

Strategic Partnerships at Walmart

Mathew Knowles, *Music World Entertainment, Texas Southern University*

Mathew Knowles is the CEO of Music World Entertainment, and teaches Introduction to Entrepreneurship in the Jesse H. Jones School of Business and Introduction to the Recording Industry and Artist Management in the School of Communications at Texas Southern University. He is best known as the manager of Destiny's Child. He is a voting member of the National Academy of Recording Arts and Sciences (NARAS), and serves on the GRAMMY board committee. He also serves on the board of Directors of the Gospel Music Association.

Correspondence should be sent to:

Music World Entertainment
1505 Hadley St.
Houston, TX 77002
713.772.5175

www.musicworldent.com

Bentonville

I remember my first visit to Bentonville, Arkansas. If you've been there, you know that Bentonville offers no frills. Simple airport, simple lodging, and simple but honest people who are there for each other. That doesn't surprise me as it confirmed the vision of Sam Walton: "If we work together, we'll lower the cost of living for everyone ... we'll give the world an opportunity to see what it's like to save and have a better life" ("Mission of Walmart," n.d.).

In my mind I thought I would pull up to this glassy, high-tech skyscraper in Bentonville. After all, this is where Hollywood and the music industry came to get their products in Walmart stores. Everyone from Oprah, Tyler Perry, Steven Spielberg, and Prince, to name a few, understand the opportunities at Walmart. That's why I was there. As the CEO of Music World Entertainment, a company representing artists across the spectrum of different music styles, most notably, my own daughter Beyoncé, I was in Bentonville to examine how my company and Walmart could be of benefit to each other. Yet, I could not be more wrong about my idea of what the headquarters would look like. As Bentonville, they were as plain as they come. There was no mistaking, this building lacked the latest, newest architectural designs that characterize the companies of Google and Facebook, meant to inspire the young creative minds of their developers. This was built to actually do what Walmart does best: offer good quality products to the American public at an affordable price in a no-frill environment.

There was a reason I was standing here, and not in the offices of Sony Music or Columbia Records. In the early 2000s Walmart grew to become the top music retailer in America. With the growth and demand for the digital product, in 2008

Apple passed Walmart for that honor, yet Walmart was still number one in the declining physical CD market. Walmart offered Music World Entertainment a competitive advantage that no one else could—an unparalleled distribution system. Their access to the largest retail crowd in the US made them extremely valuable to us. Yet, we could offer them something they were missing—content that attracted people to their stores.

It would be the beginning of a very productive strategic partnership.

Strategic Partnerships

Today's music industry is marked by many challenges such as declining sales, higher costs of goods and services, the impact of new digital platforms, and a user base not willing to purchase the conventional way. Yet, recording artists continued to be marketed by their record label the traditional way, as if these challenges can somehow magically be negated by the quality of an artist. Working outside the music industry for more than 20 years, selling medical system designs, allowed me to view the music industry as an outsider and not do things "as they were supposed to be done." I understood the importance of strategic partnerships, even if they were considered unconventional, and set out on a quest to get these partnerships to help my artists be successful.

Strategic partnerships are defined as a formal alliance between two commercial enterprises, usually formalized by one or more business contracts, but falls short of forming a legal partnership, agency, or corporate affiliate relationship. Productive partnerships allow both companies involved to enhance their offers and offset costs. The broad idea is that two are better than one, and by combining resources, partner companies add advantages for both companies through the alliance. These days, practically everybody who's anybody is partnering in one way or another, whether it's realized and publicized in the general market or not. Ideally, a partnership allows a company to add value for customers AND lower costs. That's why every strategic partnership is at its core a question of costs versus return. Before entering into a partnership, assess the other party carefully to evaluate the advantages and disadvantages of entering into the agreement. If you can satisfy your profit goals and customer expectations through the partnership, then it's the right call for your business.

There are several types of partnerships one company or business can form by strategically partnering with another company or business:

Financial Partnerships

These days, strategic financial partners handle accounting for most contemporary companies. Financial partnerships are beneficial especially if you use the same accounting firm

for a period of time. Long-term accounting partners are able to scrutinize revenue better than most businesses can do in-house, and are one of the most vitally important partnerships a business can have. Finance professionals lend expertise in managing cash flow and are able to report revenue factually and without hesitation when required.

