



## WALMART USA: FOUR PATTERNS TO GAIN COMPETITIVE ADVANTAGE

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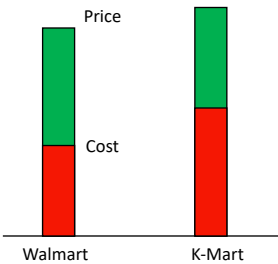
### Patterns among Firms with Competitive Advantage

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A firm with a competitive advantage:

- Drives a wider wedge between the willingness to pay it generates and the costs it incurs than what competitors achieve for a targeted set of customers and products
  - This is the very definition of competitive advantage
  - Three ways to do this: low cost, differentiation, dual advantage
  - Walmart: a classic low-cost player
- Embodies its advantage in a set of activities that pervade the value chain and reinforce one another (internal consistency)
  - Activities incur costs and generate willingness to pay
  - So competitive advantage derives from differentiated activities
  - The value chain is a tool for cataloging activities
- Offers a distinctive value proposition to its customers
  - The value map is a useful tool to characterize how customers view the distinctiveness of various offerings
- Copes well with external conditions in its industry (external consistency), i.e., neutralizes the challenging, and leverages the supportive 5 + 1 Forces

Wider Wedge: Walmart v. K-Mart, 2002



Estimate Discount Retailing Cost Structure, 2002 (Walmart vs. K-Mart)				
	Walmart (Unadjusted)	Walmart (Adjusted)*	K-Mart	Walmart Advantage
Price	100	95*	100	(5)
COGS				
FOB Purchase Price	71.7	68.1	78.3	10.2
Inbound logistics	2.5	2.4	4.5	2.1
Shrinkage	1.0	1.0	2.5	1.5
Total COGS	75.2	71.4	85.3	13.9
Operating Expenses				
Advertising	0.3	0.3	2.0	1.7
Rent	0.4	0.4	1.6	1.2
IT	1.0	1.0	1.8	0.8
Payroll	10.7	10.2	15.1	4.9
Depreciation & Amortization	1.4	1.3	2.4	0.9
Other	2.0	1.9	0.8	(1.1)
Total Operating Expenses	15.8	15.0	23.7	8.7
Operating Margin	9.0	8.6	(9.0)	17.6

\* Assume that in 2002, a package of goods at Walmart was priced 5% below a similar package of goods at K-Mart.

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Wal-Mart's Value Chain: Distinctive & Reinforcing Activities

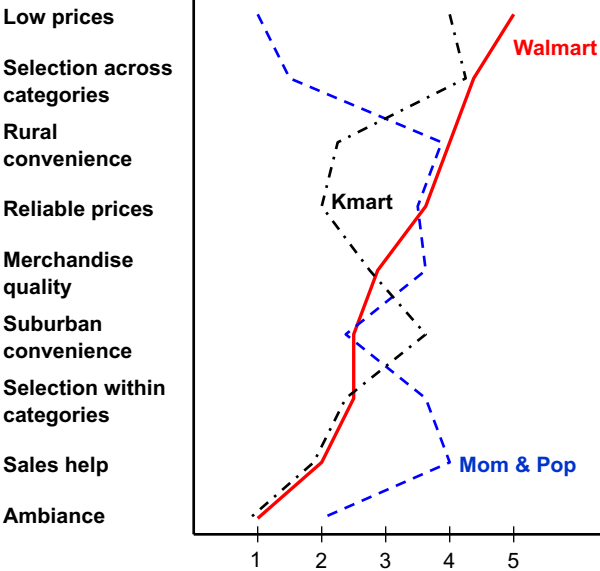


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Walmart v. K-Mart v. Mom & Pop: Value Map

Distinctive Value Proposition



A value map is a tool for recording how a company performs relative to competition on the attributes that customers consider as they choose among rivals

Walmart: External Consistency

