Wal-Mart[1]

How big can it grow?
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How big can Wal-Mart grow? With $256 billion in sales in the year to January 31st, the firm is already the world's biggest company by that measure. Its nearest retailing rival, a French supermarket chain called Carrefour, is less than half Wal-Mart's size. In America, Wal-Mart manages nearly 3,000 giant discount stores and hypermarket "supercentres". Abroad, it has ventured into Mexico, Britain, Japan, Canada, Germany and China, as well as making smaller investments elsewhere. Worldwide, more than 100 million customers visit Wal-Mart stores every week..

The mathematics of big numbers suggests that Wal-Mart's growth must slow. Amazingly, the opposite appears to be happening. In America this year, Wal-Mart intends to open more space than many of its rivals operate in total and yet Wal-Mart still represents "only" 8% of total retail sales in America. It is not unusual for dominant firms in mature industries to command market shares of 30% or more. So, in theory at least, Wal-Mart could still get an awfully lot bigger.

Although the firm possesses undeniable momentum at the moment, its sustained smooth expansion is by no means inevitable. Wal-Mart's success is sharpening the acts of other retailers, some of whom are learning how to compete more effectively. Legal and labour problems threaten the firm's decentralised, entrepreneurial culture– a culture which, until now, Wal-Mart has zealously protected against creeping corporate bureaucracy. Abroad, the firm's success remains in doubt, as does its ability to make money out of new retail formats at home. Most important of all is the likely future growth of its core domestic discount-store business, which makes up 65% of the firm's sales and 87% of its profits. When will that begin to slow?

One of the guiding principles of Sam Walton, the company's late founder, is to pass on savings won from suppliers to consumers, which encourages more of them to shop at the company's stores and to buy more things. Wal-Mart then profits from higher sales, instead of simply putting the savings directly into its coffers. The company is skilled at obtaining products cheaply, and the emergence of China as a centre of low-cost production is playing to its strengths. Wal-Mart already buys $7.5 billion-worth of goods directly from China each year and another $7.5 billion via its suppliers, with scope for more in future. Shoppers make such big savings that economists credit Wal-Mart with driving down America's inflation rate.

If that seems fanciful, then spend the 45 minutes it takes to drive across Arizona's Valley of the Sun from Scottsdale, a well-heeled suburb of Phoenix, to the city of Surprise to the west. On a single 20-mile stretch of road sit six giant Wal-Marts. Shoppers have 14 more Wal-Marts to pick from a few miles further south and east. The area, says Mr Schoewe, with obvious pride, "shows you what can happen."

However, there are plenty of Americans who accuse the so-called "big-box" retailers of driving local firms out of business. In California, Wal-Mart has tried to bypass planning committees by appealing directly to voters, so far without success. On April 6th, 60% of voters in a local referendum in Inglewood, a suburb of Los Angeles, turned down a proposal for a giant new Wal-Mart.

In states with strong trade unions, such as New Jersey, Illinois and California, Wal-Mart has faced what has been called an "invisible picket line": obstruction and boycotts, sometimes only on an individual basis, by people who object to its strong anti-union stance. Naturally, Wal-Mart has grown fastest where it has been easiest to build its big boxes. Per head of population, there are between five and ten times as many stores in Arkansas, Oklahoma, Mississippi and Missouri as there are in New Jersey, California and New York.

Global Wal-Mart?

Traditionally, retailers are not very good at going abroad. Wal-Mart is no exception. It has done well in

[1] Assembled from:
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Griffin, Ricky W. and Michael W. Pustay, International Business: A Managerial Perspective (third edition). Prentice Hall 2002

America's border countries. It has been successful in Canada, for instance, and in Mexico, where Wal-Mart is the biggest private employer.

But in Germany, Wal-Mart ended up with egg on its face. Even Mr Scott has admitted that the company's arrival was "somewhat embarrassing", although the situation is improving. Wal-Mart entered Germany, the third-biggest retail market after America and Japan, in 1997-98 by buying two local retail chains, Wertkauf and Interspar, for $1.6 billion. Whereas Wertkauf was well-known and profitable, Interspar was weak and operated mostly run-down stores. Wal-Mart has lost money in Germany ever since. Problems have included price controls, which prevent below-cost selling, rigid labour laws and tough zoning regulations, which make it extremely difficult to build big stores.

Wal-Mart also faced well-established rivals in Germany, like Metro, and hard discounters such as Aldi and Lidl, already comfortable with razor-thin profit margins. Many retailers in Germany are owned by wealthy families whose business priorities are not always the maximisation of shareholder value.

But there was more to it than that. Wal-Mart's entry was "nothing short of a fiasco", according to the authors of a study at the University of Bremen. At first, Wal-Mart's expatriate managers suffered from a massive clash of cultures, which was not helped by their refusal to learn to speak German. The company has come to be seen as an unattractive one to work for, adds the study. In part this is because of relatively low pay and an ultra-frugal policy on managers' business expenses.

A Force For Good?

In the popular imagination, Wal-Mart ruthlessly exterminates the competition, especially local mom-and-pop retailers. Yet as Bain's Mr Rigby argues, Wal-Mart is more than just a destructive force. "Wal-Mart is good for retailing in the same way that any good predator is good for an ecology," says Mr Rigby. "Life works through struggle, and many retailers are better today because of Wal-Mart."

