

DISCUSSION QUESTIONS

1. What do we mean by strategy? How is a business model different from a strategy?
2. What do you think are the sources of sustained superior profitability?
3. What are the strengths of formal strategic planning? What are its weaknesses?
4. Can you think of an example in your own life where cognitive biases resulted in you making a poor decision? How might that mistake have been avoided?
5. Discuss the accuracy of the following statement: Formal strategic planning systems are irrelevant for firms competing in high-technology industries where the pace of change is so rapid that plans are routinely made obsolete by unforeseen events.
6. Pick the current or a past president of the United States and evaluate his performance against the leadership characteristics discussed in the text. On the basis of this comparison, do you think that the president was/is a good strategic leader? Why or why not?

CLOSING CASE

The Evolution of Wal-Mart

Wal-Mart is one of the most extraordinary success stories in business history. Started in 1962 by Sam Walton, Wal-Mart has grown to become the world's largest corporation. In 2014, the discount retailer—whose mantra is “Everyday low prices”—had sales of more than \$475 billion, close to 11,000 stores in 27 countries, and more than 2.2 million employees. Some 8% of all retail sales in the United States are made at a Wal-Mart store. Wal-Mart is not only large; it is also very profitable. Between 2005 and 2014, the company's average ROIC was 14.1%—better than its well-managed rivals, Costco and Target, which earned 11.8% and 11%, respectively.

Wal-Mart's persistently superior profitability is based on a number of factors. In 1962, Wal-Mart was one of the first companies to apply the self-service supermarket business model developed by grocery chains to sell general merchandise. Unlike rivals such as K-Mart and Target that focused on urban and suburban locations, Sam Walton's Wal-Mart concentrated on small, southern towns that were ignored by its rivals and which had enough demand to support one large discount store. Walton realized that, in rural America, people would drive an hour to Wal-Mart in a small town rather than

drive 2 to 3 hours to a major city. This meant that a small town with a population of 25,000 actually had a catchment area containing 100,000 people.

Wal-Mart grew quickly by pricing its products lower than those of local retailers, often putting them out of business. By the time its rivals realized that many small towns could support one large discount general merchandise store, Wal-Mart had already pre-empted them and had spread out to small towns across America.

Over time, the company became an innovator in information systems, logistics, and human resource practices. Actions taken in these functional areas resulted in higher productivity and lower costs as compared to rivals, which enabled the company to earn a high ROIC while charging low prices. Wal-Mart led the way among U.S. retailers in developing and implementing sophisticated product-tracking systems using bar-code technology and checkout scanners. This information technology enabled Wal-Mart to track what was selling and adjust its inventory accordingly so that the products found in each store matched local demand. By avoiding overstocking, Wal-Mart did not have to hold periodic sales to shift unsold inventory. Over time, Wal-Mart

linked its information system to a nationwide network of distribution centers in which inventory was shipped from vendors, and then shipped out on a daily basis to stores within a 400-mile radius. The combination of distribution centers and information systems enabled Wal-Mart to reduce the amount of inventory it held in stores, and thus to devote valuable space to selling and to reduce the amount of capital it had tied up in inventory.

With regard to human resources, Sam Walton set the tone. He held a strong belief that employees should be respected and rewarded for helping to improve the profitability of the company. Underpinning this belief, Walton referred to employees as “associates.” He established a profit-sharing plan for all employees and, after the company went public in 1970, a program that allowed employees to purchase Wal-Mart stock at a discount to its market value. Wal-Mart was rewarded for this approach by high employee productivity, which translated into lower operating costs and higher profitability.

As Wal-Mart grew, its sheer size and purchasing power enabled it to drive down the prices that it paid suppliers and to pass on those savings to customers in the form of lower prices—which enabled Wal-Mart to gain more market share and hence lower prices even further. To take the sting out of the persistent demands for lower prices, Wal-Mart shared its sales information with suppliers on a daily basis, enabling them to gain efficiencies

by configuring their own production schedules for sales at Wal-Mart.

By the 1990s, Wal-Mart was already the largest seller of general merchandise in the United States. To keep growing, it started to diversify into the grocery business, opening 200,000-square-foot supercenter stores that sold groceries and general merchandise under the same roof. Wal-Mart also diversified into the warehouse club business with the establishment of Sam’s Club. The company began expanding internationally in 1991 with its entry into Mexico. Today, Wal-Mart generates \$175 billion in foreign sales.

For all its success, Wal-Mart is now encountering very real limits to profitable growth. The U.S. market is saturated, and growth overseas has proved more difficult than the company hoped. The company was forced to exit Germany and South Korea after losing money there, and it has faced difficulties in several developed nations. Moreover, rivals Target and Costco have continued to improve their performance, and Costco in particular is now snapping at Wal-Mart’s heels.

Sources: “How Big Can It Grow?” *The Economist* (April 17, 2004): 74–78; “Trial by Checkout,” *The Economist* (June 26, 2004): 74–76; Wal-Mart 10-K, 2013, www.walmartstores.com; R. Slater, *The Wal-Mart Triumph* (New York: Portfolio Trade Books, 2004); “The Bulldozer from Bentonville Slows; Wal-Mart,” *The Economist* (February 17, 2007): 70; K. Perkins, “Wal-Mart still faces challenges, but its scale should allow it to compete amid fierce rivalry,” *Morningstar*, December 2, 2014.

CASE DISCUSSION QUESTIONS

1. What was Sam Walton’s original strategic vision for Wal-Mart? How did this enable the company to gain a competitive advantage?
2. How did Wal-Mart continue to strengthen its competitive advantage over time? What does this teach you about the source of a long-term competitive advantage?
3. By the early 1990s, Wal-Mart was encountering limits to growth in the US. How did it overcome these limits to growth? Explain how the expansion moves that Wal-Mart made in the 1990s made economic sense and helped to create value for the company’s shareholders.
4. Wal-Mart is once again encountering limits to growth. Why do you think this is the case? What might Wal-Mart do to push back these limits?
5. How much of Wal-Mart’s strategy do you think was planned at the outset, and how much evolved over time in response to circumstances? What does this suggest to you about the nature of strategy development?