Calabash Case Notes - Draft

Case: Wal-Mart Stores Inc.: Dominating Global Retailing
Case #: A09-04-0012
Thunderbird: The Garvin School of International Management

Case Notes

■ Section: Abstract

01. **Market Development:** The decision of Wal-Mart to expand into other countries reflects the Market Development cell of Ansoff's strategic opportunities matrix (also known as the Marketing Opportunities Matrix). In this situation, the company is taking its current market offering and setting up, essentially, as is, in a new geographic area. The major characteristic of market development is a change in the target market, whether it is based on a different geographic area or another characteristic of the selected target market.

02. **Business Model:** A business model is a description of how the business operates, indicating the major participants (company, suppliers, customers/markets), product flow, revenue sources and uses, structural relationships among participants, facilities, etc. In the Wal-Mart case, there are suppliers, company headquarters, distribution centres, transportation facilities, retail outlets, customers, etc. Revenue is based on direct payment (versus commission, royalties, etc.). Read through the case and draw a flow chart showing the different components and relationships (i.e., how things work). Are there future plans indicated that can be added to the model?

03. **Channel Captain:** Because of the size and economic power of Wal-Mart in the channel of distribution involving its suppliers, Wal-Mart has assumed the role of channel captain. A Channel Captain is defined as a member of a channel that exercises authority or power over other members of the channel. In this case, a retailer is the channel captain.

04. **Monopolistic Competition:** Since there are a number of retail operations that are similar to Wal-Mart, competing in the same consumer market, the economic structure of the industry is that of Monopolistic Competition. While such stores compete on a number of retail mix dimensions, each store has a degree of uniqueness that allows it to attract certain customers because of a degree of "monopoly" in this area (e.g., unique location, image, location, price). [Other economic structure forms include monopoly, oligopoly, duopoly, and pure competition.]

05. **Strategy:** Strategy refers to the nature of the policy structure of the firm. In this situation, Wal-Mart (WM) has established very specific policies with respect to their dealings with

suppliers. A policy indicates what the general approach of the firm is like [e.g., A skimming pricing policy indicates that the firm will set a very high price when the product is first introduced, but, over time, the price will come down. The actual price set is a tactic.]

06. **Tactics:** Tactics refer to the detailed aspects pertaining to the implementation of a strategy (e.g., actual prices, color and design of the store, details of exchange and return policies, delivery requirements of suppliers)

07. **Conflict:** When one party in a channel relationship takes action that jeopardizes the goal attainment (e.g., sales, profit) of another party in a channel, then channel conflict is said to exist. Requiring suppliers to meet the price demands set by Wal-Mart places the two parties [i.e., the buyer (Wal-Mart) and the seller (i.e., the supplier) into conflict. The possibility of a push-back by the suppliers because of WM's continued pressure to have the suppliers reduces their prices indicates the presence of conflict.

08. **Power:** In a channel relationship, when one channel member seeks to get the other channel member to do something they would not otherwise do, then the former has Power over the other channel member. If a channel member would carry out the behaviour desired of the other channel member, then power is not a relevant concept. The different types of power that can be identified in a channel relationship include the following: Reward, Coercion (i.e., punishment), Expert (one channel member wants the knowledge of the other channel member), Referent (want to identify, be part of the channel, involving the other channel member), and Legitimate (legal base - contract) power.

09. **Competitive Advantage:** If one firm has a characteristic that is viewed as more positive or more acceptable by the market, such that it attracts the customers, particularly to the detriment of the competition, then the former firm has a competitive advantage (e.g., low price, location). Such characteristics, however, can often be easily matched, and neutralized, by the competition, particularly, price (e.g., air fares).

10. **Sustainable Competitive Advantage:** If the characteristic on which a firm establishes a competitive advantage cannot easily and readily be copied by competing firms, then the former firm is said to have a sustainable competitive advantage (e.g., patent, location).

11. **External Environment:** The external environment in which a firm operates consists of the following primary categories **-** Competition, Economic Environment, Regulatory Environment, Technological Environment, Social Environment (CERTS). The latter environment, S, deals with the cultural and political nature of the environment.

■ Section: Introduction (pp. 1 -2)

12. **Certainty/Uncertainty/Risk:** WM is performing well, despite the overall weakness in the world economy and the uncertain market environment. Risk means there is a possibility of loss. Uncertainty means that the actual outcome for the situation is uncertain - i.e., there is doubt as to the outcome. Certainty means that the actual outcome for the situation is certain - i.e., there is no doubt as to the outcome. [para.1]

13. **Economic Environment (CERTS):** The world economy is one aspect of the Economic Environment. [para. 1]

14. **Growth Stage of the Retail Life Cycle (RLC)/Product Life Cycle (PLC):** In Q2 of 2003, WM had an increase in sales, indicating that it is in the Growth Stage of the Product Life Cycle (or it could be in the Maturity Stage as an institution, since it does not indicate whether sales are increasing at an increasing rate (Growth) or increasing at a decreasing rate (Maturity). The concept of Retail Life Cycle indicates that retail institutions, like products and services, pass through very distinct stages: Innovation, Accelerated Development, Maturity, and Decline. The parallel stages for the Product Life Cycle are Introductory, Growth, Maturity, and Decline. In each case, there is actually a Saturation stage (between the Maturity and Decline stages), where sales are constant. When WM first began in Arkansas, it was in the Innovation stage; it has since moved into at least the Accelerated Development stage, as long as sales and/or store openings are increasing at an increasing rate. Once sales and/or the number of new store openings is only increasing at a decreasing rate (i.e., sales are still increasing, but percentage wise, at a slower pace, compared to the previous years, the store is in the Maturity stage. [para. 1]

15. **Marketing Opportunities Matrix:** Company has expanded into Germany, South Korea, China, and the UK. This indicates that WM has engaged in Market Development (taken its current operation as is into a new (geographic) market or at the most, has engaged in minimal Diversification (new market offering in a new geographic market). There is a range of Diversification that a firm can follow: from a slight change in the product or market offering (e.g., alter some policies to meet market situation) to a significant change (totally new product in a new market). The other two cells of the Marketing Opportunities Matrix are Product Development (create a new product for the current market) and Market Penetration (attempt to increase sales of the current products to the current target market). [para. 1]

16. **Retail Life Cycle:** The store started 3 decades ago; this was the beginning of its Retail Life Cycle - Innovation. [para. 1]

17. **Accelerated Development (RLC)/Growth Stage (PLC):** There is concern whether WM can sustain the pace of growth of the past. This indicates WM is concerned about what would happen once it entered the Maturity stage, when growth is slower. [para. 2]

18. **Attitude/Social Environment (CERTS):** The backlash against big-box retailers deals with the Social Environment and indicates a changing Attitude by members of society toward such stores. [para. 2]

19. **Intra-Type Horizontal Competition (Conflict):** Dollar General is a retail firm that is expected to compete directly with WM, thereby creating a conflict situation between the firms. Intra-Type (Horizontal) Competition means the firms are at the same level in the channel (i.e., retail) and are of the same type (i.e., general merchandise stores). Any competition that is at the same level (i.e., retail) but of a different type (e.g., drug store or supermarket) that competes with WM reflects Inter-Type (Horizontal) Competition (Conflict). The concept of conflict applies in the case of competition since when one store gets a sale from a customer the other store does not get the sale, hence, only one of the firms achieves the sales/profit goal. [para. 2]

20. **RLC (Innovation):** Since Dollar General is a recent market entry, it is in the Innovation Stage of the RLC. [para. 2]

