**CASE STUDY # 2**

**Apply Porters five forces and PEST analysis as part of your external analysis to the article “Wal-Mart stores in 2003”.**

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1. **Depict both Porters five forces and PEST in a diagram**

**FIVE FORCES DIAGRAM**

**PEST DIAGRAM**

1. **Analyze each of the forces and PEST applicable to Wal-Mart Porters fives**

**FIVE FORCES ANALYSIS**

* **Rivalry: Medium Pressure**
  + Currently there are two main incumbent companies that exist in the same market as Wal-Mart: K Mart, and Target. Target is the strongest of the three in relation to retail.
  + Target has experienced tremendous growth in their domestic markets and has defined their niche quite effectively.
  + K-Mart seems to be drifting and have not challenged Wal-Mart in sometime.
  + Mature industry life cycle.
* **The Bargaining Power of Buyers: Low pressure**
  + The individual buyer has little to no pressure on Wal-Mart.
  + Consumer advocate groups have complained about Wal-Mart’s pricing techniques without much impact.
  + Consumers could shop at a competitor who offers comparable products at comparable prices but the convenience is lost.
* **Bargaining Power of Suppliers: Low to Medium pressure**
  + Since Wal-Mart holds so much of the market share they offer a lot of business to manufacturers and wholesalers. This gives Wal-Mart a lot of power because Wal-Mart threatening to switch to a different supplier would create a scare tactic to the suppliers.
  + Wal-Mart could vertically integrate.
  + Wal-Mart does deal with some large suppliers like Proctor & Gamble and Coca-Cola who have more bargaining power than small suppliers.
* **Substitute Products: Low pressure**
  + When it comes to the retail market, there are not many substitutes that offer the same convenience and low pricing.
  + The customer has the choice of going to many specialty stores to get their desired products but is not going to find Wal-Mart’s low pricing.
  + Online shopping provides another alternative because it is so different and the customer can gain price advantages. Online retailers do not necessarily have a brick and mortar store, passing the savings onto the consumer.
* **Complementors: Low pressure**
  + One of the complementors for Wal-Mart is Sam’s Wholesale Clubs. Although owned by the same company Sam’s complements Wal-Mart by offering the same products in wholesale form, making the company more profitable.
  + Suppliers of goods need to have innovative products to attract customers.
  + For the most part, complementors do not affect Wal-Mart’s business model.

**PEST ANALYSIS**

* **Politics**

Wal-Mart has been at times subjected to political action law suit, which including off-the-clock work, alleged gender discrimination and illegal workers. Wal-Mart vigorously contested the several thousand lawsuits filed against them each year. Wal-Mart set up a media relations unit in 1989, expanded its human resources and its legal function in the 1990s, and established a governmental affairs unit in Washington, D.C.

Many of Wal-Mart people policies endured to the present day: sharing performance information with associates, soliciting their ideas, offering profit sharing, and maintaining an open-door policy.

* **Economic**

Wal-Mart was the largest U.S importer from China by the mid-1990s. If Wal-Mart had been an independent country, it would have been China’s eighth-largest trading partner, ahead of Russia and Britain. According to one executive, global procurement could reduce the cost of general merchandise goods by 10%-20%.

The Discount Store format required a potential customer base of 150,000 people. The average size of these stores had increased from 42,000 square feet in 1975 to 91,000 by 1995. By 2003, 42% of the U.S. (118 million people) had access to a Wal-Mart Supercenter, which needed a potential customer base of 76,000 people. In 2001, 7% of Supercenters’ sales growth came from new shoppers and 21% from existing shoppers who increased their purchase volume. The remaining 72% was diverted from other channels, including one-third from competing grocery stores and 22% from Wal-Mart’s other formats.

The US has its plan to moderate the increase of supercenters in order to leverage capital assets through a plan which is designed to increase returns and sales in U.S. stores.  This is likely to affect Wal-Mart.

* **Social**

Audits in 2001 revealed that over 50% of international suppliers’ factories violated Wal-Mart’s standards; 30% were in “serious violation.” Wal-Mart engaged with suppliers to fix the problems. Company data indicated subsequent compliance by suppliers. Wal-Mart was still voted “Sweatshop Retailer of the Year” in a 2003 activist group’s online poll, despite procurement practices which are arguably no worse than their competitors.

Wal-Mart promoted its EDLP (everyday low process) image by advertising, sponsoring community events and creating in-store excitement. Contributions to local charities, funding of scholarships and in-store charity-sponsored events helped Wal-Mart counter its negative public image as a retailing giant that destroyed the fabric of communities by displacing local stores.

Wal-Mart as “restoring the values of a mythic bygone America while simultaneously allowing its followers to participate in scientific, classless, and rational community.”

There has been a trend in various places that Walmart is the best place to go shopping. Therefore consumers in US who want one stop service go to Wal-Mart as their first choice because of the social influence.

* **Technology**

IT generated many of the labor productivity improvements. Wal-Mart tries to track every item in the Wal-Mart system at all times via automated distribution centers linked by computers to both stores and suppliers.

Wal-Mart used electronic data interchange to communicate with suppliers about forecasting, planning, replenishing and shipping. Up-to-the-minutes information about supply and demand helped Wal-Mart reduce both stock-outs and overstocking.

Wal-Mart installed electronic UPC scanners years ahead of competitors, greatly improving checkout efficiency. Wal-Mart’s satellite network cut authorization times to less than three seconds, enabling customers to use most major credit cards, reducing fraud and improving customer service.

Wal-Mart uses modern technologies for the core purpose of marketing.  They mostly rely on the internet and social media for advertising and selling of their product. The CEO of Wal-Mart once noted that technology is among the foremost concerns on the agenda of marketing in Wal-Mart.

* **Conclusion**

This paper has discussed about the PEST analysis of Wal-Mart Company. On the PEST analysis the political, economic, social and technological factors have been discussed.