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The Approach of Major Players in Retail in Expanding Their Operations into Developing Markets – Taking Walmart as an Example

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Abstract: This research investigates the expansion behavior of international (giant) retailers, with a specific focus on the determinants of the entry mode choice in emerging markets based on the performance of Walmart in its venture into less developed markets. This research investigates the approach in which major players in retail are expanding their operations into other developing markets, specifically focusing on how the entry mode decisions of giant retailers moderate the risks and difficulties in making business in emerging countries. The objective of this study is to analyze and evaluate the potential causes and antecedents of large merchants' entry mode (EM) choices by assessing Walmart's business performance in less advanced nations in recent years.

Keywords: International expansion of retail operations; Emerging markets

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1. Introduction

In recent decades, the retail industry has experienced a notable transformation. Due to deregulation of overseas investment, rivalry or monopoly policies, land-use strategies, and a wide range of new liberal reforms influencing buyer markets and the trade process, giant retailers have figured out how to solidify their priority and extend internationally. While small retail businesses still dominate a large part of the world, transnational enterprises are taking over larger portions of the business sector.

The industry is becoming exceedingly globalized. This is reflected in many giant retailers entering almost every single country. Walmart retains its domination over the sector with a revenue of approximately four times greater than that of Carrefour, the second largest company, in 2011. Industry specialists predict that the sector will continue to experience concentration and development. Mergers and acquisitions (M&A) continue to play an essential role, particularly in Latin America. In addition, the largest corporations are progressively offering a wider range of arrangements (supermarkets, supercenters, and smaller workshops) [1].

Walmart's international expansion operation has been accomplished through a combination of greenfield investments, mergers and acquisitions of local stores, and joint ventures (JVs). These approaches have contributed to market infiltration and successfully positioned the firm for future development [2]. The retail industry has seen Walmart's fast expansion throughout advanced areas, such as North America and Europe, as well as less developed regions within Latin America and Asia. In the year of 2006, Walmart International published remarkable financial reports with profits reaching approximately $63 billion and operating benefits standing at $3.5 billion, indicating a 11.5% growth over the previous year.

2. Case analysis

2.1. Case profile

Walmart was established in 1962; it was founded by Sam Walton. It is a United States (U.S.) transnational retail enterprise that owns a chain of supermarkets, grocery departments, and distribution centers. Walmart concentrates on making an effect on its clients' living standards, helping them to keep a relatively high standard of living with a small sum of money.

Later, in 1969, the organization was publicly integrated, becoming Walmart Stores Inc. Then, in 1972, Walmart began trading on the open stock exchange (New York Stock Exchange (NYSE)). Today, this firm is the biggest and the most valuable retailer in the world. Walmart is the largest enterprise in the world as reported by Fortune in 2016. It is also the largest individual firm with more than 2.2 million workers. Walmart is a privately held company, owned by the Walton family. Walton's heirs hold more than 51% of its shares.

Walmart is also one of the most valuable organizations by market value. It is reported that the organization's revenue was $485,651 million in the 2015 financial year.

Furthermore, Walmart is the largest retailer in the U.S.'s grocery industry. Up to July 2016, almost 63% of its $483 billion worldwide revenue is from the U.S.

Internationally, Walmart has a presence in Latin America markets, such as Argentina, Brazil, and Chile, in Asian markets such as China, South Korea, and India, as well as in other advanced economies, such as the United Kingdom, Canada, and the majority of U.S. cities. As of July 2016, the company has 11,539 stores and departments, of which 6,256 stores are in 27 foreign nations under 63 different banners.

2.2. Case analysis of Walmart

2.2.1. Reasons why Walmart did not limit its operations within America

Firstly, the domestic market had already matured and secondly, the U.S. represents only 5% of the world's population. By constraining itself to the domestic market, Walmart would have lost a large number of the world's potential clients.

Thirdly, emerging economies (with their low level of income) provide a colossal stage for retail development, especially for discount stores. Additionally, in view of new fast-paced techniques, fewer obstacles to trade, and a homogenized culture, many companies have already capitalized on that kind of modernization [3]. In consequence, Walmart had no other option but to meet this new wave of internationalized progress.

When moving into the South African market, the organization decided to take advantage of its experience and operating know-how by entering the market by means of company acquisitions.

Suppliers that cooperate with Walmart become natural commercial partners when their commerce formats are merged with Walmart's business strategies, creating a technological revolution of the value chain.

As the largest company in the industry, Walmart has already incorporated an RFID (radio frequency identification) system; this allows the firm to track shipments, stock, and potential deals even more efficiently. Through the use of this technology, the company achieves higher profits. It can also make better use of resources and gains ownership advantages that allows it to retain its economies of scale [4].

