CHAPTER 8  
CASE STUDIES  
CASE STUDY 1: THE BIGGEST MERGER IN THE GLOBAL RETAIL SCENARIO  

This case tries to focus the marketing war between the world's three biggest brand and company in the sportswear retail industry and the strategic aspect of the biggest merger ever happened in the retail market. The Indian apparel retailers can benchmark some of their strategies and can interpret the implications according the environmental aspects. 

Introduction: 
Background of the company 
- Started as German slipper makers in early 1920's 
- Grew into sports specialty shoes company 
- Giving them away to Olympic athletes to gain publicity 
- Went global in 1956 and in USA in 1968 
- Several management changes and reorganization 

Adi Daffler recognized the needs of athletes for better traction on the soccer field in the mid 1920's. By the late 1920's Adi's soccer shoe was the most popular brand on the soccer field. As Adi had studied the dynamics between an athletes dynamics and the shoe's performance, then developed a better solution; the first adidas athletic field shoe, which incorporated both foot support and traction control.

In the late 1950's Adi's company, now called Adidas, was manufacturing shoes for specialized for the demands of eleven different sports along with this specialisation, Adi and his son had contracted with multiple Olympic teams to display their gear during the games in return for feedback on how well the designs met the needs of the athletes? The result of Adidas Olympic Games exposure along with their commitment to improving the athletic experience with their equipment propelled Adidas into the number one position in athletic shoe sales in North America during the early 1970's. Unfortunately Adi passed away at the height of Adidas popularity in the US. His wife, Kathe, who took over the firm, was poorly equipped for carrying on the Adidas athletic technology niche that Adi had developed and adidas quickly succumbed to rivals Nike and Reebok in the US.

Brand Portfolio 
Product categories: Footwear, Apparels & Sports Equipments

- **Sport Performance** for athletes of all abilities.
- **Sport Heritage** for the sports lifestyle market
- **Sport Style** style-leading for cosmopolitan consumers

Adidas brands have clear focus on sports performance and team sport. Its focus is clearly reflected in its highly successful brand message “Impossible Is Nothing” where as Reebok has positioned as fitness oriented, sports-lifestyle brand with a high focus on individual performance. Reebok will highlight individual athletes and their achievements in sports and life through its campaign ‘I am what I am’. Both Adidas and Reebok portraying sport performance for athletes of all abilities Their considerable sales increases from functional running, basketball, football, golf, double-digit growth in the women’s category, and further growth expansion for the Adidas brand in sports lifestyle as well as in Reebok’s sport performance, shows that these brands have been Sport heritage for the sports lifestyle market.

Brands have not only proved its metal among athletes or for sports lifestyle market, but both, Adidas and Reebok became style leading for cosmopolitan consumers.

**Adidas Today**

- 20000 people working all over the globe.
- 6.5 billion € revenue in a financial year.
- 92% revenue comes outside Germany
- 150 million pieces of apparel manufactured per annum.
- 120 million pairs of shoes are manufactured in a fiscal year.
- 25000 articles per season are produced.
- Size and color variations per article.
- Long cycle time to prepare for each season.
- Production in approximately 300 factories in Asia.
- Decentralised business model with abundant business process variations.

**Key Success Factors in Sports Apparel Industry:**

1) Brand Recognition is very high among the target market.
2) Commands Technology Leadership among the competitors.
3) Marketing Skills is very high.
4) Easy accessibility of the assortments to the target segment through high Retail Presence in the market.

5) Customer Recognized Value is associated with its brands and products.

6) Effective Cost Controls are implemented all across the organisation.

Core Competencies:
- Technology
- Customer focus
- Innovation
- Brand recognition
- Supply chain
- Collaboratively competitive

Marketing Strategies:
- Capitalising the star power through celebrity endorsements with world-class sportspersons like David Beckham, Andre Agassi, Anna Kournikova and Kobe Bryant became one of the most important marketing strategies for Adidas.
- Collaborative efforts with the vendors and the distribution channels were implemented.
• Active sponsorship of major global sporting events like the world cups in various sports was done.
• Increased product offering for offbeat sports like mountain biking, hiking, Inline skating, surfing etc were been made.

**Adidas in India: Amongst top three Asian markets**
• Drive for Directly captured the market in 1996
• Reebok: The market leader in this segment.
• 74 EBOs on franchisee basis were opened up.
• Distributed through 800-1000 stores all across the country.
• Sachin Tendulkar was appointed as the Brand Ambassador.
• Positioning were been done on the basis of performance sports brand, which is both functional and fashionable
• 80% to 85% products are manufactured in India only.

**Growth Factors:** Reduce lead times
• Improve customer service
• Improve planning and forecasting
• Reduce business complexity

**SWOT ANALYSIS**

<table>
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<tr>
<th>Strengths</th>
<th>Weaknesses</th>
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<tr>
<td>➢ Strong success and penetration in European market.</td>
<td>➢ American athletes endorsed by Adidas are not as popular as competitors'</td>
</tr>
<tr>
<td>➢ High-performance products</td>
<td>➢ E-Commerce limited to US</td>
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<td>➢ Strong Brand recognition.</td>
<td>➢ Public dissent over use of sweatshops</td>
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<td>➢ Strong customer base</td>
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<td>➢ Mass customization 'Mi adidas'</td>
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<tr>
<th>Opportunities</th>
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<td>➢ Acquisition of Reebok</td>
<td>➢ Foreign exchange rates will result in loss of actual profits</td>
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<td>➢ Growing strength in golf industry through Taylor Made and recent acquisition of Maxfli-Growing revenue from opening of own retail stores</td>
<td>➢ High cost of technological solutions</td>
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<td>➢ Launching stronger fashion brands</td>
<td>➢ Strong competition from major challengers</td>
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MARKETING RIVALRY OF ADDIDAS & REEBOK AGAINST RIVAL NIKE

The purpose of this case is to evaluate the impact of Adidas’ pending acquisition of Reebok on the sporting goods industry in relationship to Nike’s position. Evaluation of background information and corporate culture combined with SWOT analyses have helped form the arguments presented in this case and have assisted in answering the question, “Will Adidas takeover of Reebok help the new company achieve sustainable competitive advantage over industry leader Nike?” Nike’s current position in the industry along with the strengths, weaknesses, opportunities, and threats concerning adidas’ acquisition of Reebok help convey the following arguments.

Arguments

- Nike’s Current Position
  - Strong brand recognition in the market.
  - Top endorsers are associated with the company.
  - Global leader in athletic shoe market

- Adidas-Reebok Strengths
  - Complementary global strengths
  - Complementary brand identities and market segments
  - Shared R&D, patents, and technology

- Adidas-Reebok Weaknesses
  - Complexity of joining two corporate cultures
  - Differing values among management

- Adidas-Reebok Opportunities
  - Reduced costs of operations.
  - Decreased competition as the rivalry extinguish between the merged companies.
  - Cross-over promotion by brands of both the stable.

- Adidas-Reebok Threats
  - Nike’s possible acquisition of Puma

It has been concluded that Adidas-Reebok will have a greater ability to compete aggressively with industry leader Nike. However, while they are in the process of implementation the finalities of the acquisition, Nike will be running at full speed. Therefore, Nike will remain in the top spot for the athletic shoe market, but Adidas-Reebok should be a very close second.
On August 3, 2005, Adidas-Salomon AG announced its plans to buy all outstanding shares of Reebok International Ltd.'s stock at $59.00 per share, for a total of $3.8 billion. Upon announcement, Reebok stock rose 30 percent while Adidas climbed 7 percent. For Adidas, this was an once-in-a-lifetime opportunity to combine two of the most respected and well-known companies in the worldwide sporting goods industry. Together, they are able to expand geographic reach, particularly in North America, and create a footwear, apparel and hardware offering that addresses a broader spectrum of consumers and demographics. A primary goal of the acquisition has been to challenge industry leader Nike for a higher share of the United States sporting goods market as well as the global sporting goods market. The acquisition has prompted much speculation as to what the future holds for the sporting goods industry and its major players. Throughout the discussion the case will address the question, “Will adidas' takeover of Reebok help the new company achieve sustainable competitive advantage over industry leader Nike?”

A Look at Competitive Advantage

“Competitive advantage is a special edge that allows an organization to deal with market and environmental forces better than its competitors” Whereas, “sustainable competitive advantage is one that is difficult for competitors to imitate” This distinction is essential when evaluating the acquisition and its effects. When referring to the original question, it is important to point out that “over” is used rather than asking if the new company can “compete with” Nike. “Over”, refers to being number one in the athletic footwear industry. On the other hand, “compete with” refers to gaining an advantage in some areas but not dominating enough of the market to crush the competition. Conclusion can be drawn that the new company will not achieve sustainable competitive advantage over Nike. However, the new company will now be able to compete with Nike more aggressively due to several advantages that the acquisition can bring about.

