WHAT IS STRATEGY?
Wal-Mart Stores, Inc and It's Expansion

ウォルマートの戦略を事例として

Paul ETOGA

Summary

Strategy, 战略と言う語はギリシア語の〈stratēgos〉そして〈stratos〉から来た。それは軍隊において勝つための戦略と言う意からである。ビジネスにおける戦略とは「利潤の増大」をはかるには、どのような方法があるか？ と言うことである。ウォルマートはそれを次の6点に整理したのである。

（1）競争相手の無い所へ出店した。
（2）様々な種類の店を建設した。例えば、スーパーマーケット、ハイパーマーケット、サムスクラブ、スーパーセンターである。
（3）最も成功した方法は、スーパーセンターであった。その特徴はデスカウントショップとスーパーマーケット一緒にしたものである。そこで出した具体的な戦略は ①低価格、②お客様に絶対満足を与える、③もし、購入したものが不満であるならばいつでも返品可能である。チェーン店ならばどの店でも可である。
（4）マネジメントシステムは、全員平等主義を正っている。誰でも会社の方がより上に提言しやすい平等の立場を保障している。これにより会社内の創造力を取り出せる。
（5）社員を全員株主として愛社精神を高めた。
（6）サテライトシステムを導入して世界どこでも必要な会議ができるようにした。このシステムにより、即時対応できる体制が整った。それにより市場対応がより速くなった。

この戦略の中には、単にウォルマートの成功だけでは無く、一般企業が成功する全ての要因が含まれている。

<Key Words>
I. Introduction

A. Definition

The word strategy comes from Greek: strategos, of stratos "army" and agein "to lead". This meaning leads to the word strategist: a person skilled in planning, especially of military movements; then to strategy: defined as the art of planning in advance the movements of armies or forces in war. It is also defined as a particular plan for gaining success in a particular activity, a war, a game, or a competition or for personal advantage.\(^1\)

From the definition above rise expressions such as leading, planning in advance, movements, and gaining success. In the world of business, all these expressions are used on daily basis.

I acknowledge that, this paper main objective is to bring into light the concept of strategy, without which no business can cope with competition. That means every company needs to have a plan of action that singles it out from other companies. Through Wal-Mart, I intend to show how a strategy is built, that is the only reason why I voluntarily decided to look into this company from its birth until 1993.

Thus, this paper is organized as follow: Part I is the introduction within which the definition of the word strategy is included. Part II presents the general view of the Wal-Mart stores; part III briefly shows the context from which the company emerged. Part IV focuses on the company management system; while part V deals with the company particularities and part VI is the conclusion.

II. General view

Sam Walton, the founder of Wal-Mart Stores died in April 1992 and left his fortune to his wife and four children. In 1993 as the heirs of Sam Walton, they held spots five through nine with $4.5 billion each in Forbes magazine's annual ranking of the richest Americans.\(^2\) At that time, in 20 years Wal-Mart's return on equity was 35 percent and compound earnings per share growth was about 23 percent. Sales per share square foot were nearly $300. Wal-Mart surpassed the industry average, which was $220 at the end of 1993 it had a market value of $65 billion. Wal-Mart was one the first retailers to invest heavily in information technology.

David Glass and Don Soderquist, CEO and COO, had been running the company since February 1988 when Sam, retaining the chairmanship, turned the job of CEO over to glass. The company went from sales of $16 billion in 1987 to $67 billion in 1993, with earnings more than tripling from $628 million to $2.3 billion.
However, the main issue faced by Glass and Soderquist was how to sustain the company's phenomenal success. In 1993, the company confirmed in a meeting with analysts that 1993 growth in comparable store sales would be in the 7-8 percent. That was the first time the company had fallen under a 10 percent growth rate since 1985.

III. The Discount Retailing Industry Background

Discount retailing stores emerged in the United States in the mid-1950s. They followed the supermarkets, which sold food at very low margins. This approach extended to general merchandise by charging gross margins that were 10-15 percent lower than those of conventional department stores. However, to compensate, discount stores cut cost drastically: fixtures were not luxurious, in-store selling was limited, and ancillary services, such as tailoring, delivery, and credit, were scarce.

Supermarkets had educated people about self-service, so consumers had become better informed since World War II. Manufacturers had intensified advertising on TV and many categories of general merchandise had matured. Government standards also strengthened consumers' self-confidence. Consequently many people wanted to try cheaper products from self-retailers, except for products with big-ticket items.

As a result, discount retailing multiplied with many manufacturers entering the industry at local, regional, or national level. Sales grew at a compound annual rate of 25 percent from $2 billion in 1960 to $19 billion in 1970. The industry continued to grow at an annual of 9 percent, with the number of new stores increasing by 64 percent; and in the 1980s at a rate of 7 percent, but the number of stores only increased by 11 percent. Sales reached $106 billion by 1992, with an increase of 10 percent compared to the previous year. Exhibit A depicts the average economics of discounting in 1990.

