

How to win Chinese consumers: Competitive strategy of Wal-Mart in China

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How to win Chinese Consumers: Competitive strategy of Wal-Mart in China

Founded by Sam Walton, the first Wal-Mart store opened in Rogers, Arkansas, in 1962. Seventeen years later, annual sales topped \$1 billion. By the end of January 2002, Wal-Mart Stores, Inc. (Wal-Mart), was the world's largest retailer, with \$218 billion in sales. Wal-Mart's winning strategy in the U.S. was based on selling branded products at low cost. Each week, about 100 million customers visited a Wal-Mart store somewhere in the world. By 2004, Wal-Mart, the world's largest company operated discount stores, neighborhood stores, hypermarkets (Wal-Mart Super centers) and membership warehouses (Sam's Club). In the 1990s Wal-Mart started to expand abroad. It entered China in 1996, Korea in 1997, and Japan in 2002. In China, Wal-Mart operated and aggressively expanded its retail business in partnerships, joint venture partners and suppliers. In Japan, Wal-Mart invested in 2002 in Seiyu, a prominent Japanese retailing chain. In Asia Wal-Mart is engaged in tough competition with other global and domestic retailers. The author's intention of writing this case study is to explore into the complexities of Wal-Mart's Chinese venture. China poses a huge challenge for Walmart as there exist cross cultural diversities among the Chinese population. Walmart's needs to understand the Chinese market first and then think of a business model that can fit the country.

Thus the case aims to explore into the (1) competitive strategy of Walmart in China and (2) understand the adaptability of its business model to international environments.

We are collecting data from secondary sources and resorting to some focus groups and about 7-8 in-depth interviews with Industry experts to understand the situation in a better way. The objective of taking up this research work is to comprehend the strategic challenges that the world number one Retailer Walmart faces whenever it attempts to enter international markets so that it can leverage on the untapped potential. Thus China is a very lucrative destination for any retailer in the world due to its huge growing population. Thus our study revolves around Wal-Mart's competitive strategy in China and how it is adopting its business model in China.

Basic History Overview

Wal-Mart's history is one of innovation, leadership and success. It started with a single store in Rogers, Arkansas in 1962 and has grown to what is now the world's largest - and arguably, the most emulated - retailer. Some researchers refer to Wal-Mart as the industry trendsetter. Today, this retailing pioneer has annual revenues of over \$100 billion, 3,000 stores and more than 750,000 employees worldwide.

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Walmart's unbeatable strategy

The company employed more than 1.3 million associates (Wal-Mart's term for employees) worldwide through more than 3,200 stores in the United States and more than 1,100 units in Mexico, Puerto Rico, Canada, Argentina, Brazil, China, Korea, Germany, and the United Kingdom. (The first international store opened in Mexico City in 1991.) In 2001, Fortune magazine named Wal-Mart the third most admired company in America, and the Financial Times and PricewaterhouseCoopers ranked it as the eighth most admired company in the world. The following year, Wal-Mart was named number one on the Fortune 500 list and was presented with the Ron Brown Award for Corporate Leadership, a presidential award that recognized companies for outstanding achievement in employee and community relations.

Wal-Mart operates each store, from the products it stocks, to the front-end equipment that helps speed checkout, with the same philosophy: provide everyday low prices and superior customer service. Lower prices also eliminate the expense of frequent sales promotions and sales are more predictable. Wal-Mart has invested heavily in its unique cross-docking inventory system. Cross docking has enabled Wal-Mart to achieve economies of scale which reduce its costs of sales. With this system, goods are continuously delivered to stores within 48 hours and often without having to inventory them. This allows Wal-Mart to replenish the shelves 4 times faster than its competition. Wal-Mart's ability to replenish their shelves four times faster than its competition is just another advantage they have over competition. Wal-Mart leverages its buying power through purchasing in bulks and distributing the goods on its own. Wal-Mart guarantees everyday low prices and considers them the one stop shop.

Wal-Mart has taken their mind and cash over the last 20 years to become the world's largest retailer. Wal-Mart had a base of 2,200 stores in the 80's, closing out of the 90's with a bang of 3,600 stores and \$4.4 billion in net income. Spurred by NAFTA, Wal-Mart took advantage foreseeing potential growth in the foreign markets. Currently they have stores in the following countries: Mexico, Puerto Rico, Canada, Argentina, Brazil, China, Korea, United Kingdom, and in 1998 a controversial Germany.