Adidas, Reebok, and Nike are the leading worldwide producers of athletic equipment, apparel, and footwear. These companies are recognized globally and continue to expand into new markets. Each company has been the topic of discussion in the business world after the announcement of Adidas' planned acquisition of Reebok.

Adidas-Salomon AG

Adidas-Salomon AG, commonly referred to as Adidas, is a German based corporation founded in 1949 by Adi Dassler that currently employs 17,000 workers globally. The Adidas Group is
the second leading worldwide maker of sporting goods and has 15.4 percent of the global
athletic shoe market share. Their annual revenue and net income for 2004 were $8.1 billion
and $423 million, respectively and their annual research and development budget was $110.5
million. In addition to Salomon, the group’s major subsidiaries include Mavic, Bonfire,
Arc’teryx, TaylorMade-adidas Golf, and Maxfli

**Reebok International Ltd.**

J.W. Foster and Sons, a Massachusetts based corporation, was founded in 1895 by Joseph
Foster and eventually became Reebok in 1958. Reebok currently employs over 9,000 workers
and is second in the United States in athletic shoe sales. Their global athletic shoe market
share is 9.6 percent and their annual revenue and net income were $3.7 billion and $192.4
million in 2004, respectively. Their annual research and development budget was $54.6 million
in 2004. Reebok’s major subsidiaries include Reebok Classic, Rbk, Rockport, Greg Norman,
and The Hockey Co

**Nike**

Blue Ribbon Sports was started in 1962 by Bill Bowerman and Phil Knight in Oregon and
became Nike in 1966. Nike’s headquarters remain in Oregon. They currently employ over
24,000 workers globally. Nike is the leading maker of athletic shoes in the world and holds
33.2 percent of that market as of 2004. Their annual revenue and net income for 2004 were
$13.7 billion and $1.2 billion, respectively. Nike’s major subsidiaries include Nike Golf,
Converse, Starter, Cole Haan, Bauer Nike Hockey, Exeter Brands Group, Hurley, and Jordan /
Jumpman 23 brand.

**Competitors**

The combination of Adidas and Reebok will give the combined company revenues over three
times as large as their next closest competitors, Puma and New Balance, in the athletic
footwear industry. Combined, all other worldwide competitors made up $5.8 billion of the
$20.4 billion in global athletic footwear revenues in 2004.

Rudolf Dassler, the brother of Adidas’ founder, in Germany, founded Puma in 1948. Even
though Puma’s earnings are not as large as the big three, their net earnings grew from $218.9
million to $314.1 million from 2003 to 2004, a 43 percent increase. In 2004, Puma had
revenues of $1.4 billion in athletic footwear sales and was ranked fourth globally in the
industry.
New Balance is ranked fifth in the world in the athletic footwear industry. In addition, they have recently put more effort towards improving their athletic apparel line. William J. Riley started this sporting goods company in 1934 in Massachusetts. New Balance has been able to find a niche in the sports industry by keeping some of their manufacturing in the United States. Many companies in the industry have sent all manufacturing jobs overseas. In addition, New Balance does not spend money on endorsements because they would rather invest in research and development to improve the functionality of their products. New Balance, a private company, does not release its net income, but they have stated sales of $1.1 billion in 2003.

Corporate Culture
According to many studies, the main reason why most mergers and acquisitions fail is the lack of a cultural fit between companies. In previous mergers, companies have often ignored cultural differences instead of implementing them, which has frequently caused failure in their combination. Many managers and higher-level workers do not have intercultural knowledge; therefore, they need to be trained.

One drawback for Adidas acquiring a large company like Reebok is that while the newly merged company deals with management and infrastructure changes and the difficulty of combining or learning a new corporate culture, its competitors are running at full speed. However, it seems that in the long run, the Adidas and Reebok Company will be able to overcome these challenges and be able to compete more aggressively with Nike. One reason for this is Adidas’ recent past experience in acquiring a large company.

Just seven years ago, Adidas acquired Salomon and became the second largest sporting goods manufacturer in the world, behind Nike and ahead of Reebok. This recent experience of acquiring a company will ease the difficulty of acquiring Reebok. The two acquisitions share many of the same difficulties. Adidas, a German based company, must deal with acquiring Reebok, a company that is based outside of its own country, in the United States. Similarly, Salomon is a French-based company, so many of the same complexities arose with this new acquisition.

Market Shares and Manufacturing
Market Shares
Adidas’ acquisition of Salomon complemented its existing sporting goods manufacturing by adding snowboarding, skiing, cycling, and golf markets. In contrast, adidas’ acquisition of
Reebok only strengthens its position in its existing production of athletic goods, footwear, and apparel. The two company’s geographic market segments complement each other very well. Reebok holds a strong position in the United States with 12.2 percent of the athletic footwear market and also holds the leading market share in the “classics” shoe category. Meanwhile, Adidas has 9 percent of the U.S. athletic shoe market and has a stronger position in the European market. However, industry leader Nike holds 36.6 percent of the U.S. athletic shoe market. Reebok currently holds almost 50 percent of the Indian athletic footwear market and with Adidas at its side, the two will dominate the Indian market with a total of almost 75 percent, while Nike holds just over 25 percent Adidas can benefit from Reebok’s plans to use Indian cricket players in their “I am What I am” ads to support their position as the industry leader in India. Additionally, Reebok hopes to expand into China by introducing a new signature shoe sponsored by China’s NBA star, Yao Ming, although the prevalence of counterfeits is a growing concern in the Chinese market. Currently in China, Nike has 30 percent of the market share, while Adidas and Reebok have 19 percent and 8 percent, respectively. Nike is currently strong in Latin America due to its sponsorship of Brazil’s national soccer team and Adidas expects to see continual strong growth in the Latin American market. Reebok’s “classic” footwear sales have also seen strong growth in the Latin American market.

It is hard to predict that Adidas and Reebok will take over Nike in the American market nor it can be foreseen them beating Nike globally. However, Reebok’s presence in India should be observed. Reebok and Adidas each have their strengths in various global regions and this will improve when they act as one, although they will still have to compete with Nike who has a strong position in many global regions as well.

**Manufacturing**

Many shoe companies are continually looking for new, low cost regions to invest in labor-intensive manufacturing. Nike, Reebok, and Adidas manufacture products in several Asian countries such as China, Vietnam, Indonesia, and Thailand, where a portion of the merchandise is sold. They also have factories in Latin and South American countries. Another emerging marketplace to consider when looking at the global market is Africa. Nike currently has agreements with independent factories in South Africa and Zimbabwe where they manufacture and sell their products. Reebok has had factories in Africa, but in 1986 they withdrew from Africa due to human rights issues. In 1992, they reinstated their factory investments in the area.
Brand Identities
In addition to complementary geographic market segments, Reebok and Adidas also have complementary brand identities. Reebok has been focusing much of its brand identity towards a more youthful and urban market, as can be seen with its recent endorsement deals with hip-hop stars. Reebok’s advertisements feature 50 Cent, Jay-Z, Lucy Liu, Christina Ricci, and Nelly. Adidas, on the other hand, has focused its brand identity towards a broad athletic and fitness market. They endorse athletes such as Andre Agassi, David Beckham, and Kevin Garnett. Reebok also continues to endorse top athletes such as Allen Iverson, Venus Williams, and Yao Ming. Reebok and Adidas will have the opportunity to use crossover promotions by their respective sponsored athletes. This will strengthen each company’s market segments because of their complementary nature and will increase each brand’s worldwide distinction.

Nike also endorses world-famous athletes such as Tiger Woods, LeBron James, Michael Jordan, and Lance Armstrong. In 2004, Nike spent twice as much on marketing as Reebok and Adidas did combined. Nike’s large marketing budget will make it difficult for Adidas and Reebok to overtake the number one position in the athletic goods industry.

Opportunities and Strengths of the Acquisition
Another opportunity this acquisition brings about is the ability to reduce competition and costs. Expected cost savings are $150 million over three years. Adidas will no longer have to compete with Reebok in the sporting goods industry. Instead, the two companies can strategically work together in order to gain market share on industry leader Nike. However, it has been rumored that Nike is countering this move by acquiring Puma, the fourth ranked company in global athletic footwear sales. This move would be interesting because while Adidas aims to gain a stronger hold in the U.S. by acquiring Reebok, Nike’s acquisition of Puma would strengthen its position in the European market.

