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IMPERATIVES FOR GLOBAL RETAILERS EYEING INDIAN RETAIL MARKET- A STUDY OF WAL MART

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ABSTRACT

As the talks of permitting 100 per cent Foreign Direct Investment (FDI) in Indian retail sector are surfacing, many global retail giants including Wal-Mart have already started deliberating on modalities for proposed entry. Guarantying their success in Indian market however is going to be a tough proposition. Wal-Mart, as a matter of fact, has not yet overcome from its shocking failures in German and South Korean markets. Indian Market, on account of its cultural diversity and peculiar buying behaviour of its people may pose even bigger challenge for it. The present paper attempts to analyse the reasons for Wal-Mart's failure in South Korea and Germany, lessons it can learn from these failures for Indian market and unique challenges posed to it by the Indian market.

KEYWORDS

Organised Retailing, FDI, Wal-Mart.

THE MIGHT OF WAL-MART

One name that strikes mind first when we are talking of retail sector is Wal-Mart. The retail giant is second to none in its business. Rather, it may not be wrong to say that other prominent players of the sector are lagging behind it.

Wal-Mart made a humble beginning in United States of America (USA) in 1962 and never looked back. Before the dawn of 21st century, the retail giant had already overtaken General Motors and Exxon to become largest corporation of the world in terms of revenue. In retail sector, the second player's revenue was one-fourth of that of market leader Wal-Mart. The total revenue of Wal-Mart in 2009 was \$ 240 billion. Carrefour, the second ranked player in retail sector, meanwhile recorded the revenue of \$ 64 billion in the same year. Wal-Mart is the largest employer in retail sector and is presently employing more than 1.4 million employees on its pay rolls.

Buoyed by its success in USA, Wal-Mart made its plans to expand its wings in the global markets in late 1980s. The entire plan was very ambitious as the aim was to have foreign operations contributing a third of Wal-Mart's profit by 2005. Germany and South Korea were two prominent companies in the scheme of things of the company in this regard.

WAL-MART IN GERMANY- A SHOCKING EXIT

Wal-Mart made an entry into the German market in 1997. It followed internationalisation strategy to enter German market. The strategy was to replicate the retail giant's strategy of United States in Germany as well. The strategy was based on the assumption that if the same can bring success in USA's market, it could bring success anywhere else as well. These assumptions perhaps lead to debacle of the retailer in the later stages.

Wal-Mart's entry into the German market started with the taking over of Wertkauf chain at the staggering price of \$ 1.04 billion. Almost one year later, the retail giant took over Intermarche group for \$ 560 million. The organisation had an ambitious target of becoming the undisputed leader of the organised retail market of Germany very soon. However, to the surprise of everyone and to the shock of Wal-Mart it remained an unnoticed minor player in the German market throughout its stay of 9 years in the country. The maximum market share it could attain during the entire 9 years period was merely 1.1 per cent.

Wal-Mart kept on persisting in German market with a hope that its fortunes may improve but it never happened and the retail giant (of USA and certainly not of Germany) sold its 85 odd stores in Germany and bid adieu to the market which, nine years back was certainly one of the most sought after for it.

What went wrong with Wal-Mart in Germany is certainly a billion dollar question. Following are some of the most pertinent reasons for the debacle of Wal-Mart in German market:

- At the outset, the strategy chosen by Wal-Mart for making entry into the German market was not an appropriate one. As mentioned earlier, it chose internationalisation strategy for the entry which called for applying its US strategy in the German market with a hope that the success of USA may be replicated in Germany as well. This, however was backfired as German market's characteristics were totally different to those of the American market. German Government as well as the customers was never found convinced with the strategies of the retailer.
- Wal-Mart's entry strategy, as discussed earlier was marked by acquisition which ultimately proved to be flawed. These acquisitions were not based on strategic reasoning. The retail giant, for instance acquired Spar which was one of the weakest player in the German retail market. It was mostly operating run down stores and that too in the less well off cities of Germany. Wal-Mart, in USA meanwhile had targeted best of the cities. The retail giant thus was never sure of what it was actually doing. Its acquisition strategy was a thoughtless one which ultimately lead to its failure.
- Wal-Mart was very successful in United States of America because of its appeals "Excellent Services and Everyday Low Prices". It used the same appeals in Germany as well but was extremely unsuccessful.

At the outset, the first appeal of excellent services never worked well in Germany. Various surveys conducted on customer satisfaction rated it a below average performer on the said front.

Everyday low prices also proved to be an exaggerated claim. As a matter of fact there were already players like Aldi and Lidl present in Germany who were operating on low price-high volume principle. Wal-Mart could never match their low prices.

