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COMPANY PROFILE

Wal-Mart Stores, Inc.

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COMPANY OVERVIEW

Wal-Mart Stores, Inc. (Wal-Mart or 'the company') operates retail stores in various formats across the world. In the US, the retail formats operated by Wal-Mart include discount stores, supercenters, neighborhood markets and other small store formats. Internationally, the company has presence in Argentina, Brazil, Canada, Chile, China, India, Japan, the UK, Central America, Africa, and Mexico. Wal-Mart is headquartered in Bentonville, Arkansas and employed about 2.2 million people as of January 31, 2015.

The company recorded revenues of $485,651 million in the financial year ended January 2015 (FY2015), an increase of 2% over FY2014. The operating profit of the company was $27,147 million in FY2015, an increase of 1% over FY2014. The net profit was $16,363 million in FY2015, an increase of 2.1% over FY2014.

KEY FACTS

Head Office	Wal-Mart Stores, Inc. 702 Southwest 8th Street Bentonville Arkansas 72716 USA
Phone	1 479 273 4000
Fax	
Web Address	http://www.walmart.com
Revenue / turnover (USD Mn)	485,651.0
Financial Year End	January
Employees	2,200,000
New York Ticker	WMT

SWOT ANALYSIS

Wal-Mart operates retail stores in various formats across the world. It is the largest retailer in the world. Wal-Mart stores offer a large variety of nationally recognized as well as private label merchandise in the categories of grocery, entertainment, hardlines, health and wellness, apparel and home, among others. The company's dominant position and its wide product portfolio allow it to quickly shift the product mix according to the consumer preferences. However, with 2.2 million employees, rising labor and healthcare costs will significantly affect Wal-Mart's profitability.

Strengths	Weaknesses
Market leader with unprecedented scale and wide product assortment Low cost leadership enables Wal-Mart to offer products at low price points Internationalization strategy provides a strong foundation for growth	Litigations affect labor relations adversely Allegations related to violation of anti-corruption laws
Opportunities	**Threats**
Growth in internet retailing to serve larger market Increasing acceptance of private label merchandise Growing demand for organic foods in the US	More than two million employees increase exposure to rising wages and high healthcare costs Intensifying competitive pressures from different channels

Strengths

Market leader with unprecedented scale and wide product assortment

Wal-Mart is the largest retailer in the world. The company was featured among the top three largest corporations in the US, as well as among the top three world's largest corporations in the rankings released by a business magazine in 2015. Wal-Mart was also featured among the top 10 in the top 100 most valuable global brands 2015 list released by an industry source specializing in brand valuation. It was also featured among top three in the top 50 global retail brands 2015 list released by the same industry source. In FY2015, the company generated revenues of $485,651 million, and had an operating income of $27,147 million. Wal-Mart operates more than 11,000 stores under 72 banners in 27 countries and e-commerce websites in 11 countries.

The scale of its operations is unprecedented and there is no competitor of comparable size. The company has been expanding its international operations. In FY2015, Wal-Mart's international operations accounted for more than one-fourth of the company's total revenue, more than half of its store count and more than 35% of its retail space. Wal-Mart US is an integral part of consumers' budgets as it accounts for a substantial portion of the country's total retail and grocery sales.

The company dominates the US retail landscape and is growing internationally at a fast pace. Wal-Mart, being a market leader, is able to replicate its best practices constantly on an unmatched scale both in the US and across the world. Wal-Mart's large scale relative to most vendors leads to favorable terms on everything from the products on its shelves to store leases and distribution agreements. These competitive advantages generate positive economic returns and market share gains for the company.

Also, Wal-Mart stores offer a large variety of nationally recognized as well as private label merchandise across several categories, including grocery, entertainment, hardlines, health and wellness, apparel and home. Wal-Mart's dominant position and wide range of products allow the company to quickly shift the product mix to meet demand and benefit from increased sales. For example, by changing floor space allocation, Wal-Mart can benefit from low-income consumers' growing preference for consumable staples instead of discretionary items. Such flexibility and clout enables the company to maintain its market position and continue to gain market share from competitors.