There is inevitably some overlapping of Adidas and Reebok’s market segments. This is especially true in the basketball, football, and baseball athletic footwear and apparel industries. However, Adidas and Reebok’s plans to share R&D, patents, and technology should overcome any negative effect of overlapping market segments. Reebok and Adidas will be able to strategically share and combine their innovations in order to better compete with Nike.

This acquisition will provide Adidas and Reebok with the opportunity to strategically compete with Nike in retail stores. Because they are keeping the two brands separate, we don’t expect Reebok and Adidas’ shelf space to increase or decrease. However, Adidas and Reebok
should be able to create a better strategy on the shelves by surrounding Nike to gain an advantage.

Reebok has an extensive line of men and women's apparel. The new company can combine Reebok's apparel with Adidas' new addition of fashion designer Stella McCartney, who has created an apparel line that integrates both sport and style. This innovative move shows that Adidas continues to look for new opportunities and markets in order to gain a competitive advantage. Specifically, Adidas hopes to be able to expand Adidas' licensing in America due to Reebok's expertise with the subject. In the past, Adidas has not been able to expand because it had problems shipping goods to the United States. It takes them about fourteen days to ship from their factories in the Far East while Reebok can ship overnight. In the future, Adidas will be able to take advantage of Reebok's existing distribution infrastructure in the U.S. Additionally; Reebok will be able to benefit from Adidas' existing distribution infrastructure in Europe.

Conclusion
Nike is leading the U.S. marketplace in athletic footwear. The "swoosh" is nationally recognized by 97 percent of the American population. Through aggressive advertising, endorsements by the leading professional athletes in nearly every major sport, and a high-quality product, Nike has been able to sustain a competitive advantage. They continue to show growth in the athletic footwear industry as can be seen in their 32 percent increase in expected net income for the first quarter of 2005. Additionally, Nike has future goals to expand their success beyond the athletic sporting goods market. Adidas' acquisition of Reebok puts them in a better position to compete with Nike, although they still have many obstacles to overcome including differences in corporate culture and integration of management. While they are transitioning into one company, Nike will be running at full speed. Despite these difficulties, in the long run Adidas-Reebok will eventually compete with Nike more aggressively. This is due to reduction in costs, decreased competition, crossover promotion, complementary brand identities and market segments, and the ability to share research and development, patents, technology, innovations, and resources. Ultimately, Nike will no longer crush the competition. It might remain the industry leader, and Adidas-Reebok might be a very close second.

Still in India we have not seen such major mergers of two such big players in the retail industry but it can be a good strategic decision for the bigger brands in order to fight competition and increase the market share. But the marketers should remember the above mentioned aspects
in order to produce a successful merger. The Indian retailers can also learn the strong branding aspects and positioning aspects from these three largest brands of the world.
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<tr>
<th></th>
<th>Adidas</th>
<th>Reebok</th>
<th>Nike</th>
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<tbody>
<tr>
<td><strong>Annual revenue</strong></td>
<td>$7.9 billion</td>
<td>$3.8 billion</td>
<td>$13.7 billion</td>
</tr>
<tr>
<td><strong>Major rankings</strong></td>
<td>No. 2 global maker of sporting goods</td>
<td>No. 2 U.S. maker of athletic shoes</td>
<td>No. 1 global maker of athletic shoes</td>
</tr>
<tr>
<td><strong>US market share</strong></td>
<td>8.9%</td>
<td>12.2%</td>
<td>36.3%</td>
</tr>
<tr>
<td><strong>Global market share</strong></td>
<td>15.4%</td>
<td>9.6%</td>
<td>33.2%</td>
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<tr>
<td><strong>Hot product</strong></td>
<td>&quot;Intelligent&quot; shoe with embedded chip that conforms for better support.</td>
<td>Rapper Nelly's footwear and athletic line</td>
<td>Lance Armstrong's 10/2 apparel line</td>
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<tr>
<td><strong>Top sponsorship deals</strong></td>
<td>U.S. Major League Soccer, FIFA World Cup (soccer), New York Yankees (baseball), 2008 Beijing Olympics</td>
<td>National Football League, National Basketball Association, National Hockey League, Major League Baseball</td>
<td>Brazil soccer, Manchester United (soccer)</td>
</tr>
<tr>
<td><strong>Endorsements</strong></td>
<td>Andre Agassi (tennis), David Beckham (soccer), Kevin Garnett (basketball), Missy Elliott (singer)</td>
<td>Yao Ming, Allen Iverson (basketball); Jay-Z, 50 Cent, Ne-Yo, Eve, Shakira, Eve, Mary J. Blige (singers); Lucy Liu, Christina Ricci (actors)</td>
<td>Tiger Woods (golf); LeBron James, Michael Jordan (basketball); Lance Armstrong (cycling)</td>
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**Level of Memory Recall**

![Pyramid Diagram](image-url)
CASE STUDY 2: ZARA

Introduction:
This case discusses the unique supply chain management practices of Spanish garments retailer Zara, which enabled it to gain competitive advantage over other fashion retailers in the world. Zara’s vertically integrated supply chain system enabled the company to place the latest designs in any store across the world within a period of two to three weeks. The company produced garments as per the latest trends in a limited quantity. Zara introduced 12,000 designs every year, with new designs appearing in the stores globally, twice a week. The case explains in detail the design, production and distribution processes of Zara’s supply chain.

Zara is the flagship chain store for the Spanish Inditex Group, which also owns brands such as Massimo Dutti, Pull and Bear, Stradivarius and Bershka. The group is headquartered in A Coruña, Galicia, Spain, where the first Zara store was opened in 1975. Today, Inditex is probably the world’s fastest growing retailer with over 3,100 stores around the world in over 70 countries, the Zara format taking around 1,000 of those stores. In March 2006, the group overtook Sweden’s Hennes & Mauritz to become Europe’s largest fashion retailer.

ZARA, a Spanish fashion chain owned by Inditex, is a retailer who has taken a different strategy to expand and compete in the industry. Inditex has seven other chains: Kiddi’s Class, Pull and Bear, Massimo Dutti, Bershka, Stradivarius, Oysho and Zara Home. The company uses an innovative design-on-demand operating model to deliver clothes from the fashion runways to store shelves faster than any of its competitors. Headquartered in Galicia, Spain, ZARA is expanding into global markets. A recent expansion has proven successful and further expansion in the United States is now being considered. Issue Zara has only a few US stores and is considering further US expansion. The issues to be considered include whether or not to expand, and how to go about expanding should that avenue be followed.

Zara was founded by Amancio Ortega Gaona, who borned in León, Spain, in 1936. Ortega worked as an assistant in an apparel shop and in 1963 he set up his own fashion retail business named Confecciones Goa, in Arteixo-La Coruña, to manufacture housecoats. In 1975, when a German retailer cancelled a major order, Ortega started selling the clothes from a small outlet in his factory and called the outlet Zara.

Zara has a unique business model that has enabled it to expand and compete with quality brands at affordable prices. For instance, it is claimed that Zara needs just two weeks to develop a new product and get it to stores, compared with a nine-month industry average, and

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launches around 10,000 new designs each year. Zara has resisted the industry-wide trend towards transferring production to low-cost countries. Perhaps its most unusual strategy was its policy of zero advertising; the company preferred to invest a percentage of revenues in opening new stores instead. Zara was described by Louis Vuitton fashion director Daniel Piette as "possibly the most innovative and devastating retailer in the world".

Overview
Trendy Zara is the flagship fashion brand for Europe's fastest-growing apparel retailer Industria de Diseño Textil (commonly know as Inditex). Zara, the cheap-chic subsidiary of the Spanish fashion giant, runs more than 850 women's clothing stores in some 60 countries, including about 20 stores in the US. Zara sells women's, men's, and children's apparel and recently launched plus-size lines to clothe its larger customers. Zara Home, which sells home fashions, has about 110 stores in 14 markets. The Spanish fashion chain is boosting its presence in Eastern Europe, with store openings in Hungary, Lithuania, the Czech Republic, Slovenia, and Slovakia. Zara accounts for about two-thirds of parent Inditex's sales.