In 1962, the year Wal-Mart opened, among the top 10 discounters operating then, not a single one remained in 1993. To name a few, King's Krovette's, Mammoth Mart, W.T Grant, Two Guys, and Woolco, failed or were acquired by survivors. Consequently, the industry became more concentrated: In 1986 the top five discounters accounted for 62 percent of the industry sales, and discount stores companies that operated 50 or more stores accounted for 86 percent the sales. Exhibit B shows the top discounters in 1992. Ames, which acquired Zayre in 1989, filed for court protection in 1990 and emerged from bankruptcy after losing more than $200 million in 1991.
IV. Walt-Mart History

When Sam Walton opened his first Ben Franklin franchise store in 1945, his objective was to provide value. The number of Walton-owned Ben Franklin franchises increased to 15.

However, Sam Walton’s idea of opening stores in small towns was turned down by the Ben Franklin Franchise. After that, Sam and his brother Bud opened the first “Wal-Mart Discount City” store in 1962. Until 1976, he continued to run his various Ben Franklin stores, while he was building Wal-Marts. The company expanded rapidly, first in the South and then into the upper Midwest, the Southwest, and the Southeast.

There were two main aspects behind Sam’s plan for growing Wal-Mart. It began by locating stores in isolated rural areas and small towns, generally with populations between 5,000 and 25,000 people. He said: "Our strategy was to good-sized stores into little one-horse towns which everybody else was ignoring." Nearly one-third of Wal-Mart stores were located in areas that were not served by any of its competitors. Somehow, he was convinced that discounting could work in small towns: "If we offered prices as good as or better than stores in cities that were four hours away by car, people would shop at home." The second part of the plan involved the pattern of expansion, David Glass explained, "we are always pushing from the inside out. We never jump and then backfill."

By 1970, Sam could count 30 discount stores in rural Arkansas, Missouri, and Oklahoma. But the cost of goods sold -almost three-quarters of discounting revenues -rankled. Sam said, "here we were in the boondocks, so we didn’t have distributors falling over themselves to serve us like competitors in larger towns. Our only alternative was to build our own warehouse so we could buy in volume at attractive prices and store the merchandise." Since warehouses, at $5 million or more apiece, were rather capital-intensive, Walton took the company public and raised $3.3 million.

By 1993, 55 percent of Wal-Mart stores faced direct competition from Kmart stores, and 23 percent from Target. However, 82 percent of Kmart stores and 85 percent of Target stores faced competition from Wal-Mart. The company continued to expand, by 1993 it spread through 45 states and counted 1,880 Wal-Mart stores (including 30 Supercenters), 256 warehouse clubs (Sam’s Clubs), 64 warehouse outlets (Bud’s), and four hypermarkets. Sam’s Club was a wholesale/retail cash-and-carry membership warehouse operation. Merchandise was displayed in pallet-size quantities and was sold at wholesale prices. A supercenter was a combination Wal-Mart discount store and supermarket under one roof. Bud’s carried out, damaged, and overrun merchandise and utilized former Wal-Mart discount store locations. The plans for 1993 included 150 new Wal-Mart stores and
65 Sam's Clubs. It also planned to expand or relocate approximately 100 of the older Wal-Mart stores (about half would be made into Supercenters) and 25 Sam's Clubs. **Exhibit C** compares Wal-Mart's performance with that of its competitors; **Exhibit D** summarizes Wal-Mart's history.

### A. Sam's Legacy

Sam Walton died from a long fight with cancer in April 1992, he was 74. He had a philosophy that drove everything in the business: He believed in the value of the dollar and his main obsession was to keep prices below everybody else's. On buying trips, Sam's rule of thumb was that trip expenses should never exceed 1 percent of the purchases, which meant sharing hotel rooms and walking instead of taking taxis.

Sam called his employees associates, the idea that at Wal-Mart they have their own way of doing things. He tried to make life at Wal-Mart unpredictable, interesting, and fun. He spent as much time as possible in his own stores and checking out the competition. He was known to count the number of cars in Kmart and Target parking lots, and tape-measure shelf space and note sale prices in Ames. Sam knew his competitors intimately and copied their best ideas. He had to know Sol Price, who created Price Club, and then reedid the concept with Sam's Club.

Sam said that the most important ingredient in Wal-Mart's success was the way the company treated its associates. If you want the people in the stores to take of the customers, you have to make sure you're taking care of the people in the stores.