Marketing Partnerships

Marketing partnerships are extremely beneficial to small businesses that have a limited variety of products and services to offer customers. Perhaps your company provides one specific service like graphic design. A good move in this instance is to partner with a website development company that will refer you when graphics are necessary, and vice versa. This type of partnership allows each company to focus on what it does best. The idea is that one company creates a product or provides a specific service and the other adds a marketing twist to it with the intent to tap into a new market. To form a strategic marketing partnership, look for either a referrer with whom you share a customer base or a company operating in an interconnected field that can market your goods or services to a new network.

One common marketing partnership involves a supplier/manufacturer partnering with a distributor or wholesale consumer. Rather than approach the transactions between the companies as a simple link in the product or service supply chain, the two companies form a closer relationship where they mutually participate in advertising, marketing, branding, product development, and other business functions. As examples, an automotive manufacturer may form strategic partnerships with its parts suppliers, or a music distributor with record labels.

Supply Chain Partnerships

A widespread (and tremendously valuable) type of relationship is a supply chain partnership. One of the most apparent examples of this can be found in the film industry. Observe the opening credits of most movies and you'll see names of various companies prior to the start of the film. This is due to the fact that films are typically made in a supply chain technique. A relatively small production company may attend to filming and post-production, while a more prominent studio will be in charge of the film's financing, marketing, and distribution. But these types of partnerships exist everywhere: Toyota produces engines for Lotus sports cars; Texas Instruments produces chips for practically everything imaginable. Typically, the larger firm supplies capital, and the necessary product development, marketing, manufacturing, and distribution capabilities, while the smaller firm supplies specialized technical or creative expertise.

Benefit from a strategic supply chain partnership comes down to cost. If you can make it for less yourself, then you don't need a partner. But if you can hand off manufacturing

to a dedicated factory and maintain profitability without sacrificing quality, then the alliance is a smart move. For many in the service industry, it's often an even easier decision. Cutting costs, streamlining processes, or improving quality are the reasons to enter into this type of partnership.

However, as constructive as they can be, supply chain partnerships can also be one of the most difficult to maintain. According to Andrew Humphries (2007), supply chain partnerships encounter difficulties on the supplier's side because the measures of success focus on time, cost, and quality. The other side may be more focused on sales and revenue. A supply chain partnership only works if each party involved can meet with end customers' expectations for quality and price while continuing to be independently advantageous.

Integration Partnerships

Integration partnerships are very customary in the digital age, since it is always great to have different applications work jointly and communicate cooperatively. Many software programs work cooperatively, such as an accounting program with a marketing program. Anytime you partner with a software provider, most likely the provider will benefit and gain new clients from your pool of clients and other partners. Integration partnerships can include agreements between hardware and software manufacturers (like how specific computers ship with security suites already installed), or agreements between two software developers who affiliate so that their individual technologies work cooperatively in an integral—while not necessarily entirely exclusive—way.

Many times companies will “bundle” services. An example is when you purchase a new PC already stacked with trial programs. Most times, after research, many companies decide to avoid this type of partnership; however, those who do enter these alliances and make them successful are most certainly providing partner products and services that add value to the purchase, and not just bells and whistles that end up making a lot of noise.

Technology Partnerships

The technology partnership marries businesses with IT companies. An example is an agreement between your web designer and a certain computer service that you call every time you need repairs. In return, you get discounts on services. Or maybe you join forces with a cloud-based storage platform to handle all of your file storage needs. Essentially, any kind of technological skill that is compulsory for business that cannot be provided in-house can be consigned to technology partnership. Selecting a partner in this industry must be preceded by a needs' assessment and a realization of benefits prior to entering into the partnership. For example, businesses should not pay monthly for print services if they can save money by going paperless. Assess each partnership platform before entering an alliance.

Some familiar names in strategic partnership success stories include the gas station chains that have partnered with McDonald's or Pizza Hut. Consider also Starbucks inside Barnes & Noble's bookstores, HP and Disney's *Mission: SPACE* attraction, and Nokia and Microsoft's partnership in producing Windows phones.

