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International Marketing and Walmart's Missed Opportunity

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Introduction

Global companies have become the norm in today's world. With the increase in globalization and the ease of communication to any country in the world, it has become imperative for companies to compete on a global scale or get left in the dust. According to Forbes Magazine, the top 500 international companies bring in an estimated 8.8 trillion dollars a year in just sales alone. Of the top 500 companies, 205 originated from the United States and are responsible for 7.1 trillion dollars a year of sales (Decarlo, 2012). In order for companies to get a piece of this very profitable market, they must be able to understand their international consumer and the countries they are working in. This understanding has to become the backbone for these expansions.

To reach international consumers, companies must adjust products to meet the tastes of consumers in that specific region. Differentiation in the four P's, price, product, promotion, and place, is the most effective way to meet those needs. Coca-Cola has had a long successful career in international markets by slightly changing the taste of their products and creating unique packaging, logistics, and ad campaigns for the area. Corporations planning to go international should also be aware of the laws of the country that they are entering. This includes any anti-trust of labor laws. Violation of these laws can not only bring fines, but can also cause bad publicity for the company.

Although companies like McDonald's, Coca-Cola, and Unilever have had strong expansions into foreign markets, not every international venture has been a success. Walmart, the world's largest retailer, currently operates in 15 different countries, including Mexico, China, and Brazil. With 4,263 international operations bringing in $100 billion in international sales, Walmart is a powerhouse that is feared by companies all around the world (Walmart, 2012). But not all international ventures have been successful for Walmart. In 1998 the company decided to take a plunge into the European market, beginning with Germany. Since Germany is the third largest retail market in the world and the strongest economy in Europe, the country seemed like the obvious choice, but the experience did not turn into dollar signs for Walmart (Knorr and Andt, 2003). After seven years of struggling in the German market, Walmart retreated in 2006 costing the company over one billion dollars (Hall, 2006). Lack of understanding of the German consumer and German law cost Walmart the opportunity to break into a 3.03 trillion dollar economy with over 81 million potential consumers and halted expansion into the Euro Zone (CIA Factbook, 2012).

In this paper I will analyze what went wrong with Walmart's attempted expansion into Germany by explaining what steps were taken to prepare, what mistakes were made and what could have been done to prevent the undesired outcome. I will also evaluate what Walmart has learned since their attempt to enter the German market and what they have applied to other international expansion projects in order to prevent reoccurring incidents.

Preparation and Adjustments

Walmart expanded into Germany with the idea that they would only have to make a few adjustments to their business approach that had been so widely successful in the United States. The company saw the country and the German consumer as a similar western market and believed that many changes would not be required in order mirror the same success they had in the United States. However, Walmart decided to venture into the German market because they saw it as a dynamic and interesting market with a mature retail culture (Andrews, 1998). At the time, Germany was the third largest economy in the world and seemed as if it were going to be very profitable for Walmart. It was the perfect opportunity to move towards German expansion because Walmart had the opportunity to acquire an existing German retail chain. Walmart did take a few steps to ensure that their operations would be well suited for the German public.

The company took a different approach than they have in the U.S. when it comes to building a new store. Instead of starting from the ground up, Walmart acquired already existing operations. Walmart began the adventure by purchasing and existing retail chain called Wertkauf. With its 21 stores in the southwest, Wertkauf had pioneered the concept of hypermarkets, selling groceries and general merchandise, in Germany. Since Wertkauf already had a reputation for large retail stores, it seemed like the perfect acquisition. But just 21 outlets were not enough. Walmart then purchased 74 hypermarkets from Spar Handel. Because the stores were smaller and less sophisticated hypermarkets, Walmart spent an estimated $150 million to update and refurbish the Spar stores (Kahn, 1999).

Walmart also made a few adjustments to their operations. The company was required to step away from their 24-hour operation approach and moved to a slimmed down to an 80-week approach. As required by law, Walmart was closed by 8p.m. on weekday nights and 4p.m. on Saturday nights. No Walmart store in Germany was opened on Sundays or Holidays, which is a great difference from their American operations. The stores did open an average two hours before their competition. This change rated highly among German consumers.

