Case 7 Walmart's Expansion in Africa: A New Exploration Strategy

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Walmart, a leading U.S. retail giant, had gained international experience through joint ventures and subsidiaries in many countries like Mexico, Canada, Argentina, and China. It had been successful in attracting the consumers on a large scale through its policy of "Every Day Low Price" (EDLP), customer centric approach, and an encouragement given to customers to return the purchased items in case of any defect in the products. The customers were also enticed to purchase large quantities because of the low pricing when compared with the competitors. Walmart also offered a wide range of products and groceries that was another attraction to the customers to shop under a single roof. Through their international operations in Japan and Germany, Walmart had also learnt lessons on different consumer behavior. While Japanese consumers felt that a low price was indicative of low quality and did not patronise Walmart stores much, in Germany governmental restrictions on low price strategies favoured the local retailers leading to a disfavor of Walmart by the consumers. The South American experience and Chinese experience for Walmart had boosted the international revenue to a comfortable level due to the policy of EDLP and also adapting to local cultures, employing local people, and procuring major stocks locally. In spite of failures in some of the countries, Walmart had a large-scale presence in 15 countries and projected revenue of $405 billion for 2010. In the backdrop of this successful journey, Walmart had planned to enter the African continent, where many of the countries had shown reasonably good economic growth and increased levels of consumption, through acquisition of Massmart, a retail giant in South Africa having 288 stores. This joint venture would provide opportunities to Walmart to expand its footprint in African countries, which were expected to register a growth of over 5% in their GDP. The case study analyses the opportunities and challenges that await Walmart in its African venture.

Pedagogical Objectives

The case study helps to understand and analyse:

- Walmart's global growth strategies
- Massmart growth in African countries
- Walmart acquisition strategy of Massmart
- Opportunities and challenges for Walmart in African continent.

Case Study

> *"The more we learn about South Africa and the surrounding countries the more we are convinced that this is an important region with attractive growth characteristics."*[1]
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> 1 Bryson Donna and Chapman Michelle, "Wal-Mart to buy 51 percent of South Africa company," http://news.yahoo.com/s/ap/20101129/ap_on_bi_ge/af_wal_mart_massmart/print, November 29, 2010.
>
> –**Doug McMillon,**
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> *Wal-Mart International President and CEO*

Walmart, which initially started its retail operation in the U.S. in 1962,[2] grew phenomenally as a giant retailer in the U.S. offering consumers products and services on the "Every Day Low Price" theme. The customer-centric approach of Walmart had kept the consumer patronage growing over the years. This had encouraged Walmart to enter into the neighbouring countries like Mexico, Argentina, and Canada through joint ventures and subsidiaries. The American style of retail management replicated in these countries had proved to be successful. Encouraged by this trend Walmart entered into Germany, UK, and Japan. The Japan and German markets proved to be tough due to consumers' different behaviour on low price strategy and also the governmental regulation on Every Day Low Price. Against this background Walmart entered into a joint venture in China that was fast growing, and the strategy of local management and local sourcing had proved to be successful. More than 25% of the Walmart's revenue was contributed through its international operations.[3] While the U.S. market was nearing saturation, Walmart had decided to venture into the African continent with the acquisition of South African retail giant Massmart,[4] which had over 20 years of experience. The African economy is poised for a growth rate of over 5% and many of the countries are rich with agricultural and mineral resources.[5] The entry of Walmart through a joint venture in Africa will enable greater opportunities for its growth in the African continent. The case study analyses the opportunities and challenges that Walmart may have to face to establish their footprint in Africa.

2 "Our Mission," http://bus.cba.utulsa.edu/sif/annualreports/2001SIFAnnualReport.doc, January 23, 2001.

3 "Walmart's Next Continent: Africa", **http://news.findtarget.com/business/ wal-marts_next_continent_africa/**, December 1, 2010.

