

On Wal-Mart's Marketing Strategy in the Chinese Market

Yeling Yuan, Yanqing Jiang*

School of Economics and Finance, Shanghai International Studies University, Shanghai, China

***Corresponding author**
 Yanqing Jiang

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Abstract: This paper takes Wal-mart which is the leader of Fortune Global 500 as an example, analyzing its product, place, price and promotion, pointing out a series of marketing problems War-mart has faced within the Chinese market and offering some solutions. The marketing strategies of War-mart both in China and overseas have provided significant references to Chinese retailing companies. Chinese retailing companies should learn War-mart's successful experience during its localization in China and avoid similar mistakes, and then convert what they have learned into their own strengths and advantages.

Keywords: War-mart; Retailing; Marketing strategy.

INTRODUCTION

A Brief Introduction to Wal-Mart

Wal-Mart Stores Inc. was founded by Sam Walton, an American retail legend, in Arkansas in 1962. After the development of more than 40 years, Wal-Mart Stores Inc. has become the largest private employer in the United States and the largest chain retail store in the world. At present, Wal-Mart has opened more than 8000 shopping malls in 15 countries, with 53 brands and about 2,100,000 employees.

After China's entry into the post WTO era, China's retail industry has been fully open to the public except for a few exceptions and entered the seller market where an overwhelming majority of consumer goods are oversupplied.

Wal-Mart entered the Chinese market in 1995 and began its development in China. But compared with other competitors, Wal-Mart has not only developed slowly in China, but also fallen behind in sales. Wal-Mart has failed to replicate its successful experience in the US during its localization process in China. If Wal-Mart wants to make great progress in China, it must study deeply the national conditions, consumption habits and psychology of China.

Wal-Mart's Marketing Strategy in China

Product Strategy - A Reasonable Distribution of Commodity Structure

Wide-span and Medium-depth Commodity Combination

Wal-Mart has achieved a wide-span and medium-depth commodity combination that fully meets the customer's "one-stop shopping" demand. The span of the combination means the number of different kinds of goods. The more variety of goods, the greater the span is, and vice versa. The depth of the commodity combination means the quantity of the product under each kind of commodity. The more the number of products under each category, the deeper the depth is, and vice versa.

Wal-Mart's different retail platforms have different strategy combinations. Convenience stores adopt narrow-span and shallow-depth combination strategy; Supermarkets, narrow and deep; Department stores and hypermarkets, wide and deep. Sam clubs adopt wide-span and medium- depth commodity combination, which means its span is the same as Department stores and hypermarkets but the depth is lower than that of supermarkets.

The combination strategy adopted by Sam clubs is consistent with its industrial characteristics. A warehouse supermarket is designed to provide customers with one-stop shopping. This requires a wide range of product categories, a certain number of brands, colors, packages and grades under each category that can be selected by different customers. However, we can't say the more brands, the better, because it will increase the difficulty for customers to choose the right goods.

Emphasis on High Returns of Commodities

Wal-Mart emphasizes the high turnover of commodities rather than the high profits that other retail platforms care about. Because Wal-Mart has to sell goods at a lower price compared with the market price, it has only a relatively low gross profit, mainly

including non-gross profit. It is for this reason that Wal-Mart's profits are based on mass selling and high turnover. To sum up, Wal-Mart specializes in commodities that can be sold in large quantities, with high returns and high purchasing frequencies.

Convenience Commodities First and Selective Commodities Second

Conforming to the concept of "home life", Wal-Mart mainly sells convenience commodities, followed by selective commodities [1]. Daily necessities are cheap, consumable and frequently purchased. Therefore, it is not surprising that Wal-Mart takes foods (including seafood) and daily use accessories as its main products. However, only selling daily necessities can lead to a narrow range of goods, and there will be a lack of its own characteristics compared with other competitors. In order to enlarge the range of Wal-Mart's radiation, Wal-Mart also chooses to provide some selective products for customers.

