Wal-Mart’s Global Expansion

Established in Arkansas in 1962 by Sam Walton, Wal-Mart has grown rapidly to become the largest retailer in the world with 2002 sales of $218 billion, 1.3 million associates (Wal-Mart’s term for employees), and some 4,500 stores. Until 1991, Wal-Mart’s operations were confined to the United States, where it established a competitive advantage based upon a combination of efficient merchandising and progressive human relations policies. Among other things, Wal-Mart was a leader in the implementation of information systems to track product sales and inventory, it developed one of the most efficient distribution systems in the world, and was one of the first companies to promote widespread stock ownership among employees. These practices led to high productivity that enabled Wal-Mart to drive down its operating costs, which it passed on to consumers in the form of everyday low prices, a strategy that enabled the company to gain market share first in general merchandising, where it now dominates, and later in food retailing, where it is taking market share from established supermarkets.

By 1990, however, Wal-Mart realized that its opportunities for growth in the United States were becoming more limited. By 1995 the company would be active in all 50 states. Management calculated that by the early 2000s, its domestic growth opportunities would be constrained by market saturation. So the company decided to expand globally. Initially, the critics scoffed. Wal-Mart, they said, was too American a company. While its retailing practices were well-suited to America, they would not work in other countries where infrastructure was different, where consumer tastes and preferences varied, and where established retailers already dominated.

Unperturbed, Wal-Mart started to expand internationally in 1991 by opening its first stores in Mexico. The Mexican operation was established as a joint venture with Cifera, the largest local retailer. Initially, Wal-Mart made a number of missteps that seemed to prove the critics right. Wal-Mart had problems replicating its efficient distribution system in Mexico. Poor infrastructure, crowded roads, and a lack of leverage with local suppliers, many of which could not or would not deliver directly to Wal-Mart’s stores or distribution centers, resulted in stock problems and raised costs and prices. Initially, prices at Wal-Mart in Mexico were some 20 percent above prices for comparable products in the company’s U.S. stores, which limited Wal-Mart’s ability to gain market share. There were also problems with merchandise selection. Initially, many of the stores in Mexico carried items that were popular in the United States. These included ice skates, riding lawn mowers, leaf blowers, and fishing tackle. These items did not sell well in Mexico, so managers would slash prices to move inventory, only to find that the company’s automated information systems would immediately order more inventory to replenish the depleted stock.

By the mid-1990s, however, Wal-Mart had learned from its early mistakes and adapted its Mexican operations to match the local environment. A partnership with a Mexican trucking company dramatically improved the distribution system, while more careful stocking practices meant that the Mexican stores sold merchandise that appealed more to local tastes and preferences. As Wal-Mart’s presence grew, many of Wal-Mart’s suppliers built factories near its Mexican distribution centers so that they could better serve the company, which helped to further drive down inventory and logistics costs. Today, Mexico is a jewel in Wal-Mart’s international operations. In 1998, Wal-Mart acquired a controlling interest in Cifera. By 2002, Wal-Mart was more than twice the size of its nearest rival in Mexico with 600 stores and revenues of more than $10 billion.

The Mexican experience proved to Wal-Mart that it could compete outside the United States. It has subsequently expanded into eight other countries. In Canada, Britain, Germany, Japan, and South Korea, Wal-Mart entered by acquiring existing retailers and then transferring its information systems, logistics, and management expertise. In Brazil, Argentina, and China, Wal-Mart established its own stores. As a result of these moves, by 2002 the company had over 1,200 stores outside the United States, 303,000 associates, and generated international revenues of more than $35 billion.

Initially undertaken as a response to market saturation in the United States, Wal-Mart’s international expansion has been aided by three developments. First, as barriers to cross-border investment fell during the 1990s, it became possible for Wal-Mart to enter foreign nations on a significant scale. Wal-Mart’s 1996 entry into China, for example, where it now has 26 stores, would not have been possible a decade earlier. Second, by expanding internationally Wal-Mart has been able to reap significant economies of scale from its global buying power. Many of Wal-Mart’s key suppliers have long been international companies; for example, General Electric (appliances), Unilever (food products), and Procter & Gamble (personal care products) are all major Wal-Mart suppliers that have long had their own global operations. By building international reach, Wal-Mart has used its enhanced size to demand deeper discounts from the local operations of its global suppliers, increasing the company’s ability to lower
Part 1 Introduction and Overview

prices to consumers, gain market share, and ultimately earn greater profits. Third, advances in information systems, particularly the spread of Internet-based software, have enabled Wal-Mart to exert considerable control over its global operations, tracking individual store sales, inventory, pricing, and profit data on a daily basis.

Wal-Mart realized that if it didn’t expand internationally, other global retailers would beat it to the punch. In fact, Wal-Mart faces significant global competition from Carrefour of France, Ahold of Holland, and Tesco from the United Kingdom. Carrefour, the world’s second largest retailer, is perhaps the most global of the lot. The pioneer of the hypermarket concept now operates in 26 countries and generates more than 50 percent of its sales outside France. Compared to this, Wal-Mart is a laggard with just 17 percent of its sales generated from international operations. However, there is still room for significant global expansion. The global retailing market is still very fragmented. The top 25 retailers controlled just 18 percent of worldwide retail sales in 2002, although forecasts suggest the figure could reach 40 percent by 2009, with Latin America, Southeast Asia, and Eastern Europe being the main battlegrounds.


Introduction

A fundamental shift is occurring in the world economy. We are moving away from a world in which national economies were relatively self-contained entities, isolated from each other by barriers to cross-border trade and investment; by distance, time zones, and language; and by national differences in government regulation, culture, and business systems. And we are moving toward a world in which barriers to cross-border trade and investment are tumbling; perceived distance is shrinking due to advances in transportation and telecommunications technology; material culture is starting to look similar the world over; and national economies are merging into an interdependent global economic system. The process by which this is occurring is commonly referred to as globalization.

In this interdependent global economy, an American might drive to work in a car designed in Germany that was assembled in Mexico by DaimlerChrysler from components made in the United States and Japan that were fabricated from Korean steel and Malaysian rubber. She may have filled the car with gasoline at a BP service station owned by a British multinational company. The gasoline could have been made from oil pumped out of a well off the coast of Africa by a French oil company that transported it to the United States in a ship owned by a Greek shipping line. While driving to work, the American might talk to her stockbroker on a Nokia cell phone that was designed in Finland and assembled in Texas using chip sets produced in Taiwan that were designed by Indian engineers working at a firm in San Diego, California, called Qualcomm. She could tell the stockbroker to purchase shares in Deutsche Telekom, a German telecommunications firm transformed from a former state-owned monopoly into a global company by an energetic Israeli CEO. She may turn on the car radio, which was made in Malaysia by a Japanese firm, to hear a popular hip-hop song composed by a Swede and sung by a group of Danes in English who signed a record contract with a French music company to promote their record in America. The driver might pull into a drive-through coffee stall run by a Korean immigrant and order “single-tall-non-fat latte” and chocolate-covered biscotti. The coffee beans come from Brazil and the chocolate from Peru, while the biscotti was made locally using an old Italian recipe. After the song ends, a news announcer might inform the American listener that antiglobalization protests at a meeting of heads of state in Davos, Switzer-