

Walmart Around the World

GMP-7
Professor Gurneeta Vasudeva Singh

Sub title (if applicable)

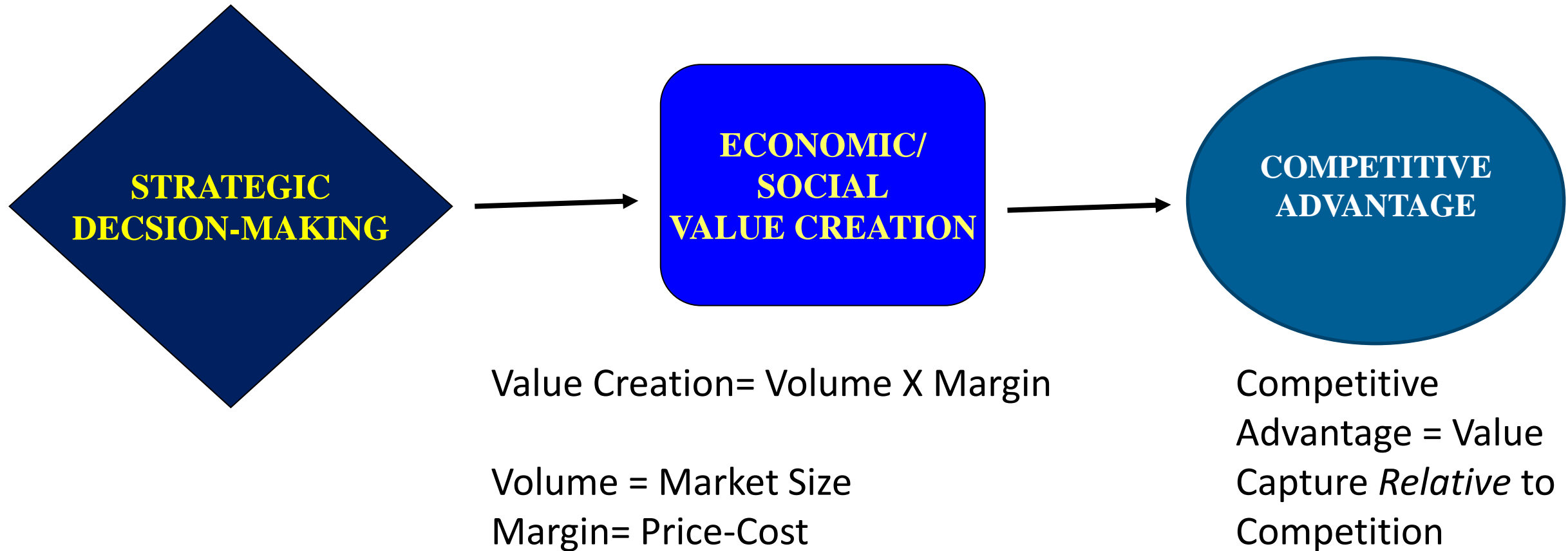


Learning Objectives/ Session Plan



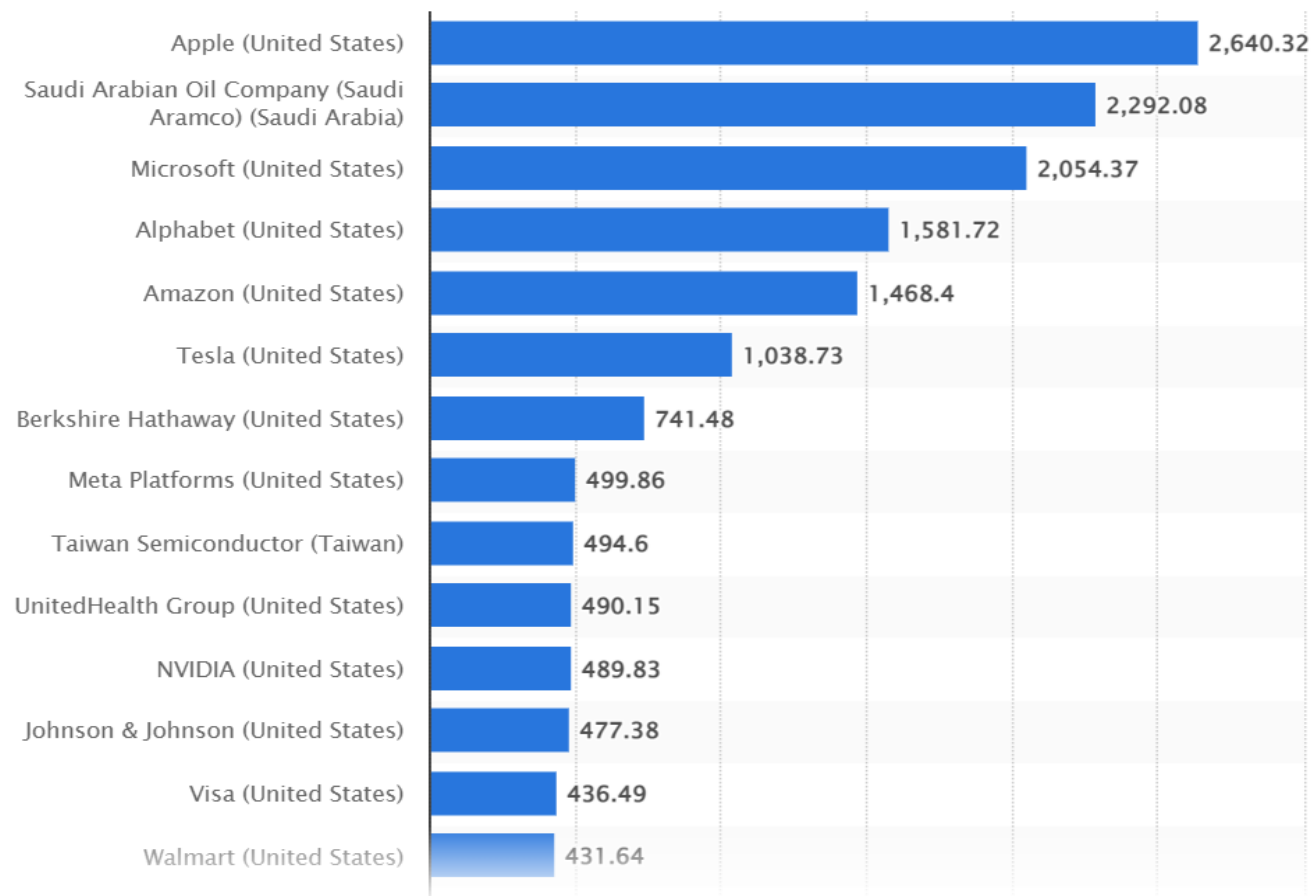
- *What is Strategic Decision Making?*
- *Evaluate Walmart's global strategy. Can location characteristics explain differences in performance?*
- *Evaluate entry mode choices. How do location characteristics explain acquisitions v. greenfields?*
- *Walmart decided to enter India in a JV with Bharti Enterprises. Do you think this was a good strategic decision?*