Walmart also added new items to their menu, making their services more than just selling groceries and merchandise. To increase traffic flow and to separate them from the competition Walmart hosted numerous event nights. The most popular of these nights was single night. The concept was developed by two Walmart employees who wanted to set up a single bakery employee. Single nights usually were held from 6p.m. till 8p.m. on Friday nights. Single men and women would enter the store and be greeted by the famous Walmart greeter offering wine and freshly shucked oysters. Each person interested in participating in “Singles Night” grabbed a cart that was adorned by a red ribbon stating that they were single and ready to mingle. Displays throughout the store were also targeted to the single demographic. Aisle displays consisted of romantic foods and DVDs to set the mood. Also, throughout the store there were “flirting stations”. These stations encouraged conversation between singles by providing a stopping point with tables and free chocolate. Participants are also encourages to participate in a raffle where the prize is a romantic candle light dinner for two and a night at a countryside hotel.

By 2004, 14 Walmart locations in Germany held “Singles Nights” weekly and the concept was widely successful. Friday sales were increased on average by 25%and traffic was increase by 250 to 300 people. Also, there were over 30 couples that met at one of Walmart’s “Single Nights” (Zimmerman and Schoenfeld, 2004).

Mistakes

Even though Walmart is the number one retailer in the world, the company’s experience and their famous business approach did not seem to do the trick on Germany. There were numerous mistakes the Walmart made with its approach to the German market. Many of the mistakes made stemmed from a lack of understand of the German consumer, market and government.

Problems with Acquisitions

Walmart decide to do acquisitions because it was the simplest way to find space in very populated cities and avoid many regulations placed on new businesses. However, the acquisition was simply not large enough. Starting with only 21 outlets and expanding to a maximum of 95, the retailer was not able to get maximum market penetration (Schultz, 2006). Also, since Walmart was only able to obtain a few number of stores compared to their American operations, which consisted of thousands of stores, they were not able to obtain their usual economies of scale. The lack of economies of scale raised Walmart's prices, making it hard for them to make their "low prices" claim. But his was just the beginning of Walmart's problems. Walmart's acquisition of Spar Handel ended up not being to Walmart's advantage. The locations were areas that the previous owner was unable to make profitable and Walmart did not have any better luck. Also, Spar Handel had a poor reputation of being lower quality, a reputation that Walmart was not able to shake.

Lack of Consumer Research

Walmart went into the mindset that since Germany was a western society similar to the United States, than their consumers must be similar to the American consumer. Because of this mindset, many areas of consumer research were overlooked.

The first area not taken under consideration was the difference in how Germans desire their shopping experience to be. As Americans, we look for friendly customer service and nothing exemplifies this concept as much as the Walmart greeter. German consumers were extremely put off by the Walmart greeter. They found it intrusive and extremely strange. They also did not like cashiers that always had a smile on their faces. Many consumers took happy greetings and smiling cashiers as a way of flirting with them, which made customers very uncomfortable. Germans were also very turned off by the fact that their items were bagged for them. Typical German retail markets use a "bag-it-yourself" type strategy when it comes to cashiering. Having a stranger handling their groceries was seen as unclean and intrusive. There was also an issue with the bags themselves. Germany is famous for being an extremely green and environmentally friendly country. They pride themselves on recycling, using less electricity, and driving fewer cars. Because of this green mindset, the non-reusable, plastic bags did not sit well with the average German consumer. They prefer using recycled boxes or reusable cloth bags. The fact the Walmart did not offer these alternative ways of bagging made the company look wasteful, a concept that is against German ideals.

Even the number of products Walmart carried was under fire. Walmart is famous for a large variety of products at the lowest price, a concept that has made them a powerhouse in the United States. However, this concept was extremely challenged in Germany. The average German retail store carries about 600 to 700 products at a time (Knorr and Andt, 2003). The average Walmart carries thousands of products. This large increase in the number of offered at a single retail locating greatly overwhelmed the German consumer. They did not appreciate the large selection of items and brands and it generally made them feel stressed.

