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ECONOMIC VIABILITY ANALYSIS OF WALMART

ABSTRACT: The economic viability of Walmart is analyzed in this paper, focusing on its financial performance, strategic positioning, and competitive challenges in the retail sector. The study highlights the impact of e-commerce on traditional retail businesses, emphasizing Walmart's response to digital transformation through omnichannel strategies. Despite strong financial results, Walmart faces increasing competition from Amazon and other online retailers. Key financial indicators such as revenue growth, return on assets, and operational efficiency are examined. The research also explores Walmart's sustainability initiatives, technological advancements, and supply chain management as critical factors for its long-term competitiveness.

KEYWORDS: Walmart, economic viability, financial analysis, e-commerce, omnichannel strategy, competitive advantage, sustainability, supply chain management

INTRODUCTION

Numerous traditional retailers are struggling as a result of the advancement in digitization. Customer loyalty is being eroded by the growing percentage of e-commerce, which is also causing a steady decline in foot traffic and sales at physical locations. Consumers take a different route when it comes to formulating and carrying out their purchasing decisions, and online retailers are gaining market share. With broad and deep assortments, practical checkout procedures, and individualized and tailored solutions, they can provide alternative and alluring value propositions. Instead of offering an "average" offer to an "average" target audience, they can influence the consumer when they are making a choice (Linzbach et al., 2019). Customers can visit an online retailer's website anytime, even in a physical store. Offline retailers have responded by incorporating digital in-store technologies into their physical services to stay competitive. Multichannel connecting services like click & collect, order from, and return to store are frequently the first stages. Modern technology allows for a seamless purchasing experience that may make use of both e-commerce and in-person, in-store shopping. Bricks-and-clicks companies are making a general effort to digitally engage physical customers on their trips with a customized purchasing experience, resulting in a sort of 4.0 multichannel experience (Linzbach et al., 2019).

Walmart is also an omni-channel merchant, a bricks-and-clicks company with a network of physical stores as its primary retail channel but also has online offerings (Laudon and Traver, 2019). Walmart is a US worldwide E-commerce corporation that operates grocery stores and a chain of hypermarkets with both physical and online presence. It was founded by Sam Walton in 1962. What makes Walmart special from other retailers is that available in various physical locations that reach 11.500 in over 27 countries other than the online website accessibility by offering the products at relatively low prices (Reiff, 2020). Unlike other companies negatively affected by COVID-19, Walmart remained in its strong market position and even hired new employees (Clark, 2020). Walmart is split into three segments other than its online

presence: Walmart US, International, and Sam's club (premium Walmart business), which is accountable for the highest percentage of the revenue. The reason behind the huge success of Walmart is its well-planned business model that focuses on being efficient by occurring low costs and generating high revenue.

Initially, the advent of e-commerce came as a threat to Walmart, which operates over 11.500 bricks-and-clicks stores internationally (Walmart, 2022). Walmart proactively addressed this challenge by entering the e-commerce space with Walmart.com in 2000 (Walmart, 2022). Since then, the company has invested billions in its online operation but has trailed Amazon on every success metric (Pettypiece and Wang, 2016). Walmart's share price reached \$ 142.36 by November 2022, as per NASDAQ. Its price stock increased due to the bulk buying consumers adopted because of COVID19. Walmart's revenue reached \$ 524B in the 2020 fiscal year, although its sales dropped by 2% due to the current pandemic. Its online website is performing very well, yet the main revenue is generated by its physical stores (Larkin, 2020).

FINANCIAL ANALYSIS

After lowering its full-year profit prediction owing to inflationary pressures, particularly in food and fuel, Walmart Inc. experienced its most significant decline over 35 years. Wall Street lost confidence in Walmart's capacity to manage rising costs for goods, transportation, and labor as the outlook deteriorated. The outcomes also highlighted the strain on U.S. consumers as rising prices cause moods to drop to their lowest level in ten years. Walmart and its competitors had had to contend with difficult comparisons to the beginning of 2021 when federal stimulus payments boosted consumer spending amid the coronavirus outbreak (Bloomberg, 2022). The largest retailer in the world's chief executive officer Doug McMillon said the company would try to reconcile consumer wants to generate profit growth. He aims to increase prices while attempting to maintain a lower price than rivals and minimizing price increases on basic food items (Bloomberg, 2022).