4 Is a South African–based globally competitive regional management group, invested in a portfolio of differentiated, complementary, focused wholesale and retail formats, each reliant on high volumes and operational excellence as the foundation of price leadership, in the distribution of mainly branded consumer goods for cash.

5 "African Economic Outlook 2010 forecasts uneven economic growth for Africa for the next two years," **http:// www.pnowb.org/admindb/docs/ African%20Economic%20Outlook%202010%20(2).pdf**, May 27, 2010.

This case was written by Professor S. Bhaskaran, Amity Research Centers Headquarters, Bangalore. It is intended to be used as the basis for class discussion rather than to illustrate either effective or ineffective handling of a management situation. The case was compiled from published sources.

EXHIBIT I Walmart's Retail Store Formats (2010)

Discount Stores

Offers quality and value-priced general merchandise including apparels, electronics, toys, sporting goods, hardware, house wares, and pet supplies. Around 700 discount stores were operated across U.S. and each store employed 225 people.

Supercenters

One-stop family shop with grocery and general merchandise. Each store had more than 350 employees and there were more than 2,890 shops in the U.S.

Neighborhood Markets

Goods such as groceries, pharmaceuticals, and general merchandise were offered. Around 150 stores were set up and each had 95 employees.

Marketside

Small community pilot grocery stores specializing in fresh ingredients and delicious meals at great prices.

Source: Compiled from "Walmart," ***http://walmartstores.com/AboutUs/7606.aspx***

Walmart's Growth in the International Market

Walmart, the retail giant, had started its operations in 1962 with a view to change the retail business profile. Sam Walton (Walton), the founder of Walmart, decided to capitalise on the retail business as there were only a few discount shops located in the urban areas. Walmart opened its first discount store in Rogers, Arkansas, U.S. Walmart's business was successful and in a span of five years (1967) Walmart operated 24 stores and had net sales of $12.6 million.[6] Walton's unique strategies drove Walmart to success. Walmart's key focus was customer satisfaction and relied on three principles—respect for the individual, service to customers, and to strive for excellence.[7] As employees had a major role in customer satisfaction, Walton devised strategies to create a healthy working environment and satisfy the workers. Walton referred to employees as associates and had introduced a profit sharing plan, stock options, and store discounts to motivate the workers. In addition, he had also conducted weekly meetings where the employees could share their innovative ideas and grievances, if any.[8] Walton educated his associates about the importance of customer satisfaction and practiced customer-centric culture. To facilitate the customers and provide a better shopping experience at Walmart stores, unique strategies such as the Sundown rule[9] and the 10 Foot rule[10] were implemented. As a result of such strategies customer requests and complaints were attended in a day.

6 "Our Mission," op.cit.

7 "Case Study: Wal-Mart's Competitive Advantage," **http://www.mbaknol.com/management-case-studies/case-study-wal-mart%E2%80%99s-competitive-advantage/**

8 Galiano Amanda, "Sam Walton & Wal-Mart," **http://littlerock.about.com/cs/homeliving/a/aasamwalton.htm**

9 Answer requests by the close of business on the day it was received by them.

10 Sam Walton encouraged associates (employees) to take the pledge that when they see a customer within 10 feet, they would look into their eye, greet them, and ask them what they want.

As a part of its customer centric initiatives, Walmart had devised a unique pricing strategy with an aim to offer customers their daily needs at the lowest price possible. "The Every Day Low Price" (EDLP) strategy provided the customers the lowest price for all products on all days. In addition Walmart had also implemented "Special Buy" and "Roll Back" policies. Through the Special Buy policy, customers were offered a quantity discount and the Roll Back policy offered the lowest price whenever Walmart was able to reduce the cost of purchase. Walmart had procured the goods directly from the manufacturers, eliminating middlemen and thereby reduced the costs. Walmart believed in low profit margin and high sales volume.[11] Over the years, Walmart streamlined their logistics and distribution system through technologies such as Electronic Data Interchange[12] and Satellite Communication System during the 1980s. The company could track the movement of stocks and the major suppliers were connected and provided with inventory and sales data. This facilitated replenishment of stock whenever needed and also reduced the operational costs.[13]

11 John, D., et al., "Wal-Mart's 'Think Global, Act Local': Can 'Americanisation' Have Its Way?," *IBS Research Center,* 2008 (Ref. No: 308-215-1).

