p. A1.

Wal-mart discount format. Bud's was an effort to utilize empty buildings where the company was paying rent. Wal-Mart also owned the Phillips Chain of supermarkets, which was a wholly-owned subsidiary.

Creative human resource policies and significant investment in information systems were a significant component of Wal-Mart's continued success. But perhaps Wal-Mart's most dramatic steps since 1985 were in merchandising. In 1990 the company pioneered "manufacturing partnering" with Proctor & Gamble. Under this program the manufacturer provided a team of people to coordinate sales, marketing, finance and production specifically for Wal-Mart. The purpose of this move was to improve efficiency for both the retailer and manufacturer alike.

To further streamline operations, the company announced in 1992 that it would deal with independent brokers and intermediary merchandisers only if they had authority to make binding agreements. A typical independent broker could not commit the company he or she represented to firm delivery dates, quantity orders, etc.

Wal-Mart also expanded its own private label program. For many years, Wal-Mart promoted its own "Equate" brand for over-the-counter drugs. Wal-Mart extended the private label program to "Sam's American Choice" for both grocery and health and beauty products. Gross margins for private label brands were significantly higher than branded products.

As Wal-Mart looked beyond 1992 for growth, some analysts looked to markets such as consumer electronics for future expansion. Others looked for Wal-Mart to continue its geographic growth, expanding even into international markets. One thing remains probable: Wal-Mart would need to remain extremely active if it wanted to feed its ever expanding appetite for growth.