

# Retail internationalization: gaining insights from the wal-mart experience in sou...

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## Case Study Analysis Retail Internationalization: Gaining Insights from the Wal-Mart Experience in South Korea Retail Internationalization: Gaining Insights from the Wal-Mart Experience in South Korea

### Abstract

Wal-Mart is in the business of operating retail stores and membership clubs. The company is deeply entrenched in its home market, United States. It also boasts of a massive international presence with operations in many countries throughout the world. Wal-Mart attracts customers by offering 'Every Day Low Prices'. The retailer's mission is to 'Help People Save Money So They Can Live Better'. The immensely successful Wal-Mart could not replicate its business model in South Korea. The company's stint in East Asian nation lasted less than a decade. The present paper explores the reasons for failure of Wal-Mart in South Korea.

### Case Analysis

Wal-Mart was founded in Rogers, Arkansas in 1962. From a humble beginning, Wal-Mart grew by leaps and bounds. Its value proposition of 'Every Day Low Prices' (EDLP) struck the right chord with the customers. The retailer started expanding nationally in the 1970s. By 1980, Wal-Mart had started clocking \$1 billion in annual sales. By 1990s, Wal-Mart had redefined convenience and one-stop shopping and had become the number-one retailer in the United States. The retailer ventured overseas by forging a joint venture with a Mexican retail company called Cifra (Corporate. walmart.com, 2015).

Wal-Mart's rapid and immensely successful international expansion spree hit a stumbling block when the retailer shut its South Korean operations. Wal-

Mart's exit from South Korea demonstrated that inability to adapt to local culture and customs can result in market failure for a foreign firm.

Wal-Mart set foot on the South Korean soil in 1998 by acquiring four Marco stores and six underdeveloped sites in the country. Wal-Mart found compelling reasons to succeed in the country. The Marco stores had generated revenue of \$160 million in 1997. The population of South Korea was three times than that of Florida where Wal-Mart successfully operated hundreds of stores.

The reality turned out to be otherwise. Wal-Mart called it quits in 2006 and joined the ranks of Nestle, Google and Nokia; multinationals that failed in the South Korean market. Interestingly, French retailer Carrefour had also sold its 32 South Korean stores to domestic player E-Land in April, 2006.

Why Wal-Mart Failed in South-Korea?

Wal-Mart misread the attitude, preferences and shopping habits of the South Korean consumers. Wal-Mart made mistakes in various business facets including distribution, product mix and promotion strategies (Gandolfi & Strach, 2009). Wal-Mart transplanted its U. S. business model in South Korea without modifying it to suit local conditions and preferences. Moreover, the local conglomerates like Shinsegae and Lotte were too strong to be beaten easily (Baldwin, 2015). Wal-Mart could not gain market share rapidly. Since sales were low, so were purchases. Low purchase quantities meant that Wal-Mart could not negotiate good prices from suppliers (Sang-Hun, 2006).

Wal-Mart's humungous outlets were located outside cities. The South Koreans were not accustomed to traveling long distances especially for shopping. Moreover, they did not buy in bulk and were happy picking up one

item on a shopping trip. The visually-oriented South Korean consumers did not like the warehouse-type Wal-Mart stores. They wanted neat, clean and sophisticated outlets which Wal-Mart did not provide (Gandolfi & Strach, 2009).

Wal-Mart's product mix including dry goods, electronics, and clothing put off the South Korean consumers who had a penchant for fresh vegetables and beverages. The crux of the matter is that the South Koreans were averse to shop at Wal-Mart as it had an American, culture, style and flavor. Low price alone did not prove to be a panacea as South Koreans did not differentiate between normal prices and discounted prices (Gandolfi & Strach, 2009).

Wal-Mart's failure in South Korea establishes that flexibility and adaptability are key success factors when it comes to international operations. Wal-Mart exited Germany for somewhat similar reasons (Berfield, 2013). The learning is that firms aspiring to venture overseas cannot afford to ignore the norms, culture and traditions of the host country.

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