

## PURSUING A COST LEADERSHIP STRATEGY AND BUSINESS SUSTAINABILITY OBJECTIVES: WALMART CASE STUDY

Erika Stankevičiūtė<sup>1</sup>, Rokas Grunda<sup>2</sup>, Edverdas Vaclovas Bartkus<sup>3</sup>

<sup>1</sup>Vilnius University, Lithuania, erika.stankeviciute2@gmail.com

<sup>2</sup>Vilnius University, Lithuania, rokas.grunda@khf.vu.lt

<sup>3</sup>Kaunas University of Technology, Lithuania, edvardas.bartkus@ktu.lt

**crossref** <http://dx.doi.org/10.5755/j01.em.17.3.2143>

### Abstract

The scientific problem of this study can be defined as a lack of studies, that not only at the theoretic level analyze business strategies and business sustainability, but more specifically concentrating on business decisions, that allow pursuing different business strategies and business sustainability objectives at the same time. The aim of the study is to determine business decisions, that allow pursuing a cost leadership strategy and sustainability objectives of a business. Research methodology: systemic analysis of scientific literature, case study. The study analyses various business decisions of the case study company – its objectives, competitive strategy and the sustainability objectives. The main focus is analysis of how does a company link its strategy with various sustainability objectives, and what actions are taken respectively – Walmart's objectives and results are analyzed in such fields as green-house gases, energy efficiency, transportation costs, reduction of waste and recycling, packaging etc.

*Keywords:* sustainability, sustainable development, business sustainability, strategy, Walmart.

*JEL Classification:* Q01, L21, L81.

### Introduction

Sustainable development is already widely instituted at the highest political level as a principal long-term development strategy of the society, many scientists and politicians agree on the importance of the concept of sustainability. Meanwhile as businesses are an integral part of the society, society cannot expect to attain sustainability without involving businesses in this process. Enterprises are important because they have various resources, they know how to unite the people for a common goal and they strive to work efficiently as they operate in a competitive environment. All this shows the importance of businesses in the society's journey towards sustainability.

The scientific *problem* of this study can be defined as a lack of studies, that not only at the theoretic level analyze business strategies and business sustainability objectives, but more specifically concentrating on business decisions, that allow pursuing different business strategies and business sustainability objectives at the same time. Not only the academic community needs the theoretical analysis of the links between the various business strategies and the concept of sustainability, but also the management practitioners need the analysis of the existing real life examples of businesses and corporations, that for several years have already set sustainability goals and take actions to contribute to society's sustainability at the same time pursuing their chosen competitive business strategy, which is aimed at finding the way to survive in relation to its business competitors. Such case studies are intended to contribute not only to the academic field, but also demonstrate real life examples of how companies pursue sustainability, and in this way promote sustainability among business managers.

Every business has its own business strategy which leads the company towards success and accomplishment. In order to reach it, one has to have a strategy how to succeed in a competitive business market. The world is changing and so does the environment. People waste natural resources and forget the fact that they are limited. Scientists warn the society that these resources will be over one day. As a result, some businessmen began combining their businesses with sustainable development in order to reduce the number of resources that are taken from nature. More and more enterprises interconnect their business strategies with sustainable development and in this way contribute to society's sustainability. Many companies around the globe prepare sustainable development strategies. Businessmen realized how important it is to save the natural resources and pursue sustainability. Walmart is the biggest private employer in the world with over 2 million employees (Walmart, 2011a). This company has the reports on sustainable development since 2005, so it has several years of experience and results to share and it directly links sustainable development to its strategy.

The *object* of this paper is Walmart business decisions, that allow pursuing its business strategy and sustainability objectives.

The *aim* of the study is to determine business decisions, that allow pursuing a cost leadership strategy and sustainability objectives of a business.