What is the Goal of Strategic Decision-Making?



How to Create Value and Competitive Advantage?

The 100 largest companies in the world by market capitalization in 2022 (in billion U.S. dollars)



Note(s): Worldwide; April 16, 2021

Further information regarding this statistic can be found on [page 8](#).

Source(s): Forbes; [ID 263264](#)

The rebound from COVID-19 created a huge tailwind for the world's largest companies by revenue. Aggregate sales for the Fortune Global 500 hit \$37.8 trillion, an increase of 19%—the highest annual growth rate in the list's history. Walmart landed at No. 1 for the ninth straight year, trailed by Amazon, which reached its highest ranking ever. Chinese energy giants State Grid, China National Petroleum, and Sinopec rounded out the top five. For the first time, revenues from Global 500 companies in Greater China (including Taiwan) exceeded revenues from U.S. companies on the list, accounting for 31% of the total. The corporations that make up our annual ranking of the world's largest companies also reaped record-busting profits in 2021. But this year's turmoil has confronted the leaders of the Fortune Global 500 with a new set of crises—many of them political as well as economic.

◀ 2022 2021 2020 2019 2018 2017 2016 2015

The Top 10

1 Walmart

2 Amazon


3 State Grid

4 China National Petroleum

5 Sinopec Group

6 Saudi Aramco

Fortune 500 (2020)

| RANK  | NAME | REVENUES (\$M) | REVENUE PERCENT CHANGE | PROFITS (\$M) | PROFITS PERCENT CHANGE | ASSETS (\$M) | MARKET VALUE — AS OF MARCH 31, 2020 (\$M) | CHANGE IN RANK (FULL 1000) | EMPLOYEES | CHANGE IN RANK (500 ONLY) |
|--|--------------------|----------------|---------------------------|---------------|---------------------------|--------------|---|-------------------------------|-----------|------------------------------|
| 1 | Walmart | \$523,964 | 1.9% | \$14,881 | 123.1% | \$236,495 | \$321,803.3 | - | 2,200,000 | - |
| 2 | Amazon | \$280,522 | 20.5% | \$11,588 | 15% | \$225,248 | \$970,680.1 | 3 | 798,000 | 3 |
| 3 | Exxon Mobil | \$264,938 | -8.7% | \$14,340 | -31.2% | \$362,597 | \$160,696.3 | -1 | 74,900 | -1 |
| 4 | Apple | \$260,174 | -2% | \$55,256 | -7.2% | \$338,516 | \$1,112,640.8 | -1 | 137,000 | -1 |
| 5 | CVS Health | \$256,776 | 32% | \$6,634 | - | \$222,449 | \$77,375.8 | 3 | 290,000 | 3 |
| 6 | Berkshire Hathaway | \$254,616 | 2.7% | \$81,417 | 1924.8% | \$817,729 | \$442,897.1 | -2 | 391,500 | -2 |
| 7 | UnitedHealth Group | \$242,155 | 7% | \$13,839 | 15.5% | \$173,889 | \$236,555.2 | -1 | 325,000 | -1 |

The World's Most Innovative Companies 2020 and 2021

The 50 Most Innovative Companies of 2020

| | | | | | | | | | |
|----|----------------|----|---------------------|----|-------------------------|----|---------------------------|----|--------------------|
| 1 | Apple (+2) | 11 | Tesla (-2) | 21 | Siemens (-5) | 31 | JD.com (new) | 41 | Toyota (-4) |
| 2 | Alphabet (-1) | 12 | Cisco (+5) | 22 | Target (return) | 32 | Volkswagen (+6) | 42 | Nestlé (return) |
| 3 | Amazon (-1) | 13 | Walmart (+29) | 23 | Philips (+6) | 33 | Bosch (new) | 43 | ABB (new) |
| 4 | Microsoft (+0) | 14 | Tencent (return) | 24 | Xiaomi (return) | 34 | Airbus (return) | 44 | 3M (-5) |
| 5 | Samsung (+0) | 15 | HP (+29) | 25 | Oracle (return) | 35 | Salesforce (-2) | 45 | Unilever (-13) |
| 6 | Huawei (+42) | 16 | Nike (return) | 26 | Johnson & Johnson (-12) | 36 | JPMorgan Chase (-16) | 46 | FCA (new) |
| 7 | Alibaba (+16) | 17 | Netflix (-11) | 27 | SAP (+1) | 37 | Uber (return) | 47 | Novartis (new) |
| 8 | IBM (-1) | 18 | LG Electronics (+0) | 28 | Adidas (-18) | 38 | Bayer (-14) | 48 | Coca-Cola (return) |
| 9 | Sony (return) | 19 | Intel (return) | 29 | Hitachi (return) | 39 | Procter & Gamble (return) | 49 | Volvo (new) |
| 10 | Facebook (-2) | 20 | Dell (+21) | 30 | Costco (return) | 40 | Royal Dutch Shell (-10) | 50 | McDonald's (-29) |

Source: BCG Global Innovation Survey.

