Strategic Analysis Of Dollar General (DG) And Walmart (WMT)

Abstract

Dollar General's (DG) strategy is to be a low-cost provider and focus on its customers. DG is a low-cost provider because the stores are in rural areas, it has a limited selection of products, it keeps labor costs down, it carries private-label goods, and it looks to cut costs in the supply chain. DG focuses on its customers by being accessible in rural areas and the shopping experience. The shopping experience consists of being able to get in and get out promptly. DG is accessible in rural areas because of the size of the store. DG stores are around 7,300 square feet, this is a tenth of the size of the average Wal-Mart store.

Wal-Mart's (WMT) strategy is to be a low-cost provider, they have achieved this because they are the leading low-cost provider in the grocery industry. WMT is a low-cost provider because it minimizes overhead and operational costs and leverages its bargaining power to force suppliers to lower prices. WMT is also a differentiator because of the way they based the supply chain management around electronic product information, vendor role in distribution, and layout of warehouses. WMT has switched a majority of their check-out lines to self check out in hope of allowing customers to get in and out more quickly.

Keywords: Dollar General (DG), Wal-Mart (WMT), low-cost provider, focus on their customers, and differentiators.

Introduction:

The purpose of this paper is to look at the most recent annual reports of Dollar General (DG) and Wal-Mart (WMT), this will allow the reader to have a better understanding of each company's products and services, the markets they serve, and their financial performance. The annual reports came from the websites of each company. Completing a financial analysis of each company will determine which of the two companies is better performing by viewing the most recent full-year financial reports.

A good-performing company is one whose financial returns are better than the industry average over a long period. A company's overall financial performance is generally measured by return on invested capital (ROIC). A company that achieves superior financial performance has consistent annual revenue and profit growth, higher profit margins, and a strong balance sheet.

Excellent financial performance is the result of a good business strategy that is well executed and often includes investments in technology, visionary leadership, talented and dedicated employees, a customer focus, having and maintaining a competitive advantage, and a strong operational focus on strategic goals.

Based on the analysis, this paper will identify which of the two companies has better overall financial performance and it will explain why. The following questions will be answered: What

does the company do well to achieve superior financial performance? What is the strategy of the better performing company (cost leadership, differentiation, focus, or a combination of several)? How does their strategy compare with their competitor?

Analysis:

Financial Comparisons

Financial Metric

- Dollar General (DG)
- Wal-Mart (WMT)

Current Year Total Revenues

- $23,470,967
- $500,343,000

Current Year Total Net Income

- $1,538,960
- $10,523,000

Net Profit Margin

- 6.56%
- 2.10%

Return on Assets

- 12.30%
- 5.15%

Return on Invested Capital

- 17.63%
- 9.49%

Earnings Growth (3 yr. avg.)

- +44.46%
- -38.46%

Revenue Growth (3 yr. avg.)

- +24.12%
- +3.03%

Summary:

Current year total revenues and the current year total net income can be found on the profit and loss statements, which are made available by the companies. When comparing Dollar General (DG) and Wal-Mart (WMT) by the current year's total revenues and the current year's total net income, WMT has the advantage with a current year's total revenue of $500,343,000, while DG has $23,470,967. WMT also has the advantage when it comes to current year total net income, WMT current year total net income is $10,523,000, while DG has $1,538,960.

Return on invested capital (ROIC) is calculated by dividing net income after taxes by total capital invested (total equity plus long-term debt). The net income after taxes is found on the company profit and loss statement, and the total equity and long-term debt are both found on the company balance sheet. When comparing Dollar General (DG) and Wal-Mart (WMT) by return on invested capital (ROIC), DG has the advantage with an ROIC of 17.63%, while WMT has an ROIC of 9.49%.

The net profit margin is calculated by dividing net income by sales. When comparing Dollar General (DG) and Wal-Mart (WMT) by net profit margin, DG has the advantage with a margin of 6.56%, while WMT has a margin of 2.10%.

The return on assets is calculated by dividing net income by total assets. The total assets are found on the company balance sheet. When comparing Dollar General (DG) and Wal-Mart (WMT) by return on assets, DG has the advantage with a margin of 12.30%, while WMT has a margin of 5.15%.

The earnings growth is calculated by subtracting the net income of the current year with the net income of three years ago and then dividing it by the net income of three years ago. When comparing Dollar General (DG) and Wal-Mart (WMT), DG has the advantage with a growth of 44.46%, while WMT has a loss of 38.46%.

The revenue growth is calculated by subtracting the total revenues of the current year with a total revenue of three years ago and then dividing it by the total revenues of three years ago. When comparing Dollar General (DG) and Wal-Mart (WMT), DG has the advantage with a growth of 24.12%, while WMT has a growth of 3.03%.

After completing the financial analysis it has been determined that Dollar General has better overall financial performance. While Wal-Mart (WMT) has the advantage over Dollar General (DG) in the financial metric of current year total revenues and current year total income. However, DG has the advantage over WMT in the financial metric of net profit margin, return on assets, return on invested capital, earnings growth with an average of three years, and revenue growth with an average of three years.

Conclusion:

Dollar General’s (DG) strategy is a low-cost provider and focuses on its customers, as mentioned before on the abstract page. The thing that DG does well is focusing on its customers, they do this by being accessible in rural areas and the size of the store allows the customers to be able to get in and out quickly.

When it comes to focusing on the customer's DG does better than Wal-Mart (WMT) does. Wal-Mart (MWT) does not focus on its customers, because customers are not able to get in and out quickly. However, WMT has switched their check-out lines to self-check outlines, in hopes of getting customers in and out more quickly. The problem that WMT faces when trying to focus on its customers is the size of their store and their stores are so large that they can not be easily accessible in rural areas.

When it comes to being a low-cost provider than Wal-Mart (WMT) does a better job of this than Dollar General (DG). WMT can do this because it can squeeze its suppliers into offering them lower prices, which they can offer lower prices to their customers.

In conclusion, Dollar General (DG) is doing better in financial performance, because they looked at the disadvantages of Wal-Mart (WMT). DG also has a bigger net profit margin, return assets, return on invested capital, earnings growth of three years, and revenue growth of three years.

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