

## WalMart Case Supplement <sup>1</sup>

### 1 Case Summary

1. Read the case.
2. Various articles on WalMart appear in the popular and semi-academic literature. Reading 1-2 of these recent articles can help you in your write up. Some interesting articles are:
  - (a) “Wal-Mart: Is There a Downside to Going Upscale?” article number 1499 at *Knowledge@Wharton* published in 2006.
  - (b) J. Halepete, K.V. S. Iyer and S. C. Park. 2008. “Wal-Mart in India: a success or failure?”. *International Journal of Retail & Distribution Management*, Vol. 36, No. 9: 701-713.
  - (c) J.R. Brown, R.P. Dant, C.A. Ingene and P.J. Kaufmann. 2005. “Supply chain management and the evolution of the Big Middle”. *Journal of Retailing*, Vol. 81, Iss. 2: 97-105.
  - (d) A. Bianco. 2007. “Wal-Mart’s Midlife Crisis: Declining growth, increasing competition, and not an easy fix in sight”. *Businessweek*, April 30 issue.
3. Write a paragraph to summarize the case.
4. Write at least one paragraph on the most surprising and significant information that you found in the case or articles on WalMart. This can be one of WalMart strategies that you were not aware of before. Or it can relate to WalMart’s supply chain management practices. It can also be about the size of the operations WalMart runs. Explain why this information is new and important for you.

### 2 Comprehension Questions

1. Make a list of types of WalMart stores. Compare these types in terms of their size, what items they sell, their growth potential.
2. It has been mentioned in the case that supercenters require a customer base of only 76,000 people while the same number for the discount stores is 150,000. Since the supercenters are larger than Discount stores, they should require a larger population base to be viable, should not they? Explain why supercenters can be viable with a smaller population.
3. Explain what is “Retail Link”? How do WalMart and its suppliers use Retail Link? What advantages and operational efficiencies does the Retail Link provide to WalMart and its suppliers?
4. On p.7-1.20-22 of the case says:

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<sup>1</sup>This supplement is prepared by Metin Çakanyıldırım (for correspondence: metin@utdallas.edu) to complement and update Harvard Business School case WalMart Stores in 2003, #9-704-430. The ideas presented here are for class discussion so they do not relate to any WalMart policy.

*While WalMart suppliers holding small shares of their respective markets tended to have poorer financial performance when WalMart was one of their primary customers, large-share suppliers performed better financially if they reported WalMart as a primary customer.*

Hence, having WalMart as a customer does not improve the financial performance of the suppliers which are weaker in their markets. Provide an explanation as to why having a strong customer such as WalMart does not help weaker suppliers?

5. David Glass said in 1979 that WalMart always pushed from inside out and it never jumped and then backfilled. What does this strategy of pushing from inside out mean? Does this strategy, in the context Glass meant, apply better in an established industry (such as retailing) or in a dynamic industry (such as retailing or e-commerce), explain.
6. What is the SNP model that WalMart offered to its suppliers? Do you think that the suppliers will be willing to accept this model or they will resist as much as they can? Explain this by listing the disadvantage(s) of the SNP model for the suppliers.
7. What is a private label? Give an example of a private label. When WalMart starts offering an item under its private label, does this hurt the sales of the same item under the original brand name? For example, if WalMart sells a cleaning liquid called "Sam's cleaner", will another cleaning liquid, the Clorox, sales drop at the WalMart? How does this affect the Clorox supplier?

### **3 Update in November 2006: If no strong growth here, where?**

WalMart's revenue growth was strong in the early 2000s. Recently, however, the company has reported smaller annual growth numbers. One of the reasons for growth slow down is the stagnation of the markets WalMart operates in. In particular, the bad news was that October 2006 sales at stores open at least a year – a key retail measure known in industry parlance as "comps" – were tracking below the company's expectations. WalMart managers cited weak demand for trendy skinny-leg pants and its recently launched Metro 7 fashion line, as well as remodeling efforts that have disrupted store sales.

