The Success of Walmart Case Study

Walmart is a retail giant founded by Sam Walton in 1962. It has grown from a single discount store in Arkansas to become the largest supermarket chain in the United States.

Its success is primarily associated with a focus on low prices, large store designs, extensive merchandise mix, all supported by innovative supply chain practices that enables Walmart to achieve a substantial cost leadership in the retailing market.

Walmart now commands more than a quarter of all grocery dollars spent in the U.S., making it larger than Kroger, Albertsons, and Target.

In this case study you will review Walmart's evolution to cost leadership and its Everyday Low Pricing (EDLP) strategy and how they reshaped the suburban and small-town retail landscapes along the way.

Please review the case study and optional video below and then address the discussion questions.

A Quick History of American Supermarkets

In the early 1900s, grocery shopping in the United States looked very different from today. Small, often family-owned local stores carried a limited assortment of goods.

You should remember that this was a time before families owned cars and usually did not own a refrigerator either. As a result, local consumers walked to their local shops most days to purchase food for their daily needs. Their daily shopping included visiting multiple specialized stores, such as a butcher, a fruit and vegetable stand, and a bakery.

However, after World War II, there was an economic boom and car ownership soared, enabling families to easily travel distances. This change in transport ability led to families seeking convenience. This cultural shift accelerated the growth of large scale grocery stores and supermarkets, which had started opening in the 1920s and 1930s (in the US market).

Along with in-store innovations such as shopping carts, advanced refrigeration, and frozen foods, by the 1950s supermarkets had become a cultural norm and eroding the market share of local stores. It was at this time that US-based chains like Kroger, Safeway, and A&P increased their competitive position.

At this time, these supermarket chains positioned themselves around lower prices (achieved by purchase volumes) and the convenience of purchasing all the household's required goods at one store, while the local independent stores often positioned themselves around personalized service, customer relationships, and local community connections and suppliers.

The Founding of Walmart and Their Initial Strategy

Sam Walton opened the first Walmart in 1962. Initially he focused on the market gaps by locating Walmart stores in smaller towns that the larger national chains did not see as viable or large enough.

Walmart also adopted a discounting concept from the outset of their operations. They utilized cost-cutting measures such as plain store designs and minimal staff (which is similar to Aldi supermarket's current growth strategy).

After two decades of continued success and store openings across the country, Walmart opened its first supercenter in 1988 (which is a store that combines a full grocery department with a traditional non-food discount store).

In their superstores, shoppers were able to find a wide selection of groceries, fresh produce, meat, and dairy items while also picking up clothing, electronics, and household essentials at the same time. This cross-merchandising mix strategy has positioned Walmart a one-stop shop that meets virtually all consumer needs under a single roof.

Walmart's timing fitted well with the changing marketing environment. For example, the American economy was shifting further toward suburban living, increasing the importance of convenience even more. As of course, cost-focused grocery shopping was gaining popularity due to periodic economic pressures.

Everyday Low Pricing (EDLP) and Cost Leadership

One of the cornerstones of Walmart's success is its Everyday Low Pricing (EDLP) strategy. This means that rather than offering temporary discounts or frequent sales promotions - that require additional advertising and logistical planning - EDLP maintains consistently low prices year-round.

This appeals to consumers who dislike the hassle of chasing weekly specials or using coupons. Plus they have the peace-of-mind that they can anticipate predictable prices on essentials, which is especially attractive in times of economic uncertainty or inflation.

The EDLP model also streamlines operations. With fewer large sales events to coordinate, Walmart can better manage inventory and avoid price fluctuations. At the same time, suppliers benefit from more predictable purchase orders, enabling them to plan production more accurately.

EDLP is fundamentally part of a "cost leadership" approach, which is a marketing strategy where a company aims to be the lowest-cost producer in its industry. By controlling expenses and achieving high operational efficiency, Walmart can pass these savings onto shoppers, undercut competitors, and remain profitable even with quite thin margins.