There was one aspect of the Wal-Mart culture that bothered Sam from the time Wal-Mart became really successful. "We had lots of millionaires in our ranks. And it just drives me crazy when they flaunt it. Every now and then somebody will do something particularly showy, and I don't hesitate to rant rave about it at the Saturday morning meeting. I don't think that mansions and flashy cars are what the Wal-Mart culture is supposed to be about -serving the customer." (11)

Sam described his management style as "management by walking and flying around." Others at Wal-Mart described it as "management by wearing you down" and "management by looking over your shoulder." On managing people, he said, "You've got to trust them, and then you've got to check up on them." Wal-Mart's partnership with its associates meant sharing the numbers - Sam ran the business as an open book and maintained an open-door policy. The corporate mission was to excel by empowering associates, maintaining technological superiority, and building loyalty among associates, customers, and suppliers.
B. Marketing

Wal-Mart's promotional strategy of "everyday low-prices" meant customers were offered brand-name merchandise for less than in department and specialty stores. When a customer walked into a Wal-Mart store, he or she met by a "People Greeter," an associate who greets customers and hand out shopping carts. Wal-Mart had few promotions - while other major competitors typically ran 50 to 100 advertised circulars annually to build traffic, Wal-Mart offered 13 major circulars per year. At Wal-Mart advertising expense was typically 0.5 percent of sales, versus, 1.8 percent at Kmart, 2.7 percent at Sears, and the 1.2 percent industry average. Wal-Mart's "satisfaction guaranteed" policy meant merchandise could be returned to any Wal-Mart store with no question asked.

Competitive changes in discount retailing were reflected in Wal-Mart's decision to change its marketing slogan from "Always the low price - Always" to "Always low prices - Always." Wal-Mart was very competitive in terms of prices, and its store managers had more latitude in setting prices than did their counterparts in "centrally priced" chains such as Caldor and Venture. A study in the mid-1980s found that when Wal-Mart and Kmart were located right next to each other, Wal-Mart's prices were roughly 1 percent lower; when Wal-Mart, Kmart, and Target were separated by 4 -6 miles, Wal-Mart's average prices were 10.4 percent and 7.6 percent lower, respectively. In remote locations, where Wal-Mart had no direct competition from large discounters, its prices were 6 percent higher than when it was right next to Kmart.

Wal-Mart was known for its national brand strategy, and the majority of its sales consisted of nationally advertised branded products. However, private label apparel made up about 25 percent of apparel sales in Wal-Mart. Wal-Mart gradually introduced several other private label lines in its discount stores such as Equate in health and beauty care and Ol' Roy in dog food. "Sam's American Choice" private food label was introduced in 1991. A year later, there were 40 items in the Sam's line, consisting of products such as cola, tortilla chips, chocolate chip cookies, and salsa. Sam's Choice offered an average 26 percent price advantage over comparable branded products, with the range of the advantage being 9-60 percent. Sam's Choice, considered the company's premium-quality line, also sold in Sam's Clubs (in larger club packs) and Supercenters. Although private label appeared to be a departure from Wal-Mart's national brand strategy, it fit into the corporate mission of providing quality products at lowest possible prices.

In order to replace foreign-sourced goods sold in Wal-Mart stores with American-made goods, Wal-Mart developed its "Buy American" program. A letter was mailed to U.S. manufacturers in 1985 inviting them to participate in the program. In its 1989 annual report, the company stated that it converted or retained over $1.7 billion in purchases, at retail, that would have been placed or produce offshore, and created or retained over
41,000 jobs for the American workforce.

The company leased about 70 percent of Wal-Mart stores and owned the rest. Rental expense accounted for the industry average of 1.8 percent. An average Wal-Mart store was 80,000 square feet. Construction costs were about $20 per square foot. Wal-Mart did not build a discount store at a location where it could not be expanded at a later date. Wal-Mart sales per square foot were $300, compared to Target at $209 and Kmart at $147.

The majority of Wal-Mart stores were open from 9 AM to 9 PM on Sundays. Some Wal-Mart stores and most of the Supercenters were open 24 hours. Sales always met local market condition, and were primarily on a self-service, cash-and-carry basis with the objective of maximizing sales volume and inventory turnover while minimizing expenses. Customers could use Visa, MasterCard, the Discover card, or layaway plan available at each store location.

Wal-Mart stores were organized with 36 departments and offered merchandise such as apparel, shoes, housewares, automotive accessories, garden equipment, sporting goods, toys, pharmaceuticals, and jewelry. Electronic scanning of the Uniform Product Code (UPC) at the point of sale began in Wal-Mart stores in 1983. By the year 1988, UPC scanning was installed in nearly all Wal-Mart stores. Wal-Mart competitors such as Kmart began installing UPC scanning in mid-1986 and finished in 1990, a two-year lag behind Wal-Mart. These scanners, which utilized frequency technology, communicated with the store's computerized inventory system to ensure accurate pricing and improve efficiency. Shelf labeling rather than product price tags was used in many stores. Wal-Mart initiated a system to track refunds and check authorizations, which helped reduce shrinkage, a euphemism for pilferage or shoplifting, by identifying item stolen from one Wal-Mart store, which was submitted for refund at another store.

In order to improve communication between stores, a satellite was launched in 1983, and was later used for video transmissions, credit card authorizations, and inventory control. The satellite allowed sales data to be collected analyzed daily, so managers could immediately learn what merchandise was moving slowly and thus avoid overstocking and deep discounting. From 1987 to 1993, Wal-Mart spent over $700 million on its satellite communications network, computers, and related equipment.

