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Wal*Mart Stores, Inc.

In *Forbes* magazine's annual ranking of the richest Americans, the heirs of Sam Walton, the founder of Wal*Mart Stores, Inc., held spots five through nine in 1993 with \$4.5 billion each. Sam Walton, who died in April 1992, had built Wal*Mart into a phenomenal success, with a 20-year average return on equity of 33%, and compound average sales growth of 35%. At the end of 1993, Wal*Mart had a market value of \$57.5 billion, and its sales per square foot were nearly \$300, compared with the industry average of \$210. It was widely believed that Wal*Mart had revolutionized many aspects of retailing, and it was well known for its heavy investment in information technology.

David Glass and Don Soderquist faced the challenge of following in Sam Walton's footsteps. Glass and Soderquist, CEO and COO, had been running the company since February 1988, when Walton, retaining the chairmanship, turned the job of CEO over to Glass. Their record spoke for itself—the company went from sales of \$16 billion in 1987 to \$67 billion in 1993, with earnings nearly quadrupling from \$628 million to \$2.3 billion. At the beginning of 1994, the company operated 1,953 Wal*Mart stores (including 68 supercenters), 419 warehouse clubs (Sam's Clubs), 81 warehouse outlets (Bud's), and four hypermarkets. During 1994 Wal*Mart planned to open 110 new Wal*Mart stores, including 5 supercenters, and 20 Sam's Clubs, and to expand or relocate approximately 70 of the older Wal*Mart stores (65 of which would be made into supercenters), and 5 Sam's Clubs. Sales were forecast to reach \$84 billion in 1994, and capital expenditures were expected to total \$3.2 billion. **Exhibit 1** summarizes Wal*Mart's financial performance 1983–1993. **Exhibit 2** maps Wal*Mart's store network.

The main issue Glass and Soderquist faced was how to sustain the company's phenomenal performance. Headlines in the press had begun to express some doubt: "Growth King Running Into Roadblocks," "Can Wal*Mart Keep Growing at Breakneck Speed?" and "Wal*Mart's Uneasy Throne." In April 1993, the company confirmed in a meeting with analysts that 1993 growth in comparable store sales would be in the 7%–8% range, the first time it had fallen under 10% since 1985. Sellers lined up so quickly that the New York Stock Exchange temporarily halted trading in the stock. From early March through the end of April 1993, the stock price fell 22% to $26\frac{5}{8}$, destroying nearly \$17 billion in market value. With supercenters and international expansion targeted as the prime growth vehicles, Glass and Soderquist had their work cut out for them.

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Discount Retailing

Discount stores emerged in the United States in the mid-1950s on the heels of supermarkets, which sold food at unprecedentedly low margins. Discount stores extended this approach to general merchandise by charging gross margins 10%–15% lower than those of conventional department stores. To compensate, discount stores cut costs to the bone: fixtures were distinctly unluxurious, in-store selling was limited, and ancillary services, such as delivery, and credit, were scarce.

The discounters' timing was just right, as consumers had become increasingly better informed since World War II. Supermarkets had educated them about self-service, many categories of general merchandise had matured, and TV had intensified advertising by manufacturers. Government standards had also bolstered consumers' self-confidence, and many were ready to try cheaper, self-service retailers, except for products that were big-ticket items, technologically complex, or "psychologically significant."

Discount retailing burgeoned as a result, and many players entered the industry at the local, regional, or national levels. Sales grew at a compound annual rate of 25% from \$2 billion in 1960 to \$19 billion in 1970. During the 1970s, the industry continued to grow at an annual rate of 9%, with the number of new stores increasing 5% annually; during the 1980s it grew at a rate of 7%, but the number of stores increased by only 1%; and during the 1990s, it grew 11.2%, with the number of stores increasing by nearly 2%. This trend toward fewer new store openings was attributed to a more cautious approach to expansion by discounters, who placed increasing emphasis on the refurbishment of existing stores. In 1993, discount industry sales were \$124 billion, and analysts predicted that they would increase about 5% annually over the next five years.

Of the top 10 discounters operating in 1962—the year Wal*Mart opened for business—not one remained in 1993. Several large discount chains, such as King's, Korvette's, Mammoth Mart, W.T. Grant, Two Guys, Woolco, and Zayre, failed over the years or were acquired by survivors. As a result, the industry became more concentrated: whereas in 1986 the top 5 discounters had accounted for 62% of industry sales, in 1993 they accounted for 71%, and discount store companies that operated 50 or more stores accounted for 82%. **Exhibit 3** shows the top discounters in 1993.

Wal*Mart's Discount Stores

History of Growth

Providing value was a part of the Wal*Mart culture from the time Sam Walton opened his first Ben Franklin franchise store in 1945. During the 1950s, the number of Walton-owned Ben Franklin franchises increased to 15. In 1962, after his idea for opening stores in small towns was turned down by the Ben Franklin organization, Sam and his brother Bud opened the first "Wal*Mart Discount City store," with Sam putting up 95% of the dollars himself.¹ For years, while he was building Wal*Marts, Walton continued to run his Ben Franklin stores, gradually phasing them out by 1976. When Wal*Mart was incorporated on October 31, 1969, there were 18 Wal*Mart stores, and 15 Ben Franklins.

By 1970, Walton had steadily expanded his chain to 30 discount stores in rural Arkansas, Missouri, and Oklahoma. However, with continued rapid growth in the rural south and midwest,

¹ Two other large discounters also got their start in 1962: Kmart and Target.

the cost of goods sold—almost three-quarters of discounting revenues—rankled. As Walton put it, “Here we were in the boondocks, so we didn’t have distributors falling over themselves to serve us like competitors in larger towns. Our only alternative was to build our own warehouse so we could buy in volume at attractive prices and store the merchandise.”² Since warehouses cost \$5 million or more each, Walton took the company public in 1972 and raised \$3.3 million.

There were two key aspects to Walton’s plan for growing Wal*Mart. The first was locating stores in isolated rural areas and small towns, usually with populations of 5,000 to 25,000. He put it this way: “Our key strategy was to put good-sized stores into little one-horse towns which everybody else was ignoring.”³ Walton was convinced that discounting could work in small towns: “If we offered prices as good or better than stores in cities that were four hours away by car,” he said, “people would shop at home.”⁴ The second element of Walton’s plan was the pattern of expansion. As David Glass explained, “We are always pushing from the inside out. We never jump and then backfill.”⁵

In the mid-1980s, about one-third of Wal*Mart stores were located in areas that were not served by any of its competitors. However, the company’s geographic growth resulted in increased competition with other major retailers. By 1993, 55% of Wal*Mart stores faced direct competition from Kmart stores, and 23% from Target, whereas 82% of Kmart stores and 85% of Target stores faced competition from Wal*Mart.⁶ Wal*Mart penetrated the West Coast and northeastern states, and by early 1994, operated in 47 states, with stores planned for Vermont, Hawaii, and Alaska. **Exhibit 4** compares Wal*Mart’s performance with that of its competitors.

Sam’s Legacy

When Sam Walton died in April of 1992 at the age of 74 after a long fight with cancer, his memorial service was broadcast to every store over the company’s satellite system. Walton had a philosophy that drove everything in the business: he believed in the value of the dollar and was obsessed with keeping prices below everybody else’s. On buying trips, his rule of thumb was that trip expenses should not exceed 1% of the purchases, which meant sharing hotel rooms and walking instead of taking taxis.

Walton instilled in his employees (called associates) the idea that Wal*Mart had its own way of doing things, and tried to make life at the company unpredictable, interesting, and fun. He even danced the hula on Wall Street in a grass skirt after losing a bet to David Glass, who had predicted that the company’s pretax profit would be more than 8% in 1983. Walton said, “Most folks probably thought we just had a wacky chairman who was pulling a pretty primitive publicity stunt. What they didn’t realize is that this sort of stuff goes on all the time at Wal*Mart.”⁷

Walton spent as much time as possible in his own stores and checking out the competition. He was known to count the number of cars in Kmart and Target parking lots, and tape-measure shelf

² *Forbes*, August 16, 1982, p. 43.

