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The Big Idea Series...Article 3

Wal Mart, Retailer of the 20th Century...What's the Big Idea?

By Peter L. Klinge, Jr.

I visited a brand new Wal-Mart Supercenter and was very impressed. Under one roof of bright skylights with wide aisles stacked floor to ceiling with merchandise I was able to lunch at McDonald's, shop for groceries, Wranglers and Michelin tires, and have my car tuned at the express tire and lube shop. Add to this a nail salon, and photo portrait service. All this accomplished in one trip, at one location; saving millions of shoppers around the world time and money.

If you are accustomed to shopping to the tinkling of a piano at Nordstrom or Bloomingdale's, you might think that they are the most successful retailers in the world. But you're wrong. Wal-Mart the giant of retailing is simple, downright dowdy in fact.

"Sell for less. Always."

Over 5 decades this has become the most enduring principle of Wal-Mart. A company with sales above \$200 billion is the largest in the world.

Bigger than Ford, GE, IBM, and General Motors.

The 40+ - year ascent of Wal-Mart from its Bentonville, Arkansas roots is a remarkable and well-known story. It's amazing that a retailer is the largest business in the world. On the other hand, the rise of the service economy

fueled by consumer buying is what drives the worldwide markets. During Wal-Mart's rise you'll recall one of the of the oldest retailers Woolworth (out of business), and K Mart (bankrupt).

Wal-Mart's prominence as an international retailer with more than \$200 billion in sales and consistent yearly growth is a testament to a strong sense of vision, leadership and commitment to execution among its hundreds of thousands of associates.

Discount Store News proclaimed Wal-Mart retailer of the 20th century.

Retailing is a tough business so what is it about this discount retailer that makes Wal-Mart such a big idea?

Competency and Execution:

They understand their customer, and market to their needs with consistent execution, and a simple formula and commitment to a vision to give customers brand and quality products at the lowest prices.

This relentless customer focus combined with an evolving and innovative information system and supply chain process helps the company provide quality goods at low prices to customers around the world.

There are four core principles that apply to Wal-Mart's success to evaluate:

Vision
Pragmatism
Leadership
Teamwork

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Vision

So what's the big idea? People, culture, and value are what propel this retailer's business. These are the reasons and forces behind Wal-Mart's success. More than a million associates worldwide greet customers, stock shelves, and spread the philosophy of quality and value.

Leadership

Sam Walton was the great visionary for the company. Dating back to his earliest business experience in the 1950's he understood the importance of common culture to build teamwork. Since his death in 1992, his cheerleading passion has passed onto new generations of leaders who carry on the company vision.

Pragmatism and teamwork

People and culture endure as the essence of this behemoth, but it's information technology that has supported Wal-Mart's phenomenal growth since the late 70's. Without the efficient and thoughtful integration of technology with people and customer value, WM could not be as large and profitable as it is today.

Subtle but significant changes over the years maintain WM's relevance. Efforts at innovation have improved products and services over the decades and reinforce the "selling for less" proposition.

- The company thinks globally while providing for local flexibility. WM leverages its global sourcing capabilities to purchase common worldwide

products such as household staples, or basic lighting fixtures that can be bought in large quantities, and then distributed to markets of demand. Local tastes are still met through regional buying.

- Entrepreneurship is encouraged at the store level with creative programs such as special merchandise promotions of *volume producing items*.
- Co-marketing of branded store products i.e. Sam's Choice Colas, tools, vitamins, apparel, jeans, and boots that provide price and value relative to better known brands that sell at higher prices. These give consumers shop and compare opportunities that reinforce the value proposition of Wal-Mart.
- Data systems are the core of information management for Wal-Mart. The company can measure every aspect of inventory, merchandising, and pricing to maximize the pricing and profit. It's what drives and maintains the every day low price strategy, which is the envy of the industry.

Manufacturers such as Procter & Gamble, Kraft Foods, and Unilever find themselves negotiating on Wal-Mart's terms as each vies for the critical shelf space on the store floors. The product tracking and inventory systems inform Wal-Mart of every item sold for each manufacturer. Information the manufacturer does not get directly.

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- Continuous improvement- upgrading stores, lighting, merchandising to offer new value and service to customers.
- Innovate to bring new standards of quality/value and service over the years to anticipate consumer needs and desires. An example is their improvement of the store's fashion lines while maintaining value- quality for less- by finding and blending new synthetic materials. WM designs and then produces in large quantities; creating economies unmatched by higher end retailers.