Note: Returnees have appeared on the ranking before but not in the prior year. Values in parentheses show change in ranking from 2019.

Rank: 1-10

- 1 Apple
- 2 Alphabet
- 3 Amazon
- 4 Microsoft
- 5 Tesla
- 6 Samsung
- 7 IBM
- 8 Huawei
- 9 Sony
- 10 Pfizer

Rank: 11-20

- 11 Siemens
- 12 LG
- 13 Facebook
- 14 Alibaba
- 15 Oracle
- 16 Dell
- 17 Cisco
- 18 Target
- 19 HP
- 20 Johnson & Johnson

Rank: 21-30

- 21 Toyota
- 22 Salesforce
- 23 Walmart
- 24 Nike
- 25 Lenovo
- 26 Tencent
- 27 Procter & Gamble
- 28 Coca-Cola
- 29 Abbott Labs
- 30 Bosch

Rank: 31-40

- 31 Xiaomi
- 32 IKEA
- 33 Fast Retailing
- 34 Adidas
- 35 Merck & Co.
- 36 Novartis
- 37 Ebay
- 38 PepsiCo
- 39 Hyundai
- 40 SAP

Rank: 41-50

- 41 Inditex
- 42 Moderna
- 43 Philips
- 44 Disney
- 45 Mitsubishi
- 46 Comcast
- 47 GE
- 48 Roche
- 49 AstraZeneca
- 50 Bayer

<https://www.bcg.com/capabilities/innovation-strategy-delivery/innovation-benchmarking-tool>

Innovation Pays

The Most Innovative Companies of 2020 accelerated out of the crisis

During 2020, a portfolio invested in last year's 50 most innovative companies outperformed the MSCI World index by **17 percentage points**

Total Shareholder Return
December 31, 2019 = 100



Sources: BCG Innovation Team; CapitalIQ.

Note: Chart compares TSR performance of publically listed MIC 50 companies starting 31.12.2019 and follows their TSR performance through the crisis until 31.12.2020.

Innovation Pays Even for Non-Tech Firms

The Most Innovative Companies of 2020 accelerated out of the crisis

And even after removing Apple, Amazon, Facebook, Google, and Netflix from the portfolio, the remaining 45 innovators still outperform the index

Total Shareholder Return
December 31, 2019 = 100



Sources: BCG Innovation Team; CapitalIQ

Note: Chart compares TSR performance of publically listed MIC 50 companies starting 31.12.2019 and follows their TSR performance through the crisis until 31.12.2020.

SPENDING ON INNOVATION

● Innovation Leaders

Companies that make **more sales** in new products than the industry median

● Laggard

Companies that make **less sales** in new products than the industry median

Innovation input % OF SALES

13%

18%

Innovation leaders spend **1.4x more money on innovation** programs than their industry peers do.

Innovation output % OF SALES

7%

11

27%

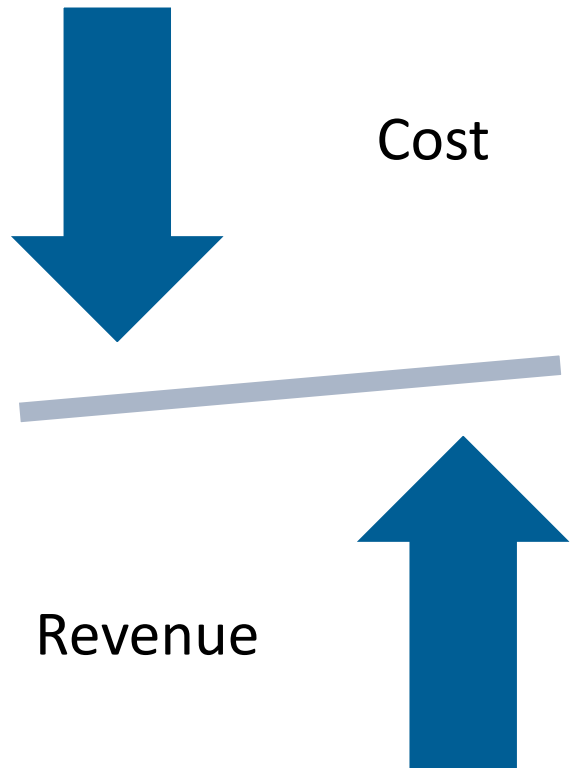
As a result, they see **4x more** in new product sales.

Data includes companies with sales >\$1B.

Source: Boston Consulting Group, "The Most Innovative Companies 2020"



How to Create Value and Competitive Advantage?



INTERNATIONALIZATION

- Walmart Around the World

INNOVATION

- Haier's Internet of Food

Discussion Questions

- Why is Wal-Mart so successful?
- Why did it internationalize?
- In which countries did Wal-Mart struggle and where did it do well? Can location characteristics explain these differences?
- Why did Wal-Mart enter through acquisitions in some countries and greenfield investments in others?
- In 2006 Wal-Mart decided to enter India through a joint venture with Bharti Enterprises. Do you think it was a good idea to go to India, and partner with Bharti through a joint venture?