Most analysts believed Wal-Mart would move into eastern European countries however Wal-Mart confounded the analysts when they purchased a 21-unit Werkauf chain in Germany. Why Germany they ask? The Germany countryside was littered with carcasses of other retailers, therefore Wal-Mart knew that its non brand name items, service, and low prices would succeed. Analysts believed that Wal-Mart would not buy in Germany for

many reasons: first, zoning laws, scarcity of land, and high real estate prices make it almost impossible to find affordable space for new supercenters. Second, the domination of other major retail stores. Next, due to German unions, the workers are very highly paid and unemployment being high. Last, Wal-Mart low price strategy could be hindered due to other manufacturers' marketing strategies of selling brand name goods.

Of course, Wal-Mart has succeeded in Germany with a "smile" as always advertised. Wal-Mart pushes the limit of hours being opened despite the government regulated operating times. Wal-Mart has also renovated many German stores, restocking them with common shopping practices, wider aisles, and renaming the stores Wal-Mart. Most importantly in a land of penny pinchers, Wal-Mart has introduced EDLP ("Every Day Low Prices"). The new low prices have caused many competitors to lower their prices, in turn reducing income.

After the completion of the move to Germany, analysts now started predicting Wal-Mart's next threat to retailers was going to happen. Wal-Mart landed in Europe, causing many retailers to merge in order to survive.

One of Wal-Mart's main competitors was Franklin, which is currently struggling at this time. Many of the Australian retailers such as Aldi, Tesco, and Ahold, who previously relied on specials, would be forced to reduce their daily prices to compete with Wal-Mart's everyday low price strategy.

Low-Prices are the foundation of Wal-Mart's ideas and strategy and could surely beat out Australia's smaller end retailers. Another area in which Wal-Mart would prosper is with tourists. Wal-Mart is well known and trusted, and in high tourism cities such as Sydney, travelers would be more likely to shop at a place they know and trust. It's inevitable that while on vacation for example, people forget to pack or run out of necessities such as toothpaste, shampoo, and deodorant, etc. Why not go to Wal-Mart and get all these things and pick up the few extra goodies you didn't realize you needed.

Wal-Mart's global strategy? What tactics has it used to become a major global retailer?

Wal-Mart's success is mainly based on its concentration of a single-business strategy. This strategy has achieved enviable success over the last three decades without relying upon diversification to sustain its growth and competitive advantages. In a sense, Wal-Mart's low prices, service, and smile are their leading marketing strategies. However, there is risk in this strategy, because concentration on a single-business strategy is similar to "putting all of a firm's eggs in one industry basket". On the business side, Wal-Mart is the country's most sophisticated retailer in terms of using information systems. Their cross-docking inventory and transportation services enable them to have the goods needed by the consumer at all times.

In order for Wal-Mart to become a major global retailer, they have closely examined and utilized tactics to profit from their many stores. One great tactic is starting free-trade-zone distribution centers, in turn, saving almost \$500,000 annually. Another tactic includes their service from when you walk in the store to when you leave. Also, their bread and butter is again the technology they utilize. They can track how much of one item has been

sold on any given day, and if not a hot commodity at one store, they will ship it out to another where it is being sold much faster.

Can Wal-Mart sustain its competitive advantage in global retailing?

Domestically, Wal-Mart is growing through its Superstores. Traditionally, this business is a very low-margin space, but with Wal-Mart's competitive advantages in distribution and leverage over suppliers, they can make it a big winner. International expansion has been robust and will continue to be an important part of Wal-Mart's future growth opportunities. Certainly the Internet provides a growth avenue as well that will open a new faucet for them to potentially take over an upcoming market.

Importance of selling only brand-name merchandise to the Wal-Mart strategy.

The focus that Wal-Mart shares in all advertisements is service, low prices, and quality of goods. Wal-Mart is not a specialty shop focusing on one "good", they are innovative offering a selection based on consumers overall needs. They do have some brand name merchandise however do not have a specific section set aside for Polo Shirts. Unlike Wal-Mart, brand name stores in most circumstances, only offer their product at a price that is normally above affordable. These retailers rely on their name to sell; Wal-Mart relies on their convenience and low prices.