12 Is the structured transmission of data between organisations by electronic means. It is used to transfer electronic documents or business data from one computer system to another computer system, i.e., from one trading partner to another trading partner without human intervention.

13 "Wal-Mart's 'Think Global, Act Local': Can 'Americanisation' Have Its Way?" op.cit.

Walmart had operated different retail store formats—Discount Stores, Supercenters, Neighborhood Markets, and Marketside to meet the varied needs of its customers[14] (***Exhibit I*** .) Sam's club was another kind of store operated by Walmart. This was a member-only warehouse club that sold groceries and general merchandise in large quantities to registered members.[15] To enhance customer service further, Walmart had set up information kiosks to provide the details and location of various products in the stores. With the increased use of the Internet during the 90s, Walmart launched their website, which provided customers information about the products available in the stores.[16]

14 "Walmart," **http://walmartstores.com/AboutUs/7606.aspx**

15 "Sam's Club," **http://walmartstores.com/AboutUs/7605.aspx**

16 "Wal-Mart's 'Think Global, Act Local': Can 'Americanisation' Have Its Way?" op.cit.

Subsequent to the economic recession in the U.S. during the early 90s and with an aim to expand their business, Walmart had ventured into international markets. As an initial step, Walmart concentrated on neighbouring countries like Mexico, Canada, Brazil, and Argentina during the 90s. Based on the market conditions, Walmart entered the international markets through joint venture, acquisition, or as a subsidiary company.[17] Mexico was the first international market for Walmart. It entered the market in 1991 through a joint venture with Grupo Cifra SA de CV (Cifra)[18] and was called Wal-Mart de Mexico SAB de CS (Walmex). After a span of six years with a clear understanding of Mexico's retail market, Walmart acquired a majority stake in Cifra and consolidated its position. Walmex soon promoted its retail activities in Mexico. Initially it had concentrated in the urban areas. Realising the opportunities in suburban areas, Walmex expanded its business in the interior. Subsequently, by the end of the decade (90s), Walmart implemented its low price model in Mexico. Though it faced initial hurdles from the local purchasers, Walmex was successful to attract and retain its customers through its daily discount strategy. Similar to the U.S., Walmex had also operated in different retail formats catering to different class of customers and varied needs. Over the years, Walmex stores were into retailing of apparel, accessories, footwear, pharmaceuticals, groceries, and food products. Walmex offered all kinds of products that had a demand in Mexico. For example, it had also dealt with imported products other than regular goods to meet the needs of elite customers. In addition Walmex was into the restaurant and the banking business (was started in 2007) in Mexico. Though the banking business was not successful for Walmart in the U.S., it turned out to be successful in Mexico as their banking industry was dominated by international banks, which charged high rates of interest and demanded high minimum balances.[19] In October 2010, Walmex had operated 1,578 units across Mexico.[20]

17 John Rajakumari Doris, "Bharti Wal-Mart Tie-up: Opportunities and Challenges," **http://www.ibscdc.org/Case_Studies/Strategy/Market%20Entry%20Strategies/MES0069C.htm**, 2007.

18 Is a holding company that, through its subsidiaries, constitutes one of the largest retailers in Mexico. The company's Tiendas Gigante, Bodegas Gigante, and Super G chain stores sell both groceries—including Gigante's own line of private-label goods—and general merchandise.

19 "Wal-Mart's 'Think Global, Act Local': Can 'Americanisation' Have Its Way?," op.cit.