There can be many advantages to creating strategic partnerships. As Robert Grant (2008) stated in his book *Contemporary Strategy Analysis*, “For complete strategies, as opposed to individual projects, creating option value means positioning the firm such that a wide array of opportunities become available” (p. 44). Firms taking advantage of strategic partnerships can utilize other companies' strengths to make both firms stronger in the long run.

Strategic partnerships raise questions concerning co-inventorship and other intellectual property ownership, technology transfer, exclusivity, competition, hiring away of employees, rights to business opportunities created in the course of the partnership, splitting of profits and expenses, duration and termination of the relationship, and many other business issues. The relationships are often complex as a result and can be subject to extensive negotiation.

The Partners

Walmart

Starting in 2005, we've had the opportunity to work with Walmart on many exciting music-related launches, yet before I could do so, I realized that I needed to gain a better understanding of Walmart. My initial challenge was to understand Walmart as a multidivisional company with Walmart, Sam's Club, and its international market. While Walmart ethos is “everyday low prices,” Sam's Club offers a variety of services from business, home, and lifestyle. For example, Sam's Club offers in its travel section cruises, tours, romantic getaways, etc. Even in the Walmart brand itself there are Walmart Stores, Walmart Discount Stores, Walmart Super Centers, Walmart Neighborhood Markets, and Walmart Expresses.

My second challenge required me to understand the many levels of management, product structure, market structure geographical structure, distribution approach, transportation, and the buying process. Starting at the senior corporate level of management, I began to review the function of the many levels of managers, from divisional to store level, which became critical to my process of learning product implementation. The Walmart platform, when maximized to the fullest, offers advertising that has included a number of in-store performances, print, TV, and radio. It offers point of purchase opportunities with product displays in more than 3,000 stores and more than one million shoppers per week. Walmart still offers an incredible platform for music, although in a shrinking market. Yet, I came to realize that

despite its size and magnitude, Walmart was not without challenges. Their stock prices have stayed relatively stable since 2000, and the market they are competing in has matured and has become increasingly competitive. Walmart is not only competing directly with companies such as Target and Kohl's, but also with the rising presence of chains such as the Family Dollar Stores (who offered cheaper products than them), and online retailers such as Amazon (Hartung, 2012). To survive and grow in this market, I recognized that Walmart needed to find (entertainment) brands that lure people to their stores. This is where my company, Music World Entertainment, came in.

Music World Entertainment

Now in its 27th year, Music World Entertainment consists of: 1) Music World Music: a catalogue label with more than 200 albums in multiple genres including Pop, R&B, Country, Gospel, Kids, and Dance (with artists like Solange, The O'Jays, Billy Joe Shaver, Beyoncé, Chaka Kahn, Essence Music Festival series, and Michelle Williams of Destiny's Child—to name a few); 2) Music World Properties: our 62,500-square-foot block nestled in mid-town Houston with world-class recording studios and three venues; 3) Music World Artist Management: it manages Destiny's Child; and 4) Music World Academy: for all educational-based platforms from lecturing, books, and consultancies.

The Steps to the Partnership

Below I present the different partnerships we were involved in with Walmart. Note that not all the partnerships were just between Walmart and Music World Entertainment. In many instances, a third party was involved. Often it was a producer of a good that wanted to use one of our artists to endorse or sell their brand. In many cases we used these opportunities to further strengthen our partnership with Walmart, and below you will see companies such as Samsung, Vizio, and Coty Inc. (fragrance brand company) that played an instrumental role in our partnership with Walmart.

2005: The First Step

The success of Destiny's Child, Beyoncé, and Solange (as well as 10 No. 1 gospel debuts including Le'Andria Johnson, Trinitee 5:7, Brian Courtney Wilson, Amber Bullock, and Joshua Roger) were all a direct result from the strategic partnerships formed at Walmart. Destiny's Child was one of the best-selling female groups of all time, and named by Billboard as one of the most successful musical trios in history and the second most successful group of the 1990s (Billboard, 2008). Combined, these artists allowed Walmart to align themselves with a powerful entertainment brand. The first step to this wide-ranging partnership was made in 2005 with the Home For The Holidays commercial (<http://adland.tv/commer->

[cials/wal-mart-destinys-child-2005-030-usa](http://adland.tv/commer-)) that was strategically aligned with the Destiny's Child holiday album and the number one sound track, Roll Bounce. It would be the last album Destiny's Child would put out at that time, as at that point it was clear that the band members would continue as solo artists, and would only re-unite for occasional performances (such as the 2006 NBA All-Star game). It was a successful partnership that allowed Walmart to drive traffic to their stores leading up to the holidays, and ultimately 50% of all the first-week sales of the album would derive from Walmart, which highlighted the importance of the partnership to us. Since then, we've had numerous exclusives with Walmart in our music offerings.

