Case 5

WAL-MART STORES INC., MAY 2002*

How did a peddler of cheap shirts and fishing rods become the mightiest corporation in America? (*Fortune*, April 12, 2002)

In May 2002, Wal-Mart published first quarter results for its new financial year (February 1, 2002 to January 31, 2003). Compared to the same period of the previous year, sales were up by 14 percent and net income had increased by 20 percent—the deteriorating US economy and plunging consumer confidence had failed to dent Wal-Mart's continued prog ress. The Fortune *500* rankings list, published in April 2002, showed that Wal-Mart was America's largest company (in terms of revenue); this also implied that Wal-Mart would head *Fortune*'s Global 500 (that would be published in July). International expansion had also extended Wal-Mart's global reputation. In February 2002, *Fortune* had identified Wal-Mart as the world's second "most admired company" (after General Electric). Unlike most other high-flying companies, Wal-Mart also seemed to be impervious to the stock market meltdown: Wal-Mart's share price at the end of May was $54—barely changed from the level prior to September 11, 2001.

Wal-Mart's transformation from a small chain of discount stores in Arkansas, Missouri and Oklahoma in 1970 to the world's largest retailer was one of the most remarkable corporate success stories of the 20th century. Its founder, Sam Walton had combined folksy charm and home-spun business wisdom with leading edge information technology and supply chain management to create the world's most efficient retail organization.

During the financial year to January 2003, Wal-Mart would continue its expansion. CEO, Lee Scott, outlined plans for over 300 new Wal-Mart stores in the US, together with 130 new stores overseas. In total some 46 million square feet would be added over the 12-month period. In addition, Wal-Mart announced its intention to acquire 24 Supermecado Amigo supermarkets in Puerto Rico and a majority equity stake in the Japanese retailer Seiyu. Capital expenditures for the year would amount to approximately $10.2 billion.

Despite Wal-Mart's ability to grow its sales and profits throughout economic cycles, technological changes, and continual challenges from new retailing formats, Scott recognized that in the fast-moving, hypercompetitive retail sector, size offered no guarantee of continued success. Previous decades had witnessed the decline of many of America's greatest retailing empires—Sears Roebuck, Montgomery Ward, A&P, and Federated Department Stores—to mention but a few. Wal-Mart's success had been built upon a unique culture founded by Sam Walton and forged in rural Arkansas. But Sam Walton has been dead for a ten years and Wal-Mart had far outgrown its Arkansas home base. By 2002, Wal-Mart was operating retail outlets, not only in all 50 states of the Union, but also in nine overseas countries. Wal-Mart's ability to offer its customers lower prices and better service than its competitors depended, ultimately, upon its trying harder—in particular the continual striving of its employees to find new ways to reduce costs and better serve customers. How far would size and success blunt Wal-Mart's drive for efficiency, responsiveness and innovation? Would existing competitors imitate the Wal-Mart's strategy and systems? And would new competitors emerge with new and superior approaches to retailing?

HISTORY

Sam Walton opened his first store—a franchised Ben Franklin variety store in 1945. Over the next 15 years, Sam together with his brother, Bud, developed a chain of 15 Ben Franklin stores throughout rural Arkansas. During this period, Sam Walton became aware of the increasing price competition from discount retailers—large format stores that offered a broad range of products that included apparel, appliances, toiletries, household goods, and sometimes groceries as well. This new category of retailer emerged in the US following the Second World War. Discount stores were located within large towns—it was generally believed that a minimum population of 100,000 was necessary for a discount store to be viable. Sam Walton believed that discount stores could be viable in smaller communities: if the prices were right, the stores would attract customers from a wide area: "Our strategy was to put good-sized stores into little one-hose towns that everyone else was ignoring."[1] Walton opened his first Wal-Mart in 1962 and within eight years had 30 discount stores in small and medium-sized towns in Arkansas, Oklahoma, and Missouri.

Distribution was a problem for Wal-Mart:

> Here we were in the boondocks, so we didn't have distributors falling over themselves to serve us like our competitors in larger towns. Our only alternative was to build our own distribution centers so that we could buy in volume at attractive prices and store the merchandise.[2]

In 1970, Walton built his first distribution center, and in the same year took the company public in order to finance the heavy investment involved. With this structure of large distribution hubs serving a group of 15 to 20 discount stores, Wal-Mart began its rapid expansion across the country. At the end of 1980, Wal-Mart had 330 stores in 11 states (Arkansas, Oklahoma, Missouri, Texas, Kansas, Kentucky, Tennessee, Mississippi, Louisiana, Alabama, and Illinois). By the end of 1985, there were 859 stores in 22 southern and mid-western states. At the beginning of 1994, there were 1,953 stores operating in every state except Vermont, Alaska, and Hawaii. Wal-Mart's geographical expansion was incremental. It moved into a new area, first, by building a few stores that were served by extending Wal-Mart's distribution lines from a nearby cluster, eventually, when a critical mass of stores of stores had been established in the new area, Wal-Mart would build a distribution center to serve the new cluster. Expansion bought Wal-Mart into closer competition with other discount chains. In the small towns of the south-west and south, Wal-Mart faced few major competitors. As Wal-Mart became a national retail chain it entered more developed retailing area, including larger cities. By 1993, 55 percent of Wal-Mart stores faced direct competition form Kmart and 23 percent from Target.[3]

Diversification

During the 1980s, Sam Walton began experimenting with alternative retail formats. These included Sam's Club (1983), Helen's Arts and Crafts (1995), and Dot Deep Discount Drugstores. In addition, very large retail outlets, Wal-Mart Supercenters and Hypermart USA, were introduced. Helen's Arts and Crafts, Dot Drugstores, and Hypermart USA were sold off, but the other two store types—the Sam's warehouse clubs and the Supercenters grew rapidly to become important components of Wal-Mart's business.

Sam's Clubs imitated a distribution concept established by Price Club. The warehouse clubs were not, in fact, retailers since they were not open to the public. They were clubs where access was through membership. Most members represented small businesses (especially convenience stores and restaurants) and local organizations (churches, charities, civic groups). In practice a high proportion of sales were for household rather than business use. They carried a small number of lines and most items were available in multipacks and catering-sized packs. The clubs were literally warehouses with product available on pallets and minimal customer service. The rationale was to maximize economies in purchasing, minimize operating costs, and pass the savings on to members through very low prices. Competition among warehouse clubs was ferocious resulting in rapid consolidation of the sector. Wal-Mart acquired The Wholesale Company in 1991 and Kmart's PACE clubs in 1993, while CostCo Wholesale and Price Co merged in 1993.

Supercenters were Wal-Mart stores with larger floor space—typically 120,000 to 130,000 square feet, about double the size of the average Wal-Mart discount store. Supercenters were modeled upon the European concept of the "hypermarket" that had been pioneered by the French retailer Carrefour. A Supercenter combined a discount store with a grocery supermarket; in addition a Supercenter incorporated a number of specialty units such as an eyeglass store, hair salon, dry cleaners, and photo lab. The Supercenters were open for 24 hours a day, seven days a week.

The Supercenter stores and Sam's Clubs and were supplied through a separate distribution network from the Wal-Mart discount stores. In 1990, Wal-Mart acquired McLane—a Texas-based wholesale distributor. Under Wal-Mart's ownership McLane's primary role became distribution to Wal-Mart Supercenters and Sam's wholesale clubs throughout the US.

International expansion

By the end of the 1980s, Wal-Mart was running out of new territory. It had expanded into most areas of the US, and under the leadership of Sam Walton's successor, David Glass, was now looking towards opportunities abroad. In 1992, Wal-Mart established a joint venture with Mexico's largest retailer, Cifra S.A., and began opening both Wal-Mart discount stores and Sam's club outlets in several Mexican cities. Within seven years the two companies had opened 416 stores in Mexico, and Wal-Mart had established a dominant position in the venture through acquiring 51 percent of Cifra.