Channel Strategy -- Efficient and Sound Delivery System

David Glass, Wal-Mart's vice president and CEO, said, "the delivery system is one of the keys to Wal-Mart's success." It is Wal-Mart's perfect and efficient distribution system that makes it rapidly expand around the world. Instead of sending goods directly to the store, Wal-Mart firstly transports goods to the nearest distribution center before moving to the target store, which reduces the times of distribution, and greatly decreases the cost and speeds up the turnover of inventory.

In 1996, Wal-Mart had already owned 30 distribution centers, and 85% of Wal-Mart's products were transported through its own distribution center. Customers' demand on small quantity, multi-frequency and just-in-time has proposed great challenges for delivery system. Under this circumstance, Wal-Mart upgraded its fleet by equipping with communication satellite, global positioning system and digital electronic map so that the company can know the transportation situation in time. A fully automated distribution center, coupled with a fast - responsive fleet, is the strongest advantage through which Wal-Mart can guarantee the replenishment twice a week, in contrast to other stores' replenishment once a week on average. Quick replenishment can ensure Wal-Mart's normal sales in the case of minimal inventory. The satellite communication network makes Wal-Mart's delivery system more perfect, which contributes to the joint operation among distribution centers, suppliers and branches at each point of sale, improving the efficiency and accuracy of distribution. Overall, the delivery system has laid a solid foundation to Wal-Mart's low-cost strategy.

Price Strategy – “Every Day Low Price” Strategy

Prices are the most important factor for retailers, especially for Wal-Mart whose many stores are set up in small towns. It can be said that Wal-Mart's daily low price strategy is based on the interests of consumers. In order to always offer customers low prices, Wal-Mart regards “Every Day Low Price” as its business strategy, not just a slogan.

The Truth of “Every Day Low Price”

“Every Day Low Price” means that the price of Wal-Mart is always lower than that of other retailers. Under the policy of this price strategy, Wal-Mart always has the lowest price of products with the same quality and brand. In Wal-Mart, any employee, even the lowest ranking employee, has the right to reduce the price of goods, as long as the price of other similar products is lower than that of Wal-Mart.

The Realization of “Every Day Low Price”

Wal-Mart's low price is not achieved through frequent price cuts such as the disposal of overstocking and inferior products, but through localized purchase, perfect logistics and distribution, efficient inventory control and the implementation of "anti-waste war". Wal-Mart is also working to improve the value chain of the product, optimize the commodity structure, and provide customers with more value-added services.

Promotion Strategy – low-key Promotion Mode

Compared with manufacturers, retailers usually have a more geographically concentrated target market. When new products are launched, retailers will publicize the product in the shortest possible time, focusing on the price to attract consumers. Advertising is the main cost of retailers. Wal-Mart relies on word of mouth and continued pricing strategy, which enables Wal-Mart a very limited advertising cost.

Advertising Strategy

The data shows that Wal-Mart's advertising investment accounts for only 0.5% of its sales. In 1990, when Wal-Mart ranked the top of the retail industry, its annual advertising investment was only 169 million. In contrast, the second and the third companies put in much more advertising expenses to expand their popularity. In the early days, Wal-Mart advertised its cheap and excellent products in the newspaper, which attracted many consumers. With the increase in the number of stores and markets, Wal-Mart began to try TV commercials, but there was little investment in radio.

Wal-Mart's managers carefully and strictly planned advertising costs, considering everything from a competitive point of view. When new products are launched, Wal-Mart will invest heavily in advertising costs. But once Wal-Mart's focus shifts to impression promotion, advertising will fall sharply. With every dollar invested in advertising, Wal-Mart will get a

return of \$192.85. Although Wal-Mart has invested very little in advertising, it does not mean its advertising effect is disappearing. Wal-Mart is trying to reduce its advertising investment, and the savings are actually used to reduce commodity prices and benefit more consumers. At the same time, consumers will be willing to enter Wal-Mart shopping over and over again, giving Wal-Mart more revenue.

