Business Analysis of Walmart - Success Factors and Challenges

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Abstract. Nowadays, people will be more inclined to go shopping online rather than opting for offline shopping. Walmart, the world's No.1 for 7 years in a row in the previous years, dropped in the ranking last year. Although part of the reason is the new crown virus, also is it can represent the decline of offline stores and the rise of online stores. This research will analyze the current general environment market by studying the success factors and challenges of Walmart. Through the research, we can find that Walmart's success factors mainly focus on its unique localization and differentiation, Sam's Membership Supermarket, and the powerful information supply chain system behind Walmart's high efficiency and low cost. At the same time, Walmart is currently facing many challenges, such as the super APP, some online products that cannot meet the demand, and the single payment method. All of these can be analyzed to show that Walmart is not prepared for online stores in the current context of the big data era, which has led to Walmart's current declining situation.

Keywords: Business Analysis; Walmart; Success Factors and Challenges.

1. Introduction

Walmart was founded in 1962, and after more than 50 years of development, is now the world's largest chain retailer, and seven years in the world's top 500 first. For the current general environment of the market, Walmart is in a state of disadvantage, the market environment is changing too rapidly, but Walmart has not caught up with this market change, so it is not doing very well now [1]. For this study, we will analyze Walmart's development status, financial situation, and market operation, and then based on the existing data and theories, and finally will give Walmart certain strategic suggestions. In this study, we will use the SWOT model to analyze the existing situation of Walmart and analyze its strengths, weaknesses, opportunities, and threats of Walmart.

Zhang Xinyu's research examined Walmart's localization challenges in China. Walmart's success in the U.S. comes from its "EDLP" strategy, which is supported by Walmart's market share in the U.S., global sourcing strategy, logistics efficiency, and low-cost operations. In China, this logic may need to be adjusted locally. At the same time, Walmart needs to face challenges from online, near-field businesses, and emerging businesses in China. As traffic costs increase and the traffic dividend gradually disappears, online retailers urgently need to continuously improve ARPU, an important way of which is to extend to daily life categories through the e-commerce supermarket segment, and the online supermarket business will continue to squeeze the share of traditional superstores. Emerging FMCG players in China, also known as the "new retail" model, represented by “He Ma Fresh”, are also potentially stealing traffic from hypermarkets. The hypermarket format is likely to continue to decline in China's brick-and-mortar retail market in the future, and how it will continue to adapt its channels and formats to meet market competition and customer demand is another important issue for Walmart in the future [2].

In China, people still rely heavily on online shopping, which is very different from the United States. In the beginning, Walmart was aware of the shift in the market, but the problem was that it didn't keep up with the shift [3]. By the time Walmart found the right way to change, it was already too late to compete with the local online stores in China [4]. This is a very unfortunate point for Walmart. But Walmart can do so successfully is inseparable from its EDI information system. Walmart in the previous many years is relying on this information system to develop rapidly, thus occupying the world's top 500 ranking for a long time.

2. Basic Description of Walmart

The subject of this study is Walmart. Walmart is currently the number one company in the Fortune 500 for seven consecutive years. Their operation method and brand effect are very strong. Due to the Covid in these two years, offline supermarkets like Walmart have been affected in different ways. This is one of the reasons why Walmart's ranking dropped this year. Walmart company is divided into Walmart U.S., Walmart International, and Sam's Club, those several parts.

Walmart entered China in 1996 and opened its first Walmart store and Sam's Club in Shenzhen. in 2007, the president of China made a comprehensive change in strategy to completely localize Walmart [5]. in 2016, Walmart carried out a new e-commerce model in cooperation with Jingdong and Tencent. in 2022, Walmart opened more than 300 stores and more than 20 distribution centers in more than 100 cities across China. In the next 5-7 years, Walmart plans to continue to increase the number of stores, including Walmart Shopping Plaza, Sam's Club, and Walmart Community Store multiple formats.

When Walmart first entered China, it did not consider the consumption habits of China at that time and directly applied the way it operated in the United States to its Chinese stores. This led to the slow expansion of Walmart China between 1996 and 2006, and the store was in a long-term loss. It was not until after 2007 that Walmart China was fully localized. After the president of Walmart China overhauled the company, Walmart's store count and revenue both showed explosive growth. After 2012, traditional offline retail in China has been impacted and China has turned into an era of e-commerce. Walmart also followed the pace and started to study its own online sales channel with itself. But it also faced the problem that online and offline orders could not be coordinated, so Walmart finally gave up its own research and turned to cooperate with Chinese online stores, such as Jingdong, an online sales channel.

