In-Depth Integrative Case 2.2

Walmart's Global Strategies

Introduction

In 1991, Walmart became an international company when it opened a Sam's Club near Mexico City. Just two years later, Walmart International was created. Since venturing into Mexico in 1991, Walmart International has grown somewhat erratically. During the 1990s, the retailer exported its big-box, low-price model, an approach the company expected to be as successful in foreign markets as it was in the United States. Although Walmart has had success in several overseas markets, this success has been far from universal. For example, in Mexico, China, and the U.K., the company's efforts to offer the lowest price to customers backfired because of resistance from established retailers. And in Germany, Walmart could not seem to fit its model to local tastes and preferences. In Japan, its joint venture had a series of setbacks, many related to buying habits for which the Walmart model did not respond well. In Mexico, three of the largest domestic retailers constructed a joint buying and operational alliance solely to compete with Walmart.[1] Its presence in Hong Kong ended after only two years during the 1990s, and it shuttered operations in Indonesia in the mid-1990s after rioting incidents in Jakarta. Walmart also owned approximately 16 stores in South Korea and 85 in Germany; however, it sold off these operations in 2006 after merchandise failed to match consumer tastes, distribution and re-bagging problems arose, and strong loyalties to other brands made attracting customers difficult and expensive.[2]

In addition, labor advocates and environmentalists have created headaches for the U.S. behemoth, making continued expansion both cumbersome and expensive. For instance, in 2006, Walmart faced a strong public relations campaign from the All-China Federation of Trade Unions (ACFTU) over Walmart's refusal to let its workers in China unionize. Walmart was eventually forced to concede, perhaps because the Chinese government also lent its weight to the ACFTU's campaign in its effort to establish unions in all foreign-funded enterprises throughout the country.[3] Despite its public battle with the ACFTU, Walmart China received the Howard Award for "Most Respectable Foreign Enterprise in China" in 2014.[4] As Walmart continues to expand its global operations, analysts are curious to see how the company is received and whether consumers' opinions in fragmented market settings are a match with Walmart's low-price model.

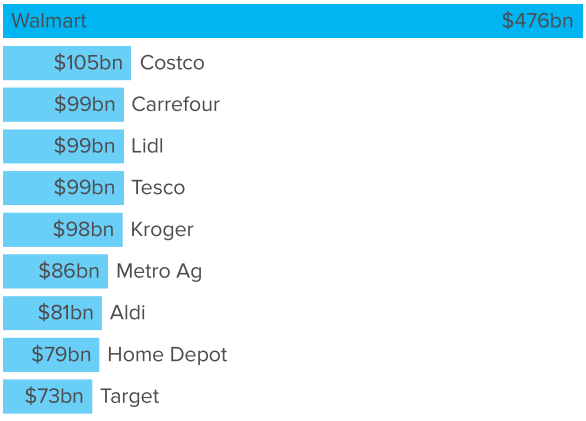
Notwithstanding these challenges, today Walmart International is a fast-growing part of Walmart's overall operations, with 6,300 stores and more than 900,000 associates in 27 countries outside the continental U.S.[5] (See Exhibit 1.) According to international chief C. Douglas McMillon, Walmart is "progressing from being a domestic company with an international division to being a global company." In two decades Walmart International has become a $100 billion business. If it were a standalone company, it would rank among the top five global retailers.[6] (See Exhibit 2.) Walmart International's

Exhibit 1 Walmart International Operations, June 2015

Market	Retail Units (June 2015)	Date of Entry
Mexico	2,360	November 1991
Canada	400	November 1994
Brazil	499	May 1995
Argentina	108	August 1995
China	433	August 1996
United Kingdom	621	July 1999
Japan	346	March 2002
Costa Rica	225	September 2005
El Salvador	91	September 2005
Guatemala	223	September 2005
Honduras	82	September 2005
Nicaragua	88	September 2005
Chile	399	January 2009
India	21	May 2009

Source: "Where in the World Is Walmart?" *Walmart*, http://corporate.walmart.com/our-story/our-locations (last visited March 3, 2016).

Exhibit 2 The Largest Global Retailers, 2014



Source: Original graphic created based on information from Deloitte (www2.deloitte.com/an/en/pages/about-deloitte/articles/consumerbusiness.html).

