

HOW WALMART MANAGED ITS VALUE CHAIN TO ACHIEVE A LOW-COST ADVANTAGE OVER RIVAL SUPERMARKET CHAINS

Walmart has achieved a very substantial cost and pricing advantage over rival supermarket chains by both revamping portions of the grocery retailing value chain and out managing its rivals in efficiently performing various value chain activities. Its cost advantage stems from a series of initiatives and practices:

- Instituting extensive information sharing with vendors via online systems that relay sales at its checkout counters directly to suppliers of the items, thereby providing suppliers with real-time information on customer demand and preferences (creating an estimated 6 percent cost advantage).
- Pursuing global procurement of some items and centralizing most purchasing activities so as to leverage the company's buying power (creating an estimated 2.5 percent cost advantage).
- Investing in state-of-the-art automation at its distribution centres, efficiently operating a truck fleet that makes daily deliveries to Walmart's stores, and putting assorted other cost-saving practices into place at its headquarters, distribution centres, and stores (resulting in an estimated 4 percent cost advantage).
- Striving to optimize the product mix and achieve greater sales turnover (resulting in about a 2 percent cost advantage).
- Installing security systems and store operating procedures that lower shrinkage rates (producing a cost advantage of about 0.5 percent).
- Negotiating preferred real estate rental and leasing rates with real estate developers and owners of its store sites (yielding a cost advantage of 2 percent).
- Managing and compensating its workforce in a manner that produces lower labour costs (yielding an estimated 5 percent cost advantage).

Altogether, these value chain initiatives give Walmart an approximately 22 percent cost advantage over Kroger, Safeway, and other leading supermarket chains. With such a sizable cost advantage, Walmart has been able to under-price its rivals and become the world's leading supermarket retailer.

Sources: www.walmart.com ; and Marco Iansiti and Roy Levien, "Strategy as Ecology," Harvard Business Review 82, no. 3 (March 2004), p. 70.