2006: Samsung

Samsung is a leader in electronics with a wide product offering from light bulbs to TVs to CT and MRI scanners. In late 2006 we were approached by Samsung in loading one of their phones with music from various artists, thus an opportunity presented itself. My question to Samsung was "what if?" What if we brought to market a phone for their fastest growing demographic, which in 2006 was that 15-25 targeted market? At that point, Beyoncé was the front woman for the largest ever selling female group and in her own right had already produced two No. 1 solo albums that sold more than 10 million records in the US alone (see Table 1). The other "what if" was Walmart. What if in the US, the Samsung B Phone was only exclusive to Walmart with songs and exclusive B-roll. After all, at Walmart the electronics department sells phones, TVs, and music, which allowed the opportunity to sell across these product categories. Yet, while the idea followed the principles of a strong partnership, combining Walmart's distribution system with one of our strongest brands, the B Phone was only marginally successful in the US at Walmart. It taught us that sometimes partnerships are not successful because of small details. We had internal challenges with the price point, which meant that the phone had to be locked in a glass case. Each time a customer wanted to look and hold the phone, the cashier would have to unlock the case, which became a logistics issue of customers impatiently waiting and finally either buying another phone or walking out. Their lack of access to the product in the stores prevented the consumers from understanding the added value of the Beyoncé content to the product. It was a valuable lesson moving forward.

2007: Beyond Productions

In 2005 Beyond Productions launched the female apparel, House of Dereon, founded by Tina and Beyoncé Knowles. As Chief Marketing Officer, my role meant building the House of Dereon brand. The House of Dereon was named after Agnes Dereon, the grandmother of Beyoncé and a prominent seamstress in the early to mid-1950s in the heyday of Gal-

Table 1. US Sales for Beyoncé's First Four Solo Albums (as of December 2013)

Format and Channel	Dangerously In Love	B'Day	I AM... Sasha Fierce	4
Chain	2,970,000	930,000	790,000	250,000
Independent	330,000	120,000	80,000	70,000
Mass Merchant	2,490,000	2,130,000	1,850,000	640,000
Non-Traditional	50,000	50,000	80,000	80,000
Digital	80,000	120,000	330,000	350,000
Total Album Sales	4,920,000	3,360,000	3,130,000	1,400,000
Total Digital Track Sales	4,170,000	8,810,000	16,300,000	5,990,000
TEA (Track Equivalent Albums)	417,000	818,000	1,630,000	599,000
TOTAL SALES	5,337,000	4,241,000	4,760,000	1,999,000

Source: Adapted from Nielsen Soundscan

Note: Mass merchants include Target and Walmart, non-traditional sellers include Amazon, Starbucks, and concert venues.

veston, Texas, before the great hurricane. She taught all that she knew to her youngest daughter, Tina, who in her turn designed a lot of the clothing for Destiny's Child, particularly during the early stages of their career. From those three generations of creative, empowering women a brand was generated. The tag line, *House of Dereon: Couture, Kick, Soul*, with Tina as head designer and couture; Beyoncé the kick and the face of the brand; and Agnes the soul of the brand. There is a lot to learn in the apparel business, starting with product development. Because House of Dereon was a head-to-toe product, offering licensees had to be found. Structure and processes had to be put in place. Pricing and market analysis as well as an overall marketing strategy had to be developed and implemented. We also knew in apparel, product segmentation is critical. From the onset, we launched the House of Dereon offering, which was our high-end signature brand. Our second-tier product would be Dereon. The Dereon product was targeted more to the urban market that would also most likely have music from Beyoncé. Lastly was the Miss Tina brand for the more mature woman. It was our goal from the onset to establish three separate business units in related diversifications but a commonality. Our dilemma was deciding what was the most efficient way to launch the Miss Tina brand, which was positioned as a high-end fashion brand at a lower price point? Who was our customer? How do we market to them? In looking at our analysis of our strengths, weaknesses, opportunities, and the threat of confusion in our product offering or diluting our existing product offering, this became our strategy:

We would go to the Home Shopping Network (HSN) and do a 24-month deal and have HSN introduce the product with Tina (who is often referred to as Miss Tina) on their network on air; in effect we would let HSN spend the millions of marketing dollars required, which would create im-

mediate cash flow. The other major key point with the deal is we would own the name in perpetuity and after 24 months could move the Miss Tina line to traditional retail. So after two years, we went to Walmart, and because of the success at HSN there was little pushback. Again, Walmart realized they could use the power of an entertainment-related brand to become a more prominent retailer of women's fashion. For this particular partnership, exclusivity was a must. This partnership worked out very well for us, as in 2011 Beyond Productions sold the women's and accessories line to Li & Fung USA for a reported \$66 million. Li & Fung just signed an agreement with Walmart that would result in a deal worth \$2 billion in sales, and saw brands such as the House of Dereon as valuable components of this deal (Cheng, 2010).

2007: Baby Jamz

The inspiration for Baby Jamz is my grandson Julez, who is also the face of the product. We were sitting around one night and noticed Julez's love for some toys and dislike for others. Then we thought, "Why don't we add a musical element? Why don't we make it a more urban toy? Will the general marketplace buy it? Who is our competition?" Baby Jamz consist of toys, CDs, and DVDs. Solange agreed to be on the music creative team, which meant we needed a toy manufacturer, something I know nothing about. The key to entrepreneurship is having an idea and bringing it to the market, so here we went again. After an extensive search for a toy manufacturer we found David Canner, owner of Planet Toys. Planet Toys is a mid-size toy manufacturer with success in the marketplace in an array of toy offerings. We formed a joint venture and moved aggressively in product design with a design team of four. Obviously we earmarked Walmart and in July 2007 we successfully launched in the toy department of Walmart. As with any new product, there were bumps

on the way but they were easily addressed and conquered. Packaging concerns and pricing were some examples, but we proudly sold through inventory with some discounts along the way and were profitable. More importantly, our second design phase toys allowed us to give a product demonstration to the buyers at Walmart. We ended with \$1.2 million dollars in orders. Now here is the interesting twist. One day I made a call to Planet Toys and the phone was disconnected. I've never heard from or seen David Canner since that period. His company filed for bankruptcy in 2009 and we were able to dodge any litigation. It was a great learning experience. We learned a lot even from the bizarre ending. When I carefully look back, I can see some of the warning signs existed, but at the time I ignored them. It did make me act more carefully in selecting my business partners.

2008: ZVUE

Zvue was a portable media player designed to be a combined digital MP3 player with a personal video player and a JPEG viewer all in one consumer electronics device. Around this time, Solange made an amazing album. It was Solange's second album, *Hadley Street Dreams*. It went on to be critically acclaimed by the likes of *The Village Voice*, *The Boston Globe*, and *Rolling Stone Magazine*. As her manager and as an entrepreneur, we knew from our marketing research that Solange's audience was best described as an "intellectual, back-packing, coffee shop, digital kid" and we knew that we needed a product that represented that description. We also knew that to establish credibility in music you must have a Top 10 Billboard 200 album and a Top 5 R&B album at debut. Solange had both a No. 9 Billboard 200 and No. 3 R&B debut, selling 46,000 units in the first week. In 2007, we met Paul Chen, a very intelligent and energizing young man. Since my days of selling CT and MRI scanners I've had this yearning to learn technology, and Paul brought that out in me. Paul was a great teacher and about to embark on the team of this start-up company named ZVue. We could both see the synergy was there and we both believed Walmart could play an integral role of this partnership. After a number of trips to Bentonville, the decision was made to bring in the Solange ZVue unit in addition to the traditional CD. The major difference is Walmart bought the ZVue unit in what we call "one way," giving an immediate sales credit to the artist for Billboard, partly enabling Solange to have an amazing first week debut, which then opened many doors which included TV appearances, increased radio airplay, endorsement opportunities, touring, but most of all, credibility as an artist.

