

Wal-Mart and Its Business Environment

The market is constantly changing, and it is necessary for the companies to take into considerations all shifts in the environment in order to control it. The theory of management suggests a number of frameworks that focus on helping the companies identify and assess the changes in their environment, after which they will be able to develop a suitable strategy of development and make a profit. In the current research, an attempt to investigate into the theoretical basics of PEST, SWOT, and the Five Forces frameworks is made. The acquired data are implemented on the example of the American retailer company, Wal-Mart. The paper aims at explaining the influence of the environment on the organization through showing and analyzing the ways, in which the company responds to the environmental dynamics.

Procedure

It is necessary to allocate four main steps in analyzing the business environment. On the first stage of the investigation, environmental factors must be identified. Usually, not all factors are of equal importance for the further development while only the most important ones should be taken into consideration. The most widespread issues that have an impact on business include consumer trends, export and tax legislation, and new competitors in the sphere or technological advancement. The frameworks like PEST, which includes political, economic, social and technological aspects that are connected with the company, help identify and structure the problems in the business environment. The Five Forces analysis is about investigating into the external and internal forces, new entrants, competitors, and procedures of the complementary services or products. SWOT analysis considers the company's strengths, weaknesses, opportunities, and threats. These schemes of analysis assist in evaluating the importance of changes in the particular spheres of business and developing a strategy that will adjust the company's performance to the new reality of the market.

About the Company

As mentioned earlier, the analysis of the impact that the environment has on business is made on the example of the American retail company, Wal-Mart. It comprises numerous warehouse stores and department stores with discounts. The company was found in 1962 by Sam Walton; since that time, it has grown from a one corner shop to a chain of 11 thousand stores all over the world. Wal-Mart belongs to the Walton family and is known to be the biggest retailer that creates more than 2 million of working places. Wal-Mart has the highest market value on the international market (Roberts and Berg 12-14).

PESTLE Analysis

PESTLE analysis is a convenient tool in analyzing the environment in general or in other words, the macro environment. All letters in the acronym denote the environmental factor that influences the industry either indirectly or directly (Treacy and Wiersema 34).

Political issues that influence business usually depend on the political situation in the particular state and the place of the entire country on the international arena, for example, the laws concerning the tariffs and taxes, or international sanctions against the country. Wal-Mart is working in many countries, and that is why this aspect is of a great importance for it. The company has much experience in analyzing the political situation in every country, in which it is going to work. It always tries to use the national realities to its business benefit.

Economic problems may include the interest rate, the rate of inflation, the exchange rate of foreign currency, or the fiscal policies introduced in the state. From this perspective, Wal-Mart is the company that has been economically stable for the recent years. It has not faced significant economic problems, so it has tried to improve the quality of services offered to the

customers. Though, the economic factor depends not only on the internal processes in the company but also its external activity. Wal-Mart always ensures that the economic welfare of the country is rather high, so that the retailer store would be popular there.

Lifestyles, demographics, and cultural peculiarities refer to the social factor. Wal-Mart tries to control the products it sells, in order to avoid any complaints and outbursts from the side of certain social groups. The company also participates in various social initiatives that might improve the relationships between the community and the organization.

Technological development is, perhaps, the most rapidly changing factor. The company has to adjust to the technological development, taking into consideration the reaction of its customers on these changes. Wal-Mart is one of the biggest retailers in the market; that is why the company needs to be equipped with the best technological solutions possible. Recently, it has improved its security system, purchased the slots machines that are the best in the market, and introduced the advanced system of the cash register.

Legal factors do not bother the business too often, because the legislative system is rather stable if compared to the technological advancement. Wal-Mart finds it crucial to work strictly according to the laws of the country. It is an important aspect in organizing the every-day work of the business, because even the minor mistakes in this sphere can result in serious problems. For example, the company might lose its positive image, which is difficult to rebuild in the eyes of the customers.

