

A critical analysis on wal marts failure management essay



Wal-Mart, the biggest retailer in the world, started its globalization with nine countries in Asia, Europe and South America. With its attempt to penetrate hypermarket culture in every country which it enters, many severe problems come into picture. In 1997 Wal-Mart continued its strategy of globalization, and acquired two German retail chains for \$1.6 billion. After eight unprofitable years, Wal-Mart backed out of Germany in July 2006 and sold the entire retail outlets to Metro AG. After dominating the US market for quite a long time, Wal-Mart expanded its market to Germany in 1997. In 1997 Wal-Mart continued its strategy of globalization, and acquired two German retail chains for \$1.6 billion. After eight unprofitable years, Wal-Mart backed out of Germany in July 2006 and sold the entire retail outlets to Metro AG. The Essay examines why Wal-Mart was a big failure in its international operations in Germany on a Cross-culture perspective. Inadaptability and ignorance of local culture can become a big problem in global business, even for a Corporate giant like Wal-Mart with proven success formulas. Being number one in the United States does not always guarantee for being number one elsewhere in the world. It is very important to understand the pulse of the local market and culture of the clients exactly and should make strategies accordingly and exactly that is where Wal-Mart went wrong in Germany.

COMPANY PROFILE

Wal-Mart Stores, Inc. is the largest retailer in the world, the world's second-largest company and the nation's largest nongovernmental employer. Wal-Mart Stores, Inc. operates retail stores in various retailing formats in all 50 states in the United States. The Company's mass merchandising operations

<https://assignbuster.com/a-critical-analysis-on-wal-marts-failure-management-essay/>

serve its customers primarily through the operation of three segments. The Wal-Mart Stores segment includes its discount stores, Supercenters, and Neighborhood Markets in the United States. The Sams club segment includes the warehouse membership clubs in the United States. The Company's subsidiary, McLane Company, Inc. provides products and distribution services to retail industry and institutional foodservice customers. Wal-Mart serves customers and members more than 200 million times per week at more than 8, 416 retail units under 53 different banners in 15 countries. With fiscal year 2010 sales of \$405 billion, Wal-Mart employs more than 2. 1 million associates worldwide. Nearly 75% of its stores are in the United States (Wal-Mart International Operations, 2004), but Wal-Mart is expanding internationally. The Group is engaged in the operations of retail stores located in all 50 states of the United States, Argentina, Brazil, Canada, Japan, Puerto Rico and the United Kingdom, Central America, Chile, Mexico, India and China

Wal-Marts entry and operation in Germany

Wal-Marts initial entry into German market was through the acquisitions of renowned 21 store Wertkauf chain for an estimated \$1. 04 billion in December 1997. It was followed one year later by the acquisition of Interspars 74 hypermarkets from Spar Handels AG, the German unit of the French Intermarch Group , for 560 million. Thus Wal-Mart immediately became the countrys fourth biggest operator of hypermarkets. However, with a turnover of around 2. 9 billion, and a stagnating market share of just 1. 1 per cent, the US giant still was a negligible one in the German retail market. Even worse, with estimated accumulated losses of more than 1
<https://assignbuster.com/a-critical-analysis-on-wal-marts-failure-management-essay/>

billion, it is literally drowning in red ink although, according to Wal-Mart Germanys CEO, Kay Hafner, its non food assortment, which accounts for around 50 per cent of its revenues, is profitable.. Instead of expanding its network of stores by 50 units by early 2001, as originally planned, the company has been forced to close two big outlets, while at the same time it was only able to fully remodel three locations into its flagship Super center format. Due to its problems the company also had to lay off around 1. 000 staff. On July 2006, Wal-Mart announced its official defeat in Germany and would sell its 85 German stores to the rival supermarket chain Metro and would book a pre-tax loss of about \$1 billion (536million) on the failed venture.

A Critical Analysis of Reasons for Wal-Marts failure in Germany:

There were several factors that contributed to Germanys unsuccessful business ride. Amazing management blunders have plagued Wal-Marts German operation from the very start.. Wal-Marts major mistakes on the German market may be summarized as follows.

Cultural Insensitivity was the major reason of failure

Entry to German market by acquisition strategy,

Failure to deliver on its legendary every-day low prices and excellent service value proposition.

Bad Publicity about the company due to breaking of some prevailing German law and regulations.

