

Walmart success in mexico canada and china marketing essay



**ASSIGN
BUSTER**

Global expansion has been gaining a lot of attention from all businesses that planned to expand abroad. Important factors that needs to be considered in the decision making process will be business strategies, entry modes, and threats and opportunities available in the markets. Appropriate strategies used will also help to minimize the risk of failure in the international markets. When a firm makes the right choice of business strategies and entry modes, the firm will then be able to succeed in the market and do well in the market as well. The choice of entry modes and business strategies will influence the future of the retailer in the targeted markets as well. Therefore, retailers who wish to go global should use the most suitable approaches to enter their targeted markets to ensure success to their business.

Keywords: global expansion, business strategies, entry modes, threats, opportunities, Walmart

Introduction

Many researches had been done to study more about internalization of the retail industry and the majority of researches done are mainly used to describe the motivations and scales for international expansion by retailers (Akehurst & Alexander, 1995; Williams, 1992). Besides that, many models of internalization explained the sequence of foreign expansion that shows that the companies who go international will do better in foreign markets that are similar to their domestic markets. This is why Walmart chose to enter the markets of Canada and Mexico (Johanson & Vahlne, 1977). There are several reasons why international retailing had been a popular issue. Retailers who take the step to go into the international market is mainly because the domestic markets is saturated, needs for larger diverse investments,

<https://assignbuster.com/walmart-success-in-mexico-canada-and-china-marketing-essay/>

economic pressures and many external and internal forces that leads retailers to enter new markets and it is important for the retailer to choose the right market entry strategy into the international markets (Sternquist, 2007). There are several researches done with a conclusion that retailers can minimize the risk of entry strategies by choosing the markets which are similar to the domestic market from the aspects of cultural, geographical and growth potentials. (Barkema & Vermeulen, 1998; Welch & Welch, 1996).

Walmart is established in 1962, by Sam Walton. Walmart got its name from the family name Walton, giving Walmart the meaning of Walton's mart in long. Walmart is a strong company and it managed to survive in the 2008 recession hit in United States. Walmart had been growing fast throughout the years and the sales and market growth were increasing every year. For a fast growing retailer like Walmart, it is important to have use the best entry modes to enter a new market (Fred, 2011).

Global expansion

Global retail expansion has attracted many businesspersons, especially big sized companies which wish to increase their business's profits and market share. Global expansion not only attracts large organizations but also small to medium-sized companies, some companies who are new to international expansion as well, and those who are in more mature organizations. The success achieved by newer specialty retailers in the international market, for example, Zara (Spain), H&M (Sweden), and Shanghai Tang (Hong Kong) have motivated and created the way for other organizations to follow. However, there is also numerous numbers of well-known retailers who have failed in their expansion in certain global markets which is caused by several reasons, <https://assignbuster.com/walmart-success-in-mexico-canada-and-china-marketing-essay/>

such as regulatory, legal and cultural challenges, competition, and trying to change shopping behavior (Cox, 2011). Besides that, retailers who made the decision to operate only in neighboring markets, as well as it is located geographically close to their home markets, will expect to face a lower level of such risks (Burt, 1993; Davis, Desai, & Francis, 2000; Hollander, 1970; Knee, 1993; Robinson & Clarke-Hill, 1990).

Numerous top managers are also becoming more cautious on the problem of maintaining a common identity and culture in the process of trying to build up global enterprises (Joshua & Chi, 2007). Moreover, it is very tough for businesses to make their decisions on choosing the most appropriate markets for their business development because there is no accurate and reliable information provided to the businesses. Domestic players in the markets will only portray the potentials side of the markets and hide the disadvantages just to attract businesses into the market (Jackson, Houdard, & Highfield, 2008).