C. Distribution

Wal-Mart's two-step hub-and-spoke distribution network started with a Wal-Mart truck-tractor bringing the merchandise into a distribution center, where it was sorted for delivery to a Wal-Mart store, usually within 48 hours of the original request. A technique known as "cross-docking" enabled goods to be continuously delivered to warehouses,
repacked, and dispatched to stores often without ever sitting in inventory. Merchandise replenishment originated at the point of sale, where information was transmitted via satellite to Wal-Mart headquarters or to supplier distribution centers. About 80 percent of Wal-Mart stores' purchases were shipped from its own 22 distribution centers, opposed to 50 percent for Kmart.

The balance of purchases were delivered directly from suppliers, who stored merchandise for Wal-Mart stores and billed the company when the merchandise left the warehouse. Each store received an average of five full or partial truckloads a week. Because Wal-Mart stores were grouped together, one truck could resupply several on a single trip. Any merchandise that had to be returned was carried back to the distribution center for consolidation. Wal-Mart's trucks were running 60 percent full on backhauls, and its truck fleet consisted of more than 2,000 trucks and 2,500 drivers.

A distribution center was about one million square feet, staffed by 700 associates, operated 24 hours a day, designed to serve the distribution needs of approximately 150 stores, and highly automated. When orders were pulled from stock, a computerized "pick to light" system guided associates to the correct location.

D. Vendor relationships

Wal-Mart eliminated manufacturers' representatives from negotiations with suppliers at the beginning of 1992. They tried unsuccessfully to take the matter to the Federal Trade Commission. The company centralized its buying at the head office, and in 1993, no single supplier accounted for more than 3.7 percent of the company's purchases. Wal-Mart did not employ child labor, and provided safe working conditions.

E. Human resource management

Wal-Mart's culture stressed the key role of associates, who were motivated by more responsibility and recognition than their counterparts in other retail chains. Information and ideas were shared—in individual store associates knew the store's sales, profits, purchases, and markdown. Glass said: "There are no superstars at Wal-Mart. We're a company of ordinary people overachieving."(13) Associates were recognized by suppliers as being totally committed to the company: "Wal-Mart is a lean operation managed by extremely committed people," said an executive at a leading manufacturer.

"It's very exciting being anywhere near these people. They live to work for the glory of Wal-Mart. This may sound like B.S., but it's incredible. Our production, distribution, and marketing people who visit Wal-Mart can't believe it."(14) Associates implemented over 400 suggestions in 1991 resulting in an estimated savings of over $38 million. The "store within a store" emphasis began in 1986 and supported, recognized, and rewarded associates in the management of their own "store within a store" provided associates with
bonuses of up to $200 if their store held shrinkage below the company's goal. Shrinkage was approximately 1 percent of sales in 1990 compared to the industry average of 1.6 percent.

Training at Wal-Mart was decentralized, with management seminars offered at the distribution centers rather than the home office, exposing the store managers to the distribution network. "They know better than to get comfortable, because the company's growth demands that assistants move on average every 24 months. Beth Brock, an Oklahoman who ran a store in California, was an ultimate Wal-Mart warrior, having moved eight times in 10 years with the company. Her reward? Store managers could earn more than $100,000 a year, which went a long way in most towns." (15)

Profit sharing was available to associates after one year of employment. Based on profit growth, Wal-Mart contributed a percentage of every eligible associate's wages to his or her plan, which the associate took when leaving the company - in either cash or Wal-Mart stock. The company added $500 million to employee profit-sharing accounts since 1986, or 9 percent of net income. A Wal-Mart truck in Bentonville joined the company in 1972; in 1992 he had $707,000 in profit sharing. (16) About 50 percent of associates participated in the Wal-Mart stock purchase plan.

F. Management

The Wal-Mart management team was made up of executives in their 40s and 50s who started working for the company after school and rose through the ranks as the company grew. David Glass, president and CEO, was one of the few who started his career outside of Wal-Mart. He worked for Consumers Markets in Missouri after graduating from college, joined Wal-Mart in 1976 as executive VP of finance, and later became chief financial officer. His administrative style emphasized frugality. "He is one of the tightest men on the face of the earth," said an executive VP at Wal-Mart. (17) Glass rented subcompacts and shared hotel rooms with other Wal-Mart executives when he traveled. At headquarters he paid a dime for his cup of coffee like everyone else, although he was very wealthy. -1.5 million Wal-Mart shares were worth $82 million in 1992.

Glass was on the road two or three days per week visiting stores. Since visiting every store was impossible, Glass used the company satellite to talk to employees by speaking into a foot-high microphone on his desk, which was heard in every Wal-Mart across the country. Fifteen regional vice presidents operating from Bentonville, spent about 200 days a year visiting stores. They managed a group of 11-15 district managers who in turn were each in charge of 8-12 stores. They headed out to stores on Monday morning, and returned on Wednesday or Thursday. Friday morning was the weekly merchandise meeting, "I force us to talk about how individual items are selling in individual stores." (18)
According to Glass, "We all get in there and we shout at each other and argue, but the rule is that we resolve issues before we leave."\(^{(19)}\) Guests were often invited to the meeting, and hierarchy did not matter.