Activity Promotion

One of the basic principles of Wal-Mart is to sell products at a price lower than cost so as to attract consumers. Therefore, these products themselves are not profitable, but they can play a promotional role, attracting more customers to shopping malls to buy other products. That's why these products are called "image products".

In order to avoid the loss of profits caused by too many promotional products but still need to maintain their advertising functions, Wal-Mart came up with a wonderful method, that is, changing the "image products" on a regular basis. Wal-Mart chooses one or two products which are highly discounted and put them in a conspicuous place. In this way, consumers can buy the particular products at a maximum discount, making the product a core product.

Public Relations Building

Wal-Mart is regarded as a human enterprise, which has left a deep impression on people, mainly due to the good public relations. Wal-Mart builds a good corporate image by supporting education, charitable activities, "buying domestic brands" and protecting the environment.

Problems in Marketing Management of Wal-Mart in China

Problems in Supply Chain Management

In order to achieve the cost reduction, Wal-Mart has been insisting on buying goods directly from manufacturers so that it can reduce the intermediate links in the supply chain. But this idea has suffered a lot in China. In the US, Wal-Mart implements the principle of direct purchasing from factories and cutting out the middleman. By doing so, it can save profits from the profit chain originally paid to intermediaries and allocate these profits to final consumers so that the strategy of "every day low price" can be realized. But in China, the traditional distribution channels are ingrained. Chinese manufacturers are characterized by wide distribution, large quantities and small scales, all these features making Wal-Mart's supply chain management unworkable [2]. Wal-Mart has been named for its low cost, but this advantage is offset by the cost of the intermediate links, which is the problem of supply chain management.

Problems in Information System

Wal-Mart's electronic information system is the largest civil system in the US. POS (data system of Point of Sales), EDI (Electronic Data Interchange System) and RFID (Radio Frequency Identification Technology) have ever been highly praised by the industry. Wal-Mart's headquarter, various branches and suppliers around the world are linked by the common computer system, so that more than 4000 stores in the world can take stock of every commodity, shelves and sales volume within 1 hours. The close relationship between internal and external information systems enables Wal-Mart to exchange commodity sales, transportation and ordering information with suppliers. In this way, Wal-Mart achieves synchronization in store sales, ordering and distribution. But this set of effective logistics management and supply chain mode meets bottleneck in China. There is a big gap in the network information environment between China and the United States. The information systems of most domestic suppliers are far behind compared with Wal-Mart. Wal-Mart mode requires suppliers to have a supporting technology platform. At present, domestic suppliers are seldom able to satisfy this requirement, which makes them hard to get better profits, and then cause problems in supply.

Problems in Distribution Center Mode

One of the important reasons for Wal-Mart's success in the world lies in its efficient and flexible distribution system and the mature supply chain management system. It follows the principle of building stores intensively around a supply chain -- when the number of stores reaches a certain scale, the powerful role of logistics and supply chain management can be played well, through which the market price advantage of Wal-Mart can be ensured. The operation mode of Wal-Mart in the US is like this. On average, a logistics supply chain management supports 120 stores. The average delivery cost is less than 3% of sales, while the competitors' cost is 4.5%-5%. In the Chinese market, Wal-Mart has not worked out a good solution to the logistics problem. As Xu Jun, director of public relations of Wal-Mart China, said, "there is no large-scale distribution center, mainly because the store is small, and stores are few, which in turn cannot support the establishment and operation of large-scale distribution centers." China has a vast territory, and stores of Wal-Mart opened in China scatter throughout different provinces. If it relies solely on the logistics distribution center set in Shenzheng and Tianjin provinces, it will undoubtedly lead to Wal-Mart's core competitiveness-logistics advantages -cannot being fully brought out. The logistics supply chain management will in a semi-idle state and this situation will definitely increase the cost of distribution.