Operating expenses as a percentage of net sales fell by 19 basis points from the prior fiscal year, according to the company's annual report for fiscal 2022. Growing comparable sales and lower COVID-19-related costs of \$2.5 billion compared to the prior year helped operating expenses as a proportion of net sales, which was somewhat offset by higher wage investments, particularly in the Walmart U.S. segment. In comparison to the prior fiscal year, operational expenses as a percentage of net sales remained unchanged for fiscal 2021. Strong growth in comparable sales helped operating expenses as a percentage of net sales but was offset by \$4.0 billion in additional costs because of the COVID-19 pandemic (Annual Report, 2022).

Comparing fiscal years 2022 and 2021 to the prior fiscal year, the company's total revenues, including net sales, membership fees, and other income, increased by \$13.6 billion (2.4%) and \$35.2 billion (\$ 6.7%), respectively. These improvements in revenues were mostly brought on by increases in net sales, which for fiscal years 2022 and 2021, respectively, rose by \$12.5 billion (2.3%) and \$35.3 billion (6.7%) over the prior fiscal year. For the fiscal year 2022, the growth was primarily attributable to the Sam's Club and Walmart U.S. divisions, which benefited from robust U.S. consumer spending and some inflation, as well as favorable comparative sales in most of the company's remaining overseas countries (Annual Report, 2022).

IN USD THOUSANDS

ANNUAL 

Period Ending:	1/31/2022	1/31/2021	1/31/2020	1/31/2019
Total Revenue	\$572,754,000	\$559,151,000	\$523,964,000	\$514,405,000
Cost of Revenue	\$429,000,000	\$420,315,000	\$394,605,000	\$385,301,000
Gross Profit	\$143,754,000	\$138,836,000	\$129,359,000	\$129,104,000
Operating Expenses				
Research and Development	--	--	--	--
Sales, General and Admin.	\$117,812,000	\$116,288,000	\$108,791,000	\$107,147,000
Non-Recurring Items	--	--	--	--
Other Operating Items	--	--	--	--
Operating Income	\$25,942,000	\$22,548,000	\$20,568,000	\$21,957,000
Add'l income/expense items	-\$5,252,000	\$331,000	\$2,147,000	-\$8,151,000
Earnings Before Interest and Tax	\$20,690,000	\$22,879,000	\$22,715,000	\$13,806,000
Interest Expense	\$1,994,000	\$2,315,000	\$2,599,000	\$2,346,000
Earnings Before Tax	\$18,696,000	\$20,564,000	\$20,116,000	\$11,460,000
Income Tax	\$4,756,000	\$6,858,000	\$4,915,000	\$4,281,000
Minority Interest	--	--	--	--
Equity Earnings/Loss Unconsolidated Subsidiary	-\$267,000	-\$196,000	-\$320,000	-\$509,000
Net Income-Cont. Operations	\$13,673,000	\$13,510,000	\$14,881,000	\$6,670,000
Net Income	\$13,673,000	\$13,510,000	\$14,881,000	\$6,670,000
Net Income Applicable to Common Shareholders	\$13,673,000	\$13,510,000	\$14,881,000	\$6,670,000

Table 1. Income statement of Walmart

Source: Nasdaq – WMT Financials (2022)