Exhibit 3 Walmart International Retail Unit Count (2001–2006)

Country	2001	2002	2003	2004	2005	2006
Argentina	11	11	11	11	11	11
Brazil	20	22	22	25	149	295
Canada	174	196	213	235	262	278
China	11	19	26	34	43	56
Germany	94	95	94	92	91	88
Japan	0	0	0	0	0	398
Mexico	499	551	597	623	679	774
Puerto Rico	15	17	52	53	54	54
UK	241	250	258	267	282	315
South Korea	6	9	15	15	16	16
Total	1,071	1,170	1,288	1,355	1,587	2,285

Source: Walmart Annual Reports for fiscal years 2001, 2002, 2003, 2004, 2005, 2006.

business represents a solid chunk of Walmart's overall $482 billion in revenue for the fiscal year 2015.[7]

With a market capitalization of more than $200 billion in 2016, Walmart is worth as much as the gross domestic product of Algeria. Four of America's 10 richest individuals are from Walmart's low-profile Walton family, which still owns a 40 percent controlling stake. The company's portfolio ranges from superstores in the U.S. to neighborhood markets in Brazil, bodegas in Mexico, the ASDA supermarket chain in Britain, Japan's nationwide network of Seiyu shops, and a controlling stake in South African retailer Massmart. Walmart sources many of its products from low-cost Chinese suppliers. The pressure group China Labour Watch estimates that if it were a country, Walmart would rank as China's seventh largest trading partner, just ahead of the U.K., spending more than $18 billion annually on Chinese goods.[8]

Walmart Early Internationalization

In venturing beyond its large domestic market, Walmart had a number of regional options, including entering Europe, Asia, or other countries in the Western hemisphere. (See Exhibits 3 and 4.) At the time, however, Walmart lacked the requisite financial, organizational, and managerial resources to pursue multiple countries simultaneously. Instead, it opted for a logically sequenced approach to market entry that would allow it to apply the learning gained from its initial entries to subsequent ones. In the end, during the first five years of its globalization (1991 to 1995), Walmart decided to concentrate heavily on establishing a presence in the Americas: Mexico, Brazil, Argentina, and Canada. Obviously, Canada had the business environment closest to the U.S. and appeared to be the easiest entry destination. The other countries that Walmart chose as its first global points of entry—

Exhibit 4 Walmart International Retail Unit Count (2006–2015)

Country	2007	2008	2009	2010	2011	2012	2013	2014	2015
Argentina	13	21	28	43	63	88	94	104	105
Brazil	299	313	345	434	479	512	558	556	557
Canada	289	305	318	317	325	333	379	389	394
Chile	0	0	197	252	279	316	329	380	404
China	73	202	243	279	328	370	393	405	411
Costa Rica	137	149	164	170	180	200	205	214	217
El Salvador	63	70	77	77	78	79	80	83	89
Guatemala	132	145	160	164	175	200	206	209	217
Honduras	41	47	50	53	56	70	72	75	81
India	0	0	0	1	5	15	20	20	20
Japan	392	394	371	371	414	419	438	438	431
Mexico	889	1,023	1,197	1,469	1,730	2,088	2,353	2,199	2,290
Nicaragua	40	46	51	55	60	73	79	80	86
Puerto Rico	54	54	56	56	55	56	55	56	55
UK	335	352	358	371	385	541	565	576	592
Total	2,757	3,121	3,615	4,112	4,612	5,360	5,826	5,784	5,949

Source: Walmart Annual Reports for fiscal years 2007, 2008, 2009, 2010, 2011, 2012, 2013, 2014, 2015.

Mexico (1991), Brazil (1994), and Argentina (1995)—were those with the three largest populations in Latin America.[9]

The European market had certain characteristics that made it less attractive to Walmart as a first point of entry. The European retail industry was mature, implying that a new entrant would have to take market share away from an existing player—a very difficult task. Additionally, there were well-entrenched competitors on the scene (e.g., Carrefour in France and Metro A.G. in Germany) that would likely retaliate vigorously against any new player. Further, as with most newcomers, Walmart's relatively small size and lack of strong local customer relationships would be severe handicaps in the European arena. In addition, the higher growth rates of Latin American and Asian markets would have made a delayed entry into those markets extremely costly in terms of lost opportunities. In contrast, the opportunity costs of delaying acquisition-based entries into European markets appeared to be relatively small.[10]