Environmental factors are actively discussed nowadays. Perhaps, all companies try to be eco-friendly or strive to create such an image. Environmental factors include the climate, geographical location, and weather conditions. Wal-Mart has an approved system that helps it reduce the amount of polluted goods in the company's stores. In addition, the company has strict regulations concerning the characteristics of the products that can be sold to its customers. Being eco-friendly and providing the best natural products possible are among Wal-Mart's key aims. This aspect of company's operations is also easy to popularize through media, because it is welcomed by the majority of the customers.

SWOT Analysis

SWOT analysis is also a popular instrument that helps evaluate the current situation in the market and then to find a solution to cope with the changes. It includes the analysis of four aspects: strengths, weaknesses, opportunities, and threats. SWOT analysis is crucial in strategic planning and achieving the previously set goals (Treacy and Wiersema 42).

The first aspect of SWOT analysis is investigating into the company's strengths. The major strength of Wal-Mart is its popularity. It has a strong brand-name, which is well-known in the entire world. Another strong side of Wal-Mart is its ability to stay flexible in every situation and change its policy according to the current circumstances. Adjusting the strategy to even the minor changes in the environment has partly helped the retailer be the first among its competitors for many decades. Wal-Mart has an effectively working supply chain that gives it a possibility to store the products in a safe place before any department store needs it. The last strong point in Wal-Mart's organization is its official website. It is informative; it has a pleasant and user-friendly design, and the assortment of products offered is always up to date. These characteristics of the strong sides of the company makes Wal-Mart a place that the customers want to visit frequently, because they are sure to get the perfect shopping experience there.

The major problem of Wal-Mart is the negative feedback, which it is confronting. Such negative feedback influences the public image of the organization, as well as the business cooperation with the elements of its supply chain. As a result, the problem attracts unnecessary

media attention, and the customers start thinking that Wal-Mart is losing its positions. All these facts suppose that the organization is having certain difficulties, and there are the chances that the products that it now sells are not of the highest quality, to which the customers are used.

An opportunity for the organization is determining original approaches aimed at diversifying its choice and creating new interesting designs, concepts, and interiors for the department stores. Such initiatives will give Wal-Mart another advantage over its numerous competitors. Another opportunity for Wal-Mart is working on the design and content of the official website. It might not only attract new customers and make the old ones purchase more but also expand the market to include the countries where there are no Wal-Mart's department stores. Searching for the new markets all over the world is also a great opportunity for the company.

The major danger that the company faces is the rivalry in the international market. Its competitors, among which, there are such companies as Tesco, among many others, use different ways that might help them become the best in their segment. The competition takes place in all aspects of the company's operations, and the rivalry for the better suppliers is the most difficult one. The danger to the business can be also found in the legislative system of the countries, in which it is operating. Every country has its peculiarities in terms of the rates of taxes and tariffs, so it is always necessary for the company to keep in mind those details. The different culture and mentality of the customers are the last threats that might influence the work of the retailer and lower its revenue in the end.

Porter's Five Forces Analysis

Porter's five forces analysis was initially offered by the professor at Harvard University Michael E. Porter as an alternative to the popular SWOT analysis. He considered SWOT analysis ineffective and not informative. The analysis of the five forces, in its turn, is based on the paradigm of structure, conduct, and performance, which is actively used in the industrial-organizational economics. This tool gives an opportunity to analyze the competition level in the industry and evaluate the company's business strategy. Among the five forces, it is possible to allocate the two that consider the so-called vertical competition, namely the customers' bargaining power and the suppliers' bargaining power. To the three horizontal forces, Porter refers the threat of new entrants, the threat of established rivals, and the threat of substitute services or products (Treacy and Wiersema 53).

The first force is the threat of the potential entrants. Wal-Mart has been in the international market for a long period of time; that is why, it can be comparatively calm concerning the new entrants and competitors. The company will not be influenced by the new rivals, because they need to prove their quality first while Wal-Mart already has a strong public image. The only possible way to attract the clients to the new department store is to implement a unique technology. Nevertheless, Wal-Mart is constantly checking the updates in this sphere in order not to lose its top position in the market.

