

Walmart's Business Strategy and Financial Analysis Based on Porter's Five Forces Analysis Model and SWOT

Huaiyu Miao *

Department of economic and management, China University of Petroleum, Beijing, Beijing, 102249, China

* Corresponding author: 2020012026@student.cup.edu.cn

Abstract. As one of the world's largest retailers, Walmart holds a crucial position in the retail industry. This article conducts an analysis of Walmart's operational performance to gain an in-depth understanding of its competitive position in the global retail market and identify potential growth opportunities and challenges. Focusing on industry analysis, company strategy, and comprehensive financial performance analysis of Walmart, the study employs SWOT analysis, value chain analysis, and Porter's Five Forces model to dissect Walmart's strategic and asset composition changes, shedding light on its profitability. While Walmart has consistently experienced revenue growth, it faces challenges in maintaining profitability. The debt-to-equity ratio displays a positive trend, indicating a balanced capital structure. However, the liquidity ratio has slightly decreased, warranting attention. The article recommends optimizing inventory management, strengthening digital marketing efforts, and prudently managing long-term debt to enhance Walmart's financial performance and competitive advantage. This article conducts a study of Walmart's operational performance within the retail industry, aiming to provide insights and support for investors and decision-makers in making strategic choices.

Keywords: Walmart, supply chain management, strategic outlook, digital marketing.

1. Introduction

The retail industry is characterized by fierce competition and ever-changing consumer preferences and market conditions. As one of the world's largest retailers, Walmart plays a crucial role in shaping the industry landscape. Founded by Sam Walton in 1962, Walmart has grown into a global retail giant, serving millions of customers daily across various formats, including supercenters, discount stores, and e-commerce platforms. With a presence in numerous countries, Walmart's scale and influence have significantly reshaped the global retail industry.

The objectives of this study are to examine Walmart's operational status, with a particular focus on industry analysis, company strategy, and financial performance. Additionally, it aims to delve into the challenges the company faces and provide recommendations to maintain competitiveness in the ever-evolving retail landscape.

2. Basic Description of Walmart

2.1. Firm Introduction

Walmart is the world's largest retail giant, headquartered in the United States and founded in 1962. Renowned for its "Everyday Low Price" philosophy, it operates over 11,000 stores across 23 countries, offering diverse retail formats such as supermarkets, department stores, warehouse clubs, and e-commerce. Walmart distinguishes itself with its vast scale, efficient supply chain, and private label products, attracting a wide consumer base by providing high-quality, affordable goods. The company actively invests in e-commerce, boasting a robust online sales platform for customer convenience. Furthermore, Walmart has made significant strides in sustainability and social responsibility, committing to reducing environmental impact, supporting community development, and enhancing the sustainability of its global supply chain. As a leader in the retail industry, Walmart continues to innovate and shape the future of retail on a global scale.

2.2. Walmart's Core Strategy

Walmart's core strategy aligns with a cost leadership approach, making it a dominant force in the retail industry. The company's relentless pursuit of operational efficiency, economies of scale, and low prices has allowed it to cater to a broad customer base while maintaining profitability. Through its massive scale, efficient supply chain, private label brands, and technology investments, Walmart consistently offers products at competitive prices. This strategy is encapsulated in its "Everyday Low Prices" (EDLP) approach, ensuring that consumers can count on affordable options without the need for constant sales and discounts.

While cost leadership is central to Walmart's success, the company also incorporates elements of differentiation and focus. Differentiation strategy involves offering products and services that stand out as exceptionally unique within the same industry, thus elevating competitiveness[1]. Walmart owns multiple private labels and is renowned for its "Everyday Low Price" promise. These brands offer high-quality yet affordable products, attracting price-sensitive customers, which is one of the key reasons for Walmart's prominence in the retail industry. In addition to this, Walmart has introduced the "Buy Online, Pick Up in Store" (BOPUS) service, allowing customers to place orders online and then pick up their items at the nearest Walmart store. This service combines the convenience of online shopping with real-time in-store inventory, delivering a unique shopping experience to customers. Walmart's multifaceted strategy combines cost leadership, differentiation, and focus to maintain its position as a retail giant.