Wal-Mart: Price Leadership through Cost Leadership

❑ Revolutionized Retail

- ❑ Every Day Low Prices(EDLP)
- ❑ Selection and Product Range
- ❑ Supplier Relationships
- ❑ Inventory and Distribution System
- ❑ Wal-Mart Cult

➤ Decline in Collective Labor

➤ Culture of Consumption

➤ Innovation

- ❑ Data-Driven Management
- ❑ Retail Link



Types of Walmart Stores



Walmart Supercenter

Walmart began building Supercenters in 1988 and are around 182,000 square feet employing about 300 associates. Walmart Supercenters offer a one-stop shopping experience by combining a grocery store with fresh produce, bakery, deli and dairy products with electronics, apparel, toys and home furnishings. Most Supercenters are open 24 hours, and may also include specialty shops such as banks, hair and nail salons, restaurants, or vision centers.



Walmart Discount Store

Since Sam Walton opened his first discount store in Rogers, Ark., in 1962, we've built hundreds across the U.S. Smaller than a Supercenter, discount stores employ about 200 associates and offer electronics, apparel, toys, home furnishings, health and beauty aids, hardware and more in about 106,000 square feet of open, brightly lit space.



Walmart Neighborhood Market

Walmart Neighborhood Markets were designed in 1998 as a smaller-footprint option for communities in need of a pharmacy, affordable groceries and merchandise. Each one is approximately 38,000 square feet and employs up to 95 associates. Walmart Neighborhood Markets offer fresh produce, meat and dairy products, bakery and deli items, household supplies, health and beauty aids and a pharmacy.

Walmart Stores Worldwide

Walmart Inc. helps people around the world save money and live better - anytime and anywhere - in retail stores, online, and through their mobile devices. **Each week, approximately 220 million customers and members visit approximately 10,500 stores and clubs under 48 banners in 24 countries and eCommerce websites. With fiscal year 2021 revenue of \$559 billion, Walmart employs 2.2 million associates worldwide.**

A snapshot of  **Walmart** Executive Education



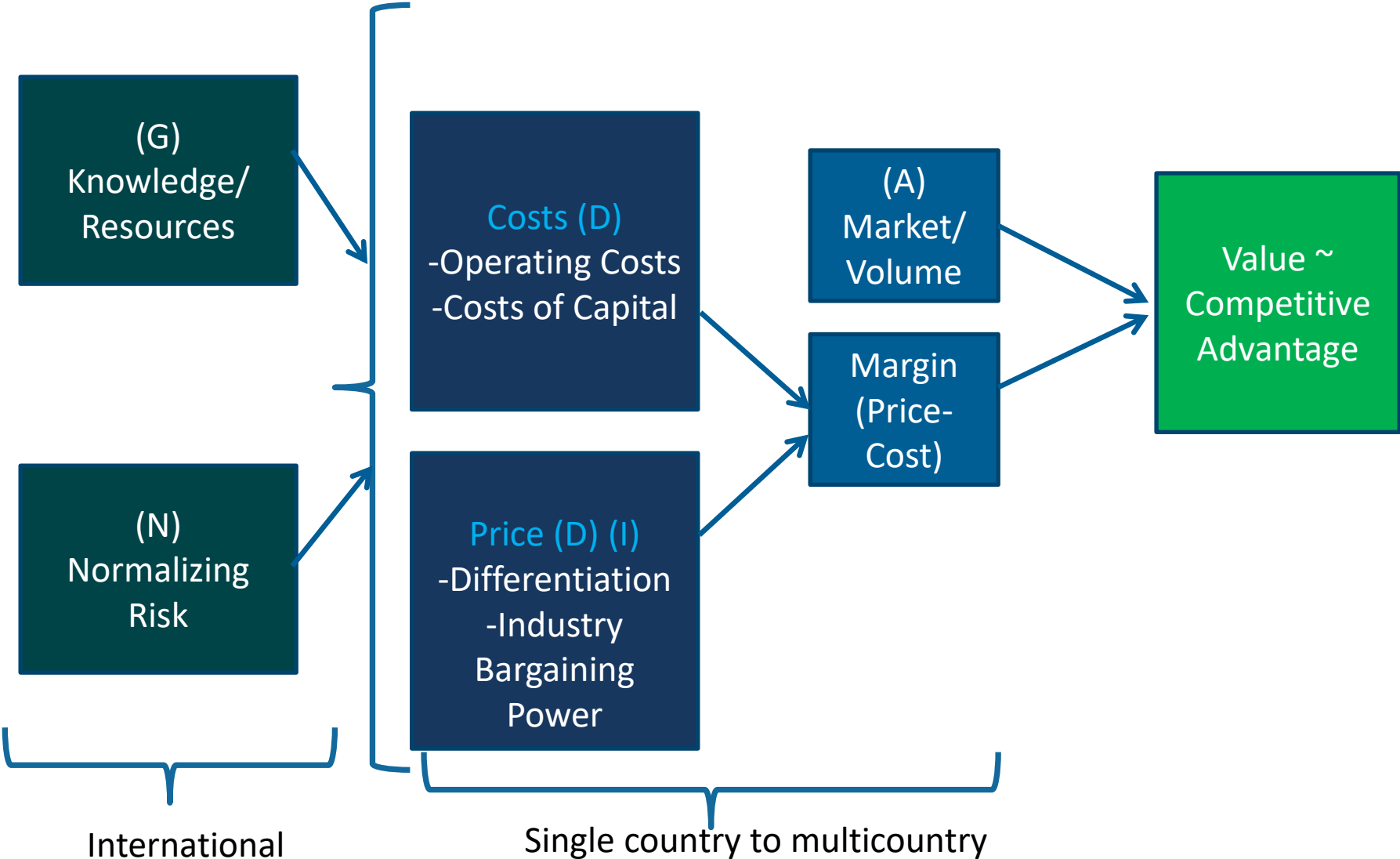
Why Did Wal-Mart Internationalize?