In the first part of this paper the Porter's generic competitive strategies are described, focusing on the most important aspects of each type of a strategy. In the second part of the study the concept of sustainable development is briefly described and the conditions of a sustainable society are defined. The sustainability concept is further narrowed into the role of business contribution to society's sustainability objective. The last part of the study analyses a case study of Walmart – a global corporation, operating in the retail industry, focusing on its competitive strategy, sustainability objectives and the business decisions, that allow pursuing these two – the focus is on the case study analysis of how in a corporation the various business decisions taken allow pursuing sustainability objectives and a selected generic competitive strategy.

Research *methodology*: systemic analysis of scientific literature, case study.

The study analyses various aspects of the case study company – its objectives, competitive strategy and the sustainability objectives – Walmart's objectives and results are analyzed in such areas, as green-house gases, energy efficiency, transportation costs, reduction of waste and recycling, packaging, etc.

### **Porter (1980) generic competitive strategies for businesses**

Porter (1980) distinguished three categories of competitive strategies, which are called Generic Competitive Strategies. The purpose of these strategies is to create a long-term competitive advantage and a possibility to outperform competitors in a given industry. If business enterprise does not choose one generic strategy and use it in order to compete in business market, Porter (1980) calls it “stuck in the middle”.

The first strategy is *cost leadership strategy*, which emphasises low costs in relation to the costs of competitors, but it does not neglect other aspects, such as service or product quality. The second strategy is *differentiation strategy*, which should allow a company to charge a higher than average price, as the company delivers something unique or different. The third strategy is *focus strategy*, in which a company focuses on a special group of customers.

These three generic competitive strategies are defined according to two aspects: strategic strength and strategic scope. Strategic strength is the means that an enterprise will rely on, its competency, it is either product differentiation or low product costs. Strategic scope defines the market - an enterprise can plan to sell their products to a specific market (narrow scope), or decide to sell their products to the whole market (broad scope).

If the company decides to choose a *cost leadership strategy*, it has to reach a lower cost of a product or a service than its competition. The company has to control all business fields efficiently. Companies, which base their work on this strategy, rely on efficiency technologies, efficient organization of manufacturing and human resources. Cost leadership strategy allows the company to earn higher profits than average, as the products can be sold at average prices, but the profit margin with lower costs is bigger. Competing companies will have higher costs, thus they will not be able to get the same percentage of profit out of their production. It has to be highlighted, that the company which competes with *low cost strategy*, does not necessarily sell the products with the lowest market price - such businesses may offer their products for an average price. Nonetheless, they tend to use the generated profit for lowering the costs even more and to adapt the most advanced efficiency technologies. A cost leadership strategy has an advantage in a “price war” and feel secure about it, because it can still sell the products with or without a profit, when other competitors already sell at a loss, and in this price lowering way a company can take a bigger market share. Moreover, lower costs repel potential competitors, as there is no security in potential profit, as a low cost business can always lower the price and decrease the profit margins, so that the market is not interesting to the potential competitors.

Companies, which use *differentiation strategy* aim towards unique products that would be more distinguished than others. One can achieve differentiation in such areas as packaging, technology, design, servicing of the customer before and after the purchase, branding. But in order to differentiate, a company has to have extra costs, so it should charge a higher price.

A *focus strategy* is used when a business targets a specific part of a market and when a niche-specific product or service satisfies the consumers better than the competitors. A *focus strategy* interferes with competitors because using a focus strategy tends to build more loyal customers.

## Society and business sustainability

Though there are many definitions of sustainable development, one of the most widely cited definitions is this: “sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs” (WCED, 1987). A similar definition, which also puts emphasis on the long-term time scale, and the continuity aspect, is the definition of World's development report (1992): sustainable development is a development that lasts. In the paper authors' opinion, these definitions define sustainable development from the perspective of its main goal – existence. Development cannot be called sustainable, if it stops. Thus, sustainable development is development, that continues, and this means, that the present human generation has to exist as well as the next generation, and all the generation to come – indefinitely.

This objective of continuation is also clear in the concept of sustainable yield, which, as a concept, is older, than sustainable development, it was first used in forestry and fishery. Gordon (1954) and Scott (1955) described sustainable yield as a quantity of individuals or biomass, which can be taken from the ecosystems without the decrease of the population. This means, that a sustainable yield is a quantity, which can be harvested indefinitely, as the population, and its yield do not decrease. This focus of perpetuity should be the main focus of the definitions of sustainable development.