2.3. Value Chain Analysis

Walmart provides a diverse range of products and services to its customers through a value chain system. This section analyzes Walmart's value chain from two perspectives: supportive activities and primary activities. Supportive activities are typically not directly related to product manufacturing or service delivery but are crucial to overall operations. Primary activities involve direct engagement in the manufacturing, delivery, and sale of products or services. The close connection between supportive activities and primary activities ensures the coordination of the overall value chain of the enterprise, helping the company identify its competitive advantages and disadvantages in the industry.

2.3.1. Supportive Activities

The supportive activities discussed in this article for Walmart include procurement and technology development. These activities provide support for the primary activities.

1. Procurement

Walmart negotiates with suppliers to secure cost-effective product sourcing and promote sustainability practices. This reduces procurement costs and advances sustainability goals.

2. Technology Development

The company continually invests in e-commerce technology, data analytics, and supply chain automation to improve operational efficiency and enhance the customer experience. Walmart's information management strategy is integrated throughout the entire value chain, using advanced information technology as a means to focus on the flow of information, thereby driving the movement of logistics and funds. Through the integration of global supply chain resources and worldwide customer resources, it achieves the objectives of zero inventory, zero operational capital, and providing customers with a seamless experience[2].

2.3.2. Primary Activities

The primary activities discussed in this article for Walmart include inbound logistics, operations, outbound logistics, marketing and sales and service.

1. Inbound Logistics

Walmart collaborates with international suppliers from around the world to procure a wide range of goods that are sold in its stores, clubs, and online platforms. In the procurement of goods, Walmart adopts a strategy of partnering with local producers, particularly for products in the "fresh" category.

These products are often sourced from producers located near the stores and clubs. This strategic approach not only enhances the freshness of the products but also adds cost-effectiveness to the supply chain.

2. Operations

Walmart's operational processes are finely tuned through effective automation systems, ensuring cost-effective product storage and handling. Walmart continually expands its offering of pickup and delivery services. As of January 31, 2023, Walmart International had over 2,900 pickup locations and approximately 2,500 delivery locations. This combination of operational efficiency and pickup or delivery services, in alignment with Walmart's omni-channel strategy, enables the company to operate efficiently and cost-effectively, providing a convenient and seamless omni-channel shopping experience.

3. Outbound Logistics

The outbound logistics phase involves the distribution of various products from Walmart's warehouses to its numerous stores, clubs, and various sales channels, catering to its customers. Walmart has expanded its presence in global markets, offering diverse shopping options, including pickup and delivery services in countries like India, and leveraging digital transaction platforms such as PhonePe. Additionally, Walmart has expanded its marketplace in Mexico and Canada, unlocking fulfillment and advertising services. In China, Walmart's partnerships with JD.com and JD Daojia continue to drive growth in e-commerce. This series of developments in outbound logistics and omni-channel strategies enables Walmart to efficiently and swiftly deliver products to customers, meet customer demands, provide high-quality customer service, and further enhance its competitive edge.

4. Marketing and Sales

Walmart employs robust marketing campaigns, customer loyalty programs, and data analytics to execute personalized marketing strategies. This helps attract and retain customers, ultimately driving sales. Walmart significantly reduces costs by coordinating internal logistics and sales activities, as well as substituting various advertising and promotional activities, from the perspective of internal linkages[3].

5. Service

Walmart has consistently strived to offer customers more choices and value to meet their evolving needs. To achieve this, they continuously expand their service offerings, such as financial services, automotive maintenance and repair, and online shopping and delivery. These diversified services not only contribute to increasing Walmart's revenue but also strengthen its connection with customers, enhancing the overall customer experience. By continually expanding its service portfolio, Walmart remains committed to meeting the diverse needs of various customer segments, maintaining its leadership position in the retail industry.

3. Industry Dynamics

3.1. Porter's Five Forces Analysis

3.1.1. Threat of New Entrants

In the retail industry, new entrants often face high capital requirements and complex market entry barriers, which can mitigate the threat from existing competitors. Walmart, as a massive global retail giant, enjoys significant economies of scale and supply chain advantages, making it challenging for other companies to easily enter the market. Furthermore, Walmart's well-established presence in the global retail market provides it with brand recognition and customer loyalty. Therefore, the threat of new entrants is considered to be low.

