2. You are working for a company that is planning to invest in a foreign country. Management has requested a report regarding the attractiveness of alternative countries based on the potential return of foreign direct investment (FDI). Accordingly, the ranking of the top 25 countries in terms of FDI attractiveness is a crucial ingredient for your report. A colleague mentioned a potentially useful tool called the “FDI Confidence Index” which is updated periodically. Find this index and provide additional information regarding how the index is constructed.

Minicase 13.1 Wal-Mart Takes On the World

Founded in the U.S. state of Arkansas by Sam Walton in 1962, Wal-Mart has developed into the largest retailer in the world and the largest company on the Fortune 500 list, with sales of $312.4 billion in fiscal 2006. Embodying high levels of service, strong inventory management, and purchasing economies, Wal-Mart overpowered competitors and became the dominant firm in the U.S. retail industry. After rapid expansion during the 1980s and 1990s, Wal-Mart faces limits to growth in its home market and has been forced to look internationally for opportunities.

Many skeptics claimed that Wal-Mart’s business practices and culture could not be transferred internationally. Yet, in its first decade of operations outside the United States, the company’s globalization efforts progressed at a rapid pace. As of 2006, over 40 percent of Wal-Mart’s stores were located outside the United States. Its more than 2,700 international retail units employ over 450,000 associates in 13 international markets. In fiscal 2007, Wal-Mart planned to open at least 220 additional international units. Wal-Mart’s sales from international operations are expected to reach $78 billion in 2007, a level that is expected to increase substantially over the next decade. If the international business were an independent chain, it would be the fourth-largest retailer in the world, behind Wal-Mart’s U.S. operations, Home Depot, and Carrefour.

Globalizing Wal-Mart: Where and How to Begin?

When Wal-Mart began to expand internationally, it had to decide which countries to target. Although the European retail market was large, to succeed there Wal-Mart would have had to take market share from established competitors. Instead, Wal-Mart deliberately selected emerging markets as its starting point for international expansion. In Latin America, it targeted nations with large, growing populations—Mexico, Argentina, and Brazil—and in Asia it aimed at China. Because the company lacked the organizational, managerial, and financial resources to simultaneously pursue all of these markets, Wal-Mart pursued a very deliberate entry strategy for the emerging markets, focusing first on the Americas rather than the more culturally and geographically distant Asian marketplace.

For its first international store, opened in 1991 in Mexico City, the company used a 50-50 joint venture. This entry mode helped Wal-Mart manage the substantial differences in culture and income between the United States and Mexico. Its Mexican partner, the retail conglomerate, Cifra, provided expertise in operating in the Mexican market and a base for learning about retailing in that country. When it entered Brazil in 1996, Wal-Mart was able to leverage its learning from the Mexican experience to take a majority position in a 60-40 venture with a local retailer, Lojas Americana. When the company subsequently entered Argentina, it did so on a wholly owned basis. After gaining experience with partners, in 1997 Wal-Mart expanded further in Mexico by acquiring a controlling interest in Cifra, which it renamed in 2000 to Wal-Mart de México S. A. de C. V. By 2006, Wal-Mart operated 808 units in Mexico in 30 states, achieving annual sales of $15.8 billion and employing over 130,000. It accounts 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 Wal-Mart blueprint in Argentina, or in some of the other international markets we’ve entered, for that matter,” said the president of Wal-Mart International. “In Mexico City we sold tennis balls that wouldn’t bounce right in the high altitude. 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. We responded by creating bus shuttles to drop customers off at the door. These were all mistakes that were easy to address, but we’re now working smarter internationally to avoid cultural and regional problems on the front end.”

“Wal-Mart’s initial entry into Brazil used greenfield store sites and emphasized aggressive pricing to build market share, but the French retailer Carrefour and other Brazilian competitors retaliated, launching a costly price war. Wal-Mart’s strength in international sourcing was initially of limited assistance in Brazil, since the leading sales category—food—was primarily sourced locally, where Carrefour and others had already built strong relationships with local suppliers. Over time, Wal-Mart changed its competitive emphasis to customer service and a broader merchandise mix than smaller local companies could match. The company also pursued acquisitions to supplement internal growth, buying 118 Bompreço stores in 2004 and 140 Sonae stores in 2005. By 2006, Wal-Mart was the third-largest retailer in Brazil, operating 293 stores and employing 50,000 associates.

The Challenge of China

The lure of China, the world’s most populous nation, proved too great to ignore. Wal-Mart was one of the first international
retailers in China when it set up operations in 1996. Before Wal-Mart's arrival, state-owned retailers typically offered a limited range of products, often of low quality, and most stores were poorly lit, dirty, and disorganized.