The threat of competitive rivalry is similar to the threat of the new entrants. Again, Wal-Mart has developed a strong image and acquired a big percent of the clients. Therefore, the company has a comparatively small number of competitors in this market segment.

Nevertheless, there is a serious threat that Wal-Mart has been facing in the recent years. It is the threat of substitution. There are real risks that the traditional department stores will be replaced by the Internet shops where the customers can choose the products that will be delivered right to their homes. This kind of services is gaining more and more popularity;

therefore, Wal-Mart tries actively to enlarge its Internet presence, so that not to be pushed back into the retailer industry.

The last force described by Porter is the bargaining power of sellers and buyers. The issue is connected with the possibility to reduce the prices, which worries the customers. It is evident that the clients always want to buy the products at the lowest price possible. Wal-Mart is trying to control it. When the customers do not buy the item at a set price, the company starts investigating whether it is possible to reduce it and whether it will be rational to sell a product for this money. The bargaining power of sellers is the problem between Wal-Mart and its suppliers. The company makes all possible attempts in order to buy goods at the lowest price and still controls whether the quality of those items corresponds to the money paid. In general, Wal-Mart is successfully coping with this threat.

Four Principles of Management

Planning, organizing, leading, and controlling are the main management functions. Wal-Mart is an extended company; therefore, detailed planning is one of the key issues that help it to be so efficient. Its planning system is characterized by contribution to the defined objectives, flexibility, and strategic insight. These three issues help Wal-Mart stay among the leaders in the retailing industry.

Perhaps, every company wants to achieve organizational efficiency that will allow the business to have the highest revenue with the minimum of spending. Nevertheless, it is not that easy to accomplish. Wal-Mart implements a unique corporative culture, which aims at creating a unity in the objectives among all the employees. The company also actively employs the principle of the functional definition. Every department is responsible for a set number of actions; this approach helps avoid unnecessary discussions in the working process. Moreover, Wal-Mart uses this technique in a peculiar manner. The company does not consider it necessary to hire more people for the full-time job in order to ensure no stops in the working process during the peak hours. Instead, the company believes that it is better to hire people for several hours. In other times, when there are not so many customers in the department stores, the cashiers work as consultants in the hall. From one point of view, this initiative helps save money. From another perspective, it facilitates the organizational structure and makes it more flexible.

It is possible to emphasize the following principles of leadership that make the work of Wal-Mart effective. First, it is the principle of job definition that was discussed earlier. Second, it is the principle of competition and further appraisal. It helps create a healthy rivalry between the employees, increases the effectiveness of their work, and makes the company more flexible and eager to accept changes.

The control over the work of the employees in Wal-Mart features the two main principles. First, it aims at increasing the efficiency of innovations. Second, it impersonates responsibility, which is the most stable element in the company's organization. Such combination of flexibility and readiness to accept challenges the environment guarantee effective work to the business and its traditional basis.

Environmental Context

External environment is a key issue that influences the longevity of the business. Even though, it is impossible for the managers to change something in the macro environment, it is crucial for them to understand the processes that are going on there, so that they are able to identify the opportunities and threats for their company.

According to the statistics, the revenue of Wal-Mart in 2001 increased by 10,5 percent as compared to the previous ten years. It happened due to the rapid changes in technologies that

made it possible to reduce the costs on personnel and improve the productivity of work. Macro-environmental issues that influence the business are similar to the elements of the PESTLE analysis (Roberts and Berg 53).

The gap between the lower and the upper classes is constantly growing. The unemployment rate is also increasing, as well as GDP does. It happens because the jobs previously performed by people are now completed by machines and computer systems.

Other aspects that belong to the macro-environmental factors are the features typical to a specific generation. The millennial generation, the generation X, and the baby boomers are now the active members of the society, and their needs, preferences, and desire to spend money shape the market. For example, people from the millennial generation are more likely to spend money on unnecessary things than their predecessors from the generation X, who are, in their turn, more willing to spend money in general than the baby boomers. All these issues have led to the increased popularity of the big department stores and malls, in which people can spend days walking around and shopping.

