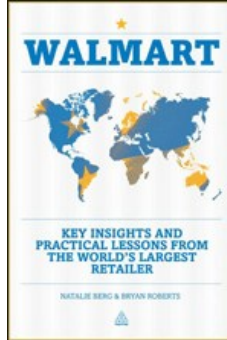


Chapters *To Go*



Walmart: Key Insights and Practical Lessons from the World's Largest Retailer

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Chapter 1: Is Walmart The Best-Positioned Retailer On The Globe?

There are some very visible success stories in the globalized economy. Billions of consumers around the world are familiar with names such as McDonald's, Coca-Cola, Heinz, Apple and Nike. Manufacturers, financial services providers and retailers have built up vast multinational empires, seeking to profit from consumers in wealthy developed markets and exploiting the rapid growth potential of less affluent markets. In this book, published in Walmart's 50th year, we will portray one of the biggest and most successful proponents of global growth.

There is a *Fortune* article from January 1989 that hangs in the Visitors Center in Bentonville, Arkansas, titled 'Walmart: Will It Take Over the World?' Some quotes from that article (written by John Huey) include 'In just a couple of years, Walmart Stores will be the largest retailer in the US' and 'You may never have shopped in a Walmart because the company is really just getting started... so sooner or later, there's bound to be a Walmart in your future.' Looking back, the understated prescience of the article is spot on.

The truth of the matter is that, globally, Walmart is only just getting started. CEO Mike Duke told investors at the 2011 Shareholders meeting that 'the same culture that drove our growth during our first 50 years can drive our growth for the next 50 years', adding that 'Walmart is the best-positioned retailer on the globe.'

No disrespect to the good people of Arkansas, but the state is an unlikely home for one of the largest and most technology-driven enterprises on earth. From these humble, and somewhat unlikely, roots has blossomed one of the most impactful organizations in the history of humanity. Not only has the company grown into the largest retail enterprise on earth, with a lead that is unlikely to be challenged by any retailer other than Amazon, but its influence on the broader global retail and fast-moving consumer goods (FMCG) industries has been virtually immeasurable. Walmart's impact has reshaped the world of distribution. The company has directly influenced the technology that is now universally used to make sure that shoppers get the products they desire. Walmart's economic impact, in terms of bringing lower prices to shoppers, runs into billions and billions of dollars. The company accounts for a massive chunk of the annual revenues of many of the world's largest consumer goods suppliers. Walmart has perhaps caused, or undoubtedly accelerated, the demise of many competing retailers. Simply put, it is one of the most important commercial organizations in the world.

There are many facts and figures that are testimony to the sheer scale of the business:

- Walmart's annual sales in 2010 stood at \$419 billion: if it were a country, it would be the world's 25th largest in terms of gross domestic product (GDP), ahead of Norway.
- It is the world's largest commercial employer, and the second-largest employer in the world behind the Chinese military.
- Procter & Gamble's sales to Walmart amount to some \$13 billion, bigger than the total sales of many leading retailers and FMCG suppliers around the world.
- Walmart now sells more groceries than Kroger and Safeway combined – it is salient to remember here that Walmart only started selling groceries in a meaningful fashion a little over 20 years ago.
- Over the same period, over 30 sizeable supermarket chains in the United States have entered Chapter 11 bankruptcy protection.
- Four of the top ten richest people in the United States are from the Walton family.
- As a standalone retailer, Walmart International will be the world's second-largest retailer by 2012, trailing only Walmart US. Its rapid growth has been juxtaposed with former number two Carrefour's divestments and stagnant trading.

We are assessing the world's largest retailer at an intriguing time. We cannot refute Mr Duke's claim that Walmart is currently the best-positioned retailer in the world. Owing to their scale, they are best positioned to absorb inflation, to drive efficiencies in the supply chain, to leverage power over their suppliers, to influence the millions of consumers who shop at a Walmart every week. They have achieved unprecedented levels of growth in their 50-year history.

But the question is – just how much is left? Walmart got to where it is today because of ruthless efficiency. Very simply, focusing on driving costs out of the business has enabled them to offer consistently low prices on a wide assortment of branded goods. Price and assortment, price and assortment.

But is this enough for today's demanding, tech-savvy shoppers? It's no secret that when Walmart veers away from its core business model of price and assortment, it fails. This is why we witnessed over two years' worth of declining comparable

store sales in its domestic business. 'We recognized we needed to improve in certain areas and we are working hard to do that. We must increase customer traffic, uphold our price leadership and make sure that we have the broadest assortment and the right products in every store', Bill Simon, President and CEO of Walmart, told the authors in an exclusive interview for this book.

But the challenge facing Walmart is that today price and assortment are simply prerequisites for many consumers, and increasingly they are finding another one-stop shop that delivers even greater price transparency – the internet.

Another hurdle will be the imminent saturation of the Supercenter format in the United States, necessitating the need for Walmart to unleash new growth channels and tap into markets previously deemed too challenging, whether that's the bright lights of New York City or the vast plains of sub-Saharan Africa.

Walmart International continues to be a key growth vehicle; in fact, 2010 was the first year when Walmart's overseas stores outnumbered stores in the United States. It is its International division that will most likely enable Walmart to become the first retailer in the world to break the trillion-dollar mark. Yet, having learnt from previous blunders in Germany and Korea, Walmart today is taking a much more cautious and increasingly flexible approach to international development. It's no longer about planting flags. It's no longer about exporting big boxes around the globe, and crucially, it's no longer about broadcasting from Bentonville. Instead, Walmart is sharing best practices and drawing on local expertise, whether that is using the UK team to help launch grocery e-commerce in the United States or creating a new concept in China based on a Latin American bodega. It is exploring new, underpenetrated geographies such as Africa and the Middle East, while backfilling its most promising existing markets in Latin America and Asia. Private label development, supply chain efficiencies and ongoing investment in systems are also central planks of Walmart's global growth strategy.

Throughout this book, we will assess how the changing strategies of Walmart will impact competitors, suppliers and shoppers. Walmart is at an interesting point in its evolution, and we firmly believe that the strategic reconfiguration that is under way in Bentonville will continue to reshape the world of production, distribution and consumption.

As independent retail analysts, we have immense respect for what Walmart achieves as a commercial entity. In our opinion, it is certainly one of the best and by far the most efficient retailers – in the world. That said, Walmart is not perfect – it can certainly do much better in certain areas like labour relations, ethical sourcing and vendor relationships, to name just a few. In many respects it is no better or no worse than many of the retailers it competes with. Walmart is neither the down-home rustic innocent it would like to think it is occasionally, nor is it the source of all of the world's evils that its detractors would suggest. Yet one thing is for sure – no other company has had a greater influence on the world of consumption over the past 50 years.