³ Sam Walton with John Huey, *Sam Walton, Made in America* (New York: Bantam Books, 1992).

⁴ *Business Week*, November 5, 1979, p. 145.

⁵ *Ibid.*, p. 146.

⁶ George C. Strachan, “The State of the Discount Store Industry,” Goldman Sachs, April 6, 1994.

⁷ Walton, *Made in America*.

space and note sale prices at Ames. Walton knew his competitors intimately and copied their best ideas. He got to know Sol Price, who created Price Club, and then redid the concept as Sam's Club.

To Walton, the most important ingredient in Wal*Mart's success was the way it treated its associates. He believed that if you wanted the people in the stores to take care of the customers, you had to make sure that you were taking care of the people in the stores. There was one aspect of the Wal*Mart culture that bothered Walton from the time Wal*Mart became really successful. "We've had lots and lots of millionaires in our ranks," he said, "and it just drives me crazy when they flaunt it. Every now and then somebody will do something particularly showy, and I don't hesitate to rant and rave about it at the Saturday morning meeting. I don't think that big mansions and flashy cars are what the Wal*Mart culture is supposed to be about—serving the customer."⁸

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

Merchandising

Wal*Mart merchandise was tailored to individual markets and, in many cases, to individual stores. Information systems made this possible through "traiting," a process which indexed product movements in the store to over a thousand store and market traits. The local store manager, using inventory and sales data, chose which products to display based on customer preferences, and allocated shelf space for a product category according to the demand at his or her store. Wal*Mart's promotional strategy of "everyday-low-prices" meant offering customers brand name merchandise for less than department and specialty store prices. Wal*Mart had few promotions. While other major competitors typically ran 50 to 100 advertised circulars annually to build traffic, Wal*Mart offered 13 major circulars per year. In 1993, Wal*Mart's advertising expense was 1.5% of discount store sales, compared to 2.1% for direct competitors.⁹ In addition, Wal*Mart offered a "satisfaction guaranteed" policy, which meant that merchandise could be returned to any Wal*Mart store with no questions asked.

Wal*Mart was very competitive in terms of prices, and gave its store managers more latitude in setting prices than did "centrally priced" chains such as Caldor and Venture. Store managers priced products to meet local market conditions, in order to maximize sales volume and inventory turnover, while minimizing expenses. A study in the mid-1980s found that when Wal*Mart and Kmart were located next to each other, Wal*Mart's prices were roughly 1% lower, and when Wal*Mart, Kmart, and Target were separated by 4–6 miles, Wal*Mart's average prices were 10.4% and 7.6% lower, respectively. In remote locations, where Wal*Mart had no direct competition from large discounters, its prices were 6% higher than at locations where it was next to a Kmart.

Competitive changes in discount retailing were reflected in Wal*Mart's decision to change its marketing slogan from "Always the low price—Always," (which Wal*Mart had used when building its chain by offering better prices than small-town merchants), to "Always low prices—Always." (See

⁸ *Ibid.*

⁹ Management Ventures, Inc.

Exhibit 5 for a pricing study between Wal*Mart, Kmart, and Bradlees in suburban New Jersey.) By the early 1990s, there was, typically, a 2%–4% pricing differential between Wal*Mart and its best competitors in most markets: in seven pricing surveys conducted between 1992–1993, Wal*Mart’s prices were 2.2% below Kmart’s on average, and 3% below on items priced at all stores. Compared with Target in six surveys, Wal*Mart’s prices were 3.7% lower on average, and 4.1% lower on items priced at all stores. And compared with Venture, the lowest-cost regional operator, Wal*Mart’s prices were 3.9% and 4.7% lower, respectively. With other regional competitors, Wal*Mart’s price advantage was far greater: 21.4% with Caldor on average, and 28.8% with Bradlees.¹⁰

Wal*Mart was known for its national brand strategy, and the majority of its sales consisted of nationally advertised branded products. However, private label apparel made up about 25% of apparel sales at Wal*Mart. Wal*Mart gradually introduced several other private label lines in its discount stores, such as Equate in health and beauty care, Ol’ Roy in dog food, and “Sam’s American Choice” in food. In 1992, a year after it was introduced, there were about 40 items in the line, consisting of such products as cola, tortilla chips, chocolate chip cookies, and salsa. Sam’s Choice, which was considered the company’s premium-quality line, offered an average 26% price advantage over comparable branded products, with the range of the advantage being 9%–60%.¹¹ The line was also sold in Sam’s Clubs (in larger club packs) and in supercenters.

In an effort to replace foreign-sourced goods sold at Wal*Mart stores with American-made ones, Wal*Mart’s developed its “Buy American” program, and in 1985, invited U.S. manufacturers by letter to participate in it. By 1989, the company estimated it had converted or retained over \$1.7 billion in retail purchases that would have been placed or produced offshore, and created or retained over 41,000 jobs for the American work force.

Store Operations

The company leased about 70% of Wal*Mart stores and owned the rest. In 1993, Wal*Mart’s rental expense was 3% of discount store sales, compared to an average 3.3% for direct competitors.¹² An average Wal*Mart store, which covered 80,000 square feet, with newer units at about 100,000 square feet, took approximately 120 days to open. Construction costs were about \$20 per square foot. Starting in the 1980s, Wal*Mart did not build a discount store at a location where it could not be expanded at a later date. In early 1990, 45% of Wal*Mart stores were three years old or less, and only 15% were more than 8 years old, compared with 10% and 85% for Kmart, respectively. Sales per square foot of \$300 compared with Target’s at \$209 and Kmart’s at \$147. A Wal*Mart store devoted 10% of its square footage to inventory, compared with an industry average of 25%. Its operating expenses were 18.1% of discount store sales in 1993, versus the industry average of 24.6%. See **Exhibit 6** for the average economics of the discount industry.

The majority of Wal*Mart stores were open from 9 a.m. to 9 p.m. six days a week, and from 12:30 p.m. to 5:30 p.m. on Sundays. Some, including most of the supercenters, were open 24 hours. Customers walking into a Wal*Mart store were met by a “People Greeter,” an associate who welcomed them and handed out shopping carts. Sales were primarily on a self-service, cash-and-carry basis. Customers could also use Visa, MasterCard, the Discover card, or a lay-away plan available at each store.

¹⁰ Strachan, “Discount Industry.”

¹¹ Emily DeNitto, “In Dry Grocery, Wal*Mart Sees Selective Success,” *Supermarket News*, May 4, 1992.

¹² Management Ventures, Inc. Includes lease, rent, and depreciation.

Wal*Marts were generally organized with 36 departments offering a wide variety of merchandise, including apparel, shoes, housewares, automotive accessories, garden equipment, sporting goods, toys, cameras, health and beauty aids, pharmaceuticals, and jewelry.

Table 1 Sales by Product Category, 1993 (% of sales)

Category	Wal*Mart	Industry Average ^a
Softgoods (apparel, linens, fabric)	27	35
Hardgoods (hardware, housewares, auto supplies, small appliances)	26	24
Stationery and candy	11	9
Sporting goods and toys	9	9
Health and beauty aids	8	7
Gifts, records, and electronics	8	9
Pharmaceuticals	7	2
Shoes	2	2
Jewelry	2	2
Miscellaneous (pet supplies)	0	2

Source: Wal*Mart 10K, *Discount Merchandiser*, June 1994.

^aColumn does not total to 100 due to rounding.

Electronic scanning of Uniform Product Codes (UPC) at the point of sale, which began in Wal*Mart stores in 1983, was installed in nearly all Wal*Mart stores by 1988, two years ahead of Kmart. Store associates used hand-held bar code scanning units to price-mark merchandise. These scanners, which utilized radio frequency technology, communicated with the store's computerized inventory system to ensure accurate pricing and improve efficiency. Many stores used shelf labeling rather than product price tags. A system to track refunds and check authorizations helped reduce shrinkage—a euphemism for pilferage or shoplifting—by identifying items that were stolen from one Wal*Mart store and submitted for refund at another.

