

Wal-Mart: Electronics Department

Business Marketing Plan Proposal

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Marketing Concepts Final Project

1 Draft

May 25, 2005

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Executive Summary

Wal-Mart was founded in 1962 by Sam Walton and introduced a radical new retailing concept, with the first store being located in Rogers, Arkansas. Sam believed that ‘it started with an understanding of what consumers want from a retailer. The secret of successful retailing is to give your customers what they want.’¹ Using this edict as a base of beliefs for the operations of the stores, Wal-Mart quickly expanded to become one of the most successful retailers in America. Sales grew 2600% in the years from 1980 (\$1 billion) to 1989 (\$26 billion). Wal-Mart had become the model on managing rapid growth and maintaining core values. By 2004, Wal-Mart sales set a world record high of \$256 billion, with approximately 4,800 stores worldwide.

Wal-Mart seeks to reform its electronic department services by providing knowledgeable staff, more name brand items and redesigned electronics space to promote customer-staff interaction. These service improvements will yield benefits to existing and potential customers interested in electronic equipment.

Wal-Mart provides educated household members with reliable, convenient, relevant, and easy to use products and services that enhance the shopping experience at an affordable price. Despite the no-name electronic products, narrow shopping area and limited stock of products, Wal-Mart will offer brand name products at 5% lower prices than competitors. Wal-Mart services enable technically savvy consumers with an opportunity to acquire superior products at an everyday low price!

The electronic sales market has reached a point where product prices are similar throughout all stores. To get and retain customers, electronics stores have emphasized customer satisfaction – an unhappy customer can easily walk out of the store and buy the same product for the same cost at another location. In addition to customer service, major electronics market players offer extended warranties on the equipment they sell: if you get the warranty at the time of purchase, and anything goes wrong with that product, it can be brought back and replaced hassle free. This tremendously improves customer satisfaction, as well as customer loyalty. Electronics will continue to be a low margin product, with profits achieved through attaching high margin accessories and services to major items.

¹ <http://www.walmartstores.com/wmstore/wmstores/Mainabout.jsp>

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In order for Wal-Mart to satisfy the company's goals, it is necessary to improve customer services in the electronics department, to meet services provided by other electronic retailers. Currently, 9% (\$15 Billion) of Wal-Mart sales of \$256.3 Billion are from the electronics department. By improving services such as knowledgeable staff, offering extended equipment warranties, providing in-house technicians to fix and repair equipment, stocking more name brand products, and incorporating product displays will meet Wal-Mart's three basic consumer goals.

In order to achieve high quality service in the electronics department we must expand technical capabilities of staff to include product knowledge, the ability to match product capabilities to fit consumer needs, and to provide consumers with the opportunity to learn more about the product. Available technologies that can be used to assist these services are: Kiosks that provide product information, pricing, video demonstrations, and online purchasing services; the replacement of isles with circular display centers, providing working product demonstrations to allow customers to interact with the merchandise; and providing equipment to staff to diagnose, maintain, and repair electronic equipment.

Creating the service desk for electronic equipment as well as redesigning the layout of the electronic is the only physical developments that need to be made. This will increase the friendliness of the electronics environment, removing high, isled shelves with more open and lower circular display cases. Although not as much stock can be kept on the shelves at one time, this open atmosphere should increase demand for the displayed products; but the supply of items will need to be closely monitored to prevent items from going out of stock.

Re-training employees and hiring new employees that have a good working knowledge in electronics (both customer interaction and troubleshooting) will take some time, and should be started before the actual change to the layout of the store. After these employees are ready to handle the new interactions with the customers, should the layout should be changed. The total cost of these changes to all of the US Wal-Mart stores is estimated to be \$443 million.

Expanding our electronics department will provide customers with a broader range of name brands and better service quality, at a lower price compared to our competitors. Wal-Mart will improve customer service by providing our customers with well-trained, knowledgeable, and understanding personnel. Services will also include optional extended warranties for electronic products. Wal-Mart's reputation for product quality will improve by including more brand name products at a lower price. Wal-Mart will also add a service area for technicians to repair electronics and computers.