The acquisition deal with Massmart is a good example which illustrates Walmart's priorities. On September 27, 2010, it was reported that Walmart would establish overseas operations in South Africa, an emerging country with a fast growth rate.

Walmart declared its acquisition deal with Massmart. It is the fourth-largest retail enterprise in South Africa according to revenue, with a development methodology and store arrangement amazingly like

Walmart's. Massmart had been forcefully expanding, essentially through acquisitions, particularly in the lower income area.

The ownership advantage of assets and resources in the overseas market is the extreme control over the marketplaces and commodities. By taking acquisition as its mode of entry, Walmart swiftly achieved a market share in the South African market.

This approach is more attractive than that adopted by some of Walmart's rivals, that engaged in greenfield investments. In this way, Walmart can change the retail industry by using its unique approach to manage its supply chain and enrich its associations with clients and local partners [5].

Information is gathered through operating experience, perception, and induction; it is a virtual asset and a main competitive advantage. Should some information clusters from the new home organization noticeably appear within the local organization after the acquisition arrangement, the subsidiary has a new advantage in addition to its geographical superiority.

From this point of view, Massmart can be classified as "knowledge self-governing" and as being a "local trendsetter."

From the time the acquisition deal was reported until the competition commission finally confirmed the agreement, there was about a 19% increase in Massmart's share price. The deal was expected to positively influence industry competition as well as improve efficiency between suppliers and retailers. It would then provide more shopping choices and a better price for consumers.

As a result, Massmart enjoys a higher-level advantage than that received by its home company (as a member of Walmart, a retailing giant with transnational operating experience and a global reputation).

2.2.2. Expansion of Walmart's operations into a culturally distant target market – Mexico

It is worth noticing that when transnational retail firms extend their operations into a culturally distant target market, especially an emerging market, they tend to choose a joint venture with a local player as the primary entry mode in order for them to promptly adapt to the new environment.

As there is a huge income and sociocultural difference between America and Mexico, it is difficult for Walmart to identify what should be learned, how should their activities be planned, and what might be the demands of local consumers. All of these come under the umbrella of local cultural context, which can lead to a hazardous start-up.

Taking this into consideration, Walmart selected a 50-50 joint venture with Cifra, a neighboring industry player. Cifra is the biggest retailer in Mexico, and Walmart counted on this Mexican retailer to share its practical experience in the Mexican marketplace.

This entry mode helped Walmart gain a better understanding of the environment in the Mexican market. As the cooperative party, Cifra provided Walmart with supplier associations and information about the local culture. Additionally, Cifra helped Walmart to connect with governments and other authorities [6]. It also guaranteed an effective extension of Walmart's foothold in Mexico, creating a great deal of impact in a short time. In exchange, Walmart shared its transportation system with Cifra, which enhanced Cifra's local supply chain network administration.

In terms of Walmart's contract with Cifra, Walmart had set up membership-only warehouse centers, thereby taking small firms and specific groups of consumers into account. Cifra and Walmart also declared that there were two joint ventures: Aurrera wholesale discount stores and an export-import corporation that would help transfer goods from Walmart's outlets in the U.S. to local Cifra consumers.

Up to the first quarter of 2012, Walmart Mexico was running more than 2,100 retail stores all around Mexico, including more than 125 Sam's Clubs, 214 Walmart hypercenters, 93 suburbias, 386 hotels, 358 restaurants, as well as more than 830 hotel expresses and other outlet stores. From 1993 to 2007, Walmart's operations in Mexico were extremely successful as the number of stores rose dramatically from several stores in major cities in 1993 to multitudinous stores throughout almost all of Mexico by 2007.

2.2.3. Expansion of Walmart's operations into China

Walmart also extended its operations into China. China is the most attractive market among the emerging economies, with its great population and a growing middle class. This means that businesses, especially those in the retail industry, have strong purchasing power in this emerging market.

Nevertheless, the operations met several challenges, which mainly resulted from the innate cultural differences. In other words, many foreign business enterprises need to accommodate the traditional Confucian culture in China. The Chinese market is a gathering of different kinds of markets; these market sectors operate at diverse levels of development, relying on both their positions and customer's inclination, thus increasing the difficulty to enter the market.

When Walmart ventured into China in 1995, it chose a joint venture approach. Walmart signed a joint venture contract with a local state-owned firm called International Trust & Investment Co. (ITIC), which was located in Shenzhen (an advanced Chinese city). This contract created an agreement for long-term cooperation with ITIC. Walmart gained the ability to understand the guanxi cultural context; that is, utilizing social resources in order to keep commercial connections.