Electronic scanning and the need for improved communications between stores, distribution centers, and the head office in Bentonville, Arkansas, led to the installation of a satellite system in 1983. The satellite allowed sales data to be collected and analyzed daily, and enabled managers to learn immediately what merchandise was moving slowly, and thus avoid overstocking and deep discounting. It was later also used for video transmissions, credit card authorizations, and inventory control. At an individual Wal*Mart store, daily information, such as sales by store and department, labor hours, and inventory losses, could be compared to the results for any time period, for any region, or for the nation. From 1987 to 1993, Wal*Mart spent over \$700 million on its satellite communications network, computers, and related equipment.

Distribution

Wal*Mart's two-step hub-and-spoke distribution network started with a Wal*Mart truck bringing the merchandise to a distribution center, where it was sorted for delivery to a Wal*Mart store—usually within 48 hours of the original request. The merchandise replenishment process originated at the point-of-sale, with information transmitted via satellite to Wal*Mart headquarters or to supplier distribution centers. About 80% of purchases for Wal*Mart stores were shipped from its own 27 distribution centers—as opposed to 50% for Kmart. The balance was delivered directly from suppliers, who stored merchandise for Wal*Mart stores and billed the company when the

merchandise left the warehouse. A technique known as “cross-docking” was being introduced to transfer products directly from in-bound vehicles to store-bound vehicles, enabling goods to be delivered continuously to warehouses, repacked, and dispatched to stores often without ever sitting in inventory. By early 1994, roughly 10% of Wal*Mart’s merchandise was “cross-docked” at four distribution facilities that were equipped for it. In 1993, analysts estimated Wal*Mart’s cost of inbound logistics, which was part of cost of goods sold, to be 3.7% of discount store sales, compared with 4.8% for its direct competitors.¹³

Each store received an average of five full or partial truckloads a week, and because Wal*Mart stores were grouped together, trucks could resupply several on a single trip. Returned merchandise was carried back to the distribution center for consolidation, and since many vendors operated warehouses or factories within Wal*Mart’s territory, trucks also picked up new shipments on the return trip. Roughly 2,500 people drove Wal*Mart’s fleet of more than 2,000 trucks, which ran 60% full on backhauls. A store could select one of four options regarding the frequency and timing of shipments, and more than half selected night deliveries. For stores located within a certain distance of a distribution center, an accelerated delivery plan was also available, which allowed merchandise to be delivered within 24 hours.

A typical distribution center spanned one million square feet and was operated 24 hours a day by a staff of 700 associates. It was highly automated and designed to serve the distribution needs of approximately 150 stores within an average radius of 200 miles. When orders were pulled from stock, a computerized “pick to light” system guided associates to the correct locations. In 1993, Wal*Mart expanded its distribution network to service its growing number of stores by opening million-square-foot distribution centers in Wisconsin, Pennsylvania, Arizona, and Utah.

Vendor Relationships

Wal*Mart was known as a no-nonsense negotiator. When vendors visited the company’s headquarters in Bentonville, they were not shown to buyers’ offices, but into one of about 40 interviewing rooms equipped with only a table and four chairs. Wal*Mart eliminated manufacturers’ representatives from negotiations with suppliers at the beginning of 1992, at an estimated savings of 3%–4% (a matter the reps tried unsuccessfully to take to the Federal Trade Commission). The company made it a practice to call its vendors collect, and centralized its buying at the head office, with no single supplier accounting for more than 2.4% of its purchases in 1993. It also restricted sourcing to vendors who limited work weeks to 60 hours, provided safe working conditions, and did not employ child labor.

In Wal*Mart’s early days, a powerful supplier, such as Procter and Gamble (P&G), would dictate how much it would sell and at what price. But over time, as Wal*Mart grew, its relationships with some suppliers evolved into partnerships, a key element of which was sharing information electronically to improve performance. P&G was one of the first manufacturers to link up with Wal*Mart by computer, dedicating a team of 70 based in Bentonville to manage its products for Wal*Mart. By 1993, Wal*Mart had become P&G’s largest customer, doing about \$3 billion in business annually, or about 10% of P&G’s total revenue.

The installation of electronic data interchange (EDI) enabled an estimated 3,600 vendors, representing about 90% of Wal*Mart’s dollar volume, to receive orders and interact with Wal*Mart electronically. The program was later expanded to include forecasting, planning, replenishing, and shipping applications. Wal*Mart used electronic invoicing with more than 65% of its vendors, and

¹³ Management Ventures, Inc.

electronic funds transfer with many. By the late 1980s, selected key suppliers, including Wrangler and GE, were using vendor-managed inventory systems to replenish stocks in Wal*Mart stores and warehouses. Wal*Mart transmitted sales data to Wrangler daily, which it used to generate orders for various quantities, sizes, and colors of jeans, and to plan deliveries from specific warehouses to specific stores. Similarly, Wal*Mart sent daily reports of warehouse inventory status to GE Lighting, which it used to plan inventory levels, generate purchase orders, and ship exactly what was needed when it was needed. As a result, Wal*Mart and its vendors benefited from reduced inventory costs and increased sales. Beginning in 1990, Wal*Mart's "retail link" also gave more than 2,000 suppliers computer access to point-of-sale data, which they used to analyze the sales trends and inventory positions of their products on a store-by-store basis. In 1993, Wal*Mart's information systems expense was 1.5% of discount store sales, compared with 1.3% for direct competitors.¹⁴

Each Wal*Mart department also developed computerized, annual strategic business planning packets for its vendors, sharing with them the department's sales, profitability, and inventory targets, macroeconomic and market trends, and Wal*Mart's overall business focus. The packets also specified Wal*Mart's expectations of them, and solicited their recommendations for improving Wal*Mart's performance as well as their own. The planning packet for one department ran to 60 pages.

However, not all of Wal*Mart's supplier relationships were successful. A case in point was Gitano. Wal*Mart accounted for 26% of Gitano's sales of \$780 million in 1991, and pushed the company hard to improve its record of greater than 80% on-time and defect-free deliveries. Its failure to do so despite great effort resulted in a \$90 million loss from restructuring and inventory write-downs in 1992, sending its stock price to \$3 per share from \$18 within a year.¹⁵

Human Resource Management

Wal*Mart was recognized as one of the 100 best companies to work for in America. It employed 528,000 full- and part-time staff and was the largest employer after the federal government and General Motors. The company was non-unionized, and 30% of its staff worked part-time. Wal*Mart's culture stressed the key role of associates, who were motivated by more responsibility and recognition than their counterparts at other retail chains. Information and ideas were shared: at individual stores, associates knew the store's sales, profits, inventory turns, and markdowns. According to Glass, "There are no superstars at Wal*Mart. We're a company of ordinary people overachieving."¹⁶ Suppliers recognized associates as being totally committed to the company: "Wal*Mart is a lean operation managed by extremely committed people," said an executive at a leading manufacturer. "It's very exciting being anywhere near these people. They live to work for the glory of Wal*Mart. This may sound like B.S., but it's incredible. Our production, distribution, and marketing people who visit Wal*Mart can't believe it."¹⁷

Training at Wal*Mart was decentralized. Management seminars were offered at the distribution centers rather than at the home office, exposing store managers to the distribution network. And before a store opened, new associates were trained by 10 to 12 assistant managers brought in from other stores. In addition, Wal*Mart instituted many programs to involve the associates in the

¹⁴ Management Ventures, Inc.

¹⁵ *Business Week*, December 21, 1992.

¹⁶ Wendy Zellner, "OK, So He's Not Sam Walton," *Business Week*, March 16, 1992.

