

Question # 1

In Customer Intimacy and Other Value Disciplines, Treacy and Wiersema highlight three distinct "paths" or strategies to market leadership. They include operational excellence, customer intimacy, and product leadership. This paper will highlight how Wal-Mart has successfully implemented the operational excellence strategy, as well as consider future initiatives within this strategy that Wal-Mart can still incorporate. The discussion will then focus on the customer intimacy strategy and explain how Wal-Mart has also incorporated this strategy in a variety of its operations. The product leadership strategy will also be briefly discussed, however, due to its limited scope in this particular environment, it will not be emphasized.

Wal-Mart has effectively implemented an operational excellence strategy in its quest to continually lower costs and deliver products and services with minimal difficulty or inconvenience. Whether it be through reducing costs, through its various relationships and practices with suppliers or controlling energy consumption by monitoring and controlling lights, heat, A/C, etc from their head office or even managing inventory efficiently, Wal-Mart has effectively minimized both variable and fixed costs while also ensuring stock outs are minimized. Wal-Mart has also effectively eliminated (non-value) added production steps as it successfully re-defined the integrated retailers relationships with its manufacturers. Wal-Mart has also been successful in implementing a variety of IT systems that have also facilitated this strategy. Whether it's through their own private satellite networks, or their EDI systems with suppliers or even the implementation of UPC scanners at the registers, Wal-Mart has been an industry leader in using technology to facilitate this strategy. Wal-Mart has also successfully incorporated convenience in their strategy, as some stores are open 24-7, and if one was to look at the multiple services offered, whether it be the automotive garage, pharmacy, restaurant, photo lab, they are effectively becoming a one stop shop. (A friend has even joked, that in the future, they will have a day surgery department.)

Has Wal-Mart reached the limits of lowering costs? Absolutely not. As indicated, they have a variety of initiatives that are being examined. The first initiative involves using Radio Frequency Identification (RFID) with their top 100 suppliers. This will further improve their distribution efficiency, as it will reduce the need for unloading to check products, as well as, serve as an internal control function in dealing with shrinkage. It's been estimated that such technology could unlock supply chain cost savings of 6%. The second initiative, involves improving its efficiency with customers. By using RFID tags in stores to further reduce check out labor requirements, as well as shrinkage, Wal-Mart would again be lowering operational costs due to improved efficiencies. It's important to note, that with technology, its inevitable that new products and procedures will always be emerging that will continue to enhance and facilitate this strategy. Wal-Mart's current practices are also undoubtedly not 100% effective and efficient, thus, it is reasonable to expect Wal-Mart to continue to make advances in the practices currently in place and become even more cost efficient and profitable within an operational excellence strategy.

Although on examining Wal-Mart's practices, the focus is on operational excellence, if one was to look at a variety of the practices currently being used by Wal-Mart in its ability to market its merchandise in unique targeted ways, it becomes clear that Wal-Mart is also following a customer intimacy strategy. Customer Intimacy, as defined by Treacy and Wiersema means segmenting and targeting the markets precisely and

then tailoring offerings to match exactly the demands of those niches. One would only have to look at Wal-Mart's Modular Category Assortment Planning System (MCAPS) to see this strategy in use. The MCAPS system examines store traits and historical selling data to establish store specific modulars, which essentially plan the layout of products to best, suit a particular market. There are literally thousands of specific layouts, all of which can alter the size and merchandise mix for the target market. This data is collected, integrated and analyzed in the various information systems, which serve both as great supply chain management tool and a way to establish purchasing patterns of target costumers. Another example of this segmentation is evident in Wal-Mart having 3 distinct store formats, which are also segmented to particular target markets. Wal-Mart is also using this strategy in its practices of empowering store managers with the autonomy of sourcing locally and running particular promotions in which they feel target their specific market. By continuing to train and even cross train employees it will also facilitate this strategy, as associates will be more knowledgeable and helpful to customers.

The product leadership strategy of offering customers leading edge products and services that consistently enhance customer's use or application of the product has not been a strategy that Wal-Mart has actively employed. You could certainly present Wal-Mart as the industry leader in driving a variety of the innovations that have been implemented in this industry, however, as far as offering customer's leading edge products and services has not been its strategy.

Question # 2

In analyzing the various store formats and target markets within each format, it is first important to highlight, why Wal-Mart expanded its operations than examine each expansion in some detail to highlight how Wal-Mart targets distinct markets. Further growth opportunities will than be evaluated, as well as the potential for the cannibalization of sales within Wal-Mart's expansion objectives.

The driving force behind every Wal-Mart initiative was and is the continued growth and profitability of its operations. Quite simply as Wal-Mart developed over the decades, it continually sought ways to become more efficient and for new avenues in which to pursue profitable growth. Although Wal-Mart started off with the regular Discount Stores, in 1988, "it intended to drive increased traffic to the general merchandise departments through the food offering." However, what Wal-Mart's discovered is that with its operating efficiencies the food business was deemed profitable in and of itself. As such Wal-Mart focused on this expansion and the following four retail formats were developed to target specific markets:

Discount Stores – 1568 Stores (40 departments & limited grocery)

- company's leading retail format by number of stores (trend of converting to Supercenters)
- potential customer base of at least 150,000 people
- remained concentrated in small towns and rural areas – less competition
- consumer target by income (\$60,000 to less than \$25,000)

Supercenters – 1258 Stores (40 departments & full line grocery)