Zara offers the latest trends in international fashion in an environment of thought-out design. Its stores mostly located in the main commercial areas of cities across Europe, America and Asia, offer fashion inspired in the tastes, wishes and lifestyles of today's men and women. Boundaries do not prevent anyone from sharing the same fashion culture. Thus, Zara has 626 stores in 46 countries in 2005. All of them have been designed to create a special atmosphere that will allow the client to feel the pleasure of buying fashion. In Zara, design is conceived as a process closely related to the client. From the stores Zara transmit to the creative teams, made up of over 200 professionals, the concerns and demands of the public. Zara walks at the pace of society, dressing ideas, trends and tastes that society itself has matured. Hence its success among people, cultures and generations that, in spite of their differences, share a special sensitivity for fashion. Zara went on to become the flagship brand of the holding company, Industria de Diseño Textil, SA, popularly called Inditex, which was founded in 1979. Ortega was credited with democratizing fashion in Spain; he was responsible for making designer clothing accessible to the masses. Between 1976 and 1984, Zara's presence was extended to major Spanish cities. The first store outside Spain was opened in 1988 in Portugal. The next international ventures were New York in 1989 and Paris in 1990. By the end of 1990, Zara had operations in 82 cities across Spain and three cities internationally.
Zara’s Fast Fashion Strategy

In 2004, a famous pop star toured Spain to give a series of concerts. Her outfits attracted instant attention from teenagers and young girls across Spain. By the time the pop star had reached the last leg of her tour, Spanish girls were sporting outfits similar to the ones she had worn during her first concert. The outfits were designed and distributed by apparel retailer Zara, which quickly gauged the demand for them and stocked up its stores across Spain in less than two weeks.

According to a survey conducted by Interbrand, Zara was the only Spanish brand to be featured in the list of 'The 100 Top Global Brands' in 2005. It was featured at the 77th position in the list that featured Coca-Cola, Microsoft, and IBM in the first three positions. The survey featured only those brands with a value of more than US$ 1 billion, which derived around 33% of their revenues outside their country of origin and whose financial data was publicly available.

Interbrand describing Zara, said, "Cutting-edge Spanish apparel retailer epitomizes cheap chic knocking out mass-produced copies of catwalk fashions almost overnight." Zara introduced about 12,000 designs every year; the shelf life of each design was about four weeks. In January 2006, Zara had 853 stores, located across the world. These stores received two deliveries from Zara’s central distribution center every week. The deliveries were customized in

INVENTORY to SALES RATIO

- Zara: 7%
- Matalan: 10%
- H&M: 12.5%
- Gap: 6%
accordance with the data sent by them every day. Zara pioneered the concept of customized retailing and was able to conceptualize the garment, develop, and deliver it to the stores within two to three weeks.

Spotting Trends
One of the secrets behind Zara’s success was its ability to spot emerging trends and react quickly. Zara had a dedicated design team in Arteixo, A Coruña, in northern Spain. Ideas for new designs or for modifications to be made in existing designs mainly came from Zara’s stores.

The store managers and sales staff updated the head office every day about the moving stock and about customers’ demands. Across all the stores, Zara’s sales staff was equipped with wireless handsets, which provided data to the store manager about the pieces sold. The manager consolidated the data and sent it to the company headquarters through the Internet.

Reaping the Benefits
Instead of projecting sales for a certain color, fabric, or style and launching such products, Zara reacted swiftly to emerging trends in the fashion industry. The company ensured that its stores were stocked with the products that the customers wanted at that point of time. In contrast, other retailers took between 8 and 12 months to forecast and arrive at a style and send it for production. Zara’s initial forecast was limited to the kind of fabric and the amount of fabric it would buy. The fabric thus procured was unprocessed and undyed and Zara colored the product only before selling it, based on the need and demand by consumers. Zara sourced undyed fabric from the Far East, Morocco, and India.

Looking Ahead
Industry analysts were of the opinion that Zara could not continue with its supply chain model for too long. With many retailers moving their manufacturing processes to India and China to control costs, Zara would have to follow suit sooner or later in order to remain competitive. However, if the production was to move out to low cost countries, Zara could lose its advantage and might not be able to refurbish its product lines in quick succession, the analysts felt. By 2008, the quotas imposed on the Chinese textile industry by the US and the European Union would be removed.

In an era when clothing retailers outsource much of their manufacturing to developing countries; this Spanish company is having enormous success doing things differently. While retailers concentrate their money and efforts on building a brand image through advertising
campaigns, their lack of control over sub-contractors has left many open to accusations of using sweatshop labour when unacceptable practices are uncovered at factories producing their merchandise. Many campaigners against sweatshop labour question the economics of outsourcing production and point to the likes of Spanish fashion chain Zara as an example of how things could be done. Major American firms coincident with the shift of most shoes and apparel production to authoritarian countries gave up control over production facilities. Most consumers are now aware of the untoward results of this major change. Zara, on the other hand, has turned control over garment factories into a competitive advantage. The Spanish firm not only sells clothes but also designs and makes them. It has never run an advertising campaign, yet has more than 1,000 shops worldwide. As it makes the clothes itself, it can react quickly to changing market trends. While others, including rivals Gap and H&M, take up to nine months to get new lines into their shops, Zara takes just two to three weeks. Its success has led to it being described as "possibly the most innovative and devastating retailer in the world". It's really quite exciting to see a new model like this -- one that actually breaks all the rules of the apparel industry as it has developed over the last two decades: contract out all production and spend obscene amounts to advertise your brand.

Zara's strategy

The company's success lies in it having total control of every part of the business. It designs, produces and distributes itself. Everything is co-ordinated from its headquarters on an industrial estate in Sabon-Arteixo, outside La Coruna in Spain. By controlling the entire process from factory to shop floor, Zara can react quickly to changing fashion trends and customers' tastes, providing a "newness" that has taken Europe by storm. It designs, picks and cuts the cloth before sending it to workshops and co-operatives in northern Portugal and the surrounding area of Galicia for sewing. The clothes are finished off at La Coruna before being shipped out twice a week to all its shops. Investment banks were sceptical that this model will not work, but Zara have shown that it gives them more flexibility in production, sales and stock management.
Stores:
Daily analysis of product sales performance/customer feedback

Design:
Contact modification of initial collection based on demand

- New, fashion-attuned designs twice a week
- Constant replenishment: refreshment in-season

The ZARA MODEL
Sourcing/
Manufacturing:
Small production batches

Shoppers addicted to the Zara brand know exactly when the deliveries will be arriving at their local shop and some even turn up before opening time on delivery days to be the first to pick up the latest lines. With its range of clothes constantly being updated, one or two unpopular items are unlikely to hurt its profits and customers are more likely to visit its shops regularly to see new stock. Zara shop managers report back every day to designers in La Coruña on what has and has not sold. The information is used to decide which product lines and colours are kept or altered and whether new lines are created. All this happens in the space of just a few days. The efficiency of the system means the company can keep costs down by keeping stocks low. Customers also have direct input into what the shops sell as their feedback is sent back to the designers too. Experts have called this the "democratisation of fashion."

No advertising
The other trend-bucking aspect of the company's business model is its approach to advertising. Fashion retailers spend on average 3.5% of revenue on advertising their products, while Zara's parent company Inditex spends just 0.3%. The company's founder, Amancio Ortega, believes advertising is a pointless distraction. Once when a famous Spanish actress asked to do a photo shoot in one of his shops, Ortega said no and scolded the newly appointed executive who suggested it would be good for the firm.
The company believes that its shop windows, the contents of which are also decided in La Coruña, are all the advertising it needs. The philosophy seems to have worked. As of late last year, Zara had 350 shops in Europe, 18 in the Middle East, 52 in the Americas and five in Asia. With roughly 40% of Inditex shops, Zara brings in about 80% of the group's revenue. There are now about 1,100 Inditex stores in the world, and a new one opens every other day. The company's success is proof that it is still possible to build a massive brand by doing no more than meeting a market need.

**Lessons from ZARA:**

- Rethink the entire supply chain
- Reduction in markdown can more than make up for the increase in labor cost
- Planned shortages can induce more future demand
- Good store location, layout and product display can be a substitute for advertising
- Faster response eliminates inventory risks
- Excess capacity pays for itself by faster response

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**Zara’s Strategy**

- **A Passion for Fashion**
- **Global Reach**
- **Vertical Integration**
  - Backward Integration
  - Forward Integration
- **Design, Fabric, Coloring**
- **Retailing, market research**
- **Supply Chain at the core of their strategy**

- **Flexibility**
  - Volume, design, fabric, color, manufacturing
- **Economics of Scarcity**
- **Efficient Knowledge Management**
- **No advertising**
- **Uniformity of Store Format**
- **Two-pronged manufacturing strategy**
PRODUCT POSITIONING....

ZARA'S POSITIONING in comparison with competitive Brands.

3 PILLARS OF ZARA'S SUCCESS

Information can substitute for inventory
Better forecasting → less safety stock,
Faster information updates → reduced overreaction
CASE STUDY3: WAL-MART STORES INC.