While the Asian markets had huge potential when Walmart launched its globalization effort in 1991, they were the most distant geographically and different culturally and logistically from the U.S. market. It would have taken considerable financial and managerial resources to establish a presence in Asia.[11] However, by 1996, Walmart felt ready to take on the Asian challenge and it targeted China. This choice made sense in that the lower purchasing power of the Chinese consumer offered huge potential to a low-price retailer like Walmart. Still, China's cultural, linguistic, and geographical distance from the United States presented relatively high entry barriers, so Walmart decided to use two beachheads as learning vehicles for establishing an Asian presence.[12]

During 1992–93, Walmart agreed to sell low-priced products to two Japanese retailers, Ito-Yokado and Yaohan, that would market these products in Japan, Singapore, Hong Kong, Malaysia, Thailand, Indonesia, and the Philippines. Then, in 1994, Walmart entered Hong Kong through a joint venture with the C.P. Pokphand Company, a Thailand-based conglomerate, to open three Value Club membership discount stores in Hong Kong.[13]

Success in Mexico and China

Overall, Walmart has had a very successful experience in Mexico. In 1991 Walmart entered into a joint venture with retail conglomerate Cifra and opened a Sam's Club in Mexico City. In 1997 it gained a majority position in the company and in 2001 changed the store name to Walmart de Mexico, or, more commonly, "Wal-Mex." In addition to its 256 Walmart Supercenters and 161 Sam's Club warehouses, Wal-Mex also operates Bodega food and general merchandise discount stores, Superama supermarkets, and Suburbia apparel stores. The majority of its stores are located in and around Mexico City; however, it does business in over 145 cities throughout Mexico. Opening nearly 100 stores in 2015, Wal-Mex has shown no signs of slowing down. As of 2016, it operated over 2,200 stores in Mexico.[14]

The rapid growth of Wal-Mex over the last decade has not been problem-free. A 2012 report by the *New York Times* uncovered widespread bribery occurring at the Wal-Mex executive level, resulting in a three-year-long corruption investigation by the U.S. Justice Department. According to the *New York Times* report, a senior Walmart lawyer was contacted by a former executive at Walmart de Mexico in September 2005. In the e-mail and follow-up conversations, the former executive (later identified as the lawyer in charge of obtaining construction permits for Walmart de Mexico) indicated that Walmart de Mexico had paid bribes for permits throughout the country to fuel growth prospects. In response, Walmart dispatched investigators to Mexico City. Those investigators found overwhelming evidence of bribery and hundreds of suspect payments totaling more than US$24 million. The investigation also found that Walmart de Mexico's top executives had taken steps to conceal the evidence from Walmart's headquarters.[15] Shortly after the investigation commenced, Walmart warned shareholders that its reputation could be affected by the bribery scandal. Shares dropped by 5 percent in April 2015, representing approximately US$10 billion in value. Walmart noted that inquiries from media and law enforcement could affect the "perception among certain audiences of its role as a corporate citizen."[16] Between 2012 and 2015, roughly two dozen representatives from the U.S. Justice Department, FBI, SEC, and IRS became involved in the investigation.[17] In the wake of the investigation and bribery charges, Walmart has created a new executive position to ensure that all Walmart employees are complying with the U.S. Foreign Corrupt Practices Act.[18]

In late 2006 the company was also approved by Mexico's Finance Ministry to open its own bank. In a country where 75 percent of citizens have never had a bank account due to high fees, "Banco Walmart de Mexico Adelante" added much-needed competition to the financial services industry and offered consumers lower fees than traditional banks.[19] In November 2007, Wal-Mex opened its first consumer bank, Banco Walmart, in Toluca; by December 2014, the company had opened branches in 2,100 stores. Banco Walmart especially targeted the low-income market in a country where just 24 percent of households have savings accounts, compared with 55 percent in Chile. In the short term, this strategy included luring newcomers with easy instructions and entry points, like minimum balances of less than $5 and no commissions, compared with $100 minimums at competing banks. Long term, Wal-Mex's plans included boosting sales via debit cards and easing users into more profitable services like insurance. In 2014 alone, credit card sales

grew by 50 percent, with over a half of a million active credit card users in total. Later that year, Wal-Mex cashed in on the successes of Banco Walmart by selling the business to Inbursa for US$250 million.[20,21]