- larger format that added a full-line grocery store to a Discount Store with ancillary or specialty departments
- larger more focused on food (45% sales)
- more ancillary businesses and services than direct competitors
- potential customer base of 76,000 people were needed to generate the volume to break even
- operating margins were smaller due to narrow margins on food in general
- remained concentrated in small towns and rural areas – less competition
- consumer target by income (\$75,000 to greater than \$25,000)

Neighborhood Markets – smallMarts – 49 Stores (limited drug and grocery)

- stores focused on groceries but also offered limited lines of general merchandise and photo processing
- enter space constrained suburban areas
- consumer target by income (greater than \$75,000 to \$25,000)

SAM's Clubs – 525 Stores (large format)

- warehouse clubs – bulk buying and rapidly changing assortments of relatively few SKUs in warehouses
- not industry leader – COSTCO
- addresses a more affluent market segment than either Supercenters or Neighborhood Markets
- consumer target by income (greater than \$75,000 to \$40,000)

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- access to higher income consumers (earning \$75,000 and above)

It is important to note that Wal-Mart not only targeted specific customers based on income, but targeted specific markets based on population, as this would be the key factor in deciding what store format could be developed.

In the future, Wal-Mart should focus its efforts on expanding the Supercenter store format because of the following reasons:

- Long run sales are expected to be higher for the Supercenter store than the Discount store and even when you incorporate initial investments, the Supercenter is substantially more profitable (Sales \$75 million / year compared to \$39 million / year)
- Even if operating margins are slightly lower (2%) in the Supercenter, the additional volume will increase NPV per store – Exhibit 7
- Has substantial room for upgrading or expanding its current 1,568 Discount stores
- There is substantial room for expansion of new Supercenters: “Wal-Mart planned to open 1,000 more in the US along in the next five years.” (Pg. 20)
- Estimates show you only need 76,000 people to generate break-even volume, which facilitates expansion in both small communities and elsewhere

This particular expansion does have drawbacks as the overall growth of the core business and food in the U.S. is expected to taper off from 15% to 10% over the next decade. As well, the Supercenters’ operating margins are also currently at 6.6%, and although they do expect to get better as the operations mature and improve, efficiencies would have to drive this margin to at least 7.5 – 8 % to see significant increases in NPV per store, which is feasible.

Having evaluated the various alternatives, it is felt that Wal-Mart should continue to seek ways to improve its operations to be as efficient and effective as possible, while focusing on the expansion of its Supercenters both through new site developments, as well as, upgrading and expanding its current Discount sites.

Cannibalization can occur with the expansion and upgrading of this strategy, however, by the examination of the Neilson Panel Data, it clearly demonstrated that sales growth in the Supercenter’s were mainly derived from new shoppers, increased purchases from existing shoppers, competing shoppers and less than a quarter were actually from other Wal-Mart division stores. Thus, it can be concluded that new sites, which would be established in various new locations (not near other stores), would not significantly cannibalize other stores’ sales. As well, by expanding Discount stores, cannibalization would also be reduced, as they would not be building new competing sites, but merely expanding product and service offerings.

Question # 3

On examining the proposed financial services opportunity Wal-Mart is considering, one would suspect that this strategy would not only be a great complement to the various other services Wal-Mart currently provides, it could easily be facilitated very effectively and efficiently. On discussing this opportunity, this paper will highlight various factors in why Wal-Mart should pursue this growth option.

The first factor of why Wal-Mart should pursue this strategy is that it can be easily facilitated in its current operations. Wal-Mart has thousands of stores, to facilitate this new in-store service; stores would only have to be slightly modified. Which again, could be even easier facilitated if they choose to have this service in a kiosk, or in the middle of their store, like the photo labs. Such expansion would not be costly, and any mistakes made early on in the roll out of such services, could easily be fixed for subsequent roll outs.

The second factor is that Wal-Mart has absolutely transformed and redefined the operational excellence strategy, as well as the customer intimacy strategy. It has very effectively implemented cost savings both from the supplier and customer side and has initiated a variety of information technology systems that have driven these strategies. The financial services could easily be added incorporating this strategy, whether it be through modifying their current IT systems or tailoring specific sites to offer specific products, depending on the target markets, Wal-Mart's core strengths would make this service effective.

The third factor is that by implementing yet another service, such as financial services, it will not only give customers more convenience; this service will truly be a complementary service. For example, if a customer has to go to the bank and do groceries, they would be very inclined to do it all under one roof, again adding to the operational excellence strategy of providing customers convenience.

In examining the difficulties or threats with providing such services, three immediate concerns must be addressed. Currently, references have been made to various regulatory problems that Wal-Mart has encountered. These must be evaluated because if regulatory problems are going to be a battle in every state, it would make the roll out of such services very costly, especially if Wal-Mart had to continually lobby state and federal governments or hire lawyers for litigation proceedings. The second issue involves IT security issues. Although, they currently have industry leading IT systems in place, the nature of the financial services sector, would undoubtedly require a variety of additional security measures, which would also have to be addressed. The third issue involves the human resource function in the employment of financial service representatives. Would their required skill levels be higher than other employees? The skill level of employees would also dictate, what services could be offered at the various branches, which leads into what financial services entails.

Does financial services simply mean a financial institution where you can have a savings, chequing or credit card accounts and have other services such as payroll cheque cashing, money orders, etc. or would this encompass investment accounts, etc. in which employees would have to be very thoroughly trained and certified. Due to the limitations of the later, financial services would be deemed as the first description. Although, on examining the Wal-Mart website's financial services page,

it only offered credit cards, which is interesting. Was this the intended expansion strategy, or did other factors impede further product or service expansion?