

Minicase: The Globalization of Walmart

Founded in Rogers, Arkansas, by Sam Walton in 1962, Walmart has developed into the largest retailer in the world, with 2010 sales of more than \$405 billion. Embodying high levels of service, strong inventory management, and purchasing economies, Walmart overpowered competitors and became the dominant firm in the U.S. retail industry. After rapid expansion during the 1980s and 1990s, Walmart faced limits to growth in its home market and was forced to look internationally for opportunities.

When Walmart opened its first international location in 1991, many skeptics claimed that Walmart's business practices and culture could not be transferred internationally. Yet, the company's globalization efforts progressed at a rapid pace. Its more than 4,263 international retail units employ more than 660,000 associates in 15 international markets. Walmart's international sales exceeded \$100 billion in 2010—24.7 percent of the company's total, and a level that is expected to increase substantially over the next decade.

Globalizing Walmart: Where and How to Begin?

When Walmart began to expand internationally, it had to decide which countries to target. Although the European retail market was large, to succeed there Walmart would have had to take market share from established competitors. Instead, Walmart deliberately selected emerging markets as its starting point for international expansion. In Latin America, it targeted nations with large, growing populations—Mexico, Argentina, and Brazil—and in Asia it aimed at China. Because the company lacked the organizational, managerial, and financial resources to simultaneously pursue all of these markets, Walmart pursued a very deliberate entry strategy for the emerging markets, focusing first on the Americas rather than the more culturally and geographically distant Asian marketplace.

For its first international store, opened in 1991 in Mexico City, the company used a 50–50 joint venture. This entry mode helped Walmart manage the substantial differences in culture and income between the United States and Mexico. Its Mexican partner, the retail conglomerate, Cifra, provided expertise in operating in the Mexican market and a base for learning about retailing in that country. Leveraging its learning from the Mexican experience when it entered Brazil in 1996, Walmart took a majority position in a 60–40 venture with a local retailer, Lojas Americana. When subsequently entering Argentina, Walmart did so on a wholly owned basis. After gaining experience with partners, in 1997 Walmart expanded further in Mexico by acquiring a controlling interest in Cifra, which it renamed in 2000 to Walmart de México S. A. de C. V. By 2011, Walmart operated more than 1,766 units in Mexico, accounting for more than half of all supermarket sales in Mexico.

Still, learning the dos and don'ts was a difficult process. "It wasn't such a good idea to stick so closely to the domestic Walmart blueprint in Argentina, or in some of the

other international markets we've entered, for that matter," said the president of Walmart International. "In Mexico City we sold tennis balls that wouldn't bounce right in the high altitude. We built large parking lots at some of our Mexican stores, only to realize that many of our customers there rode the bus to the store, then trudged across those large parking lots with bags full of merchandise. We responded by creating bus shuttles to drop customers off at the door. These were all mistakes that were easy to address, but we're now working smarter internationally to avoid cultural and regional problems on the front end."^a Walmart's initial entry into Brazil used greenfield store sites and emphasized aggressive pricing to build market share, but the French retailer Carrefour and other Brazilian competitors retaliated, launching a costly price war. Walmart's strength in international sourcing was initially of limited assistance in Brazil, since the leading sales category—food—was primarily sourced locally, where Carrefour and others already had strong relationships with local suppliers. Over time, Walmart changed its competitive emphasis to customer service and a broader merchandise mix than smaller local companies could match. The company also pursued acquisitions to supplement internal growth, buying 118 Bompreço stores in 2004 and 140 Sonae stores in 2005. By 2011, Walmart was the third-largest retailer in Brazil, operating 434 stores.

The Challenge of China

The lure of China, the world's most populous nation, proved too great to ignore. Walmart was one of the first international retailers in China when it set up operations in 1996. Before Walmart's arrival, state-owned retailers typically offered a limited range of products, often of low quality, and most stores were poorly lit, dirty, and disorganized.

Concerned about their potential impact on local firms, Beijing restricted the operations of foreign retailers. These restrictions included requirements for government-backed partners and limitations on the number and location of stores. Initially, Walmart's partner was Charoen Pokphand, a Thai conglomerate with massive investments in China and a strong track record with joint ventures. This venture was terminated after 18 months, due to differences regarding control. A new venture was subsequently formed with two politically connected partners, Shenzhen Economic Development Zone and Shenzhen International Trust and Investment Corporation, and Walmart was able to negotiate a controlling stake in the venture. The first Chinese Walmart store was in Shenzhen, a rapidly growing city bordering Hong Kong. The company concentrated its initial activities in Shenzhen while it learned about Chinese retailing.

