

Wal-Mart Germany: Wal-Mart's Egocentric Foray into the German Marketplace

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Abstract: The primary purpose of this paper is to critique Wal-Mart's entry into the German retail market from its initial acquisitions in late 1997 to its exodus in 2006. In an effort to understand the fiasco in Germany, the proper context must first be established. The paper will begin with a brief history of Wal-Mart's United States (US) operations, a short description of its dismal international track record, an outline of its venture into the German marketplace, and an overview of its competitors in Germany and the global marketplace. This paper attempts to answer the following two questions: 1. What did Wal-Mart do right or wrong in Germany, and how could they have minimized their mistakes? 2. What can marketers and global entrepreneurs learn from Wal-Mart's actions in Germany?

Keywords: *Marketing strategy, Retail market, Wal-Mart*

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1 Introduction

Since the first store opening in the small town of Rogers, Arkansas in 1962, Wal-Mart has experienced explosive revenue growth, and has revolutionized retailing in the US. For example, in 1979, the company's annual turnover reached one billion dollars, a figure that was then attained in one week of sales in 1993, and achieved in a single day in November 2001. In five short years, from 1998 to 2003, Wal-Mart had increased annual sales more than 105% to an astounding

\$244.5 billion. More than 83% of their revenue was derived from their US operations which included: 1,647 Discount Stores, 1,066 Supercenters, 500 Sam's Clubs, and 31 Neighborhood Stores^[1].

Wal-Mart's phenomenal growth in North America, has been attributed to three major factors: (1) its retail link system, a sophisticated inventory and logistics infrastructure that hold three times more data than the Internal Revenue Service's mainframes; (2) its satellite communication system (the largest private system in the world), which tracks sales, monitors inventories, processes payments in real time, and even controls individual store temperatures; and (3) an outstanding turnover rate which in 2003 was three times higher than Carrefour, the number two retailer in the world. Ironically, some believe that these strengths, when implemented in Germany, attributed to their downfall^[1].

2 Overview of Wal-Mart's competitors in Germany and the global marketplace

2.1 Wal-Mart International

In 1993, Wal-Mart International was formed as a separate division in an effort to fuel continued corporate growth through international expansion. Expectations were high as evidenced in their stated goal of attaining 33% of Wal-Mart's total profits by 2005. Unfortunately, the new company was ill prepared for their venture into global world markets and their cultural differences which ran contrary to Wal-Mart's American creed.

While Wal-Mart is the undisputed ruler of retail in the US, its foreign sales as a percentage of total revenues, and the number of countries served are miniscule. To its credit, in the early 90s, Wal-Mart entered the North

American markets of Mexico, Canada, and Puerto Rico, and after the initial growing pains, has now established a strong foothold. However, their expansion program during the second half of the 1990s was one of financial burden and disappointment. For example, despite its lofty plans for international expansion, Wal-Mart had only opened 11 stores in Argentina and 22 stores in Brazil by 1995; 19 stores in China by 1996; 11 in South Korea by 1998; held a 6% stake in the Japanese retailer, Seiyu, in 2002; and by 1999, had only expanded into Germany and the UK with 93 and 252 stores respectively. None of these investments could be considered overwhelming successes, and its foray into the Indonesian marketplace was discontinued after sustaining two years of heavy financial losses. Ironically, Wal-Mart expressed an interest in purchasing Metro, the German retail giant, but the end result saw Wal-Mart selling all their German interests to Metro at a substantial loss^[1].

2.2 Wal-Mart Germany

In December 1997, Wal-Mart chose to build its initial presence in Germany through acquisitions by purchasing the popular 21-store chain, Wertkauf. With annual sales of 1.2 billion euros, the chain's purchase price of 1.04 billion euros appears rather high. Nevertheless, Wal-Mart continued its acquisition frenzy and purchased Interspar's 74 hypermarkets for 560 million euros. This company, with revenues of 850 million euros, was a German unit of the French Intermarche Group owned by Spar Handels AG. Despite the fact that these acquisitions propelled Wal-Mart into the category of 4th largest operator of hypermarkets in Germany, its overall business with a turnover of 2.9 billion euros in 2002, paled in comparison to other German retailers. As a result, Wal-Mart was positioned 13th in Germany's top 15 retailers. Other noted German retailers included: Metro with revenue of 32 billion euros; second ranked Rewe Group with 28.6 billion euros in sales; and fourth ranked Aldi Group with an estimated turnover of 25 billion euros.