At the end of the day Wal-Mart was facing the wrath of the public on account of neither being low priced nor the one which offers excellent services.

- Wal-Mart was in a habit of operating in not so much regulated markets like United States of America. Such a freedom of operation never allowed it to remain in shackles of rules and regulations. It persisted with its flexible policies which lead to the infringement of some important German laws and regulations. Needless to say, it not only faced legal problems but also bad publicity on account of the same
- Cultural issues were also not properly addresses to by Wal-Mart. This lead to resentment not only among the customers but among the employees of the organisation as well. The retail giant, for instance had most of the Americans amongst the top-brass. They were bent on implementing American style

which was not acceptable to German workers. Similarly, cultural greeting and friendliness were taken otherwise by German customers. Wal-Mart, in its stint in Germany could never adjust with German culture which ultimately led to the debacle of the retail king.

- Wal-Mart also made some fruitless talks with competitors like Metro and Globus for store network alliance but failed miserably due to zoning regulations. Ultimately Wal-Mart was not having too many options but to say goodbye to the German market in 2006. It sold its 85 stores at throwaway prices and left the country cursing its luck.

WAL-MART IN SOUTH KOREA- A STILL DISASTROUS EXPERIENCE

The story was not very different in South Korea either. Wal-Mart was lured by rising economy and wealth of the people of the country and entered in South Korea with a lot of enthusiasm in 1998. Its presence in the South Korean market was restricted to nine years only. It left the Korean market in 2007 and to the surprise of one and all it was placed amongst bottom five retailers of South Korea when it left the country. It sold its 16 stores to Shinsegae for merely \$ 882 Million- the amount which was less than its cost of operation in the country.

The reasons for debacle of Wal-Mart in South Korea were not much different to those of its debacle in Germany. The prominent reasons were as follows:

- At the outset, Wal-Mart adopted USA like distribution model in South Korea. Wal-Mart's stores are located outside cities in USA. Following the same approach, Wal-Mart kept the location of its stores outside Korean cities. This was against the liking of Korean customers as they prefer shopping from those places which are in their proximity and which offers wider shopping options to them. Obviously, Wal-Mart stores were in isolation and people were not having access to any other shopping option there. This distribution policy was not thought off and failed miserably in the South Korean Market.
- Wal-Mart kept the product mix almost identical as was kept in the American market. In the American market the retail giant's primary focus was on dry food and electronic items. However, this product mix never worked well for Wal-Mart in South Korea. South Koreans preference was always for fresh fruits and vegetables rather than dry food. Moreover, excellent and exclusive electronic stores were in abundance in the South Korea. The choice of product mix of Wal-Mart proved to be a critical factor in the lackluster stay of Wal-Mart in South Korea.
- The slogan of everyday low prices also never worked well for Wal-Mart in South Korea. The presence of low cost operators never allowed Wal-Mart to charge lowest possible prices from the customers. Supply related issues were also responsible for not so low prices being charged by the retailer. The transportation cost of the Korean customers also shot up as the stores were located in suburbs. The retailer faced the wrath of the Korean customers on price front as well.
- Wal-Mart adopted standardisation policy for promoting itself in South Korean market. The promotion planks which were used in USA were also replicated in South Korea. The cultural diversity of South Korea never allowed Wal-Mart's promotion to be successful in Korea.

WAL MART'S NEW ENDEAVOURS FOR SUCCESS- TARGET DEVELOPING COUNTRIES

Wal-Mart was a broken player as its ambitions for international market were receiving jolt after jolt. Still like a true spirited player it accepted the defeat and started viewing developing and fastest growing economies of China and India as its next destination. In addition to the total economy, these two countries are witnessing tremendous growth in organised retailing as well. Indian organised retail industry, for instance is one of the fastest growing one and is presently witnessing the rise of more than five percent compounded AGR. It is also fetching revenue of \$ 320. Still, attaining success in Indian market is a further daunting task as cultural diversities are far more pronounced. However, ensuring success in the developing markets is a must for the retail giant to keep its reputation of competitive global player intact. Following are some of the key points that Wal-Mart will have to keep in mind for its endeavour in these markets especially India:

- At the outset, Wal-Mart will have to keep patience with the following peculiar characteristics of the Indian customers:
 - Purchase of a few commodities at one particular go and that too in small quantity.
 - Inclination towards doorstep purchase.
 - Purchasing on credit basis.

Obviously organised retailer would not find such characteristics as very conducive for the business. It must keep patience with the same and see what it can do best under the prevailing circumstances.