Comparison of business strategies used by Walmart in Mexico, Canada and China

There are different business strategies used by Walmart in Mexico, Canada and China. In Mexico, Walmart acquired Central American Retail Holding Co. who was struggling with accounting issues in 2006. After the acquisition, Walmart renamed the business with Walmart Centroamérica. Central American Retail Holding Co. was previously the largest retailer in Central America. Walmart took the step where they re-launched the whole chain of retail stores under the Central American Retail Holding Co. with wider product assortments, and lower pricing strategy. The reason why they does

<https://assignbuster.com/walmart-success-in-mexico-canada-and-china-marketing-essay/>

this is because low pricing strategy is the basic strategy to expand Walmart's philosophy, "Every Day Low Price" to all part of the world ("Basic Strategy: 'Be More Walmart!'," 2011). Walmart's main strategy in Mexico is the multi-format strategy where through this strategy; Walmart can serve different groups of consumers at the same time being able to fulfill all the various needs of these groups of people. Bodega Aurrera in Mexico is the company's fastest growing format. There are three versions of this store. Bodega Aurrera Express stores are designed as very small outlets to serve urban areas such as Mexico City and Monterrey. Mi Bodega Aurrera is designed to serve rural towns and these stores created a great achievement for Walmart ("Multiple Formats Equal Flexibility," 2011).

In Canada, Walmart Canada is creating a new home branding effort that place the Better Homes & Gardens license as the core for both hard and soft home categories ("Wal-Mart International Improves Game," 2007). Every products offered has clear and obvious differences from any other products in the market and this will leave a strong image in the customers' minds that these products were originated from Walmart's fashion and value chain ("Wal-Mart International Improves Game," 2007). Besides that, Walmart Canada is implementing the use of Radio Frequency Identification Technology (RFID) which involves 20 stores and about 12 of their suppliers. This implementation was influenced by the parent country in United States where this system will help eliminate inventories out of stock. The implementation was an important step in the United States and it is important to Walmart Canada as well. Walmart Canada will focus on the use of this technology to improve their supply chain as well as customer

services. Equipped stores will be able to use the system to track tagged items in the stores and they can take necessary actions if anything happens. The system is a very important goal to be achieved by Walmart Canada because it can reduce errors occurred in manual restocking methods and the most important issue is that it can reduce over stock in the stores, and it can reduce unnecessary transportation caused which then leads to reduction in emissions of carbons (Mammarella, 2007). The success of Walmart can also be seen through its achievement in having a large grocery insert in its Canadian discount stores where the insert was called " Grocery Shelf" that provides a big return on capital at low risk (Orgel, 2005).

In China, Walmart is targeting to be one of the national retail chains in the country with no interrelated national distribution system. With this aim, it can be obvious that the rewards are huge, if Walmart is able to succeed. Besides that, the mainland retail market are estimated to be worth US\$750 billion by 2008 and this will be a supporting point for Walmart to succeed. The only thing Walmart need to be worried about is the distribution system. This is because; the company has given in to unionization demands from the state-run, All-China Federation of Trade Unions, where it shows an important climb down from Walmart's anti-union US point of view (" Distribution critical to Wal-Mart China strategy," 2006). However, Walmart will not be influenced. The marketing strategies used by Walmart for BRIC and other developing countries will still involve great huge discounts and great values on all of their products like how they do it in their home country, maintaining low prices every day to all their customers, especially middle-class customers, on the same time, maintaining the growth of their profits as

well. According to JPMorgan and analyst Charles Grom, Walmart's main objective for future success is not to overdo Target in the United States. They also said that, Walmart will start to work on more interrelated marketing strategies and merchandising messages to serve their low end customer as well, instead on just focusing on middle-class customers and this could implied to the BRIC countries' Walmart's expansions as well (Frazier, 2007). Besides that, Walmart in China had a great success in using cost leadership and this strategy had generated huge revenues for Walmart in China. Therefore, Walmart planned to continue with the cost leadership strategy, as well as implementing a new strategy, that is differentiation (George, 2007).

Comparison of entry modes

Another reason for retailers to expand into the global markets is because the market in their home country is highly saturated and this created a more competitive market. Therefore, multinational retailers will choose to expand into markets which are less saturated than their home markets. For example, Sears, Kmart and Walmart's most successful expansion is to expand to Mexico and Canada, which is categorized in the North America region. How do multinational retailers choose their entry mode to the selected markets? Multinational retailers that are expanding to markets which are culturally diversified will choose to have a local joint venture with local retailers in the country to help them learn more about the country (Sternquist, 2007).