Why Did Walmart Internationalize: ADDING Value Scorecard

- **A**dd markets (increase scale/volume)
- **D**ecrease costs (resources, shorten product cycles)
- **D**ifferentiate (higher prices)
- **I**ncrease industry bargaining power (higher prices)
- **N**ormalize risks and uncertainty (lower costs)
- **G**ain knowledge (lower costs/higher prices)

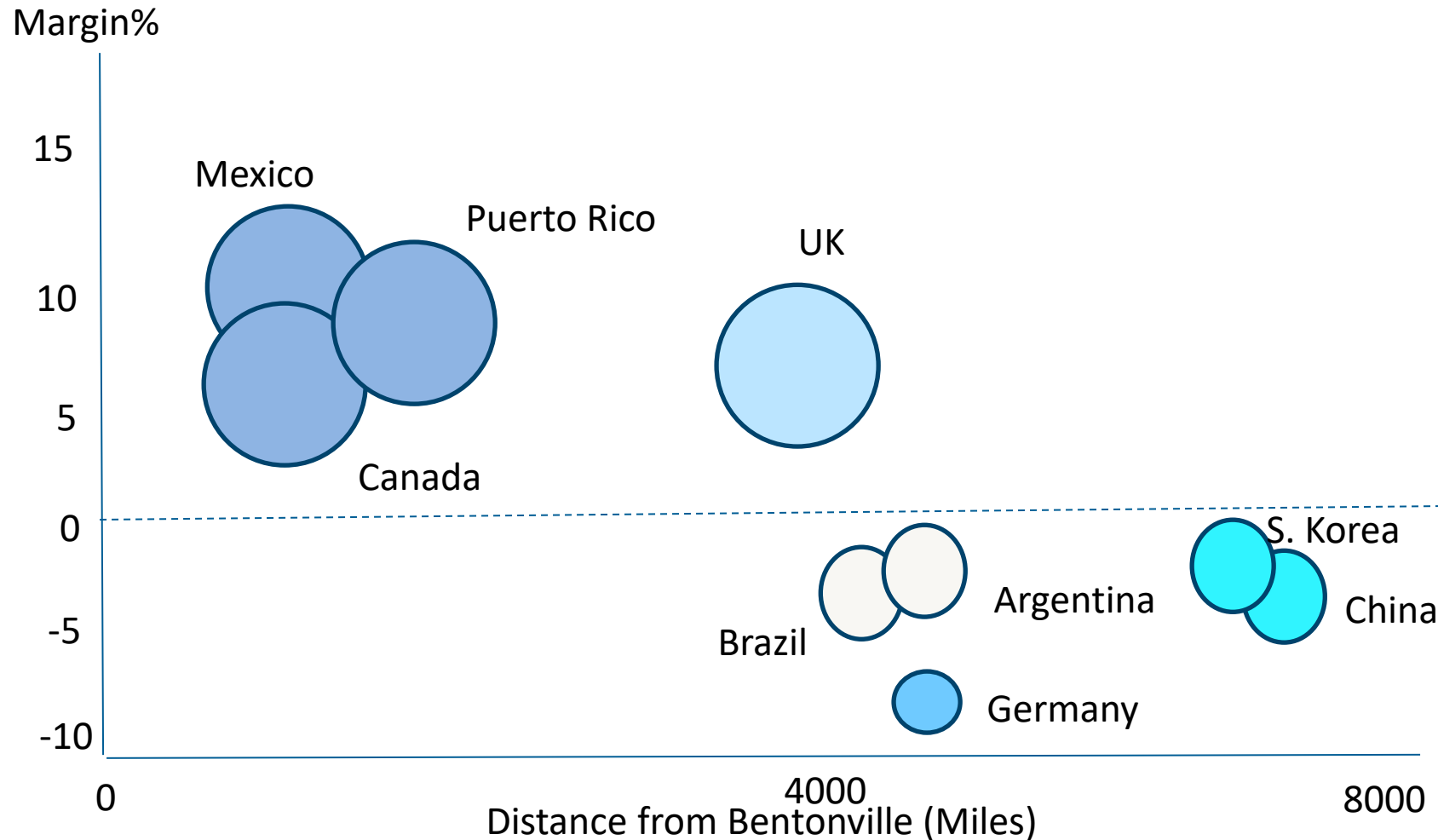
Different Drivers Across Countries

Levers of Economic Value: ADDING Value



In which countries did Wal-Mart struggle and where did it do well?

Wal-Mart International's Operating Margins by Country (2004)



Wal-Mart has been in Germany for six years. What is squeezing out its profits?

< 1% gross margin in German stores

~2 % gross margin for Metro AG

5.5-6 % in U.S. stores

6-8% in ASDA stores in the U.K.

Update: Walmart out of Germany



German Wal-Mart workers haven't always been all smiles



Some German Wal-Mart shoppers didn't like having their purchases bagged by others

- Business practices successful in the U.S., both cultural and legal, did not translate well to the German market
 - Longer work hours and employee monitoring met with resistance
 - Walmart Germany faced strong resistance from the retail worker trade union ver.di
 - Poor understanding of local market and customer needs
- Walmart exited Germany in 2006
 - Sold all of its 85 stores to the Metro retail chain
 - The German retreat cost \$1 billion

Wal-Mart in Korea



Walmart



E-mart (No. 1 Player in Korean market)

- Walmart's exclusive focus on price based competition (storage-like shop design, suburban location, large-quantity products) also did not work here
- Koreans prefer high-quality service, short travel distance & small quantity shopping

Walmart's Strategies in China

- Recognizing what led to failures
- Reversing negative image as a social and environmental despoiler and demonstrating good corporate stewardship
- With 30,000 Chinese factories supplying to Walmart it is the natural place to start
- Aligns with the government's goals on sustainability, and food safety



Walmart's Growing Expansion in China



Can location characteristics explain these differences?

