



## GARISSA UNIVERSITY

UNIVERSITY EXAMINATION **2017/2018** ACADEMIC YEAR **ONE**  
**SECOND** SEMESTER EXAMINATION

SCHOOL OF BUSINESS AND ECONOMICS

FOR THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION

COURSE CODE: MBA 814

COURSE TITLE: STRATEGIC MANAGEMENT

EXAMINATION DURATION: 3 HOURS

**DATE: 11/04/18**

**TIME: 09.00-12.00 PM**

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### INSTRUCTION TO CANDIDATES

- The examination has **SIX (6)** questions
- Question **ONE (1)** is **COMPULSORY**
- Choose any other **THREE (3)** questions from the remaining **FIVE (5)** questions
- Use sketch diagrams to illustrate your answer whenever necessary
- Do not carry mobile phones or any other written materials in examination room
- Do not write on this paper

This paper consists of **TWELVE (12)** printed pages

*please turn over*



## **QUESTION ONE (COMPULSORY)**

**Read the following case and answer the questions that follow:**

### **WAL-MART CASE STUDY**

#### **Introduction**

Wal –mart stores, Inc., incorporated in 1969, operate retail stores in various formats around the world. It organizes its business into three segments: wal-mart stores, SAM’S CLUB, and international. The wal-mart stores segment is the largest segment of the company’s business, accounting for 68% of sales during the year ending January 31, 2004 (FY2004). This segment consists of three different retail formats, all of which operate in the United States, and includes discount stores, which offer a variety of general merchandise and a limited variety of food products; supercenters, which offer a variety of general merchandise and a full –line supermarket, and neighborhood markets which offer a full line supermarket and a limited variety of general merchandise. The SAM’S CLUB segment consists of membership warehouse clubs, and accounts for 13.5% of fiscal 2004 sales. The international segment consists of retail operations in eight countries and Puerto Rico, and generated 18.5% of the company’s fiscal 2004 sales. The international segment includes several different formats of retail stores and restaurants, including discount stores, supercenters and SAM’S CLUBS that operate outside the United States. Additionally, the company owns an unconsolidated 37.8% minority interest in the Seiyu, Ltd., a retailer in Japan.

As of January 31, 2004, the company operated 1,478 discount stores, 1,471 supercenters, 538 SAM’S CLUBS and 64 neighborhood markets in the United States. Internationally, the company operated 11 units in Argentina, 25 in Brazil, 235 in Canada, 92 in Germany, 15 in South Korea, 623 in Mexico, 53 in Puerto Rico and 267 in the United Kingdom. It also operates through joint ventures in 24 locations in China. Additionally, the company holds a 37.8% interest in Seiyu, a Japanese Retail Chain which operates approximately 400 stores throughout Japan. Subsequent to fiscal year-end 2004, in February, the company completed its purchase of Bompreco S.A Supermercados do Nordeste, a supermarket chain in northern Brazil with 118 hypermarkets, supermarkets and mini markets.

#### **Company’s current financial performance**

From 1990 to 2000, wal-mart’s profits increased 300 per cent and sales grew by \$112 billion. It added almost \$30 billion in sales during 2000 fiscal year alone. Discount stores accounted for an estimated \$ 65 billion in domestic sales from approximately 1,800 units out of wal-mart’s total sales of \$165 billion (FY 2000).



As of January 9,2004, wal-mart has seen its growth lifeless down over the past year with same-store comparisons down three to four percent from the 2003. As of December 10,2004,the net profit margin for wal-mart stores is 3.9%(FY2003) and the return on assets is 9.22%. wal-mart stores Inc.(WMT) said fiscal third –quarter net income rose 13% in line with its most recent estimate, notching another record quarter of sales and earnings. The company also raised its full fiscal-year earnings forecast. The world’s largest retailer Tuesday reported net income of \$ 2.29billion, or 54 cents a share, for the quarter ended oct.31, compared with \$2.03 billion, or 46 cents a fragment,a year earlier.