Wal-Mex's plans for future growth involve more heavily targeting the 16–24-year-old age group, which constitutes 55 percent of Mexico's population. In 2016, Mexico ranked as Walmart's number one international destination with over 2,300 retail outlets, far ahead of its second major international destination, the United Kingdom, which had only 600 stores.[22] In 2014, Walmart de Mexico was a top performer globally with a gross margin of 22 percent and 9.7 percent growth in operating income over the previous year.[23]

Though not as easy as its experience in Mexico, Walmart has also found decent success in China. Walmart entered the Chinese market in 1996 when it opened a Supercenter and Sam's Club in Shenzen. As of 2016 the company had expanded to 433 stores with over 100,000 employees. In order to cater to its Chinese shoppers, Walmart has introduced "retail-tainment" and attempted to create a more hands-on shopping experience.[24] China's Tourism Bureau even named one underground Walmart store a tourist destination.[25]

In addition to its own stores, Walmart has had a stake in the Taiwanese Bounteous Company Ltd., which owned the popular chain of Trust-Mart stores.[26] In late 2006, *The Wall Street Journal* publicized a $1 billion deal between Walmart and Bounteous, in which Walmart would acquire Trust-Mart's 100 stores over the course of three years. In light of Walmart's slowing U.S. sales and the termination of its operations in Germany and South Korea, the company's expansion in China is quite timely. Like its operations in Mexico, Walmart has also entered the Chinese financial service industry, by introducing a credit card with Bank of Communications Ltd.[27]

Walmart's expansion has not gone unnoticed. Domestic Chinese rivals have also built up their businesses in order to compete. Shanghai Bailan Group purchased four rival supermarkets and department stores nearly a decade ago, now employing over 200,000 and operating over 6,000 stores.[28] China Resources Enterprise has hired away managers from foreign chains and cut staff in order to increase its profitability.[29] While these efforts signal greater competition for Walmart in particular, they are necessary for domestic companies to survive in China's $4 trillion retail market, which has been increasingly competitive ever since the country joined the WTO and dropped restrictions on foreign retailers.

Mixed Results in Europe and Japan

In 1998 Walmart entered the European market through Germany by acquiring 21 Wertkauf hypermarkets, one-stop shopping centers that offered a broad assortment of high-quality general merchandise and food. Germany was seen as the largest single base for retailing in Europe. Wertkauf's annual sales were about $1.4 billion, and its stores operated similar to the popular Walmart Supercenter format in the U.S. Walmart's executives considered Wertkauf as an "excellent fit" for Walmart and hoped that it would provide the company with an ideal entry into a new market.[30]

However, Walmart's operations in Germany quickly turned into a costly struggle. There were a number of critical factors that the company underestimated when it entered the new market. First of all, the stores of the acquired German retail chain were geographically dispersed and often in poor locations. Also, Walmart had faced some serious cultural differences, which it tried to resolve by making one error after another. For example, the company initially installed American managers, who made some well-intentioned cultural gaffes, like offering to bag groceries for customers (Germans prefer to bag their own groceries) or instructing clerks to smile at customers (Germans, used to brusque service, were put off).[31]

Other problems, however, were largely outside Walmart's control. Two German discounters, Aldi and Lidl, dominated the grocery business, with smaller shops that featured cut-rate, though still good-quality, food. Aldi also heavily promoted one-week sales, featuring deeply discounted merchandise, ranging from wine to garden hoses, that draw customers back. While Walmart's vast size gave it enormous leverage in purchasing clothing and other goods, it had to buy much of the food for its German stores locally. And there, it lacked the muscle of Aldi, which had 4,100 shops and a presence in nearly every town in the country.[32]

"Germany is the home of the discounter," said Mark Josefson, a retail analyst at Kepler Securities in Frankfurt. "Walmart is not competing on price, and that is one of its main attributes in its home market." Beyond these competitive pressures, there was another serious factor to consider, namely that the German consumer was one of the most parsimonious and price-conscious in Europe. Profit margins in German retailing were the lowest in Europe.[33]

Walmart struggled in Germany for almost 8 years. Analysts said that Walmart Germany was losing about €200 million (£137 million) a year on a turnover of about €2 billion, despite several attempts to turn around the business. In 2006 it finally made the decision to withdraw from the German market, by selling its 85 German stores to the rival supermarket chain Metro and taking a pre-tax loss of about $1 billion (£536 million) on the failed venture.[34] The decision to sell out to the Metro Group came two months after Walmart sold its 16 stores in South Korea and it appeared a rare retreat by the world's largest retailer from its breakneck global expansion.[35]