21. **Perception (Belief) –> Attitude –> Behaviour Model:** The new competition indicates that customers get lost in WM stores because they are too big (cavernous). This belief, and resulting Attitude [i.e., an organized configuration of cognitions (beliefs)] is expected to lead customers to the new competition, since the stores are smaller and the prices (the main drawing card of WM) are comparable. Thus, Attitude leads to Behaviour, based on consumers' Perception of the stores. In this way, the consumer increases the level of utility (i.e., that which results from the satisfaction of needs and wants) received from shopping. [Needs relate to desires of the human organism (see Maslow's Hierarchy of Needs); wants channel needs toward available market options (e.g., you need food but want a Big Mac!)]. [para. 2]

22. **Neutralize Competitive Advantage:** WM's strongest weapon is low price, generally giving it a Competitive Advantage. However, since Dollar General offers comparable low prices, the price advantage of WM is neutralized, putting both firms on the same ground. Price is one of the easiest Marketing Mix components to match, particularly for comparable firms. [para. 2]

23. **Retailing Mix:** A retailing strategy comprises a target market and a retailing mix (parallel to the concept of Marketing Mix and Marketing Strategy). The store facilities (size and resulting atmosphere) is one component of the Retailing Mix. The size of the WM stores is believed to be too big for some customers. [para. 2]

24. **Economies of Scale/Competitive Advantage:** While WM stores are larger than the Dollar General stores, is WM able to take advantage of Economies of Scale with the larger stores? Are the fixed and variable costs per dollar of sale lower for WM than for Dollar General, since these costs can be spread over higher square footage? If WM can achieve such lower costs, then it would have a Competitive Advantage over the competition, even if prices are comparable, and would have a higher profit margin. Or does WM face Diseconomies of Scale with the larger stores (i.e., too large to efficiently operate)? What is the optimal size for a WM store? [para. 2]

25. **Monopolistic Competition:** WM has other competitors (Carefour, Metro, Auchan, Ahold, and Tesco) in the emerging markets that compete directly for the same target market; for this reason, WM is in a Monopolistic Competition Environment. [para. 3]

26. **Experience Curve/Competitive Advantage:** Since the competition had entered the emerging markets before WM, these firms have had time to learn the nature of this market. This gives these firms a competitive advantage over WM, until WM moves along the Experience Curve and gains the same understanding. [para. 3]

27. **Reward Power and Coercive Power:** WM has the use of Reward Power and Coercive Power over the Manufacturers. By offering a manufacturer, WM rewards the company with sales and potential profit; by denying the manufacturer a contract of sale for not following the dictates of WM (use of Coercive Power (punishment), the manufacturer loses sales and potential profit. Because of the volume of sales achieved by WM, WM has a strong base of Power over the suppliers. [para. 4]

28. **Dealer (Store) Brands and Manufacturer Brands:** Promoting its own labels and store brands (aka: Dealer Brands) gives WM another source of market power. These brands do not identify the actual manufacturer of the product on the label; the label only indicates that it was made for the Retailer, or some other Channel Intermediary (e.g., Broker, Wholesaler). [Retailers, Wholesalers, and Brokers are examples of Channel Intermediaries - they exist between the Manufacturer level and the Consumer level. Manufacturers are not channel intermediaries. Since WM controls the shelf space in its stores, it can determine where and how many shelf facings (number of rows of a given brand a customer sees on the shelf) to allocate to its brands. Space within a store is a limited resource, a resource a store wants to utilize efficiently. Dealer brands tend to cost the retailer less than Manufacturer Brands [brands that identify the name of the manufacturer on the label (e.g., Tide Detergent - Procter & Gamble, Diet Coke - Coca-Cola)] and offer a higher profit margin. Allocation (how much space given to a brand) and Arrangement (where brand is placed on a shelf - e.g., top shelf, eye level, bottom shelf) are two important areas for retailers. [para. 4]

29. **Conflict and Power/Gatekeeper:** In order for suppliers to ensure contracts with WM, price concessions are required. This causes a Conflict between the two levels of the Indirect Marketing Channel (manufacturers sell to retailers who then sell directly to final consumers, but indirectly on behave of manufacturers): WM wants to achieve its goals of higher sales and profits and the manufacturers want to achieve the same; but it is not a zero-sum game, since both parties cannot maximize the attainment of their respective goals, someone needs to make a concession. Since WM has greater Power (Reward and Coercive) - it is the one that decides if shelf space is given to a given brand. Manufacturers with brands that have high brand loyalty, and, thus, consumer Pulling Power), are in a better position to deal with WM. However, in the end, WM acts as the Gatekeeper in the buying process, deciding whether consumers will have access to a given brand in its stores. Manufacturers can use Pushing Power to encourage WM, or any store, to carry its product (i.e., to encourage the Retailer to stock the product). This is often accomplished by offering some form of reward to the Retailer (e.g., lower price). Thus, any party to a transaction can make use of the different forms of Power. In the current situation, WM is demanding price concessions (a component of the Marketing Mix, generally, a controllable variable on the part of the firm). If the suppliers comply, they will be rewarded; if they do not comply, they will face punishment in terms of lost sale (i.e., use of Coercion on the part of WM). [para. 4]

30. **Contract Manufacturers/Competitive Advantage/Sustainable Competitive Advantage:** Contract manufacturers are firms that produce product-brands for Channel Intermediaries (retailers, brokers, wholesalers). The label of the product only indicates that the product was made for the contracting channel intermediary; it does not directly indicate the actual manufacturer. Channel Intermediaries with dealer brands that have strong consumer demand obtain a Competitive Advantage over the competition, since such brands (i.e., label) are only available from that dealer. Most manufacturer brands are available from a wide variety of retail outlets, thereby neutralizing any stocking advantage a retailer may seek to achieve. In a sense, by developing a dealer brand, such an advantage can achieve the level of a Sustainable Competitive Advantage, since no one else can offer the same product-brand (e.g., Kenmore brand by Sears), as long as there is strong market demand for the brand. Of course, competitors (i.e., other dealers and manufacturers) can weaken such a market position by coming out with their own similar brands. Offering dealer brands also shifts market power from the manufacturer to the channel intermediary. [para. 4]

31. **Conflict/Contract Manufacturing:** The action of WM to develop its own brands has resulted in Conflict between WM and the traditional suppliers of Manufacturer Brands, since potential sales are being diverted to such brands. While the traditional suppliers could offer to make the dealer brands, this would compromise their market position (e.g., Coca-Cola could produce the Safeway line of soft drinks; Heinz could produce the A&P line of ketchup). What would the marketing implications be for such manufacturers? In

order to keep the Wal-Mart account, as the case indicates, some manufacturers have agreed to become Contract Manufacturers for WM. [para. 4]

32. **Legal Issues (CERTS)/Store Image:** Regulatory (legal) matters plague WM: overtime pay issue, gender discrimination, and employment of illegal immigrants. Such matters can have a negative impact on the Corporate Image [an individual's (consumers, citizens) perception of the company involved]. Corporate image is one component of the overall Store Image. Store Shopper Image (an individual's perception of the typical shopper at a given store) and Product/Brand Image (an individual's perception of the product/brands sold by a given store). [para. 5]

■ Section: The World of Discount Retailing (pp. 2 - 3)

