Walmart’s international expansion: successes and miscalculations

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Successful companies often internationalize in stages, with a less committed international entry mode (e.g. exports, joint ventures) and gain knowledge in the process that helps to prepare for an increasingly committed foreign entry mode (e.g. acquisition, greenfield). Knowledge about the culture and political systems in these early forays coupled with significant knowledge about their own business capabilities position firms for success. The ability to identify where their specific skills, capabilities and competencies lie contributes to success.

In recent years, information technology, communication and travel were expected to contribute to a homogenization of international consumers, but differences in national culture have remained and perhaps have grown more diverse (de Mooij and Hofstede, 2002). International expansion must always consider the role of national culture in business dealings and cannot assume that computing technologies are used in the same way around the world.

Walmart has learned these lessons through its expansions into many countries, beginning with joint ventures, then expanding by direct purchases of established retail outlets or direct entry. From its small town beginnings in 1962, Walmart has grown to be the largest private employer in the world, fueled by its strategy of “everyday low prices”, made possible by the relentless pursuit of supply chain efficiencies. However, this growth has not been achieved without controversy. The company has been criticized for labor practices, disruption of communities, treatment of women, abuse of suppliers and driving manufacturing jobs overseas, among other things. And growth has not been without reversals, particularly in the company’s efforts to expand internationally.

While there is no cookie cutter approach to successful international expansion, companies generally need to ask two basic questions as they consider making such a move:

Q1. What key business competencies have been mastered in the domestic market that might be “exported” to other markets?

Q2. How do we tailor these competencies to address cultural differences with goals of acceptance and meeting business demand in international locations?

This paper examines cases where Walmart has been able to export its domestic competencies in ways that are acceptable in other cultures, as well as cases in which it has not.

The beginning of international expansion

Founded and thriving on the principle of economies of scale, Walmart began selling for less in small rural towns that were ignored by other large retailers. Walmart offered products at
cheaper prices than its competition. Increasing its competitive advantage, Walmart introduced the “supercenter strategy” in 1988 to create a “one-stop shopping” experience for all of its consumers’ needs. During its first 30 years of operation, Walmart grew to 1,928 stores located throughout the USA. In 1992, Walmart began international expansion into Mexico. The firm’s 30 years of domestic experience, before it entered Mexico using a cooperative strategy, provided a springboard for success and future expansion. Currently, Walmart operates in 28 countries, with 4,672 stores in the USA and 6,363 stores internationally.

Given the interest in international expansion and the passage of the North American Free Trade Agreement (NAFTA), Walmart established an international division in 1993. Shifting its attention to Canada, Walmart acquired 122 Woolco stores in 1994 that were rebranded as Walmart stores in 1995 (Walmart Inc, 1995). Anticipating the potential of the Chinese market, the company entered Hong Kong in 1995, which was then still a British Colony, and opened three warehouse clubs via a local joint venture.

Walmart focused its efforts on two countries in South America initially, Argentina (with wholly owned subsidiaries) and Brazil (via joint venture). By 1999, Walmart had ventured into Germany, South Korea and the UK (Walmart Stores Inc., 1996/2016). By 1999, Walmart employed over one million associates.

In 2002, the company entered the Japanese market with a minority stake in the Seiyu markets. By 2005, it had acquired a majority stake and, by 2008, had taken full control. In 2010, Walmart opened stores in India and South Africa in 2011. By 2015, Walmart had over 11,000 retail units and more than 2,000,000 associates worldwide (Walmart Stores Inc., 1996/2016). Table I provides a summary of countries, year of entry and number of stores:

- Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua; and
- Botswana, Ghana, Kenya, Lesotho, Malawi, Mozambique, Namibia, Nigeria, South Africa, Swaziland, Tanzania, Uganda and Zambia.