In contrast, Walmart's second retail destination in Europe, the United Kingdom, has brought the company

much-needed success. Walmart entered the U.K. market in June 1999 by acquiring ASDA Group PLC, Britain's third-largest food retailer. Walmart offered £6.7 billion ($10.8 billion). The cash deal, which topped a rival bid from the British retail group Kingfisher PLC, was predicted to double Walmart's international business at a stroke and put it in a position to expand its retailing expertise throughout Europe.[36]

Walmart executives said they hoped to draw upon ASDA's management talent and experience. ASDA's stores are a little less than half the size of Walmart's supercenters of more than 200,000 square feet (18,000 square meters) in the United States, but the lack of space in much of Europe for new out-of-town shopping developments could make ASDA's formula more relevant as a platform for expansion.[37]

However, while the chain has been only a moderate success, delivering consistent results, Walmart has been frustrated in its efforts to expand, though competing in Britain's feverishly competitive supermarket industry has taught Walmart a good deal. Nevertheless, ASDA is now something of a center for excellence for its global grocery sales. The head of global marketing for Walmart is based at ASDA's head office in Leeds. And, in an example of Walmart's global distribution muscle, *The Wall Street Journal* recently reported that the best-selling wine in the whole of Japan is an own-label ASDA Bordeaux.[38]

The third major strategic step in Walmart's early 2000s global expansion was entering the Japanese market. In 2002 Walmart set foot in Japan with the purchase of a 6 percent stake in the 371-store Seiyu chain. Despite continued losses, Walmart gradually raised its stake, making Seiyu a wholly owned subsidiary in June 2008. Walmart has had to confront numerous issues in Japan, from longtime Seiyu managers resisting its initiatives to a tendency among Japanese shoppers to equate low prices with inferior products. Also, bulk deals did not play well in a country where many lived in small urban apartments, and the country's grocery distribution system was populated with wholesalers who brokered deals between suppliers and retailers, skimming profits. Even rival Carrefour abandoned this market.[39]

Edward J. Kolodzieski was the man in charge of turning Seiyu around. As CEO of Walmart Japan, Kolodzieski has slashed expenses, closed 20 stores, and cut 29 percent of corporate staff. In-store butchers were removed, with most meat now processed in a central facility. With the freed-up floor space, Seiyu bulked up meals-to-go offerings. To bypass the middlemen, Seiyu has also boosted the number of products it imports directly from manufacturers by 25 percent in 2009, and also focused on increasing sales of its own private-label brands.[40]

The biggest change, however, was a shift away from weekly specials to "everyday low prices" in areas like baby care and pet products, and, eventually, throughout the store. Taking a page from Britain's ASDA, Seiyu instead used its marketing dollars to compare prices against competitors. With the pressure of prolonged recession, Japanese consumers have finally accepted that they can buy quality merchandise for a lower price.[41] After spending 100 billion yen (roughly $1.2 billion), Walmart's situation in Japan had stabilized by 2010, with two years of consistent profits.[42] As of 2016, Walmart holds at about 440 Seiyu stores across Japan.

Refocusing on Latin America

The year 2005 became another turning point in Walmart's strategy. Somewhat frustrated by strategic failure in Germany, and very slow expansion in the developed countries like Canada and the U.K., the company has turned its focus toward Latin America. Walmart has decided to leverage its positive experience in Mexico toward other South American countries. In 2005 Walmart successfully entered this market with the purchase of a 33-1/3 percent interest in Central American Retail Holding Company (CARHCO) from the Dutch retailer Royal Ahold NV. CARHCO is Central America's largest retailer, with 363 supermarkets and other stores in the following five countries: Guatemala (120), El Salvador (57), Honduras (32), Nicaragua (30), and Costa Rica (124). CARHCO has approximately 23,000 associates. Its sales during 2004 were approximately $2.0 billion.[43]

Prior to that, in March 2004, Walmart bought a 118-store supermarket chain, Bompreco, in northeastern Brazil for $300 million, also from Royal Ahold of the Netherlands. This acquisition has significantly increased Walmart's competitive position in the country. In 2006 the company made another successful deal with Portugal-based Sonae by purchasing its 140 Brazilian stores for $757 million. The Sonae purchase was expected to boost Walmart's presence in Brazil's wealthier southern states. With the Sonae acquisition, the Walmart store count increased to 295 units in 17 of Brazil's 26 states. However, this move made Walmart only the third-largest retailer in Brazil, following Carrefour of France and Companhia Brasileira de Distribuio Po de Acar.[44]