33. **Inter-type (Horizontal) Conflict (Competition):** Discount retailers compete against the traditional retailers. Since all of these firms are at the same level in the channel (i.e., retail), the competition is of a horizontal nature. Since the competing categories of firms are of a different type (i.e., discount vs. traditional), the competition is of an inter-type (i.e., between) nature. Competition by its very nature implies conflict, since conflict can be defined as a situation where one firm threatens the goal attainment of another firm. In this situation, the discounters are threatening the goal attainment of the traditional (i.e., non-discount retailers). [para. 1, p. 2]

34. **Intra-type (Horizontal) Conflict (Competition):** The competition among Wal-Mart, Carrefor, Ahold, Metro, and Tesco is of an intra-type (horizontal) nature. Intra-type means "within" - all of these firms are of the same type (i.e., within the same retail category of discounters). Note: There are two types of horizontal conflict: intra-type and inter-type. [para. 3, p. 2]

35. **Market Development:** The reference to "global discount chains" indicates that the firms mentioned have expanded beyond their home markets by engaging in (at least) market development (see Marketing Opportunities Matrix) on a geographic basis - taking their current operation into new markets. [para. 3, p. 2]

36. **Business Model:** The business model employed by the discount chain parallels that of Wal-Mart. The model is based on high-volume purchases (i.e., volume-based contracts) from suppliers to meet customer demand for the global operation. Because of the size of the order, quantity discounts and lower per unit transportation costs are realized, a result of the associated economies of scale in both areas. Some of the cost savings are passed on to customers in the form of lower prices. Firms that can take advantage of such economies of scale have a competitive advantage over competitive firms that are not so fortunate. As the case indicates, all of the identified global chains have been able to

leverage global economies of scale in purchasing; hence, any competitive advantage in this area is neutralized. As a result, competition among the firms focused on attracting customers using the Retail Mix (e.g., merchandise mix, prices, convenience) [Retail Mix: Product, Price, Presentation (store design, layout, displays), Promotion, Personal Selling, Customer Services, Location)] The discount business model focuses on the ability to sell for less. The question, then, is how does the firm achieve such prices while, at the same time, being profitable. [Economies of scale indicate that lower costs per unit are realized at higher volume levels, since fixed costs are spread across more units - thereby, lowering the fixed cost per unit, and, hence, the overall cost. Price = Average Fixed Cost + Average Variable Cost + Average Profit (P = AFC + AVC + AP). As a percentage value of price, AVC + AP reflects the Markup on Retail Value (i.e., MU] [para. 3, p. 2]

37. **Efficiency/Effectiveness:** The sophisticated information system for supply chain planning provides the means by which the operation system can be efficient (higher level of output per unit of input, or lower cost per unit of output) and effective (accomplish what needs to be accomplished). Note that, in this case, the system was designed to optimize supply chain planning and execution. Optimize means to achieve the best result while taking into account all concerns (vs. trying to maximize any given aspect) [A supply chain deals with the relationships that a firm has with customers and suppliers and any other party relevant to the system (e.g., channel facilitators, like financial institutions), the task of order fulfillment, the processes and linkages involved, and the material, product, information, and financial flows that are required to sustain the system.] The technological aspects of the information system relates to the T in CERTS - Technology, a component of the external environment. [para.3. p. 2]

38. **Marketing Universal:** A marketing universal is a concept that applies anywhere in the world. International expansion of the discount stores (e.g., Carrefour) was based on the premise customers everywhere would be attracted by the "value of the offer." [para. 3. p. 2]

39. **Target Market:** The global target markets were heterogeneous in nature across markets: multicultural. For this reason, retail strategies were developed by the discounters that matched the needs and wants of the local markets ("carefully orchestrated strategies in each country"). At the global level, a "mass marketing" or "undifferentiated targeting approach" approach was not being used - i.e., the firms did not design a single Retail Mix and apply it uniformly across all countries. [para. 3, p. 2]

40. **Business/Marketing Goal:** One of the goals of the firms was to obtain market share, and to do it quickly. [Distinction between goal and objective: a goal is qualitative in nature (e.g., increase sales); an objective is quantitative in nature (e.g., increase sales by 5% within 2 years). [para. 3, p. 2]

41. **Horizontal Integration:** One way to expand in a market quickly is to acquire or merge with the competition, which the discounters did. Taking this action with respect to firms that are at the same level in the channel and of the same time reflects intra-type (horizontal) integration. Such action also removes potential conflict, since a possible competitor is removed from the new market. [para. 3, p. 2]

42. **Competitive Advantage/PIEC:** The identified global discounters possess the following forms of competitive advantage - deep pockets (i.e., lots of money to invest), innovative strategic thinking, and faultless execution. New competitors to the market can always play follow the leader on the latter two areas, thereby, nullifying the level of advantage to at least some degree. This approach also avoids facing the consequences of implementing these approaches. The advantage of deep pockets will be a little more difficult to overcome, unless the new competitor also has deep pockets, which WM does. WM also appears to have the capability of innovative strategic thinking and faultless execution, as illustrated by its past success; for these reasons, the identified competitive advantages of other global discounters may not be too difficult for a firm like WM to overcome. WM could also offer innovations of its own. This discussion area also deals with the PIEC marketing management framework: Planning, Implementation, Evaluation, and Control. Firms plan new strategies and approaches, implement the strategies and approaches, evaluate the level of success of the new strategies and approaches, and then made adjustments to the strategies and approaches when necessary (i.e., Control). The planning of innovative strategies and the execution of such strategies are illustrated in this paragraph. [para. 4, p. 2]

43. **Business Goal:** The discount retailers have a goal of attaining supremacy (i.e., market share leader) in emerging markets. [It is a goal vs. an objective since no quantitative statement - level of attainment - is identified.] [para. 4., p. 2]

44. **Legal Environment (CERTS):** The emerging markets (Argentina, Brazil, Hungary, Turkey, and India) have deregulated the market to allow established (foreign) global marketers to enter the market. The Latin term "de novo" means fresh, new. [para. 4, p. 2]

45. **CERTS:** The emerging markets have higher growth rates than other markets. This analysis focuses on the economic environment of the identified areas. [para. 4, p. 2]

46. **Business Goal:** The initial firms that enter the emerging markets are expected to be profitable. A firm that enters the market would have profit as a goal. [para. 4, p. 2]

47. **Retail Life Cycle:** The new firms entering the emerging markets (i.e., new markets for the firms) would be starting at the Innovation stage of the RLC in these markets (parallels Introductory stage of the Product Life Cycle).