Store operation was not the only thing that Walmart failed to consider. Walmart also did not take into consideration German shopping habits. Germans generally shop on price alone. Germans generally focus on price and value instead of quality and service. They are willing to buy paper towels at one store, but go to the local bakery to buy bread. Walmart is known for their low prices, but they do not typically have low prices on every item. Because of this willingness to store hop, most people would generally only buy one or two items at Walmart and make the remainder of their purchases elsewhere. These few purchases were not enough to keep a hypermarket like Walmart afloat. Germans also do not do weekly shopping, the kind of transaction that stores like Walmart depend on. Instead, Germans shop daily, buying the food and items that they need for each meal. Also, Germans generally walk or bike to do their shopping. Towns and cities are set up to where everything you need is a short walk from your house. Walmart, however, is not always a walking distance from your house. Most Germans were not willing to drive to the nearest Walmart to make the few purchases that might be cheaper (Ball, 2006).

Besides just store operation and lack of understanding of consumer habits, Walmart also had an issue of not providing often sought after goods. The stores did provide novelty American type items that were difficult to find other places in the country, but made many mistakes as far as everyday items. They did not tailor their products for the German market. For example, a normal German pillow is large and perfectly square. Most American pillows are smaller and more rectangular in shape. The German Walmarts attempted to sell American pillowcases (Schaefer, 2006). These products were of no interest to the German consumer, seeing how they did not fit their pillows.

Laws and Regulations

Walmart always seemed to be in an uphill battle with German laws and regulations that affect retail stores. One of those regulations was the cap on operating hours. By law, German stores are only allowed to be in operation 80 hours a week and they can't be open on Sundays or Holidays. All though the regulations had become more relaxed near the end of Walmart's time in Germany, they still be obligated to close their doors my 8p.m.This rule prohibited Walmart's 24-hours of operation strategy and took away vital stocking and cleaning time.

Walmart also had issues with German Anti-trust law, specifically in the area of basic food items, like sugar, flour and milk. In order to protect suppliers and keep competition fair for all retailers involved, it is illegal to sale goods below cost in Germany. Walmart was in violation of this law on many products. In order to try to keep up with other discounters, Walmart felt pressure to lower its prices below cost in order to be able to claim "low prices everyday". The German government demanded Walmart raise its prices to at least cost or face a $443,900 fine (Beck, 2000). Even other retailers jumped on Walmart for violations. The company faced lawsuits from three other retailers, including their biggest competition, Aldi's.

The German court system even got involved in some managerial issues. Unions had complained about some of management's demands. The courts stepped in a dispute about a complain system. Walmart had setup a phone system that would allow employees to inform management about other employees that were making some kind of violation. The Unions felt this was intrusive and wrong to ask employees to do management's job. The court ruled against the system and Walmart was forced to remove it (Schaefer, 2006).

These violations and issues with the law cause more than just fines for Walmart. They created extremely bad press for the company. Many German consumers would not shop at Walmart because they were uncomfortable shopping at a store the violated German law and was viewed as treating their employees badly.

Competition

Walmart also did not take into consideration the strong competition for retailers in Germany. Walmart greatly depends on grocery sales as a large percentage of their revenue. In

Germany, Walmart only accounted for 2% of the grocery sales (Ewing, 2005). The German market is filled with chain discount retailers, including Lidl. But the main retailer to beat was Aldi. Aldi had a much larger network than Walmart with over 4,000 stores (Ewing, 2005). It also usually was able to undercut Walmart on price. “In the United States Walmart is the price leader, but in Germany Aldi owns that territory, states Wolfgang Twardawa, the director of consumer research of Gfk, a German based research company. For example, at one point Aldi and Walmart both ran a special on children inline skates, but Aldi’s was over $6 cheaper. Even the few times that Walmart did have a lower price than Aldi, the difference was so small that consumers were not willing to travel the extra distance to the closest Walmart.