20 "Mexico," http://walmartstores.com/AboutUs/277.aspx

Similar to the Mexico venture, Walmart had expanded its business in Canada. It entered into the Canadian market by acquiring the popular retail chain Woolco[21] in 1994. Woolco stores were in financial crunches and had high operating costs. Walmart with its expertise restructured the retail stores in Canada and also implemented its popular EDLP strategy targeting low-income groups. As the Mexico, U.S., and Canadian markets were similar, Walmart's business expansion in Canada turned to be successful. Over the years it had also set up warehouse clubs similar to the U.S. Walmart further expanded its business horizon to Brazil and Argentina in 1995. Whereas Walmart entered Brazil through a joint venture with local retailer Lojas Americana,[22] in Argentina it had operated as a wholly owned subsidiary. The business model practiced in the U.S. proved to be successful in other American countries for Walmart.[23]

21 Was an American-based discount retail chain. It was founded in 1962 and was a full-line discount department store. At its peak, Woolco had hundreds of stores in the U.S., as well as in Canada and the United Kingdom. While the American stores were closed in 1982, the chain remained active in Canada until it was sold in 1994 to rival Wal-Mart.

22 Is a Brazilian company's retail segment founded in 1929 in the city of Niterói, Rio de Janeiro, by Americans John Lee, Glen Matson, James Marshall, and Batson Borger.

23 "Wal-Mart's 'Think Global, Act Local': Can 'Americanisation' Have Its Way?," op.cit.

With the emerging opportunities in the Asian countries, Walmart ventured into this region in 1996. China was the first Asian market tapped by the retail giant. It had partnered with a Chinese retailer to set up shops in the Chinese market. Walmart had faced several hurdles before it could implement its U.S.-style business strategies. Prior to 1999, the Chinese government restricted the number of stores to be operated by foreign retailers. Apart from this change in culture, language was another problem for Walmart to attract customers. Majority of the people in China were in low-income groups who preferred to shop in the neighborhood areas. Walmart had to study the Chinese market and consumer behavior and tune their business strategies accordingly. Local players were tough competitors for Walmart in China. To attract consumers, Walmart had to resort to changes in leadership (from American to Chinese), extend their time frame for returning goods, and also had to sell fresh foods and a few live animals like snake and frog. Though localised strategies were implemented, Walmart faced stiff competition from the "Du Sha," a Chinese retailer, Metro[24] from Germany, and Carrefour[25] from France. Hence Walmart acquired a 35% stake in Bounteous Company Ltd (BCL), a retailer who operated hypermarket chains in China, to gain a strong foothold in China.[26]

24 Is a diversified retail and wholesale/cash and carry group based in Düsseldorf, Germany. It has the largest market share in its home market, and is one of the most globalised retail and wholesale corporations.

25 Is a French international hypermarket chain. Headquartered in Levallois-Perret, France, Carrefour is the largest hypermarket chain in the world in terms of size, the second largest retail group in the world in terms of revenue, and third largest in profit after Wal-Mart and Tesco.

26 "Wal-Mart's 'Think Global, Act Local': Can 'Americanisation' Have Its Way?," op.cit.

While Walmart had been experimenting with new strategies to gain a substantial share in the overseas market, it continued with new business expansions. During the late 90s Walmart had moved to UK, Germany and Korea to set up operations and gain market. Though Walmart's low price model was well received by UK, it was a major failure in Korea and Germany. Worldwide, Walmart had tried to build its business upon its low pricing strategy and setting up shops in the outskirts. Misfortune struck Walmart in Germany as the government restricted retailers selling products below cost on permanent basis. The Korean and German markets were filled with discounters and the people were not ready to encourage the American style of business. Customers felt it inconvenient to travel far and shop at Walmart stores. Moreover, the Western style of customer service was also not encouraged. As Walmart failed to understand the consumer behaviour and market trends, it had to withdraw from these markets due to huge losses in 2006. Walmart had also faced survival problems in Japan since its entry in 2002. The low-price strategy was not very attractive to the consumers and they linked it with low quality. In addition, Walmart faced problems in procuring goods at low cost due to local restrictions. The suppliers in Japan depended on the traditional distribution system 'keiretsu', where foreign players were not allowed to become members. Goods were sold at high prices for the nonmembers. Store format was another issue for Walmart. The Japanese wished to shop in luxurious stores with ample parking lots. Walmart's warehouse stores were not attractive for the customers.[27]

27 "Wal-Mart's 'Think Global, Act Local': Can 'Americanisation' Have Its Way?" op.cit.