Walmart had many well-publicized miscues while learning how to do business in China. For example, some household items found at American Walmarts are not found in the Chinese stores. "Their shopping list isn't as extensive as ours. If you ask the majority of people here what a paper towel is, they either don't know or they think it's some kind of luxury item,"

said the president of Walmart China.^b The company eliminated matching kitchen towels and window curtains, because the wide variety of Chinese window sizes caused people to make their own curtains. Consumers purchased four times the number of small appliances projected, but Walmart no longer tries to sell extension ladders or a year's supply of soy sauce or shampoo to Chinese customers, who typically live in cramped apartments with limited storage space. Yet, although "people say the Chinese don't like sweets, we sure sell a lot of M&Ms," said Joe Hatfield, president of Walmart's Asian retailing operations.^c

Operationally, the scarcity of highly modernized suppliers in China frustrated Walmart's initial attempts to achieve high levels of efficiency. Bar coding was not standardized in China, and retailers had to either recode goods themselves or distribute labels to suppliers, procedures that increased costs and hindered efficiency. Pressured to appease the government's desire for local sourcing of products, while maintaining the aura of being an American shopping experience, Walmart's solution was to source about 85 percent of the Chinese stores' purchases from local manufacturers but heavily weight purchasing toward locally produced American brands (such as products from Procter & Gamble's factories in China). Walmart also mass-markets Chinese products that were previously available only in isolated parts of the country, such as coconut juice from Guangdong province, hams and mushrooms from rural Yunnan, and oats from Fujian province.

Walmart also learned the importance of building relationships with agencies from the central and local governments and with local communities. Bureaucratic red tape, graft, and lengthy delays in the approval process proved to be aggravating. The company learned to curry favor through actions such as inviting Chinese officials to visit Walmart's American headquarters, assisting local charities, and even building a school for the local community. Walmart expected its small-town folksiness to be a strong asset in China. "Price has been an issue, but there's always somebody who can undersell you. A young person who's smiling and saying, 'Can I help you?' is a big part of the equation. Most places in this country you don't get that," said the president of Walmart International.^d "Over the last two years, Walmart has learned a tremendous amount about serving our Chinese customers, and our excitement about expanding in the market and in Asia has never been stronger."^e

In 2006, Walmart outbid competitors Carrefour, the United Kingdom's Tesco, and Lianhua of China to acquire Trust-Mart, a chain of more than 100 supercenters located in 20 cities across China. This acquisition immediately gave Walmart the largest network of food and department stores in China. By 2011, Walmart operated 279 retail units in China. Walmart estimated that its operations in China could be nearly as large as in the United States within 20 years, and the lessons Walmart has learned have positioned the company to exploit future market-opening initiatives in China.

A Different Approach for Entering Canada and Europe

After focusing initial international expansion efforts on large developing nations, Walmart began to pursue the Canadian

and European markets. Strong, entrenched competitors in these mature, developed country markets hindered Walmart's prospects for obtaining critical mass solely through internal growth. Rather than first developing its retail operations from scratch, as in Latin America and Asia, Walmart entered via acquisitions.

The company entered Canada in 1994 by acquiring 122 Woolco stores. Walmart quickly restructured the money-losing Canadian operations, applying many of the practices that had been successful in the United States. Transition teams were brought in from the United States to help with the transformation, and within two years the Canadian operations were profitable. Its 317 stores account for more than 35 percent of the Canadian discount- and department-store retail market.

In Europe, Walmart entered Germany by acquiring the 21-unit Wertkauf hypermarket chain in 1998 and 74 Interspar stores in 1999. The company entered the United Kingdom in 1999 by acquiring the 229-store ASDA Group. Walmart was the second-largest supermarket chain in the United Kingdom by 2011, with 371 stores, but it has been losing ground to industry leader Tesco Plc. These acquisitions allowed Walmart to build market share quickly within the highly advanced and competitive European retail market.

Walmart's rapid European market share growth was accompanied by difficulties. The acquisition of two German companies based in different cities within a year proved too much for the company's limited European infrastructure. Top management positions were filled with U.S. expatriates, many of whom lacked German language skills. Efforts to centralize purchasing and leverage Walmart's famous competencies in information systems and inventory management were stymied by problems with suppliers that were not familiar with such practices. The introduction of Walmart's "always low prices" approach met resistance from competitors and regulators. Indeed, the company was ordered by Germany's Cartel Office to raise prices, charging that Walmart had helped to spark a price war by illegally selling some items below cost. Walmart also challenged existing retail practices regarding hours of operation. Laws required shops to close by 8 p.m. on weekdays and 4 p.m. on Saturdays and to remain closed on Sundays. In response, Walmart stores began to open by 7 a.m., two hours earlier than most competitors. These changes sparked vehement opposition from smaller competitors and employees' unions.

Walmart Germany struggled to build a strong competitive base, sustaining estimated losses of more than \$1 billion. Lacking the scale of operations to create competitive advantage, and facing strong competition in a mature marketplace, in 2006 Walmart sold its German operations to a competitor, Metro. "We had a difficult time in Germany from the get-go," said Walmart's Amy Wyatt. "Looking at the international business around the world and where we would have the greatest impact on growth and investor return, it became increasingly clear that given the German business environment, we could never obtain the scale and results we desired."^f That same year, Walmart announced that it was selling its Korean operations after failing to achieve successful scale and due to difficulties adjusting to the peculiarities of the Korean marketplace.