At the same time, the number of Walmart store closures in recent years is also on the rise, after comparing with some Chinese imported supermarkets or local supermarkets find that Walmart's advantages are not enough, which is one of the reasons that led to the closure of stores [6]. But Sam's Club has a good performance in China. The number of Sam's Club stores has also been increasing and maintaining the high quality of the products sold. This paper will focus on the success factors and challenges of Walmart Inc. in China, and eventually, we will give our own recommendations.

3. Balance Sheet

Below is a chart comparing the number of stores between Walmart China and Sam's Club. We can clearly see in Fig·1 and Fig·2 that Sam's Club is trending better than Walmart China.

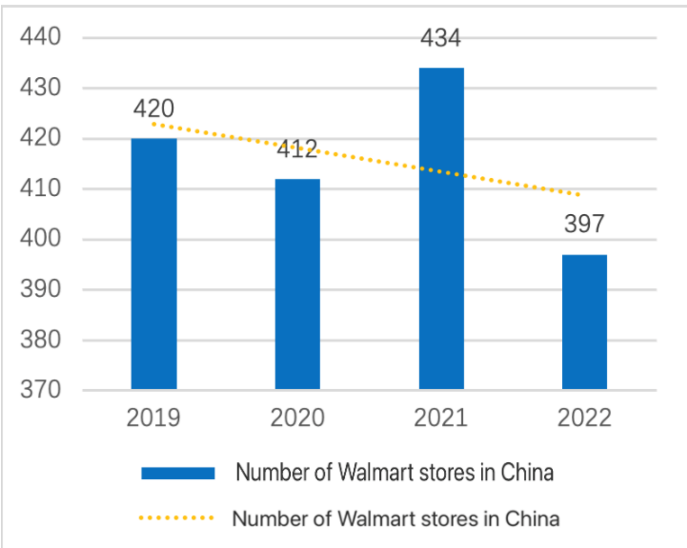

Fig. 1 Number of Walmart stores in China (Photo credit: Original)

Fig. 2 Number of Walmart stores in China (Photo credit: Original)

During the reporting period, Walmart reported fiscal second-quarter revenue of $152.86 billion, up 8.4% year-over-year, and net income of $5.147 billion, up 17.9% year-over-year.

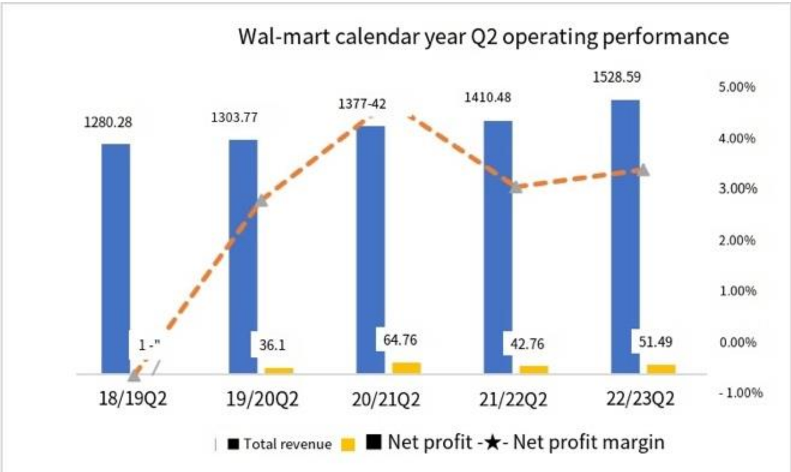

Fig. 3 Walmart calendar year Q2 performance (Photo credit: Original)

During the reporting period in Fig·3, Walmart reported fiscal second-quarter revenue of $152.86 billion, up 8.4% year-over-year, and net income of $5.147 billion, up 17.9% year-over-year. Sam's sales grew 10 percent year-over-year in 2023 Q2, with membership at a record high. Approximately three-quarters of Walmart Inc.'s food market share growth came from customers with annual household incomes of $100,000 or more - in line with Sam's Member Stores' positioning. Sam's Member Store in Futian, Shenzhen alone surpassed $2 billion in sales in 2017, a world single-store supermarket record.