Concerned about their potential impact on local firms, Beijing restricted the operations of foreign retailers. These restrictions included requirements for government-backed partners and limitations on the number and location of stores. Initially, Wal-Mart's partner was Charoen Pokphand, a Thai conglomerate with massive investments in China and a strong track record with joint ventures. This venture was terminated after 18 months, due to differences regarding control. A new venture was subsequently formed with two politically connected partners, Shenzhen Economic Development Zone and Shenzhen International Trust and Investment Corporation, and Wal-Mart was able to negotiate a controlling stake in the venture. The first Chinese Wal-Mart store was in Shenzhen, a rapidly growing city bordering Hong Kong. The company chose to concentrate its initial activities in Shenzhen while it learned about Chinese retailing.

Wal-Mart had many well-publicized miscues while learning how to do business in China. For example, some household items found at American Wal-Marts are not found in the Chinese stores. "Their shopping list isn't as extensive as ours. If you ask the majority of people here what a paper towel is, they either don't know or they think it's some kind of luxury item," said the president of Wal-Mart China. The company eliminated matching kitchen towels and window curtains, since the wide variety of Chinese window sizes caused people to make their own curtains. Consumers purchased four times the number of small appliances than projected, but Wal-Mart no longer tried 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. Yet, although "people say the Chinese don't like sweets, we sure sell a lot of M&Ms," said Joe Hatfield, president of Wal-Mart's Asian retailing operations.

Operationally, the scarcity of highly modernized suppliers in China frustrated Wal-Mart's initial attempts to achieve high levels of efficiency. Bar coding was not standardized in China, and retailers had to either recode goods themselves or distribute labels to suppliers, procedures that increased costs and hindered efficiency. Pressured to appease the government's desire for local sourcing of products, while maintaining the aura of being an American shopping experience, Wal-Mart's solution was to source about 85 percent of the Chinese stores' purchases from local manufacturers but heavily weight purchasing toward locally produced American brands (such as products from Procter & Gamble's factories in China). Wal-Mart also mass-markets 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. "What this place is going to look like 10 to 20 years from now—and what the consumer will be ready to buy—is hard to even think about. There are 800 million farmers out there who've probably never even tasted a Coke," said Hatfield.

Wal-Mart 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. The company learned to curry favor through actions such as inviting Chinese officials to visit Wal-Mart's headquarters in the United States, assisting local charities, and even building a school for the local community. Wal-Mart expected its small-town folksiness to be a strong asset in China. "Price has been an issue, but there's always somebody who can under sell you. A young person who's smiling and saying, 'Can I help you?' is a big part of the equation. Most places in this country you don't get that," said the president of Wal-Mart International. "Over the last two years, Wal-Mart has learned a tremendous amount about serving our Chinese customers, and our excitement about expanding in the market and in Asia has never been stronger."

Wal-Mart was only the 20th-largest retailer in China at the end of 2005, with sales less than half those of industry leader Carrefour of France. Wal-Mart's 59 stores in China, employing over 30,000 associates, represented a small fraction of its worldwide retailing operations. Yet, Wal-Mart estimated that its operations in China could be nearly as large as in the U.S. within 20 years and the lessons Wal-Mart has learned have positioned the company to exploit future market-opening initiatives in China. It purchases nearly $20 billion worth of local merchandise annually, making it China's sixth-largest export market if it were a company. Wal-Mart's objective is to use its existing stores and growing supplier network as a basis for the creation of a nationwide chain. Wal-Mart's head of Asian operations stated, "We are not just going to march out all over China. The focus was instead on expanding slowly, trying to make friends and gain respect as it does so. In March 2006, the company announced that it would hire about 150,000 workers in China during the next five years as part of its planned expansion strategy.

A major change in Wal-Mart's China growth strategy occurred in October 2006. It was announced that the company had outbid competitors Carrefour, the United Kingdom's Tesco, and Lianhua of China to acquire Trust-Mart, a chain of over 100 supercenters located in 20 cities across China. This acquisition, for approximately $1 billion, would immediately give Wal-Mart the largest network of food and department stores in China, with combined sales of over $3 billion for 2006.

A Different Approach for Entering Canada and Europe

After focusing initial international expansion efforts on large developing nations, Wal-Mart began to pursue the Canadian and European markets. Strong, entrenched competitors in these mature, developed country markets hindered Wal-Mart's prospects for obtaining critical mass solely through internal growth. Rather than first developing its retail operations from scratch, as in Latin America and Asia, Wal-Mart entered via acquisitions.

The company entered Canada by acquiring 122 Woolco stores in 1994. Wal-Mart quickly restructured the money-losing Canadian operations, applying many of the practices that had been successful in the United States. Transition teams were brought in from the United States to help with the transformation, and within two years the Canadian operations were profitable. Its 278 stores, employing 70,000 associates, now
account for more than 35 percent of the Canadian discount-and department-store retail market. Wal-Mart's "Buy Canadian" program, launched in 1994, has resulted in more than 80 percent of the company's merchandise being purchased from suppliers that operate in Canada.