V. Expansion and diversification

Wal-Mart started out as discount store chain. In the early 1980s the company began testing several new formats. Wal-Mart opened the first three Sam's Clubs in 1983, and soon after, the first Dot Deep Discount Drugstore in Iowa, and Helen's Art and Crafts store in Missouri. Wal-Mart sold its three Helen's stores in 1988 and its 14 Dot stores in 1990.

In 1987, Wal-Mart opened its first Supercenter. The company borrowed the hypermarket concept, which originated in France in the 1960s, and built four. Each was a combination grocery and general merchandise stores of over 220,000 square feet, carried 20,000 -30,000 items, and had gross margins of 13 -14 percent. Wal-Mart later dropped the Hypermart concept in favor of smaller Supercenter format.

In 1990, Wal-Mart purchased McLane Company, a Texas retail grocery supplier, to service its Supercenters. Wal-Mart also acquired Western Merchandisers, a Wholesale distributor of music, videos, and books, and Phillips Companies, which operated 20 grocery stores in Arkansas.

Wal-Mart developed a chain of close-out stores called Bud's, named for Sam Walton's older brother, James "Bud" Walton, and there were 77 Bud's at the end of 1993. A Bud's store generated $6 -$7 million annually in sales. About 75 percent of Bud's merchandise was Wal-Mart surplus merchandise, and the rest was close-out goods shipped directly from vendors.

A. Sam's Clubs

The operating philosophy at Sam's Club was to offer a limited number of stockkeeping units (SKUs), (about 3,200 versus up to 30,000 for full-size discount store) in pallet-sizes quantities in a no-frills, warehouse-type building. Name-brand merchandise at wholesale prices was offered to members for use in their own operations or for resale to their customers. Sam's was run by a separate team of managers from the discount stores, and were mostly cash-and-carry operations. Both business and individual members paid an annual membership fee of $25. To join as a business member, a valid state/city tax permit or current business license was required; individual members came from group such as the federal government, schools and universities, utilities, hospitals, credits unions, and Wal-Mart share holders. In 1994 there were 325 Sam's Clubs, unlike Wal-
Mart stores they received about 70 percent of its merchandise via direct shipments from suppliers rather than from the company's distribution centers.

Sales at Sam's Club rose 31 percent in 1992 (compared with 43 percent in 1991), the highest of any warehouse club chain (see Exhibit E for the top warehouse clubs by volume). Sam's sales accounted for 39 percent of the industry's volume in 1991. Sam's chose to cannibalize its own sales by opening clubs close to one another in many markets, rather than giving competitors any openings.

Wal-Mart acquired The Wholesale Club in 1991, which operated 28 wholesale clubs in the Midwest. The units were remodeled and incorporated into the Sam's Club network. In November 19993, Sam's Club agreed to acquire 91 of Kmart's 113 PACE clubs.

B. Supercenters

A supercenter was a combination supermarket and discount store under one roof. Wal-Mart largest Supercenters combined a grocery section of 130,000 square feet. The grocery section offered about 17,000 SKUs of food, and the discount section about 60,000 SKUs of non-food items. Limited package sizes and brands were offered to keep costs low, versus the supermarket's strategy of carrying a large assortment of products. Wal-Mart also introduced the "Great Value" private label grocery line consisting of 350 items. Supercenters also contained a bakery, deli, and convenience shops such as portrait studios, and hair salons. A supercenter could count 450 associates, 70 percent of which were full-time.

C. Management challenges

Glass and Soderquist acknowledged that the current Wal-Mart was a different company from the one Sam Walton left. The company has become enormous and the fact that the economy was stagnant presented them with challenges that Sam did not face. "You can't replace a Sam Walton," Glass said, "but he has prepared the company to run well whether he's there or not." Glass top priority was to maintain as much communication with Wal-Mart associates.

The drop in the value of Wal-Mart stock was the highest-profile problem that faced Glass and Soderquist. They held a company-wide satellite broadcast to explain to associates, half of them shareholders, why Wal-Mart stock was down. "There is a lot pressure on management to perform. We have a lot of responsibility to our associates. Right now, we think the stock represents a great buying opportunity. All we have to do is work hark, and the stock will take care of itself." Wal-Mart first went in international in 1994 by way of joint venture with Mexico's
largest retailer, Cifra S.A. Together, they planned to open warehouse clubs, supercenters, and discount stores in the metropolitan areas of Mexico City, Monterey, and Guadalajara. Wal-Mart was also looking closely at ventures in Thailand, China, and Indonesia.

Wal-Mart purchased 122 Woolco stores across Canada from Woolworth Corp. In March 1994. As part of its acquisition proposal, Wal-Mart pledged to offer employment to almost all of Woolco's 16,000 employees.

However, Wal-Mart had to start facing pressure from outside. Small towns groups, accused Wal-Mart of forcing local merchants out of business. In Vermont for example, plans to build the state's first Wal-Mart were tied up court for over two years.