IN USD THOUSANDS
ANNUAL

Period Ending:	1/31/2022	1/31/2021	1/31/2020	1/31/2019
Current Assets				
Cash and Cash Equivalents	\$14,760,000	\$17,741,000	\$9,465,000	\$7,722,000
Short-Term Investments	--	--	--	--
Net Receivables	\$8,280,000	\$6,516,000	\$6,284,000	\$6,283,000
Inventory	\$56,511,000	\$44,949,000	\$44,435,000	\$44,269,000
Other Current Assets	\$1,519,000	\$20,861,000	\$1,622,000	\$3,623,000
Total Current Assets	\$81,070,000	\$90,067,000	\$61,806,000	\$61,897,000
Long-Term Assets				
Long-Term Investments	--	--	--	--
Fixed Assets	\$112,624,000	\$109,848,000	\$127,049,000	\$111,395,000
Goodwill	\$29,014,000	\$28,983,000	\$31,073,000	\$31,181,000
Intangible Assets	--	--	--	--
Other Assets	\$22,152,000	\$23,598,000	\$16,567,000	\$14,822,000
Deferred Asset Charges	--	--	--	--
Total Assets	\$244,860,000	\$252,496,000	\$236,495,000	\$219,295,000
Current Liabilities				
Accounts Payable	\$82,172,000	\$87,349,000	\$69,549,000	\$69,647,000
Short-Term Debt / Current Portion of Long-Term Debt	\$3,724,000	\$3,830,000	\$6,448,000	\$7,830,000
Other Current Liabilities	\$1,483,000	\$1,466,000	\$1,793,000	--
Total Current Liabilities	\$87,379,000	\$92,645,000	\$77,790,000	\$77,477,000
Long-Term Debt	\$39,107,000	\$45,041,000	\$48,021,000	\$50,203,000
Other Liabilities	\$13,009,000	\$12,909,000	\$16,171,000	--
Deferred Liability Charges	\$13,474,000	\$14,370,000	\$12,961,000	\$11,981,000
Misc. Stocks	\$8,638,000	\$6,606,000	\$6,883,000	\$7,138,000
Minority Interest	--	--	--	--
Total Liabilities	\$161,607,000	\$171,571,000	\$161,826,000	\$146,799,000
Stock Holders Equity				
Common Stocks	\$276,000	\$282,000	\$284,000	\$288,000
Capital Surplus	\$86,904,000	\$88,763,000	\$83,943,000	\$80,785,000
Retained Earnings	--	--	--	--
Treasury Stock	\$4,839,000	\$3,646,000	\$3,247,000	\$2,965,000
Other Equity	-\$8,766,000	-\$11,766,000	-\$12,805,000	-\$11,542,000
Total Equity	\$83,253,000	\$80,925,000	\$74,669,000	\$72,496,000
Total Liabilities & Equity	\$244,860,000	\$252,496,000	\$236,495,000	\$219,295,000

Table 2. Walmart Balance sheet
Source: Nasdaq – WMT Financials (2022)

A company's current ratio measures its ability to pay its current debts, defined as those due within one year, and is a measure of a company's short-term liquidity. It does so by comparing the company's current liabilities with its current assets, meaning those that can be converted to cash within a year or less (Depresio, 2020). The formula is current assets divided by current liabilities. A value of 1.0 or higher is preferred. Many value investors consider 1.5 to be an ideal current ratio (Depresio, 2020). Walmart's current ratio comes in low at 0.92, which is less than 2021 – 0.97 (see Table 3).

Annual Data		2022-01-31	2021-01-31	2020-01-31	2019-01-31
Current Ratio		0.9278	0.9722	0.7945	0.7989
Long-term Debt / Capital		0.2985	0.3397	0.3706	0.3867
Debt/Equity Ratio		0.4661	0.5583	0.6679	0.7287
Gross Margin		25.0987	24.8298	24.6885	25.0977
Operating Margin		4.5293	4.0325	3.9255	4.2684
EBIT Margin		4.5293	4.0325	3.9255	4.2684
EBITDA Margin		6.3902	6.027	6.0224	6.3442
Pre-Tax Profit Margin		3.2642	3.6777	3.8392	2.2278
Net Profit Margin		2.3872	2.4162	2.8401	1.2966
Asset Turnover		2.3391	2.2145	2.2155	2.3457
Inventory Turnover Ratio		7.5914	9.3509	8.8805	8.7036
Receiveable Turnover		69.1732	85.812	83.3807	81.8725
Days Sales In Receivables		5.2766	4.2535	4.3775	4.4582
ROE - Return On Equity		15.1702	15.6585	18.6396	9.015
Return On Tangible Equity		22.1703	23.4099	30.1135	14.8164
ROA - Return On Assets		5.693	5.4282	6.4276	3.2737
ROI - Return On Investment		10.6414	10.3385	11.7316	5.5292
Book Value Per Share		33.2818	31.0284	28.7966	27.6699
Operating Cash Flow Per Share		-4.0502	3.8651	-0.618	0.0095
Free Cash Flow Per Share		-5.0524	3.9561	-0.9025	-0.1131