A number of retailers in America have gone up against Wal-Mart and survived– even thrived. They have deliberately avoided trying to do the same thing as Wal-Mart. Hence Target, based in Minneapolis, competes as a sort of "upmarket" Wal-Mart with low prices, but a more edited selection of goods. It also employs its own designers to create exclusive ranges. Costco, based in Issaquah, Washington state, operates a chain of membership discount-warehouses, which rival Wal-Mart's Sam's Club chain. Costco carries international brands and is particularly noted for its wines and surprises: it recently had $52,000 diamond rings for sale. Costco also has a reputation for paying its staff well above the average union rates.

Then there is HEB, a 100-year-old retailer operating supermarkets in Texas and Mexico. It looked to be doomed when Wal-Mart rode into town. But it was re-invigorated into an award-winning grocer that impresses many in the industry. "They looked to where they had an advantage," says Mr Rigby. "They are, like Wal-Mart, an everyday low-price grocer. But you don't have to match prices on everything." One of HEB's features is a concept called "Central Market" which provides a wide variety of fresh and prepared foods within its stores, including on-site chefs who show how to prepare the evening meal.

All three of these retailers offer something similar: low prices, with something extra on top, be it a nicer shopping experience or luxury goods. Conceivably, this might hint at a more threatening market change: that shoppers might begin to tire of the attractions of rock-bottom prices alone. BCG's Mr Silverstein has written a book* describing how American shoppers are becoming increasingly sophisticated in the way they discriminate between "trading up" to those goods they think of as luxury items, and "trading down" to the rest. "Costco does trading up and trading down under one roof," says Mr Silverstein. "Wal-Mart just does trading down. At some point, that will have played out."

Challenges for Wal-Mart

Alternatively, the everyday-low-price pull may lessen as prices stop falling so quickly. Mr Schoewe says that, because Wal-Mart has already gained most of the advantages of importing goods from China, this may work in the opposite direction, as consumers no longer stampede with such relish through Wal-Mart's stores in search of the DVD player that has dropped from $49 to $28. Perhaps Wal-Mart might even begin to suffer upward pressure on prices as it struggles to hold down costs. A.T. Kearney, a consultancy, recently examined the perception that Wal-Mart uses its huge size to clobber its suppliers into providing lower prices, but concluded that this is "not a significant source of cost advantage".

According to A.T. Kearney, Wal-Mart's three-biggest sources of cost advantage are low corporate overheads, the efficiencies of its supply-chain and, above all, its low labour costs. A newly hired "associate", as Wal-Mart calls its employees, could earn as little as $8 an hour, some 20-30% less than unionised workers at rival supermarkets. Union members might also have benefits, such as health-care insurance.

There are several reasons to suppose that this labour-cost advantage might begin to erode. One is falling costs elsewhere as Wal-Mart squeezes its competition. In February, for instance, unionised grocery-store workers in southern California agreed to wage and benefit reductions following a five-month-long strike. This strike began after local supermarkets proposed to cut wages and benefits in preparation for Wal-Mart's entry into the market.

A second reason might be slowing staff turnover at Wal-Mart itself, as the firm struggles to renew its 1.4m-strong workforce. In recent years, staff turnover at Wal-Mart has fallen from over 60% to 44%, close to industry averages. Yet even with a turnover rate of 44%, the firm has to hire an astonishing 600,000 people every year simply to stay at its current size. As the company grows and employs yet more people, that task will become even more difficult, suggesting that Wal-Mart will want to push turnover lower still. That might put pressure on costs, as workers gain tenure, pay rises and better benefits.

Another force working to slow Wal-Mart down is the company's mounting legal and labour-compliance problems. At any moment, Wal-Mart faces about 8,000 lawsuits. Among other suits, Wal-Mart's most recent annual report lists 33 putative class-action suits, including forcing employees to work "off the clock" and failing to provide work breaks; eight further putative suits alleging that the firm failed to pay overtime; and a suit that could prove costly alleging discrimination against its female employees. The potential size of this class alone is 1.5m plaintiffs.

An investigation is also continuing into allegations over whether Wal-Mart knew that a subcontractor was using illegal workers. Last year, federal agents raided a number of stores and took documents from the company's headquarters. Wal-Mart has denied doing anything wrong.

That points to a broader worry for the company: that its cherished entrepreneurial culture might become choked by expanding human-resources, public relations and legal departments. Wal-Mart has fought hard to preserve its entrepreneurial culture, which pushes responsibility out to the company's powerful store managers and endeavours to check central, bureaucratic growth. But being big makes companies a magnet for social issues. And freedom among the firm's store managers to set policies which they think will make their outlets as profitable as possible also provides room for abuse.

With so many eyes watching it, Wal-Mart may have decided that it has to sacrifice a bit of its entrepreneurialism to reduce its legal risks. It recently set up a "reputation taskforce", introduced new personnel procedures, hired extra lobbyists in Washington, DC, created an "office of diversity", and launched new public-relations and advertising initiatives.

Questions to think about:

1. Describe as many components to Wal-Mart's marketing mix in terms of the "4Ps".
2. What threats to Wal-Mart's brand image, and marketing mix do you feel will be the most problematic? Explain.
3. Internationally, how did Wal-Mart specifically adapt its marketing mix for Germany, or did it? Where did it go wrong? Explain in terms of course content, namely: The 4Ps, Cultural Elements, Socio-Political forces, and Modes of Entry. You may need to perform some brief research to find more details.
4. What would you have done differently to expand to Germany? Explain.