How Transferable Are Wal-Mart's Home-Grown Ownership Advantages/ Business Model?

☐ Revolutionized Retail

- ☐ Every Day Low Prices(EDLP)
- ☐ Selection and Product Range
- ☐ Supplier Relationships
- ☐ Inventory and Distribution System
- ☐ Wal-Mart Cult

➤ Decline in Collective Labor

➤ Culture of Consumption

➤ Innovation

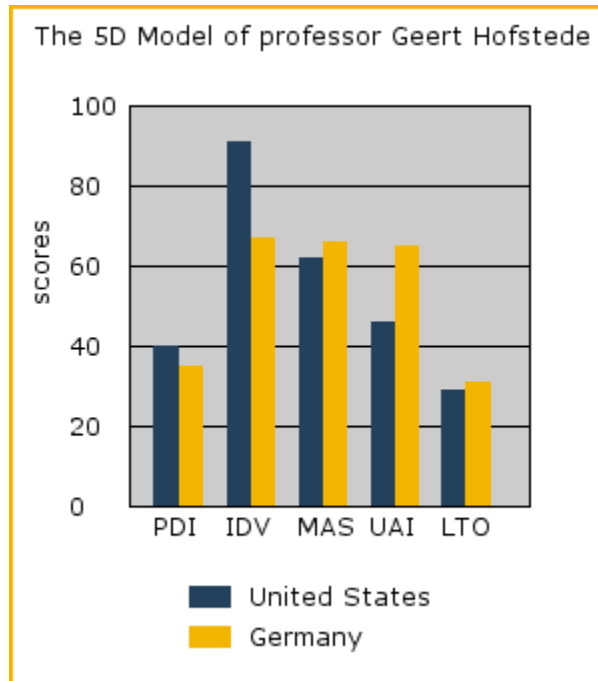
- ☐ Data-Driven Management
- ☐ Retail Link



Locational Characteristics: German Retail Regulation

| | Costs | Potential Opportunities/ Benefits |
|------------------|---|--|
| Store hours | Restricts sales revenue | <ul style="list-style-type: none"> -Keeps operating costs down -German consumers may still not shop more |
| Zoning laws | Restricts large store format, expansion into sub-urban areas, greenfields | <ul style="list-style-type: none"> -Develop Neighborhood Store format; -Learn about competing in urban settings |
| Pricing policies | Limits price competition | <ul style="list-style-type: none"> -Price competition difficult in German products due to lack of scale -Focus on reducing costs rather than prices -Focus on non-German products |