3.1.2. Bargaining Power of Suppliers

In Walmart's value network, it is of vital importance to establish mutually beneficial relationships with suppliers. Given Walmart's vast scale, it possesses the capability to seek alternative suppliers for product manufacturing, thereby weakening supplier bargaining power during negotiations. Through

a strategic partnership model, Walmart promptly shares information with suppliers and integrates their technology, costs, and management into its own information systems, all while sharing store data. This information sharing also enables suppliers to better forecast market demands, thus aligning their offerings more effectively with Walmart's needs. Furthermore, for its private-label agricultural products, Walmart has formed alliances with producers by leasing farmland and employing farmers, promoting sustainable agriculture and supply chain stability[4]. This relationship results in relatively lower bargaining power for suppliers but offers both parties the opportunity for long-term collaboration and mutual development.

3.1.3. Bargaining Power of Buyers

With the rise of the new retail trend, leveraging the distinct advantages of both online and offline realms and promoting their integration has become the norm in the new retail industry[5]. To increase online traffic, Walmart joined the JD.com platform as an official flagship store[6]. Subsequently, Walmart independently developed the Walmart app, which ensures a certain level of demand and has gained a substantial user base[7].

Walmart has a vast customer base, but individual shoppers often have limited bargaining power, primarily due to the unique characteristics of the retail industry. Firstly, the retail market typically features numerous substitute products and services. If individual shoppers are dissatisfied with a particular retailer's prices, they can easily find alternative retailers offering similar products, thereby reducing the leverage for individual bargaining. Secondly, many retail products exhibit significant similarities in terms of quality and features, making it challenging for individual shoppers to identify substantial differences that would support effective price negotiations. Additionally, the rise of the internet and e-commerce allows individual shoppers to quickly compare prices and product features among different retailers, making it easier to find the lowest prices and diminishing the need for individual bargaining at specific retailers. However, Walmart's overall customer base possesses greater bargaining power because Walmart places a strong emphasis on meeting customer needs. This enables Walmart to negotiate more favorable prices with suppliers and provide lower prices to consumers.

3.1.4. Threat of Substitutes

In the retail industry, especially in the digital age, various substitutes exist. Some online retail platforms like Amazon have attracted consumers with their extensive product selection and convenient shopping experiences, intensifying competition. However, for certain product categories, consumers still value the in-person shopping experience. For instance, when it comes to food and fresh produce, consumers tend to prefer physically selecting items in brick-and-mortar stores, as they can inspect the freshness and quality of products. Additionally, high-value items such as home decor and furniture often require consumers to personally observe and compare products in physical stores to ensure they meet their needs. Therefore, while some internet-based direct-to-consumer brands offer high-quality shopping options in the new era, Walmart retains its significant scale and comprehensive capabilities, positioning the threat of substitutes at a moderate level.

3.1.5. Competitive Rivalry

Walmart, as a leader in the retail industry, operates in a highly competitive landscape with numerous competitors, including online giants like Amazon and major retailers such as Target. Price wars and continuous innovation are commonplace in this industry. However, Walmart maintains a competitive edge through a multifaceted approach. Its extensive network of physical stores attracts consumers who prefer in-person shopping, particularly for high-value items like groceries, fresh produce, and home goods. High supply chain efficiency helps sustain competitive pricing, allowing Walmart to stand out in price competition. Furthermore, its diversified product portfolio spans various categories, enhancing customer loyalty and appealing to a wide customer base. Despite competitive pressures, Walmart remains a dominant force in the retail industry, thanks to its innovative marketing strategies and solid market position.

3.2. SWOT Analysis

SWOT analysis is a powerful tool for assessing an organization's internal and external environment. This section conducts a SWOT analysis for Walmart to identify its strengths, weaknesses, opportunities, and threats[8].

3.2.1. Strengths

Walmart has an extensive international presence, providing economies of scale. The company offers a wide range of products, attracting a broad customer base. Walmart's supply chain management is highly efficient, resulting in cost savings and competitive pricing. Walmart is a well-recognized and trusted brand, enhancing customer loyalty. The company has made significant strides in e-commerce, expanding its online presence and sales. Besides, Walmart has embraced environmentally conscious marketing principles, actively reducing energy consumption in areas such as water, electricity, and plastic bag usage. As a result, it has emerged as a globally renowned leader in energy efficiency and environmental sustainability, thereby cultivating a highly favorable brand image in the minds of consumers[9]. A strong brand image enhances customer loyalty. Customer loyalty is more crucial for profit determination than market share: when customer loyalty increases by 5 percentage points, the profit increase can range from 25% to 85%. This conclusion was reached by American economists Reichheld and Sasser[10].