Other issues that affect the business are globalization and diversification of the world. It is considered to be a must that the department stores in other countries look like the ones in the United States. It creates the effect of the global village. Globalization of tendencies influences the way of how the companies have to promote their products. In addition, the popular ideology dictates the business on how to act. For example, it is necessary to demonstrate to the public that the company hires people of various nationalities and sexual orientations. This fact increases the possibility that the company will get the desired media attention.

The majority of people are now trying to be fit and follow a healthy lifestyle. At least, it is actively promoted in the media. In the United States, the problem of obesity is urgent both for adults and for children. As a result, the business has to adjust to the trend. The supermarkets offer specialized products that are popular among people who prefer the healthy lifestyle. Nevertheless, such tendency does not influence only the supplies of the department stores. High prices on medicine and fear to be obese make people change their consumer's behavior.

All of these aspects that form the macro environment determine the manner, in which the retailers develop their business in a strategic sense. There are numerous possibilities to make a mistake in planning the development if the managers are not aware of the changes in the macro environment. The main threat for the contemporary business is underestimation of the importance of the aspects discussed above.

Wal-Mart is responding to the challenges that the environment creates by means of implementing the new approaches to managing human resources. It is considered by the company that people who work for the company should be united by a unique corporative culture. Decentralization of employees who are responsible for making decisions is also crucial in the process of constant improvement.

Two main strategies that the retailer uses in order to encourage the buying experience of its customers are a wide choice of products and low pricing. Wal-Mart offers approximately 60 thousand of items for selling, which is two times more than the average department store does. In addition, the products at the lowest prices or with the rebates are placed on the special shelves. The general organization of the space in the supermarket is unique and is an example of the logistics system of the highest level.

Wal-Mart is constantly looking for the new opportunities for development. The prioritized direction today is the globalization of the business both by means of enhancing the presence in the international market and the Internet. Wal-Mart strives to be the largest company

with the most reasonable prices that works in the retailer business nowadays. It is possible to find Wal-Mart stores in 15 countries all around Asia, South America, and North America. Moreover, the company continues to develop the chain in South Africa.

Going on-line is another important strategy that Wal-Mart uses in order to stay on the previous level of popularity among the customers. In 2010, the company bought Vudu, an on-line service for video streaming. The customers can buy or rent a movie on the website of the supermarket and watch it on-line. The peculiarity of this kind of service is in the fact that the customers do not have to buy a month subscription. They are free to use the service every day or once a year, because they pay only for the fact of buying the content. This initiative is obviously an attempt to adjust the business to the changing environment. Until 2005, Wal-Mart offered another kind of the Internet services; it sent DVDs that the customers bought by mail. Nevertheless, the technology has made a huge step forward since that time, and it became unprofitable to continue the practice (Roberts and Berg 134-137).

In Japan, the UK, the US, and Canada, Wal-Mart started to synchronize its products in the real stores with the items that are represented in the on-line store. Another aspect that the company tries to develop is called *Local*. According to this concept, the products that are sold in the regional store must be local; in other words, it must be produced in this region. This initiative aims to reduce the costs on transportation and ensure fresh food to the customers (Roberts and Berg 243).

Policies and Strategies

Business strategy is an individual plan, according to which the company develops and works. It is designed to meet the needs of numerous segments of the company in order to achieve a single aim. A thoroughly developed and flexible strategy is a powerful instrument that helps overcome the problems connected with the environment and keep pace with the major world tendencies. The business strategy consists of the following elements: economic logic, staging, differentiators, vehicles, and arenas.

The organizations have to define what the arena is in order to find the most effective position for the product placement. The notion of *arena* refers to the target market and to the category of the product. After it, the company has to work with the logistic questions and solve the problem of vehicles that will deliver the product. The notion of *differentiation* supposes that the company understands that it has to be different from the competitors if it wants to achieve success. It includes the product reliability, styling, pricing strategies, customization, and overall image. During the staging process, the ways of accomplishing the aims are described, taking into consideration the sequence of processes and their speed. The economic logic denotes the ways of how the company is going to make money. For example, Wal-Mart is selling a great number of items at low prices, emphasizing that it still offers only the high-quality products.