The retail industry analysts think that WalMart's fall 2006 apparel sales are very lackluster. It is particularly the women's clothing segment which has a problem. It is believed that the big mistake that WalMart has made is it has gone too far too fast with their fashion offering.

On the surface, it seems like there is a slowdown in consumer spending at WalMart. But when you look at the details, what it really is that consumers have less to spend after buying high-priced gasoline. Assuming gasoline prices level off, we do not get a really cold winter or a big spike in the cost of home heating oil, WalMart managers are expecting some acceleration of sales trends at WalMart over the next couple months.

1. Consider the income level of WalMart shoppers and explain why gas prices affect WalMart shoppers more than the other customer segments who earn more or less. For example, explain why stores targeting families with annual income of less than \$20,000 or more than \$200,000 are less affected from the gas price increases than WalMart. Provide an argument to convince WalMart shareholders that the currently sluggish sales will pick up as the gasoline prices drop.
2. Even when the gasoline prices drop and the WalMart recovers, it is unlikely that WalMart can reach to its strong growth levels in 2000-2004. Realizing this the WalMart management considers providing financial services to WalMart customers. We need to evaluate this new business opportunity for WalMart.
  - (a) Many banks are providing online financial services and hence they are not increasing the number of their offices. While there is such a trend in the financial world, how can we justify WalMart's initiative of providing financial services at its stores? If WalMart is to provide these services, why does not it provide online services as well? Answer this question by considering the demographics of the WalMart shoppers.

- (b) Explain whether WalMart plans to become a bank on its own or to simply provide elementary financial services. List four of the elementary financial services WalMart provides. You may want to check their web site.
- (c) WalMart's supply chain is designed to push products to downstream and pull the cash upstream. Go back to the previous question and identify how each of the four financial services will alter the direction of the cash flow in the supply chain. Also specify if these services require physical cash transactions.
- (d) When WalMart starts handling cash based transactions, it will need to store and transport cash. Do you think the current WalMart stores can be used to store the cash? Do you think the current WalMart truck fleet can be used to transport the cash? What kind of additions/improvements are needed for the WalMart facilities (stores and trucks)?

## 4 Update in August 2009: Unbanked and Underbanked

It is not hard to imagine that WalMart targets unbanked and underbanked consumer segments with its financial services. Here are some observations from an AITE group study<sup>2</sup> regarding these consumers.

1. . . . consumers remain unbanked for very practical reasons, such as credit, price, cash flow and service issues. Credit problems are an issue for these customers whether real 46% have had credit issues or problems with a previous checking account or imagined 56% of those surveyed fear that banks will garnish their deposits should they run into credit trouble. Over 90% of those AITE surveyed expressed avoidance of bank fees as a key reason that they remain unbanked. . . . the need for liquidity, is paramount for those who live paycheck to paycheck. Many simply cannot afford to deposit their paycheck and then wait for access to their own funds. The requirement of maintaining a minimum balance also ties up funds when these consumers may need to access them. Checking accounts are simply impractical for those for which this is the case.
2. Whereas the average American visits a bank branch 2.9 times per month, the underbanked consumer visits a bank . . . or other location 6.9 times per month, with unbanked consumers transacting only slightly less often at 6.3 times per month.
3. . . . unbanked and underbanked consumers report that they are much more wary of the cost of bank products than they are of the multitude of products marketed by alternative financial services providers. The product that generates the most dissatisfaction and frustration amongst these consumers? . . . fees for bounced checks or debit card overdrafts!
4. While a majority of those studied (53%) fall into the lowincome category (household income less than \$30,000) relative to 35% of the U.S. population occupying that category, the lesser-known fact is that 20% of unbanked and underbanked consumers have incomes higher than \$45,000 with some upwards of \$70,000.
5. . . . in certain segments, . . . check-cashing customers turn out to be more highly educated than the general population particularly the underbanked. Only 9% of [check-cashing customers] . . . customers did not complete high school as compared with 20% of the population at large. And 38% have a high school diploma as opposed to 29% in the general population.

