

Walmart: Keys to Successful Supply Chain Management

As the following case study demonstrates, a successful supply chain management strategy can lead to lower product costs and highly competitive pricing for the consumer.

Over the past ten years, Walmart has become the world's largest and arguably most powerful retailer with the highest sales per square foot, inventory turnover, and operating profit of any discount retailer. Walmart owes its transition from regional retailer to global powerhouse largely to changes in and effective management of its supply chain.

Walmart began with the goal to provide customers with the goods they wanted when and where they wanted them. Walmart then focused on developing cost structures that allowed it to offer low everyday pricing. The key to achieving this goal was to make the way the company replenishes inventory the centerpiece of its strategy, which relied on a logistics technique known as cross docking. Using cross docking, products are routed from suppliers to Walmart's warehouses, where they are then shipped to stores without sitting for long periods of time in inventory. This strategy reduced Walmart's costs significantly and they passed those savings on to their customers with highly competitive pricing. Walmart then concentrated on developing a more highly structured and advanced [supply chain management](#) strategy to exploit and enhance this competitive advantage.

Components of Supply Chain Management (SCM)

The main elements of a supply chain include purchasing, operations, distribution, and integration. The supply chain begins with purchasing. Purchasing managers or buyers are typically responsible for determining which products their company will sell, sourcing product suppliers and vendors, and procuring products from vendors at prices and terms that meets profitability goals.

Supply chain operations focus on demand planning, forecasting, and inventory management. Forecasts estimate customer demand for a particular product during a specific period of time based on historical data, external drivers such as upcoming sales and promotions, and any changes in trends or competition. Using demand planning to develop accurate forecasts is critical to effective inventory management. Forecasts are compared to inventory levels to ensure that distribution centers have enough, but not too much, inventory to supply stores with a sufficient amount of product to meet demand. This allows companies to reduce inventory carrying costs while still meeting customer needs.

Moving the product from warehouses or manufacturing plants to stores and ultimately to customers is the distribution function of the supply chain.

Supply chain integration refers to the practice of developing a collaborative workflow among all departments and components involved in the supply chain to maximize efficiencies and build a [lean supply chain](#).

Walmart's Method of Managing the Supply Chain

Walmart has been able to assume market leadership position primarily due to its efficient integration of suppliers, manufacturing, warehousing, and distribution to stores. Its [supply chain strategy](#) has four key components: vendor partnerships, cross docking and distribution management, technology, and integration.

Walmart's supply chain begins with strategic sourcing to find products at the best price from suppliers who are in a position to ensure they can meet demand. Walmart establishes strategic partnerships with most of their vendors, offering them the potential for long-term and high volume purchases in exchange for the lowest possible prices.

Suppliers then ship product to Walmart's distribution centers where the product is cross docked and then delivered to Walmart stores. Cross docking, distribution management, and transportation management keep inventory and transportation costs down, reducing transportation time and eliminating inefficiencies.

Technology plays a key role in Walmart's supply chain, serving as the foundation of their supply chain. Walmart has the largest information technology infrastructure of any private company in the world. Its state-of-the-art technology and network design allow Walmart to accurately forecast demand, track and predict inventory levels, create highly efficient transportation routes, and manage customer relationships and service response logistics.

Benefits of Efficient Supply Chain Management

Wal-Mart's supply chain management strategy has provided the company with several sustainable competitive advantages, including lower product costs, reduced inventory carrying costs, improved in-store variety and selection, and highly competitive pricing for the consumer. This strategy has helped Walmart become a dominant force in a competitive global market. As technology evolves, Walmart continues to focus on innovative processes and systems to improve its supply chain and achieve greater efficiency.