3 What did Wal-Mart do right or wrong in Germany, and how could they have minimized their mistakes?

One of the key problems with Wal-Mart in Germany was that they were unaware of the German culture and not interested in learning about it. Top management would not listen to feedback from its employees and

refused to acknowledge the differences between its US customers and its German customers. Wal-Mart was culturally insensitive. Top executives planned to run Wal-Mart Germany the same way as they ran it in the US. Wal-Mart Germany had four CEOs in the first four years. Three of the CEO's refused to learn the German language. Allan Leighton, the second CEO, who only lasted six months, chose to lead the company from his Leeds, UK office.

Much of what Wal-Mart did right in the US worked against them in the German market. Wal-Mart was known for their distribution network, standardized store layouts, and standardized ERP systems^[2]. The Wal-Mart stores were designed for people who like to spend a lot of time looking around the store. Since German shopping hours were shorter, German people did not spend as much time in the stores. German people also did not like to be assisted in finding the bargains they were looking for. Wal-Mart employees bagged groceries for their customers. They smiled and greeted the customers with a friendly hello. German customers did not like other people handling their food and preferred to bag their own groceries. The German customer could be rather brusque, and were often put-off by the smiling greeter^[3]. In addition to this, many German consumers looked at the people greeters as unnecessary staff, and therefore, an unwarranted expense.

To simulate the US style hypermarkets, Wal-Mart Germany had a large distribution center with three warehouses and logistics centers. The problem was that the distribution center could handle 400 stores and Wal-Mart Germany only had 85 stores. This entailed higher costs^[2].

In addition to not knowing their German consumers, Wal-Mart did not do their research on products sold in Germany. For example, they were unaware that German pillowcases were a different size than US pillowcases. As a result, they ended up with a very large number of pillowcases they could not sell to German customers.

According to Wal-Mart Germany CEO David Wild, "It does not [sic] good to force a business model onto another country's market just because it works well somewhere else"^[4]. Wal-Mart thought they would walk right into Germany and conduct business as they did in the US. Top management felt they had the right to walk on the manufacturing floor of various suppliers. They were surprised to find out they were not welcomed. Wal-Mart Germany did not count on stricter government regulations and labor unions. German

law prohibited selling products below cost without justification. This hindered Wal-Mart's low cost pricing strategy. They were tried and fined for breaching the German "Act Against Restraints of Competition" law. Another German law that placed restrictions on the "Wal-Mart way" was the restricted shopping hours. Wal-Mart countered the shopping hours issue by opening its stores earlier. This is one thing they did right, as the German consumer responded positively to earlier hours. German stores were not allowed to remain open 24 hours, were not allowed to open on Sundays, and had to close at 4:00 p.m. on Saturdays. Wal-Mart was also restricted to the number of sales they could have in a year. German law only allowed sales during a two-week period twice a year. This was quite a difference from the weekly sales offered by Wal-Mart in the US. Wal-Mart attempted to change German law to allow them to offer the two for one deal popular in the US^[5]. Their disregard for the German retail laws caused them to receive bad publicity.

One other barrier Wal-Mart was unsuccessful in conquering was the German labor market. German workers had the right to organize. Approximately 25% of Wal-Mart's workers were organized in a Union called the Uni Commerce affiliate ver.di^[5]. Ver.di had huge political influence. A shop the size of Wal-Mart's was required to have a Betriebsrat (workers committee)^[6]. The workers' committees had the right, by law, to influence company policy. They also had influence on who was hired and fired. A committee member could be suspended from his working chores and spend his full time working as a union representative employed by the company. Furthermore, the committee member cannot be fired until two years after he was elected out of his union office. Higher union wages were driving Wal-Mart's bottom line down. Wal-Mart reacted by cutting jobs. Germany's strict worker protection regulations made cutting jobs costly and cumbersome for Wal-Mart. In addition, Wal-Mart refused to formally acknowledge the centralized wage-bargaining process which the union and the Retailers' Employers' Association agreed on. Even though Wal-Mart paid 0.5 percent on top of the general raise, the union retaliated, and called for walkouts at 30 Wal-Mart stores. In addition to higher wages hurting Wal-Mart's bottom line, they were hurt by the numerous lawsuits brought against by the union which were settled out of court.

Wal-Mart US is a company that was used to building their stores from the ground up. Wal-Mart top

management was not experienced in mergers. Even though analysts felt it was not a good time to enter the German market (retails sales were slow, competition was fierce, and wages and real estate prices were high), they did so through the acquisition of 21 Wertkauf stores. Wertkauf had high earnings, competitive locations and a good management team. The only problem with Wertkauf was they only had coverage in the Southwestern part of Germany. Their second acquisition of Spar's 74 hypermarkets was a mistake, for a few reasons. Spar was one of the weakest chains in the German market. Their stores were run down and were located in the poorer residential areas. Wal-Mart overpaid (560 million euros) for the chain, and did not even get ownership to the store buildings^[1].