Walmart’s international revenue is growing at a rapid pace, with $136.5bn by 2015. The international segment of operations was the fastest growing revenue segment. Yet the international segment’s profitability is lower, because of high front-end costs involved with setting up expansion overseas (Soni, 2015). Walmart will continue to pursue international expansion because of the profitability and seeks to do so through expansion of both stores and e-commerce.

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<thead>
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<th>Table I</th>
<th>Walmart’s global presence</th>
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<td><strong>Country</strong></td>
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<td>Chile</td>
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<td>Africa (2)</td>
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*Source: SEC 10-K Report 2016*
Walmart in Canada and China

Canada and China are two of Walmart’s larger foreign locations, each with about 400 stores. There are vast differences in culture and population, as well as political and economic distinctions. While Canadian shoppers are older and wealthier and located in less densely populated areas, Chinese shoppers are largely urban, with far more shoppers per store.

Walmart was one of the first companies to cross borders into Canada and Mexico soon after NAFTA was signed. Before Walmart entered Canada in 1994, many Canadians were going into the USA to purchase products at Walmart (Heller, 2015). This factor was a pivotal starting point for Walmart’s success in Canada.

The company did not enter Canada with a “supercenter” philosophy, but started with smaller discount stores and then gradually transitioned to supercenters. Walmart had little competition until Target entered the Canadian market in 2011, which allowed Canadian consumers time to accept Walmart and its everyday low prices. In the Canadian culture, it is an insult for an international company to offer “lesser offerings” than it offers in its domestic market (Heller, 2015). Walmart has been able to build strong impressions in customers’ minds with its products and their overall value (Mun and Yazdanifard, 2012).

In China, Walmart entered more slowly, over ten years, with a limited number of retail outlets. In 2008, Walmart purchased 108 Trust-Mart stores, which increased its stake in the Chinese market.

Culturally, Chinese consumers are different from Canadians and US consumers. Although generally considered utilitarian shoppers, a recent study shows that 68 percent of Chinese actually enjoy shopping and do not see it as a chore or a bore (Jing Daily, 2014). In addition, 45 per cent tend to shop in stores, while 40 per cent shop online and 25 per cent use mobile apps. They are multichannel shoppers with several components making up their ideal shopping experience (Jing Daily, 2014). Chinese are also very brand conscious, although not brand loyal. Over 60 per cent purchase a name brand, yet Chinese often do not know what they want until they are presented with options at the point of sale (Bain and Company, 2012).

With the acquisition of Trust-Mart’s network, Walmart became the biggest retailer in China. As in the USA, Walmart works with suppliers who are proactive in terms of meeting cost, quality and delivery targets (Mun and Yazdanifard, 2012).

When the company entered the Chinese market, its objective was to “be a national retail chain with no interrelated national distribution system” (Mun and Yazdanifard, 2012, p. 3). Even though union demands created difficulties in developing a distribution system, Walmart continued to strive for success in China. Walmart’s successful marketing in China involved large discounts and top values on its products, similar to strategies in the USA (Mun and Yazdanifard, 2012).

Walmart has made efforts to understand the Chinese culture and values. As the Chinese like very fresh seafood, Walmart managers strove for their food to be presented as “fresh” and “installed live fish tanks and cut [the fish] right there as an extreme way to know the freshness” exists (Lee, 2012, p. 5). Additionally, they removed styrofoam vinyl from their meat products to display the meat as “raw and open”, as it is usually displayed in markets in
China. Overall, Walmart in China has worked to achieve the right balance between quality, assortment and price.

Common threads tie Walmart’s success together in Canada and China. Overall, the most important driver of success relates to culture. When Walmart enters countries, managers must understand the needs and wants of consumers and their preferred shopping patterns. Competitors are ready to step into the gap. In both countries, Walmart has remained ahead of the competition.