Table 3. Walmart Financial Ratios

Source: Macrotrends – WMT Financials (2022). Retrieved from <https://www.macrotrends.net/stocks/charts/WMT/walmart/balance-sheet>

Return on Asset (ROA) indicates how a company is using its assets to generate profit. By assets, it means the invested ones, so this figure tells the investors how efficient the firm is in transforming the money financed into net income (Depresio, 2020). A company with a high return on assets means that is more efficient. For Walmart, it maintained a well ROA but in 2019 it decreased by 3,3%, and then in 2020 it reached 6,4%. Walmart's ROA comes at 5,4 in 2021, which is less than 2022 – 5,7%.

ROI (Return on Investment) evaluates the management's effectiveness in producing profits with the existing assets (Depresio, 2020). ROI is considered a non-GAAP financial measure, but management believes ROI is a meaningful metric to share with investors because it helps investors assess how effectively Walmart is deploying its assets (Annual report, 2022). Walmart's ROI comes at 10,3% in 2021, which is less than 2022 – 10,6%.

STRATEGIC ANALYSIS

Walmart has benefited from exceptional economic circumstances. Many companies have been deemed non-essential due to the covid situation, and many of Walmart's natural competitors have closed their doors, some never to reopen. Given the economic climate in the United States, every Walmart shop in the country has been designated as important, and Walmart has had record sales over the past year. It has the highest revenue of any company in the world and a firm grip over the supply chains in the United States and the rest of the world (Debter, 2019). Walmart can demonstrate its power through its supply chains by imposing conditions on businesses who wish to

sell their goods on Walmart's shelves.

Potential new market entrants could pose a danger in a few different ways. Walmart's enormous size, suppliers, and reach have allowed them to create a considerable competitive advantage. Additionally, Walmart has successfully countered supplier power. In discussions, Walmart's suppliers typically find themselves at a disadvantage because they frequently require Walmart more than Walmart requires them. Since shelf space at Walmart is so highly sought-after, the retailer continually sets its own rates, forcing suppliers to compete with one another to meet those costs. The proprietary inventory system used by Walmart, which has been in use since the 1990s and was a trailblazing feature of Walmart's climb to supremacy over the last decades, is likewise appreciated by suppliers (Brown, 2016).

Walmart has resisted any pressure that consumers might apply to reduce profitability. Everyday low prices at Walmart are competitive with those that shoppers can find elsewhere. Walmart has also provided a price match guarantee, encouraging customer choice. Amazon is a viable Walmart rival, yet Walmart continues to rule the local grocery market even after Amazon bought Whole Foods. With a market share of 26% in American food sales, Walmart is still by far the market leader (Coppola, 2020).

Walmart has played a significant sociological role in American culture both during its rise and currently. Through its industry-leading cost reductions and its large number of anchor stores, Walmart significantly reduced the demographic issues brought on by suburban sprawl. Walmart's presence immediately impacts families worldwide through its employment of thousands of workers, and they depend on the job possibilities Walmart offers, both directly and indirectly. It might be claimed that Walmart is not only accountable for directly creating jobs through the positions it gives but also for the supply chain jobs created around the globe that go into its stores and serve its global clientele (Coppola, 2020).