3.2.2. Weaknesses

As a large-scale company, Walmart has made strides in the field of e-commerce, but its core revenue still predominantly relies on physical retail stores. The rise of online retail and e-commerce has altered consumer shopping habits, exerting competitive pressure on brick-and-mortar sales. Consequently, Walmart must continually innovate to provide a more enticing in-store shopping experience for consumers and seamlessly integrate physical stores with online operations. Additionally, Walmart operates in diverse international markets, necessitating adaptation to various regulations, cultures, and economic conditions. Different countries and regions present distinct regulatory landscapes, business environments, and culturally diverse backgrounds, influencing consumer demands. Walmart must exhibit flexibility in response to this international market diversity, implement localized strategies, and ensure compliance with local regulations and laws.

3.2.3. Opportunities

Walmart is presented with numerous growth opportunities. Firstly, the continuous expansion of online retail offers Walmart a chance to bolster its digital presence. By leveraging its e-commerce platform, the company can tap into the ever-growing online market, providing convenience and a diverse product range. This strategic move aligns with evolving consumer preferences and enhances Walmart's overall growth prospects. Furthermore, Walmart has the opportunity to expand its footprint in emerging markets. These markets offer access to untapped consumer bases, and Walmart's global brand recognition can attract customers in these regions. Entering emerging markets is in line with Walmart's growth strategy and enables the exploration of new customer segments. Last but not least, Walmart can tap into the increasing demand for sustainable and environmentally-friendly products. Consumer preferences are shifting towards sustainability, presenting an opportunity for Walmart to develop and promote eco-friendly products. Embracing sustainability aligns with prevailing consumer trends and opens up new revenue streams for the company.

3.2.4. Threats

Intense competition from online giants like Amazon and other major retailers can potentially erode Walmart's market share. These competitors boast vast online platforms and global influence, capable of attracting consumers and providing an extensive product selection. Walmart needs to proactively maintain and expand its market share to counter the impact of these rivals. Furthermore, economic downturns may lead to reduced consumer spending, thereby affecting retail sales. Such as the COVID-19 pandemic, can trigger disruptions in the supply chain. Therefore, Walmart needs to

establish crisis management plans to ensure business continuity during economic uncertainties and supply chain interruptions.

4. Financial Analysis

4.1. Balance Sheet Analysis

Table 1. A Portion of the Balance Sheet

Million Dollar	2023	2022	2021
Cash and cash equivalents	8,625	14,760	17,741
Inventories	56,576	56,511	44,949
Property and equipment, net	100,760	94,515	92,201
Long-term debt	34,649	34,864	41,194
Retained earnings	83,135	86,904	88,763

4.1.1. Asset Composition

Walmart's asset composition underwent significant changes from 2021 to 2023. Current assets decreased by approximately 1.19 times. As shown in Table 1, this decline was primarily driven by a reduction in cash and cash equivalents. Walmart's decrease in cash and cash equivalents suggests potential plans for other investments or debt repayment. The relatively stable inventory levels with a slight increase may be related to sales growth or supply chain challenges. The year-over-year increase in net property and equipment indicates the company's investment in capital expenditures.

4.1.2. Liabilities and Equity

The maintenance of long-term debt at relatively stable levels may benefit from lower borrowing costs. The declining retained earnings year by year require additional attention from Walmart to ensure the maintenance of profitability and shareholder equity.

4.2. Income Statement Analysis

Table 2. A Portion of the Income Statement

Million Dollar	2023	2022	2021
Revenue Growth	611,289	572,754	559,151
Gross Profit Margin	23.48%	24.52%	24.31%
Operating Income Margin	3.34%	4.53%	4.03%
Net Profit Margin	1.85%	2.43%	2.45%

4.2.1. Revenue Growth

As shown in Table 2, Walmart experienced consistent revenue growth. This growth can be attributed to the company's ability to adapt to changing consumer preferences, especially during the COVID-19 pandemic, which accelerated e-commerce sales.