In 1994, Wal-Mart entered the Canadian market by acquiring 120 Woolco stores form Woolworth and converting them to its own discount stores format. Wal-Mart boosted the sales per square foot of the Woolco stores from $98 in 1994 to $287 in 1999, taking 40 percent of total discount store sales, and establishing Wal-Mart as Canada largest retailer.

In Argentina, Wal-Mart entered by establishing a number of Sam's Club outlets, while in Brazil it concentrated upon opening stores in the Sao Paulo area.

In Europe, Wal-Mart established itself through acquisition. In Germany, Wal-Mart acquired the 21-store Wertkauf chain, and followed this with the purchase of 21 Interspar stores. In the UK, the third largest supermarket chain, Asda Stores, with its 232 retail outlets was purchased for $10.8 billion in 1999.

In Asia, Wal-Mart proceeded more cautiously—aware of the huge market potential but wary of the risks. In South Korea, Wal-Mart acquired four stores, previously operated by the Dutch retailer Makro, from H.S. Chang, a Korean businessman. In China, Wal-Mart initially proposed to enter through an alliance with CP, the Thailand-based conglomerate. Disagreements between CP and Wal-Mart eventually resulted in Wal-Mart going it alone with Sam's Club and Supercenter stores initially in the Shenzhen Economic Zone of southern China. In Indonesia, a joint venture with PT Multipolar involving two stores collapsed amidst acrimony and lawsuits.

Table 1 lists major events in Wal-Mart's development.

[Table 1 about here]

Sam Walton

Wal-Mart's strategy and management style was inseparable from the philosophy and values of its founder. Until his death in 1992, Sam Walton was the emb odiment of Wal-Mart's unique approach to retailing. After his death, Sam Walton's beliefs and business principles continued to be the beacon that guided Wal-Mart from success to success. As Harry Cunningham, founder of Kmart Stores, observed: "Sam's establishment of the Walton culture throughout the company was the key to the whole thing. It's just incomparable. He is the greatest businessman of this century."[4]

For Sam Walton, thrift and value for money was a religion. Undercutting competitors' prices was an obsession, as was the never ending quest for cost economies that would permit continuing price cutting. Walton established a culture in which every item of expenditure was questioned—what it necessary? Could it be done cheaper? He set an example that few of his senior colleagues could match: he walked rather than took taxis, shared rooms at budget motels while on business trips, and avoided any corporate trappings or manifestations of opulence or success. For Walton, wealth was a threat and an embarrassment, rather than a reward and a privilege. His own lifestyle gave little indication that he was America's richest person (before being eclipsed by Bill Gates). He also felt uncomfortable about the wealth of his associates: "We've had lots of millionaires in our ranks. And it drives me crazy when they flaunt it. Every now and then somebody will do something especially showy, and I don't hesitate to rant and rave about it at the Saturday morning meeting. I don't think that big mansions and flashy cars is what the Wal-Mart culture is supposed to be about."[5]

His attention to detail was legendary. As chairman and chief executive, he was quite clear that his priorities lay with his employees ("associates"), customers, and the operational details through which the former created value for the latter. He shunned offices in favor of spending time in his stores. Most of his life was spend on the road (or, in his case, in the air flying between stores piloting his own plane) making impromptu visits to stores and distribution centers. Collecting information on which products were selling well in Tuscaloosa; why were margins were down in Santa Maria; how a new display system for children's clothing in Carbondale had boosted sales by 15 percent. His passion for detail extended to competitors' stores as well as his own: not only did he regularly visit competitors' stores; he was known to count cars in their parking lots.

Central to his leadership role at Wal-Mart was his relationship with his employees—the Wal-Mart associates. In an industry know for low pay and hard working conditions, Walton created a unique feeling of motivation and involvement. He believed fervently in giving people responsibility, trusting them, but also continually monitoring their performance.

Since his death, Sam Walton's habits and utterances have become hallowed principles guiding the values of the company and the behavior of its employees. For example, Wal-Mart's "10-foot attitude" pledge is based upon Sam Walton's request to a store employee that: "I want you to promise that whenever you come within 10 feet of a customer, you will look him in the eye, greet him and ask if you can help him."[6]

Sam Walton's ability to attract the affection and loyalty of both employees and customers owes much to his ability to generate fun and excitement within the otherwise sterile world of discount retailing. Sam Walton brought a sense of unpredictability and fun to the business. He engendered a positive attitude among Wal-Mart employees and he reveled in his role as company cheerleader.

Sam Walton's contribution to the management systems and management style of Wal-Mart was reflecting in Wal-Mart's web site's description of "The Wal-Mart Culture" (see Exhibit 1).

[Exhibit 1 about here]

WAL-MART IN 2002

The Businesses

During the first half of 2002, Wal-Mart's 4,500 stores and 1.3 million employees were selling at the rate of $225 billion annually to the 100 million customers who visited Wal-Mart stores each week. These sales occurred through four major areas of business:

- ?? Wal-Mart Stores. Wal-Mart's core area of business in 2002 was its retail stores within the US. These comprised Wal-Mart's traditional discount stores—large, self-service stores offering a broad range of non-food products that included apparel, shoes, household textiles (bedding, towels, fabrics), appliances, toys and games, sporting goods, electronic products, recorded music, pharmaceuticals, health and beauty products, stationary, auto supplies, jewelry, and candy. However, the most rapidly growing part of the business was the Wal-Mart Supercenters. Much larger stores that combined a discount store with a supermarket. Superstores were based upon the European "hypermarket" concept. By 2002, Wal-Mart was the nation's No. 1 food retailer with $56 billion of grocery sales a year—roughly 10.3% of the US grocery market. The rationale for entry into food was simple: whereas the average shopper might come to Wal-Mart only once or twice a month, people buy groceries, on average, more than twice a week. Some Supercenters employed over 500 associates and generated over $100 million in sales each year. Most of Wal-Mart's superstores were the result of converting existing Wal-Mart stores. By early 2002, Superstores were generating more sales than the traditional Wal-Mart discount stores.
- ?? Sam's Clubs. Wal-Mart's entry into warehouse clubs in the mid-1980s demonstrated its ability to transfer its retailing capabilities to very different retail format. These wholesale outlets offered narrower range of products—typically around 4,000 stock keeping units (SKUs) as compared with the 50,000 SKUs for most Wal-Mart discount stores—at prices significantly below those of discount stores. The development of Sam's Club also demonstrated Wal-Mart's capacity for continuous improvement and innovation. From the stark, austere warehouses of the 1980s, Wal Mart had created a unique wholesale distribution experience. During 2002, Wal-Mart planned to upgrade many of its Sam's Clubs to include a member's restaurant, a section featuring premium wines and gourmet foods, a gas station, and an optical department.
- ?? Wal-Mart's international operations comprised a number of separate national subsidiaries, each attempting to interpret the basic Wal-Mart business principles and underlying approach to retiling within a distinctive economic structure and national culture. Wal-Mart's differentiated approach to different countries reflected the different retailing environments of these countries and the different entry opportunities that had presented themselves. Wal-Mart's joint ventures in Mexico and South America reflected its desire to access local knowledge and utilize the resources and capabilities of strong local players. Its acquisition of Asda in the UK was the result of the strong affinities that the two retailers felt for one another. (Asda had long modeled its strategy and management style upon Wal-Mart.) Wal-Mart's international expansion had been a process of learning and adaptation. The 2002 Annual Report noted that, despite the successful acquisition of Asda, "Cultural transitions haven't always been this smooth for Wal-Mart International. In Argentina, for example, Wal-Mart initially faced challenges in adapting its US-based retail mix and store layouts to the local culture." John Menzer, head of the international division, observed: "It wasn't such a good idea to stick so closely to the domestic Wal-Mart blueprint in Argentina or in some other international markets we have entered. In Mexico City we sold tennis balls that wouldn't bounce right in the high altitude. We built large parking lots at some of our Mexican stores only to realize that many of our customers there rode the bus to the store, then trudged across these large parking lots carrying bags of merchandise…We're now working smarter internationally to avoid cultural and regional problems on the front end." [7]
- ?? McLane Company Inc. comprises the business segment that Wal-Mart classifies as "other" in its accounts. Wholesales distribution by McLane is to Wal-Mart's Sam's Clubs and Supercenters, and to third party customers. The sales and profits shown under the "other" category (Table 3) relates only to McLane's third party business. In 2001, McLane acquired AmeriServe Food Distribution, Inc.