India: Anticipating the Opening Up of a Billion-Person Market

Although it is the world's eighth-largest retail market at more than \$350 billion and has 400 million people with disposable income, the inefficiency of the Indian retail sector is well known. More than 95 percent of retail sales are made through nearly 15 million tea stands, newspaper stalls, and mom-and-pop stores. Strict government barriers have prevented foreign-owned retail businesses, although that situation is changing. "Many smart people—much smarter than I—believe that India could be the next China," said John Menzer, the former head of Walmart's international operations and current vice chair of the company's U.S. stores. "So, certainly, as a retailer it's a place where we'd like to be."⁹

However, exploiting the potential of India could be a major challenge, particularly given the country's notoriously frustrating bureaucracy and poor infrastructure. Walmart will have to learn to manage highly protectionist and anti-capitalist political parties, a bad road system, frequent power outages, difficulties acquiring appropriate plots of land, and lack of adequate distribution and cold-storage systems, among other concerns. One industry participant said, "Where will they run their Volvo trucks here? They will probably have to have bullock carts and handcarts in their supply chain."^h The diversity of the country could also prove problematic, with 18 official languages, 6,000 castes and subcastes, and widely varying regional consumer cultures. Savvy new Indian chains, such as Provogue and Shoppers' Stop, are starting to emerge, and nationalistic sentiments may produce much consternation for expansion efforts of foreign companies such as Walmart.

In preparation for an eventual opening of the market, Walmart began building a foundation by establishing relationships with Indian suppliers, distributors, and consumers. "What we found in China as we get stores on the ground and get more mass, we get to know a lot more of the suppliers. And when we know the suppliers, it gives us the opportunity to learn the product of the suppliers and actually export them," said Mr. Menzer.ⁱ In 2007, Walmart established Bharti Walmart, a 50–50 joint venture with Bharti Enterprises, a leader in mobile telecommunications. The venture's first store opened in 2009. Due to the constraints on retailing, this venture is technically focused on the wholesale market, selling only to large institutional or wholesale buyers while the company builds up its infrastructure and skills for an eventual liberalization of the retail market. However, due to limited restrictions, more than 30,000 members joined this first store to shop from the broad selection of products. By mid-2011, the venture had opened six Best Price Modern Wholesale stores, and it planned to open another 20 stores in the subsequent

two years. As stated by Raj Jain, Bharti Walmart's chief executive, "In the next one or two years we do anticipate we will be in a market leadership position."^j Clearly, Walmart will need to understand the political and market dynamics and exploit the lessons it has learned from entering other emerging markets in order to achieve success when the Indian market finally opens up.

Questions:

1. Why has Walmart viewed international expansion as a critical part of its strategy?
2. What did Walmart do to enable the company to achieve success in Canada and Latin America? Why did Walmart fail to achieve similar success in Europe?
3. What should Walmart do—or not do—to help ensure that the company achieves success in China and India?

^a"ASDA Purchase Leads Way for Wal-Mart's International Expansion," *Wal-Mart Annual Report 2000*, p. 10.

^bJames Cox, "Great Wal-Mart of China Red-Letter Day as East Meets West in the Aisles," *USA Today*, September 11, 1996, p. B1.

^cTyler Marshall, "Selling Eel and Chicken Feet—Plus M&Ms and Sony TVs," *Los Angeles Times*, November 25, 2003, p. A15.

^dCox, "Great Wal-Mart of China Red-Letter Day."

^e"Wal-Mart China Expansion to Accelerate," www.walmartstores.com/newsstand/archive/prn_980605_chinaexpan.shtml (June 5, 1999).

^fAnn Zimmerman and Emily Nelson, "With profits elusive, Wal-Mart to exit Germany," *The Wall Street Journal*, July 29, 2006, p. A1.

^gEric Bellman and Kris Hudson, "Wal-Mart Stakes India Claim," *The Wall Street Journal*, January 18, 2006, p. A9.

^h"The Great Wal of India," *The Economic Times*, January 10, 2007, http://articles.economictimes.indiatimes.com/2007-01-10/news/27671456_1_wal-mart-indian-retail-chains-germany-s-metro (accessed July 15, 2011).

ⁱIbid.

^jRasul Bailay, "Bharti Walmart to Double Stores in India, Eyes Top Spot in Two Years," *Livemint.com*, May 5, 2011, www.livemint.com/2011/05/05230121/Bharti-Walmart-to-double-store.html (May 7, 2011).

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(May 7, 2011); and "Wal-Mart to Become Biggest Big-Box in China,"

(October 17, 2006).