Choosing markets to enter is of major importance in global expansion

Although Wal-Mart, the world's largest company by revenue, was into its ninth year of operations in China, its stores were still losing money. It created a miracle in the US retail industry by revolutionising the sector's business model and successfully implementing its model through innovative practices that enabled it to sell national brands at "Every Day Low Prices". The challenge Wal-Mart faced was whether it could transport its successful model to win a market with many differing characteristics which threatened its low cost structure and which could nullify its competitive advantage. This is a management strategy case primarily concerned with the application of established domestic business models in international expansion. It also sheds light on other globalisation issues such as market entry strategy, localisation vs. standardisation, the effect of regulation changes on the competitive landscape and firm performance.

Competitive advantage lies in systems efficiencies and primarily the efficient Supply Chain, Wal-Mart owes much of its past success and expectations for future growth to an ability to self-distribute merchandise from a vast network of modern distribution centers served by a private truck fleet.

It is a capability that has enabled Wal-Mart to restrict inventory growth, while maintaining a strong in-stock position and filling the shelves of hundreds of new stores each year. For example, Wal-Mart's sales during the past two years increased 32% from \$165 billion to \$217.8 billion, but the value of its inventory at replacement cost increased

by just 12.8% during the same time frame. The trend of leveraging an efficient supply chain to restrict inventory growth continued during the first quarter as sales increased 14% to \$55 billion, but inventories only increased 3%.

Much of the success has to do with Wal-Mart's ability to invest in new distribution capacity, especially as it relates to food, an area responsible for much of the company's growth. Wal-Mart's first food distribution center in Clarksville, Ark., is less than 10 years old and 12 of the 21 food distribution centers in operation today were opened during the past two years. Four more food distribution centers are slated to open during June and July.

The feat of restricting inventory growth, while simultaneously opening new stores and staying in stock has a lot to do with distribution centers and a private truck fleet, but equally important is the company's knowledge management system known as Retail Link. In existence for more than a decade, Wal-Mart has made consistent upgrades to the system that now provides suppliers with up to two years of sales history to analyze their business and spot new opportunities. While Retail Link is a powerful tool, one of the challenges Wal-Mart has faced is convincing suppliers to take full advantage of the opportunities it believes can be extracted from a thorough mining of the data.

Toward that end, a key emphasis has been to simplify the system to promote greater involvement of senior-level supplier executives with the ability to identify and execute untapped opportunities. Wal-Mart last year produced a brief video featuring many of its top executives reemphasizing the importance of Retail Link to the success of Wal-Mart and its suppliers.

"Early on, far too many companies designated somebody at a low rank to be responsible for the coordination of retail link and we both missed far too many opportunities," Tom Goughlin, president and CEO of the Wal-Mart Stores Division, said at the beginning of the talk. According to Coughlin, it is "extremely important" to have people of a high enough rank within a supplier's organization devoted to Retail Link so as to have an impact.

Because senior executives may be less technologically savvy than analysts who require special training to use Retail Link, Wal-Mart introduced a new tool for making quick, fact-based decisions called Business-at-a-Glance. "It is really is a tool for business leaders to use," according to Doug McMillon, senior VP and GM. And since Wal-Mart uses Retail Link to analyze suppliers' performance, McMillon added, I would encourage you to use Business-at-a Glance to beat us to the punch to know how you are doing."

Charles Holley, CFO of Wal-Mart's International Division, sums up the Retail Link system as a tool that "lets suppliers leverage Wal-Mart's technology to improve their business and also to satisfy both of our customers."

In addition to promoting usage of Retail Link at a senior level within supplier organizations, WalMart also solicits input from suppliers on how to improve the system.

Wal-Mart sponsored Retail Link User Groups to meet regularly around the country where participating suppliers can share tips and strategies for increasing the effectiveness of the system. Wal-Mart also has a Retail Link steering committee comprised of members of the supplier community that meets quarterly and is able to share suggestions on how to improve the functionality of the system.” It is up to me and my team to continue to simplify and make Retail Link better and faster to continue to drive the business results," said David Porter, director of information systems.