Table 2 lists Wal-Mart stores by types and location. Table 3 shows sales and profits for the different business segments.

[Tables 2 and 3 about here]

Performance

Table 4 summarizes some key financial data for Wal-Mart during the period 1992 to 2002. Table 5 shows Wal-Mart's recent performance compared with other discount retailers.

[Tables 4 and 5 about here]

WAL MART STORES' OPERATIONS AND ACTIVITIES[8]

Purchasing and Vendor Relationships

The size of Wal-Mart's purchases and its negotiating ability meant that Wal-Mart was both desired and feared among manufactures. Being accepted as a Wal-Mart vendor offered access to a huge share of the US retail market. At the same time, Wal-Mart buyers were well aware of their ability to take full advantage of economies of scale available to their suppliers and to squeeze their margins to razor-thin level. Purchasing was centralized. All dealing with buyers took place at Wal-Mart's Bentonville headquarters. Here vendors were escorted to interview rooms equipped only with a table and four chairs. Suppliers regarded the experience of selling to Wal-Mart as intimidating and grueling: "Once you are ushered into one of the Spartan little buyer's rooms, expect a steely eye across the table and be prepared to cut your price." [9] Another vendor commented: "...all normal mating rituals are verboten. Their highest priority is making sure everybody at all times in all cases knows who's in charge… They talk softly, but they have piranha hearts, and if you aren't totally prepared when you go in there, you're in deep trouble." [10] The requirements that Wal-Mart imposed on its suppliers extended well beyond low prices. Increasingly Wal-Mart involved itself in its suppliers' employment policies including workplace safety, working hours of less than 60 hours a week, and absence of child labor.

All negotiations were directly between manufacturers and Wal-Mart: from 1992 onwards Wal-Mart refused to do businesses with manufacturers' representatives and agents. While Wal-Mart maximized its buying power through centralizing its purchases, it was also anxious that no individual supplier should gain substantial leverage over it. Hence, Wal-Mart was reluctant to allow any single supplier account for more than two-and-a-half percent of its total purchases.

During the 1990s, Wal-Mart established close collaborative arrangements with its larger suppliers. Wal-Mart's cooperation with Procter & Gamble provided a model for these relationships. P&G was Wal-Mart's biggest supplier accounting for about 2 percent of Wal-Mart's purchases, but nearly 10 percent of P&G's sales. The companies began electronic data interchange (EDI) at the beginning of the 1990s, and by 1993 there were 70 P&G employees working a Bentonville to manage sales and deliveries to Wal-Mat.

By the mid-1990s, Wal-Mart had extended EDI to cover about 70 percent of its vendors. Data sharing related to real-time information relating to point-of-sale data on sales of the vendors' products by individual stores, levels of inventory, Wal-Mart's sales forecasts, the vendors' production planning and delivery scheduling, and electronic funds transfer. Wal-Mart's system of supply-chain management was called "Retail Link."

Through collaboration with Cisco Systems, Retail Link was moved to the Internet during the mid-1990s. .

Suppliers used modems to dial into the Wal-Mart database for up-to-date, store-by-store information on sales and inventory for their products. This allowed suppliers to work with Wal-Mart company's buyers to manage inventory in the stores-forecasting, planning, producing, and shipping products as needed. The result was faster replenishment, a product mix tuned to the needs of local customers, and lower inventory costs for Wal-Mart. "We transformed it from a traditional dial-in network to an Internet application," says Flanagan. "Now it's easier for our vendors to use, because they just need a Web browser. More of our international suppliers can get access, because it's on the Internet. And it's easier and less expensive for us to maintain." Data transmission was no longer limited to the speed of dialup modems, further assisting the speed and responsiveness of the system.

Warehousing and Distribution

Wal-Mart distributed a higher proportion of goods to its own stores than any other discount retailer. While most discount retailers relied heavily upon their suppliers to undertake distribution to individual stores, over 80 percent of Wal-Mart's purchases were shipped to Wal-Mart's own distribution centers from where they were distributed in Wal-Mart trucks. The system that operated in 2002 was fundamentally the same as that which a Harvard Business School case described in 1994:

Each store received an average of five full or partial truckloads a week, and because Wal-Mart stores were grouped together, trucks could resupply several on a single trip. Returned merchandise was carried back to the distribution center for consolidation, and since many vendors operated warehouses or factories within Wal-Mart's territory, trucks also picked up new shipments on the return trip. Roughly 2,500 people drove Wal-Mart's fleet of 2,000 trucks, which ran more than 60 percent full on backhauls. A store could select one of four options regarding the frequency and timing of shipments, and more than half accepted night deliveries. For stores located within a particular distance from the distribution center, an acetated delivery plan was available, which allowed merchandise to to be delivered within 24 hours.

A typical distribution center spanned a million square feet and was operated 24 hours a day by a staff of 700 associates. It was highly automated and designed to serve the needs of about 150 stores within a radius of 200 miles. When orders were pulled from stock, an automated "pick to light" system guided associated to the correct locations.

Since the mid-1990s, Wal-Mart had continued to develop its distribution system. It was an early adopter of "cross-docking"—a system where goods arriving on in-bound trucks were unloaded and reloaded on out-bound trucks without first sitting in warehouse inventory.

In-Store Operations

Wal-Mart's management of its retail stores was based upon its objective of creating customer satisfaction by combining low prices, a wide range of quality products ca5efuly tailored to customer needs, and a pleasing shopping experience. Wal-Mart's management of its retail stores was distinguished by the following characteristics:

?? *Merchandising.* Wal-Mart stores offered a wide range of nationally-branded products. Although Wal-Mart also sold its own brand—especially in clothing—it gave less emphasis to own brand products than other retailers (e.g. Sears). Ach stress selection of merchandise was carefully tailored to the characteristics of the local market—point-of-sale data for individual stores greatly assisted responsiveness to local needs (see below).

?? *Decentralization of store management.* Individual store managers were given considerable decision-making authority in relation to product range, product positioning within stores, and pricing. This differed from most other discount chains where decisions over pricing and merchandising were made either at head office or at regional offices. Decentralized decision making was also apparent within stores where the managers of individual departments (e.g. toys, health ad beauty, consumer electronics) were expected to develop and implement their own ideas for increasing sales and reducing costs.

?? *Customer service.* Most Wal-Mart discount stores were open 9 AM to 9 PM six days a week with shorter hours on Sundays. Supercenters were open cotinu8ously. Despite the fanatical emphasis on cost efficiency, Wal-Mart went to great lengths to engage with its customers at a personal level. Stores employed "greeters"—often retired individuals—who would welcome customers and handout shopping baskets. Within the store, all employees were expected to look customers in the eye, smile at them, and offer a verbal greeting. In order to encourage customer loyalty, Wal-Mart maintained a "Satisfaction Guaranteed" program. This program assured customers that Wal-Mart would accept returned merchandise on a no-questions-asked basis.

Marketing

Wal-Mart's marketing strategy rested primarily upon disseminating its policy of low prices and customer commitment. Central to its marketing was the communication of its slogan "Everyday Low Prices"—the concept that Wal-Mart's price cutting strategy was not restricted to particular products or to particular time periods, but was a basic principle of Wal-Mart's business.

As a result, of its customer-focused, value-for-money approach, Wal-Mart was able to rely up word-of-mouth communication of its merits, and was able to spend comparatively little on advertising and promotion. Advertising spending was limited to one advertisement circular per month per store and some television advertising. During the early 1990s, Wal-Mart spent only 0.5 percent of every sales dollar on advertising, compared to 2.5 percent for Kmart and 3.5 percent for Sears Roebuck and Company.

