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. In 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.

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. As of October 2006, almost 6,000 of Walmart China’s 30,000 employees were union members. Despite its public battle with the ACFTU, Fortune China and Watson Wyatt still voted Walmart China as one of the “Top 10 Best Companies to Work for” in 2005. 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.

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**Exhibit 1 Walmart International Operations, April 2010**

<table>
<thead>
<tr>
<th>Market</th>
<th>Retail Units (04/2010)</th>
<th>Date of Entry</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mexico</td>
<td>1,479</td>
<td>November 1991</td>
</tr>
<tr>
<td>Canada</td>
<td>317</td>
<td>November 1994</td>
</tr>
<tr>
<td>Brazil</td>
<td>438</td>
<td>May 1995</td>
</tr>
<tr>
<td>Argentina</td>
<td>44</td>
<td>August 1995</td>
</tr>
<tr>
<td>China</td>
<td>284</td>
<td>August 1996</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>374</td>
<td>July 1999</td>
</tr>
<tr>
<td>Japan</td>
<td>371</td>
<td>March 2002</td>
</tr>
<tr>
<td>Costa Rica</td>
<td>170</td>
<td>September 2006</td>
</tr>
<tr>
<td>El Salvador</td>
<td>77</td>
<td>September 2005</td>
</tr>
<tr>
<td>Guatemala</td>
<td>164</td>
<td>September 2005</td>
</tr>
<tr>
<td>Honduras</td>
<td>53</td>
<td>September 2005</td>
</tr>
<tr>
<td>Nicaragua</td>
<td>55</td>
<td>September 2005</td>
</tr>
<tr>
<td>Chile</td>
<td>254</td>
<td>January 2009</td>
</tr>
<tr>
<td>India</td>
<td>1</td>
<td>May 2009</td>
</tr>
</tbody>
</table>

Notwithstanding these challenges, today, Walmart International is a fast-growing part of Walmart’s overall operations, with 4,081 stores and more than 664,000 associates in 14 countries outside the continental U.S. (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 had become a $100 billion business. Had it been a stand-alone company, it would have ranked among the top five global retailers. (See Exhibit 2.) Walmart International’s business represents a solid chunk of Walmart’s overall $405 billion revenues for the fiscal year 2010.

With a market capitalization of more than $200 billion in 2010, Walmart is worth as much as the gross domestic product of Nigeria. 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, and Japan’s nationwide network of Seiyu shops. 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 $18bn annually on Chinese goods.
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 the easiest entry destination. The other countries that Walmart chose as its first global points of entry—Mexico (1991), Brazil (1994), and Argentina (1995)—were those with the three largest populations in Latin America.10

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.11

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 United States market. It would have taken considerable financial and managerial resources to establish a presence in Asia.\textsuperscript{12} 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.\textsuperscript{13}

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.\textsuperscript{14}

\textbf{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 195 Walmart Supercenters and Sam’s Club warehouses, Wal-Mex also operates Bodega food and general merchandise discount stores, Superama supermarkets, Suburbia apparel stores, and Vips and El Portón restaurants. The majority of its stores are located in and around Mexico City; however, it does business in over 145 cities throughout Mexico. Wal-Mex has shown no signs of slowing down. In 2005 Walmart opened 93 new stores and saw a 13.7 percent increase in net sales overall. As of February 2007, it operated 889 stores in Mexico and had plans to open another 125 that year.\textsuperscript{15}

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 it was hoped would begin to offer consumers lower fees than traditional banks.\textsuperscript{16} In November 2007, Wal-Mex opened its first consumer bank, Banco Walmart, in Toluca; by August 2010, the company had opened nearly 250 branches. Banco Walmart is especially targeting the low-income market in a country where just 24 percent of households have savings accounts, compared with 55 percent in Chile. Wal-Mex plans to boost sales via debit cards, later ease users into more profitable services like insurance, and make money on interest-rate spreads. Wal-Mex’s mission is to lure newcomers with easy instructions and entry points, like minimum balances of less than $5 and no commissions, compared with $100 minimums at competing banks. Wal-Mex is also eyeing the $23 billion remittances market—the amount sent home every year by Mexican immigrants in the U.S.\textsuperscript{17}

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 April 2010, Mexico ranked as Walmart’s number one international destination with 1,479 retail outlets, far ahead of its second major international destination Brazil, which had only 438 stores.\textsuperscript{18}
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 Shenzhen. As of late 2006 the company had expanded to 73 stores in 36 cities. In order to cater to its Chinese shoppers, Walmart has introduced “retail-tainment” and attempted to create a more hands-on shopping experience. China’s Tourism Bureau even named one underground Walmart store a tourist destination.