I. Background

In 2003, Wal-Mart had revenues of $191 billion. Wal-Mart's 2002 sales topped $218 billion, with sales growth at 13.8%. Its 2002 net income was $6.7 billion, a growth of 6%. Wal-Mart has 1,283,000 employees, as of 2002; a growth of 11.2%. Wal-Mart is the largest retail store in the United States, and is larger than any other retail chain in the world. Currently Wal-Mart operates over 4,150 retail facilities globally. Also, the company is the dominant retail store in Canada, Mexico, and the United Kingdom. According to the Fortune 500 index of the wealthiest and most powerful corporations in the world, Wal-Mart holds the number one spot, ranked by its total sales. The company is ranked as the second most admired company in the world by Fortune.

In its product portfolio Wal-Mart provides general merchandise namely family apparel, health & beauty aids, household needs, electronics, toys, fabrics, crafts, lawn & garden, jewelry and shoes. Also, the company runs a pharmacy department, Tire & Lube Express, and Photo processing center as well. When Sam Walton created Wal-Mart in 1962, he declared that three policy goals would define his business, those are respect for the individual, service to customers, and striving for excellence.

Wal-Mart's corporate management strategy involves selling high quality and brand name products at the lowest price. In order to keep low prices, the company reduces costs by the use of advanced electronic technology and warehousing. It also negotiates deals for merchandise directly from manufacturers, eliminating the middleman. Wal-Mart's community outreach focuses on the goals of providing customer satisfaction, involving itself with local community services, and providing scholarships. Its emphasis is on children and environmental issues.

After the Second World War, the style of retailing in the US evolved into discount merchandising. It took the form of departmentalized retail business. A discount retail store such as Wal-Mart can provide lower priced goods for consumers at lower prices by accepting lower margins, while selling greater quantities of goods. The company launched its business in small-towns throughout the South and Midwest, eventually expanding into larger cities.

During the 1970s, the retail industry became highly competitive, but at the same time the economy became weak due to inflation. Sears was the leading retailer in the nation, during the 1970s, however, the recession of 1974-1975 and inflation affected Sears adversely. Sears targeted middle class families and expanded its overhead. Wal-Mart's strategy was to compete
with its rivals and lower overhead expenses. Compared with Sears, which consisted of more than 6,000 distribution centers, Wal-Mart had only 2,500 comparable units.

Wal-Mart grew rapidly during the 1980s due to diversification of the company. Wal-Mart's fundamental business principles at that time were to provide "high-quality," brand name merchandise at low-prices and to locate stores in small towns. Wal-Mart centered on small-towns first, and then tried to move to large cities. This happened while other retailers centered on larger urban centers. However, as the economy faced a downturn, people wanted low price stores. Furthermore, as people became mobile, they moved to small towns and suburbs and were willing to travel further to buy low price products.

During the 1980's, local chambers of commerce supported Wal-Mart because they believed that the company helps a local economy by providing good quality products at low prices. Unfortunately, critics contend that the success of Wal-Mart hurts the existing local independent merchants. Despite the criticism that Wal-Mart destroys small-town competitors, the local chambers of commerce endorsed Wal-Mart. In addition, the chambers of commerce account that the arrival of Wal-Mart provided jobs for people and a more diverse opportunity for local merchants by adapting to the new business environment. They said that Wal-Mart contributes to their local economy.

Nonetheless, local newspapers began to scorn Wal-Mart because the company did not nurture amiable relationships with local advertisers. Once local competition was eliminated, Wal-Mart began to cut back and eliminate local advertising in favor of direct mailing of a centrally produced circular.

Today, Wal-Mart has 1,636 retail stores. There are 1,093 Wal-Mart Super centers, 502 Sam's Clubs, 31 Wal-Mart Neighborhood stores and 1,183 international stores. Its core retail business can be divided into four retail divisions: Wal-Mart stores, super centers, Sam's Club warehouses and neighborhood markets. Wal-Mart stores and Super centers provide "one-stop family shopping"; combining groceries and general merchandise departments. Sam's Club is the nation's leading members-only warehouse club. Neighborhood Markets offer a convenient shopping experience for customers who need groceries, pharmaceuticals and general merchandise.

Internationally, Wal-Mart has more than 1,000 stores in nine countries. Sam's Club provides more discounted prices for members by eliminating the middlemen by buying directly. Founder Sam Walton believed that low-prices and deep discounting would appeal to customers most and
beat competitors. Further, Sam Walton intended to implement deep discounting which was designed to provide 40-60% discounted prices for customers. Thus, he focused on supermarket and super drug store businesses.

When Wal-Mart first arrived on the scene with their low prices, K-Mart stores was unable to discount brand-name products. Customers wanted to buy good quality brand-name products. K-Mart provides non-name brand goods cheaply; however, it could not maintain constant low prices with its name-brand products. K-Mart and Sear could not beat Wal-Mart due to several reasons: First, Sears' prices are higher than Wal-Mart's because the Sears infrastructure gives it higher overhead costs. K-Mart declined in customer appeal because it neglected its store environment and could not provide satisfactory levels of service for its customers. Widespread complaints of poor customer service at K-Mart began to surface while Wal-Mart placed emphasis on customer satisfaction and neat store environments.

Today, Wal-Mart's competition in the retail market is K-Mart and Target, which come behind Wal-Mart in the US retail market.

Wal-Mart is also on top of their game because of the management strategies they employ. The management strategies of Wal-Mart emphasize its workforce and its corporate culture; that being a morally conservative, religious, and family-oriented business. Wal-Mart emphasizes how it listens to the needs of its workforce so that each employee is able to suggest improvements to company policy and practice. At Wal-Mart, store employees are called "associates." In addition, in order to promote esprit de corps, the company publishes "Wal-Mart World," an internal magazine for its associates. The company offers generous financial rewards for employees by means of profit-sharing plans such as stock-purchase options. Furthermore, the company provides comprehensive training programs for all employees.

It should be noted that most Wal-Mart employees do not get paid "generous" wages. The bulk of Wal-Mart's employees are based at Wal-Mart stores. They are part time workers who are paid the local minimum wages. Most employees are not entitled to any benefits, as it takes a part-time employee over five years to become eligible for benefits, profit sharing, or other such compensation. There is a high turnover rate among these employees, which means most do not reach the requisite level of seniority. In many cases the local minimum wage is far below the poverty line.
Journey to Success:

1960s and 70s

1962  Wal-Mart opened the first store in Rogers, Ark.
1970  Wal-Mart traded stocks as a publicly held company
1971  Wal-Mart in five states: Arkansas, Kansas, Louisiana, Missouri and Oklahoma.
1974  Wal-Mart stores now in Kentucky and Mississippi, Texas becomes 9th.

1980s

1981  Wal-Mart opened at Georgia and South Carolina
1982  Wal-Mart opened at Florida and Nebraska.
1983  First SAM'S CLUB opened in Midwest City, OK People Greeter implemented at all store. Wal-Mart enters Indiana, Iowa, New Mexico and North Carolina.
1985  Wal-Mart has 882 stores with sales of $8.4 billion and 104,000 Associates. Company adds stores in Wisconsin and Colorado.
1986  Wal-Mart enters Minnesota.
1989  Wal-Mart is now in 26 states with the addition of Michigan, West Virginia and Wyoming.

1990s

1994  Wal-Mart enters Canada by the acquisition of Woolco, and takes over 123 former Woolco stores across Canada. It opens 96 stores in Mexico. Three value clubs open in Hong Kong.
1995  Wal-Mart enters its 50th state - Vermont - and builds three units in Argentina and five in Brazil.
1996  Wal-Mart enters China

2000s
Wal-Mart ranked 5th by FORTUNE magazine in its Global Most Admired All-Stars list. H. Lee Scott named president and CEO of Wal-Mart Stores, Inc. Wal-Mart ranked #1 Corporate Citizen in America in the 2000 Cone/Roper Report, an annual national survey on philanthropy and corporate citizenship.

Wal-Mart has the biggest single day sales in history: $1.25 billion on the day after Thanksgiving. (www.walmartstore.com. About Wal-Mart)

II. Wal-Mart Company Strategy

This section will examine and discusses Wal-Mart's company strategy in several sections. Three elements of successful strategy formulation and a fourth element, which exemplify the implementation process of company strategy, will be focused at. Followed by this, an analysis of key factors contributing to this strategy will be detailed. These include looking at Wal-Mart's competitive strategy, the CEO's leadership, and company strategy strengths and weakness assessment.

The material used to analyze Wal-Mart strategy consists of the company's annual reports, its Fact Sheets and other information found on the company Internet site. Other information is obtained from outside sources such as Fortune Magazine, and from outside groups who are critical of the corporation. The focus of this analysis will be placed on identifying the resources of the firm, its weaknesses and strengths in terms of its competitive environment. The sections examined will highlight the leadership style of Wal-Mart CEO H. Lee Scott, who inherited the corporate legacy of Wal-Mart founder Sam Walton. Other elements such as the culture, the corporate organization and values of the company come to play.