48. **Breakeven Point:** WM, Carrefour, Metro, and Tesco all have positive earnings [no earnings value provided for Ahold]. This indicates the these firms are operating above the breakeven point [i.e., Total Revenue (TR) is greater than Total Cost (TC). (TR = P x Q; TC = TFC + TVC, where TFC = Total Fixed Cost and TVC = Total Variable Cost). Above breakeven, the markup within each dollar of sales goes directly to profit; below breakeven, the markup within each dollar of sale required to reach breakeven represents the level of loss.] [Exhibit 1, p. 2]

49. **Market Penetration:** Market penetration Exhibit 2 refers to the number of international retails in each of the identified geographic markets (i.e., countries). Market penetration is also a concept within the Marketing Opportunities Matrix (Strategic Opportunities Matrix) and in terms of how much of the identified target market purchases or uses a given product or service. [Exhibit 2, p. 3]

■ Section: Creating the Wal-Mart Empire

50. **Retail Life Cycle (RCL):** WM was founded in 1962; this was the beginning the RCL for the firm (Innovation stage). (Introductory stage in the PLC). [para. 1, p. 3] [para. 1, p. 3]

51. **Target Market:** The nature of the initial WM target market was "budget conscious." This is an attitudinal characteristic of the consumer. [This attitude may be influenced by the demographic characteristic of income, but not supporting information is provided.] This attitude is expected to influence the shopping behaviour of the consumer. [para. 1, p. 3]

52. **Business-to-Consumer Market (B2C):** Retailing, the business activity of selling to final consumers, involves a relationship between a business and a consumer, hence, it is a B2C relationship. [versus a Business-to-Business (B2B) relationship (e.g, manufacturer-to-retailer). [para. 1, p. 3]

53. **Franchise:** Ben Franklin Stores has a business model that is based on a Business Format operation - BFS provides the knowledge on how to operate the store under the BFS banner. A contract between the franchisor (head office) and the franchisee (local operator) determines the nature of the relationship between the parties (the other franchise business model is the product/trademark format (e.g., car dealers, gasoline stations). A major power base for the franchisor is Expert Knowledge - franchisees agree to enter into a relationship with the franchisor because of the knowledge the franchisor has about the business, something the franchisee wants, otherwise they could set up their own business, if they new how to. [para. 1, p. 3]

54. **Chain Store:** A chain store is a retail operation that has multiple outlets in the system that are under common ownership and operate under some level of centralized purchasing and decision making (i.e., through head office). [para. 1, p. 3]

55. **Organizational Learning/New Product (Retail Format) Development:** When Sam Walton approached the head office of Ben Franklin with the idea for a new retail format based on discounting, the BF group rejected the idea. This type of response is consistent with the concept of Organizational Learning, the way firms learn and adapt - quite often, firms learn to do things in a given way and often show a tendency to reject new ways, particularly if the old way is successful. The idea of discount retailing would be considered to be a New Concept under the New Product Development (Retail Format) Process if nothing existed before that satisfied a given consumer need. The expectation is that there is a consumer need for a product or service that does not yet exist. Traditional retailers did exist at the time. The discount approach would be considered a New Process if it were designed to replace a currently existing product or approach (e.g., self-serve gas stations replaced full-service gas stations, ball point replaced fountain pen, transistors replaced vacuum tubes in TVs and radios, microchip replaced the transistor). On the continuum between New Concept and New Process, discount retailing would be closer to the New Process end. There was evidence that consumers had a need to make purchases from a retailer; one only needs to determine whether consumers would make such purchases from discount retailers. If the New Process already has market acceptance, then the approach suggested by Sam Walton would be a New Brand/Store (i.e., store banner). At the New Brand/Store level, one knows there is a need to be satisfied and one knows that the retail format is accepted. The only question that remains is whether the market will accept the new store (i.e., new banner) (e.g., like a new airline coming into the market today). [The final stage of the New Product Development Process is a New Model (e.g., next year's model of a brand of car that has been successful in the past, but changes have been made to the new market offering). The only question is whether the market will accept the new, updated model - since the need is there, the product category has been accepted, and the past versions of the brand have been accepted.] [para. 1, p. 3]

56. **Entrepreneur:** Setting out on his own shows that Sam Walton was an entrepreneur - one who organizes, manages, and assumes the risk of a business. [para. 1, 2, p. 3]

57. **Stock Turnover (STO) (Inventory-Turn Velocity):** The basic formula for STO is Net Sales divided by Average Inventory at Retail [ST0 = NS/AIR], where "at Retail" refers to the selling price. STO means the number of times a year the average inventory is sold. In order to stimulate sales, there is an optimal level of inventory required - too much inventory is costly and to little inventory can lead to stockouts (i.e., lost sales due to a lack of inventory). STO therefore involves a balancing act on the part of the retailer. The lower the AIR required, the lower the investment in inventory and space, and other associated costs. [There are industry standards on the expected STO for different product

categories.] The faster an item sells, the lower the inventory investment. There are three ways to increase STO: (1) by increasing sales, (2) by reducing average inventory, and (3) by increasing sales and by reducing average inventory at the same time. One way to increase sales is to reduce price, the basic idea behind discount retailing. While a lower price may mean a lower markup per unit, more units are expected to be sold, thereby, generating the desired level of profit. The competitive advantage of high volume and high STO is derived from the potential profit that can be earned, the lower cost per unit for the products purchased from suppliers, the low selling prices that can be set, and the volume of customers that are attracted to the store, who also are expected to make impulse purchases while in the store (i.e., stimulating high sales volume by lower prices is achieved by a lower cost of goods sold level). The competitive advantage can be neutralized by firms that are able to achieve similar sales volume levels and cost of goods sold (COGS). [para. 2, p. 3]

58. **Downward Sloping Demand Curve/Elasticity of Demand:** Within a reasonable range, demand is expected to increase at lower prices, hence, a downward sloping demand curve. Discount retailing sets lower prices with the expectation to increase the quantity level of demand. The lower prices are due to lower markups, which are possible because of a lower cost of operation, including the cost of goods sold. Elasticity of demand refers to the fact that the level of demand is related to the price, and the concept focuses on the impact of a price change on the level of Total Revenue (TR). An elastic demand situation indicates that TR changes in the opposite direction of a price change (i.e., a price decrease leads to an increase in TR; a price increase leads to a decrease in TR); an inelastic demand situation indicates that TR is changes in the same direction of a price change (i.e., TR increases when the price increases; TR decreases when the price decreases); and unitary elasticity indicates that TR stays the same regardless of the nature of the price change. Note that elasticity of demand is not directly related to level of profit - the focus is on the impact on TR. [para. 2, p. 3]

59. **Retail Life Cycle (Product/Service Life Cycle)** While RLC and PLC are usually analyzed in terms of dollar sales (sales is along the vertical access and time is along the horizontal access of a graph of these cycles), the number of store units (or product units) can be used instead of dollar sales. The first store opened in 1962; by 1969 there were 18 stores. WM began its life cycle in 1962 and progressed slowly for the first 7 years, moving along the RLC (PCL). Over 3 decades the number of stores opened reached 4,250. By analyzing the percentage change in the number of stores in a given year, relative to the previous year, it is possible to determine where the store is in its life cycle. In the Innovation/Introductory stage, the number of store openings begins and, hopefully, starts to increase, if desired. In the Growth/Accelerated Development stage, the number of store openings increase at an increasing rate compared to the previous year (i.e., new store openings increase at an increasing rate). In the Maturity stage, the percentage change in new store openings increase at a decreasing rate (i.e., the percentage change is

smaller when compared to the previous year). In the Saturation stage, the number of new stores is zero. In the Decline stage, then number of stores in existence decreases; a percentage change can be determined. In terms of sales, the sales level had grown to $245 billion, indicating the firm is in the accelerated development/growth stage or the maturity stage (information to determine the rate of change is not provided). [para. 2, p. 3]

60. **Target Market - Geographic & Demographic Segmentation:** WM's initial target market was based geographic segmentation (rural town) and population size - 5,000 to 25,000 population (demographic). As indicated above, segmentation with in the towns was based on attitude (i.e., the budget-conscious consumer). [para. 2, p. 3]

61. **Legal Entity:** WM incorporated in 1969, thereby becoming a legal entity in of itself, versus being a personal extension of the owners (i.e., private, family business). [para. 2, p. 3]

62. **Retail Format:** Essentially the Business Model in terms of the structure of the retail operation (e.g., traditional discount store, box store, supercentre, warehouse store). [para. 2, p. 3]