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. 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. in late 2006.

Walmart’s expansion has not gone unnoticed. Domestic Chinese rivals have also built up their businesses in order to compete. In 2005 Shanghai Bailan Group purchased four rival supermarkets and department stores and now operates over 5,000 stores. China Resources Enterprise has hired away managers from foreign chains and cut staff in order to increase its profitability. While these efforts signal greater competition for Walmart in particular, they are necessary for domestic companies to survive in China’s $841 billion 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.

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).

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, which drew 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.

“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.

Walmart had 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. 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.

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.

Walmart executives said they hoped to draw upon ASDA’s management talent and experience. ASDA’s 229 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.

However, while the chain has been only a moderate success, delivering consistent results, Walmart has been
faced with the challenge of expanding into new markets. 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.

Prior to that, in March 2004, Walmart bought a 118-store supermarket chain, Bompreço, 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, 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 Distribuição Po de Acar.

The last 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 (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 JC Penney 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.

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.

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.\(^{42}\)

**Walmart’s Plans for 2010–2011**

In October 2009 Walmart Stores, Inc., presented its global plans for store and club growth in the next year at its annual conference for the investment community and updated its projections for capital expenditures through the fiscal year ending on January 31, 2011. According to this plan, total capital spending for the fiscal year ending January 31, 2010, is projected to be in a range of $12.5 to $13.1 billion, up from approximately $11.5 billion in fiscal year 2009. Total capital spending for the fiscal year ending January 31, 2011, is projected to be in a range of $13.0 to $15.0 billion.\(^{43}\)

“Our plan for growth is clearly intended to increase shareholder value,” said Tom Schoewe, executive vice president and chief financial officer. “In the U.S., we’re building new stores and accelerating the pace of our remodels because they have been so successful at winning and retaining customers. We’re stepping up growth in our International operations to take advantage of growing economies and opportunities in emerging markets, such as China and Brazil.”\(^{44}\) Capital expenditures for all purposes are projected as shown in Exhibit 5 and exclude the impact of any future acquisitions.

If fiscal year 2009 were placed on a constant currency basis with fiscal year 2010, international capital expenditures in fiscal year 2009 would have been approximately $3.8 billion. In the fiscal year ending January 31, 2010, the company expected to add approximately 38 million square feet globally, compared to approximately 44 million square feet added in the prior year (excluding square footage added by acquisition). Walmart expects to increase global square footage by approximately 37 million square feet in fiscal year 2011.\(^{45}\)

Square footage growth (excluding any acquisitions) is projected as shown in Exhibit 6.

Walmart International plans aggressive investment, particularly in growth markets such as China and Brazil. The International portfolio includes a variety of formats, from supercenters to small grocery stores. New stores are expected to add approximately 23 million square feet in fiscal year 2010, and approximately 25 million more square feet in fiscal year 2011. These projections are based on the existing store base and do not include possible acquisitions.\(^{46}\)

“We will continue our organic growth strategy, with strong capital discipline and optimization of our portfolio of formats and brands worldwide,” said Doug McMillon, president and CEO of Walmart International in company press release in October 2009. “We will allocate capital, by country and by format, to improve returns from these investments.”\(^{47}\)

**China**

In March 2010, the official website of China’s Ministry of Commerce reported that Walmart had set up a new wholly owned subsidiary in Hebei. This move is reportedly designed to help Walmart’s smooth expansion and localization of Walmart in China. An insider from Walmart revealed to the local media that the company will continue to speed up its expansion in China in 2010 and in the future the Chinese market is expected to have the most Walmart stores worldwide, exceeding even its domestic American market.\(^{48}\)

Since 2009, Walmart has set up more than 10 wholly owned subsidiaries in Chinese cities and provinces, including Hunan, Chongqing, Hubei, and Dongguan. Before setting up these regional subsidiaries, Walmart cooperated with Chinese companies, including Shenzhen International Trust & Investment, for expansion in China. However, the complicated operating processes slowed down the retailer’s expansion. With the help of these new subsidiaries, Walmart opened nearly 40 new outlets in 2009 and the

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### Exhibit 5 Walmart Actual and Projected Capital Expenditure 2009–2011 (US$ billions)