From the systems approach, sustainability describes society's objective – to become a sustainable society, and sustainable development is a process, by which this objective is reached. This necessitates explaining and defining the concept of sustainable society. A definition of a sustainable society, which puts the emphasis on its objective - to continue, is a definition by Dresner (2009): sustainable society – a society, which does not destroy itself.

A sustainable society can be described in terms of 5 conditions (Grunda, 2011)(the first four system conditions are from The Natural Step framework (Robert, 2002):

1. A sustainable society does not increase the concentration of materials from the earth crust in nature systemically;
2. A sustainable society does not increase the concentration of society made materials in nature systematically;
3. A sustainable society does not degrade nature by physical means systematically;
4. In a sustainable society human needs are met worldwide.
5. In a sustainable society technologies, capable of destroying the society itself are not available.

Interrelationships among nature, society and business are explained in this way: a community, which cannot provide the basic food and conveniences, will not be a community for long. Therefore, the changes, happening both in nature and society systems are important for companies, this is not only a questions of companies' social responsibility – society's sustainable development is essential for survival of the company (Werbach, 2009).

Because business is a part of society, business sustainability is described as business contributing to the objective of society to become sustainable. Sustainable business is defined according to the criteria of sustainable society, therefore sustainable business has to meet these criteria (Grunda, 2011):

1. A sustainable business does not contribute to systematic increases in concentrations of materials from the Earth's crust;
2. A sustainable business does not contribute to systematic increases in concentrations of materials produced by society;
3. A sustainable business does not contribute to systematic physical degradation of nature through physical means;
4. A sustainable business does not contribute to conditions that obstruct the possibilities of meeting human needs worldwide;
5. A sustainable business does not contribute to the existence of technologies, capable of destroying the society itself.

With changes in the environment, the companies will be forced to change as well. Those companies that have not analysed the upcoming changes will be more pressured and will have to change rapidly. If the law legislations were stricter, such companies would have to catch up with the active companies quickly. In this case, active and future-oriented companies can plan in advance and introduce the new changes and techniques intentionally, so that the transformation of a company would be gradual and smooth (Čiegis, Grunda, 2007).

## Walmart cost leadership strategy and sustainability objectives

Walmart has more than 8900 retail units in 15 countries and employs more than 2 million associates worldwide (Walmart, 2011a). With revenues of 421,9 billion US dollars in 2010 (Global 500, 2011) it is a largest corporation in the world, and has great impact on the markets it serves and the suppliers it works with.

In this paper authors' opinion, Walmart strategy can be described as low cost generic competitive strategy. In its annual statements and various publications Walmart emphasizes low prices and saving money for customers. A similar opinion is expressed by Hallsworth and Evers (2002), Arnould (2005), Christopherson (2007) states, that Wal-Mart's strategy for entering new international markets has been to assume a cost leadership position and to capture a significant portion of market share thus positioning itself to exercise network domination. <...> Wal-Mart's domination of the market and access to the largest number of customers in the USA allows the firm to continuously drive down consumer prices. Wal-Mart has used this resource to dominate the market for a full range of ordinary consumer products through economies of scale and of scope. The resulting strategy is an 'every day low prices' concept in which customers shop at one retailer, Wal-Mart, for a full range of household products and groceries. Blanchard et al. (2008) note that the fundamental principle behind Wal-Mart's strategy is to sell high volumes of discounted products, and that one of the strongest drivers of Wal-Mart's financial success is its focus on efficient and effective supply chain management. Mottner and Smith (2009) call Walmart strategy a "low margins and high turnover" and "low-cost provider". According to Crain and Abraham (2008) Walmart strategy is the low-cost leader among mass merchandisers and operating on a scale that dwarfs the competitors. Walmart's strategic activities include aggressive deployment of systems and technologies that help it reduce shrinkage and internal costs, its relationships with suppliers and the enormous economies of scale it achieves through hard bargaining and purchasing in large quantities and enhancing its customers' experience in the store.