Locational Characteristics: German Culture



Low Power Distance: Egalitarianism/Less Capitalist/Less wage differentials

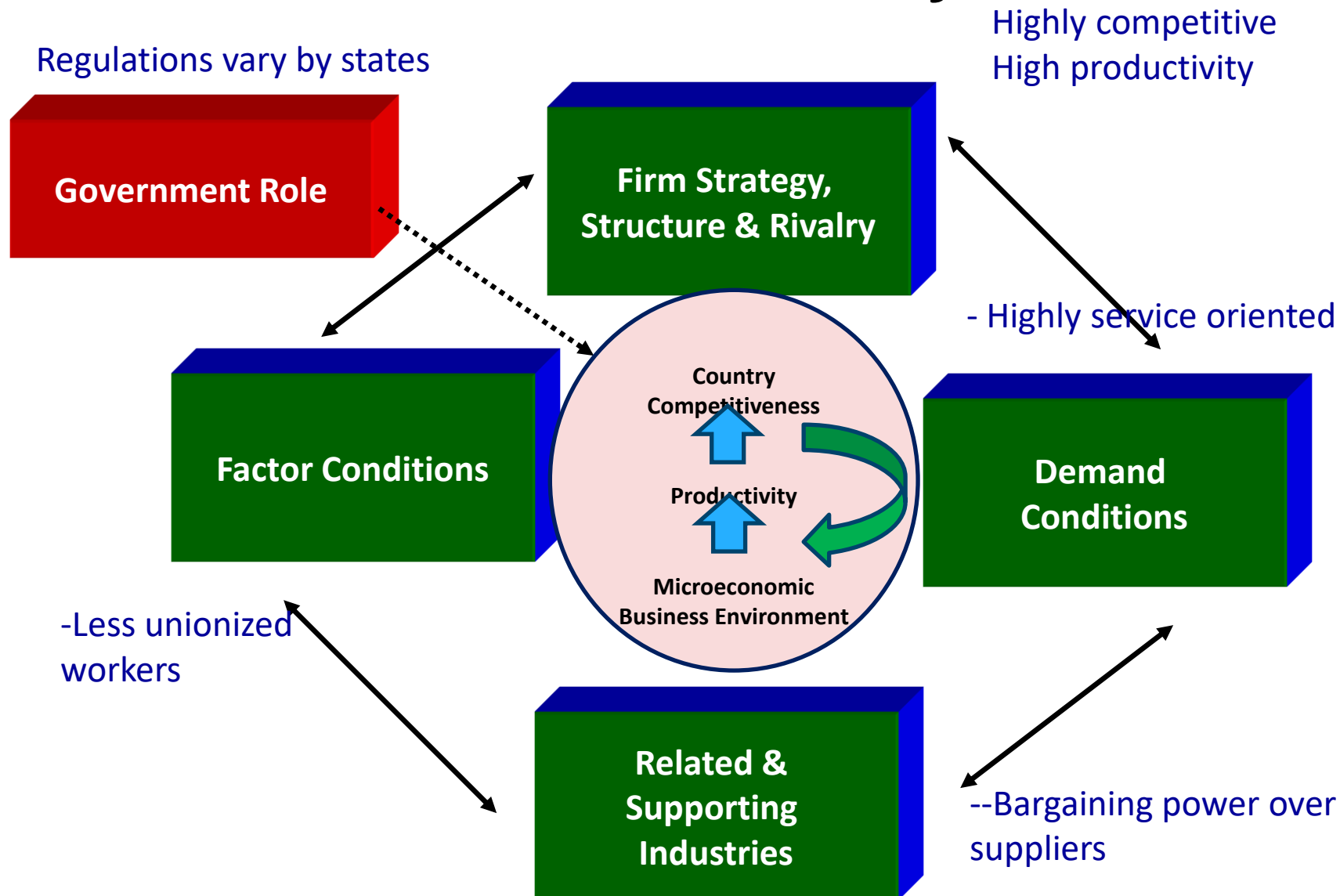
Collectivist: Labor unions

Masculine: Aggressive/Direct in Communication Style

Uncertainty Intolerant: Rules based society, loyalty to German stores

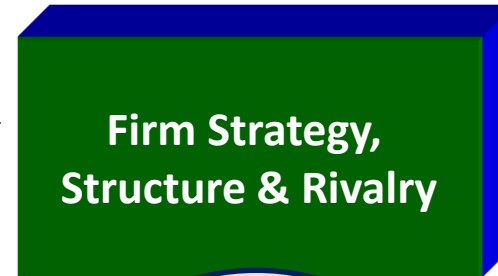
Long-term Orientation: Emphasis on social welfare than economic gains, sustainability practices

The Home Country Porter's Diamond: Structure of the US Retail Industry Sector



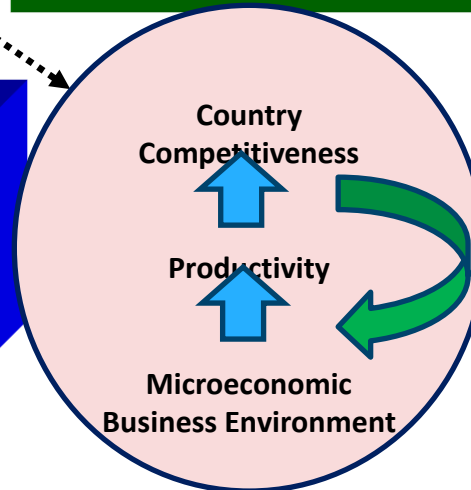
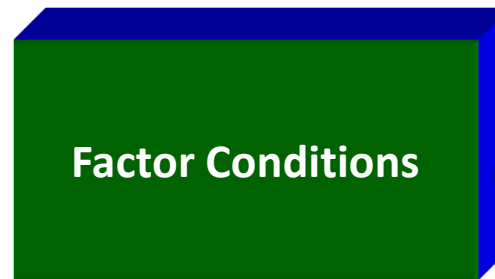
Structure of the German Retail Industry Sector

Highly Regulated, Social & Environmental Laws, Antitrust



Highly competitive
Privately held
High productivity

-Retail spending is declining
-Not so service oriented
-Loyal to German stores



-Lacked leverage and relationship for lowering costs
-Direct store rather than centralized delivery
-Suppliers commanded high bargaining power

-Unionized workers
Ver.di
-Small retail workforce
-Limited access to real estate



Why did Wal-Mart enter through acquisitions in some countries and greenfield investments in others?

Mode of Entry Choices

| Wholly Owned Greenfield (e.g. Brazil, Argentina) | Acquisition (e.g. Wertkauf and Interspar in Germany,) | Licensing/ Alliance/JV (e.g. Cifra in Mexico, Bharti in India) |
|--|--|---|
| <ul style="list-style-type: none"> + Greater control of marketing and distribution channels +Allows transfer of intangibles (brand, management practices) +Fewer threats of IP misappropriation +Fewer transaction costs -Can make the company look more foreign -Susceptible to foreign ownership disadvantages -Larger capital investment -Fixed costs | <ul style="list-style-type: none"> +Access to established physical infrastructure and customers +Benefit from complementary capabilities and synergy - No single acquisition will consolidate a highly fragmented industry structure -Problems of renovating and rebranding stores | <ul style="list-style-type: none"> +Learn from local partners +Less liability of foreignness + Greater flexibility to exit + Local partners most needed for products that need to be adapted -Unintended knowledge transfers -Disagreements over control -IP issues -Unaligned objectives |

Internalized

**Market-Based
Arm's Length**



Walmart's Successful Experiences

| | Customer Preference | Cost Structure | Mode of Entry |
|------------|--|---|---|
| Mexico | Huge improvement, Customers liked the American way, Multichannel | Partnered with domestic logistics company Cheap labor NAFTA support | Partnered with Cifra, large network of profitable stores |
| Canada | Similar to American preferences | Woolco similar operational model Leverage IT capabilities Proximity to the US distribution infrastructure | Acquired 100 Woolco stores, retained employees |
| UK | Enhanced Asda's inventory beyond apparel, food | Technology integration | Acquired Asda the low-cost market leader |
| C. America | | Gained market share, economies of scale | Acquired market leader CARHCO |
| Chile | | Gained market share, economies of scale, similar operational model | Acquired market leader D&S with similar operational model |

Walmart's Unsuccessful Experiences

| | Customer Preference | Cost Structure | Mode of Entry |
|-----------|---|---|---|
| Brazil | Need for credit, home delivery, product/EDLP mismatch | Over diversified with different brands and store formats, high bargaining power of suppliers | Organic greenfield, late acquisition strategy |
| Argentina | Did not shop in bulk | | Organic greenfield growth limited economies of scale |
| S. Korea | Ill-suited product offerings, Value for luxury goods | Competitors held strong real estate positions, relationships with suppliers | Acquired very few stores, preventing economies of scale |
| Japan | Low price associated with low quality | Fragmented suppliers, relationship based, low bargaining power | Acquired Seiyu a struggling chain |
| Germany | Price sensitive, loyal to German chains, cultural differences | Acquired stores with less than 3% of market share, poor locations, zoning laws, store hours, labor unions | Acquired Wertkauf and Interspar that were struggling chains |

Walmart Japan



Seiyu is one of the largest supermarket chains in Japan. In 2008, the company became a wholly owned subsidiary of Walmart to further its ambition to become Japan's leading omnichannel retailer through a focus on providing value, fresh produce and digital convenience.