Low cost leadership enables Wal-Mart to offer products at low price points

Wal-Mart is a price leader and low cost operations enabled the company to maintain this position over the years. The company follows an EDLP strategy to offer its grocery products at lower prices compared with other players in the industry. Wal-Mart constantly flexes its bargaining muscle to lower prices. This strategy ensures a steady, recurring stream of customers for its goods, making Wal-Mart synonymous with inexpensive. This strategy also keeps constant pressure on competitors.

Wal-Mart's localized and national market basket media campaigns across markets offer a price comparison on baskets of merchandise to customers. For instance, in March 2014, the company launched Savings Catcher, an online tool which allows customers to compare prices on several products with those of some of its competitors, eliminating the need to visit multiple stores to find low prices. Since its launch in seven states of the US until June 2014, nearly one million receipts were processed using this tool. In August 2014, Wal-Mart launched this tool across the US. Currently, Savings Catcher tool is applicable to groceries such as pantry staples including cereal, chips, rice, yogurt, milk, and frozen foods; consumable items such as paper towels, bleach, and trash bags; and health and beauty items such as shampoo and makeup. Wal-Mart plans to add produce and general merchandise to this tool in the future. The company’s base of customer proposition is EDLP, enabled by being a low-cost operator. During FY2015, in markets such as Brazil and Africa, Wal-Mart continued to progress on the transition to EDLP. During the same period, in markets such as the UK and Canada, the company focused on price investment to increase sales. Additionally, the company saved $150 million in China through its ‘We Operate for Less’ and ‘We Buy for Less’ programs. The company is also focusing on its everyday low cost (EDLC) strategy by improving its supply chain, processes and other efficiencies, to deliver price leadership.

Sam's Club also enjoys a similar reputation but on a per-unit basis, as most of its goods is sold in bulk. The company receives favorable pricing from and systematic integration with most of its suppliers, which is a large part of Wal-Mart's crucial low-cost advantage. The company generally requires suppliers to tie into its own inventory management system and to deliver goods in the manner and timing suitable to Wal-Mart, leading to impressive inventory turns (especially considering that 44% of its revenues are generated from non-grocery categories). Furthermore, a no-frills store environment also improves total asset turns and limits maintenance capital investment. In addition, as a low-cost general retailer, Wal-Mart has built a reputation with consumers as a one-stop shop for good deals on a huge spectrum of merchandise. The company also follows Save Even More/Ad Match strategy to meet or be below a competitor's advertised price. ASDA, Wal-Mart's subsidiary, offers ASDA Price Guarantee program to customers at its stores. Under this program, if a basket of comparable grocery products offered at ASDA's stores is not at least priced 10% lower than Tesco, Sainsbury's, Morrisons and Waitrose, then ASDA would refund the difference amount. Additionally, Walmart Canada follows the company’s EDLP and EDLC strategies, which enable it to be more competitive in the Canadian market. Most cost savings are passed to consumers, making Wal-Mart's low-price leadership even more difficult to surpass. Therefore, the company's price leadership ensures a large addressable market, which will drive top-line growth.

Internationalization strategy provides a strong foundation for growth

Wal-Mart has been increasingly focusing on establishing its presence strongly in the international arena. At the end of FY2015, the company's international segment operated 6,290 retail stores in 26 countries. Wal-Mart opened its first international store in Mexico in FY1992 and since then has grown both through acquisitions and its own innovation. Though it is synonymous with the big-box stores in the US, the company operates through several store formats in various geographic markets. For instance, Wal-Mart operates small Bodega Aurrera Express stores in Mexico, which was launched in 2008. These stores occupy an average selling space of 2,690 square feet, significantly lower than any of the Wal-Mart supercenters. More than 90% of the company’s international stores operate under a banner other than Walmart, including Acuenta in Chile, ASDA in the UK and Seiyu in Japan. Wal-Mart generated revenues of $136,160 million from its international segment in FY2015. The company’s revenues from the international segment increased at a compound annual growth rate (CAGR) of 6% from FY2011 to FY2015.