But price and location were not the only things that kept shoppers from picking Walmart over Aldi. On January 1st in 2002, Germany converted from the Mark to the Euro. This caused major confusion among consumers. No one knew how much products would cost under the new currency and what everything was worth. Many retailers misused this confusion. They took it as an opportunity to raise their prices astronomical amounts. It was very common for prices to jump 20 cents. Aldi, however, took a very different approach. They leaned on their reputation for having the best value in the country. Instead of raising their prices to capitalize on the confusion, they cut their prices in the biggest reduction in corporate history. Because of this reaction, Aldi was able to increase their sale by 10% and double their profits (Knorr and Andt, 2003). The way Aldi handled the Euro conversion not only cemented their reputation for great value, but also built up a loyal following. Walmart couldn’t compete in a market where its main competitor had a stronger discount reputation and a loyal following that could not be torn away.

Employees

Walmart came across man obstacles when it came to their employees. Their first big issue was they appointed a man who did not speak a word of German to run their German operations, David Wild (Landler, 2006). Although the man had experience with retail, since he had been the president of the British retailer Tesco, he knew virtually nothing about the German market.

Walmart also had an issue with employees from both companies they had acquired. Wertkauf and Spar Handle already had existing headquarters in two different parts of Germany. In order to make things more streamline and efficient, Walmart decided to combine the two headquarters in the town of Wuppertal (Zimmerman, 2006). Many of the current German employees refused to relocate and ended up leaving the company. This expertise of the German consumer and market that Walmart was depending on vanished with the experienced employees.

Walmart also had numerous conflicts revolving around unions. In the United States, Unions are not very influential in the retailing industry. Most retailers strongly encourage employees to stay away from joining unions. They paint a picture of the power hungry, money-grubbing organizations that are more interested in obtaining part of your paycheck than your rights as a worker. Because of this negative light, most retail employees that work for large corporations do not belong to any unions. This is not the case in Germany. In Germany unions are a force to be reckoned with.

The retail union the represents the employees of Walmart in Germany, ver.di, is very active and frequently steps in to deal with issues that they find compromising to employees rights (Ewing, 2005). Walmart had numerous run-ins with ver.di, but none as infamous as the employee code of conduct. When Walmart first arrived in Germany they handed out an employee code of conduct manual. This already did not sit well with the native Germans.

Although handing out code of conduct manuals is a common practice in the United States, they are rarely used in Germany. But that was not the only issue. The Code of conduct stated that there should not be any romantic relationships between a supervisor and an employee. When this rule was translated into German, it read as a ban on all interoffice romances (Ewing, 2005). Employees and the ver.di were up in arms. This was seen as an inappropriate step of the corporation interfering in the employees' lives. There were other similar issues. The union also had an issue with a hotline that was put in place to allow employees to report misconduct of coworkers. Employees and unions alike were so appalled, that the issue went to the court system and was ruled illegal.

Walmart also had a bad name for the way the required their employees to work. In most German retail stores, cashiers are allowed to sit while at work. Walmart came into Germany using the American way of working as a cashier. All cashiers were required to stand. Many German consumers saw this as mistreatment of their employees. German consumers were also turned off by the fact that an employee was required to stand for hours acting as a greeter.

Lessons Learned

Since Walmart's attempted expansion into Germany, the company has had many successful international ventures. Walmat has been able to take some the mistakes that were made in Germany and turn them into lessons to apply to other countries. Japan, India, Russia, and Chile represent four international ventures that have the pieces for success.

Japan

Walmart Japan, Seiyu, has some of the similar issues that Walmart Germany had. There are issues with store appearances, employees, and prices, but the lessons learned in Germany shed a new light on these issues and Walmart has been able to handle them in a different way. Walmart decided not to operate under the name Walmart, but instead operates under the name of Seiyu. Walmart started small and purchased only 6% of Seiyu, so that they could get a feeling and footing in the Japanese market. Walmart slowly has acquired Seiyu and it became a wholly owned subsidiary in 2008 (Boyle, 2009) Walmart has spent large amounts of money updating and redecorating these Seiyu locations, so that is does not give the impression of a warehouse of discount retailer. These upgrades have worked and many people have reported returning to Seiyu because of the upgrades.