For information, the key elements of its cost leadership implementation includes:

- **Large Scale Purchasing**: Because Walmart sells goods in enormous volumes, it can negotiate favorable terms with suppliers (often at prices lower than those its competitors pay).
- **Distribution Efficiency**: Walmart invests heavily in logistics, using regional distribution centers, cross-docking methods, and just-in-time inventory systems to keep shelves stocked without tying up capital in excess inventory.
- **Store Size and Standardization**: Walmart large supercenters are designed with a familiar layout, reducing store planning costs. Standard designs also make building and remodeling processes more efficient.
- **Economies of Scale**: As Walmart now has over 4,600 U.S. stores, a vast private fleet of trucks, and advanced distribution centers, Walmart is able to move enormous volumes of merchandise quickly and relatively cheaply. In other words, the more it sells, the cheaper its per-unit cost to transport, store, and handle each item.
- **Supplier Bargaining Power**: As US's largest supermarket chain and a top retailer for many non-grocery items as well, Walmart wields considerable bargaining power. This enables them to gain: volume discounts on large-scale purchases, improved logistical requirements (Walmart can insist that suppliers package products in a way that fits its store layouts), and improved marketing contributions (where suppliers invest in promotions within Walmart's stores, such as product discounts).
- **Private Label Offerings:** Another part of Walmart's EDLP strategy is their use of private label brands. Their private label offerings encompass a wide range of products usually priced below name-brand equivalents.

Just-in-Time Retailing

Walmart's ability to keep shelves stocked with minimal inventory holding costs has been another key driver of its success. One of its most famous logistical systems is **cross-docking.** Cross-docking is the process of moving products directly from incoming trucks to outgoing store-bound trucks with little or no storage in between. This reduces the need for large warehouses, cuts labor costs, and ensures goods reach stores faster.

Walmart was also an early adopter of sophisticated inventory management software that tracks sales in real time. When a product's barcode is scanned at checkout, data is relayed back to the distribution center and sometimes directly to the supplier. This near-instant feedback allows for:

- **Efficient Replenishment**: Stores can reorder goods automatically based on customer demand.
- **Reduced Stock-Outs**: Popular items are restocked quickly to maintain availability.
- **Cost Control**: Minimizing unsold inventory lowers storage and spoilage costs, particularly critical for perishable groceries.

And over the last decade or so, Walmart has made major investments in automation, using robots in stores for shelf scanning and cleanliness, as well as deploying advanced robotic systems in distribution centers. By acquiring companies specializing in warehouse robotics, Walmart is looking to automate a significant portion of its fulfillment operations, particularly for online grocery orders. Obviously automated picking cuts down on labor expenses and allows for faster, more accurate service.

How Walmart has Impacted Small Towns and Small Players

As highlighted above, Walmart's business model evolved along with the emergence of suburban shopping centers. Initially, Walmart targeted mid-sized towns where it faced little competition from big-city retailers.

However, not all communities have celebrated Walmart's arrival. Some small towns have seen their local "Main Street" businesses, including independent grocers and most other stores struggle to match Walmart's pricing. Over time, some local shops closed, shifting the town's center of commerce from historic downtown areas to the outskirts where Walmart often sets up operations.

Critics argue that Walmart's scale and bargaining power has led to an unlevel playing field. When Walmart negotiates lower prices from suppliers, smaller stores lack the purchasing volume to secure those same discounts. This "waterbed effect" means that if a supplier lowers costs for Walmart, it may have to raise prices for other customers to maintain overall profit margins.

Walmart Video Case Study

This is a helpful video to build upon the above case study information.

Student Discussion Questions

1. Walmart's offers lower prices as a centerpiece of its offering, but what other non-price factors (like store atmosphere, product variety, or customer service) might also drive their customer loyalty?

2. In what ways does Walmart ensure it remains the lowest-cost producer in the market? Can other retailers replicate these tactics easily? Why or why not?

3. How do cross-docking, just-in-time inventory, and real-time sales data help Walmart keep prices low and store shelves fully stocked?

4. Why are private label brands important to Walmart's EDLP approach?

5. Many local residents appreciate the convenience and low prices Walmart provides, while others lament the decline of independent stores. How can communities balance these conflicting perspectives?

6. Explain the "waterbed effect" in simple terms. Do you think suppliers charging more to smaller retailers is inevitable if Walmart negotiates better deals?

7. Does Walmart's relentless pursuit of cost savings raise any ethical concerns regarding supplier treatment, labor conditions, or community impact?

8. If you were advising a smaller supermarket chain, what strategies or niches could they adopt to compete against Walmart's EDLP and cost leadership model?