Failures in international expansion

Walmart entered Germany in 1997 and South Korea in 1998 and exited both in 2006. It has also struggled in Japan. The lack of understanding about the cultural habits with respect to shopping was a common theme in these failures, along with an ethnocentric approach to management staffing in the host country. These led to Walmart’s pullout from Germany and South Korea. The company entered Japan and Brazil later but still has not learned necessary lessons to thrive in those countries.

Walmart saw Germany as having a healthy per capita income that allowed for high levels of consumption and a well-maintained infrastructure, which would promote an efficient supply chain. However, Walmart was unsuccessful in its attempt to export its US retail model to Germany. Legislative differences, cultural misunderstandings and use of non-German management led to the failure. The US approach of long store hours (24-hour access) complements a low-cost leader strategy and Walmart’s everyday low prices by increasing volume. This advantage was not available in Germany, which limits retailers to operating 80 hours per week.

Culturally, the concept of store associates smiling when dealing with German customers is viewed as strange and interpreted as flirting. Employees bagging customer merchandise is not common in Germany and is considered unsanitary (Geisler, 2012). The precise, results-oriented nature of German culture viewed the Walmart “greeter” as an unnecessary expense that was passed on to customers (Shurrab, 2014). In addition, Walmart relied on non-German-speaking US executives to head German operations and made English the official company language at Walmart Germany (Shurrab, 2014). This disregard for German language and culture was obvious to German employees. The company also failed to understand the role of labor unions in Germany, where companies and unions are closely connected (Landler and Barbaro, 2006).

Walmart entered South Korea in 1998 and its withdrawal in 2006 can again be attributed to three main issues: the concept of value, cultural shopping habits and use of local management (Kim, 2008). The Korean perspective of value pertains to high quality, good customer service and promotional events/free product promotions (Kim, 2008). Walmart failed to appreciate Korean consumers’ shopping habits with respect to their frequent purchase of food, which is expected to be of high quality, impeccably fresh and close to home. Also, Korean consumers did not like shopping at Walmart for non-food items. The company’s US-
centric approach to store planning employed primarily US management. In contrast, Tesco, a British multinational grocery and general merchandise retailer, achieved success in Korea using mainly local Korean management, working with a local partner (Samsung) and employing only a small contingent of home country (UK) management (Kim, 2008).

Walmart also misread the local culture and located its stores in locations outside of cities, not where many South Koreans live and shop. South Koreans prefer to shop in inner city locations that are more convenient. This made the competition even more appealing to consumers. The mistakes that Walmart made in South Korea damaged its reputation so much that the company withdrew from South Korea in 2006.

Struggles in international expansion

While there are some clear successes and failures in Walmart’s international forays, in other countries, there has been a mix of expansion and contraction.

Walmart entered the Brazilian market in 1995, and in 2015, Walmart leadership decided to conduct an active review of their portfolio, which resulted in a decision to close 60 of 558 Walmart locations. The closing did not, to any great degree, reduce Walmart’s presence in Brazil, as the revenue lost only accounted for five percent of sales in that market (Taylor, 2016).

In Brazil, Walmart is the third largest retailer behind Carrefour and Casino, both of which are French retailers. Brazil’s shopping culture is vastly different from that of the USA. Brazilians do not embrace the “supercenter” or “stocking up” philosophies, primarily because of their limited income. This drives a shopping culture strongly focused on stretching income through multiple visits, coupon use and vigorous comparison shopping to ensure that customers get the best deal on their purchases. Walmart has faced stiff competition from the French retailers who have embraced the “Brazilians’ penchant for promotions and bargain hunting” (Sciaudone, 2014).

A major cultural faux pas occurred when Walmart managers, seeking to provide products related the Brazilian love of futebol (soccer), stocked store shelves with Dallas Cowboy (American football) merchandise. This was not only a communications error, but a cultural ignorance error that hurt and embarrassed Walmart.

Additionally, Walmart decided to locate stores on the outskirts of major cities that made it difficult for shoppers to access them. Like many South Koreans, very few Brazilians travel by car. These are common themes in each of Walmart’s missteps.