Wal-Mart placed strong emphasis on patriotism and national causes. During the mid-1980s, at a time of increased public concern about the mounting trade deficit, Wal-Mart launched its "Buy American" program and placed prominent "Made in the U.S.A." signs on its merchandise displays.

Information Technology

In each of its business functions and between functions, Wal-Mart was a pioneer in the application of information and communications technology to support decision making and promote efficiency and c7ustomer responsiveness. In 1974, Wal-Mart was among the first retailers to adopt computers to maintain inventory control . In 1977, Wal-Mart initiated the electronic transfer of information to its suppliers—the system known as Electronic Data Interchange, or EDI). In the following year Wal-Mart introduced bar code scanning for use at point-of-sale and also for inventory control systems. To link stores and cash register sales with supply chain management and inventory control, Wal-Mart invested $24 million in its own satellite in 1984. By 1990, Wal-Mart's satellite system was the largest two -way, fully integrated private satellite network in the world providing two-way interactive voice and video capability, data transmission for inventory control, rapid credit card authorization, and enhanced EDI transmission.

In its 1999 Annual Report, Wal-Mart outlined some of ways in which it utilized information to promote customer service:

> …At Wal-Mart, information technology gives us that knowledge in the most direct way: by collecting and analyzing our own internal information on e xactly what any given shopping cart contains. The popular term is "data-mining," and Wal-Mart has been doing it since about 1990. The result, by now, is an enormous database of purchasing information that enables us to place the right item in the right store at the right price. Our computer system receives 8.4 million updates every minute on the items that customers take home – and the relationship between the items in each basket. Our merchants use this database to understand what customers want – and to find ways to help them get it into their carts with as much convenience, and at as low a cost, as possible. In any given week, for example, a typical Wal-Mart's highest-selling items will include videotapes of Sleeping Beauty, Folgers® coffee, bananas and toilet paper – although the chances are that no single shopping cart contains all of those items. That kind of information has significant value in and of itself. Consider Wal-Mart's ability to keep the shelves stocked with exactly what customers want most, but still be able to keep inventories under tight control. The computerized transmission of transactions to our systems, which keep track of what merchandise is needed where, is a key tool as Wal-Mart merchants work to serve our customers. And that's only the beginning. For example, imagine a receipt that records a customer's purchase of Clearasil,® a Backstreet Boys CD and lip gloss. It's a safe guess that this customer's household has a teenage girl in it, and where there are teenagers, there is merchandising to be done.[11]

Point-of-sale data analysis also assisted in planning store layout:

> There are some obvious purchasing patterns among the register receipts of families with infants and small children. Well thought-out product placement not only simplifies the shopping trip for these customers – with baby aisles hat include infant clothes and children's medicine alongside diapers, baby food and formula – but at the same time places higher-margin products among the staples. • Seasonal merchandising – a key Wal-Mart focus – offers many opportunities for product placement based on customer buying patterns. For example, as pre-Halloween displays of costumes go up, they can be accompanied by a selection of flashlights – a valuable reminder for busy parents who might not have thought to stop by the hardware department for that important piece of trick-or-treating equipment. • Customers who buy suitcases are likely to be looking for other items they might need for traveling too – such as travel alarms and irons, which now, logically enough, can be found displayed alongside luggage at many Wal-Mart stores. The common thread is simple: We are here to serve the customer; and customers tend to buy from us when we make it easy for them. That sounds like a simple idea. But first you must understand the customer's needs. And that's where information comes in.[12]

Most important was the role of IT in linking and integrating the whole of Wal-Mart's value chain:

> Wal-Mart web of information systems extends far beyond the walls of any one store. Starting from the basic information compiled at the checkout stand, at the shelves, and gathered by associates equipped with hand-held computer monitors, Wal-Mart works to manage its supplies and inventories not only in the stores, but all the way back to the original source. Wal-Mart has given suppliers access to some of our systems, which enables them to know exactly what is selling, and to plan their production accordingly. This not only helps us keep inventories under control, but also helps the supplier deliver the lowest-cost product to the customer. With sales and in-stock information transmitted between Wal-Mart and our supplier-partners in seconds over the Internet, buyers and suppliers are privy to the same facts and negotiate based on a shared

> understanding – saving a significant amount of time and energy over more traditional, low-tech systems. Our buyer benefits from the supplier's product knowledge, while the supplier benefits from Wal-Mart's experience in the market. Combine these information systems with our logistics – our hub-and-spoke system in which distribution centers are placed within a day's truck run of the stores – and all the pieces fall into place for the ability to respond to the needs of our customers, before they are even in the store. In today's retailing world, speed is a crucial competitive advantage. And when it comes to turning information into improved merchandising and service to the customer, Wal-Mart is out in front and gaining speed. In the words of Randy Mott, Senior Vice President and Chief Information Officer, "The surest way to predict the future is to invent it."[13]

Human Resource Management

Wal-Mart's human resource policies were based closely upon Sam Walton's ideas about relations between the company and its employees and between employees and customers. All employees—from executive-level personnel to checkout clerks were known as "Associates." Wal-Mart's relations with its Associates were founded upon respect, high expectations, close communication, and effective incentives.

Although Wal-Mart's employees received relatively low pay (in common with most of the retail trade), Wal-Mart offered strong profit incentives for employees and encouraged them to share in its wealth creation through its stock ownership scheme. Numerous employees had retired as millionaires as a result of their participation in the plan. Most of these were managers, however, in 1989, the first millionaire hourly associate retired from the company.

Wal-Mart resisted the unionization of its employees in the belief that union membership created a barrier between the management and the employees in furthering the success of the company and its members. Despite strenuous efforts by unions to recruit Wal-Mart employees, union penetration remained low.

Associates enjoyed a high degree of autonomy and received continuous communication about their company's performance and about store operations. Every aspect of company operations and strategy were seen as depending upon the close collaboration of managers and shop-floor employees. To help control shrinkage (industry jargon for loss from theft and damage), the company instituted a bonus system whereby each associate could receive up to $200 if a store met corporate goals. Wal-Mart's shrinkage was estimated to be just above one percent, versus an industry average of two percent.

Wal-Mart's approach to employee involvement made heavy use of orchestrated demonstration of enthusiasm and commitment. The central feature of Wal-Mart meetings from corporate to store level was the "Wal-Mart Cheer"—devised by Sam Walton after a visit to Korea. The call and response ritual ("Give me a W!" "Give me an A!"…), included the "Wal-Mart squiggly" which involved employees shaking their backsides in unison.

Fortune suggested that the Wal-Mart cheer's mixture of homespun and corporate themes provided an apt metaphor for what it called "the Wal-Mart paradox":

> The paradox is that Wal-Mart stands for both Main Street values and the efficiencies of the huge corporation, aw-shucks hokeyness and terabytes of minute-by-minute sales data, fried-chicken luncheons at the Waltons' Arkansas home and the demands of Wall Street.
>
> Critics of Wal-Mart call the homespun stuff a fraud, a calculated strategy to put a human face on a relentlessly profit-minded corporation. What is paradoxical and suspect to people outside Wal-Mart, however, is perfectly normal to the people who work there. It reflects a deal that Sam Walton, Wal-Mart's founder, made with the people who worked for him.
>
> The deal was a lot more than just a matter of the occasional visit from Mr. Sam. Wal-Mart demonstrated its concern for workers in many ways that were small but specific: time and a half for work on Sundays, an "open door" policy that let workers bring concerns to managers at any level, the real chance of promotion (about 70% percent of store managers started as hourly associates).
>
> Sam Walton died in 1992, but the language of that deal still peppers the dialogue of Wal-Mart executives and the company's official literature. A quote that runs, in large type, across the top of a page in Wal-Mart's associate handbook is typical: "The undeniable cornerstone of Wal-Mart's success can be traced back to our strong belief in the dignity of each individual." Or listen to Wal-Mart spokesman Jay Allen: "If we didn't practice respect for the individual, didn't operate in an open-door environment, we would not be living up to the expectations that our associates have of

us." In an interview with FORTUNE two years ago, Coleman Petersen, Wal-Mart's human resources chief, made much the same point: "The higher up in the organization you go, the more of a servant you need to become because of the respect and expectations that Wal-Mart associates have of you as a leader."