Moreover, Wal-Mart was found guilty of pricing pharmaceutical items below cost in its Supercenter in Conway, Arkansas. Three independent pharmacies won the court case, and Wal-Mart was ordered to stop selling below cost. Glass summed up the new challenges facing Wal-Mart: 'For a lot of years, we avoided mistakes by studying those larger than we were -Sears, J.C. Penny, Kmart," and "When we were smaller, we were the underdog, the challenger. When you're number one, you are a target. You are no longer the hero."'

VI. Conclusion

Wal-Mart executive manager had based their strategy on providing value and establishing new stores in isolated rural areas and small towns. Nearly one-third of Wal-Mart stores were located in areas where there were no competitors. The company experienced different kinds of stores, such as Supermarkets, Hypermarkets, Sam's Clubs and Supercenters. The most profitable were Supercenters, characterized by a combination of Wal-Mart discount stores and Supermarket located under one roof.

By 1993, Wal-Mart stores had spread tremendously and had started to face competition. Wal-Mart competitors were mainly Kmart's stores and Target. Wal-Mart competitive advantage was mostly due to its pricing policy and its strong distribution system. Its pricing strategy was based on "everyday low-price" policy, and "satisfaction guarantee", which meant merchandise could be returned to any Wal-Mart stores with no questions asked. However, Wal-Mart needed to cut its costs to establish this strategy. On adverting for example, expenses represented about 0.5 percent of sales versus 1.8 percent at Kmart, and 2.7 percent at Sears, another competitor, while the whole industry was at 1.2 percent in average.

Wal-Mart did not need to pay middlemen to distribute its products. It used a technique known as "cross-docking". Goods were continuously delivered to warehouses,
repacked and then dispatched to stores without sitting in inventory. When merchandises arrived at the point of sale, the information was transmitted via satellite to Wal-Mart headquarters or supplier distribution centers. Nearly 80 percent of Wal-Mart stores purchases were shipped from its 22 distribution centers, versus 50 percent for Kmart. Inbound logistics was part of costs of goods sold average at Wal-Mart and represented 2.8 percent of sales, versus 4.5 to 5 percent for its competitors. Moreover, the balance of purchase was delivered directly from suppliers, who stored merchandise for Wal-Mart stores and the company was billed when the merchandise has left the warehouse.

For the record, Wal-Mart expansion continued through the year 2002. According to the Wal-Mart Annual Report, the company's strengths in international continued to come from Canada, Mexico and the U.K. The latest was that, in December 27, 2002, Wal-Mart acquired 192,800,000 shares in Japan Seiyu Ltd at 270 yen per share representing an investment of 52.056 billion yen (420 million U.S. dollars), which counted for 34.0% of the company. Its result made Seiyu's largest single shareholder. Wal-Mart acquired its initial 6.1% stake in Seiyu in May 2002, following Seiyu share approval of a proposal granting Wal-Mart a series of options to invest up to 260 billion yen (2.1 billion dollars) in new Seiyu shares by the end of 2007. Exercise options would give Wal-Mart at least a 66.7% stake in Seiyu.

In September 9, 2002, The Wal-Mart Annual Report announced that the strongest categories for the Wal-Mart division were electronics, intimate apparel, pet supplies, hardware, household chemicals, pharmacy OTC and food.

**EXHIBIT A**

**THE INDUSTRYWIDE ECONOMICS OF DISCOUNTING IN 1990 (% OF SALES)**

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<thead>
<tr>
<th>Category</th>
<th>% of Sales</th>
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<td>License fees and other income</td>
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<td>Cost of goods sold</td>
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<td>Payroll expense</td>
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<tr>
<td>Advertising expense</td>
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<td>Rental expense</td>
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<tr>
<td>Miscellaneous expense</td>
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<td>Operating income</td>
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<tr>
<td>Net income</td>
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</tbody>
</table>

Source: Operating Results of Mass Retail Stores (International Mass Retail Association), Sep.1990.
## EXHIBIT B

