

Wal-mart goes south essay

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Competition with local supermarket companies The competition between Wal-Mart and local supermarkets has become stronger and more vicious. Wal-Mart is so large and worldwide, which grants an advantage in negotiating low prices with many suppliers. However, Local supermarkets such as Comerci, Soriana, and Gigante, do not seem to give up the market so easily.

They have already taken several actions to fight Wal-Mart continuously. Unable to get low prices Wal-Mart can get from the suppliers, local supermarkets tried using “ high and low” to attract more customers. It is a method of lowering prices of some products but not all products; they have also gone to the federal competition commission with complaints of Wal-Mart’s unfair pricing practices. Later on, Comerci – Wal-Mart’s main competitor, has formed a cooperation called Sinergia with two other struggling homegrown supermarket chains, which would allow them to negotiate better prices with suppliers. Currently, there has been notable success of Soriana, who is attempting to differentiate itself from Wal-Mart by providing products and atmosphere more appealing to middle (income) class consumers. Wal-Mart is also facing ethical and legal issues raised from their recent law suit because Wal-Mart had been paying its employees store coupons as a part of the salary, which forces the employees to shop at Wal-Mart. NAFTA’s Limitations The implementation of NAFTA has greatly reduced the costs of doing business. Wal-Mart has utilized the benefits of NAFTA very well and has passed the savings to their customers.

Therefore, with NAFTA they were able to lower prices even further on top of their originally lower price from the result of supplier advantage. However,

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there are still some limitations with NAFTA. The first limitation is that NAFTA is not as fully integrated compared to other trading blocks, such as the European Union. For example the European Union has one single currency, no tariff, one common tariff to countries outside of the EU, and the freedom for people to work anywhere within the member countries. Also, NAFTA provides “ freer” trade rather than free trade because tariffs are lower but not fully eliminated.

Secondly, The rules of origin specify that goods and services must originate in North America to get access to lower tariff. But governments sometimes determine rules of origin differently. For example assume Wal-Mart wants to import a type of product from Canada, even though this product is deemed 50% North American by the Canadian government, if the Mexican government determines it is under 50%, this product will be disqualified for lower tariffs. In the situation above, companies can still go to the dispute panel but it does not always provide protection. The resolution process of settling disputes could take a very long period of time and there is no agreement to refund tariffs already paid. Protectionism by local government Wal-Mart also faces possible government intervention due to various reasons, mainly classified into two categories: economic and noneconomic rationales. Because of Wal-Mart’s predominant role in the retail industry in Mexico, local retail stores or supermarket chain could hardly survive from the competition. As a result, the pressure from more complaints to the government by homegrown supermarket companies may occur over the time.

The emerging question is, whether the Mexican government will eventually decide to protect the local retail industry. Mexican government may also fear that Wal-Mart becomes too influential to the country and its citizens. As a result, the government may increase the willingness to preserve its own national identity, and rule against Wal-Mart in some degree. Therefore, new political decisions (non-tariff barriers) may arise in the future such as new custom valuation rules, “ buy local” legislation, to reduce Wal-Mart’s competitive advantage; The Mexican government may also help the local retail industry by using direct price influences such as issuing subsidies, aid, and loans.