We can also see the success of Sam's Clubs. Consumers' living standards are improving, and their spending power is rising year by year. With differentiated and high-quality products, consumers are willing to pay for membership fees. Then in the pursuit of goods shifted from cheap to focus on food safety and quality, Sam's streamlined SKU for consumers to choose high quality and high-quality goods in advance. In 1996, when Sam's entered the Chinese market, China's GDP per capita was only $600, and people's consumption levels did not match the membership concept. After 2010, the GDP per capita grew rapidly. By 2021, the GDP per capita will reach $12,000, a 14-fold increase from the previous year. People's consumption level will gradually be able to accept the concept of membership. Therefore, it seems that Sam's membership is oriented to the middle- and high-end-income group after 80s and 90s, and their consumption habits are more concerned about the quality of goods than the price, which is in line with Sam's exclusive membership concept [7].

4. Marketing

Walmart can have such a large scale and still maintain an excellent supply of goods, which cannot be separated from Walmart's powerful information system, that is, Walmart's EDI technology. As early as 1985, Walmart applied EDI electronic data interchange technology to establish an automatic ordering system with suppliers. Logistics EDI refers to the exchange of logistics data between cargo owners, carriers, and enterprises that deliver goods and other logistics-related units through EDI technology, and to carry out logistics activities on this basis. Walmart's logistics EDI is mainly responsible for providing file transfer and message conversion between Walmart and its suppliers [8].

Fig. 4 How Walmart's EDI system works (Photo credit: Original)

During Fig·4, Walmart's EDI information system will automatically send order information to the supplier and logistics provider when Walmart receives the order, and when the supplier receives the order, it will send the information such as cargo shipping list and shipping time to the logistics provider and Walmart at the same time. When the supplier receives the order, it will send the shipping list and shipping time to both the logistics supplier and Walmart. Finally, when Walmart receives the goods, it will confirm the receipt of goods to the supplier, and then invoice the logistics supplier for the receipt of goods.

Walmart's EDI technology leads to an 81% increase in business document transfer speed, a 44% reduction in document costs, a 40% reduction in business losses caused by errors, a 38% reduction in document processing costs, and a 34% increase in competitiveness. At the same time, the indirect benefits of EDI can reach 3%-5% of the total trade volume, and these benefits are mainly derived from the overall economies of scale by integrating the original fragmentation and operations [9]. This is the success factor of Walmart.

There was one more factor that contributed to Walmart's success at that time. After going for actual interviews and surveys, it was found that Walmart employees generally had very good customer service. After asking many employees they said that when working at Walmart the leaders would listen to the opinions of the employees so that they would have a good working environment during their work. In this kind of working environment, Walmart employees will not bring bad feelings to customers the service again. Instead, they will have a good service attitude to every customer who comes to shop. Through offline actual investigation, Walmart's staff will have staff special service training after joining. Walmart will also be through this training to allow employees to better serve customers.

At the same time, Walmart also faces many challenges in China. First, the Chinese consumer market is still mainly distributed in e-commerce platforms, but this is where Walmart is lacking. You can see from Fig·5 below the percentage of people in China who go to e-commerce platforms versus offline stores.

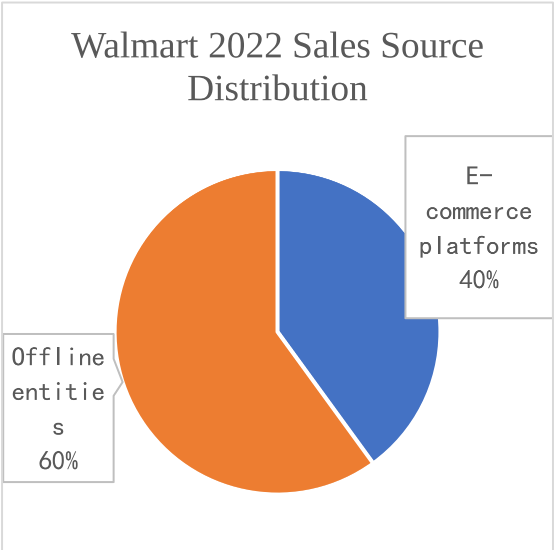

Fig. 5 Walmart 2022 Sales Source Distribution (Photo credit: Original)

This is one of the reasons why Walmart is now gradually closing its stores in China. Walmart has not captured the spending habits of consumers in China very accurately, and they now prefer to go to e-commerce platforms to shop than to buy things from offline stores [10].

