

Pest analysis
theoretical review
management essay



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Started business in Rogers, Arkansas in 1962, Walmart nowadays has become one of the largest retail companies in the world. The firm runs more than 10, 000 retail units under 69 different names in 27 countries and hires 2. 2 million associates[1]worldwide. After 50 years doing business, Walmart gains \$443. 9 billion revenue with more than 120% sales growth in the last decades. Using different modes of entry, Walmart internationally stretched its operations more than 20 years ago when entered its closest market (Mexico and Canada) before established its European business in Germany and the United Kingdom in 1997 and 2000 respectively (www. corporate. walmart. com). This writing will examine and explore the lesson learned from case study of Walmart operation in Germany using PEST analysis.

PEST analysis theoretical review

PEST analysis stands for Political, Economic, Socio-cultural and Technological that evaluates a number of dimensions of the environment, which impact on companies and pose challenges for managers (Morrison, 2011). Kotler claims that PEST analysis is a use for strategic tool for understanding market growth or decline, business position, potential and direction for operation (1998). Firm can generate specific strategies with PEST analysis, that appropriate with the new markets. It considers as one of the important decision frameworks for company before establishing the business operation.

The PEST analysis of the Walmarts

Political and legal dimension

Political environment can affect business operation either positively or negatively depends on government policy and regulation in one country.

Political environment covers about political stability, form of government, level of freedoms, incentives to foreign investors, competition law and policy and employment law (Morrison, 2011) while Wall et al (2010) pointed macro-political risk that affect all firms in the country and micro-political risk that affect only specific firms, industries or type of ventures. These factors should be measured by the Walmart when entered Germany.

Germany globally is acknowledged as a country with high level of political stability. The Global Competitiveness Report[2]2012-2013 (world economic forum, 2012) placed Germany as the top 20 for the pillar of institutional environment. The pillar of institutional environment measures the quality of political and legal dimension. Based on those fundamental reasons, Walmart entered Germany as the first step to established business in Europe.

In reality, Walmart encountered barrier from government's policy when entered Germany which the government restrict new licenses for food and groceries retailing industries. To cope with the problem, walmart acquired two local companies that are Wertkauf and Interspar to established business in German market.

Being successful in some countries, besides in its home country of the U. S., Walmart applied its basic philosophy to offer a broad assortment with everyday lower price[3]in Germany. The strategy, subsequently, provoked price war with local retailers, such as Aldi and Lidl. Thus, this situation led to the legal issue, which against the German laws that try to inhibit the direct competition between big retailers and small-medium enterprises.

Moreover, there is also a requirement to provide financial information for every firm, based by the German commercial code, while Walmart argued that it is not obligatory for limited partnership company. This issue also experienced by many European firms against the alteration of commercial code, and then rose to a higher level in The European Court of Justice.

Also as 24/7[4]store chains, Walmart feel aggrieved with working hours regulation which is only maximum of eighty hours/week and not permitted to work on Sunday and holidays.

Economic dimension

The economic environment unsurprisingly is essential for international business. In particular countries, when companies plan to do business, several key economic indicators should be taking into consideration. Those indicators such as level of economic development, trends in GDP, rate of inflation, wage levels and level of unemployment, strength of currency and convertibility and rates of taxation (Morrison, 2010).

Germany as Walmart's first footprint has a solid fundamental economy. With a population of 86.5 millions (as of 2011), GDP US\$ 3,577 billions, GDP per capita US\$ 43,742 and accounted for 3.93% share of total world GDP, The Global Competitiveness Report (GCR 2012-2013) considered Germany as one of an innovation driven country that is the highest stage of countries development. The report that studied and benchmarked the many factors[5]underpinning national competitiveness among 144 countries also placed Germany as the top 6th in overall competitiveness index, and also maintained its position in rank of 30th for macroeconomic environment.

Before entering Germany, Walmart's management believed that it has opportunity to grow with these strong key economic indicators.

Walmart entered Germany in 1997 when the worldwide macroeconomic downturn has just begun with high unemployment rates. Germany's economy has also contracted and continued to fall in the eight years periods of Walmart's operation before finally it announced to leave the country by the end of 2006. Although the German government tried to apply substantial tax reform to boost retail sales in the country, Walmart still suffered significant losses in Germany as also experienced by other local retailers in that flat economy period.