- The real challenge to the Wal-Mart will not be the organised retailer but small shopkeepers mostly operating in unorganised sector and retaining 96 per cent of the total Indian market. They equally welcome low quantity purchasers, provide proximity advantage to the customers and even are selling goods on credit basis. As discussed earlier, Indian customers look for such shopkeepers only. There is definitely task cut out for organised retailer like Wal-Mart as to how to counter the benefits provided by such small shopkeepers which are omni present..
- Another big challenge before Wal-Mart would be to find land for the proposed stores in India. Most of the developing nations especially India and China are having huge population. Requirement for the agricultural and residential land is also huge. Land is thus a scarce commodity in these two countries. Moreover price of land is sky high especially in metropolitan and other big cities. Wal-Mart will have to think judiciously while deciding the location of the stores in these countries. Availability and cost-benefit analysis will have to be done before hand which somehow was ignored by the retailer in most of the other markets.
- Wal-Mart may have to confront with the protests from mom and pop grocers as well. As discussed earlier, there number is huge in India and these unite themselves to counter any prospective threat from the big retailers. The experience of Reliance Fresh in India with such small players is known to one and all. Wal-Mart need to take lesson from the same and must do its homework in right earnest as to how to counter such apparent protests.
- Wal-Mart will also have to contend with the dysfunctional supply chains as existing in both India. There are very lengthy supply chains and number of middlemen in the entire process is also on the higher side. Wal-Mart might not have faced such long and dysfunctional supply chains in United States of America. It needs to have a clear cut policy so as to cope with this peculiarity of the Indian market.
- As discussed earlier, one of the major reasons for the poor show of Wal-Mart in both Germany and Korea was its non-strategic mergers and acquisitions. It will have to follow similar approach in India as Government has withdrawn its immediate plans to allow 100 per cent FDI in retail sector on account of pressures from all the corners. The retailer would have to give a serious thought to its joint-venture plans keeping in mind its reputation and size. For instance, the retailer has made an alliance with Bharti group in India. Only time will tell how successful the venture will be.
- Wal-Mart will have to adjust its product mix according to the requirements of the country.. Like South Korea, Indians also prefer fresh food and vegetables rather than dry food. Wal-Mart must not repeat the blunder of not adapting its product mix in Korean market in India.
- Wal-Mart also needs to respect laws and regulations of the Indian market.. Needless to say, the retailer is in habit of operating in rather free market settings of USA. It violated rules and laws in Germany on account of this habit and faced the penalties before exit. In developing countries, rules and regulations are bound to be on the higher side. The retailer must take every step in way that the same is not violating such rules.
- The retailer must also use distribution and promotion adaptation strategies rather than standardisation strategy. As discussed earlier, location and promotion fiasco in Korea led to the doom of the retailer in Korean market. The mistake must not be repeated in Indian market. Both these key aspects of marketing mix must be planned according to the convenience of the people, cultural settings and legal framework.
- Another issue confronting Wal-Mart in India would be the fact that retail is still not being fully recognised as an industry. The said recognition perhaps exists on papers only. Such a situation hampers easy availability of finance, Government support and so on. This may obviously affect growth and expansion plans.
- Wal-Mart needs to have an excellent tax planning for a country like India. For instance, it would have to face a multiple point control and tax systems in India. It may have to face a multiple octroi at many places. The introduction of Value Added Tax and anomalies in the sales tax system may also have to be confronted with. There is definitely a task cut out for Wal-Mart as to how it would indulge in coping up with complex taxation system.

- Not only in tax planning, Wal-Mart would have to be legally very active and sound as well while operating in countries like India. The presence of strong pro-tenancy laws in the country, for instance makes it very difficult to evict tenants. The problem is also compounded by problems of clear title to ownership, while at the same time, land use conversion is time consuming and complex, as is the legal processes for setting of property disputes.
- Wal-Mart must be very particular that it is not committing HR related mistakes in India and China as it committed in Germany. It will have to recruit and rely on local managers as these are more abreast with psyche of Indian workers and Indian conditions. Further, non-availability of talented and trained manpower would hamper the growth of retail giants like Wal-Mart. The retailer must try to attract the talented workforce and with adequate dose of training the same should be moulded at par with the best in the world.
- Last but not the least with the opening up of the market, the competition for Wal-Mart is not only from domestic organised retailers and those operating in unorganised sector. Wal-Mart will also face the onslaught of global retailing giants. Thus, a proper competitive strategy is also warranted against them.

To sum up, it may be said that prime mistake committed by Wal-Mart in both Korean and German market was working on the assumption that success in these markets may be achieved by replicating American market mode. Socio-cultural, economic and legal dimensions of both these markets were completely ignored by the retail giant. Wal-Mart will face bigger shock if such assumptions are applied in developing markets like India. To attain success, it will have to follow the Mantra of "THINK GLOBALLY, ACT LOCALLY".

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