4 What can marketers and global entrepreneurs learn from Wal-Mart's actions in Germany?

Wal-Mart's exit from the German market was related to the lack of understanding of the culture that it was entering. It must be kept in mind that when establishing a business in a foreign country, cultural differences must be taken into consideration. Some questions to think about when going global are: what is that culture's communication style? How is conflict and saving face valued? What are their core values? These questions along with many others must be considered to make an organization's global expansion successful. Many lessons can be learned from the failures of Wal-Mart Germany^[7].

4.1 What works for one may not work for another

Wal-Mart's success in the US was due to their network dominance and independent action. What was found through research on Wal-Mart is that their success in the US was not replicated in Germany. Wal-Mart wanted to standardize what worked in the US over to their foreign locations without considering the German customs and way of life.

4.2 Understand the target market and consumer habits within that market

Wal-Mart Germany was unable to fight off the competition. This was due to their failure of understanding the market. "If you want to be successful in a foreign market you have to know what your customers want. That's the most important lesson" (Welle, 2006). What can be learned from this is that

customer wants are understood through examining customer habits. This allows an organization such as Wal-Mart to set expectations of their consumers before it fires back. One example was Wal-Mart's failure to understand Germany's sensitivity to issues of sustainability. Thus Germans would bring their own bags and bag their own groceries. Wal-Mart provided customers with plastic bags failing to recognize this. One may think that culture has to do with customs but culture goes beyond basic customs.

4.3 Study foreign competitors

It is vital to know a competitor's organization as much as knowing one's own. What do foreign competitors do better, and what do they do worse. Wal-Mart missed the signs in Germany. They should have looked at top competitors closely and learned from them. The American way of bigger and better was not conducive to the European market. Wal-Mart just did what they were used to and tried nothing new. Successful entry into a new market requires that competitors' operations be closely examined for self-improvement. Aldi, originated in Germany, and was an excellent example of what German consumers expected from a discount store. Aldi had customers bag their own groceries, provided shopping carts with a coin deposit, had store hours that coincided with typical European store hours. Furthermore, shelves were lined with products that were still in the shipping boxes which were used in place of plastic bags to reduce the price to consumers. The German consumers appreciated these cost saving measures which illustrates that researching competitors is essential^[8].

4.4 Product research: Know what products matter to the consumers and how to place them

Wal-Mart Germany did a poor job with their merchandising. The German people liked to see discounts upfront and not have to ask what products were on sale. Wal-Mart chose to use their typical strategy of keeping premium products at eye level. This aggravated German shoppers. Wal-Mart also focused highly on non- food products but German consumers were used to other retailers having larger amount of food products. This example points out that product type and placement is essential to keeping customers satisfied and willing to come back^[2].

4.5 Have competent management team for global

expansion

A major problem with top management was their failure to understand the German culture. Top management refused to look at the differences in the customer's behavior in Germany which showed that even large companies with top executives are susceptible to failure. The importance of listening to feedback from employees who are in front of the customers is a key. Wal-Mart was assured that they would meet customer needs through customer service which Wal-Mart prided itself on in the US. However, the consultants, who were US based, ignored cultural differences and did not understand that the consumers did not want anything different than what they were used to. This teaches the valuable lesson that research should be conducted and that the findings be corroborated and/or triangulated^[9].

4.6 Create positive internal culture

The issues did not stop with the consumers. Wal-Mart failed to notice the cultural attitudes of the German people when it came to labor laws and the roles of unions. Although anti- union organizations such as Wal-Mart are used in the US as a way to hold down cost and in turn offer better discounts, in Germany unions were more an issue of democracy. This anti-union sentiment that Wal-Mart portrayed was viewed as an invasion of their private lives, and anti-democratic. This illustrates the importance of taking the time to study the labor laws within a new culture and the role politics plays in the internal culture of the organization. Basically, Wal-Mart failed their German employees. What was learned from this was that lack of internal support can affect external factors. In this case the external factor was the consumers^[8].

It should be understood that changes will occur regardless when globalizing. However, when making any changes internally, local culture should be considered. Also, if change needs to be implemented, it cannot be quick; it must be done gradually over time^[9].

5 Conclusion

Overall, the largest lesson learned from the failure of Wal-Mart Germany is that organizations wanting to expand internationally have to understand all aspects of the foreign culture in which they wish to expand. Extensive research needs to be conducted in order to reach this understanding. Cultural assessment has to be an initial step as well as an ongoing project. All cultures are rooted in tradition but each culture needs to be

nourished to grow and be successful.

The lack of awareness in all the decisions made with Wal-Mart going to Germany has been crucial to the reinvention of international involvement as being flexible instead of rigid. It is clear from the findings of this case that the cookie cutter approach does not work when taking the organization globally^[10].

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