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The Opportunity

Wal-Mart seeks to reform its electronic department services by providing knowledgeable staff, more name brand items and redesigned electronics space to promote customer-staff interaction. These service improvements will yield benefits to existing and potential customers interested in electronic equipment.

Strategic fit

Wal-Mart is built on the philosophy of excellence in the workplace, customer service, and always having the lowest prices. There are three basic beliefs that are the foundation of the business are:

1. Respect for the individual
2. Service to our customers
3. Strive for excellence

In order for Wal-Mart to satisfy the company's goals, it is necessary to improve customer services in the electronics department, to meet services provided by other electronic retailers. Currently, 9% (\$15 Billion) of Wal-Mart sales of \$256.3 Billion are from the electronics department. By improving services such as knowledgeable staff, offering extended equipment warranties, providing in-house technicians to fix and repair equipment, stocking more name brand products, and incorporating product displays will meet Wal-Mart's three basic consumer goals.

Corporate Core Capabilities

In order to achieve high quality service in the electronics department we must expand technical capabilities of staff to include product knowledge, the ability to match product capabilities to fit consumer needs, and to provide consumers with the opportunity to learn more about the product. Available technologies that can be used to assist these services are:

1. Kiosks that provide product information, pricing, video demonstrations, and online purchasing services.
2. Replacing isles with circular display centers, providing working product demonstrations to allow customers to interact with the merchandise.

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3. Providing equipment to staff to diagnose, maintain, and repair electronic equipment.

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Target Market

Wal-Mart's current core end-user segment consists of value-driven urban lower income consumers seeking everyday low prices. These consumers belong to households with an annual income of less than \$50,000.

Additional Market Segments

Segment	Size	Percentage	Unit Potential
Middle income (\$50,000 – \$100,000)	44 million	75%	33 million
Technically savvy users ²	58.6 million	95%	55.6 million
College educated users ³	46.6 million	73%	34 million
Families with children over 18	38.2 million	65.5%	25 million
Middle income (\$50,000 – \$100,000)	44 million	75%	33 million

Benefits Delivered

Wal-Mart provides educated household members with reliable, convenient, relevant, and easy to use products and services that enhance the shopping experience at an affordable price. Despite the no-name electronic products, narrow shopping area and limited stock of products, Wal-Mart will offer brand name products at 5% lower prices than competitors. Wal-Mart services enable technically savvy consumers with an opportunity to acquire superior products at an everyday low price!

Value Proposition

Target Market:

² Generation-Y (gen.com) 14 – 27 years of age

³ College students attaining a bachelor degree or greater

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In addition to Wal-Mart's original target market, the electronics department will expand to cover family households containing at least one technically savvy image conscious college attending/educated member, with a family income between \$50,000 and \$100,000 who seeks superior quality electronics and customer service.

Benefits Delivered:

- high quality brand name products that fit customers needs
- knowledgeable staff
- reliable products and services
- quick and convenient repair services
- quick and easy shopping experience for relevant products
comparable product lines to competitors

Benefits Minimized:

- No-name electronic products
- higher priced brand name products
- limited stock of products
- limited shopping area

Cost:

- 5% lower pricing on electronics compared to competitors
- Price matching: Refund the price difference plus 10% if a lower price on an available product of the same brand and model is found.

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Industry Analysis

Industry Trends

The electronic sales market has reached a point where product prices are similar throughout all stores. To get and retain customers, electronics stores have emphasized customer satisfaction – an unhappy customer can easily walk out of the store and buy the same product for the same cost at another location. In addition to customer service, major electronics market players offer extended warranties on the equipment they sell: if you get the warranty at the time of purchase, and anything goes wrong with that product, it can be brought back and replaced hassle free. This tremendously improves customer satisfaction, as well as customer loyalty. Electronics will continue to be a low margin product, with profits achieved through attaching high margin accessories and services to major items.

State of Product Development

Creating the service desk for electronic equipment as well as redesigning the layout of the electronic is the only physical developments that need to be made. This will increase the friendliness of the electronics environment, removing high, isled shelves with more open and lower circular display cases. Although not as much stock can be kept on the shelves at one time, this open atmosphere should increase demand for the displayed products; but the supply of items will need to be closely monitored to prevent items from going out of stock.