¹⁷ *Supermarket News*, May 4, 1992.

business. In the “Yes We Can Sam” suggestion program, associates suggested ways to simplify, improve, or eliminate work. More than 650 suggestions were implemented in 1993, resulting in an estimated savings of over \$85 million. Wal*Mart also began to emphasize the “store within a store” in 1986 in order to support, recognize, and reward associates in the management of their area of merchandise responsibility. Under the program, department managers became store managers of their own “store within a store,” and area sales in many instances exceeded \$1 million. Finally, the “shrink incentive plan” provided associates yearly bonuses if their store held shrinkage below the company’s goal. Shrinkage cost was estimated to be approximately 1.7% of Wal*Mart discount store sales in 1993, compared with an average 2% for direct competitors.¹⁸

Managers and supervisors were compensated on a salaried basis, with incentive compensation based on store profits. Store managers could earn more than \$100,000 a year. Assistant managers, who earned \$20,000 to \$30,000 annually, were relocated on average every 24 months in order to meet the company’s growth demands. For instance, an Oklahoman who managed a store in California, moved eight times in 10 years with the company.¹⁹ Other store personnel were paid an hourly wage with incentive bonuses awarded on the basis of the company’s productivity and profitability. Part-time associates who worked at least 28 hours per week received health benefits.

Profit sharing was available to associates after one year of employment. Based on earnings growth, Wal*Mart contributed a percentage of every eligible associate’s wages to his or her profit sharing account, whose balance the associate could take upon leaving the company either in cash or Wal*Mart stock. The company added \$727 million to employee profit-sharing plans since 1988, or 8% of net income, 80% of which was invested in Wal*Mart stock by a committee of associates. Under profit sharing, some employees had made sizable gains. One general office associate’s \$8,000 grew to \$228,000 between 1981 and 1991. An hourly associate who earned the minimum wage of \$1.65 an hour when he started in 1968, took \$200,000 in profit sharing when he retired in 1989 earning \$8.25 an hour. A Wal*Mart truck driver in Bentonville who joined the company in 1972 had \$707,000 in profit sharing in 1992.²⁰ Wal*Mart also offered an associate stock ownership plan for the purchase of its common stock, matching 15% of up to \$1,800 in annual stock purchases. About 60% of Wal*Mart associates participated in the stock purchase plan.

The recent drop in value of Wal*Mart stock was the highest-profile problem facing Glass and Soderquist. “There is a lot of pressure on management to perform,” explained Soderquist. “We have a lot of responsibility to our associates. Right now, we think the stock represents a great buying opportunity. All we have to do is work hard, and the stock will take care of itself.”²¹ During a companywide satellite broadcast aimed at explaining to associates why Wal*Mart stock was down, Soderquist pointed out that most people were not planning to sell their stock the next day, and assured them that the price of the stock would in time reflect the company’s performance.

Management

The Wal*Mart management team, with only a few exceptions, consisted of executives in their 40s and 50s who had started working for the company after high school or college. David Glass, president and CEO, was one of the few who started his career outside of Wal*Mart, working for

¹⁸ Management Ventures, Inc.

¹⁹ Bill Saporito, “A Week Aboard The Wal*Mart Express,” *Fortune*, August 24, 1992.

²⁰ Walton, *Made in America*.

²¹ Jay L. Johnson, “We’re All Associates,” *Discount Merchandiser*, August 1993.

Consumers Markets in Missouri after college. He joined Wal*Mart in 1976 as executive VP of finance and went on to become its chief financial officer. In 1984, Walton had engineered a job switch between Glass, then the CFO, and Jack Shewmaker, the president. Glass was known as an operationally oriented executive and was an important contributor to Wal*Mart's sophisticated distribution system. Don Soderquist, Wal*Mart's chief operating officer since 1987, joined the company in 1980, after leaving his job as president of Ben Franklin Variety Stores in Chicago.

Glass's administrative style, like Walton's, emphasized frugality. "He is one of the tightest men on the face of the earth," said a Wal*Mart executive VP.²² Glass rented subcompact cars and shared hotel rooms with other Wal*Mart executives when he traveled. At headquarters, he paid a dime for his cup of coffee like everyone else. This didn't mean he wasn't a very rich man—his 1.5 million Wal*Mart shares were worth \$82 million in 1992. Since suffering a heart attack in 1983, however, Glass tried to limit his long hours and late nights at the office.

Glass was on the road two or three days a week visiting stores. Since visiting each one once a year was impossible, he used the company satellite to talk to employees across the country. Fifteen regional vice presidents operating from Bentonville spent about 200 days a year also visiting stores. They managed a group of 11–15 district managers, who in turn were each in charge of 8–12 stores. The visits to stores each week began early on Monday morning, when regional VPs, buyers, and 50–60 corporate officers boarded the company's fleet of 15 aircraft. They tried to return to Bentonville on Wednesday or Thursday "with at least one idea which would pay for the trip." The fact that Wal*Mart did not operate regional offices was thought to save the company about 2% of sales each year.

The weekly merchandise meeting occurred on Friday morning. Glass said that in the meetings he would "force [the group] to talk about how individual items are selling in individual stores."²³ According to him, "We all get in there and we shout at each other and argue, but the rule is that we resolve issues before we leave."²⁴ Guests were often invited to the meeting, including GE CEO Jack Welch, who observed: "Everybody there has a passion for an idea, and everyone's ideas count. Hierarchy doesn't matter. They get 80 people in a room and understand how to deal with each other without structure. I have been there three times now. Every time you go to that place in Arkansas, you can fly back to New York without a plane."²⁵

The next morning at 7, Wal*Mart's entire management team and general office associates, along with friends and relatives, assembled in the auditorium for the Saturday meeting, which combined informal entertainment with no-nonsense business for the purpose of sharing information and rallying the troops. Don Soderquist, often dressed in blue jeans and a bright flannel shirt, ran through regional results, market share data, and weekly and quarterly numbers for the divisions, and regional VPs reported on the performance of new stores. A huge billboard flashed the savings that customers were said to have obtained from shopping at Wal*Mart since 1962: roughly \$12 billion as of June 1993. However, no accomplishment was too small, and cheers went up for a variety of reasons: stock ownership among associates was up, three associates had 10-year anniversaries, or the week's special item was selling well in selected Wal*Mart stores. Guests included former NFL quarterback Fran Tarkenton, country singer Garth Brooks, and comedian Jonathan Winters. On Monday morning, decisions were implemented in the stores, and the process began again.

²² Zellner, *Business Week*, March 16, 1992.

²³ *Ibid.*

²⁴ *Fortune*, August 24, 1992.

²⁵ Bill Saporito, "What Sam Walton Taught America," *Fortune*, May 4, 1992.

Diversification

In the early 1980s, Wal*Mart began testing several new formats beyond the original retail store. Wal*Mart opened the first three Sam's warehouse clubs in 1983, and soon after, the first dot Deep Discount Drugstore in Iowa, and Helen's Arts and Crafts store in Missouri, named after Sam Walton's wife. Wal*Mart sold its three Helen's stores in 1988, and its 14 dot's stores in 1990.

In 1987, Wal*Mart opened its first supercenter, and two of four Hypermart USA stores borrowing the hypermarket concept from France where it originated in the 1960s. A hypermarket was a combination grocery and general merchandise store of over 220,000 square feet, which carried 20,000–30,000 items, and had gross margins of 13%–14%. Based on the learning from its experiment with hypermarkets, Wal*Mart dropped the format in favor of the smaller supercenters.

In 1991, Wal*Mart acquired Western Merchandisers—a wholesale distributor of music, videos, and books—and Phillips Companies, which operated 20 grocery stores in Arkansas. Wal*Mart also developed a chain of close-out stores called Bud's, named for Sam Walton's older brother. A Bud's store, which generated \$6 million–\$7 million in annual sales, was housed in a former Wal*Mart discount store when the discount store outgrew its site. About 20% of Bud's merchandise was Wal*Mart surplus, and the rest was close-out, damaged, or over-run goods shipped directly from vendors.