2009: Coty Inc.

On September 15, 2009, Coty Inc., a leader in the global beauty industry, announced a partnership to develop and market an exclusive Beyoncé fragrance, called Heat. Some six scents and six years later, that product offering has expanded

(<http://www.Beyonce.com/fragrance>) as well as expanded to an extremely successful multimillion dollar global business. As with earlier launches, we partnered with Walmart—this time with their Beauty Division, although not exclusively. When the brand was released at Macy's, 72,000 bottles were sold in the first hour, and by August, the Heat collection was the best-selling celebrity fragrance in the world, with \$400 million sold in retail.

2010: VIZIO

The relationship with Vizio started in two ways. One by the partnership formed with International Creative Management (ICM), which is one of the largest representatives of artists, actors, recording artists, and film & TV. ICM also has a branding and endorsement arm. Also around the same time in working with senior management at Walmart, I inquired about what new products in electronics were viewed as a "hero" product, a word widely used internally at Walmart if they felt the product performance was exceptional. Vizio was a hero product. After lengthy discussions, the forces united and on January 8, 2010, the announcement was made that Vizio had entered into a three-year, North American endorsement agreement. With Beyoncé more importantly, this particular endorsement deal expanded beyond the typical scope of endorsement opportunities and the partnership allowed her to participate in the design and performance characteristics of new products from Vizio's ever-expanding line of audio, visual, and web-enabled products. The partnership was very successful and Vizio was named one of Advertising Age's Hottest Brands. In 2011 they were the market leader in LCD HDTV television sets, surpassing brands such as Samsung, Sony, and Philips (Wartzman, 2011).

The Importance of a Strategic Partnership

As a first step to building a partnership, people should understand the value of their own organization and brand. For me, this always meant that I should not only try to get across to my partners that my artists were incredibly talented and successful, but also make sure our partners understood the passion, drive, and determination of my artists. One of my favorite stories to tell was how I pulled the very young and inexperienced members of Destiny's Child from an audition with a record company because I felt they were underprepared. They learned that day that they should never come unprepared. The resulting work ethic and professionalism my artists developed were a crucial part of our brand and increased our bargaining power in an extremely competitive entertainment industry.

Second, as an (initial) outsider to an institutionalized music industry, I was not afraid to explore partnerships outside the music industry. Over the last decade the world of music has changed tremendously and I believed that old partner-