Re-training employees and hiring new employees that have a good working knowledge in electronics (both customer interaction and troubleshooting) will take some time, and should be started before the actual change to the layout of the store. After these employees are ready to handle the new interactions with the customers, should the layout should be changed.

Value Drivers

The profit drivers for the electronics industry are the high margin attachments such as accessories and extended product warranties.

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Competitive Analysis

Company's major competitors in this category and their major products or services are:

Competitor	Relevant products, product lines or services
Best Buy	Computer and computer Peripherals (PC, PDA, mouse, keyboard, etc.); Video Equipment (cameras, TV, VCR, DVD players, etc.); Audio Equipment (audio systems, car stereos, portable audio products, etc) ; Appliances(air conditioner, dishwasher, vacuum, etc.); Computer repair; online ordering service
Circuit City	Computer and computer Peripherals (PC, PDA, mouse, keyboard, etc.); Video Equipment (cameras, TV, VCR, DVD players, etc.); Audio Equipment (audio systems, car stereos, portable audio products, etc) ; Online ordering service
Costco Corp.	Computer and computer Peripherals (PC, PDA, mouse, keyboard, etc.); Video Equipment (cameras, TV, VCR, DVD players, etc.); Audio Equipment (audio systems, car stereos, portable audio products, etc) ; Appliances(air conditioner, dishwasher, vacuum, etc.); Online ordering service

This is how these competitors compare:

Company	Wal-Mart ⁴	Best Buy ⁵	Circuit City ⁶	Costco Corp. ⁷
Product	Electronics	Electronics	Electronics	Electronics
Revenues	\$15,678,360,000 (9%)	\$20,946,000,000	\$9,953,500,000	\$7,697,120,000 (16%)
Estimated Market	3.65%	4.87%	2.3%	1.8%

⁴ <http://premium.hoovers.com.ezproxy.rit.edu/subscribe/co/factsheet.xhtml?ID=11600>

⁵ <http://premium.hoovers.com.ezproxy.rit.edu/subscribe/co/factsheet.xhtml?ID=10209>

⁶ <http://premium.hoovers.com.ezproxy.rit.edu/subscribe/co/factsheet.xhtml?ID=56992>

⁷ <http://premium.hoovers.com.ezproxy.rit.edu/subscribe/co/factsheet.xhtml?ID=17060>

⁸ *total sales / \$429,879,000,000 (the combined value of the US electronics market as per NAISC codes (442,443,44311,443112,44312)) -*
<http://www.census.gov/mrts/www/data/html/nsa103.html>

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Share ⁸				
Estimated Advertising spending	966,000,000	675,000,000	319,600,000	500,000,000 ⁹
Number of Employees	1,500,000	100,000	42,258	103,000
Major Strengths	Grocery, hard goods & soft goods	Consumer Electronics	Consumer Electronics	Food & Sundries (snacks, beverages, health and beauty, etc.)
Major Weaknesses	Jewelry & Shoes	Appliances	Customer Service	Pharmacy, optical & Gas stations

Relative Competitive Strength

	1 = Competitively Weak to 5 = Competitively Strong			
Company	Wal-Mart	Best Buy	Circuit City	Costco Corp.
Complete Product Line	2	5	4	4
Quality	1	5	4	4
Technology Displays	1	5	4	2
Target Market Strength	5	5	3	5
Distribution Strength	5	3	3	4
Advertising Effectiveness	5	4	2	1
Sales Force Strength	4	5	4	3
Future Potential	5	5	2	5

⁹ estimated advertising budget

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Product Price	5	3	4	5
Product Availability	5	2	3	2
Installation	2	5	4	1
Appearance	3	5	4	2
Design	3	5	4	2
Sales Force Friendliness	5	5	3	2
State-of-the-art technology	2	5	5	5
Support Services	5	5	5	3
Repair Services	1	5	2	2
Guarantee/Warranty	5	5	3	4
Upgrades	3	5	1	3
Customer Loyalty	4	5	3	2