Recently, one of the peculiar issues in the business strategy of Wal-Mart has been its attempt to change the target audience not. It was decided to take away certain low-cost brands from the stores and add not premium products, so that more customers from the other market segment are attracted to the store. Nevertheless, the initiative was launched in the time of economic recession when many American households faced financial problems. As a result, the old customers who had been choosing Wal-Mart for years, were disappointed because they could not find the usual products there while the rich people still preferred shopping in the other stores. When the company understood the mistake that it had made, returned all the products to the shelves of the supermarkets, and started a campaign with putting the signs *It's Back* next to all those items. Perhaps, it was the way Wal-Mart decided to ask their customers for forgiveness.

It is evident that the consumers are willing to buy different goods. In order to meet their various needs, the managers and retailers try to identify the groups of consumers that are likely to react positively to the offered products. Therefore, the companies tend to focus their marketing efforts primarily on these groups of consumers.

Market segmentation is used to dividing the market into distinct groups of customers (market segments), which may require various products and different marketing efforts. The key issue in marketing is to divide the market into segments that are optimal in the two main criteria: the proximity and the popularity of the products. Segmentation effectively simplifies and reduces the investments in promotion and eliminates many costly methods of promotion. Moreover, the segmentation contributes to the reduction of marketing policy cost. The explanation of this phenomenon is quite simple. Customers search for products that meet their needs. In case the retailer offers the goods of high quality at a lower price and with a better service than the others do, the effect might be great. In addition, the popularity among customers might minimize the costs of advertising.

Wal-Mart is famous for its policy of discounts. It does not have a variety of exclusive brands unlike its competitors do; instead, Wal-Mart uses its only well-known brand as a guarantee of high quality and low prices. The business model of the company is based on selling only the checked products at the lowest prices possible. For instance, the retailer provides a wide range of goods that might satisfy a lot of people.

It is possible to say that Wal-Mart is already using the right segmentation strategy that contributes to the company's success. It has an image of a trustworthy retailer that offers not very expensive yet quality products. This approach allows people with low and average incomes buy better goods. Wal-Mart combines two main principles of the segmentation strategy. Firstly, the company's stores are available mostly everywhere as it has a chain of regional departments and Internet stores. Secondly, it is popular among people, so it is a growing and profitable organization. Consequently, as it was mentioned above, the segmentation of the market is used to identify the unmet needs of customers and offer popular goods to the target audience. Wal-Mart can be definitely called a successful example of this policy (Lowson 31).

Wal-Mart has close relations with the manufacturers, who supply products for the department stores. It is necessary to explain the nature of their relations. Wal-Mart has a good reputation, and it is considered that the supermarket is doing a manufacturer a favor by starting the cooperation with it. It automatically means that the production is of high quality; usually, after the manufacturer starts working with Wal-Mart, its popularity and profits grow excessively. Sometimes, the manufacturers even send to Wal-Mart the first set of products for free, so that the company is able to learn the possible popularity of the item among the customers. Wal-Mart works with its manufacturers in a peculiar manner. The retailer tells the producers what they need to grow or produce and in what quantities, so that it fits the supermarket planning. It is also interesting that nearly 80 percent of all Wal-Mart suppliers are from China. It helps the company to save nearly 1 billion dollars every year on the vegetables and fruits. Another aspect that Wal-Mart tries to improve is the logistics. The company is working at streamlining its chain of supply. Among the main methods, there are pushing the production and RetailLink. These methods also help the company save millions of dollars each year (Liraz 45-46).

There are several important requirements, which the pricing strategy needs to meet. First, the products that the company offers have to be the best in quality and price, because the competition in the market is tough. Second, the company has to determine which products are the most successful and popular among customers. Another important issue that needs to be

considered is the way of how the customers can pay for the products. The more methods of payment available, the more chances the product will be bought. In addition, it has to take into consideration the average established price for the similar products in the market.