<https://assignbuster.com/a-critical-analysis-on-wal-marts-failure-management-essay/>

In January 1997, Wal-Mart had first entry in Europe market with the acquisition of Wertkauf hypermarkets in Germany. Later in that year, Wal-Mart also acquired Interspar, another German hypermarket chain.. While its first move the 1997 takeover of the 21 Wertkaufstores was indeed a shrewd one, given that companys excellent earnings, its competitive locations, and its very capable management. Wal-Marts 1998 follow-updeal with Spar for 74 hypermarkets was widely judged an ill-informed, ill-advised act, for several reasons:

Spar is considered to be the weakest player on the German market due to its mostly run-down stores, very heterogeneous in size and format, with the majority of them located in less well-off inner-city residential areas.

Wal-Marts cultural insensitivity led to its failure in Germany. This Study focuses only on the flaws made by the Wal-Mart in its International operations in Germany from a Cross-Cultural Managements perspective.

Wal-Marts failure in Germany- A Case of cultural insensitivity:

Most of the Global mergers and acquisitions failed to produce any benefit for the shareholders or reduced value, which was mainly due to the lack of intercultural competence. Lack of sensitivity and understanding of language barriers, local traditions, consumer behavior, merchandising, and employment practices irreversibly damaged Wal-Marts image in Germany.

One of the main reasons that failed Wal-Mart in Germany is when it attempted to transport the companys unique culture and retailing concept to the new country. The top management refused to even acknowledge the differences in customer behavior and culture in Germany when compared to <https://assignbuster.com/a-critical-analysis-on-wal-marts-failure-management-essay/>

its US customers, and the top management failed to listen to the feedback from its employees. Not every new cross-border retailer can be a retail giant out of its home. The mistake of exporting its culture wholesale, rather than adapting to local market, leads Wal-Mart failed in Germany market.

Wal-Mart's ambitions to position itself profitably in European markets through Germany have been hit badly by their inability to fully understand and to adapt to the specific conditions of doing business in other countries. This exposed their obvious lack of intercultural competence and management skills. The main challenge of post-merger integration is further complicated significantly if it is in a Cross-border Merger or acquisition, with all issues frequently being compounded by a lack of language and culture bridging skills. Failure to accomplish this task satisfactorily, results in mutual distrust, de-motivation and negatively impacts the merged companies' competitiveness, profits and shareholder value. This is exactly what happened to Wal-Mart Germany.

Following are the main two factors that Contributed to the Wal-Mart's unsuccessful efforts in Germany:

1) Specific Difference in German Consumer behavior and Culture in comparison with US consumers:

The biggest mistake of Wal-Mart was to ignore the local culture, local buying habits and impose an American boss on its German operations. Wal-Mart stores are designed for customers who are willing to spend a lot of time shopping. But in Germany, the shopping hours are shorter: Shops close by 5

PM on weekdays, and no shopping on Sundays. This meant that customers
<https://assignbuster.com/a-critical-analysis-on-wal-marts-failure-management-essay/>

don't have the habit of spending lots of time in a store - wandering around for the things they need. Coupled with this problem, German customers do not like to be assisted by Wal-Mart's friendly store assistants. Germans prefer to do their own search for bargains. Instead of understanding and adjusting to the culture of its clients, Wal-Mart tried to impose their culture on to the customers, which never worked out.

Germans like to see the advertised discount products upfront without having to ask the store assistant. This implies that the discount products must be placed at the eye level. Instead Wal-Mart chose to use its US style merchandise display strategy - where premium priced products are kept at eye level and discount products are kept at higher shelf or in the bottom racks. This irritated the German shoppers. Wal-Mart also got its store inventory wrong, Wal-Mart stocked its store with clothes, hardware, electronics and other non-food products were given much bigger floor space than food products, as a result more than 50% of the revenue was from non-food products. But other German retailers stock more of food products. For example for Metro, food products constitute more than 75% of the revenue. Germans prefer to bag groceries themselves into reusable carriers, or at least to pay a small fee for the avoidable sin of needing a plastic bag.