Walmart in Mexico penetrated the market with a joint venture with its local player, CIFRA. CIFRA is the largest retailer in Mexico and Walmart is the largest retailer in the USA. With this reason, Walmart's decision to have a <https://assignbuster.com/walmart-success-in-mexico-canada-and-china-marketing-essay/>

joint venture with CIFRA will definitely be a success because CIFRA will help Walmart have better knowledge on Mexican markets. In Mexico, CIFRA supplied Walmart will supplier connections, knowledge about the local culture as well as helping Walmart to work with local authorities. This will ensure successful expansion of Walmart's power in the Mexican markets, and Walmart can have the greatest influence in the shortest time period. In return of CIFRA's help, Walmart transfers their logistics knowledge to CIFRA which will also help CIFRA to improve on their supply chain management. (Sternquist, 1997). Under Walmart's agreement with CIFRA, Walmart opened membership warehouse clubs, known as Club Aurrera, which does catering to small businesses and selected groups of consumers. The first Club Aurrera was opened in Mexico City in December 1991. (" Global Push Begins in Mexico," 2012). Besides that, CIFRA and Walmart also announced another two joint ventures, the first one is to start up a wholesale discount Aurrera stores, and the second one is to start up an import-export company that will provide CIFRA's Mexican suppliers to have access to other Walmart outlets in the United States (Millman, 1991).

Walmart entered the Canadian markets through the entry mode acquisition. In 1994, Walmart announced its entry into Canada with the purchase of 120 out of 142 Woolco discount stores which are located on the north of the border from the Woolworth Corporation. In 1993, the Woolco stores had total sales of \$1. 14 billion (" Woolco Purchase Yields Entry Into Canada," 2012). Walmart had avoided a time-consuming problem, which are faced by other American retailers who entered the Canadian market, which is to build up stores. Walmart had save their time because they took the step to buy the

established stores of Woolco, where most of it had floor space of 100, 000 square feet or more. Walmart had also benefited from the making choices for strategic and attractive leases (“Woolco Purchase Yields Entry Into Canada,” 2012). In 2011, Walmart Canada announced that it had also completed another acquisition from Target Canada with a total of 39 store locations which is currently occupied by Zellers (“Canada Newswire,” 2011).

Most multinational enterprises had the same thought that entering China is not an option for their business to expand, but it is a strategic necessity for the future of their business. The economy in China is growing rapidly that supports the living of the whole population in China, which is 1.3 billion. China is believed to be a country which has economic superpower and it is a very huge market in the 21st century (Schlevogt, 2000a, 2000b). On the other hand, Walmart is facing slow growth in the United States, and with these available attractive reasons, Walmart aimed to be the top in the retail sector in China with its acquisition of Trust-Mart (Naughton, Schafer, Ansfield, & Lin, 2006). Other than using the acquisition strategy, Walmart also used the offshore sourcing strategy. Walmart sees that China is a major production or assembly source country and Walmart needed the help of China for the production and assemble of their products in the United States. Walmart then took the offshore sourcing strategy. Today, Walmart is the single largest export channel from Chinese manufacturers to the United States, with a record of at least 4% in China's overseas sales (Goldstein, 2003). Interestingly, Walmart does not have any manufacturing plants in China and it does not have a direct control over the production process of its suppliers in China. Instead, the suppliers are those who take control and

responsibility to meet certain levels of requirements, for example cost, quality and delivery (Shih, 2004). With this strategy, Walmart can hold to their “ Everyday Low Price” philosophy. This is because; Walmart can keep their production cost low, at the same time gaining the maximum benefits. Walmart also utilizes its strong bargaining position, at the same time maintaining a high level of ownership. This can be seen in their selling strategy, where Walmart buys the products at a cheaper price from China, and reselling them at a higher price in the United States and other parts of the world, at the same time gaining the profits and achieving their aim in providing the lowest prices. In other words, Walmart maintains a high level of ownership control but its management control is low (Goldstein, 2003).