To adapt a low cost strategy, Walmart needs efficiency in all aspects of its operations, several of which were already mentioned by above cited authors. But besides all these means, Walmart in 2005 announced its sustainability goals, that are (Walmart Sustainability, 2011):

- To be supplied 100 percent by renewable energy;
- To create zero waste;
- To sell products that sustain people and the environment.

Walmart low-price strategy is repeated in most important business propositions: business purpose, goals, values. „Saving people money to help them live better was the goal that Sam Walton envisioned when he opened the doors of the first Walmart. It's the focus that underlies everything we do at Walmart. And for the millions of customers who shop in our stores and clubs around the world each week, it means a lot.“ (Walmart, 2011b).

Thus, Walmart strategy is firstly oriented towards low prices. In order to reach it, it has to work more efficiently than its competitors, lower the costs inside the company and also the prices of the supplier-provided products. In a company, which has chosen low price strategy, one should not expect high salary or the best customer service and highest prices, paid to its suppliers, because such company has to be oriented towards low cost in every area. That is why the savings are done in expense of the employees and the suppliers.

Since 2005 Walmart publishes annual reports on sustainable development, which can be accessed on their web page (<http://walmartstores.com/>). In 2005 this report was called "2005 Report on Ethical Sourcing", in 2007 it had the same title, while in 2008 this report was already called "2007-2008 Sustainability Progress Report". In 2007 the report was titled "2009 Global Sustainability Report, the same title remained in 2010. In 2011 the title was changed to "2011 Global Responsibility Report" (Walmart Sustainability, 2011).

In the annual statements, Walmart reports on the results the company achieved during the year, and the future plans of the actions, that will be taken. Several examples of the actions taken by Walmart can illustrate the directions, that a company takes in order to lower its costs, and at the same time, these decisions can be seen as moving the company towards sustainability.

One of the goals of Walmart is to build *Sustainable facilities*. Walmart has raised a goal to design and open a viable store prototype that is 25-30 percent more energy efficient, and will produce up to 30 percent fewer Green House Gas emissions. Another goal is to reduce greenhouse gases at Walmart's existing store, club and distribution center base around the world by 20 percent. These goals show, that with the same action – increasing energy efficiency, the company can at the same time reduce the costs of energy in a store,

and at the same time, reduce environmental impact – Green House Gas emissions. As fossil fuels are exhausted, it is probable, that in the future, energy costs will rise, so energy efficiency, that is improved at present, not only will help the company lower the costs now, but also will build a lower-cost ground in the future, while the company will have to compete with its competitors in the future.

Another area of Walmart business, that is related to energy, is *Logistics*. Walmart began testing new technologies that can help reduce environmental impact, and are viable for business, and would provide return on investment. It collaborated with Daimler Trucks North America LLC to build a hybrid-electric Freightliner Cascadia. This truck features a parallel hybrid system based on an electrically-driven second drive axle. It also marks the beginning of a long-term strategic partnership with Daimler Trucks North America to develop innovative, sustainable technologies. Moreover, trucks are being retrofitted to run on reclaimed brown waste cooking grease. This partnership also shows a future direction away from fossil fuels towards renewable energy – when the fossil fuels are exhausted, movement of the products will have to rely on renewable fuels – electricity, bio-fuels. At the same time, in the future, Walmart will have a stronger low-cost ground in logistics, as its transport fleet will be more efficient and thus lower-cost than its competitors, and in this way the company will be able to better compete. On the other hand, Walmart can also use the bio-fuels, that remain from its operations – restaurants, so using cooking grease is another way of using its existing waste, that can be used inside the company operation, or sold to bio-fuel producers to reprocess, and in this way earn additional income.