At the same time, a comparison between Walmart and Chinese offline supermarkets also reveals some shortcomings. Walmart has less variety coverage in fresh food. Comparing "HeMa" supermarket with Walmart, we can see that the assortment and product selection of "HeMa" are much better than Walmart, and these are the points that can make customers have a better shopping experience. "HeMa is a local supermarket in China, so they know more about the psychology and consumption habits of Chinese consumers. In terms of service and details, "HeMa" will do much better than Walmart.

The last challenge for Walmart in China is Walmart's online payment methods. Compared to other import supermarkets in China, Walmart's online payment method will look very thin. For example, Aeon and RT-Mart both support more than four online payment methods, including WeChat payment, Alipay payment, bank card payment, and so on. But compared to Walmart, Walmart's online payment only supports WeChat payment, which is one of the reasons why many customers lost.

5. SWOT Analysis

Use the SWOT model to analyze Walmart, here are some points to know. SWOT is an analysis model given to our chosen company in the market through four points: Strengths, Weaknesses, Opportunities, and Threats. Its purpose is to analyze the internal and external factors and then choose the best way to do business. Based on the above analysis this section will use SWOT to analyze Walmart comprehensively with the purpose of analyzing the success factors and challenges Walmart faces in the market.

5.1 Strengths

●EDI information technology, easy to operate, can quickly and accurately help the retail, wholesale, and manufacturing industries to grasp the information related to ordering and wholesaling of goods that are in short supply, making the daily ordering of enterprises faster, more accurate, and less costly.

●Brand effect, Wal-Mart's brand effect can make most people go for Walmart.

- Global expansion programs with different business approaches and policies depending on the region.
- Walmart has excellent employee service to customers. This will give customers a good sense of belonging, and then they will continue to choose to shop at Walmart next time.

5.2 Weaknesses

- Walmart's e-commerce platform is no match for its other competitors.
- Walmart's lack of product segmentation can lead to discomfort for customers when looking for products.
- The quality of Walmart's products differs too much from Sam's Club's quality, making people have no desire to shop.

5.3 Opportunities

- Now that China has just declared the end of the outbreak, there will be no more city closure policies. Walmart can use this just-open time to release more events to attract people to do shopping. People in China have been sealed in their homes for a long time now and their desire to shop is just as strong. If they take advantage of this opportunity, Walmart will have great revenue growth.
- Walmart can update its own e-commerce platform because most people in China still prefer to shop on e-commerce platforms, and Walmart cannot rely only on offline stores.

5.4 Threats

- The threat to Walmart in China is the other imported supermarkets as well as the local supermarkets in China. They will do much better than Wal-Mart in many aspects. Walmart cannot just use its brand effect to stay in business, but also needs to make some changes to meet the consumption habits of Chinese consumers.

6. Suggestion

The first point, for the online sales channel, is not perfect, 2022.Q3 Walmart China e-commerce net sales increased 96% compared to the same period last year. The operators can go to establish Walmart's own APP, improve the omnichannel strategy, realize the seamless link between online and offline goods, services, and channels, and at the same time open each consumption scene so that customers can shop in Walmart in the way they like.

The second point is to cater to the increased demand for fresh food and increase investment in the fresh food market while ensuring quality and quantity.

The third point is to broaden the payment methods, such as UnionPay, in response to the single payment method, and learn the strategy of "Mei Tuan" to establish a good relationship with banks.

7. Conclusion

In summary, this study focuses on analyzing the success factors and challenges of Walmart, and Walmart has a very well-developed information system and suppliers. These can put Walmart in a very strong position in offline supermarkets because offline supermarkets are competing for these factors. Walmart is the only one that can do the best in these offline supermarkets, and then the number of stores can spread to the world. But in China, the market has changed a little bit. Because the Chinese market is now more focused on online shopping mall shopping and shopping experience. These are the things that Walmart is very lacking. Walmart has not faced the Chinese market shift well, or maybe Walmart is not ready to shift, it is the local Chinese online shopping mall that found the opportunity. Because Walmart is a big supermarket group, it will not be easy for them to make any changes. But in this gap in their decision, those online merchants who have nothing to start with can use this opportunity to grow rapidly. When Walmart decided to shift, they found that there was no more opportunity or market to shift. Believe that in the future again when the opportunity to make decisions, Walmart, the world's first can do better.

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