Comparison of opportunities and threats

“ Threat” and “ opportunity” are two terms which are often used in terms strategic management in businesses (Mintzberg, Raisinghini, & Theoret, 1976; Nutt, 1984). These categories are often used to make strategic decisions and it had become a necessity for firms to use these two terms to evaluate their selected markets. The results and issues obtained from environmental analysis are categorized as threats and opportunities faced by the business (Christensen, Andrews, Bower, Hamermesh, & Porter, 1982).

Opportunities

Mexico

In 2007, Walmart de Mexico had made a huge investment of \$1 billion dollars for new developments and they opened 136 new units from all its

existing business formats. This development includes opening of new units of <https://assignbuster.com/walmart-success-in-mexico-canada-and-china-marketing-essay/>

57 Bodega Aurrera units, 16 Walmart Supercenters, 6 Sam's Clubs, 4 Superamas, 15 Suburbia stores and 38 Vips and El Porton Restaurants. The new stores opened spreads on two categories, the existing cities and new cities. The expansion in new cities can increase the firm's coverage of new customers, and as for the existing cities, Walmart will have the advantage to dominate the market more widely. Besides that, the expansion of new stores will help boost the amount of new customer, as well as result in greater sales (DATAMONITOR: Wal-Mart de Mexico., 2008). The consumers today have changing preferences on choices of places to buy groceries and other daily products. customer now no longer prefer traditional retail, and they now prefer larger and more standardized hypermarket and supermarket chains, and the most important is the stores can offer lower and more attractive prices, as well as providing the convenience to the customers. In Mexico, the market share of modern formats of stores had increased almost 50% as compared from year 2005-2010. The change in the customers' preferences will create an opportunity for Wal-Mart to expand its chains to more cities in Mexico (DATAMONITOR: Wal-Mart de Mexico., 2008).

China

Walmart Stores had signed an agreement to acquire a little stake of Yihaodian. com, China's largest online retailer. If the acquisition is successful, Walmart will have the chance to expand their business to the world of online shopping market, which will then generate more revenue. However, China's anti-monopoly bureau considers the acquisition might create an effect that exclude or restrict the competition of value-added telecommunications services market segments in China (" China approves <https://assignbuster.com/walmart-success-in-mexico-canada-and-china-marketing-essay/>

Wal-Mart control of Yihaodian.,” 2012). Apart from Walmart having control of services of Yihaodian. com, Yihaodian. com can also take the advantage of using Walmart’s supplier and logistics resources to increase their stock-keeping unit by tracking the inventories closely using the system (Mass Grocery Retail., 2012).

Another opportunity available for Walmart is the concept of discount store formats. Walmart can take the first step to start a discount store format expansion before other retailers do because the discount store format is now an attractive option for retailers in China. Walmart is the biggest retailer in China because of the acquisition of Trust-Mart’s 100-outlet-strong hypermarket network. Therefore, Walmart has the opportunity to expand in China, by launching a new “ discount compact hypermarket” format formed under Trust-Mart in China (Mass Grocery Retail., 2012).

Canada

Walmart in Canada can expand its chain to the food retailing sector in Canada, since Target will be a competitor of Walmart in Canada. Walmart will have the competitive advantage over Target if they were to get involved in the food retailing industry because Target may be limited in food retailing (Orgel, 2011). Walmart Canada had announced the retailer’s planning of opening three supercenters in Québec. Walmart also ensures the quality of products they offer in the new store to gain customers’ confidence (Canada, 2011). Besides that, Walmart’s low price strategy had given Walmart a great opportunity compared to other retailers in Canada, and this will ensure that Walmart’s path in Canada will be stable (Swain, 1994). Another opportunity

for Walmart in Canada is their decision to bring their warehouse club, Sam's Club into Canada and this will help Wal-Mart by gaining increasing popularity in the market (Robin, 2003).