63. **Target Market:** The initial target market consisted of consumers who were not well off economically (demographic variable). [para 2, p. 3]

64. **CERTS:** The initial target markets for the WM were areas on well-off economically (E). The competition (intra-type and inter-type) was limited (C). The selected areas also had low real estate and labor costs (E). [para. 3, p. 3]

65. **Retail Mix:** Presentation (layout, store design, atmosphere) - plain physical facilities and fixtures (e.g., display units, lighting). Price - due to limited competition, greater freedom in price setting. Personnel - sales personnel (a decent wage was adequate, given the economic circumstances of the area). Place (Location) - rural areas of U.S. [Product and Promotion are the other two P's of the 6 P's of the Retailing Mix (vs. the 4 P's of Marketing Mix)] [para. 3, p. 3]

66. **Competitive Advantage:** The low cost of operation was the means by which to initially set a competitive advantage. However, any firm that came into the same markets could easily match what WM was doing (low cost real estate, low cost labour, low cost store design). The initial competitive advantage was therefore not on a strong foundation, except for the fact that the likelihood of more than one firm surviving in the small rural markets selected by WM. If another similar firm tried to come into these markets, price competition would be the most likely result, thereby jeopardizing the economic well-being of the firms. There is a threshold level of population (or potential retail sales) required for a firm to survive, and hence, a threshold for competition. A market that

shows higher than normal economic profits is a sign that there is room for additional competitors. The fact that WM was the first such firm in the selected markets (i.e., take the first bite of the apple and face the risk that the market is viable), gives it a competitive advantage. If a second firm decided to enter the market afterwards (i.e., the second bite of the apple - less risk), the competitiveness of the market would increase, threatening the survival of the firms. Why would a new competitor want to enter such a market environment? If a market were growing (Accelerated Development/Growth), the viability for additional competitors would be more likely, since the new competitor would be going after the expanding market versus trying to take market share directly away from the firm that entered the market first. [para. 3, p. 3]

67. **Product Line Width:** Width refers to how many product lines carried by a store (e.g., shirts, socks, jeans, shoes, bedding). Width can go from narrow to wide. The merchandise assortment of WM was toward the wide end - carrying a lot of different types of merchandise by category. [Depth refers to the choice within a product line - shallow to deep (e.g., how many different colours and sizes of socks). Variety (Merchandise Mix) is the combination of depth and width.] [para. 3, p. 3]

68. **Power/Marketing Functions/Economies of Scale/CERTS:** WM did not have any base of power during the early days of operation (e.g., no reward or coercive power) over its suppliers to get them to service the remote store locations on a more frequent basis so that the store would not face a stock out situation. It would appear that the suppliers thought that such deliveries were not economically viable. The stockout situation faced by WM could have been handled by increasing the order size and/or the safety stock, but that would increase the cost of storage and the cost of the average inventory, but such costs would have been offset, at least to some degree, by a lower cost per unit, due to any quantity discount associated with a larger order size. As a result, WM assumed the marketing functions of storage and store delivery by setting up its own warehouses and transportation fleet, thereby centralizing the point of contact with the suppliers. This approach would increase the order size, since the warehouse delivery replaced individual store delivery by the suppliers. The associated costs for the suppliers would logically have been lower, providing for a lower cost to WM. Logistics comprises Physical Supply (inbound movement - to warehouse), Materials Management (movement within facility - warehouse), and Physical Distribution (outbound movement - to stores). By assuming the marketing functions of storage and delivery, operating costs for WM would increase, offsetting other savings. WM could also take advantage of the economies of scale, and the associated cost savings, afforded by operating a logistics function that utilizes the available capacity. WM use of technology (trucks and private satellite) (CERTS) also made the change viable. By having the suppliers deliver the goods to the WM warehouse and having WM deliver the merchandise to its own stores, WM is carrying out the Accumulation Process and the Allocation Process (i.e., regrouping functions). WM is building up volume at it's warehouse (i.e., accumulating inventory) and then creating an

assortment of merchandise for each store that consists of merchandise from a variety of suppliers (i.e., assorting process). [There are 8 marketing functions that need to be provided in a channel (buying, selling, storing, transporting, financing, sorting/grading, market information, risk taking). None of these functions can be eliminated, but they can be shifted from one level of the channel to another, even to the consumer)] [para. 1, p. 4]

69. **Best Practices:** The strategy of identifying Best Practices is designed to increase the efficiency and/or effectiveness of the firm. Companies try to identify what the competition, or other firms, are doing right, and copy the approach, so that these firms can also do well. A firm also tries to identify what it should not do (i.e., things not to copy from the competition).

▪ Section: The Way Things Worked

70. **Market Development:** WM expanded into all states. It then moved into the suburbs, another example of market development based on the geographic dimension. [para. 3, p. 4]

71. **Saturation (RLC/PLC):** In terms of store locations in the rural area, WM appears to have saturated the market (i.e., cannot add more stores in the rural area). As a result, it decided to enter the suburban geographic area. [para. 3, p. 4]

72. **Power (Legitimate)/Traffic Generator/Traffic User:** By leasing space, a contract would have been signed by the parties. Both sides now have legitimate power (derived from the existence of a contract) to enforce the covenants of the lease. The leasing option is selected if another party does not wish to sell the available space/land, the retailer does not have the money to buy the space/land, and/or the retailer can better invest its money in retailing vs. real estate. The existence of a lease agreement with a landlord means that WM does not full control of the space/land - something WM does not appear to like. However, because of the drawing power of WM, more traffic can be drawn to a location so that other firms at the same location (e.g., mall) can benefit, as does the landlord, by leasing the other space and/or by gaining additional revenue when the lease agreement includes a percentage of sales payment. The traffic generator power of WM is a basis of reward power (i.e., WM's presence rewards the landlord and other stores). The other stores are traffic users or parasites. [para. 3, p.4]

73. **Regulations & Social Environment (CERTS)/Store Image:** Zoning laws become a legal barrier to WM. The local community social activists attempting to block the entry of WM reflect part of the social environment with which WM must deal. The fact that there are citizens (vs. potential customers) who object to WM means that, to these individuals, WM does not have a very positive store image (i.e., an individual's overall

perception of the store, the products it sells, and the customers who shop there) with respect to the stores Corporate Image (an individual's perception of the company that runs the store). The social resistence reflects the N.I.M.B.Y. (Not In My Backyard) attitude. [para. 3, p. 4]

74. **Footprint:** The amount of land space occupied by a store. WM was developing smaller stores as a means by which to deal with the NIMBY issue. [para. 3, p. 4]

75. **Store (Service) Image:** A store's Service Image is an individual's (e.g., customer) perception of the services offered by a store. The greeter is one of WM's services. The use of senior citizens affects this image. [para. 3, p. 4]

76. **Merchandise Width & Depth/Variety/SKU:** WM carries a wide range of products (i.e., different product lines) (width) and has over 120,000 SKU's (stock keeping units). Each unique item in a store is assigned an inventory code (i.e., SKU). The latter value would indicate that there is also a great deal of depth in the merchandise line. The end result is that the merchandise offering of the store reflects a high level of variety. [para. 3, p. 4]

77. **Department vs. Departmentalized Store:** A department store assigns individual managers to each department (e.g., housewares, appliances, men's wear). A departmentalized store assigns a manager to a group of departments or section of the floor. [para. 3, p. 4]