Financial Profiles

Company	Overall Sales	Gross Profit	Cash Availability
Best Buy	\$20,946,000,000	\$5,546,000,000	\$1,914,000,000
Circuit City	\$9,953,500,000	\$2,528,600,000	\$884,700,000
Costco	\$42,545,600,000	\$5,701,500,000	\$1,545,400,000

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Our Ability to Compete

Wal-Mart can gain a foothold and eventually compete in this market place with upscale electronics stores such as Best Buy and Circuit City through its sheer size. By entering a market that typically has very low margins, and squeezing the price with capital behind them, Wal-Mart can offer the same electronics to consumers for less. With the redesign of the electronics department and the change of employee skills, a reputation for delivering high quality electronic products with superior customer service at a rock bottom price will result.

The vulnerabilities to this plan lay in the employees that will work the electronics department, and the lack of electronics reputation that Wal-Mart has. Unknowledgeable employees will almost certainly turn any customer drawn in by the new electronics department away; and without running a heavy ad campaign to draw in customers to check out the new electronics, the department will do mediocre at best.

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Goals and Sales Forecast

The following table summarizes projections of Wal-Mart sales during the next three years. We have used trend analysis for this forecast with a spread between the worst-case scenario and best-case scenario being 20% in the first two years and 30% in the third year¹⁰.

Total WW Sales for Wal-Mart (mil. of dollars)	2004	2005	2006
Most Likely	288,566	320,388	389,142
Worst Case	259,709	288,349	330,771
Best Case	317,423	352,427	447,513

We have also performed detailed analysis of the electronics segment. The percentage of sales of the electronics department in the discount stores and supercenters was fairly stable at 9% during the last five years. The following are the sales of the electronics department for the past five years:

Total Sales (mil. of dollars)	1999	2000	2001	2002	2003
Electronic department	9.783	10.971	12.519	14.139	15.678

We used Circuit City, Best Buy, and Costco Wholesale Corporation as our competitors for the electronics department. The following are the combined sales of our competitors for the last two years:

¹⁰ Most Likely = the amount with the highest probability of being achieved under current business conditions

Worst Case = lowest probable amount under current business conditions

Best Case = highest probable amount under current business conditions

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Competitors	2002	2003
Circuit City	12,791.5	9,953.5
Best Buy	19,597	20,946
Costco	4,651.5	5105.5
Total sales	41,040	40,705

As we may observe from the preceding three tables, the competitor's sales were almost triple our sales in the last two years.

The next table summarizes the anticipated sales development of the electronics department for the next three years. The spread between the worst-case scenario and best-case scenario is again 20% in the first two years and 30% in the third year.

Electronic department scenarios (mil. of dollars)	2004	2005	2006
Most Likely	17.1	18.6	20.1
Worst Case	15.4	16.7	17.1
Best Case	18.8	20.4	23.1

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Non-sales Goals

Wal-Mart believes that it has a responsibility to contribute to the well-being of the local community¹¹ and is heavily involved in various community programs. Each store is independent in its community activities and has a certain budget to spend for different programs. One of the largest programs Wal-Mart contributes to is Children's Miracle Network (CMN), a non-profit organization dedicated to helping kids by raising funds for 170 children's hospitals across North America. Wal-Mart also sponsors various community grants, scholarship programs and provides local schools with environmental grants. The following are suggestions that Wal-Mart might consider in the near future:

Year One

- Increase environmental grants to local schools as the public becomes more aware of its surroundings and expresses greater concern for environmental issues.
- Increase scholarship grants to emphasize our awareness of education.
- Contribute donations to the families of soldiers of local communities, who are fighting for national security.

Subsequent Years

- Expand donations for the soldiers fighting for national security.
- Continue and maintain the other programs that Wal-Mart participates in¹².
- Consider starting a program towards the education of handicapped people.

¹¹ <http://www.walmartstores.com/wmstore/wmstores/Mainnews.jsp>

¹² <http://www.walmartstores.com/wmstore/wmstores/Mainnews.jsp>

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Strategic Plan Components

Providing the Value

Expanding our electronics department will provide customers with a broader range of name brands and better service quality, at a lower price compared to our competitors. Wal-Mart will improve customer service by providing our customers with well-trained, knowledgeable, and understanding personnel. Services will also include optional extended warranties for electronic products. Wal-Mart's reputation for product quality will improve by including more brand name products at a lower price. Wal-Mart will also add a service area for technicians to repair electronics and computers.