With varied experiences in the overseas markets, Walmart had planned to enter the Indian market and had joint ventured with Bharti Group in 2007. However, due to the restriction on foreign investment in multi-brand retailing, Walmart had opened up cash and carry stores in 2009. Growth in India was slow as Walmart was not able to sell directly to the consumers. In spite of failure and slow progress in some markets, Walmart's international operations were expected to generate profit of around $14 billion with a sales revenue of $405 billion in 2010. It had more than 8,500 outlets under 55 different names in 15 countries.[28]

28 "The Beast goes on Safari," http://www.economist.com/node/17150234?story_id517150234, September 30, 2010.

Massmart South African Operations

Massmart, a leading retailer of general merchandise, was started in 1990 to carry on wholesale and retail distribution of branded consumer goods in South Africa for cash. The group had successfully carried on their business for a decade and in 2000 was listed in the Johannesburg Stock Exchange[29] (JSE).[30] Over the years, with its well defined business model and strategies, the group operated nine wholesale and retail chains in 14 countries in the African continent.[31] The four core operating groups of Massmart were Massdiscounters, Masswarehouse, Massbuild, and Masscash. Massdiscounter operated as a general merchandise discounter, Masswarehouse dealt with warehouse clubs, Massbuild was concerned with home improvement equipment and building material supplies, and the Masscash segment operated as a food wholesaler.[32] The group's business model revolved around high volume, low margin, low-cost distribution of branded consumer goods and successfully held the third position in the distribution of consumer goods in Africa[33]. Through its business model, Massmart had empowered its divisions to make trading decisions based on their operating needs. However, it was ensured that those decisions were within the framework set by the group. Decentralised decision-making had contributed for business growth, and in the meantime, the group's core policy was also implemented throughout their network.[34]

29 Is the largest stock exchange in Africa. It is situated at the corner of Maude Street and Gwen Lane in Sandton, Johannesburg, South Africa.

30 "Massmart," **http://www.tradeintelligence.co.za/TradeProfiles/Massmart.aspx**

31 "Massmart At a Glance," http://www.massmart.co.za/invest_profile/financial_results/2010/massmart_ar2010/downloads/massmart_at_a_glance.pdf, 2010.

32 "Massmart Holdings Ltd," **http://www.corporateinformation.com/Company-Snapshot.aspx?cusip5C710BW150**

33 "Overview," http://www.massmart.co.za/corp_profile/corp_overview.asp

34 "Massmart At a Glance," op.cit.

To extend its top class customer service, Massmart had constantly focused on improving their service through enhanced technology. The company had operated around 288 stores across Africa and garnered net sales of R[35] 47451 million in 2010[36] (***Exhibit II***). Key drivers of sales were increased disposable income, consumer confidence, opening up of new stores, and increased product availability. The South African operations accounted for 92% of the total sales. Massmart believed strongly that its low-price strategy was crucial for its business. Hence it focused on lowering its operating costs. In a span of three years (2013), the company had planned to improve their supply chain and launch several private brands. It had also planned to add format stores and expand their product range in pharmacy, clothing, and furniture. Massmart strongly believed that continued investment would enhance their business growth over the years.[37]

[35] The rand (sign: R; code: ZAR) is the currency of South Africa. It takes its name from the Witwatersrand (*White-watersridge* in English), the ridge upon which Johannesburg is built and where most of South Africa's gold deposits were found. The rand has the symbol "R" and is subdivided into 100 *cents*, symbol "c."