78. **Price Level Policy/EDLP:** A store can price at market (i.e., match competition), above market, or below market. The approach used reflects the price level policy of the store. As indicated in the case, WM does not necessarily price below market. The low-price (i.e., discount) approach used by WM also reflects what is called Every-Day-Low-Pricing (EDLP), where prices are set low as a norm. Advertising sales reflects the promotional pricing approach, something WM does only on a limited basis. [para. 3, p. 4]

79. **Retail Mix Consistency:** Everything WM does is done in a way that reflects consistency. Store design and atmosphere, advertising, locations, and sales personnel wages are all consistent with one another - there is an emphasis on minimizing the cost - so that the goal of low prices can be achieved, with are also consistent with the store image. [This concept parallels that of new product/service design consistency - i.e., that all components of a new product must be consistent with one another (e.g., elegant dinnerware is not consistent with the concept of a fast food outlet, but bits and pieces of corn niblets in a can of creamed corn is consistent with a discount (generic) brand of the same product (vs. solid niblets).] [para. 3, p. 4]

■ Selling to Wal-Mart

80. **Buying Centre (Gatekeeper):** WM used centralized buying at the main office. The buyers serve as Gatekeepers (i.e., those who decide whether one is allowed beyond a certain point) with respect to determining what products are sold at the WM outlets. [para. 1, p. 5]

81. **Indirect Channel/Channel Intermediaries:** WM buys directly from suppliers (manufacturers, service providers), who then sells to the final consumers (a direct channel involves the manufacturer selling directly to the final consumer - there are no channel intermediaries). WM is a channel intermediary - a business operation involved in the flow of goods positioned between the manufacturer and the final consumer). WM does not allow any other intermediaries between the Manufacturer and the Retailer (i.e., no wholesalers, independent distributors, agents, brokers). These latter entities are other examples of channel intermediaries. [para. 1, p. 5]

82. **Operational Consistency:** The nature of the head office in Bentonville, AK, is consistent with the overall "bare essentials" characteristics of the retail outlets and the Retailing Mix. [para. 1, p 5]

83. **Power (Reward and Coercive)/Competitive Advantage:** WM product category buyers demand price and service deals, thereby, exercising reward (offer contract) and coercive (reject contract) power. WM has the ability to exercise reward and coercive power given the fact that it is a major outlet for consumer goods. The fact that WM is a major player in the consumer goods retail market gives it a competitive advantage over the competition. Smaller firms would not have as strong a power base when dealing with suppliers. [para. 1, p. 5]

84. **Power/Channel Captain:** The fact that WM suppliers would do anything to appease and make WM happy indicates the WM does not have to exercise power beyond making requests of what it wants. The exercise of power means to get someone to do something they would not otherwise do. The fact that most suppliers need WM more than WM needs them give WM aura of power without the need to exercise power. Suppliers have internalized the reality of the situation when dealing with WM; they do not have to be reminded. This situation also indicates that WM is the channel captain in these channels (i.e., able to exercise power and authority over the other members of the channel). [para. 1, p.5]

85. **Channel Complexity:** The fact that there are no other levels of channel intermediaries beyond WM means there is a low level of channel complexity. As the number of levels of channel intermediaries increase, the level of channel complexity increases.

Accompanying increasing complexity is an increase in potential conflict, since there are more levels involved that can interact directly or indirectly with one another. The level of complexity also increases as the number of members at each level of the channel increases. WM has 30,000 suppliers, many of whom would be competing with one another for contracts with WM. Thus, as the number of members at each level of channel increase, so does the level of complexity, and the potential for conflict. [para. 1, p. 5]

86. **Manufacturer Brands:** WM initially sold only well-known "national (manufacturer) brands" - brands that were "presold" - i.e., there was no need to convince the consumer of the value and quality of the brand. These brands had selective demand (i.e., there was demand for the brand itself). A manufacturer brand identifies the producer on the label. Offering these brands at a lower price increased the perceived value of the brand to the consumer. However, selling such brands would not provide WM with any competitive advantage, since any competitor could sell the same brands. [para. 2, p. 5]

87. **Advertising/Cooperative Advertising:** Manufacturers stimulate demand for their brands through advertising - a pull strategy. Cooperative advertising means that manufacturers help pay for part of the advertising cost of a retailer that advertises the manufacturer's brand or only requires the retailer to pay part of the cost of a manufacturer's ad that names the retailer in the ad. [para. 2, p. 5]

88. **Inter-Type Horizontal Conflict (Competition):** WM, a general merchandiser, competes with Toys-R-Us (a single-line specialty store focusing on toys). The nature of the competition between these firms is inter-type since they are both are at the same level (retail), but are of a different type (general merchandise retailer vs. toy store). Being able to sell the toys at a lower price would give WM a competitive advantage, but an advantage that could be easily matched by the competition. The likelihood of such action by the latter firms depend of the business goals of the firms (sales, market share, profit) and the actual cost of the toy to the store.

89. **Brand Image/Price:Quality Relationship:** Brand image consists of 3 components: corporate image (the consumer's perception of the company that makes a brand), product image (the consumer's perception of the physical characteristics of a brand), and brand user image (the consumer's perception of the typical user of a brand). Mattel's concern about the discounting of its brand would be related to the product image component of the brand (e.g., this toy cannot be durable for this price) or the corporate image (e.g., Mattel does not make high quality toys). The concern is with the area of Psychological Pricing, and more specifically, the Price:Quality relationship, where perceived quality is inversely related to price. Consumers often use price as a surrogate indicator of quality, if they are unable to determine the quality of the product, otherwise. So, how consumers perceive Mattel toys being sold at WM depends on how strong the image of Mattel is in the market. [para. 2, p. 5]

90. **Elasticity of Demand (Downward Sloping Demand Curve):** WM used the national brand approach believing consumers would be attracted to such brands even more so at lower prices. Thus, lower prices should increase unit sales (and overall revenue), and, hence, hopefully market share (by redirecting demand from competitors). [The price:quality relationship does not seem to be an area of concern for WM - How resilient is the brand image when the brand is sold at a price that is at a lower than normal market level?] [para. 2, p. 5]

91. **Power:** The reward and potential coercive power of WM over its suppliers can be seen in Exhibit 3. These companies rely on WM for a significant portion of their sales. [Exhibit 3, p. 5]

92. **Dealer (Store/Private) Brands/Generic Demand/Selective Demand/Product Life Cycle:** WM entered the dealer brand market (aka: private brand market) with dog food and then expanded into other product areas. Dealer brands identify the dealer (e.g., retailer, broker, wholesaler) as the seller of the brand; the actual manufacturer of the brand is not identified on the label. The demand for a given product category reflects generic demand; the demand for a particular brand (i.e., the output of a given manufacturer) reflects selective demand. When WM enter the dealer brand market, the product life cycles for this brand category and for the Ol' Roy brand began (Introductory stage). [para. 1, p. 6]

93. **Allocation/Arrangement:** WM was able to use its shelf space for its dealer brands. How much space was given to the dealer brands relates to the concept of allocation. Where on the shelf the dealer brands were placed relates to the concept of arrangement. [para. 1, p. 6]