<table>
<thead>
<tr>
<th>Segment</th>
<th>Actual FY09</th>
<th>Projected FY10</th>
<th>Projected FY11</th>
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<tbody>
<tr>
<td>Walmart U.S.</td>
<td>$5.8</td>
<td>$6.6–6.8</td>
<td>$7.0–8.0</td>
</tr>
<tr>
<td>Sam’s Club U.S.</td>
<td>$0.8</td>
<td>$0.8–0.9</td>
<td>$0.7–1.0</td>
</tr>
<tr>
<td>Walmart International</td>
<td>$4.1</td>
<td>$4.2–4.4</td>
<td>$4.5–5.0</td>
</tr>
<tr>
<td>Corporate</td>
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<td>$0.9–1.0</td>
<td>$0.8–1.0</td>
</tr>
<tr>
<td>Total</td>
<td>$11.5</td>
<td>$12.5–13.1</td>
<td>$13.0–15.0</td>
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</tbody>
</table>

Source: walmartstores.com.

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### Exhibit 6 Walmart Actual and Projected Square Footage Growth by Segment (in millions)

<table>
<thead>
<tr>
<th>Additional Square Footage Growth by Segment</th>
<th>Actual</th>
<th>Projected</th>
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</thead>
<tbody>
<tr>
<td>Walmart U.S.</td>
<td>23</td>
<td>14</td>
</tr>
<tr>
<td>Sam’s Club U.S.</td>
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<td>1</td>
</tr>
<tr>
<td>Walmart International</td>
<td>19</td>
<td>23</td>
</tr>
<tr>
<td>Total Company</td>
<td>44</td>
<td>38</td>
</tr>
<tr>
<td></td>
<td>37</td>
<td></td>
</tr>
</tbody>
</table>

Source: walmartstores.com.
total number of Walmart stores in China exceeded that of its competitor Carrefour for the first time.\(^\text{49}\)

**Brazil**

In this most open of the large emerging economies, the world’s two biggest supermarket chains and a homegrown competitor are battling for dominance. Leading the field is Companhia Brasileira de Distribuição Grupo Pão de Açúcar, with revenues of $13 billion in 2009. Close behind is France’s Carrefour, with sales last year of $12.6 billion. In third place, but making a big push, is the world’s No. 1 retailer, Walmart Stores, which operates under several names in Brazil. It racked up $9.5 billion in sales in Brazil last in 2009.\(^\text{50}\)

All three plan to invest big in Brazil in coming years. As its middle class expands, annual spending on food is expected to rise 30 percent over the next five years, to $406 billion, says Carlos Hernandez, a Madrid-based analyst at consultant Planet Retail. Among the emerging nations known as the BRICs, Brazil offers fewer barriers to business than Russia, India, and China. India bans foreign stores that sell multiple brands, and Russia limits expansion by retailers. China is attractive because of its rapid economic growth, expected to be 8 percent in 2010, versus 5.8 percent in Brazil. However, “Brazil is more developed in terms of infrastructure and wealth creation,” says Justin Scarborough, a retail analyst at Royal Bank of Scotland in London. “Consumers are used to shopping in hypermarkets, whereas retail in China is more traditional.”\(^\text{51}\)

Already No. 1 in Mexico, Walmart aims to overtake Carrefour to become No. 2 or No. 1 in Latin America’s largest market. The Bentonville (Arkansas) retailer plans to spend $1.2 billion this year to open 110 new stores in Brazil, on top of the 436 it now operates. It may also scout out an acquisition, says Héctor Núñez, president of Walmart Brazil. “We have a very, very clear plan to win here in Brazil,” he says. “We are investing heavily to start having a much more solid and persuasive presence.”\(^\text{52}\)

Walmart is opening the cash spigot at a time when Carrefour is contending with the recession in Europe, which accounts for 80 percent of its revenues. Annual sales growth for the Paris-based chain at home has averaged less than 1 percent over the last 10 years. To defend its No. 2 position in Brazil, Carrefour is planning to spend $1.4 billion over the next two years. The goal: to add 70 stores and double Brazil’s share of Carrefour’s overall sales to 20 percent by 2015. Pão de Açúcar, which is 34 percent owned by French supermarket chain Casino, says it will invest $2.8 billion to add 300 stores to its 1,080-store chain by 2012.\(^\text{53}\)

