

## ***Wal-Mart's Global Expansion Strategy***

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 stocking 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.

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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 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.

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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.

Sources: A. de Rocha and L. A. Dib, "The Entry of Wal-Mart into Brazil," *International Journal of Retail and Distribution Management* 30 (2002), pp. 61–73; "Wal-Mart: Mexico's Biggest Retailer," *Chain Store Age*, June 2001, pp. 52–54; M. N. Hamilton, "Global Food Fight," *Washington Post*, November 19, 2000, p. H1; "Global Strategy—Why Tesco Will Beat Carrefour," *Retail Week*, April 6, 2001, p. 14; "Shopping All over the World," *The Economist*, June 19, 1999, pp. 59–61; M. Flagg, "In Asia, Going to the Grocery Increasingly Means Heading for a European Retail Chain," *Wall Street Journal*, April 24, 2001, p. A21; and Wal-Mart website.