94. **Product Life Cycle:** The concept of product life cycle is normally applied to a product category (e.g., laundry detergent), however, it can also be applied to sub-categories of a product category (e.g., liquid laundry detergent vs. powdered laundry determent), brands, stores, services, etc. Therefore, there is a product life cycle for dealer brands and for manufacturer brands. In 2001 and 2002, dealer brands were growing much faster than manufacturer brands, suggesting that manufacturer brands appear to be in the Maturity stage of the PLC and dealer brands appear to be in the Growth stage of the PLC. [Note: Manufacturer brands can be available nationally, locally, regionally, and/or internationally. It is not the geographic distribution of a brand that determines whether it is a manufacturer's brand; it is the fact that the actual manufacturer is identified on the label (and it is the only such information of this nature on the label) that makes such a brand a manufacturer's brand. Brands with national distribution can also involve dealer brands, but historically, the term "National brands" was reserved for manufacturer brands. [para. 1, p. 6]

95. **Contract Manufacturer:** When manufacturers produce products for channel intermediaries where the channel intermediary's name and brand appear on the label (and usually not the manufacturer's name), then such manufacturers are considered to be contract manufacturers in such a case. [para. 1, p. 6]

96. **Faltering Demand:** At the market share level, demand for national brands is dropping. However, the demand for national brands overall is still increasing, hence, sales for this brand category is not falling. If actual demand is less, then these brands are facing faltering demand (i.e., the demand level is less than it was, and it is expected to continue unless some action is taken). [There are 8 demand states that a product, service, or store can face: Faltering Demand, Latent Demand, Negative Demand, No Demand, Full Demand, Overfull Demand, Irregular Demand, and Unwholesome Demand.] [para. 1, p. 6]

97. **Product Development:** The fact that the some of the manufacturers shifted production capability to produce dealer brands means that these firms have engaged in Product Develop (re: Marketing Opportunities Matrix) since they are producing a new product (brand) for their current target markets. [para. 1, p. 8]

98. **Power (Reward/Coercive)/CERTS:** WM required all suppliers to use its Retail Link (EDI system) for inventory control and financial control purposes. This system reflects an aspect of the Technology (T) environment of the external environment. One could conclude that by investing in this system, the suppliers that agreed to comply would receive orders from WM (exercise of reward power); failing to comply would lead to no further contracts (exercise of coercive power). [para. 2, p. 6]

99. **Power (Expert):** The Retail Link system allowed WM to gather inventory and customer preference data. Possession of this information gave WM expert power (i.e., they had detailed data on customer shopping behaviour and preferences - valuable information for suppliers). WM also provided training and relevant advice to its suppliers; this is another example of the expert power possessed by WM. [para. 2, p. 6]

100. **Power (Reward/Coercive/Legitimate)/Risk:** WM showed its exercise of power by unilaterally lowering prices (increased) on invoices sent in by suppliers, charging suppliers if their deliveries were missed or late. Suppliers were not paid until they item was actually purchased by a customer (Scan /n Pay system), which meant that the suppliers had to assume the marketing function of Risk. Thus, even though WM had contracts with the suppliers, contracts the suppliers could require compliance (i.e., they had legitimate power), it would be unlike that any supplier would take WM to court if WM refused to pay the invoiced price (i.e., use coercive power to obtained compliance), since WM could respond by not offering any further contracts (coercive power), which would remove any future rewards (reward power) for the supplier (i.e., sales and profit).

The suppliers also had to participate in the Roll Back campaign, where prices were reduced, even to levels below the negotiated price. The contract gave the suppliers the right to require compliance to the negotiated price (i.e., the suppliers had legitimate power), but, again, WM had to option to use reward and coercive power, as it saw fit, without fear of serious reprisal, since other suppliers would, no doubt, fill the void created by the exiting supplier. Supplier that had minor dealings with WM and who had strong brand loyalty would be the only ones more likely to stand up to WM. [para. 3, p. 6]

101. **Power (Coercive/Reward)/Shelf Allocation/Faltering Demand/No Demand/Intra-Type Conflict/Vertical Conflict:** When Rubbermaid, a company with strong brand loyalty, refused to entertain WM's request to absorb cost increases, Wal-Mart cut the allocated shelf space to Rubbermaid products and promoted competitive products, two actions that would lead to a drop in sales of Rubbermaid products (faltering demand state, or no-demand state, if totally removed from the store). Competitors of similar products to Rubbermaid were rewarded with shelf space, advertising, and resulting sales and profit. No demand means, just that, there is no demand for the product (at least in WM) - the reason being the product was no longer available in WM. The nature of the competition between Rubbermaid and the manufacturers that sold similar products is intra-type (horizontal) competition (conflict) - same level in the channel (manufacturers) and of the same type (manufacturers of rubber household products). Conflict exists when one party does something that prevents the goal another party. WM and Rubbermaid were in conflict and Rubbermaid and its competitors were in conflict, since a sale by a competitor means a sale lost by Rubbermaid. The conflict between WM and Rubbermaid is vertical conflict (firms at different levels in the channel - i.e., retailer vs. manufacturer) [para. 4, p. 6]

102. **Price Elasticity (Downward Sloping Demand Curve):** The Roll Back campaign involved price reductions with the expectation that demand would increase (i.e., through greater store traffic). [para. 3, p. 6] [Remember, Price Elasticity deals with the change in Total Revenue due the change in Price; it is not directly related to profitability.] [para. 4, p. 6]

103. **Horizontal Integration/Business Goals:** After Rubbermaid lost the WM account, it had to focus on survival as a business goal rather than sales or profit. Survival was attained by merging (integrating) with a competitor. [para. 4, p. 6]

104. **Power (Reward/Coercive)/Business Goal:** While suppliers sought to achieve on time delivery, it was, nonetheless, a requirement in order to remain as a supplier to WM. Thus, failure to achieve this goal could lead to the end of such a channel relationship (i.e., WM's threat of the use of coercive power (i.e., end contracts) and the potential reward potential by being in such a relationship, as well as the self-goal, meant suppliers tried to ensure compliance. As indicated above, WM would charge suppliers for missed and late

deliveries (coercive power). Variance in meeting delivery time (i.e., early or late) was not acceptable. Stockout costs suffered by WM because of late delivery were charged against the supplier (coercive power). One could easily imagine what the repercussions would be for a supplier who objected to any of these penalties, even if the supplier had legal grounds to object (legitimate power) (just ask Rubbermaid!). [para. 1, p. 7]

105. **Legal Regulations (CERTS):** Standards of employment and fair labor practices requirements relate to the regulations dimension of the external environment. [para. 1, p. 7]

106. **Public Relations/Corporate Image:** Wal-Mart's requirement that the WM Code of Standards be displayed at the facilities of the suppliers can be viewed as a PR stance because it reflects positively on the Corporate Image (a component of overall Store Image) of WM. Public Relations relates to the efforts of the firm in trying to create and maintain a positive image of the firm in the eyes of the general public. [para. 1, p. 7]

107. **Power (Reward/Coercive)/Co-operative Effort:** WM illustrates its use of power [(to reward and to punish (coercive power)] by requiring designated suppliers to serve as product category captains. The fact that these individuals had to engage in co-operative behaviour with respect to competitor firms to arrive at an acceptable inventory assortment for the retailer means that these suppliers had to put aside the usual competitive market place norms, as well as do work that is normally carried out by the retailer. [para 2, p. 7]

108. **Product Offering Width/Economies of Scale/Shelf-Space Allocation:** The Newell-Rubbermaid product line kept adding different product lines, thereby increasing the width of their product offering. The ability of a retailer to buy a variety of merchandise from the same supplier reduces the complexity of the channel (i.e., fewer channel members to deal with) and reduces the associated costs of product acquisition [i.e., transportation - higher volume at a time; payment costs - fewer suppliers to deal with]. In such a situation, the suppliers is able to advantage of economies of scale through the higher volumes. By selling WM a wider variety of merchandise allowed the supplier to increase the amount of space allocated to the firm, thereby increasing the likelihood of customer purchases. [para. 3, p. 7]