Brazilian operations, however, have struggled in recent years. Frustrated by lackluster operating profit margins, Walmart invested US$22 billion between 2010 and 2015 in capital improvements to spur sales in Brazil. Between 2007 and 2013, the number of Walmart locations across Brazil doubled. Despite the investment, sales growth continued to stall. By 2013, Walmart had posted its fifth consecutive operating loss in Brazil. In December 2015, Walmart strategically closed 60 stores across Brazil, representing 10 percent of its operations.[45]

Another step in the sequence of its strategic moves in Latin America was Walmart's expansion into Chile. In 2009 Walmart acquired a majority stake of D&S's (short

for Distribución y Servicio) 224-store chain for $1.6 billion. In acquiring D&S, the nation's leading grocer and third-largest retailer, Walmart hopes to cement its dominance in Latin America, where it is by far the biggest retailer with $38 billion in sales, estimates research firm Planet Retail, double that of its closest rival, Carrefour. In Chile, Walmart enters a market that has long been inhospitable to foreign retailers. Home Depot, Carrefour, and JCPenney are among the companies that have tried, and failed, to make it in Chile, a nation of 17 million with the sixth-largest retail market in Latin America.[46]

Walmart has increased D&S's expansion budget from $150 million to $250 million, which would go toward opening nearly 70 stores in fiscal year 2010, many of them small stores that cater to lower-income shoppers, according to Vicente Trius, Walmart Latin America's president and CEO. The appeal of D&S goes well beyond its stores. About 1.7 million Chileans carry a Presto card issued by its financial services unit, up from 1.2 million in 2004. "There is a saying here that large retailers generate sales with [stores] and earnings with their credit cards," says Rodrigo Rivera, a partner with the Boston Consulting Group in Santiago.[47]

Indeed, analysts estimate some South American retail chains generate upwards of 70 percent of their profits from financial services. (At D&S that figure is just 17 percent.) Walmart already offers financial services in Mexico and Brazil, though its attempts to launch a bank in the U.S. have failed. The retailer is keen to grow the Presto business by adding more low-risk services such as selling life insurance for outside vendors.[48]

Walmart's Plans for 2016 Forward

After several years of rapid international growth, Walmart presented revised plans in 2016 aimed at retooling its existing stores while continuing global expansion. Internationally, the company plans to refocus on neighborhood stores and supercenters, which will better meet market demands. Throughout 2016, Walmart identified and closed 115 significantly underperforming international locations, impacting roughly 6,000 employees. More than half of the store closures occurred in Brazil, with the remainder spread across South America.[49]

Despite the strategic closings, more than 200 new international locations, consisting of supercenters and local neighborhood stores, were opened internationally in 2016. This results in the largest, fastest international expansion in Walmart's history. In particular, the Indian, Chinese, Canadian, and African markets are key to Walmart's future international strategy.[50]

China

In 2015, Walmart announced ambitious growth plans for China. By the end of 2017, the company hoped to open 115 new stores, creating 30,000 new jobs. The new stores will increase Walmart China's total store count to 530. Additionally, Walmart will invest US$60 million to remodel and refresh a portion of the existing Chinese stores that it operates.[51]

Rather than being the "largest" retailer in China, Walmart is aiming to be the most trusted. This long-term goal includes improving the perceived quality of the goods it sells. Though online retailer Alibaba still holds a dominant lead in online market share, part of Walmart's strategy includes embracing online sales. In 2012, the company acquired Yihaodian, an online retailer that sells perishable goods, and in 2015, Walmart released a cell phone app to provide consumers with the ability to order products for either home or in-store delivery.[52]

India

The other attractive growing market from the BRIC group that also drew Walmart's attention is India. India is widely regarded as one of the world's fastest-growing retail markets—and one of the most frustrating for foreign retailers. Despite the liberalization of the Indian economy, foreign companies are still prohibited from owning a majority stake in grocery stores. Due to the legal and logistical difficulties of entering the Indian marketplace, Walmart has adopted a strategy of partnering with local companies. Walmart originally joined with the Bharti Group, an Indian conglomerate, to form a joint venture intended to open stores under the Best Price Modern Wholesale brand name. During their five-year partnership, Walmart and the Bharti Group opened 20 stores in urban centers across India. Though the partnership was amicably dissolved in 2013, Walmart remains open to using the joint-venture approach as it expands across the country.[53]