Wal-mart said earlier this month that it expected to report earnings at the high end of its original concept for earnings of 52 cents to 54 cents a share. The company cited better than –expected gross margin and a change in the effective tax rate,although sales were below its modern plan. Win sales climbed 9.7% to \$68.52 billion from \$62.48 billion,falling short of a mean estimate of \$69.22 billion from analysts surveyed by Thomson first call. Revenue, which includes net sales and other income,rose 9.9 % to \$ 69.26 billion from \$63.04 billion.

#### External environment

The retail industry until the 1980s was very fragmented with great product groupings such as dry goods,groceries,electronics,and sporting goods often having their own specialized outlets.

On the national home front,our economy is on upswing. However, some of the small rural areas are still experiencing poor economic conditions. This is of special anxiety to wal-mart because wal-mart locates stores in rural areas,with populations of 50,000 or less. Wal-mart thrives even in times of recession because people want to build money but unruffled need the essentials for which wal-mart is known.

*The political –regulatory environment is very dynamic both domestically and globally.*

The climb in oil prices continues to hurt businesses and consumers. Many countries across the globe have recently completed or are waiting for legislation to be completed that will regulate unstable oil prices and promote black economic empowerment. The war in Iraq continues to affect the United States relationship with other countries. Many of these relationships have strained by conflicts regarding war participation. This in turn affects the international market place because strained government relationships can get the process to enter a foreign market more difficult.

Wal-mart management must fully understand the regulations of the country it is entering. This topic crosses over with that of global changes,which are discussed below. The past 20 years have seen a great deal of labor legislation in countries all over the world. This legislation requires a variety of responses from economic sectors on issues such as employment equity,skills development and diversity. Protection barriers are falling,trade blocks are emerging,and multilateralism is on the rise.



The main technological issue that is currently impacting the retail industry is consumer behavior on the internet. The internet is changing the way the world conducts business, for business owners and consumers. It offers new opportunities for selection and convenience, never before available to most people. As more consumers turn to online shopping, e-retailers are striving for improved shopping environment. There are many advances in this direction, including surround video, 3-D images, and VR technology in online stores. These applications are often the most visited features of some online stores, reflecting the shoppers' strong interest. These features improve the shopping experience for shoppers who crave the atmosphere of physical store and who depend on something more tangible to look at while comparison shopping. While this industry is very technical, one thing that has not, and will not ever change is that consumers want and demand superb consumer service. The companies that understand how to offer this on the web are those that are succeeding today.

Another novel technology vogue in the retail industry is business process innovation. Flexible, in-augurate standards –based systems provide retailers with a competitive advantage that can improve productivity, differentiate the shopping experience and increase profitability. For example radio frequency identification (RFID) and electronic product code (EPC) identification systems help retailers register and track movement of goods from warehouse to store shelf. Extended point –of-sale (Epos) solutions provide transaction terminals that switch between checkout and customer service, enabling real-time visibility into inventories and throughout the supply chain so retailers can make smart decisions faster.

A study conducted by Price Water House Coopers examined new retail and consumer group patterns in transitional economies and found that transitional economies across the globe offer varying degrees of challenge and opportunity for investors. The most immediate opportunities in the retail and consumer sector are in China. China is the largest consumer market in the world. National and regional brands are still strong there. Multinationals need to adopt their products and marketing to the Chinese consumer. The Chinese Government will play an important role in creating an environment conducive to long-term and economic development. India offers more long-term potential for investors. Consumer goods companies have already successfully established themselves in India. Foreign retail and wholesale investment is currently restricted to cash and carry, and e-commerce. India's superior capabilities in IT will expedite development in modern retailing space. The new government is developing policies to abet improve the lifestyles of its 300 million people.

Turkey, Thailand, Malaysia and Hungary are considered investment havens that offer general opportunities for development in the short run or long run. Turkey has a young and growing population, which makes it an obvious target for retail companies. The Turkish economy is undergoing a major modernization. Regulatory constraints are still an issue in Thailand, but there is potential for



development. Increasing consumer demand and the existence of a middle-class make Malaysia a good investment opportunity. Malaysia also has a young and growing population, low unemployment and a growing retail sector. Hungary has a fast maturing retail and consumer market, but there are still opportunities for investment for hypermarkets, convenience stores and specialized outlets.