[36] "Massmart At a Glance," op.cit.

[37] "Dedicated to Value Massmart Reviewed Results for the 52 weeks to 27 June 2010: Presentation to Investors, Analysts and Media," http://www.massmart.co.za/invest_profile/presentations/aug10_audited/pdf/massmart_aug2010_audited.pdf, August 2010.

Walmart Acquisition of Massmart

The world's largest corporation, Walmart had been gaining ground in the overseas market in the early 21st century. Walmart had experienced slow sales in the U.S. in 2009. Walmart's U.S. sales in 2010 were $258 billion, just 1.1% higher than the previous year.[38] To keep its overall sales up and have fresh growth, Walmart had turned its focus to international business expansion. In the recent years, Walmart's investment in the BRIC nations, a few countries in Latin America, and Mexico had started to generate reasonable profit though at a slow pace. But Walmart had failed in Germany and Korea due to governmental policies and different consumer behavior. It had gained a foothold in China and Brazil. Walmart's spokesman Kevin Gardner had said that Walmart's international operations had accounted for 25% of their total revenue.[39] Developing economies like China proved to be a right option for Walmart's business model. Hence the retailer had decided to capitalise on China's strategy and had planned for the African venture.[40]

38 "Walmart 2010 Annual Report," **http://cdn.walmartstores.com/sites/ AnnualReport/2010/PDF/ WMT_2010AR_FINAL.pdf**, January 2010.

39 "Walmart's Next Continent: Africa," op.cit.

40 Duff Mike, "Walmart Moves into South Africa, but It Won't Be Easy," **http://www.bnet.com/blog/retail-business/ walmartmoves-into-south-africa-but-it-won-8217t-be-easy/11047**, September 28, 2010.

EXHIBIT II Massmart Geographical Presence

Chain	South Africa	International	Total
Game	79	12	91
DionWired	11	—	11
Makro	13	—	13
Builders Warehouse	24	—	24
Builders Trade Depot	31	—	31
Builders Express	21	—	21
CBW	78	13	91
Jumbo	6	—	6
Total	**263**	**25**	**288**

Source: "Massmart At a Glance," http://www.massmart.co.za/invest_profile/financial_results/2010/massmart_ar2010/downloads/massmart_at_a_glance.pdf, 2010.

Africa had gained attraction of the leading businesses with its strong economic growth in the recent years. McKinsey & Co[41] had revealed in a report that the African population had exceeded 1 billion in 2009 and had an average growth of 4.8% during 2000–08.[42] The middle income group was also expanding, which in turn increased the purchasing power there by spurring the demand for food and other consumer products.[43] In addition, China had been investing heavily upon African minerals and infrastructure projects, facilitating further economic growth.[44] While all nations worldwide suffered from the economic crisis in 2009, Africa had survived and progressed during the crisis. It was also expected to report 4.3% economic growth in 2010.[45] Walmart, the retail behemoth, who was keen on further overseas expansion, had corned the African continent to utilise the emerging opportunities there.

41 Is a global management consulting firm that focuses on solving issues of concern to senior management. McKinsey serves as an adviser to the world's leading businesses, governments, and institutions.

42 Wild Franz, "Africa's 1 Billion Consumers Draw Giant Walmart," **http://www.bloomberg.com/news/2010-10-20/africa-s-1-billion-consumers-getting-richer-can-t-be-ignored-by-wal-mart.html**, October 21, 2010.

43 "Walmart Moves into South Africa, but It Won't Be Easy," op.cit.

44 "Africa's 1 Billion Consumers Draw Giant Walmart," op.cit.

45 "The Beast goes on Safari," op.cit.