In the summer of 2015, Walmart announced aggressive expansion plans with a renewed focus on wholesaling stores as opposed to traditional retail. While government restrictions prevent majority ownership of grocery stores by foreigners, there are no restrictions over wholesalers. By 2020, Walmart plans to open 50 new stores, more than tripling its current number. These new stores, acting as a one-stop shop for a variety of grocery-type items, are targeting small business owners as customers, rather than everyday consumers. In total, Walmart will invest between US$240 and US$300 million in the Indian market, creating 2,000 permanent jobs.[54,55,56]

Canada

Established in 1994 and headquartered in Mississauga, Ontario, Walmart Canada currently operates 394 stores and serves more than 1 million customers each day across Canada. Walmart is Canada's third-largest employer with more than 90,000 associates and was recently named one of Canada's top ten corporate cultures by Waterstone Human Capital.[57]

In January 2015, Walmart Canada announced that the company will invest several hundred million dollars in capital improvements over the following year. Plans included opening 30 new supercenters by the end of the fiscal year, adding 230,000 square feet of additional retail space. In total, about 1,000 new permanent in-store jobs will be created by the new stores, as well as 3,700 construction jobs.[58]

In addition to store expansions, Walmart Canada is investing tens of millions of dollars into its distribution network and e-commerce projects. Walmart Canada's website currently receives 400,000 customers every day and boasts 150,000 different items for sale. Online ordering, with in-store pickup, constitutes a portion of this current e-commerce investment. Walmart's focus on improving its distribution centers is aimed at increasing the company's market share in the fresh food and grocery sector. Approximately 300 permanent jobs will be added to the distribution side of the business with these investments.[59]

Walmart Canada has leveraged the failure of other foreign retailers within Canada to its advantage. In 2015, Target announced that it would be withdrawing from the Canadian market, leaving a network of 133 empty big-box retail spaces in its wake. In mid-2015, Walmart Canada agreed to purchase 13 former Target locations, as well as a distribution center.[60]

South Africa

Walmart first emerged in South Africa through its US$2.4 billion purchase of 51 percent of Massmart, the country's third-largest retailer, in 2010. Since then, Walmart has been slow to expand. A lack of infrastructure has caused headaches; at the current time, distribution networks across the country are inconsistent, increasing the amount of time that it takes products to reach consumers. Additionally, there are not enough shopping centers and malls to accommodate stores as large as Massmart. In response, Walmart is moving toward building standalone stores. In 2015, Walmart constructed 19 new ground-up stores.[61] Walmart also views South Africa as a bridge to the rapidly emerging African marketplace. In 2015, Walmart announced plans to enter Nigeria, and the Massmart brand has plans to open a few stores in strategic locations in Angola.[62,63]

Walmart's Global.com Challenge to Amazon.com

Sensing the shift towards digital sales in both developed and developing economies, Walmart has heavily invested in building its e-commerce infrastructure. The company spent tens of billions in 2015 alone.

With more commerce being conducted on smartphones, Walmart introduced a new mobile app in 2015 to improve the user interface. Unlike Amazon, which has no physical stores, Walmart sees digital ordering with in-store pickup as a unique niche with potentially high growth. Grocery items, with the need to be refrigerated, are not able to be easily fulfilled by other online retailers, like Amazon, but are well-suited for in-store pickup at a Walmart. Using the Walmart app, customers can order groceries and other fresh food items and quickly pick up their merchandise in person.

Walmart is also developing and modernizing its delivery and fulfillment systems. To a large degree, this means emulating Amazon's strategy. To compete with Amazon's "Prime" shipping services, Walmart has begun offering "Shipping Pass," which provides users with unlimited three-day shipping on all online orders. Amazon Prime has led to increased consumer loyalty, a benefit Walmart also hopes to gain. To modernize its delivery services and increase its ability to ship to all locations around the world, Amazon is currently developing drone delivery services. In 2015, Walmart also announced its intent to utilize drones in the near future.

Building an extensive online infrastructure has the secondary benefit of increasing the variety of digital products that companies like Amazon and Walmart can offer. Specifically, companies with a massive networking infrastructure can provide customers with online services, like cloud storage, using the servers that they already have purchased. Amazon first took advantage of this by offering free storage space to Prime members and to other customers for a monthly fee. Walmart has followed by introducing OpenOps, an open-source cloud service.