Niche opportunities exist in South Korea, Poland, Romania, Czech Republic, Singapore and Slovenia despite being already saturated for their market size. Singapore and Slovenia's prosperous populations make them good targets for niche opportunities. Romania currently has limitations on property and land acquisitions, skilled staff and management, which makes it a better destination for small, targeted retail opportunities.

Investors should be cautious and view Russia and Indonesia as long-term investment options. Russia is a potentially huge mass consumer market with one of the highest current world growth rates. However, it has fragile economic, political and social framework. Decisions made by Indonesia's government will have a big impact on the country's development in the long race. The changing political and regulatory environment is stunting the development for foreign companies.

*Three major trends from the assessment:*

Price sensitivity is having a significant impact on brand management and the development of private price. Expansion from the saturated major cities into microscopic, regional cities. The development of "shopping –tainment"- shopping centers with malls and creation of adjacent leisure activities.

The population in the United States is aging. People are living longer, and older people are becoming more technologically savvy than ever before. This affects product offerings, marketing strategies, and presents both novel problems and new opportunities for almost every industry.

### **Assessment of the internal environment**

S. Robson Walton had been with Wal-mart since 1969. Other directors and senior officers have been around for unbiased as many years. With longevity of leadership comes stability which stability transfers into the company culture. Extent of operations: Wal-mart stores, supercenters, Sams' Clubs, neighborhood market, international, and internet operations fabricate the Wal-mart expanse. Sam's three basic beliefs and 10 rules of building a business are still in force today after more than 40 years. Sam Walton built Wal-mart based upon philosophies of excellence in the work place, customer service and always having the lowest prices. Wal-mart has stayed true to these philosophies since 1962. Wal-mart was chosen as a retailer of the century because the company "cares about the individual, whether he or she is an associate or a customer" (Anthony, Kacmar & Perewe, P.793)



Wal-mart's adaptation and development of computer and satellite technology has allowed them to order stock as soon as it is out with the use of remote merchandise wands used by Wal-mart associates. Wal-mart has a reputation of meeting the needs of shoppers without the higher prices of competitors. Wal-mart is known as the hometown store and has even developed "neighborhood markets", as smaller version of the larger Wal-mart stores. This strategy allows Wal-mart into smaller stores and locations, but will serve the customers the same as the larger stores.

The Every Day Extreme Price (EDLP), rollback pricing, and special buys offer merchandise for the lowest tag. The success is from an Every Day Low Cost practiced by Wal-mart. This means Walmart buys products at the very lowest prices and passes the savings into the customer. Volume creates enough revenue to make up the thin profit margins on products.

From the greeter that you first explore when you enter Wal-mart to the cashier at the check out, Wal-mart associates are expected to provide what Sam Walton called "aggressive hospitality." Each associate is supposed to exude the nicest, friendliest attitude to all customers and give better service than what is expected by the customer.

The consumer of the world's largest private, fully integrated satellite network connects every Wal-mart store and distribution center, as well as most foreign operations. This right time connection provides up to the minute transaction information to be transferred to the home office in Bentonville. It also helps to track stock and create orders with the exhaust of the hand-held computers associates use to scan inventory. These improvements increase efficiency and customer service, as well as preserve stock arriving in a timely manner.

However, despite the apparently positive attributes, there are problems. Each country is different and will require each Wal-mart store to climb the learning curve. What may be even more difficult is the effect of foreign economies and the currency exchange rates.

Law suits have plagued Wal-mart from the predatory pricing lawsuits it experienced in the 1980's and 1990's to personal injury cases that appear from time to time. These law suits have done quite a bit of damage to the image of the retail giant and there are efforts in place aimed at positively changing how people scrutinize Wal-mart.

Arkansas-based Wal-mart again tops the list as the nation's largest retailer with 2003 sales of \$258.68 billion, an 11.7% increase over the previous year. According to *Stores Magazine*, Wal-mart once understood as a role model for retailers, has become "public enemy No.1" within and outside the industry. Wal-mart may need to rethink its strategy regarding image.