The international strategy will help the company to improve returns from emerging markets. As it expands at the international level, not only will the company be able to replicate the business model and leverage on the expertise, but also will leverage on the global scale through global brand and supplier relationships and merchandising efficiencies.

Weaknesses

Litigations affect labor relations adversely

The company has been facing several charges and lawsuits with respect to labor relations. For instance, between 2005 and 2011, Wal-Mart settled around 70 state and federal class action wage-and-hour lawsuits and lost one jury trial of a wage-and-hour case. These settlements caused an expenditure of more than $1 billion for the company. In 2012, temporary workers at Wal-Mart filed a lawsuit against the company and two staffing agencies alleging that Wal-Mart forced them to work longer hours without a lunch break. The lawsuit alleged violation of federal minimum wage and overtime laws. Furthermore, in 2013, a class action lawsuit was filed against Wal-Mart in California, with employees alleging that the company failed to provide suitable seating for its cashiers. Later in January 2014, the National Labor Relations Board (NLRB) Office of the General Counsel issued a consolidated complaint against Wal-Mart alleging that the company violated the rights of its employees as a result of activities surrounding employee protests and strikes in 13 states. In June 2015, Wal-Mart was accused of violating California's minimum wage law. A federal judge in San Francisco stated that the company failed to pay California minimum wage to truck drivers for activities that included inspecting and washing their trucks. This lawsuit could cost Wal-Mart more than $100 million. In July 2015, a lawsuit was filed in the US District Court in Boston against Wal-Mart by one of its employees, alleging the company's prior policy of denying health insurance to the spouses of gay employees violated gender discrimination laws.

Wal-Mart has been suffering the ill-effects of such lawsuits which divert large amounts of money towards counterproductive activities. Additionally, the company's reputation is tarnished and it may find itself short of skilled and qualified employees. This may lead to employees demanding higher compensation to work for the company and skilled employees choosing to work with competitors, which will be a key competitive disadvantage.

Allegations related to violation of anti-corruption laws

Wal-Mart has been accused of engaging in corrupt practices to further its business interests in certain locations. In 2012, it was alleged that the company offered $24 million in bribes to secure construction permits in Mexico. Following this allegation, the company announced that it had been conducting an extensive investigation since 2011 into its compliance with the US Foreign Corrupt Practices Act (FCPA), which prohibits American companies from bribing foreign officials, and other alleged crimes or misconduct in connection with foreign subsidiaries, including Walmex, and if any such allegations made earlier were appropriately handled by the company. The company also announced that it is conducting a global review of its policies, practices and internal controls for FCPA compliance, as well as strengthening its global anti-corruption compliance programs through appropriate remedial anti-corruption measures. In 2012, the US Department of Justice (DOJ) and the Securities and Exchange Commission (SEC) began their respective investigations into possible violations of the FCPA. Several federal and local government agencies in Mexico also initiated investigations of these matters. Furthermore, lawsuits were filed by several of the company's shareholders against it and certain of its current and former Directors and Officers and certain of Walmex's current and former officers. In FY2015, the company incurred costs of $173 million in connection with the FCPA investigation and related matters.

Such developments expose the company to significant liabilities, including settlements, fines and penalties, as well as suspension of operations. These developments not only impact its brand image adversely but also affect its growth opportunities.

Opportunities

Growth in internet retailing to serve larger market

Online spending has been increasing at a fast pace in various countries. According to the US Department of Commerce, online retail sales (adjusted for seasonal variation) in the US increased from $169.3 billion in 2010 to $297.2 billion in 2014, representing a CAGR of 15.1%. e-commerce sales increased 14.4% in 2014 over the previous year. Total retail sales, on the other hand, grew by only 3.6% during 2014. e-commerce sales accounted for 6.4% of total retail sales in 2014, compared to 4.4% in 2010. Furthermore, e-commerce sales for the third quarter of 2015 totaled $87.5 billion, an increase of 15.1% compared to the third quarter of 2014. According to industry estimates, online spending reached nearly $1.7 billion on Black Friday in 2015, an increase of nearly 10% over 2014. In the US, Wal-Mart offers its merchandise online at www.walmart.com and www.samsclub.com.