Product Development

We can describe the current situation in the electronics department as follows:

- The electronics' employees are not as well trained as Best Buy and Circuit City employees.
- The isle shelf space is not designed to encourage customer interaction, and as a result, low quality brands are purchased based on price alone.
- The selection of brand names is limited to one or two products.
- Repairs and problems cannot be handled in the store for any electronic goods, therefore defective products must be sent back to manufacturers.
- Wal-Mart itself does not provide any extended warranties on electronic equipment.

In order to meet our service goals we must take the following steps:

- Employ people who have previous experience in electronics and provide them with both technical and customer service training.
- Replacing isles with circular display centers, providing working product demonstrations to allow customers to interact with the merchandise.
- Increase the number of brand name products available.

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- Kiosks that provide product information, pricing, video demonstrations, and on-line purchasing services.
- Create electronic service area and provide equipment to diagnose, maintain, and repair electronic equipment.
- Create extended warranties and offer them to the customers for electronic products.

Redesigning of the Electronics Department

The process of redesigning the electronics department involves the following:

We would like to initially start redesigning the electronic departments in four Wal-Mart stores that are supplied by the same distribution center. These stores would be supercenters that are located in highly populated areas and have high sales volume. In this test market, each store will have a different electronic department layout, and statistics will be collected on how well each one is performing.

We will expand this test into other regions of the country, using the top two performing design layouts. If all collected and analyzed data yields successful results, then we will implement the best overall performing design in the rest of our Wal-Mart stores. Before implementing design changes in all the stores, it is critical to enhance employee training programs to include technical and electronics knowledge.

Market Research

- Ascertain the top performing electronics brands through detailed market research.
- Expand the research done on competing stores to include new items.
- Research how to lower training costs.

Sourcing and Manufacturing

The increased range of the products will increase the demand for shelf space in the store itself and for the warehouse space in the distribution centers.

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The requirement for the shelf space in the store can be satisfied by cutting the shelf space from other low selling products and reorganizing the currently available shelf space. Based on our observation from Rochester based Wal-Mart (Jefferson Road), we estimate that 6 or 7 more isles will be required to meet the demands of the whole electronics department. Wal-Mart is using 113 distribution centers in the US for its 3,000 stores¹³. The condition for each regional distribution center would vary; however, we do not assume any additional investment in the warehouse facilities

Channel Delivery

Primary Distribution Channel

Our primary channel will be the Electronics Department of Wal-Mart stores.

Additional Channels

Another channel of distribution is online selling through our website. The most important aspect of each successful website is clear organization of the information, a powerful search engine, and user friendly graphic interface. We are planning to improve our website in a way to attract more customers to use and buy using our website.

We are also considering promoting the electronics department through neighborhood stores using fliers and pamphlets.

Logistics And Product Fulfillment

There are two different groups of items, warehouse and assembly products. We consider the majority of the electronics products to be warehouse items.

The sale of each item at Wal-Mart store is automatically recorded in the ordering system in the distribution center. When the amount of items sold reaches predefined level, the system automatically orders more items from the distribution center.

¹³ <http://www.computerworld.com/mobiletopics/mobile/technology/story/0,10801,89011,00.html>

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Due to the established transportation, logistic systems, and huge number of items that are already regularly shipped to each Wal-Mart store, we do not expect any major problems with logistics.

Related Services

Along with the broader range of higher quality products, we would like to provide our customers with outstanding services. We plan to accomplish this by increasing customer satisfaction and creating an atmosphere in Wal-Mart's electronics department where people feel at home and more knowledgeable about their purchase. These services will encourage customers to ask questions and get immediate feedback about any product.