1. Strategic Goals

This section looks at three successful elements of strategy formulation and a fourth element, where the strategy is implemented successfully. These are as follows:

- Dominate the Retail Market wherever Wal-Mart has a presence.
- Growth by expansion in the US and Internationally.
- Create widespread name recognition and customer satisfaction with the Wal-Mart brand, and associate the retailer with the reputation of offering the best prices.
- Branching out into new sectors of retailing such as pharmacies, automotive repair, and grocery sales.

a. Dominate the Retail Market Everywhere

A key strategy of Wal-Mart is to dominate the retail market. Company founder Sam Walton put in place a retail philosophy the company still follows. Wal-Mart is primarily a discount retailer
because they sell their products at the lowest possible prices. By selling at the "lowest price.", Walton outlines that the essence of successful discount retailing to cut the price on an item as much as possible, lowering the markup, and earn profit on the increased volume of sales. Another subset of this strategy is the competitiveness of every unit. Each store is encouraged to ferociously compete against all other stores in its customer base until the Wal-Mart store gains dominance over its local competitors. Wal-Mart is currently ranked as the world's number one retailer and the number one company in the world in terms of sales (over $200 billion) on the Fortune 500 list. The key strategy is to dominate a market. Using its size and volume buying power, the company effectively implements its strategy.

b. Growth by expansion in the US and Internationally.

A strategic goal of Wal-Mart is to expand and it has done it successfully. Looking at the facts and figures clearly shows the corporations dominance and power. Currently the corporation employs over 1.3 million employees, one million in the US alone. The company owns over 4000 stores worldwide. Over 1,200 units (stores) are in operation internationally. Domestically, Wal-Mart is the largest US retailer, employing around 1 million people. It has over 3,000 stores and outlets, and 77 distribution centers. The company serves more than 100 million customers weekly in all 50 states, Puerto Rico, and several nations around the world. Internationally, the retailer operates in Mexico, Canada, Argentina, Brazil, China, Korea, Germany, and the United Kingdom. Its expansion strategy internationally has been aggressive and powerful. The latest expansion strategy is for the company to gain entry into a nation by corporate takeover of a national retailer. Once the company is bought, Wal-Mart converts the stores into Wal-Mart stores. Three countries, all with no previous Wal-Mart stores, became part of the corporation's international presence when domestic retail chains were overtaken. In 1994, Wal-Mart bought 122 Woolco stores in Canada; today there are 196 units in Canada. In 1998 Wal-Mart bought the Wertkauf store with 21 units, now there are 94 Wal-Mart's in Germany. In 1999, Wal-Mart acquired the ASDA chain with 229 units in the UK. Today, the UK has 252 Wal-Mart stores.

This particular strategy, of corporate takeover, puts the company at an advantage when it enters into a new market. In one stroke, a large competitor is eliminated, and at once, Wal-Mart has real estate and employees, and a massive presence in its targeted location. This is an effective use of the company's size and wealth, as few if any competitors are able to do this effectively. The company builds up brand familiarity, while retaining the old familiar outlets. Gradually, as
the local Wal-Mart stores begin to make money, and local management assess their competition environment, the company begins to redesign the acquired stores to look like "Wal-Mart's, it then begins to build new and larger stores in that new market. Wal-Mart is now the largest retailer in Canada and the UK.

c. Create Positive Brand and Name Recognition
The company aims to create positive impression of customer satisfaction with the Wal-Mart brand. Their goal is to have the customer associate the retailer with the reputation of offering the best prices. The company accomplishes this through television advertising campaigns and newspaper adverts. Characteristic of Wal-Mart advertising is the use of actual Wal-Mart stores and employees in its commercials. Key themes, such as "Low Prices Always" are featured. The company engages in partnerships and co-branding. For example, many Wal-Mart stores have a McDonald's restaurant inside them. Due to the size of the retailer, certain exclusive promotions are made with Hollywood movie companies and music companies, for exclusive in Wal-Mart promotions and distribution.

d. Branching out into New Sectors of Retailing
A successful company strategy has been to branch out into new sectors of retailing. Wal-Mart has recently become a major pharmacy, automotive repair shop, and is now moving into grocery sales. This is an example of success - it exemplifies Sam Walton's vision of being the best retailer around. After a store expands physically and geographically, it must then expand in terms of what they sell; branching out and competing with other businesses.

The traditional retail business of Wal-Mart has been selling discount and cheap house wares and plastic goods, clothing, sporting goods, and toys. Other departments include but are not limited to stationary and office supplies, hardware, home improvement, paint supplies, arts and crafts, cosmetics and toiletries, shoes, books and magazines, greeting cards, and confectionery. Wal-Mart has also encroached into home electronics, automotive supplies, pharmaceuticals, jewelry sales, photo finishing, travel planning, and home gardening. More recently Wal-Mart has begun to move into the grocery store business with its new "Neighborhood Markets."

Everywhere the store has a department; it competes with those businesses, which specialize in that sector, often putting smaller competitors out of business. Wal-Mart can be judged by the fear it puts into its potential competitors and by the uproar caused by them protesting a Wal-Mart incursion, as is the case with grocers.

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In conclusion we can say that Wal-Mart's growth is conducted by expanding stores physically and territorially. Expansion is not limited to the United States; the company is now an international retailer. When a store is in place, its goal is to dominate its local competition in every department of merchandise sold, to become the number one retailer in that sector. Once dominance in a sector is achieved, the company expands by diversifying into new sectors of retail.

2. **The company's competitive strategy**

The company's competitive strategy is to dominate every sector where it does business. It measures success in terms of sales and dominance over competitors. Its strategy is to sell goods at low process, outsell competitors, and to expand. Generally, Wal-Mart does everything it can to win over competitors. A typical Wal-Mart model is to build more stores, make existing stores bigger, and to expand into other sectors of retail. Every step of the way, it strives to make money and dominate its competitors, to the point of putting some of them out of business.

The company has three "Basic Beliefs" or core philosophies Sam Walton built the company on. Those beliefs are: (1) Respect for the Individual, (2) Service to Our Customers, and (3) to Strive for Excellence. Respecting the individual is a call for treating their employees well and pushing them to excel in what they do. The commitment to their customers is a goal whereby the stores respect a pricing philosophy to always sell items as low as they can while providing excellent customer service. The third belief is to strive for excellence, that is to expand the store, innovate, and "reach further" in to new markets and to grow. Other beliefs include, exceeding customer expectations with "aggressive hospitality" such as using door greeters. The store also features patriotic display and themes in its US stores. Another goal for the company is to support efforts in the local community via charitable contributions. Wal-Mart identifies several affiliations with charities such as the United Way and the Children's Miracle Network.

The "Sundown Rule" is a corporate directive whereby all Wal-Mart employees, be they store "associates," management, or corporate staff, must reasonably answer a customer's or supplier request or question within 24 hours. The "Ten Foot Rule" states that store employees must greet, smile, and attend to a customer in a store when within 10 feet of them. It's a type of aggressive hospitality policy. Wal-Mart also compels its staff to engage in morning "cheers" where they recite company sayings.

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A final, yet important rule, which is a strong part of the corporate culture, is Sam Waltons' "Pricing Philosophy" which underlines the company strategy of selling items for less than their competitors, "always."

3. Relating these strategies to the company's strengths and resources.
The company uses its size, financial power, immense resources to dominate retail. That translates into effective use of strategy whether it's operating a local store, or acquiring another retail chain in another country. The power and size of the company enables it to realize its goals with ruthless efficiency.

The strategy is very clear and direct. It was put into place in the 1960's by Sam Walton, and refined over the decades. The company is proud of its strategy and even incorporates it within its moniker "Always Low prices, Always."

The public message of the company is consistent, and has been so over time. The core message is that Wal-Mart is a "family friendly" store, and that it is good to its customers, and that it is an asset to the local community. 2001 Wal-Mart Annual report is consistent in repeating the core message of the company, restating the corporate culture espoused by founder Sam Walton. The messages of selling for less, respecting employees and communities, and expanding are all echoed in the report.

4. Company Strengths
The company is the world's number one retailer, the number one retailer in the US, and the number one retailer in various countries. It was recently ranked number one in sales in Fortune Magazine.

5. Company's weaknesses
There are several areas of concern for Wal-Mart. These can be divided up into categories: Extensive labour relation's problems, Community Relations Problems, and Miscellaneous PR Problems.