Organization and Management Style

Wal-Mart's management structure and management style had been molded by Sam Walton's principles and values. As Wal-Mart grew in size and geographical scope, Walton was determined that corporate executives should keep closely in touch with customers and store operations. The result was a structure in which communication between individual stores and the Bentonville headquarters was both close and personal. Wal-Mart's regional vice presidents were each responsible for supervising between 10 and 15 district managers (who, in turn, were in charge of 8 to 12 stores). The regional VPs spend most of their work-week traveling their territories, meting with district and store managers. On Thursday night, they returned to Bentonville for the weekly operations meeting on Friday morning at 7:00 a.m. followed by a merchandising meeting later in the day. Information was shared and guidelines were established regarding merchandising strategies, product pricing, and other operational matters. Following the meetings, the regional VPs contacted their district managers through conference calls or voice mail, and the district managers would disseminate information and decisions to the store managers the same day. On Saturday morning at 7:30 a.m., the regional VP, together with other corporate level would attend a meeting that combined performance reviews, strategy announcements, religion and entertainment. Announcements of regional sales and market shares were combined with their honoring of individual achievements, and reports of new initiatives and store openings. On Monday mornings the regional VPs would return to their regions.

Wal-Mart placed a strong emphasis on management development. Most senior managers were recruited internally, and their was a strong emphasis placed upon developing managers through moving them between line and staff positions and between functions: "We have always moved our best and brightest talent around the organization to build the broad skills and experience that will carry Wal-Mart into the future. A few years ago we took our CIO, Bobby Martin, and asked him to run our International business. Three years ago we asked Tom Coughlin, who had run our Sam's business and was then running our Specialty Division, to head up our Wal-Mart store operations. At the same time Lee Scott moved from Logistics to lead our Merchandising team. These are three examples of this cross-pollination that occurs throughout our company."[14] Most senior managers were long-serving Wal-Mart veterans. Almost all had spent their entire careers in retailing (see Table 6).

[Table 6 about here]

COMPETITION

Wal-Mart's expansion had brought it into closer rivalry with a broader range of competitors. When Sam Walton had opened his first discount stores in the rural south, Wal-Mart's competitors were mostly small mom-and-pop stores. Wal-Mart's expansion throughout the U.S. and now internationally had brought Wal-Mart face to face with more powerful competitors. Not only did Wal-Mart face other discount chains—Target, Kmart, and Dollar General—it also faced competition from specialist mass-retailers. Wal-Mart had established superiority over other discount chains relatively easily (Kmart was flirting with bankruptcy for most of 2001 and 2002), however, Wal-Mart's most formidable competitors were the "category killers" that dominated particular product markets: Home Depot in tools and home improvement products, Toys-R-Us in toys, Office Depot in stationary and home office equipment, Best Buy in appliances and consumer electronics.

As Wal-Mart expanded the range of goods and service offerings, so the expanded its competitive front. Its expansion into Supercenters meant competition with supermarket chains (Kroger, Safeway, Giant). Its establishment of gas station at its stores resulted in its competing with Exxon Mobil and Shell. Its wal-mart.com online shopping business competed with a wide range of internet retailers.

Overseas, Wal-Mart was competing with well-established incumbents. In Britain its Asda subsidiary faced strong competition from the bigger Tesco chain. In Germany, Wal-Mart was up against a number of powerful, long-established retailers.

Exhibit 1. The Wal-Mart Culture

As Wal-Mart continues to grow into new areas and new mediums, our success will always be attributed to our culture. Whether you walk into a Wal-Mart store in your hometown or one across the country while you're on vacation, you can always be assured you're getting low prices and that genuine customer service you've come to expect from us. You'll feel at home in any department of any store...that's our culture.

Sam Walton's 3 Basic Beliefs

Sam Walton built Wal-Mart on the revolutionary philosophies of excellence in the workplace, customer service and always having the lowest prices. We have always stayed true to the Three Basic Beliefs Mr. Sam established in 1962:

Respect the Individual
" 'Our people make the difference' is not a meaningless slogan - it's a reality at Wal-Mart. We are a group of dedicated, hardworking, ordinary people who have teamed together to accomplish extraordinary things. We have very different backgrounds, different colors and different beliefs, but we do believe that every individual deserves to be treated with respect and dignity." –Don Soderquist, Senior Vice Chairman, Wal-Mart Stores, Inc.

Service to Our Customers
We want our customers to trust in our pricing philosophy and to always be able to find the lowest prices with the best possible service. We're nothing without our customers.

"Wal-Mart's culture has always stressed the importance of Customer Service. Our Associate base across the country is as diverse as the communities in which we have Wal-Mart stores. This allows us to provide the Customer Service expected from each individual customer that walks into our stores." –Tom Coughlin,
President and chief executive officer, Wal-Mart Stores division

Strive for Excellence
New ideas and goals make us reach further than ever before. We try to find new and innovative ways to push our boundaries and constantly improve. "Sam was never satisfied that prices were as low as they needed to be or that our product's quality was as high a they deserved - he believed in the concept of striving for excellence before it became a fashionable concept." Lee Scott, President and CEO.

Exceeding Customer Expectations

Years ago, Sam Walton challenged all Wal-Mart associates to practice what he called "aggressive hospitality." He said "Let's be the most friendly - offer a smile of welcome and assistance to all who do us a favor by entering our stores. Give better service - over and beyond what our customers expect. Why not? You wonderful, caring associates can do it and do it better than any other retailing company in the world . . . exceed your customers' expectations. If you do, they'll come back over and over again."

As Wal-Mart associates we know it is not good enough to simply be grateful to our customers for shopping our stores - we want to demonstrate our gratitude in every way we can! We believe that doing so is what keeps our customers coming back to Wal-Mart again and again.

Helping People Make A Difference

Sam Walton believed that each Wal-Mart store should reflect the values of its customers and support the vision they hold for their community. As a result, Wal-Mart's Community Outreach Programs are guided by local Associates who grew up in the area and understand its needs. In addition, Wal-Mart Stores, Inc., has launched several national efforts to help the larger, U.S. community.

Locally, Wal-Mart:

?? Underwrites college scholarships for high school seniors

?? Raises funds for nearby children's hospitals through the Children's Miracle Network Telethon

?? Provides money and manpower for fund raisers, school benefits and churches, Boy and Girl Scouts, park projects, police and fire charities, food banks, senior citizen centers, and more.

?? Educates the public about recycling and other environmental topics with the help of a "Green Coordinator," a specially trained Associate who coordinates efforts to make an environmentally responsible store.

On the national scope, Wal-Mart Stores, Inc.:

?? Provides industrial development grants each year to towns and cities that are attempting to bolster their economic base.

?? Encourages American companies to bring offshore manufacturing operations "back home" and bolster the U.S. job base through our Buy American Program.

Sam's Rules For Building A Business

People often ask, "What is Wal-Mart's secret to success?"

In response to this ever-present question, in his 1992 book *Made in America*, Sam Walton compiled a list of ten key factors that unlock the mystery.

These factors are known as "Sam's Rules for Building a Business."

Rule 1. Commit to your business. Believe in it more than anybody else. I think I overcame every single one of my personal shortcomings by the sheer passion I brought to my work. I don't know if you're born with this kind of passion, or if you can learn it. But I do know you need it. If you love your work, you'll be out there every day trying to do it the best you possibly can, and pretty soon everybody around will catch the passion from you - like a fever.

Rule 2 . Share your profits with all your Associates, and treat them as partners. In turn, they will treat you as a partner, and together you will all perform beyond your wildest expectations. Remain a corporation and retain control if you like, but behave as a servant leader in a partnership. Encourage your Associates to hold a stake in the company. Offer discounted stock, and grant them stock for their retirement. It's the single best thing we ever did.