Wal-Mart has a successful pricing strategy. As it is a chain of discount stores, the prices are low. Even people with lower incomes can buy products of good quality there. Wal-Mart establishes the prices that are below average, which is a guarantee of its constant popularity. Nevertheless, the company's administration does not allow selling the products that are not actively bought. There are many ways to pay for the products. On the Internet store, it is possible to pay with Visa, MasterCard, or PayPal. All these issues make the pricing strategy of Wal-Mart successful. Wal-Mart always considers the expectations of the market and the prices of the competitors in establishing the price that will be popular.

A vivid example of the pricing strategy that Wal-Mart uses is the way it manages to sell mobile phones. The company has contracts with the major providers of traffic like Verizon and AT&T. It sells mobile phones at low prices like several cents or dollars, but those phones are the contract ones. The situation is quite profitable for the customers. The mobile operators provide them with a wide variety of tariffs, so there is no problem with choosing the right one. In addition, the customers can get a brand new smartphone for several dollars only instead of paying several hundred. This issue makes the Wal-Mart phones very popular among people who want to save money.

Another thing that Wal-Mart introduces in its pricing strategies is the package price when two products together cost less than each of them separately. There is also a possibility to add a present to the main product at a small price. For example, if a customer buys a mobile phone, he or she gets an SD-card for free. From a psychological point of view, this present, for which people do not pay, will make them satisfied with the services of the store. As a result, they might tell their friends and relatives to come to the store and buy a mobile phone there. It is the guarantee of the real popularity among people when the company does not need to promote itself. Promotion by word of mouth is one of the keys to the company's success.

It is also necessary to monitor the development of the market and understand that competitors can lower the prices. Wal-Mart has done its best for many years, and nowadays, it is problematic for the new companies to compete with its chain stores, even though they also have low prices. Wal-Mart has a very important thing in business – a strong image. The company has worked successfully for decades in order to earn this reputation. That is why, it is difficult for the start-ups to compete with Wal-Mart even if the pricing conditions do not differ much.

To conclude, as it was mentioned above, both the product and pricing strategies are very important in the development and functioning of the business. These strategies need to consider the overall situation in the market, the average prices, and the prices that are established by the competitors. The product has to meet all the requirements of the customers both in quality and price. That is why, the pricing strategies such as the package pricing, bonuses, and discounts are actively employed by companies. Wal-Mart is one of the most successful retail companies in the United States. It provides customers with the high-quality products at low prices and has a developed chain of department stores. However, the main thing about Wal-Mart is that it has gained a good reputation. Therefore, today, it is not even necessary for the company to launch an advertising campaign to let people know that they can get more for less money from its stores.

Conclusion

Nowadays, the technology is actively developing and causing an overall increase in the pace of life. The changes in the lifestyle, trends, and political and economic situations lead to

certain unpredictable changes that occur in the environment, in which the business has to operate. In the current research, the ability of the U.S. retailer, Wal-Mart, to react to the changes in the environment was analyzed. PEST, SWOT, and the Five Forces frameworks were instrumental in understanding the organizational system and main principles of the company's operations. The principles of management (planning, organizing, leading, and controlling) were also taken into consideration in determining the nature of Wal-Mart's policies and strategies that help the company cope with the environmental challenges. It is possible to state that Wal-Mart is the example of the successful company that is constantly developing its ways of working with the customers, remaining faithful to its principles at the same time.

Works Cited

- Liraz, Meir. *How to Improve Your Leadership and Management Skills - Effective Strategies for Business Managers*. Liraz Publishing, 2013. Print.
- Lowson, Robert H. *Strategic Operations Management: The New Competitive Advantage*. New York: Routledge, 2002. Print.
- Treacy, Michael, and Fred Wiersema. *The Discipline of Market Leaders: Choose Your Customers, Narrow Your Focus, Dominate Your Market*. New York: Perseus Books, 1997. Print.
- Roberts, Bryan, and Natalie Berg. *Walmart: Key Insights and Practical Lessons from the World's Largest Retailer*. Philadelphia: Kogan Page Publishers, 2012. Print.