Sam's Clubs

Warehouse clubs, which were pioneered by Price Club in the 1970s, used high-volume, low-cost merchandising, minimized handling costs, leveraged their buying power, and passed the savings on to members, with gross margins of 9%–10%. A limited number of stock-keeping units (SKUs) resulted in a high inventory turnover rate. Inventory was financed essentially through trade accounts payable (as much as 80%–90% in some cases), resulting in minimal working capital needs. Membership fees comprised about two-thirds of operating profits. The first Sam's Club opened in the early 1980s, and within four years, Sam's sales had surpassed Price Club's, making it the largest wholesale club in the country. By 1993, Sam's was nearly twice the size of Price Club.

The operating philosophy at Sam's Club was to offer a limited number of SKUs (about 3,500 compared with nearly 30,000 for a full-size discount store) in pallet-size quantities in a no-frills, warehouse-type building. Name brand merchandise at wholesale prices was offered to members (70% of whom were businesses) for use in their own operations or for resale to their customers. Sam's was run by a separate team of managers than the discount stores and would often locate next to a Wal*Mart. Together the stores would generate sales of \$80 million–\$140 million a year. Although the Discover card was accepted, Sam's was mostly a cash-and-carry operation. Both business and individual members paid an annual membership fee of \$25. A valid state/city tax permit or current business license was required to join. Individual members came from groups such as the federal government, schools and universities, utilities, hospitals, credit unions, and Wal*Mart shareholders. Sam's Clubs operated seven days a week and, unlike Wal*Mart stores, received about 70% of their merchandise via direct shipments from suppliers, and the rest from the company's distribution centers.

Sales at Sam's Club rose 19.5% in 1993 (compared with 31% in 1992), the highest of the national warehouse club chains (see **Exhibit 7** for the top warehouse clubs by volume). Industry analysts estimated Sam's Club's gross margin at 9.4% in 1993, its expense ratio at 8.4%, and operating margin

at 3%—down from 3.2% in 1992.²⁶ Sam's sales accounted for 39% of the industry's volume in 1993—up from 36% in 1992. However, for the first time, comparable store sales in Sam's Clubs were down 3% in 1993 as compared with 1992. Sales in the warehouse club industry were projected to grow to \$40.5 billion in 1994—up from \$37.5 billion in 1993, when most of the growth had come from clubs “filling in” their existing markets, rather than entering new regions. Sam's chose to cannibalize its own sales by opening clubs close to one another in many markets, rather than give competitors any openings.

Overcapacity had generated intense competition within the industry, and its consolidation was expected to continue. In 1991 Wal*Mart acquired The Wholesale Club, which operated 28 outlets in the Midwest, and began remodeling the units and incorporating them into the Sam's Club network. In October 1993, Price Co. and Costco Wholesale Corp. merged to form the 206-store PriceCostco Inc. chain. By the end of 1993, Sam's Club acquired 99 of Kmart's 113 PACE clubs, giving Sam's entry into Alaska, Arizona, Rhode Island, Utah, and Washington, and expanding its presence in the massive California retail market. For Kmart, the sale marked a major step in its plan to shed specialty store businesses and focus on its core discount stores.

Supercenters

A supercenter was a combination supermarket and discount store averaging 120,000 to 130,000 square feet in size. (**Exhibit 8** shows a supercenter layout). Unlike supermarkets which carried a large assortment of products, supercenters offered limited package sizes and brands in order to keep costs low. In addition, they often contained bakeries, delis, and convenience shops such as portrait studios, photo labs, dry cleaners, optical shops, and hair salons. A Wal*Mart supercenter was staffed by about 450 associates, 70% of whom worked full-time. There were about 30 cash registers at a central checkout area, with stores open 24 hours, seven days a week. At the beginning of 1993, Wal*Mart had 30 supercenters in operation, with sales of \$1 billion, and by the end of the year, had 68 supercenters, with sales of \$3.5 billion.

The grocery section of a supercenter competed for food sales with supermarkets, independent food stores, discount retailers, and warehouse clubs. Food retailing was a \$380 billion industry in 1993, made up of local and regional operators, rather than national chains (see **Exhibit 9** for the financial position of the 10 major supermarket chains). Independent stores accounted for 42% of supermarket sales two decades before and only 29% in 1992. Operating margins within the industry were extremely low—a typical supermarket was lucky to squeeze out a 2% profit margin—(see **Exhibit 10** for supermarket versus supercenter profitability). Specialty departments, such as bakeries, seafood shops, floral boutiques, and deli sections, increased customer traffic and offered higher margins of 35%–40%. In 1993, discount retailers and warehouse clubs sold nearly \$20 billion in food, up from \$16.3 billion in 1992, and about 15% of supermarkets sold general merchandise as well as food. These combination supermarkets, or “superstores,” ranged in size from 45,000–65,000 square feet, with about 25% of the space devoted to non-food merchandise. Supermarket companies were opening a higher percentage of combination stores over conventional units. Sales of general merchandise (including health and beauty aids) in combination supermarkets nearly doubled from \$6.4 billion in 1985 to \$12.2 billion in 1993, and the number of stores increased 42% from 2,667 to 3,786. Non-supermarket sales of food, which accounted for 5% of total food sales in 1993, were predicted to double by 1996.²⁷

²⁶Strachan, “Discount Industry.”

²⁷*Discount Merchandiser*, April 1994.

The supercenter format had produced impressive growth, with sales in 1993 increasing to \$14.6 billion from \$11.8 billion in 1992. Meijer and Fred Meyer continued to lead the field in sales and store count, respectively, though analysts expected them to remain regional (see **Exhibit 11** for a list of the top supercenter chains). Food, which typically accounted for 40% of sales, was the key ingredient in a successful discount/grocery operation because of its powerful traffic draw. Profits generally came from higher-margin general merchandise. Kmart had 19 combination outlets, known as Super Kmart stores at the end of 1993. It planned to open an additional 55 Super Kmart stores in 1994, and saw the potential for several hundred more over the next several years. The company was shifting much of its investment in remodeling old Kmart stores into building new Super Kmart stores, each of which usually replaced one or more traditional discount stores in a market. Kmart supplied its supercenters through two food wholesalers—Fleming and Super Valu—and had no plans to build a food distribution network. Recently, Target had also announced that it would open supercenters in 1995.

Wal*Mart was testing several sizes of supercenters, covering 116,000 square feet, 136,000 square feet, 167,000 square feet, and the largest, which combined a grocery section of 60,000 square feet with a discount section of 130,000 square feet. The grocery section offered about 17,000 SKUs of food, (including a newly introduced “Great Value” private label line of about 500 items), and the discount section about 60,000 SKUs of nonfood items. According to industry analysts, Wal*Mart supercenters were “looking for a profit equal to or greater than \$50 per square foot, which is not even approached by any other leading retailer except Toys ‘R’ Us.”²⁸ Wal*Mart’s first supercenters were located in small towns in Arkansas, Missouri, and Oklahoma, where they replaced the oldest Wal*Mart discount stores, drawing customers from up to 60 miles around, and capitalizing on Wal*Mart’s familiarity and low-price image.

In 1990, Wal*Mart purchased McLane Company, a Texas retail grocery supplier, to service its supercenters and Sam’s Clubs. In 1993, McLane had 16 distribution centers which supplied convenience and grocery stores across the country. Its warehouses in Arkansas and Texas, which opened in 1993, were each 760,000 square feet in size, and capable of supplying 80 to 90 supercenters. In 1993, McLane’s sales increased 37% to nearly \$4 billion. Industry analysts estimated the distributor’s gross margin to be 9% in 1993, its expense ratio 7.5%, and operating margin 1.5%.²⁹

It remained uncertain how easy it would be for Wal*Mart to gain market share in the supermarket industry as compared to discount retailing. The ability of supercenters to undercut small-town supermarkets was reduced by the 1%–2% margins on which the industry already operated. Several chains had begun to feature larger package sizes in an effort to combat the warehouse clubs, and most had private label lines, which carried higher margins, and were attractively packaged and priced lower than name brands. Also, established grocery-store chains were defending their market-share: Supermarkets General planned to expand its 147-store Pathmark chain’s supercenters in the northeast. And Cincinnati-based Kroger, which had more than 1,270 stores and competed head-to-head with Wal*Mart in half-dozen areas, had earmarked \$130 million for information technology to reduce distribution and other costs.³⁰

International Expansion

Wal*Mart’s perspective on future growth was decidedly global. Glass believed that Wal*Mart could not overlook the emerging world economy and told store executives at a recent regional

²⁸ Wendy Zellner, “When Wal*Mart Starts a Food Fight, It’s a Doozy,” *Business Week*, June 14, 1993.

