# MANAGERIAL ECONOMICS COURSEWORK

## 1. Introduction

Wal-Mart is the biggest retail store in the whole world which enjoys a greater market share than most of the countries handling the same product. It is involved in the employment of over two million staff which is a major size of the whole US population. The focus is how Wal-Mart is able to acquire its competitive advantage and the impact it has to the competitors.

## 2. Economic Analysis

### 2.1 ECONOMIES OF SCALE AND SCOPE

The dominance of Wal-Mart over the other retailers has been evident in the last couple of years. Its competitive advantage results from the institution of the economies of scale and the application of technology. In terms of technology, Wal-Mart has put in place a computer network which has been enabled with the barcode-reading technology, and it is accessible to all the enterprise's distributors and suppliers. It has additionally been able to use Radio Frequency Identification during the identification of products being delivered.

In addition to the use of information technology the company has also been able to put in place an inventory mechanism which adds onto the incentives of the stores to increase on the product lines. The addition has been on pharmaceutical and automobile products. The aspect of having a one-stop shop has enabled clients to buy products with no effort of reaching a store and the economies of scope is acquired through sharing inventory space and selling floor.

## 2.2 Competitors Entry and Density

Strong competitors have been posing challenges to Wal-Mart as they have been having the means to implement some of the favoring strategies. The competitors are mostly local retailers, but there are a couple of large retail chains. Wal-Mart brings into being a rigid environment that results into business closures. The introduction of massive chains is has been presumed to be prompted by the strength of the local economic strengths as well as the expectation that offering incentive boosts sales, especially in new markets. The decision to enter into a market by the small business is, usually, based on the successes exhibited by large enterprises. Jia (2005) argues that the growth of Wal-Mart has brought about the elimination from business of small stores. According to Basker, it is estimated that one in four small competitors have shut down during the last 5 years, and several others continue to shut down with Wal-Mart's entry into the new markets. Those competitors who remain in business keep complaining of declining levels of profits.

## 2.3 Competitor's Strategic commitment

The significance of a number of large retail chain competitors has been increasing, and so has the interrelationship and mutual influence between them. Some of the decisions made by Wal-Mart impact on those made by other large competitors, and this create a complicated relation between Wal-Mart and its local competitors. According to McKinsey of theGlobal Institute (2001), some retail stores have copied much of the Wal-Mart's strategies, and this serves to indicate the impact that Wal-Mart makes in the market. The Wal-Mart's purchasing power has been a major impact on its business relationship with other firms and stakeholders in the market. This does also empower the internal operations of the organization. This relationship has enhanced information sharing, a scenario which is facilitated by such tools as the Retail Link Software. Wal-Mart has championed technology adoption, and this has had a remarkable impact on the profitability of its operations.

According to Chain (2003), Wal-Mart has been having a desire to respond to the enhanced level of manufacturing, and this is among the strategies which has been limiting the costs. Wal-Mart has been taking advantage of its bargaining strength so as to reduce the wholesale prices. The company has also, in some instances, considered importing some of its processed merchandise, as this reduces the buying price. Nevertheless, critics argue that Wal-Mart's acquisition of goods from China makes the US commodities appear to be unnecessarily expensive.

## 3. Competitive advantage

At its present level of advancement, Wal-Mart has been able to remain as an efficient enterprise, even after its rapid growth in the consumer base. Wal-Mart has been able to limit cost, a situation which gives it an edge over other retailers. Additionally, the reduction in costs increases the benefits, and this avails money for extra advancement in technology and expansion. Such advancements enable it to have advantageous economies of scale, and this enhances the viability of its operations. According to Basker and Van (2007), there is a close relation in the size, efficiency, and incorporation of technology at Wal-Mart. Wal-Mart has installed technology that enables economies of scale to persist, and this is due to the advantages that the technology avails at the store as well as the supply chain.