**India and Russia**

The other two attractive growing markets from the BRIC group that also draw Walmart’s attention are India and Russia. India and Russia are widely regarded as two of the world’s fastest-growing retail markets—and two of the most frustrating for foreign retailers. Walmart boasts one wholesale outlet so far in India, and it has only a 30-person development administrative office in Moscow to show after more than five years of scouting in Russia. But through a combination of joint ventures, acquisitions, and expansion, the retailer is hoping to become a major player in both countries.\(^\text{54}\)

India’s $350 billion retail sector is composed of small family-run ventures, with organized chains accounting for less than 5 percent of sales. To get around government restrictions on foreign retailers selling to consumers, Walmart recently teamed up with Bharti Enterprises to open a cash-and-carry operation in the northern city of Amritsar. Best Price Modern Wholesale, as it’s called, technically caters to merchants and small businesses. But with few restrictions, more than 30,000 members have signed up for the first store.\(^\text{55}\)

As in the U.S., the emphasis is on a wide selection of goods in one location at a low cost—everything from Castrol motor oil and sneakers to milk in large canisters that can be tied to the side of bicycles. Best Price employs 25 people to go around the region each week and check prices at mom-and-pop shops, to ensure that they’re consistently offering the best value. Raj Jain, a former Whirlpool executive who now heads Walmart’s Indian operations, also opened a training institute in Amritsar last December in partnership with Bharti and the Punjab government.\(^\text{56}\)

Walmart plans to open 10 to 15 outlets through the partnership over the next three years, eventually employing about 5,000 people. But McMillon wants to see Walmart running its own retail stores there, too. He pressed his case with commerce and agriculture ministers in New Delhi in July. “What I tried to convey is that we would invest more, and faster, if we had the opportunity to do so,” he says. A representative from the Indian government declined to comment.\(^\text{57}\)

In April of 2010 Scott Price, president and CEO of Walmart Asia, reinforced the major points of Walmart’s Asian strategy: “We will capture 10 to 15 markets in Asia in ten years. At present, expansion plans for India alone is the full time job for us.” He also noted that India has a lot of potential as it has availability of a highly educated workforce. “The retail giant would also like to increase sourcing from India for their stores all over the world,” he said.\(^\text{58}\)

In Russia, the impediments to retail development are less visible but no less worrisome. Corruption is rampant with various administrative authorities capable of gumming up operations if payments are not made. Anti-corruption group Transparency International ranked Russia 147th out of 180 countries on its most recent corruption perception index. While Walmart is looking at opening its own stores in Russia, it’s far more likely it will start by acquiring a local retailer. Analysts say the prime candidate
is Lenta, a fast-growing, privately held chain of 34 hypermarkets and the nation’s fifth-largest retailer. Lenta founder Oleg Zherebtsov is saddled with debts and sold his 35 percent stake to the investment group of private equity firm TPG and the private equity arm of Russian state bank VTB in early September. 79

According to another source Walmart made a preliminary offer to the Kopeika store chain in June 2009. 60 Walmart is not the first retailer Kopeika has dealt with. X5 Retail Group tried to negotiate a deal at the end of 2008 and it was in discussions with Magnit in January 2009. Kopeika operates a network of around 500 supermarkets in Moscow and the Moscow region, where it competes with around 400 X5 Retail Group Pyaterochka stores and Dixy Group’s outlets. Walmart is actively seeking a partner in Russia. It was in negotiations with St. Petersburg-based hypermarket operator Lenta in 2008, but no deal was reached. 61 With rivals such as Metro expanding their presence through new stores, and Carefour opening its second outlet in September, “they cannot wait,” says Planet Retail analyst Milos Ryba. 62

Canada

Established in 1994 and headquartered in Mississauga, Ontario, Walmart Canada currently operates 317 stores and serves more than 1 million customers each day across Canada. Walmart is Canada’s third-largest retailer with more than 85,000 associates, and was recently named one of Canada’s top 10 corporate cultures by Waterstone Human Capital. 63

In February 2010 Walmart Canada announced that the company will open 35 to 40 supercentres in 2010. According to Walmart, the projects will include new stores, relocations of existing stores, store expansions, and store remodels, representing a combined investment of almost half a billion dollars in Canadian communities. The supercentres are expected to generate approximately 6,500 store and construction jobs, with specific store locations to be announced over the coming weeks and months. “The combination of one-stop shopping and low prices that our supercentres provide has been embraced by our customers,” said David Cheesewright, president and CEO of Walmart Canada. “We look forward to bringing this popular format to a new range of shoppers.” 64