Outside the US, Wal-Mart operates e-commerce sites in 10 countries. The company is pursuing opportunities to expand its online presence internationally. In 2012, the company increased its ownership stake in Yihaodian, an e-commerce business in China, to 51%. Yihaodian was launched in 2008, and since then has grown to hold a significant position in the growing Chinese online market, offering more than 75,000 stock-keeping units in various categories. Furthermore, in July 2015, the company acquired the outstanding shares in Yihaodian, taking full ownership of its fast-growing e-commerce business in China. With this acquisition, the company plans to concentrate on accelerating e-commerce, as well as creating an enhanced experience for customers across online, mobile and stores. Strengthening its presence in the Chinese online retail market will facilitate revenue growth for Wal-Mart, as the country's online segment is set to grow at a strong rate. According to industry sources, in the first half of 2015, the online retail market in China surpassed $260 billion, representing a year-on-year increase of 40%.

The company also has presence in the US online grocery market through 'Walmart to Go'. Wal-Mart, through its subsidiaries, offers online grocery shopping in the US, the UK, China, Mexico, Japan, Chile, Argentina and Canada. As the penetration levels are low in the online grocery market, there is a large scope for growth. A number of retailers including Amazon, Ahold, and Safeway began offering online grocery delivery services in the recent years. The company's effort to capitalize on the growing trend of online retailing not only enhances its customer reach, but also provides an additional avenue for revenue growth.

Increasing acceptance of private label merchandise

The private label market is growing at a fast pace in the US and Europe. Private labels, which are typically lower-priced, compared to national brands, are more attractive to cash-strapped consumers who are looking for quality products that can be bought within their low budgets. Large retailers and suppliers are entering the private label space to gain from this growing demand. According to the industry estimates, among all major US retail channels, private label sales increased by approximately 3% in 2014, whereas national brands sales grew by nearly 1% during the same period. A similar trend is noticed in Europe. According to industry sources, private label brands gained volume market share in 14 countries across Europe in 2014. Industry sources cite that more than 40% of the products sold in Switzerland, Spain, the UK, Austria, Portugal, Germany and Belgium were private label products. The penetration of private label goods is especially high in Switzerland, followed by Spain.

Wal-Mart offers a wide range of private label goods under various brand names including Equate, Everstart, Faded Glory, George, Great Value, Hometrends, Mainstays, Marketside, No Boundaries, Ol' Roy, Ozark Trail, Parent's Choice, Price First, Prima Della, Sam's Choice, Spring Valley and White Stag. Sam's Club also offers selected private-label items such as Member's Mark and its own proprietary brands include Daily Chef and Simply Right. Increasing acceptance of private label brands will lead to an increase in sales and will, in turn, improve the company's profitability. Additionally, as these brands are offered exclusively in the company's stores, it is a strong differentiator and offers competitive advantage.

Growing demand for organic foods in the US

The demand for organic foods is being boosted by the increasing preference among consumers for healthy food. Food items containing trans-fat are losing market share to low calorie, low fat, natural and organic products. According to MarketLine, the US organic food market had total revenues of $35,891.9 million in 2014, representing a CAGR of 10.4% between 2010 and 2014. Fruit and vegetables was the largest segment of the organic food market in the US in 2014, accounting for 47.3% of the market's total value. The performance of the market is forecast to accelerate, with an anticipated CAGR of 11.2% for the five-year period 2014–19, which is expected to drive the market to a value of $61,119.3 million by the end of 2019.

In order to serve the growing customer base which seeks healthy food options, Wal-Mart increased its organic portfolio by more than double in 2014. The company focuses on offering its organic products at the same prices as it sells its non-organic food items. In 2014, the company announced that it will use Wild Oats as its supplier of organic products in order to keep the prices low. In the US, the company operates around 3,800 stores which carry at least 30 Wild Oats items, and about 2,300 stores with separate organic produce sections. The company’s offerings in the organic category, ranging from organic chia seeds to Wild Oats Marketplace organic marinara sauce. Some of the company’s healthy food options include breakfast bars, squeezable fruit pouches and protein drinks.