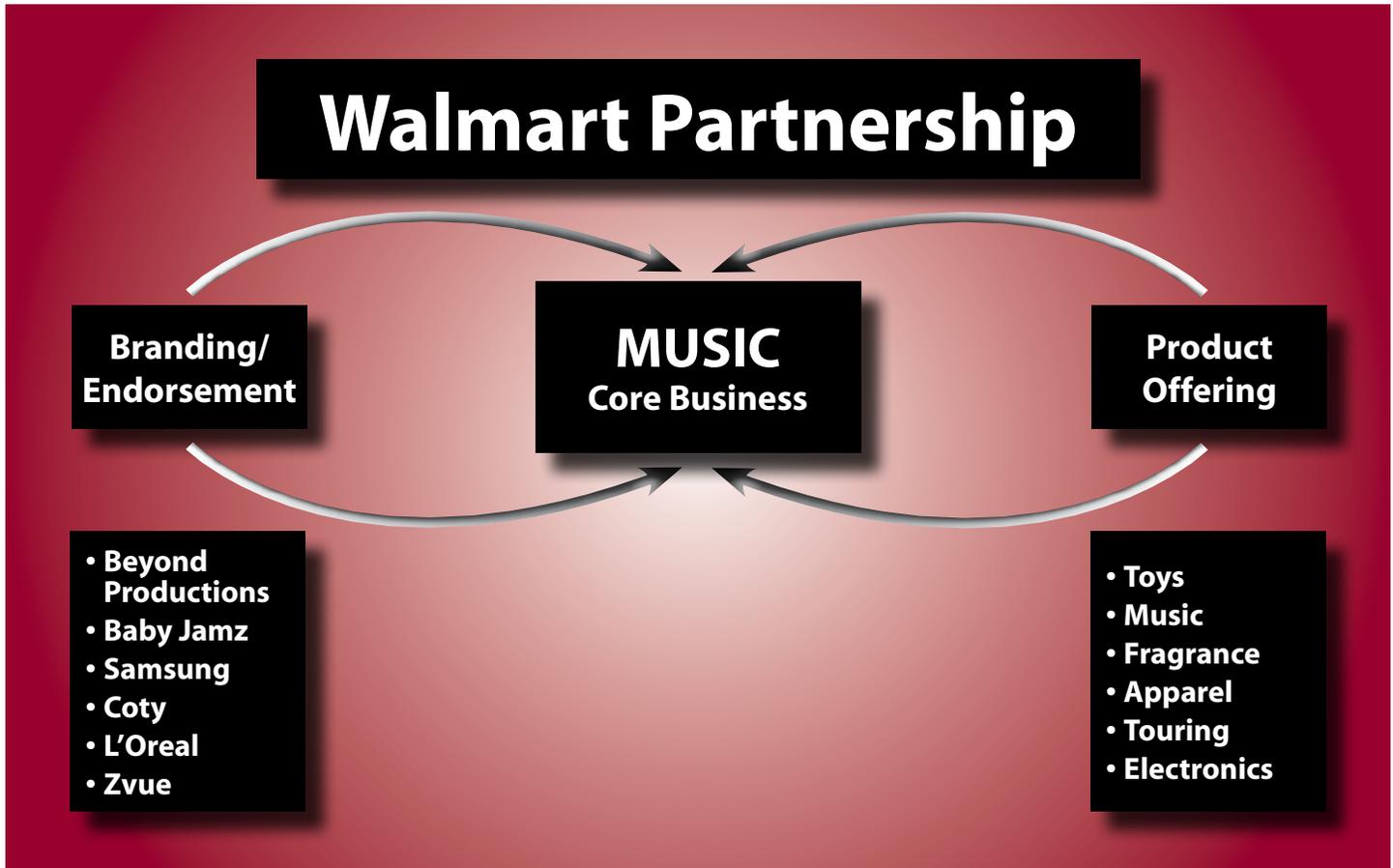


Figure 1. An overview of the partnership between Walmart and Music World Entertainment

ships were not necessarily the best way to go anymore. In an age of digital and social media both continuing to evolve, new partnerships were crucial in order to remain (and/or become) competitive in that new landscape. This paper is intended to show the power of both utilizing vertical integration with music as the core (see Figure 1) along with an entry strategy and making global strategic alliances that can differentiate you from the competition for a competitive advantage. In the current music industry it requires more than just the record label and a team to build an artist brand. It requires going beyond the boundaries of the traditional corporate record label approach, something that is rarely done by many managers and artists across the spectrum.

By building a strategic partnership with Walmart, we had this enormous platform at our disposal with direct access to the largest retail audience in the US. That platform allowed us not only to reach a greater audience, but also brought in more marketing dollars to expand the reach. More importantly, through these strategic partnerships, we were able to impact the success of Beyoncé, Destiny's Child, and Solange in a positive way.

However, a company or business need not be a brand behemoth, such as Beyoncé or Destiny's Child, to attract strategic partners. A strategic partnership can be exceptionally

advantageous for small businesses with limited resources. Careful research is required for this type of business alliance, and through such research, small business owners can come up with a list of companies that may be suitable partners.

Initially, a realistic plan, which details how the alliance will benefit both companies, is required. The plan should be slanted in favor of the larger company. Next, find the person in the company who is the key decision maker and approach them directly. Build a relationship with that person first. Forget any hard sales pitches and focus instead on building a real friendship between the two of you. It is much harder to say no to someone with whom there is a relationship beyond simply business. Once there is a personal relationship, commence to the next step—presentation of the idea. Focus heavily on the benefits the targeted company will receive by entering into a strategic partnership and less time on the benefits your own company will receive. Finally, listen intently and adapt the proposal as necessary. Allow the potential partner to discuss their own goals for the company and then modify your pitch to show how the partnership will help them reach those goals. Many successful organizations, ranging from Hewlett-Packard to Ben & Jerry's, have used partnerships to grow. Even Microsoft and Apple were developed from partnerships. These days, when competition