109. **Best Practices/Benchmarking:** Companies seek to find and determine the best way to do something (i.e., Best Practices), because of the impact on efficiency (accomplishing task at the lowest possible cost per unit of input or maximizing the level of output at the lowest level of input) and effectiveness (accomplishing what one wants to accomplish). Once this performance point is determined, it serves as a point of reference for the expected level of performance (i.e., serves as a benchmark). [para., 3, p. 7]

110. **Price Point/Price Lines/Transactional Efficiency:** Price Points (or Price Lines) refer to the price level of the different quality levels of the same type of merchandise (or service) [e.g., First Class, Business Class, Economy Class on airlines; hotel rooms; car quality/size offered by a car rental agency (compact, mid-sized, luxury); bedding (thread count in sheets and pillow cases)]. A retailer that deals with different target markets (multi-segment targeting strategy) often needs to carry multiple price points in order to satisfy the needs and wants of all customers. The fact that Newell-Rubbermaid produced products at different price points simplified the task of product acquisition, since only one supplier is required to meet the needs of the store - this reflects what is called "transactional efficiency" (i.e., the number of transactions required for there to be complete exchange. Carrying out a transaction with a supplier costs the retailer money; therefore, the fewer the number of transactions, the better. [para. 3, p. 7]

111. **Specialization and Division of Labour/Efficiency:** According to Adam Smith, efficiency is achieved if there is specialization and division of labour. Specialization means that the required activities to complete a task are carried out one-by-one, instead of trying to do everything at once. Division of Labour means that each task is assigned to a different individual or entity. The end result is, thus, greater efficiency. Newell-Rubbermaid's (NR) use of different sales teams for the different product categories means that each team was more efficient in carrying out its responsibilities since it could focus on the required activity (versus trying to sell the entire product line of NR.). The downside of such an approach was than WM buyers had to expend time and effort with more representatives from NR, as did NR, itself. The problem of inconsistencies in the nature of the interactions and transactions across NR teams was addressed by having a centralized office at NR to co-ordinate things. [para. 3, p. 7]

112. **Market Expansion Approach - Acquisition/Product Line Width**: By taking over firms (acquisition) that produced products that would allow NR to expand the width of its product offering, rather than starting such an operation from scratch allowed NR to enter the market more quickly. This approach also meant that new relationships with mass-retailers did not have to be developed, since only acquisitions that were already in the B2B market were being considered. [The different ways of entering a market are through self-development (i.e., start from scratch), acquisition of an operational firm, joint venture, or via a licensing agreement (another firm produces your product for you)]. [para. 3, p. 7]

113. **Product Development (Marketing Opportunities Matrix):** Newell-Rubbermaid's continual effort to expand the number of product lines sold to WM reflects the area of Product Development - i.e., target market stays the same, but more products are being brought forth for this market. [para. 3, p. 7]

114. **Intra-Type Conflict (Competition):** Rayovac, Duracell, and Energizer brands compete for the same market. The three firms are at the same level (manufacturers) and are of the same time (manufacturers of batteries for the consumer market), indicating intra-type competition. [para. 1, p. 8]

115. **Price Level Policy (Below Market)/B2B:** Rayovac uses a "Below Market" pricing policy in its overall marketing strategy in the B2B market with WM (versus "At Market" or "Above Market"). [para. 1, p. 8]

116. **Power (Reward):** Assuming WM would not have selected Rayovac as a supplier if the latter's prices were not lower and its quantity levels were not higher than those of the competition, then Rayovac is using Reward Power to encourage WM to select Rayovac as a designated supplier (i.e., to get WM to do something it would not otherwise do). [**Note:** It should be remembered that Wal-Mart is the 10-ton gorilla in the jungle of apes and chimpanzees - its power, whether it be reward, coercive, expert, referent, or legitimate power, is transparent; it is a power base that does not have to be exercised very often. WM has no difficulty gaining supplier compliance to its policies and procedures. Evidence of the resolution to channel conflict with respect to such compliance is illustrated in the case, just ask Rubbermaid. In the early days of its life cycle, WM was one of the chimpanzees! [para. 1, p. 8]

117. **Power (Reward)/Positive Reinforcement/Shelf Allocation/Business Goals:** WM, in turn, used Reward Power to support and encourage Rayovac pricing and supply policies. Rayovac obtained sales, profits, and additional shelf space (shelf allocation) because of its strategy; such rewards serve as positive reinforcement for Rayovac, which would encourage Rayovac to continue such behaviour. The additional shelf space would also be expected to lead to higher sales, and accompanying profit, for Rayovac. WM received more product at lower cost. The sales and profit Business Goals and the lower-cost goals of WM were being satisfied. [para. 1, p. 8]

118. **Dealer (Private) Brand/Contract Manufacturing:** WM's decision to sell its own batteries under a store label reflects the creation of a dealer (private, store) brand. Rayovac's decision to produce this brand illustrates the concept of contract manufacturing. [para. 1, p. 8]

119. **Power (Reward/Coercive):** The fact that WM would cede to Rayovac's desire to restrict the development of WM's store brand to just alkaline batteries indicates that Rayovac was exercising Power (reward) (i.e., to get WM to agree to these terms) - WM would get, as a reward, a quality product, at a desired price and supply level, with a current, major supplier (little additional "paper work" required). The market areas for Rayovac's other product lines (e.g., hearing aid batteries) were not included in the private-brand decision area. WM could easily have used coercive power (i.e., end all future contracts) to

encourage Rayovac to manufacture batteries of any nature. Probably, WM had no interest in the other battery markets, at least, not at this time. [para. 1, p. 8]

120. **Cannibalization/Inter-Type Conflict:** By producing a private label battery for WM, Rayovac was subjecting its own manufacturer brand to cannibalization (i.e., the sales of its own brands would suffer due to the purchase of WM's private brand by WM customers). The impact of this inter-type competition (i.e., dealer brand vs. manufacturer brand) was softened by the fact that Rayovac would be the producer of the WM dealer brand. [para. 1, p. 8]

121. **Marketing Opportunities Matrix (Product Development/Diversification):** The decision by Rayovac to produce a dealer brand brings the Marketing Opportunities Matrix into play. The decision by Rayovac to produce a dealer brand might at first appear to illustrate the relevance of the concept of Product Development (producing a "new" product-brand for the current target market). However, the target market would not know that Rayovac is the producer of the WM brand. Alternatively, if the potential target market for the WM brand does not include those who currently purchase the Rayovac brand, for whatever reason, then this situation illustrates the concept of Diversification (i.e., new market, new product-brand), if only to a minor degree [i.e., not a major deviation from Rayovac's current activities]. This situation is definitely not Market Penetration (increase sales to the current target market with the current product-brand) and it is definitely not Market Development (increase sales of the current product-brand to a different target market, since the dealer brand is not a current product-brand. [para. 1, p. 8]

122. **Horizontal Integration (Direct Ownership)/Market Entry Strategy:** Rayovac's acquisition (i.e., direct ownership) of Varta illustrates the concept of Horizontal Integration (intra-type) (i.e., taking over a firm of the same type at the same level in the channel (i.e., producer of manufacturer-label batteries) as the chosen market entry strategy in Germany (versus exporting, licensing, joint venture). [para. 1, p. 8]

■ **Section: Leveraging Technology and Logistics**

To Be Continued