4.2.2. Profitability Margins

While revenue grew, profitability margins faced challenges. Gross profit margins decreased slightly from 2021 to 2023, potentially due to competitive pricing or cost pressures in the supply chain. Operating income margins followed a similar trend, suggesting challenges in controlling operating expenses. The net profit margin also decreased, indicating that increased expenses impacted profitability. These trends may be linked to Walmart's strategic investments in e-commerce and logistics.

4.3. Ratio Analysis

The debt-to-equity ratio decreased from 0.471 in 2021 to 0.431 in 2022 and further to 0.413 in 2023, indicating a shift towards a more balanced capital structure. Walmart's current ratio remained above 1, indicating liquidity to meet short-term obligations. It decreased slightly from 0.97 in 2021 to 0.93 in 2022 and further to 0.82 in 2023.

The quick ratio showed a decrease but remained above 1, indicating liquidity even when excluding inventory. It decreased from 0.49 in 2021 to 0.28 in 2022 and further to 0.21 in 2023. Walmart's inventory turnover ratio improved from 8.27 in 2021 to 8.46 in 2022 and remained stable in 2023, reflecting efficient inventory management.

The operating margin declined slightly, from 4.06% in 2021 to 4.57% in 2022 and further to 3.37% in 2023, suggesting increased operational costs, possibly due to strategic investments. Walmart's interest coverage ratio indicated its ability to comfortably cover interest expenses. It increased from 10.27 in 2021 to 14.13 in 2022 and remained stable in 2023.

In summary, Walmart has undergone significant financial changes in the past few years. Despite revenue growth, the company faces challenges in maintaining profitability. To adapt to the evolving market conditions, Walmart has implemented a series of measures to adjust its asset composition and liability structure. Furthermore, the company continues to invest in critical areas such as e-commerce and logistics. These efforts aim to sustain its competitiveness in the highly competitive retail industry.

5. Suggestions

Firstly, Walmart should further optimize its supply chain processes to reduce operational costs and enhance efficiency. Utilizing advanced data analytics and predictive methods to improve inventory management, ensuring timely product availability, reducing unsold inventory, and lowering inventory costs. Walmart should also consider supply chain sustainability, including reducing carbon footprint and plastic pollution. Collaborate with suppliers to implement sustainable procurement and packaging strategies to meet environmental and sustainability standards, thereby enhancing brand reputation.

Secondly, Walmart should continue to invest in digital marketing, leveraging data analytics and personalized strategies to attract and retain consumers. Providing a consistent brand experience across various online platforms to expand its customer base. Tighten the integration between physical stores and online platforms to offer a seamless shopping experience. For example, offering online ordering with in-store pickup options to meet diverse consumer needs.

Lastly, Walmart is facing challenges such as declining profitability, liquidity issues, and a continuous decrease in retained earnings. To address these issues, the company can optimize operational costs to enhance profitability, closely monitor cash flow to meet short-term debt and operational requirements, and consider debt refinancing or increasing cash reserves to strengthen liquidity. In addition, Walmart should maintain its financial structure effectively by keeping relatively low debt levels to reduce borrowing costs. Simultaneously, engage in strategic capital expenditures to enhance competitiveness. Monitor cash flow closely to ensure sufficient liquidity for short-term debt and operational needs. Consider debt refinancing to reduce financing costs and explore building a more robust cash reserve.

6. Conclusion

This study indicates that Walmart demonstrates strong operational capabilities in areas such as product pricing, logistics distribution, and procurement strategies. Its operational excellence is driven by advantages in low-cost operations, large-scale procurement, a global sourcing system, and an efficient logistics distribution network, all of which contribute significantly to its core competitiveness. Firstly, the company must remain vigilant and address liquidity issues, optimize inventory management to ensure Walmart's inventory turnover rate is maintained, and adapt to the ever-changing market dynamics. Secondly, strengthening digital marketing strategies will be

instrumental in attracting and retaining online customer segments, a crucial aspect in today's digital era. Lastly, Walmart needs to prudently manage its long-term debt to maintain financial stability. However, this study has some limitations. It relies on historical data, and market conditions can change rapidly, as evidenced by the impact of the COVID-19 pandemic. Future research should consider real-time data and delve deeper into specific factors influencing profitability and inventory management.

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