

Walmart Stores

Gaining and Sustaining a Competitive Advantage

Walmart, a discount retailer, was started by Sam Walton in the small town of Rogers, Arkansas, in 1962. By 2014, Walmart had become the world's largest retailer, with more than \$476 billion in revenues and 10,942 stores.¹ More than one-quarter of Walmart's revenues came from outside of the United States as it continued to take its low-cost business model around the world. Traditional discount-retailing competitors, including Sears, Kmart, and Target, were now dwarfed by the size of Walmart's operations (see **Exhibits 1** and **2**).

However, as the new century began, Walmart faced some new competitors and new challenges. Costco had entered the discount-retailing market, offering low prices on products that were generally deemed to be of higher quality than many products sold at Walmart and Sam's Club. Aldi, a new discount retailer out of Germany, offered lower prices than Walmart by using a business model that was even more bare-bones than Walmart's. But the biggest threat came from Amazon.com, the dominant player in the fast-growing online segment of the discount retailing business. Amazon.com was growing rapidly by selling large volumes of goods online at prices that usually matched—or beat—Walmart's prices, with the additional advantage of zero sales tax. Walmart's success in the future would require responding effectively to the growing trend toward online purchases and the emergence of Amazon.com as a major competitor.

EXHIBIT 1 Walmart's Sales and Income by Segment (in millions)

Fiscal year ending Jan 31,	2007	2011	2013	2015	9-year Growth
Walmart Stores Segment					
—Net Sales	\$226,294	\$260,261	\$274,433	\$288,049	27%
—Operating Income	\$17,029	\$19,914	\$21,491	\$21,336	25%
—Operating Inc. % Sales	7.6%	7.8%	7.8%	7.4%	
International Segment					
—Net Sales	\$77,116	\$109,232	\$134,748	\$136,160	77%
—Operating Income	\$4,259	\$5,606	\$6,617	\$6,171	45%
—Operating Inc. % Sales	5.1%	4.9%	4.9%	4.5%	
Sam's Club					
—Net Sales	\$41,582	\$49,459	\$56,423	\$58,020	40%
—Operating Income	\$1,512	\$1,711	\$1,960	\$1,976	31%
—Operating Inc. % Sales	3.6%	3.5%	3.5%	3.4%	

Source: Walmart Annual Reports

EXHIBIT 2 Competitors' Financial Performance Results (in millions)

Fiscal year ending in:	2007	2011	2013	2015	9-year Growth
Domestic Discount Retail					
Kmart					
—Net Sales	\$17,256	\$15,285	\$15,593	\$10,188	–41%
—Operating Income	\$402	\$–34	\$353	–\$292	–14%
—Operating Income % Sales	2.3%	N/A	2.3%	–2.9%	
Target					
—Net Sales	\$63,367	\$69,865	\$72,596	\$73,785	16%
—Operating Income	\$5,272	\$5,322	\$4,229	\$4,910	–7%
—Operating Income % Sales	8.3%	7.6%	5.8%	6.6%	
Warehouse					
Costco					
—Net Sales	\$63,088	\$87,048	\$102,870	\$113,666	80%
—Operating Income	\$1,609	\$2,439	\$3,053	\$3,624	125%
—Operating Income % Sales	2.6%	2.8%	3.0%	3.2%	
International Discount Retail					
Tesco					
—Net Sales	£42,641	£60,931	£64,800	£62,284	46%
—Operating Income	£2,648	£3,811	£2,188	–£5,792	–319%
—Operating Income % Sales	6.2%	6.3%	3.4%	–9.3%	
Carrefour					
—Net Sales	€82,148	€81,271	€74,888	€76,945	–6%
—Operating Income	€3,338	€2,182	€2,238	€2,445	–27%
—Operating Income % Sales	4.1%	2.7%	3.0%	3.2%	

Source: Company Annual Reports

Walmart's History

Walmart's founder, Sam Walton, was born in the small town of Kingfisher, Oklahoma, in 1918. He learned about retail by working at JC Penney before serving in the military during World War II. Walton's first store was a Ben Franklin franchise, located in Newport, Arkansas (a town with a population of 7,000), which he opened in the 1950s. Walton had intended to open a Federated store with a friend in St. Louis, but Walton's wife, Helen, refused to live in any town with a population larger than 10,000.² As his chain grew, Walton continually looked for new ideas, traveling the nation to observe retail practices. Those observations convinced him that opportunity was available for discount retailers in small-town America.