The introduction of supercenters put into consumers reach the convenience of one location to meet all of their needs: automotive care, groceries, clothing, consumer electronics, hardware, pharmacy, even travel. Sam Clubs, 500 in all, offer bulk displays of name brand hard good merchandise, some soft goods and institutional size grocery items. The web promotes shopping values and improves consideration for purchase in any of its stores.

The same value proposition is applied to every consumer category WM enters. Applying its retail insight to consumer needs, and the logistics and technology expertise for managing inventory they are able to provide customers with competitive, even unbeatable pricing.

As Wal-Mart seeks continued growth there are pros and cons to consider:

Pros

Wal-Mart's every day low pricing strategy enables them to build intense

customer loyalty, and leverage for favorable pricing and inventory terms with brand name manufacturers.

The integration of technology and data systems gives them accurate customer and product sales information offering significant competitive advantage.

Wal-Mart seeks innovative cost reductions that improve products i.e. new synthetic fabrics in clothing.

Cons

As Wal-Mart grows there are stresses on their ability to find new segments for growth. As with many large diversified retailers, the ability to offer fair to good values at reasonable prices across an ever-increasing array of goods and services becomes more difficult to manage.

Consumer tastes change. Wal-Mart benefits from competition. Consumers shopping at its competitors can better judge the value of Wal Mart product quality and pricing if there is strong competition. WM depends on such favorable comparisons for its own pricing strategy and product development of alternative brand items to the more expensive brands. As Wal-Mart's share of retailing expands their competition withers which shifts the retailer's position from fast trend follower to retail category leader for products and services. This further stretches WM's resources and value proposition.

Wal-Mart is particularly vulnerable among the younger segments that represent their customer future as ideas about quality, style influence their shopping habits for years to come.

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overshadow and diminish the quality of their goods.

Wal-Mart opportunities to consider...

- Recognize and reward customer segments of their huge customer base by offering incentives and values on a more selected basis.
- Use their huge store presence in communities to involve it in local activities and events that are consistent with WM's cheery homespun values and the community's interests.
- Continue R&D for new product areas that lead rather than follow the industry as they've done with women's clothing. Balance the value statement so that it does not become synonymous with plain and dowdy. This will become particularly important for WM as their expansion brings them closer to larger metro areas where shoppers are more sophisticated about style and value.
- Improve the Wal-Mart shopping experience. Many of the stores feel like large warehouses that are overwhelming and unpleasant. The store experience should be inviting where shoppers will want to spend most of their day shopping and not feeling it's a chore to be there.
- The brand's advertising can be improved to increase the value of the Wal-Mart experience and community presence. The pricing message hits hard in their advertising and is well established, but seems to

- Leverage the Web more for customer tracking, convenience, and targeted marketing strategies.

The Wal-Mart business and its principles are a big idea because it

continues to succeed and attract countless customers on the basis of mass market retailing, common sense, and an age old discount store model. In an era of increased brand preference, market and media segmentation, and fragmentation this is amazing.

However, as this article identified, they effectively use technology to reinvent mass market retailing by shifting to an information management system that supports customer service. This enables an approach of mass customization that affords the economies of scale while being able to target a variety of categories ranging from automotive, clothing, and groceries.

Wal-Mart is well positioned for growth among middle-income households. The company can also benefit internationally from the economic vitality of larger family sizes of rapidly developing countries, e.g. Mexico.

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Peter is currently President of Klinge & Associates Idea Marketing Consultants ©. His organization's mission is to help companies to grow sales and strengthen customer relationships through the

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Disclaimer: Source references include review of the Wal Mart.com site, *Discount Store News, Wal Mart, Retailer of the Century*, October 1999; issues of Forbes and Fortune magazines, and personal shopping experience.

To the best of the author's knowledge all of the information and content presented in the article entitled, "Wal Mart, Retailer of the 20th Century...What's the Big Idea?" is written from source material in the public domain.

Further, his point of view, observations and insights as to Wal Mart's vision, leadership, the pros and cons, and opportunities are based on his own experience and conclusions supported by the aforementioned source references.

The Big Idea Series is a concept written by the author Peter L. Klinge, Jr. as a series of management and marketing articles that reviews the role of communications and marketing in advancing product innovation as outlined in his first article, "What's the big idea... finding the way to tap consumer desire", July 31, 2001.