Rule 3. Motivate your partners. Money and ownership alone aren't enough. Constantly, day-by-day, think of new and more interesting ways to motivate and challenge your partners. Set high goals, encourage competition, and then keep score. Make bets with outrageous payoffs. If things get stale, cross-pollinate; have managers switch jobs with one another to stay challenged. Keep everybody guessing as to what your next trick is going to be. Don't become too predictable.

Rule 4. Communicate everything you possibly can to your partners. The more they know, the more they'll understand. The more they understand, the more they'll care. Once they care, there's no stopping them. If you don't trust your Associates to know what's going on, they'll know you don't really consider them partners. Information is power, and the gain you get from empowering your Associates more than offsets the risk of informing your competitors.

Rule 5. Appreciate everything your Associates do for the business. A paycheck and a stock option will buy one kind of loyalty. But all of us like to be told how much somebody appreciates what we do for them. We like to hear it often, and especially when we have done something we're really proud of. Nothing else can quite substitute for a few well-chosen, well-timed, sincere words of praise. They're absolutely free - and worth a fortune.

Rule 6. Celebrate your successes. Find some humor in your failures. Don't take yourself so seriously. Loosen up, and everybody around you will loosen up. Have fun. Show enthusiasm - always. When all else fails, put on a costume and sing a silly song. Then make everybody else sing with you. Don't do a hula on Wall Street. It's been done. Think up your own stunt. All of this is more important, and more fun, than you think, and it really fools the competition. "Why should we take those cornballs at Wal-Mart seriously?"

Rule 7. Listen to everyone in you company. And figure out ways to get them talking. The folks on the front lines - the ones who actually talk to the customer - are the only ones who really know what's going on out there. You'd better find out what they know. This really is what total quality is all about. To push responsibility down in your organization, and to force good ideas to bubble up within it, you must listen to what your Associates are trying to tell you.

Rule 8. Exceed your customers' expectations. If you do, they'll come back over and over. Give them what they want - and a little more. Let them know you appreciate them. Make good on all your mistakes, and don't make excuses - apologize. Stand behind everything you do. The two most important words I ever wrote were on that first Wal-Mart sign, "Satisfaction Guaranteed." They're still up there, and they have made all the difference.

Rule 9. Control your expenses better than your competition. This is where you can always find the competitive advantage. For 25 years running - long before Wal-Mart was known as the nation's largest retailer - we ranked No. 1 in our industry for the lowest ratio of expenses to sales. You can make a lot of different mistakes and still recover if you run an efficient operation. Or you can be brilliant and still go out of business if you're too inefficient.

Rule 10 . Swim upstream. Go the other way. Ignore the conventional wisdom. If everybody else is doing it one way, there's a good chance you can find your niche by going in exactly the opposite direction. But be prepared for a lot of folks to wave you down and tell you you're headed the wrong way. I guess in all my years, what I heard more often than anything was: a town of less than 50,000 population cannot support a discount store for very long.

Source: www.walmartstores.com

Sundown Rule

One Sunday morning, Jeff, a pharmacist at a Wal-Mart store in Harrison, Ark., received a call from his store. A store associate informed him that one of his pharmacy customers, a diabetic, had accidentally dropped her insulin down her garbage disposal. Knowing that a diabetic without insulin could be in grave danger, Jeff immediately rushed to the store, opened the pharmacy and filled the customer's insulin prescription. This is just one of many ways your local Wal-Mart store might honor what is known by our associates as the Sundown Rule.

It's a rule we take seriously at Wal-Mart. In this busy place, where our jobs depend on one another, it's our standard to get things done today - before the sun goes down. Whether it's a request from a store across the country or a call from down the hall, every request gets same-day service. These are our working principles.

The Sundown Rule was our founder, Sam Walton's twist on that old adage "why put off until tomorrow what you can do today." It is still an important part of our Wal-Mart culture and is one reason our associates are so well-known for their customer service. The observation of the Sundown Rule means we strive to answer requests by sundown on the day we receive them.

Table 1. Wal-Mart—Key historical facts

1962. Wal-Mart's founder, Sam Walton, opens the first Wal-Mart in Rogers, Arkansas.
1970. Wal-Mart opens its first distribution center, Bentonville, Ark..
1970. Wal-Mart goes public.
1971. Continued expansion results in Wal-Mart stores in five states: Arkansas, Kansas, Louisiana, Missouri and Oklahoma
1972. Wal-Mart listed on NYSE
1975. After visit to Korea, Walton introduces the "Wal-Mart Cheer"
1977. Acquires 16 Mohr-Value stores in Michigan and Illinois
1981. Acquires 92 Kuhn's Big K stores
1983 First Sam's Cub opens, Midwest City, Oklahoma
1983. Woolco's US stores acquired
1985 Sam Walton becomes the wealthiest person in the US.
1987. Wal-Mart Satellite Network completed
1988. David Glass takes over from Sam Walton as CEO
1988 First Supercenter opens, Washington, Missouri.
1990. Wal-Mart becomes largest retailer in the US
1991. Begins international expansion with store in Mexico City.
1992. Death of Sam Walton. S. Robson Walton becomes Chairman
1992. Enters Puerto Rico
1993. 91 Pace Warehouse clubs acquired
1994. Enters Canada with acquisition of 122 Woolco stores
1995. Wal-Mart enters its 50^{th} state—Vermont
1995. Enters Argentina & Brazil
1996. Expands into Asia with first Wal-Mart in China
1998. Enters Germany & Korea
1999. Acquires Asda Stores, a major UK discount retailer.
2000. H. Lee Scott names president and CEO
2001. Wal-Mart named by Fortune Magazine as the 3^{rd} most admired company in America
2002. Fortune Global 500 identifies Wal-Mart as the world's largest company

Table 2. Wal-Mart stores by types and location

	Discount Stores	Supercenters	Sam's Clubs	Neighborhood Markets
USA	1647	1066	500	31
Argentina	0	11	0	0
Brazil	0	12	8	2 [a]
Canada	196	0	0	0
China	0	15	3	1
Germany	0	95	0	0
South Korea	0	9	0	0
Mexico	443 [b]	62	46	0
Puerto Rico	9	1	7	0
United Kingdom	0	250 [c]	0	0
TOTAL	2295	1521	564	34

[a] Includes *To do Dia* stores
[b] Includes Bodegas, Suburbia, Superamas, and VIP stores
[b] Includes 244 Asda stores and 6 Supercenters

Table 3. Wal-Mart: Performance by Segment

	Wal Mart Stores	Sam's Clubs	International	Other
Sales $, bill)				
2002	139.1	29.4	35.5	13.8
2001	121.9	26.8	32.1	10.5
2000	108.7	24.8	22.7	8.8
Sales increase				
2002	14.1%	9.7%	10.5%	30.8%
2001	12.1%	8.1%	41.2%	20.3%
2000	14.0%	8.4%	85.6%	23.2%
Operating income ($, mill.)				
2002	10.3	1.03	1.46	(0.71)
2001	9.70	0.94	1.11	(0.29)
2000	8.70	0.85	0.82	(0.26)
Op. income/Sales				
2002	7.4%	3.5%	4.1%	(5.2)%
2001	8.0%	3.5%	3.5%	(2.7)%
2000	8.0%	3.4%	3.6%	(3.0)%