There are many ways to compete, yet most companies tend to focus their strategies on only a few of the many ways to gain a competitive advantage. This limits their ability to create and sustain true competitive advantages.

In order to have a lasting competitive advantage, it is important to develop a competitive strategy that includes a wide spectrum of techniques to gain advantage. One can compete on price, but can also compete on time, reputation, values, technology, image, experience, service, design, innovation, quality, information, knowledge, consultative value, loyalty, and process.

Price-Based

The most popular technique is to focus on price. Having the lowest price has always provided a great advantage, but having the lowest price also means low margins, which means one needs a high volume to make it a profitable strategy. It is interesting, and somewhat amusing, to see the large number of competitors selling the same thing, all claiming to have the lowest price, yet none of them charge the same price. Obviously, someone is lying. The Internet makes price-based competition even more difficult because it is so easy to compare prices and find the true lowest price.

When we think of price-based competition, we cant skip JetBlue Airlines,Dell Computers, Amazon.com, or we can think of anything made in China. Yet, if we look closer,we can see that companies that are great at price-based competition are using more than one competitive strategy.

Wal-Mart competes on price, but they also compete on time and convenience because they offer so many products customers don't have to drive to multiple stores to get what they need. They also compete on location and reputation.

As a nation, it's hard to compete with China on price and win. China is best known for its low-cost manufacturing, thanks to low wages; however, its manufacturers are starting to focus on quality as a means of increasing their competitive advantage. The best never focus their competitive strategy on price alone. They combine multiple competitive strategies to create a lasting advantage and continue to innovate as they use technology to raise the bar with each method.

Challenges in China's retail market

It currently seems that the opportunities envisioned by looking at China's high growth market, uprising middle class and still unexplored markets are being undermined by the serious challenges this market entails. Following is a brief description of some of those challenges.

Diverse population – the Chinese people experience some huge differences in income, depending on their employment and social status, province they live in, and whether they're from an urban or a rural place. Some of the population is very poor and perhaps have different purchasing habits that pose new if not impossible challenges for retailers.

Too many players – the China retail market is now exploding. Foreign companies in the market enjoy relatively strong liquidity and international backing while local companies have an advantage in their in-depth knowledge of the local market, being very quick to adapt and establish wide spread and cheap distribution systems.

Local protectionism - Local governments are always following directions given by central government. There seems to be a strong local bias against foreign companies and for local and state-owned companies. State regulations against it are rarely enforced.

Backward infrastructure - infrastructure is lacking and costly – roads are still not up to modern standards and are usually toll-based, distribution from port to destination by rail extremely slow and often require overnight storages. IT communications still far behind in most areas on both speed and connectivity.

Regulatory restrictions and bureaucracy– at the beginning - confining growth to 3 stores per city, and only a few cities in southern China. Government had to approve each branch. Walmart abided to regulations while competitors bended those.

Employees – relatively unsatisfied, high turnover, low pay could not be compensated by stocks, China's mandatory labour union relatively more hostile towards foreign brands, especially Walmart.

China's entry to the WTO

China's entry to the WTO removed most of the restrictions that retailers were facing regarding the number, location and size of branches, eliminating barriers for foreign competitors to compete in China - atleast officially. Those restrictions were among the key reasons for Walmart's lagging build up of their China branches and distribution channels that made it difficult for them to effectively compete using their original competitive advantages from the US.

Wal-Mart's winning strategy in the U.S.

Walmart's US strategy is based on selling branded products at low cost, which enables the lower class and middle class consumers to shop for products and save. Due to the advances in technology over the years Wal-Mart has been able to achieve tremendous success. Wal-Mart's success has allowed the company to expand out of the United States.

About 100 million customers visit a Wal-Mart store somewhere in the world. Wal-Mart's marketing strategy was to guarantee "everyday low prices" as a way to pull in customers. Traditional retailers relied on advertised "sales." The company employed more than 1.3 million associates worldwide through more than 3,200 stores in the United States. Wal-Mart was named number one on the Fortune 500 list and was presented with the Ron Brown Award for Corporate Leadership, a presidential award that recognized companies for outstanding achievement in employer and community relations. Wal-Mart enjoyed a 50 percent market share position in the discount retail industry. Procter & Gamble, Clorox, and Johnson & Johnson were among its nearly 3,000 suppliers.

