**WALMART Standard Case [INB 372]**

Founded in 1962 by Sam Walton, in a small Arkansas town, Wal-Mart started as a family owned discount store that was constructed in values of respect for workers and community, and committed to pricing lower than the competition. There is no question that the company’s incredible efficiency, shrewd market sense, and the innovative business strategy of Sam Walton have transformed the retail industry in many positive ways. However, somewhere along the way, Sam Walton and his successors lost track of the community and worker-focused values, on which Wal-Mart’s initial success was built.

Walmart is the world’s largest company in terms of sales and also the largest private employer in the US. Nearly 260 million customers visit more than 11,500 stores under 65 banners in 28 countries and e-commerce sites in 11 countries each week. With fiscal year 2015, net sales of $482.2 billion, Walmart employs 2.2 million associates worldwide –being 1.4 million in the U.S. alone. It’s creating opportunities and bringing values towards their customers by keeping their unwavering commitment of everyday low prices. Although they are maintaining their promises, in doing so they are pursuing Low Road business practices in some countries, showing disregard for communities and workers’ well-being which is far more damaging to its employees, suppliers, manufacturers, and the community then any of the supposed benefits of low prices.

Wal-Mart, the biggest retailer in the world, undertook its international expansion in the early 1990’s. A number of factors influenced Wal-Mart’s management to expand outside the USA. The company had perhaps reached the limits of expansion in the USA since there was strong competition from companies such as Target and K-Mart, both with similar strategies as Wal-Mart. Furthermore management believed that Wal-Mart’s proven US success formula – everyday low prices- worked on the international scenario with the extensive use of advanced IT, sophisticated logistics, inventory management techniques, a strong emphasis on customer service, and highly-motivated personnel.

Clearly dominating the US retail market, Wal-Mart expanded into Germany (and Europe) in late 1997. Some analysts believed that Wal-Mart preferred German market as it was the world’s third largest economy and entailed Europe’s largest retail spenders. Furthermore, management saw Germany as an ideal location since it is at the heart of Europe and an important member of the EU. Unlike the UK, Germany was part of the Euro zone. Wal-Mart decided to build its initial presence in Germany through acquisitions. In December 1997, it took over the renowned 21-store Wertkauf chain (revenues: €1.2 billion) for an estimated $1.04 billion. In the wake of these transactions, Wal-Mart immediately became the country’s fourth biggest operator of hypermarkets. However, this acquisition of Wertkauf and Interspar gave Wal-Mart only a 1.1% share, which many argued was too small to create a critical mass for expansion. Wal-Mart’s attempt to apply the company’s proven US success formula in an unmodified manner to the German market, turned out to be nothing short of a fiasco.

Upon closer inspection, the circumstances of the company’s failure to establish itself in Germany give reason to believe that it pursued a fundamentally flawed expansion strategy, due to an incredible degree of ignorance, of the specific features of the extremely competitive German retail market. Wal-Mart apparently underestimated the ferocity of German competitors, the frugality of German shoppers, and the extent to which regulations, cultural differences, and labor unions would impede its ability to apply in Germany, which had worked so well for it in the United States. A fundamentally flawed entry-by-acquisition strategy was one of the key problems. Spar, the company Wal-Mart acquired, was 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; and Wal-Mart was unable to upgrade most of these stores and implement a uniform design to build brand recognition.

Traditionally, Wal-Mart has inflicted a full-scale price war on incumbents on every single market it has so far entered, in order to credibly communicate its legendary “every day low price”-pledge to local consumers. While extremely successful almost everywhere else, this strategy backfired in Germany – largely due to the afore-mentioned ignorance, lack of experience, and arrogance of Wal-Mart Germany’s original top management team. German discount retailers offer very low prices, and German shoppers have shown they can be very demanding. German shoppers are accustomed to buying based primarily on price. They are willing to split their shopping activities among various retailers, which blunt the effectiveness of the “superstores” offering one location for all the shoppers needs. The first and foremost competitor Aldi – which throughout its existence, successfully defended its position as Germany’s undisputed cost and companies, matched all of Wal-Mart’s price cuts. Several independent surveys indicated Wal-Mart’s fundamental value proposition “every- day low prices” as a (largely) empty promise. Additionally, Wal-Mart Germany did not succeed in delivering on the second part of its value proposition – “excellent customer service” – either. By contrast, the company has repeatedly been rated as only just or even slightly below average in terms of overall consumer satisfaction. Accustomed to putting their own groceries in shopping bags, German shoppers were alienated by clerks who bagged groceries. In addition to that, Germany’s restrictive shopping hour regulations prevent Wal-Mart’s ability from offering its customers the additional convenience and superior shopping comfort associated with 24/7 operations, as well to sell merchandise below cost in an effort to lure consumers with so-called loss leaders, as well as any other Germany-based retailer.

The head-quarter centric approach used by Wal-Mart for staffing in Germany created a problem in the management level. The two retailers were headquartered in different cities. Hence, following the mergers, Wal-Mart consolidated the two headquarters in one city, prompting many executives to leave rather than relocate. Although, in the US, Wal-Mart is a strictly non-union employer, but in Germany the scenario is totally opposite- like in most other parts of Continental Europe. Unions, despite decreasing membership, still wield enormous influence both in the political sphere and on the shop floor. At the beginning, the unions’ enthusiasm, prompted by Wal-Mart’s decision to hire more staff immediately after its entry in Germany to provide “excellent customer service”, quickly faded away. Soon faced with rapidly mounting losses, Wal-Mart’s management resorted to staff cuts and closures to reduce its above-average personnel costs. Due to strict worker protection regulations making surplus workers redundant, became a complicated, lengthy, and costly affair for Wal-Mart. Employees filed a lawsuit against the retailer’s policy against romantic relationships between employees and supervisors. Strong unions also limited the firm’s ability to contain operating costs. Furthermore, Walmart’s ethical code caused much frustration as well. For example, the practice of actually spying on your co-workers and reporting any misconduct may be acceptable in the U.S., but in Germany it is not the case. Wal-Mart also experienced a loss of seasoned executives when it acquired several German retailers. Wal-Mart’s German operations had four presidents in eight years and had been trying to make its German stores profitable during these eight months. All the above issues contributed to a generally bad press for Wal-Mart throughout its time in Germany. The national trade union organization issued warnings to all union members about the failure of Wal-Mart to comply with the law. In 2006 at the Berlin Film Festival, Germans watched the premier of a US film, “Wal-Mart – the high cost of low price”, released in the USA the previous year. The film exposed Wal-Mart for behaving unethically towards employees and suppliers and for its corrupt dealings with local politicians. The film became a success in Germany. The operation of Wal-Mart in the German market was at a time of fairly widespread anti-American sentiments within Germany over the US involvement in Iraq. On July 30, 2006, the company announced a pretax loss on the sale of $1 billion and that it was selling its operations in Germany to German retailer Metro AG. With the withdrawal from the German and South Korean markets, Wal-Mart’s international ambitions are now centered in Asia and Latin America, with India and China the firm’s most promising growth markets. However, Wal-Mart can expect to experience similar growth challenges in these countries

1. **What aspects of this case can be attributed to cultural differences between the USA and Germany?**
2. **Critically analyze Walmart’s entry mode in German market.**
3. **The industry environment of Germany has proven to be critical to company performance for Walmart; what speciﬁc aspects of the environment have played key roles? Could these effects have been anticipated prior to market entry?**
4. **What lessons can Walmart draw from its German experience as it contemplates entry into other Big Emerging Markets?**
5. **What ethical challenges does Walmart have to face while operating in Germany?**