Despite the progress, Walmart's online sales still lag far behind Amazon's. While Walmart's product line consists of nearly a million items, Amazon boasts over 19 million. In 2015, despite the introduction of its "Walmart Pay" mobile wallet and millions in investment, Walmart's online sales grew only 12 percent. During the same period, Amazon's sales grew by 20 percent, further increasing its already overwhelming lead in global online sales. By the end of the year, Walmart recorded US$13.7 billion in online sales while Amazon recorded a record US$107 billion, leading some to question if Walmart could ever pose as a serious e-commerce challenger.[64,65]

Continued Challenges with Corporate Responsibility

Like other retailers, Walmart continues to face challenges from its exposure to the realities of production and sales in emerging and developing regions. On the sales side, as noted above, Walmart has been embroiled in corruption scandals in Mexico and India. On the production side, a fire at a Bangalore textile factory in late 2012 and two horrific accidents at garment factories in Bangladesh in 2013 have placed renewed pressure on U.S. and European

clothing brands to take greater responsibility for the working conditions of the factories from which they source products. What happened in Bangladesh has underscored the difficulties and vulnerabilities of outsourcing production to sometimes unreliable and unethical suppliers.

In early 2013, more than 1,000 workers were killed when an eight-story garment factory in Dhaka caught fire while thousands worked inside. Not two weeks later, a fire killed eight workers in another site in Bangladesh. After initially denying it had production at these locations, Walmart eventually confirmed that it had ordered garments from a supplier who utilized the plant.[66] Then, on June 11, another fire erupted at a Dickies garment factory on the outskirts of Dhaka, causing employees to run from the building, raising further questions about safety in Bangladeshi factories.[67]

As a result, Walmart and the Gap Inc. subsequently announced their signing of the Bangladesh Worker Safety Initiative to ensure factory safety in Bangladesh. This agreement, backed by a $50 million commitment, will be overseen by the Bipartisan Policy Center, a nonprofit group based in Washington. As part of this effort, various U.S. retail trade groups who had been concerned about the legal liability associated with the competing, European-dominated agreement will join with Walmart and the Gap.[68] On June 25, 2013, the Obama administration announced it was suspending trade privileges with Bangladesh, removing the country from the list of countries with most-favored-trade status. The move came after pressure from unions and continuing concerns about the Bangladeshi government's ability to maintain safe working conditions in its factories.[69] Walmart and other retailers continue to struggle with how to manage extended global supply chains with multiple layers of suppliers.

Questions for Review

1. What was Walmart's early global expansion strategy? Why did it choose to first enter Mexico and Canada rather than expand into Europe and Asia?
2. What cultural problems did Walmart face in some of the international markets it entered? Which early strategies succeeded and which failed? Why? What lessons did Walmart learn from its experience in Germany and in Japan?
3. How would you characterize Walmart's Latin America strategy? What countries were targeted as part of this strategy? What potential does this region bring to Walmart's future global expansion? What cultural challenges and opportunities has Walmart faced in Latin America?
4. What group of countries will be targeted for Walmart's future growth? What are the attractiveness and risk profiles of these countries? What regions of the world do you think will be vital for Walmart's future global expansion?
5. How would you characterize Walmart's response to pressure for greater ethics and social responsibilities in its expansion strategy and supply chain? Are its responses appropriate and adequate?

Exercise

You are part of Walmart's global strategic planning group and have been asked to explore the benefits and challenges of expansion into the following regions. Divide your group into six teams, each representing a country or region of the world other than North America.

Team	Country/Region
1	Latin America
2	Western Europe
3	Central/Eastern Europe
4	Japan
5	China
6	Russia

Describe the opportunities and challenges of expansion in your assigned country or region. Be sure to summarize the cultural environment, how it differs from the U.S., and what challenges that might pose for the company.

Source: This case was prepared by Tetyana Azarova of Villanova University under the supervision of Professor Jonathan Doh as the basis for class discussion. Additional research assistance was provided by Ben Littell. It is not intended to illustrate either effective or ineffective managerial capability or administrative responsibility.

ENDNOTES

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5. "Where in the World Is Walmart?" *Walmart*, http://corporate.walmart.com/our-story/our-locations (last visited March 3, 2016).