²⁹ Strachan, “Discount Industry.”

³⁰ Zellner, *Business Week*, June 14, 1993.

meeting that if they didn't think internationally, they were working for the wrong company.³¹ However, management was uncertain whether Wal*Mart's formats would be successful outside the United States. In 1992, Wal*Mart formed a joint venture with Mexico's largest retailer, Cifra S.A., to test several retail formats in Mexico, its first international market, and by late 1994, anticipated operating 63 stores in metropolitan areas such as Mexico City, Monterrey, and Guadalajara—which included 22 Sam's Clubs and 11 Wal*Mart supercenters—with plans to have more than 100 stores there by the end of 1995. Price/Costco and Kmart also operated in Mexico with local retail partners—by late 1994, Price/Costco planned to have 11 warehouse clubs, with additions expected in 1995, and Kmart planned to open 5 stores.

In March 1994, Wal*Mart expanded into Canada, purchasing 122 Woolco stores from Woolworth Corp. (with sales-per-square-foot of \$72), and immediately began to convert them to its own format—remerchandising and renovating them, and retraining nearly 16,000 Woolco staff members. Wal*Mart also gave Canadian companies the opportunity to supply local stores under a “Buy Canada” program, provided they complied with its standards for service, on-time delivery, and price. Together with the newly acquired Pace Clubs in the United States, the Woolco stores added \$900 million to sales in the first quarter of 1994, but produced no profits.

Wal*Mart planned to enter South America in 1995, with its first stores in Brazil and Argentina—the continent's largest consumer markets—where its competitors would be the European-based retailers, Carrefour and Makro. And in Asia, with Kmart planning to open two stores in Singapore in 1994, analysts believed that Wal*Mart was looking closely at ventures in Hong Kong, as a precursor to expanding into China's vast and highly regulated markets. It would compete in China with the roughly 280,000 government-owned enterprises that controlled 40% of retail sales, estimated to reach \$188 billion in 1994. Analysts believed Wal*Mart's potential international sales alone to be \$100 billion.³²

Outlook for the Future

Glass and Soderquist acknowledged that the current Wal*Mart was a different company from the one Sam Walton had left. Its enormous size, and the stagnant economy of the early 1990s presented challenges that Walton had not faced. There was additional pressure on Glass because he followed a popular company founder. “You can't replace a Sam Walton,” said Glass, “but he has prepared the company to run well whether he's there or not.”³³ Glass's top priority was to maintain as much communication as possible with Wal*Mart associates.

Several public challenges also confronted Wal*Mart as it entered 1994: Growing opposition groups in small towns accused Wal*Mart of forcing local merchants out of business. In Vermont, plans to build the state's first Wal*Mart had been tied up in court for over two years. And, in 1993, three independent pharmacies successfully sued Wal*Mart for pricing pharmaceutical items below-cost in its supercenter in Conway, Arkansas. The company was ordered to stop selling below-cost, and planned to appeal what it termed an “anticonsumer” decision. A similar suit was pending in another part of Arkansas. (Wal*Mart had lost a pricing case in 1986 in Oklahoma, and settled out of court during its appeal, agreeing to raise prices in the state.) Moreover, Target was blasting Wal*Mart's price comparisons in ads that claimed that Wal*Mart's prices were often wrong, noting

³¹ *Discount Store News*, June 20, 1994.

³² *Ibid.*, September 5, 1994.

³³ Zellner, *Business Week*, March 16, 1992.

that “this never would have happened if Sam Walton were alive.” Wal*Mart retorted that it still maintained and followed Sam Walton’s policies, and that Target was simply wrong.

Glass summed up the new challenges facing Wal*Mart: “For a lot of years, we avoided mistakes by studying those larger than we were—Sears, Penney, Kmart. Today we don’t have anyone to study....When we were smaller, we were the underdog, the challenger. When you’re number one, you are a target. You are no longer the hero.”³⁴

³⁴ Ellen Neuborne, “Growth King Running into Roadblocks,” *USA Today*, April 27, 1993.

Exhibit 1 Wal*Mart Stores, Inc., Financial Summary 1983–1993 (US\$ millions)

	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
Operating Results											
Net Sales	4,667	6,401	8,451	11,909	15,959	20,649	25,811	32,602	43,887	55,484	67,345
Sam's Club	37	221	776	1,678	2,711	3,829	4,841	6,579	9,430	12,339	14,749
McLane	—	—	—	—	—	—	—	337	2,513	2,911	3,977
License Fees and Other Income	36	52	55	85	105	137	175	262	403	501	641
Cost of Goods Sold	3,418	4,722	6,361	9,053	12,282	16,057	20,070	25,500	34,786	44,175	53,444
Operating, SG&A Expenses	893	1,181	1,485	2,008	2,599	3,268	4,070	5,152	6,684	8,321	10,333
Interest Cost	35	48	57	87	114	136	138	169	266	323	517
Taxes	161	231	276	396	441	488	632	752	945	1,172	1,358
Net Income ^a	196	271	327	450	628	837	1,076	1,291	1,608	1,995	2,333
Financial Position											
Current Assets	1,006	1,303	1,784	2,353	2,905	3,631	4,713	6,415	8,575	10,198	12,115
Net Property P&E & Capital Leases	628	870	1,303	1,676	2,145	2,662	3,430	4,712	6,434	9,793	13,175
Current Liabilities	503	689	993	1,340	1,744	2,066	2,845	3,990	5,004	6,754	7,406
Long-term Debt	41	41	181	179	186	184	185	740	1,722	3,073	6,156
Long-term Oblig. Under Capital Leases	340	450	595	764	867	1,009	1,087	1,159	1,556	1,772	1,804
Shareholders' Equity	738	985	1,278	1,690	2,257	3,008	3,966	5,366	6,990	8,759	10,752
Share Information (\$)											
Net Income Per Share	.09	.12	.15	.20	.28	.37	.48	.57	.70	.87	1.02
Dividends Per Share	.01	.01	.02	.02	.03	.04	.06	.07	.09	.11	.13
Book Value Per Share	.33	.44	.57	.75	1.00	1.33	1.75	2.35	3.04	3.81	4.68
End of Year Stock Price	2.25	2.38	4.0	5.88	6.5	7.88	11.25	15.12	29.5	32.0	25.0
Financial Ratios^b(%)											
Return on Assets	16.5	16.4	14.8	14.5	15.5	16.3	16.9	15.7	14.1	12.9	11.3
Return on Shareholders' Equity	40.2	36.7	33.3	35.2	37.1	37.1	35.8	32.6	30.0	28.5	26.6
Number of Stores											
Discount Stores	642	745	859	980	1,114	1,259	1,399	1,568	1,714	1,850	1,953
Sam's Wholesale Clubs	3	11	23	49	84	105	123	148	208	256	419
Supercenters	—	—	—	—	—	—	3	5	6	30	68
Number of Associates (000)											
	62	81	104	141	183	223	271	328	371	434	528

Source: Wal*Mart annual reports, *Value Line*, Bloomberg, Salomon Bros.^aColumns may not total due to rounding.^bOn beginning of year balances.