Table 5. Wal-Mart and its Competitors: Performance Comparisons

		WAL-MART	TARGET	KMART	COSTCO	DOLLAR GENERAL
Sales revenue ($, bill.)						
	2002	217.8	39.9	36.2	-	5.3
	2001	191.3	36.9	37.0	32.2	4.6
	2000	165.0	33.7	36.0	27.5	3.9
Cost of goods sold ($,bill.)						
	2002	168.3	27.2	29.1	-	3.7
	2001	147.4	25.3	28.9	28.1	3.2
	2000	127.3	23.0	27.3	24.0	2.7
Gross profit ($, bill.)						
	2002	49.5	12.6	7.0	-	1.6
	2001	43.9	11.6	8.1	4.1	1.4
	2000	37.7	10.7	8.6	3.5	1.2
Gross margin (%)						
	2002	22.7%	31.7%	19.5%	-	30.7%
	2001	23.0%	31.5%	22.0%	12.7%	29.9%
	2000	22.9%	31.7%	23.9%	12.8%	29.9%
SG&A expense ($, bill.)						
	2002	36.2	8.9	7.6	-	1.1
	2001	31.6	8.2	6.7	2.8	0.9
	2000	27.0	7.5	6.5	2.4	0.7
Depreciation & amortization ($, bill.)	2002	3.3	1.1	0.8	-	0.1
	2001	2.9	0.9	0.8	0.3	0.1
	2000	2.4	0.9	0.8	0.2	0.06
Operating income ($, bill.)						
	2002	10.1	2.7	(1.4)	-	0.4
	2001	9.5	2.5	0.7	1.0	0.3
	2000	8.3	2.3	1.3	0.7	0.3
Operating margin (%)						
	2002	4.6%	6.7%	-	-	7.0%
	2001	5.0%	6.7%	1.8%	3.2%	6.9%
	2000	5.0%	6.9%	3.6%	3.1%	9.0%
Net income ($, bill.)						
	2002	6.7	1.4	(2.4)	-	0.2
	2001	6.3	1.3	(0.2)	0.6	0.07
	2000	5.4	1.1	0.4	0.4	0.2
Net profit margin (%)						
	2002	3.1%	3.4%	-	-	3.9%
	2001	3.3%	3.4%	-	2.0%	1.6%
	2000	3.3%	3.4%	1.1%	1.4%	5.6%
Cash ($, bil.)						
	2002	2.2	0.5	1.2	-	0.3
	2001	2.1	0.4	0.4	0.5	0.2
	2000	1.9	0.2	0.3	0.4	0.06
Net receivables ($, bill.)						
	2002	2.0	3.8	0.0	-	0.0
	2001	1.8	1.9	0.0	0.2	0.0
	2000	1.3	1.8	0.0	0.2	0.0
Inventories ($, bill.)						
	2002	22.6	4.5	5.8	-	1.1
	2001	21.4	4.3	6.4	2.5	0.9
	2000	20.0	3.8	7.1	2.2	1.0
Total current assets ($, bill.)						
	2002	28.2	9.6	7.9	-	1.6
	2001	26.6	7.3	7.6	3.4	1.1
	2000	24.4	6.5	8.2	3.3	1.1
Total assets ($, bill.)						
	2002	83.5	24.2	14.3	-	2.6

2001	78.1	19.5	14.6	8.6	2.3
2000	70.3	17.1	15.1	7.5	1.5
Short-term debt ($, bill.)					
2002	3.1	0.9	0.0	-	0.4
2001	6.7	0.9	0.06	0.009	0.009
2000	5.4	0.5	0.06	0.0	0.007
Total current liabilities ($, bill.)					
2002	27.3	7.1	0.6	-	1.1
2001	28.9	6.3	3.8	3.4	0.5
2000	25.8	5.9	4.1	2.9	0.5
Long-term debt ($, bill.)					
2002	18.7	8.1	1.2	-	0.3
2001	15.7	5.6	3.0	0.8	0.7
2000	16.7	4.5	2.8	0.9	0.001
Total liabilities ($, bill.)					
2002	48.3	16.3	10.8	-	1.5
2001	46.8	13.0	8.5	4.4	1.4
2000	44.5	11.3	8.8	4.0	0.5
Shareholders' equity ($, bill.)					
2002	35.1	7.9	3.5	-	1.0
2001	31.3	6.5	6.1	4.2	0.9
2000	25.8	5.9	6.3	3.5	0.9

Source: Company annual reports.

Table 6. Wal-Mart's executive team

Name	***Position***	***Years of experience***	***Previous Employment***	***Education***
S. Robson Walton	Chairman of the Board	30+	**Wal-Mart**: SVP-Secretary & General Counsel, Vice Chairman; **Conner & Winters**: Partner	Attended **Wooster College**; **University of Arkansas**: Bachelor of Science-Business Administration; **Columbia University**: Juris Doctor
David D. Glass	Chairman, Executive Committee of the Board, Wal-Mart Stores, Inc	. 15+	**Wal-Mart**: President & CEO; **Kansas City Royals**: Current Owner, Chairman & CEO	**Southwest Missouri State**: Bachelor's Degree
H. Lee Scott	President & CEO, Wal-Mart Stores, Inc.	22+	**Wal-Mart**: VP-Transportation, VP Distribution, SVP-Logistics, EVP Logistics, President & CEO-Stores Division, COO & Vice Chairman	**Pittsburg State University**: Bachelor's Degree in Business; **Penn State**: Executive Development; **Columbia University**: Executive Development
Thomas M. Coughlin	President & CEO, Wal-Mart Stores Division	23+	**Wal-Mart**: VP-Loss Prevention, VP Human Resources, EVP-SAM'S Club Operations, EVP-Specialty Groups, EVP & COO-Wal-Mart Store Operations; **RH Macy**: West Coast Division; **Cook United, Inc.**	**California State University**: Bachelor's Degree in Political Science
Paul R. Carter	EVP, Wal-Mart Stores, Inc.; President, Wal-Mart Realty	24+	**Wal-Mart**: Controller, EVP & CFO, EVP Special Divisions; **Howard Discount Centers**: Controller, Secretary-Treasurer, SVP & CFO	**University of Arkansas at Monticello**: Bachelor's Degree in Accounting
Bob Connolly	EVP, Marketing & Consumer Communications, Wal-Mart Stores, Inc.	15+	**Wal-Mart**: EVP-Merchandise Stores Division, VP-Merchandise Manager Apparel, SVP & General Merchandise Manager, VP-Women's Apparel, VP Shoes & Jewelry Merchandising; **Montgomery Ward**: EVP; **Carson Pirie Scott**: SVP; **Sibleys/Associated Dry Goods**: SVP.	**Rochester Institute of Technology**: Bachelor's Degree in Business Administration
Doug Degn	EVP, Food Merchandising, Wal-Mart Stores, Inc.	18+	**Wal-Mart**: Pharmacy Manager, VP & Divisional Merchandise Manager, VP Pharmacy Merchandising & Support, SVP & General Merchandise Manager-Stores Division	**University of Kansas**: Bachelor of Science in Pharmacy
David Dible	EVP, Specialty Division, Wal-Mart Stores, Inc	30+	**Wal-Mart**: Store Manager, Senior Buyer, Divisional Merchandise Manager, VP-Merchandise Systems Development, SVP & General Merchandise Manager- Hardlines, SVP & General Merchandise Manager-Home/Seasonal, EVP Merchandising & Sales	**Ft. Hays State University**: Bachelor of Science
Michael Duke	EVP, Administration, Wal-Mart Stores, Inc.	28+	**Wal-Mart**: EVP-Logistics, SVP-Logistics, SVP-Distribution; **Federated Department Stores**; **May Department Stores**; **Venture Stores**	**Georgia Tech**: Bachelor's Degree in Industrial Engineering
J.J. Fitzsimmons	SVP, Finance & Treasurer, Wal-Mart Stores, Inc.	7+	**Wal-Mart**: VP-Finance; Prior to Wal-Mart: VP & Analyst; SVP & CFO	**University of Notre Dame**: Bachelor's Degree; **University of Chicago**: Master's Degree; CPA
Thomas Grimm	President & CEO,	23+	**PACE Warehouse**: President & CEO;	**Weber State University**:

	Sam's Club		**Price Savers Wholesale Warehouse**: Founder, President & CEO; **Target Stores**: Buyer	Bachelor's Degree in Business Management
Don Harris	EVP, General Merchandise, Wal-Mart Stores Division	20+	**Wal-Mart**: Assistant Manager, Store Manager, Buyer, Senior Buyer, Divisional Merchandise Manager, SVP & General Merchandise Manager, EVP Store Operations N/A	
Jim Haworth	EVP, Operations, Wal-Mart	18+	**Wal-Mart**: Assistant Store Manager, Store Manager, District Manager, Regional VP- Merchandise, Senior Vice President, Regional VP-SAM'S Club	**Central Missouri State University**: Bachelor of Science Degree in Business Administration
Craig Herkert	SVP & COO, International Division, Wal -Mart Stores	25+	**Albertson's**: 23 years; **Acme Supermarkets**: President-East Region	**St. Francis College**: Bachelor of Science; **Northern Illinois University**: Master's Degree
Thomas D. Hyde **John B. Menzer**	EVP & Senior General Counsel, Wal-Mart Stores, Inc. EVP, President & CEO, International Division, Wal-Mart Stores, Inc.	10+ 15+	**Raytheon**: SVP & General Counsel; **Manville Corporation**; **Emerson Electric** **Wal-Mart**: EVP & CFO; **Ben Franklin**: 10 years	**University of Kansas**: English Degree; **University of Missouri**: Law Degree; **University of Kansas**: MBA **Loyola University**: Bachelor's Degree, MBA; CPA
Coleman H. Peterson	EVP, People Division, Wal-Mart Stores, Inc.	25+	**Venture Stores**: SVP-Human Resources	**Loyola University**: Bachelor's & Master's Degree
Robert K. Rhoads	EVP, General Counsel & Secretary, Wal-Mart Stores, Inc.	20+	**Wal-Mart**: Law Clerk, Corporate Counsel, Assistant General Counsel	**University of Arkansas**: Bachelor of Science-Political Science, Juris Doctor
Thomas M. Schoewe	EVP& CFO, Wal-Mart Stores, Inc.	15+	**Black & Decker**: SVP & CFO, VP Finance, VP Business Planning & Analysis; **Beatrice Companies**: CFO & Controller	**Loyola University**: Bachelor's in Business Administration-Finance; **University of Chicago**: Executive MBA
Phil Sutterfield **Celia Swanson**	EVP, Merchandising, SAM's Club EVP, Membership, Marketing & Admin., SAM'S CLUB	35+ 10+	**American Strevell**: VP Merchandising; **Price Savers Warehouse**: EVP-Merchandising; **PACE**: EVP-Merchandising **SAM'S Club**: Senior Director-People Group, VP-People Group; **PACE**: SVP Human Resources & Administration	**University of Idaho**; **Utah State University** **University of Nebraska**: Bachelor's in Fashion Merchandising
Kevin Turner	EVP & CIO, Wal-Mart Stores, Inc.	15+	**Wal-Mart**: Cashier, Internal Audit, Business Analyst, Strategy Manager, Director, VP, Assistant CIO	**East Central University**: Bachelor of Science

Source: Wal-Mart Stores Inc.

Table 4. Wal-Mart Stores Inc.: Financial Summary 1992-2002

	2002	2001	2000	1999	1998	1997	1996	1995	1994	1993	19
Income											
Net sales	**217,799**	191,329	165,013	137,634	117,958	104,859	93,627	82,494	67,344	55,484	43,
Net sales increase	**14%**	16%	20%	17%	12%	12%	13%	22%	21%	26%	3
Same-store sales increase	**6%**	5%	8%	9%	6%	5%	4%	7%	6%	11%	1
Other income-net	**2,013**	1,966	1,796	1,574	1,341	1,319	1,146	914	645	497	4
Cost of sales	**171,562**	150,255	129,664	108,725	93,438	83,510	74,505	65,586	53,444	44,175	34,
SGA administrative expenses	**36,173**	31,550	27,040	22,363	19,358	16,946	15,021	12,858	10,333	8,321	6,
Interest costs:											
Debt	**1,052**	1,095	756	529	555	629	692	520	331	143	1
Capital leases	**274**	279	266	268	229	216	196	186	186	180	1
Provision for income taxes	**3,897**	3,692	3,338	2,740	2,115	1,794	1,606	1,581	1,358	1,171	9
Minority interests	**(183)**	(129)	(170)	(153)	(78)	(27)	(13)	4	(4)	4	(
Net income	**6,671**	6,295	5,377	4,430	3,526	3,056	2,740	2,681	2,333	1,995	1,
Financial Position											
Current assets	**28,246**	26,555	24,356	21,132	19,352	17,993	17,331	15,338	12,114	10,198	8,
Inventories (replacement cost)	**22,749**	21,644	20,171	17,549	16,845	16,193	16,300	14,415	11,483	9,780	7,
Net property, plant and equipment and capital leases	**45,750**	40,934	35,969	25,973	23,606	20,324	18,894	15,874	13,176	9,793	6,
Total assets	**83,451**	78,130	70,349	49,996	45,384	39,604	37,541	32,819	26,441	20,565	15,
Current liabilities	**27,282**	28,949	25,803	16,762	14,460	10,957	11,454	9,973	7,406	6,754	5,
Long-term debt	**15,687**	12,501	13,672	6,908	7,191	7,709	8,508	7,871	6,156	3,073	1,
Long-term lease obligations	**3,045**	3,154	3,002	2,699	2,483	2,307	2,092	1,838	1,804	1,772	1,
Shareholders' equity	**35,102**	31,343	25,834	21,112	18,503	17,143	14,756	12,726	10,753	8,759	6,
Financial Ratios											
Current ratio	**1.0**	0.9	0.9	1.3	1.3	1.6	1.5	1.5	1.6	1.5	1
Inventories/working capital	**23.5**	(9.0)	(13.7)	3.9	3.4	2.3	2.7	2.6	2.3	2.7	2
Return on assets*	**8.5%**	8.7%	9.5%	9.6%	8.5%	7.9%	7.8%	9.0%	9.9%	11.1%	12
Return on shareholders' equity**	**20.1%**	22.0%	22.9%	22.4%	19.8%	19.2%	19.9%	22.8%	23.9%	25.3%	26
Other Year-End Data											
Number of U.S.Wal-Mart stores	**1,647**	1,736	1,801	1,869	1,921	1,960	1,995	1,985	1,950	1,848	1,
Number of U.S. Supercenters	**1,066**	888	721	564	441	344	239	147	72	34	1
Number of U.S. Sam's Clubs	**500**	475	463	451	443	436	433	426	417	256	2
Number of U.S. Neighborhood Markets	**31**	19	7	4	-	-	-	-	-	-	
International units	**1,170**	1,071	1,004	715	601	314	276	226	24	10	
Number of Associates (,000s)	**1,383**	1,244	1,140	910	825	728	675	622	528	434	3

** Net income before minority interest, equity in unconsolidated subsidiaries and cumulative effect of accounting change/average assets*

*** Net income/average shareholders' equity*

[1] Sam Walton, *Sam Walton: Made in America*, New York: Bantam Books, 1992.
[2] *Forbes*, August 16, 1982, p. 43.
[3] G.C. Strachan, *The State of the Discount Store Industry*, Goldman Sachs, April 1994 (quoted in *Wal-Mart Stores, Inc.* Harvard Business School Case 9-974-024, 1994).
[4] From the Wal-Mart website: www.walmart.com
[5] Sam Walton, *Sam Walton: Made in America*, New York: Bantam Books, 1992.
[6] http://www.walmart.com/cservice/aw_samsway.gsp
[7] Wal-Mart Stores, Inc. Annual Report, 2000.
[8] This description of Wal-Mart's retailing operations refers primarily to its US discount stores division.
[9] Saporito, Bill, "A Week Aboard the Wal-Mart Express," *Fortune*, August 24, 1992, p. 79.
[10] Ibid.
[11] Wal-Mart Stores, Inc. Annual Report, 2000.
[12] Ibid.
[13] Ibid.
[14] David Glass, Wal-Mart Annual Report, 1999.