One of Walmart's sustainability goals is to create zero waste. Walmart focuses on the three "R's" when thinking about waste – reduce, reuse and recycle. In order to reduce waste Walmart is working with suppliers to reduce the amount of packaging and waste that enters stores. This not only has an impact on sustainability goal – waste reduction, but also on the company's cost base. If Walmart succeeds reducing the amount of product packaging, this means, that it needs to transport less packaging in its trucks, and it leads to lower logistic costs – lower fuel consumption, truck wear, salaries etc. Fewer packaging means lighter products as well as smaller products, that can be fitted into the same truck and warehouse space. Fewer packaging means, that fewer workers are needed to handle it, and also less packaging needs to be bought, transported home, and handled by the consumers. So this means lower costs not only to Walmart, but also to its consumers. On the other hand, lowering packaging amounts is a positive direction towards sustainability, as packaging needs to be reused or recycled, and all this uses energy resources, some of the packaging can end up in landfills.

Besides, Walmart is working with suppliers to integrate recycled materials into new products and showing customers the positive environmental effect of reusing these recycled materials. Walmart's stores around the world are recycling millions of pounds of materials generated from the back of stores. Gathering various materials for recycling has also a positive monetary aspect, as Walmart sells gathered materials and earns money in this way. This means, that the sold materials for recycling add to the bottom line, and in this way, Walmart can further lower its costs, and in this way lower the prices to better compete.

As Walmart is the biggest private employer in the world, this company operates in several countries, and has many active sustainability initiatives, some of which we have briefly discussed. These examples show, that if a company chooses a low-cost competitive strategy, and at the same time raises sustainability objectives, it can find solutions, that can be beneficial for both areas. A company can find solutions, that help execute a low-cost strategy, and at the same time are beneficial in moving towards sustainability.

At the same time, a question can be raised about Porter's (1980) generic competitive strategies – can a company at the same time use a low cost and a differentiation strategy? Examples of Walmart goals and actions, that are described above, show, that if sustainability is used as a differentiating aspect, a company can find actions, that can help the company move towards sustainability, and in this way differentiate itself in the eyes of consumers, and at the same time, the same actions could lower a company's costs and in this way contribute to lowering costs, and thus enabling a company to use a low cost strategy. And as it is widely agreed, that sustainable development is a main long-term direction of a global society, then we can expect that more and more businesses will use sustainability in their activities, and use it both as a differentiator as well as a framework to find solutions to lower the costs.

## Conclusions

Sustainable development is already widely instituted as a main long-term development strategy of the society. As businesses are an integral part of the society, society cannot expect to attain sustainability without involving businesses in this process. The importance of corporations can be illustrated by that they

have financial resources, they know how to unite the people for a common goal and they strive to work efficiently. All this shows the importance of businesses in the society's journey towards sustainability.

Porter (1980) distinguished three categories of competitive strategies, which are called Generic Competitive Strategies. The first strategy is cost leadership strategy, which emphasizes low costs in relation to the costs of competitors, but it does not neglect other aspects, such as service or product quality. The second strategy is differentiation strategy, which should allow a company to charge a higher than average price, as the company delivers something unique or different. The third strategy is focus strategy, in which a company focuses on a special group of customers. These three generic competitive strategies are defined according to two aspects: strategic strength and strategic scope.

To adapt a low cost strategy, Walmart needs efficiency in all aspects of its operations. Besides this, Walmart in 2005 announced its sustainability objectives, that are:

- To be supplied 100 percent by renewable energy;
- To create zero waste;
- To sell products that sustain people and the environment.

As Walmart is the biggest private employer in the world, this company operates in several countries, and has many active sustainability initiatives, such as reducing waste and recycling it, building energy efficient stores, testing new transport technologies and lowering the amount of packaging as well as others. Reducing one of the waste streams - packaging - has the potential of various cost savings – from the fields of reducing the amount of the packaging used, making the products lighter and smaller in size, and thus saving on the transportation costs, needing less warehouse and shelf space, less packaging to be reused, recycled or ending in the landfills, which also creates expenses. Building energy efficient stores not only has a positive impact on the Green House Gas emissions, but also on the store energy costs. Testing new transport technologies, that use electricity and bio-fuels, have the potential both to use used materials in the stores as fuels (e.g. used grease), and in this way reduce the fuel costs, or save on logistics expenses, as the fossil fuels will be exhausted, and will get more expensive, thus using more efficient trucks would lead to lower transport costs.