Exhibit 2 Store and Distribution Center Locations, January 1994



Source: Wal*Mart Annual Report

Exhibit 3 Top 15 Discount Department Stores by 1993 Sales (US\$ millions)

Chain		Sales			Number of Stores			Average Store Size
		1993	1992	% Change	1/94	1/93	1/92	(000 Sq. Ft.)
Wal*Mart ^a	AR	44,900	38,200	17.5	1,953	1,850	1,720	84
Kmart ^b	MI	26,449	25,013	5.7	2,323	2,281	2,249	110
Target	MN	11,743	10,393	13.0	554	506	463	110
Caldor	CT	2,414	2,128	13.5	150	136	128	99
Ames ^c	CT	2,228	2,316	(3.8)	308	309	371	50
Bradlees	MA	1,880	1,831	2.7	126	127	127	71
Venture	MO	1,863	1,718	8.4	104	93	84	100
Hills ^d	MA	1,766	1,750	0.9	151	154	154	67
ShopKo	WI	1,739	1,683	3.3	117	111	109	74
Family Dollar	NC	1,297	1,159	12.0	2,105	1,920	1,759	7
Rose's ^e	NC	1,246	1,404	(11.3)	172	217	217	43
Dollar General	TN	1,133	921	23.0	1,800	1,617	1,522	6
Value City ^f	OH	842	798	5.5	75	73	53	60
Jamesway ^g	NJ	722	856	(15.6)	94	108	122	59
Pamida	NE	659	625	5.4	173	178	178	27

Source: *Discount Store News*, July 4, 1994, *Value Line*.

^aSales are for discount stores and Bud's, but not supercenters.

^bSales are for U.S. Kmart stores only.

^cAcquired Zayre in 1989, filed for Chapter 11 protection in 1990, and emerged from Chapter 11 in 1992.

^dEmerged from Chapter 11 in 10/93.

^eIn Chapter 11.

^fFiscal year ended 7/31/93.

^gIn Chapter 11.

Exhibit 4 Overall Corporate Performance of Discounters, Ranked by ROE (%)

Chain	Five Year Average ^a			1993 or Latest 12 Months		
	Return on Equity ^b	Sales Growth ^c	Earnings/Share Growth	Return on Sales	Return on Capital ^d	Debt to Capital Ratio ^e
Wal*Mart	31.2	28.2	25.0	3.5	17.3	40.3
Venture	28.7	6.8	15.4	2.5	16.7	31.1
Family Dollar	21.5	14.4	23.6	4.9	22.5	0.0
ShopKo	18.7	9.7	12.1	2.5	9.5	45.2
Dollar General	16.1	8.7	37.3	4.1	21.9	2.6
Dayton Hudson ^f	15.8	10.5	12.1	1.8	8.1	56.9
Kmart	13.8	8.1	NM	1.9	8.5	39.5

Source: "Annual Report on American Industry," *Forbes Magazine*, January 3, 1994.

NM: Not meaningful, i.e., the company lost money in more than one year.

^aFive-year growth rates are based on the latest fiscal year-end results.

^bROE = EPS/shareholders' equity per share at the start of the fiscal year. The five-year average is calculated using a modified sum-of-the-years method which gives greater importance to recent results.

^cSales and earnings growth rates are calculated using the least squares method which adjusts for sharp fluctuations and closely reflects the average rate of growth.

^dForbes defines a firm's total capitalization as long-term debt, common and preferred equity, deferred taxes, investment tax credits and minority interest in consolidated subsidiaries.

^eDebt to total capital is calculated by dividing long-term debt, including capitalized leases, by total capitalization.

^fParent of Target stores.

Exhibit 5 Wal*Mart Discount Stores--Comparative Pricing Study, Berlin, New Jersey, January 1993

Items Priced	Size	Prices			Average Price	Variance from Avg. Price (%)		
		Wal*Mart	Kmart	Bradlees		Wal*Mart	Kmart	Bradlees
HEALTH AND BEAUTY AIDS								
Crest Toothpaste (Regular)	6.4 oz.	1.24	1.24	2.29	1.59	-0.22	-0.22	0.44
Noxema Skin Cream	10 oz.	2.68	2.79	3.59	3.02	-0.11	-0.08	0.19
Tampax	24 ct.	3.46	3.59	4.49	3.85	-0.10	-0.07	0.17
Preparation H	1 oz.	3.59	3.68	3.99	3.75	-0.04	-0.02	0.06
Tylenol Extra Strength	60 tablets	4.64	5.2	4.99	4.94	-0.06	0.05	0.01
Old Spice After Shave	4.75 oz.	4.42	4.42	5.19	4.68	-0.05	-0.05	0.11
Oil of Olay Facial Cleanser	2.5 oz.	5.52	5.58	8.49	6.53	-0.15	-0.15	0.30
Pepto-Bismol	8 oz.	3.58	2.64	3.99	3.40	0.05	-0.22	0.17
Vaseline	3.5 oz.	1.54	1.54	1.79	1.62	-0.05	-0.05	0.10
Johnson & Johnson Baby Powder	24 oz.	2.93	2.97	3.99	3.30	-0.11	-0.10	0.21
HOUSEHOLD CHEMICALS & CONSUMABLES								
Lysol Disinfectant	38 oz.	2.45	2.43	3.99	2.96	-0.17	-0.18	0.35
Woolite	18 oz.	3.59	3.39	3.87	3.62	-0.01	-0.06	0.07
Easy-Off Oven Cleaner	16 oz.	2.73	2.69	3.29	2.90	-0.06	-0.07	0.13
Cascade Dishwasher Powder	50 oz.	2.27	2.29	3.29	2.62	-0.13	-0.12	0.26
Fantastik Spray Cleaner	22 oz.	1.97	1.87	2.29	2.04	-0.04	-0.08	0.12
Reynolds Wrap	75 sq. ft.	3.79	3.89	4.59	4.09	-0.07	-0.05	0.12
Glad Trash Bags	50 ct.	5.38	5.58	6.99	5.98	-0.10	-0.07	0.17
HOME HARDLINES								
GE Light Bulbs	60 watt/4 pk	1.34	1.67	2.29	1.77	-0.24	-0.05	0.30
Duracell Batteries	AA 2 pk.	1.44	1.45	2.71	1.87	-0.23	-0.22	0.45
Kodak Gold 200 Film	24 exp.	2.88	3.27	4.29	3.48	-0.17	-0.06	0.23
Presto Salad Shooter		22.59	22.94	34.99	26.84	-0.16	-0.15	0.30
SPORTING GOODS								
Wilson Tennis Balls	3 pk.	2.96	2.38	2.49	2.61	0.13	-0.09	-0.05
Coleman Lantern		17.94	19.97	29.99	22.63	-0.21	-0.12	0.33
AUTOMOTIVE								
Valvoline Motor Oil 10W30	1 qt.	0.84	0.91	1.49	1.08	-0.22	-0.16	0.38
Champion Spark Plugs	4 regular	3.92	5.12	5.99	5.01	-0.22	0.02	0.20
PAINT & HARDWARE								
WD-40	12 oz.	1.74	1.97	2.99	2.23	-0.22	-0.12	0.34
Rustoleum	12 oz.	2.94	2.94	3.09	2.99	-0.02	-0.02	0.03
Thompson's Water Seal	1 gal.	9.47	9.98	9.99	9.81	-0.03	0.02	0.02
Stanley Power Lock 16' x 3/4"		11.97	9.94	9.99	10.63	0.13	-0.07	-0.06
Black & Decker Drill	.5" drive	43.97	44.96	44.99	44.64	-0.02	0.01	0.01
FOOD								
Planters Peanuts	16 oz.	2.38	2.37	3.69	2.81	-0.15	-0.16	0.31
Oreo Cookies	16 oz.	1.84	1.79	1.99	1.87	-0.02	-0.04	0.06
STATIONERY								
Crayola 64		1.96	2.05	2.15	2.05	-0.05	0.00	0.05
Scotch Tape	22.2 yds.	0.94	0.95	1.19	1.03	-0.08	-0.07	0.16
Average Variance						-9.46%	-8.31%	17.77%
Percent Items Priced Below Average						91.0%	85.0%	6.0%

Source: Salomon Brothers, Inc., January 1993.