In Europe, Wal-Mart entered Germany by acquiring the profitable 21-unit Wertkauf hypermarket chain in 1998 and 74 Interspar stores in 1999. The company entered the United Kingdom in 1999 through the acquisition of the 229-store ASDA Group. These acquisitions allowed Wal-Mart to build market share quickly within the highly advanced and competitive European retail market. From this base, additional growth is anticipated through the opening of new stores, supplemented with further acquisitions. By 2006, the company had 88 Supercenters in Germany. It is the second-largest supermarket chain in the United Kingdom, with 321 stores and 140,000 associates, but has been losing ground to industry leader Tesco Plc.

Although successful in rapidly building European market share, Wal-Mart still encountered difficulties. Acquiring two German companies within a year proved too much for the company to handle with its limited European infrastructure. Efforts to centralize purchasing and leverage Wal-Mart's famous competencies in information systems and inventory management were stymied by problems with suppliers that were not familiar with such practices.

The introduction of Wal-Mart's "always low prices" approach met resistance from competitors and regulators. Indeed, the company was ordered by Germany's Cartel Office to raise prices, charging that Wal-Mart had helped to spark a price war by illegally selling some items below cost. Wal-Mart also challenged existing retail practices regarding hours of operation. Laws required shops to close by 8 P.M. on weekdays and 4 P.M. on Saturdays and to remain closed on Sundays. However, Wal-Mart stores began to open by 7 A.M., two hours earlier than most competitors, and the company has lobbied for additional reforms to allow later closing times. These changes have sparked vehement opposition from smaller competitors and employees' unions.

As it struggled to build a strong competitive base, Wal-Mart Germany lost between $120 million and $200 million in 1999, and the losses continued each year following. Lacking the scale of operations to create competitive advantage, and facing strong competition in a mature marketplace, In July 2006 Wal-Mart announced that it was selling its German operations to a competitor, Metro. Earlier that year, Wal-Mart had also announced that it was selling its Korean operations to competitor Shinsegae after Wal-Mart failed to achieve successful scale and performance in that Asian market.

A Base for Continued Globalization Efforts

Wal-Mart's path to internationalization has been littered with challenges. The company has persevered and seems to have learned from its mistakes, however, and it seems well positioned for continued growth. In 2005, the company acquired one-third of Central American Retail Holding Co. which has 363 stores in Guatemala, Honduras, El Salvador, Nicaragua, and Costa Rica, and it increased its share to 51 percent in 2006 and changed the name to Wal-Mart Central America. There are still many potential markets for a Wal-Mart store, and the company is committed to exploiting these opportunities, whether they are at home or abroad. International is Wal-Mart's fastest-growing division, and the company announced that it was exploring growth opportunities in Russia and India, indicating that these countries might soon be part of the company's international market coverage.

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

Wal-Mart is currently positioning for entry into India, which has the largest population of any nation the company is not currently in. Although it is the world's eighth-largest retail market at $250 billion, the inefficiency of the Indian retail sector is well known. Over 95 percent of retail sales are made through tea stands, newspaper stalls, and mom-and-pop stores. Strict government barriers have prevented foreign-owned retail businesses, although that situation might change soon. "Many smart people—much smarter than I—believe that India could be the next China," said John Menzer, the former head of Wal-Mart's international operations and current vice chair of the company's U.S. stores. "So, certainly, as a retailer it's a place where we'd like to be."

However, exploiting the potential of India could be a major challenge, particularly given the country's notoriously frustrating bureaucracy and poor infrastructure. Wal-Mart will have to learn to manage highly protectionist and anticapitalist political parties, a bad road system, frequent power outages, 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 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 Wal-Mart.

In preparation for an eventual opening of the market, Wal-Mart has been building a foundation by establishing relationships with Indian suppliers, distributors, and consumers. The company has been conducting market studies, hiring a team of local managers, and building relationships with Indian politicians and bureaucrats. In 2005, Wal-Mart purchased $1.5 billion in Indian products for export and sale in its stores abroad. "What we found in China as we get stores on the ground and get more mass, we get to know a lot more of the suppliers. And when we know the suppliers, it gives us the opportunity to learn the product of the suppliers and actually export them," said Mr. Menzer. Clearly, Wal-Mart will need to understand the political and market dynamics and exploit the lessons it has learned from entering other emerging markets in order to achieve success when the Indian market finally opens up.

Discussion Questions

1. Why has Wal-Mart viewed international expansion as a critical part of its strategy?
2. What did Wal-Mart do to enable the company to achieve success in Canada and Latin America? Why did Wal-Mart fail to achieve similar success in Europe?

3. What should Wal-Mart do—or not do—to help ensure that the company achieves success in China and India?


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