These business decisions and actions show, that if a company chooses a cost leadership strategy, and at the same time raises sustainability objectives, it can find solutions, that can be beneficial in both areas. Companies are able to find solutions, that allow pursuing a cost leadership strategy and at the same time are beneficial in moving towards sustainability.

## References

1. Arnould, E. (2005). Animating the big middle. *Journal of Retailing*, 81 (2), 89-96. doi: 10.1016/j.jretai.2005.03.001.
2. Blanchard, C., Comm, C. L., & Mathaisel, D. F. X. (2008). Adding value to service providers: benchmarking Wal-Mart. *Benchmarking: An International Journal*, Vol. 15, Iss: 2, 166-177. doi: 10.1108/14635770810864875.
3. Christopherson, S. (2007). Barriers to 'US style' lean retailing: the case of Wal-Mart's failure in Germany. *Journal of Economic Geography*, 7, 451-469.
4. Čiegis, R. & Grunda, R. (2007) Įmonės transformavimo į darnią įmonę procesas. *Organizacijų vadyba: sisteminiai tyrimai*, nr. 44, 19-34.
5. Crain, D. W. & Abraham, S. (2008). Using value-chain analysis to discover customers' strategic needs. *Strategy & Leadership*, 36(4), 29-39. doi:10.1108/10878570810888759.
6. Dresner, S. (2009). The principles of sustainability. London: Earthscan.
7. Global 500 (2011) Global 500. Annual ranking of the world's largest corporations. *From the July 24, 2011 Issue*. Retrieved from [http://money.cnn.com/magazines/fortune/global500/2011/full\\_list/](http://money.cnn.com/magazines/fortune/global500/2011/full_list/).
8. Gordon, H. S. (1954). The Economic Theory of a Common-Property Resource: The Fishery. *Journal of Political Economy*, Vol. 62, No. 2, 124-142.
9. Grunda, R. (2011). Strategic Corporate Sustainability Management Model. In Proceedings of the 1st World Sustainability Forum, 1-30 November 2011, Sciforum Electronic Conferences Series, 2011. Retrieved from <http://www.sciforum.net/presentation/550/>.
10. Hallsworth, A. & Evers, D. (2002). The steady advance of Wal-Mart across Europe and changing government attitudes towards planning and competition. *Environment and Planning C: Government and Policy*. 20(2), 297-309. doi:10.1068/c20m.

11. Mottner, S. & Smith, S. (2009). Wal-Mart: Supplier performance and market power, *Journal of Business Research*, 62, 535-541. doi:10.1016/j.jbusres.2008.06.012.
12. Porter, M. E. (1980). *Competitive strategy*. New York: Free Press.
13. Robert, K. H. (2002). *Natural Step Story: The Seeding of a Quiet Revolution*. Gabriola Island, BC: New Society Publishers.
14. Scott, A. (1955). The Fishery: The Objectives of Sole Ownership. *Journal of Political Economy*, Vol. 63, No. 2, 116-124.
15. Walmart. (2011a). Global responsibility report 2011. Building the Next Generation Walmart... Responsibly. Wal-Mart Stores Inc. 108 p. Retrieved from <http://walmartstores.com/download/4887.pdf>.
16. Walmart. (2011b). Our purpose. Wal-Mart Stores Inc. Retrieved from <http://walmartstores.com/AboutUs/9538.aspx>.
17. Walmart Sustainability. (2011) Sustainability. Wal-Mart Stores Inc. Retrieved from <http://walmartstores.com/Sustainability/>.
18. WCED. (1987). Our common future. World Commission on Environment and Development. Official Records of the General Assembly. Forty-second Session, Supplement No. 25 (A/42/25).
19. Werbach, A. (2009). *Strategy for Sustainability: A Business Manifesto*. Boston: Harvard Business Press.
20. World development report. (1992). *World development report 1992: development and the environment*. Oxford: Oxford University Press for the World Bank.