Germans are introvert in nature and doesn't like display of emotion in public, as they always care for their private personal space. Employees, like the reserved customers, didn't care for Wal-Mart's public displays of corporate moral such as the morning cheer. The German customers even didn't like to be accompanied by the cheerful employees either, as they would like to make choices by themselves. These are cultural misunderstandings as well, <https://assignbuster.com/a-critical-analysis-on-wal-marts-failure-management-essay/>

but one could say the cultural philosophy of Wal-Mart could not survive in the context of a German culture with a Happy Planet Index significantly higher than America's

2) Inefficient Top Management which ignored the relevance of local Culture:

It was clear that the cultural insensitivity of Wal-Mart started right at the top management. To begin with, it appointed four CEOs during its first four years of operation. The first head of German operations was Rob Tiarks, an expat from the USA - who did not understand Germany or its culture. He had previously supervised around 200 Supercenters in America. Not only did he not speak any German. Due to his unwillingness to learn the language, English was soon decreed as the official company language at the management level. He also ignores the complexities and the legal framework of the German retail market, ignoring any strategic advice presented to him by former Wertkauf executives. This has resulted in the resignation of top three management executives from Wertkauf. His successors were also unsuccessful in integrating German Outlets with the Wal-Mart's Business model and culture.

Suggestions and Recommendations:

Cross-border, Cross-cultural business is a challenge even for the biggest companies. Companies have to be sensitive to the local cultures and tailor their offerings to local market. To localize their offerings, Wal-Mart and other Companies that are going global companies must carry out cultural assessment of the Citizens of the Country before acquisitions. All their

Corporate Business and Communication strategies should be based on this <https://assignbuster.com/a-critical-analysis-on-wal-marts-failure-management-essay/>

cultural assessment. This will help companies measure the effectiveness of its localization efforts and make adequate changes in local strategy & tactics as and when required. Considering the following steps would help Wal-Mart or any other Company while they are on lookout of Global alliance or business.

1) Political, Social, Economic and Cultural Analysis of the Country

Before expanding its business operations to a new country, the Company should understand the Political, Social, Economic and cultural aspects of the Country in depth. Wal-Marts case, Germany was selected primarily because of a central European location and economic attractiveness of the Wertkauf acquisition. But a serious research would have shown that Germany had strong national values resistant to change; possibly the most deeply rooted retail traditions in Western Europe. This could have avoided either Wal-Marts selection of the Country or the strategies it has adopted in Germany.

2) Go global and think they are local

After conducting an in depth research about the prevailing trends in the customers Country, the Company should be ready to modify its own identity to suit itself to the cultural differences without compromising much on its Corporate Mission. This step will also force organizations to clearly define globalization goals. Wal-Mart put the company name on many German stores before being fully established. Immediately, the run down stores left an impression on consumers who formed a negative image of the Wal-Mart name.

3) Employment of Cross-Cultural Management approaches like Hampden-Turner and Trompanaars Analysis:

Employment of Hofsteds Culture Dimensions or HT&T Analysis will help Companies in understanding the minute cultural differences between the countries. For example, Communitarianism over Individualism

Germans degree of communitarianism is on the higher side mainly because Germans prefer participating on a team. Most Germans see business as a group of related persons working together. But, most of Americans see their company as a set of functions, tasks, people, machines and payments in which individuals compete.

This difference in Cultural dimensions between the 2 countries has resulted in inside management conflict among the employees, which also resulted in resignation of efficient German executives from Wal-Mart post integration.

Understanding the cultural dimensions of a Country through proven Cross-Culture models will always help a company to formulate a specific approach that will encourage team spirit and joy among the Global Team.

4) Continuous Updation of Strategies to successfully withstand the local competition

It is very important for a Global firm to continuously analyse the impact of their various strategies on the local market. Understand the shortfalls, and modify it in such a way as to cater the local market in a much better way than the competitors. It is always better to scrutinize the strategies adopted by them with a panel of Local experts, as they will be having a better picture
<https://assignbuster.com/a-critical-analysis-on-wal-marts-failure-management-essay/>

about the local consuming behavior and culture. Perceptions do matter a lot, So a surveys to find the customers perception about the company will also help them to change their strategies accordingly.

Conclusion:

Even though Wall-Mart was the Biggest of the companies, while going Global understanding the culture of customers, employees of the new Country is very critical for the success. The achievement in the U. S. market cannot always guarantee that Wal-Mart will also success in anywhere else.

Companies need to understand the local culture in order to capitalize on the local market. The lessons learned from Wal-Marts experience in Germany, can be applied by other retailers who are planning to go global for expanding its market. . If the world's largest retailer had taken the time to analyze the German mindset, it could have avoided a very painful lesson when Germans rejected Wal-Mart's American-style which was highly successful in home country.