Walmart is up against its greatest technological challenge and threat yet as it competes with Amazon in the online market. Despite having a lot of space for growth, Walmart is not completely unprotected. It has the ability to use Amazon's supply chains as weapons. To stay competitive in the face of the enormous threat posed by Amazon, Walmart has made it a major strategic priority to pursue improvement of its technical side of the business. The company has started using business analytics and data and has increased business automation (Clark, 2020).

Amazon, the largest online retailer in the world, is Walmart's main competitor in the retail sales sector (Debter, 2019). The competition between Walmart and Amazon is being fought online through supply chains, data, and business analytics. Walmart has several advantages over its rivals. Given its size, Walmart has a significant impact on suppliers. Walmart is also able to provide prices that are significantly less expensive than those of its rivals. Walmart has a private-label product range called Great Value that is less expensive than name-brand competitors. Walmart also has the opportunity to pay its employees more than its rivals do. It also has the possibility to cheaper replace employees with technology. The 24/7 data collection services are available at Walmart. The information is extremely valuable in and of itself and has helped Walmart create a competitive technology edge (Debter, 2019).

Walmart's current strategic efforts include becoming more ecologically responsible and sustainable. Walmart is aware of the value of luring investors who are concerned with sustainability and the environment. Sustainability is a current concern for prominent US political office holders as well. Walmart has promised to reduce

its overall carbon emissions and use delivery vehicles with lower carbon emissions to advance its business's sustainability component. By the year 2040, Walmart has promised to have zero carbon emissions (Walmart, 2022). According to its website, Walmart wants to have a positive impact on all global supply chains. It seeks to reduce waste, run on renewable energy, and hire people in a way that upholds human dignity. Although this is Walmart's stated objective, it is also motivated by a larger financial incentive. By pursuing these environmental goals, Walmart may win over legislators and appeal to a growing group of investors who won't support businesses that don't pursue similar goals (Walmart, 2022). The use of technology to establish an online presence that can compete with Amazon's threat is a second strategic move. Walmart has understood that the world is data-driven since its inception. Walmart started using a proprietary inventory system in the 1990s. With the use of this method, suppliers could get an advantage while doing business with Walmart. Over time, this data-driven advantage has increased. Today, Amazon is seen as a pioneer in data-driven retail, making it difficult for Walmart to stay competitive. Walmart has prioritized its extensive data environment. Walmart uses big data mostly to improve the shopping experience. Through examination of hundreds of millions of keywords, they do this. Every day, Walmart processes a number of petabytes of data. Based on this information, Walmart formulates recommendations and uses them to help suppliers decide wisely as well. For Walmart, this has been a significant competitive advantage (Clark, 2020). Several legal factors can affect Walmart, like discrimination laws, employment regulations laws, food, and safety regulations, data protection laws, and consumer protection laws for e-commerce businesses. In July 2021, Walmart updated its policy to clarify its practices concerning sharing information outside of Walmart and the corporate family of companies. The company also published metrics related to the number of requests received from California consumers under the California Consumer Privacy Act. These changes apply to all customers. In January 2020, Walmart updated its policy to clarify the following (Walmart, 2022): clarifying the practice of not selling personal information for monetary consideration and clarifying how personal information is shared for advertising-related activities.

CONCLUSION

By entering the e-commerce market and placing significant wagers on operational model improvements intended to help people "Save Money, Live Better," Walmart has adapted to the changing times. Walmart's size and global supply chains are its greatest assets. Sustainability and e-commerce, two areas to which Walmart is giving a significant amount of strategic effort, are its biggest shortcomings. Walmart's capacity to continue competing with Amazon will be its key challenge in the future. With the purchase of Whole Foods, Amazon entered the retail grocery sector directly, putting Walmart at a competitive disadvantage in the e-commerce space. Moving the future, Walmart will either succeed or fail due to e-commerce. Walmart is still putting a lot of effort into big data analytics, but it will need to invest a lot more intellectual capital if it wants to catch up to Amazon. Since smartphone users make four more trips and spend 77 percent more in-store, they are very valuable to Walmart. Walmart's mobile strategy will be a crucial component of its future e-commerce strategy, which would be a means for Walmart to gain a competitive advantage that would last for years to come.

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