Walmart had chosen Massmart, another retail giant in Africa, as a route to enter the African continent. Initially there was a speculation that Walmart would fix a deal with Shoprite,[46] another African retailer, for their African venture. However, in 2010 Walmart had revealed its decision about taking up Massmart for a consideration of around $4 billion. Massmart had 263 stores in South Africa and 25 stores in other African countries[47] and reported net sales of $6.7 billion in 2010.[48] Hence acquisition of Massmart will provide Walmart access to sub-Saharan countries where there was lot of scope for business expansion. Craig Johnson, the President of a retail consultancy called Customer Growth Partners[49] opined that, "If any retailer knows how to market products en masse to a lower income international consumer (Africa), Walmart is suited to that".[50] While Walmart's deal with Massmart was a road towards expansion, labour unions in Africa feared the loss of rights and job. They feared that the American retailer would not respect the African labour unions. Walmart had said that it would give due respect to the labour unions and existing contracts. Shareholders were also concerned about the listing of Massmart in the JSE.[51] Finally, Massmart and Walmart had finalised the deal for $2.32 billion for a 51% stake in Massmart. Such a deal had not impacted the shareholders and the labour unions. However, Walmart could also gain access to the African retail market through this deal as planned. Hence this decision had pleased all the parties concerned—Massmart shareholders, Walmart, African government, and labour unions.[52] Paul Ausick had specified in his article titled "Wal-Mart Takes Its Chances in South Africa" that, "The company's success in China may, in fact, be the impetus for Wal-Mart's move into Africa. China and the African nations have a lot in common in terms of the experience consumers in these countries have with retail stores".[53]

46 Is one of the leaders in South African food retailing and is, according to independent market research, the brand of choice of the highest percentage of South Africans consumers. Since starting out as a small chain of supermarkets in 1979, the Shoprite brand gained valuable experience from selling to the emerging market.

47 "Walmart's Next Continent: Africa," op.cit.

[48] Struck Heather, "Wal-Mart Eyes Growth In Africa," **http://www.forbes.com/fdc/welcome_mjx.shtml**, September 27, 2010.

[49] Offers actionable research and strategy to Fortune 500 consumer and service companies in accelerating topline growth, building customer loyalty, and increasing marketing productivity. It provides strategic counsel to investors and developers looking to maximise returns in the Retail and other Consumer service sectors.

[50] "Walmart's Next Continent: Africa," op. cit.

[51] Bryson Donna, et al., "Wal-Mart to buy 51 percent of South Africa company," http://news.yahoo.com/s/ap/20101129/ap_on_bi_ge/af_wal_mart_massmart, November 29, 2010.

[52] "Wal-Mart Takes Its Chances in South Africa (WMT)," **http://247wallst.com/2010/11/29/wal-mart-takes-its-chances-in-south-africa-wmt/#ixzz171G8fgWL**, November 29, 2010.

[53] Ibid.

Opportunities and Challenges

An African analyst of Rand Merchant Bank[54], Celeste Fauconnier had opined that, "It will be to their own detriment if companies ignore Africa. We are seeing massive growth in the population, an increasing middle class and people having more access to money".[55] Mckinsey had reported that, due to economic and population growth, consumer spending increased at 16% during 2005–08, International Monetary Fund[56] had estimated sub-Saharan Africa's economy would expand at 5.5% in 2011. Massive economic growth provided wide opportunities to the retailers as a result of which African retailers have planned for expansion. While Shoprite had been expanding internationally since 1995, other retailers such as Pick n Pay[57] and Woolworths Holdings Ltd.[58] have announced plans for expansion in 2010. People in Africa also welcomed the opening up of big retail stores in their neighbourhood. Anita Guambe, a 45-year-old housewife in Mozambique[59] had said that, "The entry of big chains is welcome because most of their products are of high quality and they are well packaged"[60]. In such a scenario, Walmart's entry into the African market would enhance their business and revenue.

54 Is a diversified financial services brand encompassing investment banking, fund management, private wealth management, and advisory services.

55 "Africa's 1 Billion Consumers Draw Giant Walmart," op.cit.