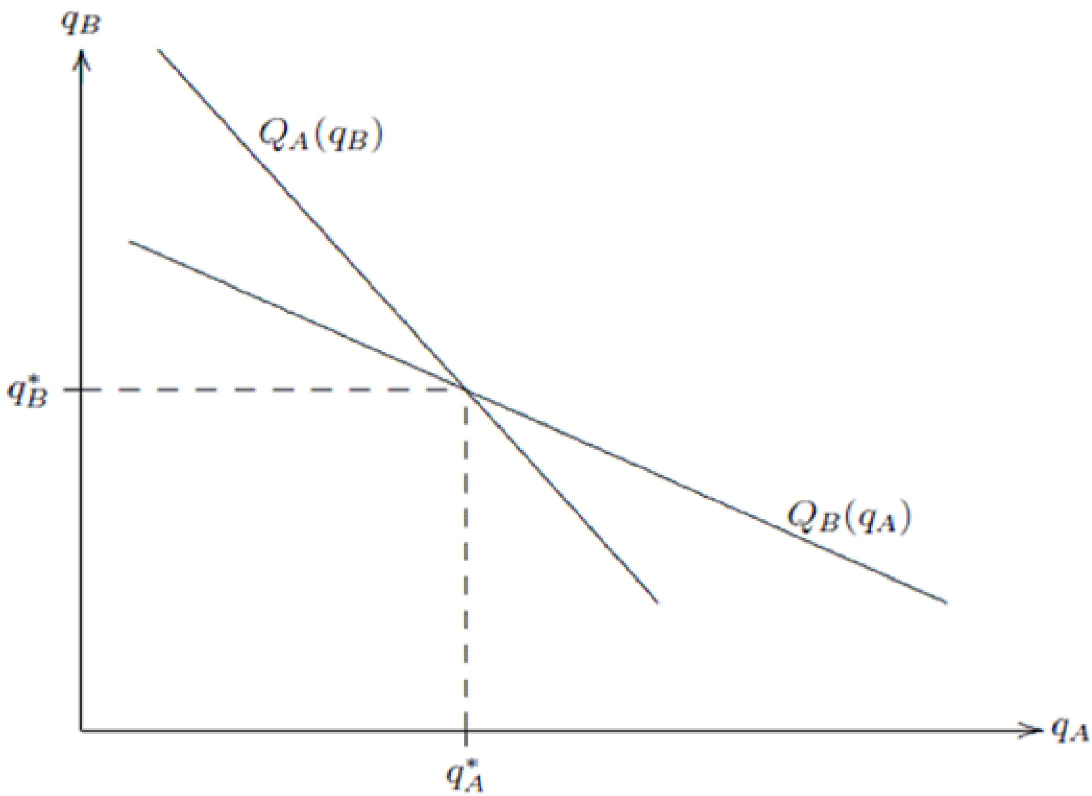
## 4. Supplier networks

With regard to its supply chain, Wal-Mart has been able to improve its strength in the market. Wal-Mart has the capacity to supply in bulk, and with the current crises in the market, it is through such strategies that any enterprise manages to lower the costs of its merchandise. As such, customer retention and royalty becomes achievable. Basker and Van (2007) argue that, even if such strategies secure the future of an enterprise, they do, however, reduce the marginal profit per unit of sale. With the help of data from Wal-Mart, it is possible to approximate and indicate elasticity of marginal cost as well as the size of sales. Wal-Mart tends to locate its stores where it is bound to acquire revenue, being keen on demand and cost factors as well as how competitive is the environment. According to Graff and Ashton (1994), the idea of locating stores close to one another has brought about cannibalizing the sales of other competitors. On the other hand, its ability to exploit economies of density has been made rife.

## 5. The Cournot and Bertrand Model of Wal-Mart

Cournot model involves two firms that deal with similar products. The firms are however meant to select their output levels. Each of these firms' profit margins is set on the basis of the other. They, hence, rely greatly on one another's operations. This is what is commonly referred to as the reaction function for one firm on the basis of the other. With each firm having its own reaction function, the point that they are to cross is termed to as their Cournot Nash equilibrium. Wal-Mart has been known to have an advantage in the market as compared to other retail stores (Davies and Lam). This is because of the retail production function, the respective inputs and outputs, as well as the relationship that exists between Wal-Mart and other retail stores.  Much of the growth and production at Wal-Mart has been greatly attributed to technology and economies scale. However, most retail stores fit in a chain which is efficient and has greatly utilized information technology. Wal-Mart's acquisition of computer and bar-code readers has helped it limit the labor overhead cost. Additionally, Wal-Mart has availed the Retail Link software, and this has reduced the distance between the suppliers and the stores.

In the graph below, A and B are the two firms that are being compared. The graph explains the aforementioned scenario.




As explained earlier, Wal-Mart is an efficient enterprise. This is especially so since its size and the level of production are high as compared to the retailers. This is an indication that the use of technology is the most effective strategy in availing the economies of scale. The economies of scale at Wal-Mart and the retail store levels of production has been some of the greatest boosts to Wal-Mart.

Though Bertrand model is composed of two firms dealing in similar products it is based on the price levels. The prices are forced down to the marginal cost. Wal-Mart case has enhanced the level of market participation by chain stores. While the size of Wal-Mart enables it to find operations beneficial, it prompts the reduction in the profit margin of the item being sold. The evaluation of data from Wal-Mart enables the approximation of elasticity in the marginal cost. This is related to the sales figure which is recorded during a trading period.

A and B represents two firms that are being compared with respect to the preceding discussion.