## **Systems and stakeholder analysis**

In determining the public affairs strategy of Wal-mart, there are many groups and individuals who have a stake in what Wal-mart does. These stakeholders can be divided into two groups: market and non-market stakeholders. Market stake holders are those groups and individuals who have an economic stake in what the company does. Non-market stakeholders are those groups and individuals who have a non-economic, political stake in what course the company takes.

### **Market stakeholders**

There are the people who own shares of Wal-mart and therefore are interested in seeing a return on their investment. Shareholders hope the value will rise, thus increasing dividends. According to the 2001 annual report, Wal-mart paid out \$24 per portion in dividend. (Annual Report 2001, 45)

Many of the top executives receive stock options as part of their salary. Obviously, these executives want their stock value to rise because it affects their compensation.

While some of the employees may have stock in the company, many of them have an economic stake in the company because their job is their primary source of income. Those that do not have stock rely on the stability and growth Wal-mart emanates.

Many of these communities rely on Wal-mart not only for jobs, for a place to engage necessities at a low price. Communities without Wal-marts might experience higher unemployment rates and families may pay higher prices for the goods.

According to the 2001 annual report, Wal-mart is the country's largest grocery retailer (annual report 2017) and therefore many people rely on Wal-mart for their groceries.

Wal-mart community non-profit organizations gain a potential funding source or contributor. The Wal-mart foundation provides many non-profit organizations with funding; if the company is not doing well, the foundation is not going to do as well either. According to the Wal-mart Good Works Foundation, 97 percent of their funding goes to non-profit organizations in the communities where their stores are located. The Wal-mart good works foundation provides funding to programs that deal with community, education, environment and children.

If Wal-mart moves into a community, the chances are retailers in that community are going to lose many or worse – cessation. Wal-mart's power gives them the ability to buy at lower costs, lower their prices, and force other retailers out of business.

Like other retailers in communities where there is a Wal-mart, online retailers also have a stake in how well Wal-marts are doing. Wal-mart's totally revamped their website in 2000 in order to make it a more profitable



part of their empire. Wal-mart's online sales only represent a small portion of their overall sales, but the website is an indecent cost method for Wal-mart to swear goods to consumers who live in communities without physical stores.

In 1996, Wal-mart made its first partnership with gasoline industry. Today, Wal-mart's contracts with companies such as Murphy Oil USA, Sunoco, and Tesoro Petroleum. Wal-mart contracts with these companies and leases staunch estate on their lots to offer gasoline onsite. The local gas often cannot compete with Wal-mart either price or convenience.

### **Non-market stakeholders**

Labor unions have a political stake in Wal-mart because of the strict policy about having their workers unionized. Wal-mart takes the position that it is able to lift care of their employees and provide them with the best benefits and compensation plans without a union.

One of Wal-mart's key issues had been to move into the international retail market and open stores in other countries. Currently, Wal-mart has stores in China, Puerto Rico, South Korea, the United Kingdom, Brazil, Argentina, Germany, Canada and Mexico. Wal-mart must work closely with public relations firms in those countries to mitigate backlash against them. Wal-mart must also be careful to follow the laws of each country when opening new stores.

Politicians have a non-market stake in Wal-mart for several reasons. First, politicians may or may not want Wal-mart opening in their district. On one hand, it may be good for the community; however, it is a district with large union presence, the politician may not want Wal-mart in that area. Also, politicians may rely on Wal-mart for campaign funding. Wal-mart's political action committee (PAC) has contributed over \$752,500 to various committees and candidates during the 2001 cycle.