Pricing

Initial Pricing Strategy

Wal-Mart believes in "Low Prices Always" and continues to adhere to this slogan. Our prices are the lowest in the market at any time by following discounting policies to attract more customers. Wal-Mart is able to profit from high volume and low margins. This boosts sales to where earnings are far greater at cheaper retail prices than they would have by selling items at a higher price. If a competitor lowers their prices, Wal-Mart responds by lowering the price even more. This continues until the competitor can no longer compete at the same price level. Wal-Mart's financial strength enables it to absorb the losses, and profit through potential sales volume. The general Wal-Mart policy states that the prices might differ within a range of 5% in other stores depending on the competition.

Proposed Pricing

The proposed pricing strategy introduces more brand name products where prices of these products will be lower than competitor prices. Wal-Mart needs to consider the competition around each store, and price according to the existing competition. For example: Based on the observation of Wal-Mart in Rochester (Jefferson Road), our prices need to be competitively priced against Best Buy and Circuit City. Prices offered by Costco Wholesalers are just as low as Wal-Mart, making Costco Wal-Mart's leading competitor.

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Our pricing strategies will cover the following:

- Offer quarterly \$50 mail-in rebates for brand name electronic products priced between \$300-\$500, with an additional \$10 rebate per \$100 over \$500.
- Offer 10% discounts on electronics accessories (power adapters, speakers, cables etc.) with the purchase of a major electronic device (laptop, television, stereo systems, etc.).
- Offer a 1 year extended warranty with the cost being 15% of the product price, rounded to the nearest dollar.
 - Warranty can be extended for 5% of the product price per year added.

Communications Plan

Positioning Strategy

Wal-Mart uses a very simple and very effective positioning strategy; it positions itself as the least expensive retailer on the market – “Always low prices. Always.” As a result, the new electronics department will have to have prices that are lower than the competitors, even for name brand products.

Communications materials

The marketing strategy followed by Wal-Mart is same for all the stores located in USA. The strategy is decided by the Head Office six months prior to presenting it to the consumers. The national advertisements are placed by the Head Office, and the regional managers are responsible for the regional promotions. The Head Office will emphasize the revamped electronic department through the following channels:

- Local TV and radio advertisements.
- Local newspapers and billboard advertisements.
- Announcements in circulars that Wal-Mart issues each month.
- Direct mailing and In-store signage.

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Sales programs

The staff should know the company's values and put forth the best effort to make these values visible to the consumers. They should be aware of the target market and fully understand the company's value proposition, and with this knowledge they should be able to provide feedback to the company for improvements. Sales programs should be adopted in order to motivate employees to provide the customers with outstanding service experience. These sales programs should offer employees with financial benefits based on the performance of the whole department.

Specifically, Wal-Mart should create Self Directed Work Teams (SDWT). A SDWT creates an environment that ensures employees perform interdependent subtasks within their team has a sense of cohesiveness by working towards a common goal. In essence, we want employees to be responsible for planning, coordinating and scheduling their own tasks. The assignment of more responsibilities will provoke employees to be creative and supply Wal-Mart with valuable feedback regarding customer service, and increase overall motivation. As employees progress in the SDWT, less supervision is required as they gain knowledge and abilities to make their own decisions.

Departmental meetings should be held monthly, where the mission statement is reiterated to emphasize Wal-Mart's value proposition. During these meetings employees will be given the opportunity to also supply creative ideas and feedback (with anonymity if needed) regarding service improvements.

To establish and promote an organizational cultural among employees and improve motivation, Wal-Mart should incorporate in store birthday and holiday celebrations where management and employees are able to interact freely with each other.

Occasionally Wal-Mart should have friendly competitions between departments. These competitions should be based on the increased number of sales in that department as compared to last year. The winning department's employees who worked the day of the competition will receive a financial reward. This type of competition strengthens team unity and improves individual motivation in the department.

Simply put, satisfied employees = happy customers.

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E-commerce

Customers commonly check websites for information on products before they purchase them. One of the easiest and least expensive ways to promote the new electronics department is to provide detailed specifications for new products on the website, and feature them on the Wal-Mart homepage. This also provides the electronics department with a 24 hour presence to customers. The electronics department will also emphasize the purchase of products through the Wal-Mart website if for any reason product is out of stock, or if customers want even more information. Kiosks in the electronics department will be available for customers to browse the website and check product specifications. In the electronics portion on the Wal-Mart website, a live 24-hour chat center will be created. This will provide consumers with the ability to receive help, recommendations, and solutions for product they intend to purchase or have purchased.