**TOP DISCOUNT DEPARTMENT STORES ($Million)**

<table>
<thead>
<tr>
<th>Chain</th>
<th>Sales 1992</th>
<th>sales 1993</th>
<th>% Change from 1992</th>
<th>Number of stores</th>
<th>Average store Size (000 sq ft)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wal-Mart</td>
<td>Ark. $39,414</td>
<td>$49,740</td>
<td>26.2%</td>
<td>1,720 1,880 2,030</td>
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<td>Target</td>
<td>Minn. 10,390</td>
<td>11,743</td>
<td>13.0</td>
<td>463 506 554</td>
<td>110</td>
</tr>
<tr>
<td>Ames</td>
<td>Conn. 2,284</td>
<td>2,123</td>
<td>-7.0</td>
<td>371 309 309</td>
<td>65</td>
</tr>
<tr>
<td>Caldor</td>
<td>Conn. 3,130</td>
<td>2,414</td>
<td>13.3</td>
<td>128 136 150</td>
<td>95</td>
</tr>
<tr>
<td>Bradlees</td>
<td>Mass. 1,831</td>
<td>1,881</td>
<td>2.7</td>
<td>127 126 126</td>
<td>80</td>
</tr>
<tr>
<td>Hills</td>
<td>Mass. 1,750</td>
<td>1,800</td>
<td>2.9</td>
<td>154 154 154</td>
<td>67</td>
</tr>
<tr>
<td>Venture</td>
<td>Mo. 1,718</td>
<td>1,863</td>
<td>8.4</td>
<td>84 93 105</td>
<td>100</td>
</tr>
<tr>
<td>Shopko</td>
<td>Wis. 1,683</td>
<td>1,737</td>
<td>3.2</td>
<td>109 111 117</td>
<td>90</td>
</tr>
<tr>
<td>Rose's Family</td>
<td>N.C. 1,404</td>
<td>1,383</td>
<td>-1.5</td>
<td>217 232 215</td>
<td>43</td>
</tr>
<tr>
<td>D &amp; F</td>
<td>N.C. 1,159</td>
<td>1,297</td>
<td>11.9</td>
<td>1,759 1,885 2,035</td>
<td>7</td>
</tr>
<tr>
<td>Dollar General</td>
<td>Tenn. 921</td>
<td>1,125</td>
<td>22.1</td>
<td>1,522 1,617 1,799</td>
<td>6</td>
</tr>
<tr>
<td>Jamesway</td>
<td>NJ 855</td>
<td>789</td>
<td>-7.7</td>
<td>122 108 94</td>
<td>60</td>
</tr>
</tbody>
</table>

NA: Not available.
Wal-Mart: sales are for discount stores only
Kmart: Sales are U.S. Kmart discount stores only, excluding Super Kmart and other specialty retailers.
Rose’s: Filed for Chapter 11 protection in 1993.

## EXHIBIT C

**FINANCIAL PERFORMANCE OF SELECTED DISCOUNTERS (%)**

<table>
<thead>
<tr>
<th></th>
<th>Five-year Average*</th>
<th>1993 or Latest 12 Months</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Return On Equity</td>
<td>Sales Growth</td>
</tr>
<tr>
<td>Wal-Mart</td>
<td>31.2</td>
<td>28.2</td>
</tr>
<tr>
<td>Kmart</td>
<td>13.8</td>
<td>8.1</td>
</tr>
<tr>
<td>Target</td>
<td>15.8</td>
<td>10.5</td>
</tr>
<tr>
<td>Venture Stores</td>
<td>28.7</td>
<td>6.8</td>
</tr>
<tr>
<td>Shopko Stores</td>
<td>18.7</td>
<td>9.7</td>
</tr>
<tr>
<td>Family Dollar</td>
<td>21.5</td>
<td>14.4</td>
</tr>
<tr>
<td>Dollar General</td>
<td>16.1</td>
<td>8.7</td>
</tr>
</tbody>
</table>