### **Company's current strategies**

Wal-mart focuses its strategy on gaining and maintaining through a cost advantage strategy. Wal-mart's bulk shipments and fresh distribution centers has allowed Wal-mart to be a cost leader. You may like or hate shopping at Wal-mart, but at the end of the day you walk away with a price that typically beats the competition considerably. Since 1998 Wal-mart has slowly but with increasing speed shifted their strategy from the traditional stores to 180,000 square feet plus supercenters. Since 2002 superstores were generating more sales than the frail Wal-mart discount stores. In 2000, Wal-mart was predicted to become the nation's 1 grocer by 2005. This achievement was realized in 2002. With domestic markets maturing Wal-mart is looking overseas for expansion. Internationally, currently Wal-mart operates 11 stores in Argentina, 25 in Brazil, 235 in Canada, 92 in Germany, 15 in South Korea, 623 in Mexico, 53 in Puerto Rico and 267 in Britain. Wal-mart also operates through a joint venture in 24 stores in China and owns a





37.8% interest in Seiyu, a Japanese retail chain, which operates approximately 400 stores throughout Japan.

### **Assessment & future prospects**

#### *Problem & issues*

The spot in this case is how long the Wal-mart culture transcends international boundaries and improve the Wal-mart image.

### **Generation and evaluation of alternatives**

Many in retail see the company as a bully and a tyrant while presenting the impression that Wal-mart destroys communities and clamps down on worker's rights. While Wal-mart displays a cheery attitude in public off camera, this giant industry is quite aggressive. Coming to an understanding with organized labor is needed. Wal-mart must ease their map into foreign markets, instead of barging in and buying up companies. Alternative strategies available to Wal-mart are to soften the aggressive corporate strategy, increase philanthropy, consider unionization, and examine political capital & culture.

Although there is nothing wrong with being aggressive in the market place, Wal-mart seems ruthless. Countless grassroots anti-Wal-mart groups have sprung up to sustain the retail giant out of their communities. The public perception by moving in and shutting down local Wal-mart boasts that it provides jobs for the people in a particular state it moves into. The underlying reality is that people have to work at Wal-mart because the local stores closed. To fight this negative image, Wal-mart must terminate trying to circumvent laws when building new facilities. It must present precisely how it can be a worthy neighbor, and "walk the walk"

Wal-mart loves to be charitable to show they have helped communities; however the company needs to more active in this work, and not simply provide cash to organizations such as the United Way. The company boasts over \$150 million raised funds in 2001. That money however was raised from the contribution of employees, rather than from company coffers.

Wal-mart needs to send its store managers and executives into local communities to give their time in the community in a meaningful way. It would also be a positive if store managers were permitted to work on community projects on company time, rather than on their own time. The public loves to see powerful organizations and people help the community. For example, President Jimmy Carter Wealthy, a former president of the United States, and yet he helps everyday people build homes through Habitat for Humanity. If Wal-mart could do something similar, derive positive media coverage, it could mitigate much



of the negative press that hurts company. The headlines could change from “Wal-mart behemoth rolls into town” into “local Wal-mart workers donate money, time to help the local poor”. Wal-mart could expand, but shift the focus from dominance to philanthropy. This would raise its suffering profile immensely.

Wal-mart could relax its anti-organization policy and allow its employees to freely choose to organize themselves. Wal-mart hit hard for their unfair labor practices constantly publicized. The public sympathizes with the rights of workers, their choice to unionize, and have a collective voice in the work place. A current impart involves workers in Wal-mart’s division, who want to unionize. Wal-mart is using serious political capital to keep that from happening. This mistake could be detrimental to the corporation in the long run. Wal-mart is being sued by the national labor relations board and several unions a fight that could end up costing Wal-mart a great deal.

In addition to litigation costs, Wal-mart loses credibility and reputation. Wal-mart’s fight to keep out unions forces the company to battle with employees, fight local regulators, and gain negative media attention. Expansion into foreign markets will mean that Wal-mart will increasingly encounter the unionization grunt. The reaction would land the company into trouble not only with European regulators, but with angry European customers.

Wal-mart must better utilize its political capital and learn from the experience of local retailers when attempting to expand overseas. The stores must be willing to bend their uniformity and consider the reaction of the local culture. Wal-mart has begun to adopt this posture in their dealings with Japan and Seiyu, a Japanese retailer. Some of their other ventures have not been so successful. For example, stores in the province of Quebec had some initial cultural difficulties. The over-patriotic style of Wal-mart does not work well with the culture of Quebec, which spurns overt patriotism. Flying a Canadian flag in a Quebec store can become an embarrassing political deny due to heightened francophone Quebec nationalism in some regions of Quebec. Yet to fly only a Quebec flag and not the national flag of Canada is a symbol of supporting separatism. The company learned mercurial to tone down its use of patriotism in Quebec. Another mistake the company made in Quebec was to publish its circular in English to a mostly French-speaking population.