Problems in the Relationship with Suppliers

In the eyes of the vast majority of suppliers, Wal-Mart is a tough customer, because Wal-Mart thinks

he is bargaining for customers, and he doesn't need to feel sorry for suppliers. The only thing he wants is the lowest price. Therefore, it follows logically that "every day low price" becomes Wal-Mart's gilded signboard. The dominant position in the retailing industry has made Wal-Mart occupy an obvious advantage in its contacts with suppliers. It requires that every supplier must guarantee the standard quality with the lowest price, use new technology to keep information synchronization with Wal-Mart, and strengthen capabilities in time so that it cannot be eliminated. Wal-Mart's harsh and cruel price requirement has already been known by this sector, and the asymmetrical relationship between the supply chains has kept many suppliers at a distance. Obviously, a relationship that cannot make both sides happy and cooperative is not sustainable. This is probably an implication that Wal-Mart's business mode of the purchasing center is unsustainable.

Problems in Cultural Differences

Since the reform and opening up, people's living standard has been greatly improved than before. However, China is still a developing country, so it is still quite different from the living standard and consumption concept of developed countries. Wal-Mart in the US locates mostly in the suburbs, where the construction cost is relatively low, and it is also a civilian store whose main customers are from low and middle income families. Wal-Mart's idea of "saving every penny for the customers" makes many civilians and price sensitive consumers loyal to it. Americans love shopping with large quantities. They drive every week to buy things that can meet their one-week needs. However, Wal-Mart in China is mainly built in bustling cities. Its gilded signboard can be almost synonymous with high quality products, and it also enjoys a global reputation for good value for price, which attracts a lot of high income groups that are in pursuit of life quality. Between price and quality, these customers pay more attention to quality, not very sensitive to price. The density of China's urban population is large and the business circle is dense. At the same time, the penetration rate of cars is far less than that of the US. Therefore, most residents do not like bulk shopping, but prefer high frequency purchases, and consider shopping as a kind of entertainment.

Coping Strategies

Changing the Strategy of Market Expansion and Seeking Market Growth in Small Towns in China

Wal-Mart's accelerated pace of opening stores in China is to enhance its scale advantage as soon as possible so that it can better achieve its core competitiveness, but this action is frustrated by the change of Chinese government policies and the stubborn resistance of local retail businesses. Therefore, considering the dominant position of domestic retail enterprises and other foreign retail enterprises like Carrefour in the central city, Wal-Mart should seek

opportunities in the small towns in China to enlarge its market share.

Improving Supply Chain with Scientific and Technological Innovation and Optimizing Logistics Management

For Wal-Mart, in order to adapt to the change of Chinese market, it must be in accordance with the requirements of supply chain management, transforming it through business process reengineering, making innovations in the organizational structure and functions of each department to eliminate the barriers between the management and functions. At the same time, it should intensify the transformation of information technology, popularize the modern commodity circulation technology based on communication technology and electronic information technology, and gradually realize the digitalization, networking and intellectualization of market information interpretation, and finally realize information management.

Achieving a Win-win Situation with Suppliers

Wal-Mart must change its traditional concept in the supply chain management in the Chinese market, like lowering prices unilaterally and bargaining with suppliers by using its dominant position to gain a competitive advantage in the business world. Instead, it should think questions from the perspective of suppliers, achieving mutual benefits and win-win cooperation. Only in this way can it be bigger and stronger in the Chinese market.

Pricing Strategy in Sales

In order to meet the needs of the Chinese market competition, Wal-Mart should carry out the appropriate price adjustment according to the actual situation. There are two reasons for the general adjustment of the price: one is the promotion and the other is the price competition. In order to cause visual impact of low prices to consumers, it need to regularly select some special products that are below market price to promote sales and motivate joint purchase behavior. At the same time, In order to avoid the suspicion of selling at a low price, usually the prices will rebound to the normal prices after a few days to show its sincere attitude towards consumers. After that, a new round of promotional items will be selected and give consumers the psychological impression of low price. Specials will bring customer flow, stimulate purchase desire, generate impulse buying, drive sales of high-margin merchandise, increase overall sales volume, and ultimately increase the overall profit.