Though Wal-Mart may have been the top customer for consumer product manufacturers, it deliberately ensured it did not become too dependent on any one supplier; no single vendor constituted more than 4 percent of its overall purchase volume. Further, Wal-Mart had persuaded its suppliers to have electronic "hook-ups" with its stores. About 85 percent of all the merchandise sold by Wal-Mart was shipped through its distribution system to its stores. Wal-Mart used a "saturation" strategy for store expansion. The standard was to be able to...

Doing business in China, is a different challenge altogether due to the popular Chinese culture, things have not been easy for Walmart in China. Some things just don't seem to work in China as well as they did in the US. Actually, China isn't the first location Walmart's been facing difficulties at, with the pullouts from Germany and South-Korea.

Wal-Mart business model in China

Walmart has been through a lot in China and many of the lessons learned are perhaps easier to think about in retrospect, but it looks as if making the key-decisions about the China entry in real-time and under an extreme situation of uncertainty is a much more complicated task. Now, even though China has been opening to the WTO, there is still much that's unknown about the retailing future in China and with the financial crisis emanating from Walmart's home market the right path for Walmart is a tough call.

Looking back, it seems that there are some major differences between Walmart and Carrefour's strategy that contributed to Carrefour doing better in comparison to Walmart. The main difference seems to be around the issue of adjusting to local culture. While Carrefour was mainly trying to localize and do things "the Chinese way" by encouraging local branch decision making, building local supplier contracts, stretching local rules and regulations, and using local promotion marketing schemes, Walmart was more focused on doing things the American way – the way that made Walmart what it is today in the American market. This contributed to the fact that Walmart has been struggling throughout many of the difficulties described above with the local customer, government and suppliers. China is considerably different than the states and yet Walmart has been slow to try to adjust to that, which just might cost Walmart the entire Chinese market (as it has in Germany and South Korea).

Suggestions

Walmart needs to adjust to the Chinese market, while leveraging its source of competitive advantage. This requires a delicate balance. At the US, the brand Walmart is associated with low price rather than quality. In China, where everyone is going for low prices and providing low quality to do so, Walmart's own brand could be an assurance for low prices but with quality by making the Walmart name about more than just retailing. The suggested strategy in the 2008 Walmart supplier meetings shows that it's heading in that direction (Business Week). This also follows Gome's strategy of renaming its suppliers to their own brand (Business Week), but goes beyond it as the foreign brand in China is already associated with higher reliability and quality assurance. This actually holds true in China where retailers do a better job of enforcing supplier quality than the local regulations. With that, Walmart is still able to use its expertise and knowledge in supplier negotiation and distribution system to keep costs down.

Although Walmart is a Joint-Venture, the sources do not mention any attempt to leverage the local partner to meet the local market, which seems the opposite to some other joint ventures discussed like Danone and Wahaha. Working together with the local partner to understand where and how the local regulations can be used or adjusted for Walmart's success and gaining a stronger hold of the potential customer's heart might help Walmart's growth and dominance in the Chinese market (The Economist).

Chinese lifestyle trends

Chinese consumer habits needed to be kept in mind as the Chinese consumers go shopping to get out of the house, not necessarily to shop. They're more impulse driven and like on-site promotions. They're brand conscious but not loyal. They're frequent shopper of small amounts and especially appreciate freshness (alive) due to limited space at home (The McKinsey Quarterly). This seems a bit off the original Walmart strategy and so Walmart needs to go deeper in trying to understand who the consumers are and what they're looking for ("How to Market to Asia's Masses"). Following those characteristics it might be more relevant to focus on the shopping experience and salesperson fleet using aggressive promotion methods. A bigger number of smaller shops with a more of wet-market feeling might be more to the local taste than the American style shops. (CCRCA)

Last, the strong centralization that has helped the American Walmart seems to hold back Walmart in China. China is less homogeneous than America and that calls for decentralization, giving more power to local managers and their supplier-network or perhaps even moving to franchising in some of the more remote locations ("Bringing best practice to China", The McKinsey Quarterly).

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