

## MINICASE

### THE GLOBALIZATION OF WALMART

Founded in Arkansas in 1962, Walmart has developed into the largest retailer in the world. Driven by high levels of service, strong inventory management, and purchasing economies, the company 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 its business practices and culture could not be transferred internationally. Yet, the company's globalization efforts progressed at a rapid pace. Its more than 6,357 international retail units employ 900,000 associates in 26 international markets. International sales accounted for nearly 30 percent of Walmart's more than \$480 billion in revenues for 2014, a level that is projected 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, Walmart would have had to take market share from established competitors to succeed there. Instead, Walmart deliberately selected emerging markets as its starting point for international expansion. In the Americas, it targeted nations with large, growing populations—Mexico, Argentina, and Brazil—and in Asia it aimed at China. Lacking the organizational, managerial, and financial resources to simultaneously pursue all of these markets, Walmart focused first on the Americas rather than the more culturally and geographically distant Asian marketplaces.

For its first international store, opened in 1991 in Mexico City, Walmart used a 50-50 joint venture to help manage the substantial differences in culture and income between the United States and Mexico. Its partner, the retail conglomerate, Cifra, provided expertise in operating in the Mexico market and a base for learning about retailing in that country. Leveraging its learning from Mexico 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. By 2014, Walmart's 2,498 units in Mexico accounted for over 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," said the president of Walmart International. "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."<sup>a</sup>

#### The Challenge of China

The lure of China proved too great to ignore. Walmart was one of the first international retailers in China when it set up operations in 1996. Beijing restricted the operations of foreign retailers, including requirements for government-backed partners and limits on the number and location of stores. Walmart subsequently formed a venture with two politically connected Chinese partners, with Walmart holding a controlling stake. Initial activities were concentrated in Shenzhen, a rapidly growing city bordering Hong Kong, while it learned about Chinese retailing. Walmart had many well-publicized miscues while learning how to do business in China. For example, 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.

Operationally, the scarcity of highly modernized suppliers in China frustrated Walmart's initial attempts to achieve high levels of efficiency. Pressured to appease the government's desire for local sourcing of products, while maintaining the aura of being an American shopping experience, Walmart sourced about 85 percent of the Chinese stores' purchases from local manufacturers but heavily weighted purchasing toward locally produced American brands (such as products from Procter & Gamble's factories in China). Walmart also mass-marketed 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, but 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. By 2014, Walmart operated 403 retail units in China and estimated its Chinese operations could be nearly as large as in the United States within 20 years.

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

Although one of the world's five largest retail markets, at more than \$500 billion, and having 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 may be 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. "So, certainly, as a retailer it's a place where we'd like to be."<sup>b</sup>

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 anticapitalist 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. 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.

To prepare for an eventual opening of the market, Walmart began establishing relationships with Indian suppliers, distributors, and consumers. 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. By 2014, the venture had opened 20 BestPrice Modern Wholesale stores, with plans to open additional stores and ultimately be in a market leadership position. Clearly, to

succeed when the Indian market finally opens up, Walmart will need to understand the political and market dynamics and exploit the lessons it has learned from entering other emerging markets.

### 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 Latin America and China?
3. What should Walmart do—or not do—to help ensure that the company achieves success in India?

Sources: Walmart 2013 Annual Report, <http://stock.walmart.com/microsites/annual-report-2013/> (February 1, 2015); Walmart, "Walmart Reports FY15Q3 EPS of \$1.15; Walmart U.S. Delivers Positive Comp Sales," <http://news.walmart.com/news-archive/investors/2014/11/13/walmart-reports-fy-15-q3-eps-of-115-walmart-us-delivers-positive-comp-sales> (February 1, 2015); and Walmart, "Our Business," <http://corporate.walmart.com/our-story/our-business/> (February 1, 2015).

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

<sup>b</sup> Eric Bellman and Kris Hudson, "Wal-Mart Trains Sights on India's Retail Market," *The Wall Street Journal*, January 18, 2006, p. A9, <http://online.wsj.com/news/articles/SB113753852793448955> (February 1, 2015).

### NOTES

1. For an overview discussion of strategy, see Michael E. Porter, "What Is Strategy?," *Harvard Business Review*, November-December 1996, pp. 61-78; or Costas Markides, "What Is Strategy and How Do You Know If You Have One?," *Business Strategy Review* 15, no. 2 (2004), pp. 5-12, <http://bsr.london.edu/lbs-article/358/index.html> (February 1, 2015).

2. Jay B. R.

6. Reggie Van Lee, Lisa Fabish, and Nancy McGaw, "The Value of Corporate Values," *Strategy+Business*, no. 39, <http://www.strategy-business.com/article/05206?pg=all> (February 1, 2015).

7. Google, "Costs of Doing Business in India," <http://www.google.com> (February 1, 2015).