NM: Not meaningful.
*Five-year growth rates are based on 1993 or latest fiscal year-end results.
EXHIBIT D
WAL-MART STORES, INC. ($ Million)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Operation Flows</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net sales (in $)</td>
<td>4,667</td>
<td>6,401</td>
<td>8,451</td>
<td>11,909</td>
<td>15,959</td>
<td>20,649</td>
<td>25,811</td>
<td>32,602</td>
<td>43,887</td>
<td>55,484</td>
</tr>
<tr>
<td>Licence fees and Other income</td>
<td>36</td>
<td>52</td>
<td>55</td>
<td>85</td>
<td>105</td>
<td>137</td>
<td>175</td>
<td>262</td>
<td>403</td>
<td>501</td>
</tr>
<tr>
<td>Cost of goods sold</td>
<td>3,418</td>
<td>4,722</td>
<td>6,361</td>
<td>9,053</td>
<td>12,282</td>
<td>16,057</td>
<td>20,070</td>
<td>25,500</td>
<td>37,786</td>
<td>44,175</td>
</tr>
<tr>
<td>Operating, selling, General, and administrative expenses</td>
<td>893</td>
<td>1,181</td>
<td>1,485</td>
<td>2,008</td>
<td>2,599</td>
<td>3,268</td>
<td>4,070</td>
<td>5,152</td>
<td>6,684</td>
<td>8,321</td>
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<tr>
<td>Interest cost</td>
<td>35</td>
<td>48</td>
<td>57</td>
<td>86</td>
<td>114</td>
<td>131</td>
<td>138</td>
<td>169</td>
<td>266</td>
<td>323</td>
</tr>
<tr>
<td>Taxes</td>
<td>161</td>
<td>231</td>
<td>276</td>
<td>396</td>
<td>441</td>
<td>488</td>
<td>632</td>
<td>752</td>
<td>945</td>
<td>1,172</td>
</tr>
<tr>
<td>Net income</td>
<td>196</td>
<td>271</td>
<td>327</td>
<td>450</td>
<td>628</td>
<td>837</td>
<td>1,076</td>
<td>1,291</td>
<td>1,608</td>
<td>1,995</td>
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<tr>
<td><strong>Balances</strong></td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current assets</td>
<td>1,006</td>
<td>1,303</td>
<td>1,784</td>
<td>2,353</td>
<td>2,905</td>
<td>3,631</td>
<td>4,713</td>
<td>6,415</td>
<td>8,575</td>
<td>10,198</td>
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<tr>
<td>Property, plant equipment, and capital leases</td>
<td>628</td>
<td>870</td>
<td>1,303</td>
<td>1,676</td>
<td>2,145</td>
<td>2,662</td>
<td>3,430</td>
<td>4,712</td>
<td>6,434</td>
<td>9,793</td>
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<tr>
<td>Current liabilities</td>
<td>503</td>
<td>689</td>
<td>993</td>
<td>1,340</td>
<td>1,744</td>
<td>2,066</td>
<td>2,845</td>
<td>3,990</td>
<td>5,004</td>
<td>6,754</td>
</tr>
<tr>
<td>Long-term debt</td>
<td>41</td>
<td>41</td>
<td>181</td>
<td>179</td>
<td>186</td>
<td>184</td>
<td>185</td>
<td>740</td>
<td>1,722</td>
<td>3,073</td>
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<tr>
<td>Long-term obligations under capital leases</td>
<td>340</td>
<td>450</td>
<td>595</td>
<td>764</td>
<td>867</td>
<td>1,009</td>
<td>1,087</td>
<td>1,159</td>
<td>1,556</td>
<td>1,772</td>
</tr>
<tr>
<td>Common shareholders' equity</td>
<td>735</td>
<td>985</td>
<td>1,278</td>
<td>1,690</td>
<td>2,257</td>
<td>3,008</td>
<td>3,966</td>
<td>5,366</td>
<td>6,990</td>
<td>8,759</td>
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<tr>
<td><strong>Share Information</strong></td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net Income per share</td>
<td>.09</td>
<td>.12</td>
<td>.15</td>
<td>.20</td>
<td>.28</td>
<td>.37</td>
<td>.48</td>
<td>.57</td>
<td>.70</td>
<td>.87</td>
</tr>
<tr>
<td>Dividends per share</td>
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<td>.01</td>
<td>.02</td>
<td>.03</td>
<td>.04</td>
<td>.06</td>
<td>.06</td>
<td>.07</td>
<td>.09</td>
<td>.11</td>
</tr>
<tr>
<td>Book value per share</td>
<td>.33</td>
<td>.44</td>
<td>.57</td>
<td>.75</td>
<td>1.00</td>
<td>1.33</td>
<td>1.75</td>
<td>2.35</td>
<td>3.04</td>
<td>3.81</td>
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<tr>
<td>End-of-year stock price($)</td>
<td>21/2</td>
<td>23/8</td>
<td>4</td>
<td>57/8</td>
<td>61/2</td>
<td>77/8</td>
<td>111/4</td>
<td>151/8</td>
<td>291/2</td>
<td>32</td>
</tr>
<tr>
<td><strong>Financial ratios</strong></td>
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<td></td>
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<td></td>
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<td></td>
</tr>
<tr>
<td>Return on assets</td>
<td>16.5%</td>
<td>16.4%</td>
<td>14.8%</td>
<td>14.5%</td>
<td>15.5%</td>
<td>16.3%</td>
<td>16.9%</td>
<td>15.7%</td>
<td>14.1%</td>
<td>12.9%</td>
</tr>
<tr>
<td>Return on shareholders' equity</td>
<td>40.2%</td>
<td>36.7%</td>
<td>33.3%</td>
<td>35.2%</td>
<td>37.1%</td>
<td>37.1%</td>
<td>35.8%</td>
<td>32.6%</td>
<td>30.0%</td>
<td>28.5%</td>
</tr>
<tr>
<td>No. of stores at end of period Discount stores</td>
<td>642</td>
<td>745</td>
<td>859</td>
<td>980</td>
<td>1,114</td>
<td>1,257</td>
<td>1,399</td>
<td>1,570</td>
<td>1,714</td>
<td>1,850</td>
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<tr>
<td>Sam's Wholesale clubs</td>
<td>3</td>
<td>11</td>
<td>23</td>
<td>49</td>
<td>84</td>
<td>105</td>
<td>123</td>
<td>148</td>
<td>208</td>
<td>256</td>
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<tr>
<td>Supercenters</td>
<td>2</td>
<td>3</td>
<td>3</td>
<td>6</td>
<td>30</td>
<td></td>
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<td></td>
</tr>
</tbody>
</table>

Source: Wal-Mart annual report, Jan.31, 1993; Salomon Brothers; Bloomberg; Value line.
* On beginning-of-year balances.

Notes
(7) Business Week, November 5, 1979, p.145
(8) Business Week, November 5, 1979, p.146
(9) Forbes, August 16, 1982, p.43
(11) Sam Walton, Made in America
(16) Sam Walton, Made in America.
(18) Wendy Zellner, "OK, So He's Not Sam Walton.

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