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Related issues

Personnel

There will be two types of personnel in our newly recreated electronics department: Customer Service Representatives and Repair Technicians. Both types of employees need to have excellent customer service skills, with an emphasis on being friendly, patient and understanding towards the needs of the customers. Repair technicians specifically need to have comprehensive knowledge on diagnosing and repairing equipment; and customer service representatives need to have a working understanding of the electronics field.

There has been increase in employees in year 2004 by approx. 7.1%. We are expecting the increase to be larger this year in the electronics department as compared to last year.

The following table is based on our observation, interviews and requirements for the Wal-Mart store on Jefferson Road in Rochester, NY. These requirements will vary based on the size of each store; though the department will follow the basic structure of below:

	Number required	Location(s)	Special skills required
R&D / Product Development	Team of 4-5 people	Home Office	Ability to forecast and understand customer demands and preferences.
Marketing	Team of 4-5 people	Home Office	Knowledge of the trends in the industry and ability to develop marketing strategy and marketing plan based on these trends.
Electronics Department Sales	5-6 people	Rochester (Jefferson Road)	Proficiency in repairs of the electronic equipment, detail knowledge of the products.
Customer Service Representatives	15-20 people	Rochester (Jefferson Road)	Exceptional customer service skills and knowledge of the electronics field.

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Regional issues

Wal-Mart has more than 1,500 stores in nine countries. Wal-Mart International employs more than 330,000 associates in Argentina, Brazil, Canada, China, Germany, Korea, Mexico, Puerto Rico and the United Kingdom¹⁴. Wal-Mart has been successful in its operations in these countries because it has been able to transport the company's unique culture and effective retailing concepts to each different country. It tries to adapt to local culture and needs; and contributes to the local community.

The initial electronics department change will be based solely in the US market. Changes outside the US market will be considered after 3 years. It is critical for Wal-Mart to understand the cultural and social perspectives of other countries, as well as their government policies and regulations. As modifications are implemented in the electronics department in these countries, several adjustments will be made accordingly. Socially, Wal-Mart stores must cater to the distinct tastes of local communities through:

- "Retail-tainment" as a market strategy towards promoting Wal-Mart stores by creating contests and celebrations of traditional festivals.
- Obtaining a majority of its electronic products from local suppliers.
- Promoting the fact that by supporting Wal-Mart's electronics department they are indirectly supporting their own countries electronic suppliers.

¹⁴ <http://www.walmartstores.com/wmstore/wmstores/Mainabout.jsp>

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Financial Assessment

The following four-year cash flow projection is based on the "most likely" forecast levels defined on page 11¹⁵.

Items/Year (mil. of dollars)	2003	2004	2005	2006	2007
Revenue	258,681	288,566	320,388	389,142	423,519
COGS	198,747	220,727	243,904	266,283	288,861
Margin	59,934	67,839	76,484	122,859	134,658
Marketing Costs	966	1,063	1,169	1,286	1,414
Launch Costs	0	0	5	175	263
R & D	--	--	--	--	--
Earning before taxes	14,193	15,977	18,387	20,380	22,477
Cash Flow	597	2,441	N/A	N/A	N/A

The regression analysis was performed to obtain Revenues, Cost of Goods Sold, Margin and Earnings before taxes for the years from 2005 to 2007. See Attachments. The assumption was made that marketing costs will increase each year by 10 %. Launching costs were considered to consist of the following items:

- Rebuilding of electronics department.
- Retraining the staff.
- Salary to new staff.
- Purchases of additional inventory.
- Complete redesign of electronic department's website.

The project should be launched in 2005. During 2005, we would like to redesign electronics department's website and to rebuild approximately 30 stores (for the testing program). During 2006, we would like to convert approximately 1,200 stores, and convert the remaining 1,800 stores in 2007. After this, stores will be built with the new design layout.

¹⁵ A detailed financial analysis is attached.

