Wal-Mart Ventures into Mexico

Wal-Mart, the leading U.S. retailer with sales of $44 billion, announced in July 1991, that it would expand its operations into Mexico, opening discount stores and warehouse clubs in the Mexico City area. Many analysts saw this as a natural geographic extension of the Wal-Mart formula for success. Others worried that Wal-Mart, a company with practically no international experience was venturing into perilous terrain. Still, others pointed to Wal-Mart's previous success at entering new markets as well as their record of highly profitable stores along the Texas-Mexican border and their ability to quickly learn and then deliver what local customers want and need.

The Mexican Market

The Mexican retail market, traditionally fragmented and disperse, could be segmented into four principal channels. *Food wholesalers*—these included mom and pop stores, *kiosks*, where everything from chocolate bars to detergent were sold, and small supermarket chains. This segment accounted for approximately 45% of the total industry sales. Another channel was the *national supermarket chains*. In this segment, four companies dominated the trade. Supermarkets and their hybrid—hypermarkets, accounted for 35% of the market. *Warehouse clubs and private membership clubs*, were a third distribution channel within the segment and while relatively new, account for between 5% and 10% of the retail trade. A final retail channel was *drug stores*, dominated by three large chains. This segment accounted for 10% of the industry activity in Mexico.

For much of the past two decades, Mexican retailers did not feel significant competition from international marketers. However, recent economic and demographic trends in Mexico made the Mexican market attractive to outsiders. An economic boom in Mexico would produce real growth of 5% in 1992, a far cry from the flat growth of the U.S. economy. Additionally, structural barriers were removed: barriers to investment were lowered and import tariffs, once as high as 100%, were reduced to a pre-NAFTA maximum of 20%. Mexican demographic trends were also favorable to retailers looking for new markets. In the four years of Mexican President Salinas de

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Research Associate Jonathan J. Ginns prepared this case under the supervision of Professor David B. Yoffie as the basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation.

Gortari's term, disposable income increased over 70%.[1] While the Mexican population was approximately 80 million, only 30 million people earned wages that qualified them as middle class or higher. Yet, 70% of this more affluent segment was concentrated in the three metropolitan areas of Mexico City, Guadalajara and Monterrey. A final attraction was the thought that U.S. marketers would be able to apply lessons learned in Mexico to the growing numbers of hispanic U.S. residents.

Price Company began the trend of U.S. retail expansion in Mexico in March 1991, when it signed a joint venture agreement with Commercial Mexicana, the nation's second largest retailer. The agreement called for the two companies to open 10 membership-only warehouse clubs in Mexico. In late 1992, Price operated two warehouse clubs outside Mexico City with five more planned for early 1993. Price Co. featured a standard mix of U.S. goods and lower priced Mexican groceries.[2] Several other U.S. retailers including HEB Grocery, Sears Roebuck, and J.C. Penney were considering opening or expanding Mexican operations.

The Wal-Mart-Cifra Joint Venture

Wal-Mart entered into a joint-venture relationship with Cifra S.A., Mexico's largest retailer. With 1991 sales of $2.2 billion, Cifra operated 21 Bodega discount stores and 35 Aurrera hypermarkets. Cifra also owned 27 Suburbia stores, which carry modestly priced apparel and soft goods and 33 Superama grocery stores. They also owned the 74 location restaurant chain, Vips. The joint venture, first announced in July, 1991 had two discrete aims. First, there was a 50-50 agreement to build six Aurrera hypermarkets and two warehouse clubs. An export-import company was also created, giving Cifra's Mexican suppliers access to Wal-Mart's U.S. outlets.

In July 1992, Wal-Mart greatly expanded its involvement in the joint venture. Under the updated agreement, Wal-Mart and Cifra would equally share the development of new stores and Wal-Mart would have the option of becoming a 50-50 partner in all future Cifra activities. The companies planned to operate jointly six new Club Aurrera Warehouse Clubs in Mexico City and one in Monterrey in 1993. Additionally, the joint venture would open up to six Wal-Mart Super Centers, which combined a discount store with a grocery. Under the new agreement, 23 supermarkets that Cifra had planned to open independently, would now be managed by the joint venture. David Glass, president and chief executive officer of Wal-Mart, said the partners would actively recruit off-shore manufacturers to expand and relocate to Mexico.[3]

As many analysts speculated on how and where Wal-Mart would look to fuel its future growth needs, Mexico, with its expanding economy and large population, appeared to be an attractive environment. The open question was whether the Wal-Mart formula for success could be easily transferred south of the border.

1. "The American Dream Is Alive and Well in Mexico," *Business Week*, p. 102.
2. Ibid., p. 103.
3. Robert Ortega, "Wal-Mart to Expand Mexican Business," *Wall Street Journal*, June 1, 1992, p. 35.