Extensive labor relation's problems are common at Wal-Mart. Generally; the company is opposed to Unionized labor. Labor groups cite wage issues, shift scheduling, and workplace rights abuses. This seems to go against its founding principles of respect for employees. The company is also in frequent legal trouble with regulators and union groups in the courts.

Community relations' problems are bound to exist with a corporation the size of Wal-Mart. Likewise, when a corporation is as successful, many a nay-sayer will challenge and scrutinize
the company. Complaints mainly arise from community groups accusing Wal-Mart of destroying the local retail environment in the downtowns of small towns. Those put out of business by the giant retailer are among its most ferocious critics. The Company is accused of monopolistic behavior. Its wages aggressive price wars, and uses its power to bully its suppliers. Other public relations problems vary from zoning violation complaints, to itemized complaints from competitors of Wal-Mart using its power unfairly. Censorship, for example, came up as an issue. Wal-Mart publicly believes in "Family Friendly" products, therefore if a movie or CD contains "mature content" the company will not carry the product for sale. This has caused much criticism from various groups. In all, the company strategy is that of growth, expansion, and diversification by finding new areas to expand into within retail and the service industry. The competition is scared of them. Its customers know its brand, and will shop there because of the price, selection, and size.

III. Wal-Mart Policy Issues

Wal-Mart Stores Inc. became the largest company in the world this year, surpassing Exxon Mobil Corp. to become Number 1 on Fortune Magazine's annual "Fortune 500" list. Wal-Mart took in $220 Billion in revenue last year, and has firmly grasped the spot that it has long aspired to hold: that of the #1 retailer in the world. However, Wal-Mart does not plan to sit on its laurels. There are still several policy issues that they face. These include:

1. Wal-Mart's expansion into the foreign market

Wal-Mart has moved in the past year to further expand into the world marketplace. The retailer already has close to 400 European stores, mostly in the UK and Germany. Where Wal-Mart wants to grow is in the Asian market. On March 15th of 2005, Wal-Mart entered into the Japanese market based on an agreement with partner Seiyu Ltd. Wal-Mart bought 6.1% of Seiyu in an attempt to gain a foothold in the Japanese market. That market has been notoriously unkind to overseas companies, with most shutting down their operations and heading home. According to analysts, Wal-Mart bought its stake in Seiyu to ease itself into the market slowly so shoppers can grow accustomed to the company. Seiyu, a 36-year-old retailer, will school Wal-Mart on Japanese customs to better prepare the retail giant for possible acceptance by finicky consumers.
Wal-Mart is not the first retailer to try to launch itself in Japan, but it is the first to try and work closely with an already established Japanese company to transition itself into the market. The current retail market in Japan is crowded, but weak.

If Wal-Mart learns its lessons well from Seiyu, it will have a good chance of survival. On the first day of the alliance, Seiyu's stock shot up 21%, boding well for Wal-Mart's entry. Wal-Mart is also looking towards greater expansion in Europe and South America. They will continue to pursue partnerships with retailers in those markets to gain easy access to consumers, and continue their dominance.

2. To expand beyond just retail and move into other sectors

Wal-Mart has shown a definite desire to move just beyond retail shopping. Of the nearly 3000 stores in the US, 475 are Sam's Club warehouses, specializing in bulk sales from food to electronic items (ElBoghdady, Dina, "Washington Post"). Their chief competitor in this area is Costco, another warehouse chain, but Wal-Mart has the advantage of having more stores and the regular Wal-Mart stores to back up their investments. Wal-Mart will often attach a Sam's Club near a regular Wal-Mart store, to give consumers two options to choose from. Since Sam's Club also features fresh food and produce, it is also a competitor for supermarkets. Although the cost of obtaining membership in Sam's Club and the sometimes long distance between stores has kept many, especially urban dwellers, from shopping at Sam's Club, Wal-Mart is continuing to expand into areas where Costco's and supermarkets already exist in an attempt to drive them out of business. As long as Wal-Mart can offer low prices on food and other bulk items, they will continue to grow and compete at the warehouse and supermarket level. Wal-Mart has also shown a definite desire to move in on gas stations. Several situations have emerged where Wal-Mart has run out local gas stations by dropping their prices dramatically (ElBoghdady). These stations are not that many at this time, but they are looking for a definite "in" in that market as well.

Wal-Mart is also making a run at large discount electronic retailers like Best Buy and Circuit City. While they do not yet offer computers, they now sell a wide variety of music and movies, and enter into partnerships with certain companies for promotion. For instance, Wal-Mart is offering an exclusive "Special Edition" of the Star Wars: Episode II film soundtrack that has an extra audio track (Finney, Daniel P., Omaha World-Herald). It is available only at Wal-Mart. This is just one example of the partnerships Wal-Mart has made. They did a similar promotion with Shrek.
They are also lowering their prices and advertising a "huge" selection of DVD's. While they in no way rival Best Buy in selection, they are catering to a different demographic. Their selection is much more sanitized, as is their music collection. You cannot purchase a CD with "offensive" lyrics at Wal-Mart. They sell specially made "clean" versions of the songs, and occasionally the cover art. How people listen to the watered down versions of some records, some with a full 30 seconds of dead air on them, is a mystery. This makes them attractive to young families, but has brought up censorship issues, especially in towns that have Wal-Mart as their only source of music. In this way, Wal-Mart has gained the admiration of several high-profile members of Congress, including Conservatives. The praise coming for Wal-Mart's "protection of families", helps them in their next policy goal.

3. Dominance in Labor Relations

Wal-Mart has long tried to hold the upper hand over its work force. They have consistently fought attempts by several segments of their work force to unionize. A recent example is Wal-Mart's battle against the United Food and Commercial Workers (UFCW). There have been several disagreements between the Union and Wal-Mart, as Wal-Mart will not allow its workers to unionize. Several battles have been fought in court and in the U.S. Congress over Wal-Mart's questionable labor practices. Wal-Mart's policy has been one of delay and "terror" in the words of one union representative who has accused the company of old-fashioned union-busting tactics.

Currently, Wal-Mart is almost entirely non-union, and wishes to remain that way. Their thinking seems to be that going union would hurt their bottom line, and take them out of the number one retailer spot they so dearly covet. All of Wal-Mart's competitors are unionized. They simply decided to avoid all the trouble. Wal-Mart has decided to go up against labor laws to keep its overhead lower (Bernstein). The Wal-Mart line on this is that their employees are actually happier this way, but from a quick glimpse at some articles on various web sites, it is obviously not that simple. Wal-Mart employees in Iowa are less than pleased with the refusal of the company to allow them to unionize. They have enlisted the help of the AFL-CIO and labor lawyers to allow them to form a union.

Wal-Mart continues the fight to keep its workers non-union through connections in various government agencies. Wal-Mart continues its campaign against unionization through lobbying efforts.
Wal-Mart has been relentlessly pursuing these three policy goals for several years. It all boils down to their corporate strategy: What does a company do when it becomes the number one retailer in the world? It goes after other markets. It protects itself from loosing market share. Their fight against labor has been going on since the company was founded. They continue their expansion and are fighting anyone who gets in their way.

IV. Stakeholder Analysis

The company manages its relationship with its key stakeholders in a way that maximizes the tactical advantage of Wal-Mart. With groups that the company perceives as hostile, such as labor unions, complaining former employees, or even local ad hoc opposition groups, who are fighting to keep Wal-Mart out of their community, the company uses every means available to it in order to win. The company applies its retail philosophy, of being the best, and winning, into its political and public affairs strategy. Using tools at its disposal, such as the top law firms, and top PR firms, the company does battle in court with those who challenge it. In public, Wal-Mart uses top of the line Public Relations strategy firms to produce commercials for its stores and to portray the best possible image. Another way the company is successful is its ability thus far to keep out of the headlines any significant negative publicity. The company has also avoided being probed by regulators for some of its aggressive retailing and competition practices. In the case of Wal-Mart and government relations, the goal is to have a low profile, and to keep government regulators away.

Its relationships with key stakeholders are maintained as well by the communication of corporate statements on its Internet site and through other paper based corporate communications. It keeps contact with the US Congress through its DC office and retained DC lobbying staff. The strategic and tactical advantage of Wal-Mart when pursuing a political and public affairs strategy is the use of its financial resources. It can buy an army of the top lobby firms, lawyers, and public relations specialists should it need to. Since the company has a history of fighting back, and winning, when it is challenged, that may be keeping larger groups away from fighting the retail giant.

From a scan of recent headlines, the company does not appear to be involved in fighting any major federal legislation. In terms of its government relation's strategy, the company does fight many local and state battles. Notably, Wal-Mart is involved in numerous municipal zoning disputes across the US. At the state level, there are several lawsuits pending due to labor relations issues. The company's strategic and tactical activities are more apparent at the state
and municipal levels. Mainly, the company fights legislation through the courts. Top issues are municipal zoning regulations. At the federal level, it is worth noting that Wal-Mart gives heavily to Republican candidates, who happen to be generally pro business in their voting.