Hopefully, the observations above help you understand the characteristics of the consumer segment that Wal-Mart targets. You can use these characteristics in building your arguments in your report.

## 5 Report Format

Once you are done with above questions, you are ready to write an executive summary in support of or against provision of financial services at WalMart stores. Please include additional ideas or points you feel that are

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<sup>2</sup><http://www.currents-magazine.com/img/phpwcms/Myth%20Busting.pdf>

relevant to make your judgement. But put these into the main body of your report not into the executive summary. Executive summary is for you to clearly express your suggestions. Do not delve into justifications in your executive summary.

You are encouraged to use printed or online resources besides the case write up. There are plenty of reports on WalMart on the Internet. Moreover, you can use UTD library, newspapers and journals to gain insights and formulate ideas. For any resource that you use, you must provide the associated reference. For online resources, please refrain from dynamic links (which include characters like “?, &”) as much as possible.

Put your executive summary onto the first page. Then have at least 2 parts in the body of your report. The first part should deal with the proposition of financial services and the questions posed in Section 3 above. The second part should have your summary of the case, the significant and new information you found out about WalMart, and answers to the comprehension questions posed in Section 2 above. You should spend more time and effort on the discussion of the questions related to financial services proposition. Comprehensive questions are also important but they can be answered in a couple of sentences.

The body of your report (including all the figures and tables, but not the executive summary or references) should be at most 8 pages.

The case report is a group exercise. You should do it in groups of 2 or 3. If you cannot arrange to be in a group, please inform the instructor a month in advance of the report’s due date. Please put all of the group member names and email addresses on the report.

## 6 Update in November 2011: Wal-Mart Gets a Money Aisle

Here are some excerpts from the Nov 7, 2011, NYT article titled “High Bank Fees Give Wal-Mart a Money Aisle” by A. Martin and S. Clifford. Wal-Mart appears to have succeeded with the financial services. This was a new idea in 2005 or so. Six years later, it has become a success story. Hence, this case was retired in May 2011 – after its last use in OPRE 6366.

The Wal-Mart here [northeastern Pennsylvania] has a clerk in a brightly painted Money Center near the entrance, like more than 1,000 other Wal-Marts across the country. Customers can cash work and government checks, pay bills, wire money overseas or load money on to a prepaid debit card. At most Wal-Marts without dedicated Money Centers, the financial services are available at the customer service desks or kiosks.

Geoffrey Cardone, a 26-year-old factory worker, said he dumped his bank account because he felt that he was being nicked and dimed by fees. His new payday ritual includes a trip to the Wal-Mart in northeastern Pennsylvania. “Its cheaper,” said Mr. Cardone, who was charged a flat fee of \$3 to cash his paycheck. Many check-cashing stores keep a percentage of the check, which tends to be higher.

Four years ago, Wal-Mart abandoned its plans to obtain a long-sought federal bank charter amid opposition from the banking industry and lawmakers, who feared the huge retailer would drive small bankers out of business and potentially conflate its banking and retail operations. Ever since, Wal-Mart has been quietly building up a la carte financial services, becoming a force among the unbanked and unhappily banked, as one Wal-Mart executive put it.

Daniel Eckert, the head of Wal-Mart Financial Services: “Were not a bank, but we can serve a lot of types of functions you would see someone go into a bank for.” Wal-Mart does not produce the financial products, but sells them on behalf of financial firms. In doing so, the retailer is able to avoid financial regulations. Tien-tsin Huang, an analyst at J.P. Morgan: “Theyve invested in these Money Centers, and theyve been very, very successful; theyve all adopted the low-cost, low-prices model ...”.

Some check-cashing operators say the prices are so low that they cannot imagine how it makes money. Clifford Schein, president of Cliffs Check Cashing in the Dallas area, said his firm charged an average of 1.5 percent of the value of the check to cash it. “Their price is not sustainable to make a profit,” Mr. Schein, said. “If you look at the check cashing itself, its like a dumping price.”