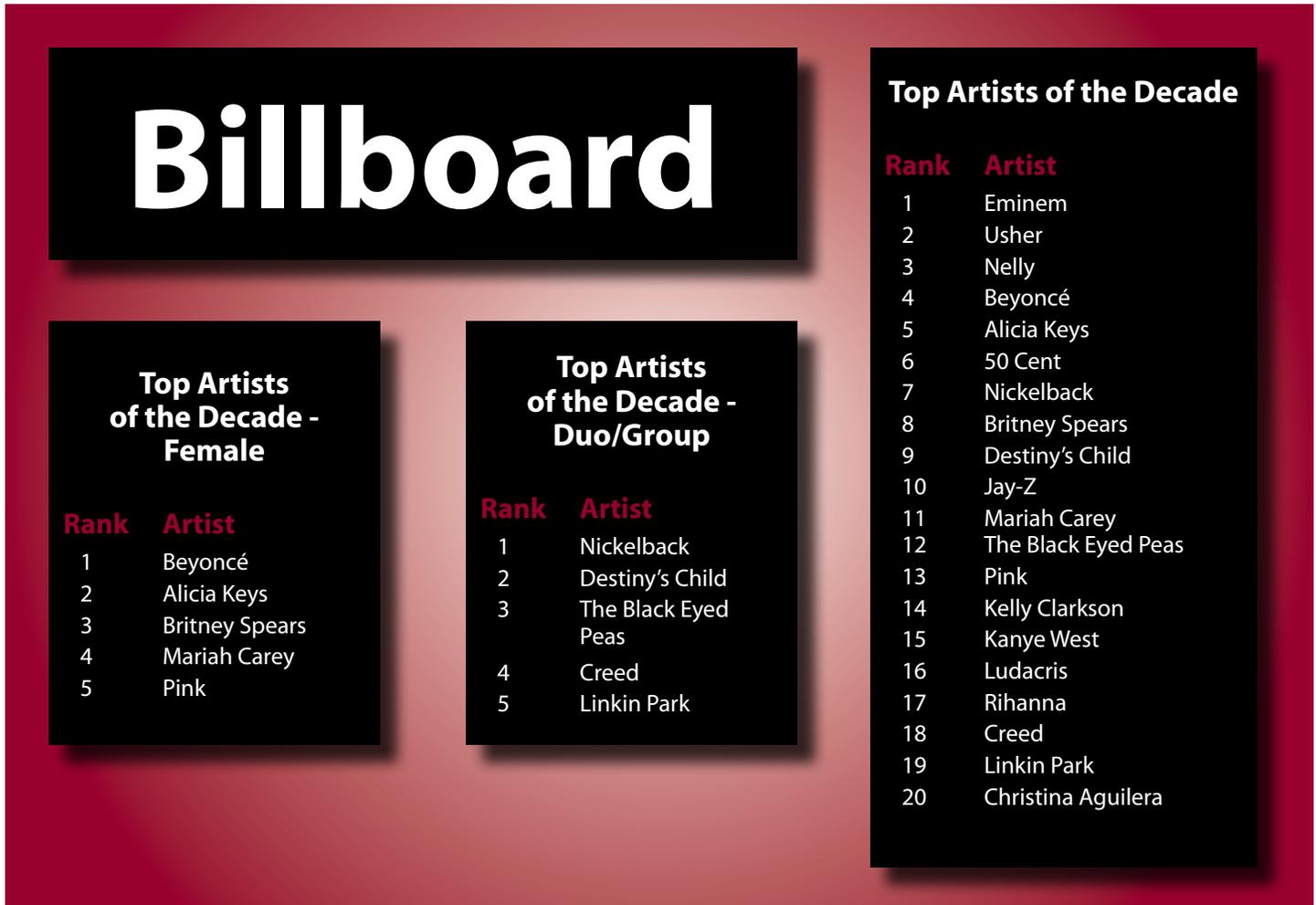


Figure 2. The top artists of the '90s – Billboard, 1999

is brutal and you can't afford to compete on price alone, a partnership may be a savvy, viable business move.

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