Walmart ventured into Japan in 2002. With a population of 127 million, one of the highest per capita income and largest economies in the world, Japan is a very attractive market for retailers. In Japan, there are complex factors such as “regulatory challenges, complex supply chain, language challenges, and strong cartels” that prove difficult for all businesses, including Walmart (Lee, 2012, p. 1). In addition to all of these factors, the biggest challenge that Walmart faces in Japan are the “highly sophisticated and demanding consumers” (Lee, 2012, p. 1).

Japanese shoppers tend to shop frequently and typically do not stock up on products because of lack of storage space in their homes. The Japanese culture finds discount prices offensive, as they prefer luxury brands as a symbol of their status in the society and
as having high quality because of high price. Consumers in Japan view the everyday low price strategy as “low price, low quality” (Lee, 2012).

Based on experiences in Germany and South Korea and struggles in Brazil and Japan, the underlying factor seems to be cultural ignorance when transplanting Walmart’s domestic strategy directly into new markets with little consideration for local customs, culture and policies and procedures.

If Walmart had taken time to understand each of the countries’ cultures before entering, then it would have been able to tailor its strategies to best meet local consumer needs. Having stores specific to each country would have demonstrated to consumers that the company valued them was willing to fully serve them.

### Potential altered trade agreements – major impact on Walmart

Walmart has convinced people that they are paying lower prices for the same goods that have higher price tags in other big-box retailers, a strategy that has been successful. With recent talk of imposing tariffs and altering long-standing trade agreements between the USA and trading partners, Walmart’s operations may be impacted in a negative way, at least in the USA. Currently, Walmart imports $50bn of goods from China each year (Dwyer, 2016). If higher tariffs are imposed in the US, then higher costs will be felt immediately and Walmart’s competitive advantage of lower prices may be compromised. Other retailers will face the same tariffs, however, so Walmart will not be the only retailer affected.

Depending on how much of the price increases each retailer passes on to consumers, all prices may rise with tariffs, which would not affect Walmart’s position as the low-cost provider. Uncertainty and speculation about the potential changes to trade agreements is difficult to gauge so far.

### Recommendations for Walmart as it continues to grow internationally

As evidenced by Walmart’s expansion into 30 countries throughout the world, the company has been mostly successful. It was initially slow to enter other countries and then went on an internationalization binge in the 1990s and early 2000s. By 2011, Walmart had more international stores than US locations. However, international profits have remained low and have lagged those of domestic net sales (Walmart Store Inc., 1996/2016). The shift in global expansion efforts was altered by the exits from Germany and South Korea in 2006 and the announced reductions in stores in 2016. If Walmart plans to find continued international success, then it must learn to be culturally sensitive and align the domestic Walmart model to each country’s values.

The growth of online shopping internationally will also fundamentally alter international expansion for Walmart and other retailers. Interestingly, Chinese shoppers may be leading the trend in online shopping, as nearly 65 percent of Chinese shoppers use their mobile phones for online shopping, are more likely to buy from off-shore online retailers and are more likely to use their mobile phones to compare prices than either Canadian or US consumers.
shoppers (PWC, 2016). Walmart’s recent acquisition of Jet.com is sending a clear signal that brick and mortar shopping is not the only way to expand internationally (Walmart Business, 2016). Walmart’s supply chain infrastructure and expertise coupled with a greater willingness for shoppers to purchase from international retailers online will help to drive profitable international growth.

Considering the projected growth in online shopping, retailers with global aspirations need to have a strong and sustainable competitive advantage (e.g. products, operations, marketing and brand name reputation) in addition to a clear internationalization plan. The same factors critical to brick and mortar expansion are applicable to online growth. Having a successful, long-term presence in selected countries requires a clear understanding of each country’s infrastructure, demographics, political and economic systems, in addition to cultural awareness and an understanding of shopping practices.

References


Further reading


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