Threats

Mexico

In February 2006, Mexico's retail association Asociacion Nacional de Tiendas de Autoservicio y Departamentales (ANTAD) sent many requests to the Congress to approved the proposals to upgrade the anti-monopoly laws to an international standards. This will affect Walmart de Mexico, because, if the laws are being approved, Walmart de Mexico will lose its advantage of its better technology and larger size as compared to other smaller retailers, to offer the lowest prices in the market. Walmart Stores is also facing this problem in the company's parent country in United States because, Walmart is a big retailer, and they are offering low prices and this will affect smaller retailers to quit from the industry. In this case, Walmart de Mexico's expansion plans in Mexico will be affected by the laws and regulations in Mexico (DATAMONITOR: Wal-Mart de Mexico., 2008).

Other than that, another main issue that Walmart Mexico faces is opposition towards their expansion in Mexico, mainly from the government and local retailer. A slow growing economy will cause a lower purchasing power in a country. The economy in Mexico is an important threat to Walmart because the slow growth in the Mexican economy will affect the consumer spending and it will affect Walmart's growth in Mexico (DATAMONITOR: Wal-Mart de Mexico., 2008). Besides that, the intense competition in Mexico will also be a <https://assignbuster.com/walmart-success-in-mexico-canada-and-china-marketing-essay/>

threat for Walmart. In Mexico, Walmart is also facing a strong competition from Mexican supermarket chains because the retail industry in Mexico is saturated. Some examples of Walmart's strong international and domestic competitors are Organizacion Soriana, Controladora, Chedraui, and Gigante. These retailers are having an intense competition with Walmart. The increasing competition from these retailers might affect Walmart de Mexico, especially in terms of profitability (DATAMONITOR: Wal-Mart de Mexico., 2008).

China

Walmart plans to expand bigger in China and the company had planned to open another ten stores throughout the urban areas. However, the effort faced some challenges, mainly from the government of China. China's state-controlled All-China Federation of Trade Union (ACFTU) had planned to take the action to sue Walmart as well as other non-Chinese companies if these companies do not have union branches in their Chinese operations. The main problem in this issue is, Walmart is well-known for their anti-union stance. In order for them to survive in the market, Walmart had agreed to respect the choice of their employees in China who wants to set up a union. This action may benefit China, but Walmart will have restrictions handling employee benefits and limited ways in resolving grievances. Even though there were many problems faced, as a multinational retailer, it is a must for Walmart to adapt to the specific markets they are operating in ("Wal-Mart: in union with China," 2005).

Canada

<https://assignbuster.com/walmart-success-in-mexico-canada-and-china-marketing-essay/>

Walmart Canada's largest threat will be the acquisition of Zellers Inc. by Target Corporation. The entry of Target Corporation will be another add-on to the intense competition of retailers in Canada. In the acquisition, Target took over 220 stores under Zellers, and this could impact Walmart as a big retailer because Target is growing fast after the acquisition (Orgel, 2011). The retail industry in Canada is very intense and saturated and the retail market is full of strong grocers and this will be a threat for Walmart because there will be more competition and this will slow down and eventually reduce Walmart's sales in Canada (Dunn, 2006). Besides that, Walmart also faces Canada's regulatory threats where Walmart needs to face the legal challenges from Saint-Hyacinthe certification (Springer, 2005). Besides that, Walmart is trying to introduce organic food in the country as well, and this will be a threat to Walmart because Walmart does not have a proper marketing strategy to market the product in their stores in Canada because there are other small-sized organic food suppliers which can offer a lower price (Goodbaum, 2006).

Discussion

Walmart is indeed a good example of a successful retailer that successfully expands and survives in the international markets. This also proves that there is the potential for retailers in domestic markets to expand their business into the international market with the condition that they use the appropriate marketing strategies and entry modes to penetrate the market. However, Walmart should also have sufficient information on the markets so that they can adapt into the market with lesser barriers. Walmart had been a successful retailer in the United States and today, and they are still growing

across the world, mainly in United States, Canada and Mexico. Walmart also uses different types of marketing strategies and entry modes to dominate the markets, and this gives the large retailer a huge competitive advantage over other retailers in the market because, Walmart's philosophy, "Every Day Low Price" had been successfully applied throughout the world where this philosophy had helped Walmart greatly in surviving in different markets on the same time providing Walmart with a bright future.