Walmart has also taken the time to do market research for the company. They have adjusted their business strategy by not including bulk deals, because they do not go over well with the Japanese consumer, and have gone from weekly specials to everyday low prices. They also have a Japanese man, Edward Kolodzieki, as CEO so he understands how the Japanese market works.

Right now Walmart is turning a modest profit, but things are looking up. It is predict that Walmart Japan will be an overall success.

India

In India, Walmart has teamed up with Bharti Enterprises, a company that understands the complicated Indian market and will be able to help Walmart understands the in and outs (Boyle, 2009). The partnership also helped Walmart avoid strict restrictions placed on foreign retailers by the Indian government. Walmart also operates under a different name in India, Best Price.

The traditional Walmart business approach works better in India. A large selection at a low price seems to be a promising plan. Walmart does however take an extra step to make sure they have the lowest prices. The Indian retail market is made up of mostly mom and pop type store. Walmart employs 25 people to check the prices of all these stores to make sure that they have the lowest price. (Boyle, 2009) Similar to Japan, Walmart has also made sure that Walmart India is run by an Indian man, Raj Jain (Boyle, 2009). The company has also taken the time to participate in giving back the Indian community by opening an educational institute.

Russia

Russia is considered one of the fastest growing markets, but is also one of the most difficult to do well in. Walmart has taken time to make sure they understand all of the elements of the Russian market. Right now, Walmart Russia consists of a 30-person development team in Moscow that has spent over 5 years scouting the market (Boyle, 2009). Walmart has participated in a few joint ventures, but does not have an actual presence in the Russia. They are hoping this will change soon, but they are making sure that there is a full understanding before taking the leap.

Chile

Walmart is attempting to cement their dominance in Latin America with the acquisition of Distribución y Servicio in Chile. Walmart acquired the 224 D&S stores because it was the country's leading grocer and the third largest retailer (Boyle, 2009). The acquisition went a little differently than most. Walmart started with a large stake, but did not entirely acquire the company till later. They also kept close ties with D&S a decade before a large amount of the company went to Walmart. This was done so that D&S could teach Walmart the ways of the Chilean market.

Walmart has made some changes to the chain however. They have added luxury items, like iPods and other items not frequently seen in discount chains. Walmart has also responded to market research they have done in Chile by adding a financial sector to their stores. Walmart Chile now has a credit card, which is common practice in South America. Some retail changes in Chile generate 70% of their profits from their store credit cards (Boyle, 2009). Walmart Chile also has a bank, a concept that has been widely successful in Chile, but has always failed in the United States.

Conclusion

Walmart could have taken many steps to prevent loss of profits and eventually having to leave the country. The first of those steps would be to either start small with their expansion or start very large. Walmart started with 95 locations, which were not enough to obtain the economics of scale that they needed to keep their prices low, but was too large to be a novelty with humble beginnings. But the biggest mistake that Walmart made was having a lack of consumer research. Walmart went into the market without an understanding of the people, the laws, or the competition. With consumer research, Walmart would have better understood that there needed to be major changes to their business approach. They would have been able to see that location is a major factor in the German consumer's decision on where to shop. They also would have known the laws and regulations regarding pricing and could have avoided all the fines and bad press that came along with violations. Walmart also would have realized that the discount retailing industry in Germany was extremely competitive and that they would have to differentiate themselves in some way and not depend on only low prices. All in all, a market research would have revealed that Walmart either needed to drastically change their business approach or realize that the German market is not a place that they could succeed.

However, Walmart has been able to take the mistakes that they made in Germany and turn them into pieces of the puzzle to make other international ventures successful. Walmart has been able to expand in Japan, China, Mexico, Canada, and Chile. They are also seeing a future in Russia and some African countries. By listening to consumer needs and participating careful market research, Walmart could have a successful future as an international retailer.

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