Figure 1: Top 10 in Global Competitiveness Index 2012-2013

Source: The Global Competitiveness Report 2012-2013

Figure 2 : Germany performances

Source: The Global Competitiveness Report 2012-2013

Acquisition of weak companies in poor location was believed to be one of the main reasons of company's losses. Wertkauf served only small part of the country in remote area, while Interspar experienced huge losses and had poor brand image. Spent expenditures on existing stores renovation, remunerated high personnel costs and experienced unprofitable sales, made Walmart unable to generate revenue until closed its operation in Germany.

Socio-cultural dimension

People's behaviour is influenced by the social culture of one country, for instance religion, cultural grouping, level of education and social class (Morrison, 2010). Walmart success story in Canada and Mexico is not continued in Germany due to different culture and business environment. Lack of understanding about German culture led Walmart dealt with several issues when surviving its business.

Adjusting two or more different corporate culture create a tendency to difficulties, as Walmart attempted to integrate different companies which it had acquired and also acculturated to American culture. Wertkauf and Interspar have different style of operation and it took times and even created corporate culture shock to the existing employee to incorporate each other.

German buyers were not as welcome as customers from other countries, they felt uncomfortable if other people greet and offer assistance during shopping. This situation created culture gap where Walmart is known with its customer service based in the stores. Although customers are relatively unfriendly, they usually build a good relationship with their local retailers. Therefore, this loyalty disadvantages Walmart as a new comer in German retail industry.

As discussed by Geert Hofstede[6], values in the workplace are influenced by culture. German employees are considered as individualistic workers (scored 67 out of 100, higher score means more individualistic). The employee loyalty is depends on personal preferences, and it relates to their duty and responsibility to the employer. The Walmart's German management, which

bring by the company from the US, is ignorant of the importance of communication. They used English to communicate with German employees where it is not preferable for them. As a consequence, it made boundaries between employee and management.

Figure 3 : Hofstede's works of Germany culture dimension

Source: www.geert-hofstede.com

Technological Dimension

To be success in today's competitive business environment, both companies and countries should be able to acquired technological innovation and able to support the development of technological capacity building (Morrison, 2010). Refer to the previous statement, adequate government spending on R&D, strong patent protection for the new products and inventions, energy availability and costs, transport infrastructure and costs, innovation system including skilled workforce and level of technology transfer will be crucial to strengthen the competitiveness.

Germany lies in the middle of the Europe. Proximity to other countries in the Europe was presumably the main reason for Walmart to choose Germany instead of the United Kingdom, which other american companies usually entered the Europe. This strategy enables the firm to save the cost of logistics and supply chain to expand over the Europe.

Furthermore, Walmart's IT-driven supply chain is considered as a leader in the use of efficient technology that the company invested on a private satellite network and centralised system of logistics. Thousands of suppliers

incorporated into this sophisticated system but there are some retailers that failed to follow this IT system. Bringing this system into Germany had worsening the relations with suppliers since Germany's supplier were not comfortable with the Walmart centralised distribution system. Wal-Mart was also pioneering in making use of the barcode systems in 1983 (www.oxbridgewriters.com) to fasten tracking inventory and data collection. Almost three decades, the company's research and development (R&D) introduced the radio frequency identification (RFID) technology (www.cio.com) in 2005 as improvement for inventory purposes, theft and shoplifting avoidance.

Conclusion

Walmart has learnt the lessons of its expansion into Europe, especially Germany. The Walmart's failure is because of it lacks of comprehensive understanding on the targeted country. However, based on PEST analysis, Walmart did not do its homework to investigate in depth about the country, such as political circumstances, legal barriers, current economic situation and the outlook of the future economy, specific socio-cultural behaviour of one country, and technological advancement. The ignorance to the local regulation complicates Walmart to run its basic values. Insensitivity to economic situation also holds the firm to expand further. Thus, unpreparedness to adjust with new culture disharmonised firm internally and externally that consequently affected to sales growth and productivity. Although supply chain technology recognised as one of the

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irm's strength, the firm method faced refusal from some suppliers. Those lesson learned are valuable to the Walmart operation worldwide and for others such as academia and other multinational companies.