Walmart choices of strategies in the Mexican, Canadian and China markets also portray the firm's success in adapting into the country. Walmart in Mexico used the multi format strategy to set up different types of stores to satisfy majority needs and demands of the markets, and this helped Walmart in achieving a greater amount of concentration of customers. The Bodega Aurrera store chains are proves the firm's intelligence in dominating the market. These stores have different concepts such as discount stores and convenience stores that will serve different types of customers in different areas in Mexico. Secondly, in Canada, Walmart uses the retail format development strategy to approach the market. Walmart in Canda extend their offerings into the home furniture sector where these furnitures can only be found in Walmart. This will create brand awareness and brand loyalty towards Walmart in the customers. Besides that, Walmart also made full use of their satellite communication system to frequently check on the inventories in Walmart stores to decrease shortage in supply. In Canada, Walmart also have discount stores where these stores can generate high profits with low risks in the country. Thirdly, Walmart in China had achieved a huge success by using the cost leadership strategy in the country to attract

more people. This is because, the population and economy in China is growing, and Walmart can have large sales volumes, with lower price, to achieve high sales records to maintain their sustainability.

Other than these successes, Walmart had also used the appropriate entry modes to enter the markets. In Mexico, Walmart uses the joint venture mode with Mexico's largest retailer, CIFRA. This joint venture had benefited Walmart in the sense that, CIFRA can provide the firm with information on the markets in Mexico, and Walmart can save their time on the process of understanding the markets. This will give Walmart the advantage to grow faster in the market. The strategy used by Walmart in Canada is the acquisition mode, where the firm took over the operations of Woolco, a weak retailer in the Canadian markets. With this acquisition, Walmart does not need to worry on the locations of their stores, because the Woolco buildings were available, since the firm had took over them. In China, Walmart use the offshore sourcing strategy together with the acquisition strategy where Walmart can reduce their cost to find new locations, as well as reducing their production costs because production costs in China is lower compared to the United States. From the different choices of entry modes that Walmart chose, all of the strategies are working well in different markets, where these strategies helped Walmart to have a strong base in the markets. Walmart have the potential in growing in the spread of their retail stores to outside their region. With the strong market base that Walmart is standing on, it will not be a major problem if Walmart were to expand into other regions in the world. However, Walmart needs to take care of the regulations of the

countries they are penetrating, as well as the intensity of the competition in the markets.

Conclusion

Walmart's decision to expand globally had made a huge success to the firm and this can be seen in Walmart's domination in the markets. Walmart's success had been a glorious story in the business world for being able to sustain their businesses not only domestically, but also in the global context. The business strategies and entry modes used were wisely chosen and it ensures long term profitability to the firm. Even though there are challenges faced in the respective markets they penetrated successfully, Walmart still have outstanding performances in overtaking their competitors in the retail industry. Besides that, Walmart also have very strong strategic management skills because, Walmart choose their locations and targets countries carefully where this leads to the route of success for Walmart as well.

Walmart success can also be credited to their efforts in satisfying their customers from all classes. Walmart offers a wide range of products where it covers all varieties of products, from the highest price to the lowest price which is still the lowest retail price in the retail industry. With this point, Walmart will have loyal customers that will make repeated purchases in the stores. Another notable success of Walmart is, the firm is able to survive even in the toughest period of the economy, during recession. Not all businesses can survive in the recession period, because during recession, the cycle of business processes will contract, which will result in slow business growth and there will be unemployment all around. Yet, Walmart still can survive and continue its business operations during the recession <https://assignbuster.com/walmart-success-in-mexico-canada-and-china-marketing-essay/>

period. With only this point, Walmart is considered the most successful retailer in the retail industry for being able survive no matter what environment they are in.