Wal-Mart does not generally employ a grassroots campaign strategy, as it has no established infrastructure to do this. However, Wal-Mart is the single largest service sector, public employer in the US. It has over 1 million employees. Should the company wish to tap its "associates" to become active on an issue, such as trade, for example, they would have a large base of people to draw upon. Quinn noted that Wal-Mart sometimes stages grassroots efforts to oppose local groups who are rallying against a store opening. Wal-Mart will send in professionals and staff from its headquarters to form business development and revitalization committees, and use these fronts to challenge the anti-Wal-Mart groups.

In terms of consistency, the company has much to improve in the way of dealing with communities and groups. The company chooses to cut costs and push the boundaries of existing regulations. Then it fall victim to lawsuits and is sued for millions of dollars. The company has a goal of keeping out unions. Yet, the company by its frugal employee wage compensation practice, the reliance on part-time workers, and unfair shift scheduling practice, is creating discord among its employees. These conditions foster the development of labor unions. If the company were to improve its payment and treatment of employees, perhaps it can avoid future problems and issues such as turnover.

The company is well positioned to tackle any obstacle. While not maintaining a large government relations department, the company retains top lobbyists, making it ready and capable to deal with issues as needs warrant.

V. Alternative Strategies for Wal-Mart

Wal-Mart is currently enjoying a record year in which they have vaulted to the top of the Fortune 500 listing. However, they have not implemented their strategy in the best possible way; especially in regards to public relations. Many in retail see the company as a bully and a tyrant. They present the impression of a corporate bully that destroys communities and clamps down on workers rights. Alternative strategies available to Wal-Mart are to adopt a friendlier corporate attitude. While they display a cheery attitude in public, off camera they are quite aggressive. Coming to an understanding with organized labor is needed. They must ease their way into foreign markets, instead of barging in and buying up companies. If these strategies are used,
Wal-Mart shall not only be the largest retail chain in the world, it could become one of the most popular stores in history.

The first area that needs to be addressed is Wal-Mart's aggressive corporate strategy. Surely, there is nothing wrong with being aggressive in the marketplace. However, Wal-Mart has gone about it in such a way as to seem ruthless. Countless grassroots, anti-Wal-Mart groups have sprung up to keep the retail giant out of their communities. The public perception is that Wal-Mart can destroy a community. Wal-Mart does not help this perception when it comes in and shuts down all the local businesses and then proceeds to move in on other areas. Wal-Mart boasts that it provides jobs for the people in a particular area it moves into. The underlying reality is that they have to work at Wal-Mart because the local stores were shoved out. To fight this negative image, Wal-Mart must stop trying to circumvent laws when building new facilities. It must demonstrate precisely how it can be a good neighbor.

Wal-Mart loves to throw money at charities and say it does good work. They need to be more active in this work, and not simply provide cash to organizations such as the United Way. Also, the company boasts raising over $150 million in 2001. That money however was raised from the contribution of employees, rather than from company coffers. Wal-Mart needs to send its store managers and executives into local communities to give their time in the community in a meaningful way. It would also be a plus if salaried store managers were permitted to work on community projects on company time, rather than being encouraged to do things on their own time.

This cheapness reflects badly on the company. The public loves to see people in positions of power helping out the little guy. People love this, and if Wal-Mart could do something along those lines every so often and get local media to cover it; they would deflect a lot of the negative press that says they hurt communities. The story would change from "Wal-Mart Behemoth Rolls Into Town" into "Local Wal-Mart Workers Donate Money, Time to Help the Local Poor". Wal-Mart could continue to expand at its current pace, but could shift the focus away from its local dominance to all the good it is doing. This would raise its profile immensely.

Secondly, Wal-Mart needs to relax its anti-unionization policy and allow its employees to freely choose to organize themselves in a union. They are getting walloped on every front for their commonly known unfair labor practices. Many in the public are sympathetic to the rights of workers to unionize and have a collective voice in the workplace. Wal-Mart, like any corporation, is driven by profit. Many American companies, which are unionized, do well in business. A
current issue involves workers in Wal-Mart's automotive division, who want to unionize. Wal-Mart is using serious political capital to keep that from happening. This is a giant mistake that will hurt the corporation in the long run. The National Labor Relations Board and several unions are suing them. This fight will end up costing Wal-Mart more than allowing its workers to unionize in that store. In addition to litigation costs, Wal-Mart loses credibility and reputation (Fortune, March 18, 2002). Wal-Mart's fight to keep out unions forces the company to do battle with its employees, fight legal battles with local regulators, and to look bad in the media.

Expansion into foreign markets, especially left leaning European nations will mean that Wal-Mart will increasingly confront the unionization issue. Their reaction to that confrontation could land the company into trouble not only with European regulators, but also with angry European customers.

Finally, Wal-Mart must better utilize its political capital and learn from the experience of local retailers when attempting to expand overseas. The stores must be willing to bend their uniformity and consider the reaction of the local culture. They have begun to adopt this posture in their dealings with Japan and the deal with Seiyu, a Japanese retailer. However, some of their other ventures thus far have not run as smoothly. In Canada, for example, stores in the province of Quebec had some initial cultural difficulties. The over patriotic style of Wal-Mart did not work well with the culture in Quebec, which shuns overt patriotism. Flying a Canadian flag in a Quebec store can become an embarrassing political issue due to heightened francophone Quebec nationalism in some regions of Quebec. Yet to fly only a Quebec flag and not the national flag of Canada is a symbol of supporting separatism. The company learned quickly to tone down its use of patriotism in Quebec. Another mistake the company made in Quebec was to publish its circular in the English language, to a mostly French speaking population. This illustrates the larger point, that Wal-Mart has much to learn about the various cultures it is dropping its superstores into.

Germany, England, and stores in South America have all not performed up to speed, and in fact Wal-Mart has had to close stores in all these locations because it was not ready to meet the needs of its new clientele. The world is not yet-ready for full-on, US Wal-Mart style retail, especially in the current anti-American climate in Europe. Wal-Mart must consult with business leaders in the various countries they are growing into, and find out the best way to attract business and not upset the local populace.
Wal-Mart experienced problems in Germany, where they attempted to drop all their prices below their competitors. This is against the law in Germany, where price-fixing by the government is commonplace. Wal-Mart eventually circumvented the law, but this did not make people in Germany happy. Wal-Mart needs to work better with governments, not against them, to adjust to the various markets and achieve success overseas Wal-Mart might have to spend more money and more time to implement the aforementioned strategy ideas. Bad press is simply not good for the bottom line in the long term, and it can't get much worse than it has regarding labor relations.

A friendly corporate image is more than a smiley face that slashes prices. Putting ones own people out helping the public is what makes a company visible. Working with governments and being sensitive to local cultures instead of working against them will benefit the company in the long term. By implementing these suggestions, Wal-Mart would not only expand into foreign markets at a quicker pace, they would also be better positioned to defend themselves against their critics.

**Conclusion**

In conclusion, Wal-Mart is the number one retailer in the United States and is at the top of the Fortune 500 listing. Wal-Mart operates in many countries worldwide and is moving into new countries every year. Wal-Mart is also expanding as a retailer. They have expanded into many other sectors of the marketplace, including groceries, gas stations, electronics, and auto maintenance. Each year, Wal-Mart finds new ways to grow and offer more services to their customers.

Each year, the number of people who have a stake in Wal-Mart also grows. Each year, more claims are made against Wal-Mart by the unions and other businesses that have been forced out of business. Wal-Mart is often able to uncut many other local industries and more and more local businesses are shutting down when Wal-Mart moves into town. The unions are filing more court claims against Wal-Mart because they encourage their workers not to join unions.

As a result of Wal-Mart's ever growing size and variety of services they offer, their public affairs department is going to become more and more important. As Wal-Mart effectors of the marketplace, there is going to be more regulation against them and their public affairs department is going to have to work harder to make it possible for Wal-Mart to continue to grow. And as the animosity against Wal-Mart becomes more widespread, here and in foreign countries, Wal-Mart is going to have to work harder to maintain their good reputation. Wal-
Mart's foundation will become increasingly more important for giving things back to the community. In order for Wal-Mart to stay at the top of their game and follow the company strategy and achieve their key policy goals, they are going to have deal better with their stakeholders and make sure they guard their reputation well. Thus Wal-Mart can be the retail marketer whose many policies can be benchmarked by the Indian retailers and many strategies can be adopted in the Indian context.