The Enlightenment of Wal-Mart to China's Retail Industry

Applying the Modern Management Concept to the Chain Expansion of the Retail Industry

Applying the modern management concept to the chain expansion of the retail industry, Retail

companies in China should strive to realize the unification of goods, services and stores, the specialization of procurement, distribution, sales, customer service and management, the standardization of publicity, training, operation and expansion. Also, they should aim to standardize the process as much as possible to reduce the error and influence caused by empirical factors, to achieve economies of scale, to abandon the old business philosophy at the core of products and selling, to set up the modern management idea at the core of consumer demands, to guide consumers with better service

Application of Information Technology to Reduce Logistics Cost

Most of the retail businesses in China lack the modern logistics system, and the cost in procurement, transportation, financing and settlement is 40% higher than that in the United States, which counteracts the advantage brought by low labor cost. A part of the high logistics costs is due to the low application level of information technology, which increases indirect cost. On the other hand, the dispersion of domestic distribution networks hinders the rapid sale of goods. China's retail industry should improve management, innovate actively, learn to control the links between market, production and distribution with modern means, and emphasize the construction of network marketing system and logistics information platform. Through the integration, optimization and timely processing of logistics and capital flow, they can achieve effective logistics cost control, improve the information level of retail industry and enhance competitiveness.

Strengthening the Construction of Private Brands

The private brand means that a retailer uses its resources advantages to analyze the characteristics of consumers' demand for a commodity, then puts forward the design requirements of new products, and develops, designs, organizes, produces and sells the commodity brand by itself. The development of the private brand has the following effects on the retail industry [1]: To change the profit mode of the enterprise and increase the source of profit [2]. To improve the planning ability of enterprises and expand industrial and commercial relations [3]. To improve the business ability of enterprises and implement differential competition [4]. To stabilize the purchasing capacity of the enterprises and consolidate the supply chain circulation. The development of free brands enables chain enterprises, especially a chain store to establish a new business relationship with manufacturers through the advantage of its own network scale. The supplier is responsible for the product, and the merchant is in charge of brand marketing. Through the development of the free brand, we can further mould the brand image of the enterprise and make more profit from it.

Developing electronic commerce to improve the level of information

With the rapid development of information technology and the rapid popularization of computers and the Internet, e-commerce has become an important marketing tool in the retail industry, and also will become the main technological support for the future retail industry. China's retailing industry should establish e-commerce awareness, promote e-business oriented information construction, and use digitalized information technology to equip enterprises in all aspects of business so as to improve and enhance cost control, financial management, inventory management and supply chain management. By strengthening network infrastructure construction including various kinds of information transmission network construction, information transmission equipment research and the development of information technology to improve the hardware level, they can greatly reduce costs, improve operational efficiency and realize the transformation from the traditional retail enterprises to e-commerce enterprises.

In addition to the four suggestions mentioned above, China's retail industry should also build "people-oriented" enterprise culture, establish the multi-format operation mode, implement the differentiation strategy, set up reasonable talent management teams, accelerate the retail industry mergers and acquisitions and achieve economies of scale to make the Chinese retail industry bigger and stronger.

CONCLUSION

As a world retail giant, Wal-Mart still has a long way to go in China. Compared with Wal-Mart, there are some problems in Chinese local retail enterprises, such as small scale, high price and low profit. The industry protection period of China's entry into WTO has ended, and the enterprises in China will face more severe competition. As the core competitiveness of MNCs, marketing strategy is becoming more and more important for the enterprise to win the market opportunity. It is hoped that the retail enterprises in China will be able to take Wal-Mart as a recommendation to get out of a suitable way for themselves.

End notes

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