However, Walmart faces obstacles when putting guanxi culture into practice. Although Walmart has established long-term relationships with the local government, Walmart still has to pay attention to its relationships against the cultural background in China in view of the domestic protectionist policy.

In 2007, China's biggest hosiery maker (Langsha Group) reported that they would no longer offer Walmart a low price for their orders. This group satisfied more than $6 million orders from Walmart in the previous two or three years. In order to continue the relationship, Walmart started paying higher costs as requested. Its business game plan proceeded with Langsha continuing to fulfil Walmart's orders.

Guanxi (relationship) can be seen as a social association between parties that have mutual interests. In face with this culture, Walmart improved its performance and benefitted its long-term development targets.

3. Discussion

It is obvious that Walmart has already become a successful retailer through its international expansion behavior and its priorities in the global marketplace. It is leading the way for the whole industry.

Using different modes of entry, Walmart promptly occupied emerging markets, such as Mexico, China, and South Africa. This approach gives Walmart a large competitive advantage over other transnational retail competitors.

Its unique capabilities provide ownership advantage, as exemplified in the well-known company slogan, "Everyday Low Price," which has already been effectively employed throughout the international context. This proves that there are potential opportunities for other domestic retailers to take their market expansion behaviors into other foreign countries (especially the emerging economies) by using the aforementioned entry mode.

Considering Walmart's acquisition of South Africa's fourth-largest retailer (Massmart), it is worth noticing that Dunning's OLI (ownership, location, internalization) theory, especially his ownership advantage doctrine, shows that the choice of entry has a positive effect. It proves that a company with high-level ownership advantages tends to prefer acquisition as an entry strategy.

Ownership advantages over the target marketplaces and products in a new market might be described as an extreme priority. There are several reasons why Walmart was able to acquire Massmart.

(1) As the largest retailer in the field, Walmart enjoys a great international reputation, with a strong marketing concept and clear marketing goals. So, to some extent, it can influence Massmart's

decisions.

(2) Adequate and well-organized information clusters provide Walmart with the ability to effectively analyze the market environment.

(3) Walmart's strong management and administration skills as well as other intangible capabilities that are far beyond Massmart's abilities also support this acquisition.

The deal's success is illustrated by the 19% increase in share price following the acquisition [7].

As the above case study implies, when the market environment changes, Walmart's choice of entry mode changes as well. In Mexico, Walmart chose a joint venture mode of entry, teaming up with a local company named Cifra.

By making use of Cifra's local information, Walmart gained successful control over the Mexican market; it also satisfied local market requirements effectively, attracted a large deal of consumer's attention, and enhanced its local supply-chain network management.

In addition, institutional factors and the culture of an investing firm can impact an organization's choice to take part in a continuous deal and negotiation procedure. China, as one of the most attractive emerging economies, has a completely different cultural environment than the U.S. This huge cultural diversity has a significant impact on the company's joint venture choices.

According to previous study on retailing industry, the retailers' international expansion operations are well comprehended. Retailing industry has witnessed its dramatic growth in past decades.

It is clear that Walmart's global expansion activities in emerging economies have been a great example for later enters. The selection of entry modes in its extension into China, Mexico, South Africa, and India proved Walmart's success in the adaption to emerging markets. In regard to overseas cases, firms, such as Walmart, with incomparable capabilities or ownership advantages are eager to adopt acquisition as their entry strategy in order to sustain control over their competitive advantages when entering into an analyzed (relatively low entry risks) market. Besides, by taking institutional factors such as cultural distance into consideration, companies would have a better understanding of the target market and achieve a positive performance as exemplified by the JVs in China and Mexico.

Nevertheless, it is crucial for overseas investors to make entry mode decisions, especially when entering into emerging markets. Under certain circumstances, wrong selection might threaten the market share of the investing company.

4. Implications and limitations

This research focuses on the expansion behavior of giant retailers and specifically seeks to understand the determinants of the entry mode choice in emerging economies based on Walmart's performance in its decision to enter into less developed markets. Under the previous framework, this study provides a new perspective on the entry mode selection when entering an emerging market, which involves using complex theoretical frameworks to support the case analysis and gaining a conclusion that there is a positive correlation between ownership advantages and the control over subsidiaries as well as the institutional consideration and market performance, to be able to benefit future research. In addition, future studies could take more elements and variables into consideration when discussing the entry mode in emerging markets. There are limitations in this paper as well. First, its adoption of Dunning's paradigm may be unsatisfactory in certain aspects due to the changing variables. Second, in this study, only Walmart is taken into the research scope; thus, it may not represent all cases. Despite the limited scholar papers, Walmart India has not been analyzed comprehensively.

Disclosure statement

The author declares that there is no conflict of interest.

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