### **Suggestions concerning decision implementation**

The world is not yet –ready for full-on, U.S. Wal-mart-style retail, especially in the anti-American European climate. Wal-mart must consult with business leaders in the various countries they are growing into, resolve the best way to attract business, and not to upset the local populace. For example, Wal-mart experienced problems in Germany where they attempted to drop all their prices below their competitors.



Price-fixing in Germany is common place, and Wal-mart's faux pas was against the law. Wal-mart eventually circumvented the law, making more enemies than friends. Wal-mart needs to work with governments, not against them, to adjust to the various markets and achieve success overseas.

Wal-mart might have spent more time and money to implement the aforementioned strategy ideas, but bad press is simply not good for the bottom-line. A friendlier corporate image is more than a smiley face that slashes prices. Encouraging Wal-mart's people to participate in philanthropic or community events is what makes a company image positive and perceptions improve. Working with governments and being sensitive to local cultures will benefit the company in the long run.

By implementing these suggestions, Wal-mart would not only expand into foreign markets at a quicker pace, they would also be better positioned to defend themselves against their critics. These strategies could make Wal-mart the largest retail chain in the world and one of the most popular stores in history.

## **Conclusion**

Wal-mart is the number one retailer in the United States and is at the top of the fortune 500 listing. Wal-mart operates in many countries world-wide and is animated into unique countries every year, continuing to expansion in more ways than one. Wal-mart has expanded into many sectors of the marketplace, including groceries, gas stations, electronics, and auto maintenance. Each year, Wal-mart finds new ways to grow and offer more services to their customers. Additionally, the number of people who have a stake in Wal-mart grows. Consequently, more claims are made against Wal-mart by the unions and other businesses that have been forced to close. As a result of Wal-mart's ever-growing size and variety of services, the public affairs department is going to become increasingly well-known.

As animosity becomes more widespread in U.S. and abroad, Wal-mart is going to have to work harder to maintain a good reputation. Wal-mart's foundation will become increasingly more important and strategic in the effort to improve community relations. In order for Wal-mart to stay at the top leadership will need to improve their relationship with stakeholders and change the public's perception of Wal-mart from a cutthroat industry giant to a community's true best friend.

## **QUESTION ONE**

- (a) Briefly summarize pertinent issues of the wal-mart case.
- (b) Formulate SWOT analysis of Wal-mart
- (c) Discuss what could be an appropriate mission and vision of Wal-mart.



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- (d) Discuss corporate strategies adopted by Wal-mart and the advantages that has led the firm to adopt the strategies.
- (e) Discuss Wal-mart's situation analysis.
- (f) What is the future of the retail chain industry exemplified by Wal-mart?
- (g) What could be the source of Wal-mart's downfall?
- (h) Perform Wal-mart stakeholder analysis.

## **QUESTION TWO**

- (a) Discuss the concept of sustainable competitive advantage.
- (b) Illustrating with relevant examples from the Kenya's mobile phone industry, discuss the porter's five forces model and how competition in the industry has been grown.

## **QUESTION THREE**

- (a) Utilizing the Ansoff growth strategic options, illustrate with examples the appropriateness of strategies adopted by firm of your choice.
- (b) Identify and discuss strategies that firms should adopt with caution.

## **QUESTION FOUR**

Discuss porter's generic strategies and explain why firms that are deemed as "stuck in the middle" are poor performers.

## **QUESTION FIVE**

- (a) Discuss integration strategic options and explain factors favoring the adoption of the same by firms.
- (b) Discuss factors that impede successful implementation of strategies.

## **QUESTION SIX**

- (a) Discuss how corporations could control strategic implementation.
- (b) Explain the efficacy of parenting strategies in a firm of your choice.