Exhibit 6 Economics of the Discount Industry, 1993 (% of sales)

	Wal*Mart ^a	Wtd. Avg. of Direct Competitors	Kmart ^a	Target ^a	F.Meyer	Caldor	Bradlees	Venture	ShopKo
Sales (\$Mil.)	48,620	18,730 ^b	28,039	11,743	2,979	2,414	1,881	1,863	1,737
	100.0	100.00	100.0	100.0	100.0	100.0	100.0	100.0	100.0
COGS	75.1	72.8	72.4	75.3	68.7	71.7	67.6	74.7	71.9
Gross Profit	24.9	27.2	27.6	24.7	31.3	28.3	32.4	25.3	28.1
Op. Expenses	18.1	24.6	25.2	20.7	27.2	24.5	30.1	21.1	24.2
Other Income ^c	0.7	1.3	1.4	0.7	0.4	0.2	0.7	0.2	0.7
Op. Income	7.5	3.9	3.8	4.8	4.6	4.1	3.0	4.3	4.6

Source: Goldman Sachs, casewriter estimates.

^aDiscount stores and supercenters only.

^bWeighted by estimated 1993 sales.

^cIncludes license fees.

Exhibit 7 Top Warehouse Clubs by 1993 Sales (US\$ millions)

Chain		Sales			Number of Stores			Average Store Size
		1993	1992	1991	1993	1992	1991	(000 Sq. Ft.)
Sam's Club	AR	14,749	12,339	9,430	419	256	208	120
Price Club ^a	CA	7,648	7,320	6,598	96	81	69	117
Costco	WA	7,506	6,500	5,215	122	100	82	115
Pace ^b	CO	4,000	4,358	3,646	100	114	87	107
BJ's Wholesale Club	MA	2,003	1,787	1,432	52	39	29	116
Smart & Final	CA	837	765	663	135	129	116	16
Mega Warehouse Foods	AZ	409	293	248	46	22	15	10
Warehouse Club	IL	215	233	250	10	10	10	100
Wholesale Depot	MA	150	200	100	11	8	4	64
Source Club ^c	MI	—	10	NA	7	3	0	100
Industry Total		37,517	33,805	27,582	898	762	620	—

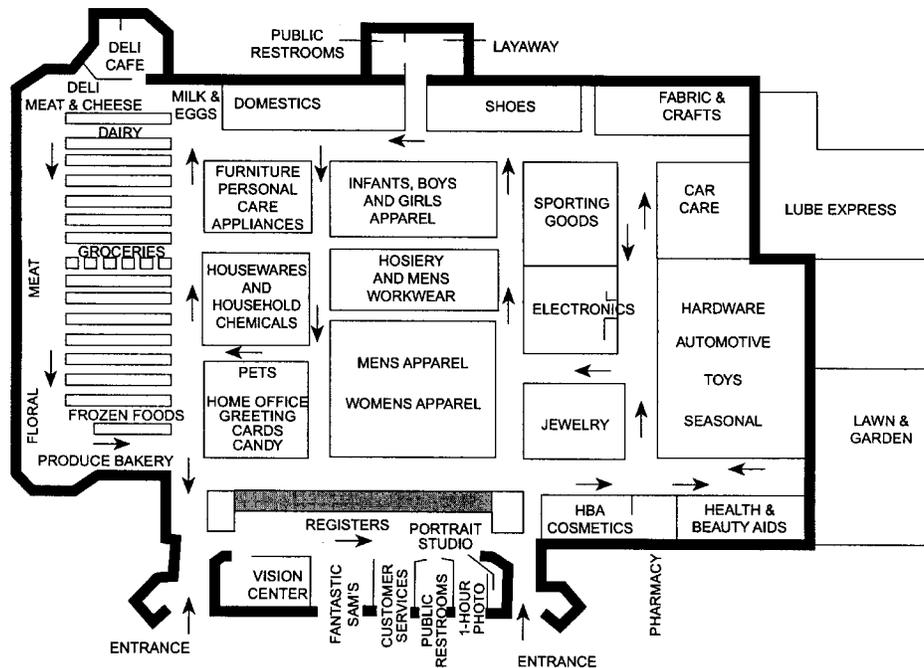
Source: *Discount Store News*, July 4, 1994, and July 5, 1993, company annual reports.

^aPrice Club and Costco merged in October 1993. Fiscal year ended 8/29/93.

^bKmart sold 14 Pace Clubs to Wal*Mart for its Sam's Club division in June 1993, and 91 additional ones in January 1994, and closed the rest.

^cMeijer announced in December 1993 that is planned to close its 7 Source Clubs in order to free up resources for its supercenters.

Exhibit 8 Wal*Mart Supercenter—Store Layout



Source: Salomon Brothers, January 1993.

Exhibit 9 Top 10 Supermarkets by 1993 Sales (US\$ millions)

Chain	Sales			5-Year Average ^a		1993		
	1993	1992	% Change	ROE	Sales Growth	ROS	Gross Margin	
Kroger	OH	22,384	22,145	1.1	NE	4.5	0.7	23.6
Safeway Stores	CA	15,214	15,152	0.4	NE	NM	0.6	27.2
American Stores	UT	14,400	14,500	(0.7)	14.2	5.3	1.3	26.4
Albertson's	ID	11,284	10,174	10.9	24.0	10.8	2.9	24.7
Winn-Dixie	FL	10,832	10,337	4.8	23.2	3.8	2.2	22.6
A&P	NJ	10,384	10,499	(1.1)	4.7	2.7	def	30.8
Food Lion	NC	7,610	7,196	5.8	28.5	19.3	1.4	19.6
Publix ^b	FL	6,800	6,600	3.0	NA	NA	NA	NA
Ahold USA	NJ	6,615	6,323	4.6	22.1	6.8	NA	NA
Vons	CA	5,075	5,596	(9.3)	14.4	10.9	0.8	27.2

Sources: Stores, July 1994, Forbes Magazine, January 3, 1994, Value Line, company annual reports.

NE: Negative.

NM: Not meaningful, i.e. the company lost money in more than one year.

NA: Not available.

def: Deficit

^a1993 or latest five years.

^bPrivately held company.

Exhibit 10 Supercenter Profitability

	Average Supermarket (40,000 Sq. Ft.)	Wal*Mart Supercenter (150,000 Sq. Ft.)
Investment		
Fixtures	\$1,400,000	\$2,100,000
Working Capital	500,000	2,000,000
Pre-opening Expenses	200,000	600,000
Total Investment	\$2,100,000	\$4,700,000
Projected Operating Statistics		
Sales	\$20,000,000	\$50,000,000
EBIT	700,000	3,100,000
EBIT Margin	3.5%	6.2%
EBIT/Investment	33.3%	66.0%

Source: *Supermarket News*, May 4, 1992.

Exhibit 11 Top 10 Supercenter Chains by 1993 Sales (US\$ millions)

Chain		Sales			Number of Stores			Average Store Size (000 Sq. Ft.)
		1993	1992	1991	1/94	1/93	1/92	
Meijer	MI	5,480	5,043	4,400	75	69	65	200
Wal*Mart ^a	AR	3,500	1,500	600	68	34	10	173
Fred Meyer	OR	2,932	2,809	2,702	97	94	94	137
Smitty's ^b	AZ	678	650	580	28	26	24	105
Bigg's	OH	500	449	350	7	7	6	200
Super Kmart Centers	MI	500	313	255	17	4	6	165
Big Bear Plus	OH	290	280	190	12	12	9	120
Twin Valu	MN	115	110	110	3	2	2	80
Laneco	PA	115	110	100	16	15	14	80
Holiday Mart	HI	100	100	100	3	3	3	100

Sources: *Discount Store News*, July 4, 1994; company annual reports.

^aIncludes four Hypermart USAs.

^bIncludes Smitty's and Xtra supermarket chain.