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The funding for the project would be provided by issuing additional long term debt. Since the long-term debt/equity ratio is moderately low (0.732) and ranks Wal-Mart somewhere in the middle of the industry, we do not expect any extraordinary interest expenses related to this issuance.

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Risk Assessment

Environmental Risks

Wal-Mart is confronted with several external risks that are well beyond their control. Customer trends in demand will vary as their preferences, income, and technology changes; because of Wal-Mart's enormous size, without careful monitoring they can easily stray away from their customer base. Labor unions for employees can force Wal-Mart to pay other employees the same amount that workers in the electronics department would be receiving, reducing profit margins. Pricing strategies used by other companies (mainly Costco Corp.) can undermine the new audience that Wal-Mart is appealing to, and steal customers from Wal-Mart's customer base. Other risks include economic cyclical periods (periods of inflation and recession) which will reduce profit margins.

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Both the federal and local governments also impose a variety of risks on Wal-Mart. These include import and export laws, outsourcing litigation, imposing floor and ceiling prices on products to prevent monopolies, and laws preventing stores being built over 100,000 square feet¹⁶. All of these governmental implications restrict Wal-Mart's ability to operate in these locations

Internal Risks

Internally, the over reliance on computer technology and networks can cause the business to come to a screeching halt if a power failure or link disruption occurs. Product availability is a major concern for Wal-Mart; the redesign of the electronics store will decrease the amount of available shelf space, and the chance of running out of stock in the electronics department will be even greater than the rest of the store. A disruption in the inventory counts or frequent deliveries of products will cause shelves to be empty. Theft committed by employees can occur more often through corrupted SDWT's; and this will be very hard for Wal-Mart to detect, since more of the department control and knowledge are left in the hands of the employees. Friendly competitions through financial reward programs between departments can turn into bitter disputes between departments, and even employees in the same department. This will create discourse through the entire store, lowering employee satisfaction and in turn, lowering customer satisfaction.

¹⁶Dubbed "urban 99" stores, the 99,000 square foot store is designed to come in under the 100,000 square foot limit imposed by some municipalities on big box stores.

<http://premium.hoovers.com/subscribe/co/overview.xhtml?ID=11600>

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Contingency Plans

Wal-Mart can minimize their external risks by carefully monitoring competitors, customer preferences, and adjusting prices in accordance with inflation. By working closely with the federal and local governments, Wal-Mart can minimize and prevent any unexpected action from the government. Internally, by creating redundant IT systems, failure can be minimized or eliminated all together. Reducing the possibility of empty shelves can be solved by storing high volume electronic devices in a back room, and replenishing empty shelves from that area. Internal theft can be reduced by placing cameras in the store, and reminding employees that the cameras are there to prevent customer theft. Disputes between departments and employees can be prevented and resolved by reminding everyone that they are all working towards the same goal in the end, and that they are all on the same team.

Exiting this plan will become exponentially higher as it progresses further and further. Ideally, Wal-Mart will decide whether to stay with the new strategy or exit within one year while they are still doing market testing in the test stores. During the testing stage, approximately \$500,000¹⁷ will be needed to exit. After the decision is made to convert the rest of the electronic departments, the cost to exit will be a minimum of \$50,000 per converted store. When the conversion is completed or if it is found that the name brand products are not selling, the only economical way to exit would be to drop the more expensive name brands and pick up less expensive no-name products. If the layout is determined to be the cause of the decline in sales, it will cost \$50,000 per store to revert the department back to it normal state. The indicator that will be used to determine whether the conversions are working or not, will be the comparisons to previous sales for that time period. These comparisons will adjust for inflation, short term and long term trends, and allow for a 6 month window of decline in sales for the electronics department to permit the surrounding customer base to adjust to the new style. To determine whether to keep or drop the name brand products, a measurement will be taken every month. At 6 month period, if the name brand products do not show an increasing sales percentage, or are below 40% of the unit sales, the store will sell off the rest of the higher price name brands and replace them with lower priced no-name brands.

¹⁷ The approximate cost to convert the electronic department layouts back to how they were previously.

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List of Attachments

- <Attachment 1>
- <Attachment 2>
- <Attachment 3>
- <Attachment 4>
- <Attachment 5>

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