56 Is the intergovernmental organization that oversees the global financial system by following the macroeconomic policies of its member countries, in particular those with an impact on the exchange rate and the balance of payments.

57 Is one of Africa's largest and most consistently successful retailers of food, general merchandise, and clothing.

58 Is one of the top 100 companies listed on the JSE and, as a leading South African company, is committed to growth through responsible retail.

59 Is a country in southeastern Africa bordered by the Indian Ocean to the east, Tanzania to the north, Malawi and Zambia to the northwest, Zimbabwe to the west, and Swaziland and South Africa to the southwest.

60 "Africa's 1 Billion Consumers Draw Giant Walmart," op.cit.

Walmart's success would depend upon the lessons learned from its overseas business. Massmart had focused upon low price and efficient operations. This would be well-suited for Walmart's business model. Massmart technical expertise would favour Walmart to gain a sustainable market in the African continent. In Mexico, Walmart succeeded better than in other markets as it had utilised local managers for their operations, which facilitated in managing the customers and the staff in the retail chain. Hence a similar strategy in Africa would be successful for Walmart because the African continent comprises different countries that have varied rules and issues. Massmart had spread across the African countries and such experience would facilitate retail chain management in Africa.[61] Nigeria, an African country, was an oil-based economy where the purchasing power of the people had increased to $20 billion in 2007 ($1000 – $5000 in 2000). Massmart had planned to increase its outlets to 20 from 1 in a span of two years (2012). Such expansion plans would now (after acquisition) help Walmart's revenue growth.[62]

61 Lal Rajiv, "Why Wal-Mart Went Shopping in Africa," http://www.hbs.edu/news/item.html?id52010-10-04, September 28, 2010.

62 "Africa's 1 Billion Consumers Draw Giant Walmart," op.cit.

Though the African venture would provide a lot of opportunities for Walmart's growth in terms of sourcing and maintaining continuous supply chain management, it would not be very easy from the management perspective. In the world's poorest region, the retail giant would face cultural and infrastructural barriers. The countries have very poor legal systems and weak security. As the continent was filled with different cultures, rules, and regulations, Walmart expansion might not be too fast. Jeanine van Zyl, retail analyst for Old Mutual Investment Group[63] had opined that, "Perhaps they will fail if they try and do it too fast. You have to step away from markets that are not ready to be entered. The process can't be rushed".[64] Many analysts doubt whether Walmart would benefit from this deal as expected. However, they had also expressed that if Walmart could succeed in Africa, then it would have a bright future ahead.[65] According to Joel Makower, Executive Editor of **GreenBiz.com**,[66] "What makes Walmart interesting is its influence, both upstream with its 60,000-plus suppliers, and downstream to its 300 million or so consumers. They can make a big difference. If they can succeed as a business along the way, that's terrific, but they're a long way from that".[67] It needs to be seen whether Walmart could cash upon its low-price business model in a business environment filled with opportunities and challenges.

63 Is the largest investment manager in South Africa based on size of assets.

64 "Africa's 1 Billion Consumers Draw Giant Walmart," op.cit.

65 Bradley Luanne, "Walmart to Invade Africa," **http://ecosalon.com/massmart-to-invade-africa/**, October 1, 2010.

66 Is the leading source for news, opinion, best practices, and other resources on the greening of mainstream business. Launched in 2000, its mission is to provide clear, concise, accurate, and balanced information, resources, and learning opportunities to help companies of all sizes and sectors integrate environmental responsibility into their operations in a manner that supports profitable business practices.

67 "Walmart to Invade Africa," op.cit.

Analysis questions

1. Detail the growth of Walmart and its international experience.
2. Describe the growth strategies of Massmart in the African continent.
3. Detail Walmart's acquisition of Massmart and the expected strategic advantages.
4. Analyse the challenges Walmart will have to face in the African continent.
5. What happened to Walmart's operations after taking a 51% share in Massmart in 2011?