In addition to store expansions, Walmart Canada is investing in its first sustainable refrigerated distribution center, which is anticipated to open in Balzac, Alberta, in the fall of this year. The company is investing $115 million in its construction. The center will create 1,400 jobs, including trade and construction jobs. 65

Expected to be one of the most energy-efficient distribution facilities of its kind in North America, the cutting-edge distribution center will be an estimated 60 percent more energy-efficient than Walmart’s traditional refrigerated distribution centers. The center will include a pilot of fuel cell technology and many other sustainable features. Walmart Canada is committed to reducing costs while implementing energy-saving strategies across its operations. The company’s new stores are now 30 percent more energy-efficient than previous prototypes. 66

South Africa

In October of 2010, it was announced that Walmart was conducting due diligence on Massmart, a leading retailer in South Africa which operates 288 large stores located in 14 African countries, most of them in South Africa where it has a strong presence catering to a range of customers. Initially, reports suggested that Walmart would offer 32 billion rand ($4.63 billion) to own Massmart outright. 67 Subsequently, it was reported that Walmart would bid only for a majority controlling share (more than 50 percent but less than 100 percent) in order to preserve Massmart’s listing on the Johannesburg stock exchange. 68 If either deal goes through, it would place Walmart ahead of its European competitors Tesco PLC and Carrefour SA, which don’t have any stores in Africa.

Walmart’s Global.com Challenge to Amazon.com

In January 2010 Vice Chairman Eduardo Castro-Wright announced that Walmart is creating a new unit that will be responsible for driving online growth around the world, both in developed markets where the company has stores and an online presence and in markets it doesn’t. This new organization will be called Global.com. 69

Wan Ling Martello, formerly the Chief Financial Officer of Walmart International, will be the Executive Vice President and Chief Operating Officer of Global.com. In her new role, Wan Ling’s primary responsibilities will include (1) development and execution of a global strategy for e-commerce; (2) establishing cross-functional and cross-border Walmart relationships designed to accelerate and broaden growth in the global online channel; and (3) the creation of technology platforms and applications that can be used effectively in every Walmart market. 70

In early 2008, the retailer said it would invest “millions of dollars” in its global e-commerce initiative, which it labeled “a multi-billion dollar opportunity over the next three to five years.” Walmart, with stores in 15 countries, currently operates separate e-commerce sites in the U.S., U.K., Mexico, and Brazil. It has been working on developing a single global e-commerce platform that would be replicable in all of its markets, similar to the model developed by its rival Amazon. 71

In the U.S., where the retailer competes directly with Amazon, Walmart has named Steve Nave, currently chief...
operating officer, as general manager of its website, taking over from Raul Vazquez, who has taken a new position as head of the retailer’s new Walmart West division.

But Mr. Nave will now report directly to John Fleming, the chief merchandising officer who himself previously served as CEO of Walmart.com. Mr. Castro-Wright said Walmart hopes to “integrate merchandising and operations capabilities of the dot-com organization with those of our traditional retail business.” Walmart’s online marketing will now be overseen directly by Stephen Quinn, its chief marketing officer.

The changes reflect Walmart’s strategy of tying its website closely to its stores, which some argue could give it a long-term strategic advantage over Amazon. Currently around 40 percent of its U.S. business is delivered to stores for pickup under its “site to store” service, which it sees as also augmenting the development of smaller format stores in the future.72

Questions for Review

1. What was Walmart’s early global expansion strategy? Why did it choose to first enter Mexico and Canada rather 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 it learn from its experience in Germany and 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 brings 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?

Exercise

You are part of Walmart’s global strategic planning group and have been asked to explore the benefits and challenges of expansion into one of the following regions. Divide into 6 teams, each representing a country or region of the world other than North America.

<table>
<thead>
<tr>
<th>Team</th>
<th>Country/Region</th>
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<tbody>
<tr>
<td>1</td>
<td>Latin America</td>
</tr>
<tr>
<td>2</td>
<td>Western Europe</td>
</tr>
<tr>
<td>3</td>
<td>Central/Eastern Europe</td>
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<tr>
<td>4</td>
<td>Japan</td>
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<td>5</td>
<td>China</td>
</tr>
<tr>
<td>6</td>
<td>Russia</td>
</tr>
</tbody>
</table>

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. It is not intended to illustrate either effective or ineffective managerial capability or administrative responsibility.

Please ignore the exercise.

Answer only the first 3 questions - not the fourth one.