The company’s focus on expanding its natural and organic food business is in alignment with the increasing customer preference for healthy food alternatives. This, in turn, would favorably impact the company's sales.

Threats

More than two million employees increase exposure to rising wages and high healthcare costs

The labor costs for companies in the US have been rising as the healthcare costs and wages increased in the recent times. Tight labor markets, increased overtime, government mandated increases in minimum wages and a higher proportion of full-time employees are resulting in an increase in labor costs. The federal minimum wage rate in the US, which remained at $5.15 per hour since 1998, increased to $5.85 per hour in 2008. It further increased to $6.55 per hour in 2009 and to $7.25 per hour in 2010. Many states and municipalities in the country have minimum wage rates even higher than the federal minimum wage rate due to the higher cost of living. For instance, in California, the minimum wage rate increased from $9 in 2015 to $10 in 2016; in Connecticut, the minimum wage rate grew from $9.15 in 2015 to $9.6 in 2016. The minimum wage rate increased from $8.23 in 2015 to $8.31 in 2016 in Colorado. Similarly, in Alaska, the minimum wage rate increased from $8.75 in 2015 to $9.75 in 2016; in Arkansas, it increased from $7.5 in 2015 to $8 in 2016; and in Massachusetts, the minimum wage rate increased from $9 in 2015 to $10 in 2016. In addition, the healthcare costs for employers in the US are increasing. According to industry estimates, healthcare cost for the US employers is estimated to grow by nearly 4% in 2016.

These trends have several negative implications for the company. Wal-Mart's huge employee base makes it susceptible to wage and healthcare cost trends and discrimination lawsuits. With 2.2 million people on the payroll, overall wage and benefit cost trends are key determinants of the company's profitability. If Wal-Mart's revenue growth falls below total labor cost inflation, or the company is no longer able to squeeze savings out of its supply chain, the rising costs will materially impact its profitability. Thus, rising healthcare and labor costs could increase the overall costs and affect the company's margins.

Intensifying competitive pressures from different channels

The retail industry is the US is characterized by intense competition. Wal-Mart competes with Target, Tesco, Safeway and other large retailers in the country. Over the past few years, the thin line of differentiation between Wal-Mart and these players has been disappearing. According to industry reports, Target has also been closely catching up with Wal-Mart in the recent times. Target concentrates on developing appealing advertising campaigns and design partnerships. Furthermore, in terms of profitability, the company loses to Target, which has higher gross profit margin and net profit margin compared to Wal-Mart. The company also faces intense price competition in regional markets from retailers such as WinCo Foods and Publix Super Markets. For instance, WinCo Foods focuses on reducing its operational costs to offer lower prices to customers. WinCo Foods purchases goods directly from farms and factories, eliminating distributors and other middlemen, and lets customers bag their own groceries.

Another non-traditional competitor Amazon has also been closing on the difference between Wal-Mart and itself. Companies which operate brick and mortar stores in the US have been facing increasing competition from online retailers in recent times. Consumers are increasingly using online websites for purchasing, and visiting stores for seeing merchandise. Several shoppers begin their shopping by searching online websites like Amazon to establish a base price, as they are heavily driven by price in the current scenario. Also, with more choice available across merchandise categories and better deals, consumers are increasingly getting attracted to shop with online retailers. The faster delivery options provided by Amazon also act as a biggest draw for the retailer. In May 2015, Amazon introduced free same-day delivery for over one million products across 500 cities and towns in the US. Such fast delivery options prompt several retailers to consider offering home delivery service by partnering with other companies. To counter competition from online retailers, many companies are undertaking initiatives such as improving the shopping experience through efficient and in trend merchandising, and offering promotional programs to attract value seeking customers. The price war between online retailers and companies operating brick and mortar stores has been intensifying. Target matches prices of some online competitors year-round. Such intense competition could render Wal-Mart's competitiveness weak and lead to loss of market share.