Walmart announced a new ownership (15%) structure for Seiyu in November 2020. KKR acquires a 65% stake in the business, and Rakuten acquires a 20%.



Walmart Japan promises to create growth opportunities for associates, to the company's investment in economic mobility for women and the younger generation, we're helping people live better. We continue to demonstrate our commitment to a sustainable tomorrow through the energy-efficient design of our stores and other facilities, while supporting the needs of the communities we serve through the donation of time and resources.

Walmart China



Walmart China began in 1996 with the opening of a supercenter and Sam's Club in Shenzhen, providing customers tens of thousands of types of fresh foods, clothes, household appliances, grocery, etc.



Walmart China is committed to helping people live better through Corporate Social Responsibility (CSR) initiatives in three main fields: Women's Economic Empowerment, Children's Food Safety & Nutrition, Sustainability & Community.



The average Sam's Club is approximately 230,000 sq. ft. and offers bulk groceries and general merchandise. The club offers 4,500+ high quality-to-price ratio items in categories including: fresh foods, dry groceries, household appliances, furniture, clothes and more. The commodities sold in Sam's Club usually come in large and simple composite packages, lowering the costs through purchasing in large quantities. The stores usually provide at least 1,500 free parking spaces for its members.

In 2006 Wal-Mart decided to enter India through a joint venture with Bharti Enterprises. Do you think it was a good idea to go to India, and partner with Bharti through a joint venture?

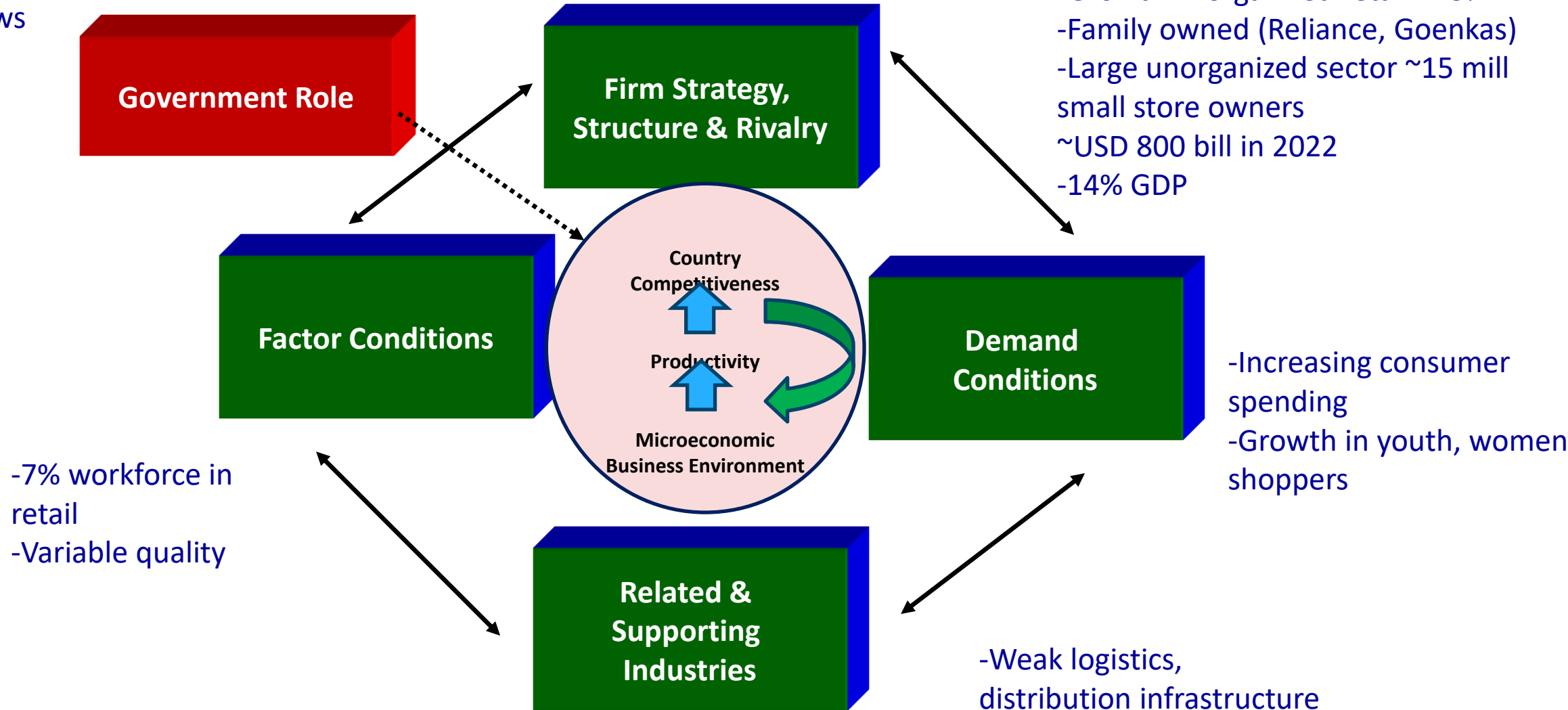
--50:50 JV Bharti-Walmart: Back-end supply chain operations, linking farmers/small manufacturers to retailers, wholesale cash-and-carry

--Franchise arrangement sharing knowledge and technology with Bharti to build stores by Bharti Retail, a wholly owned subsidiary of Walmart

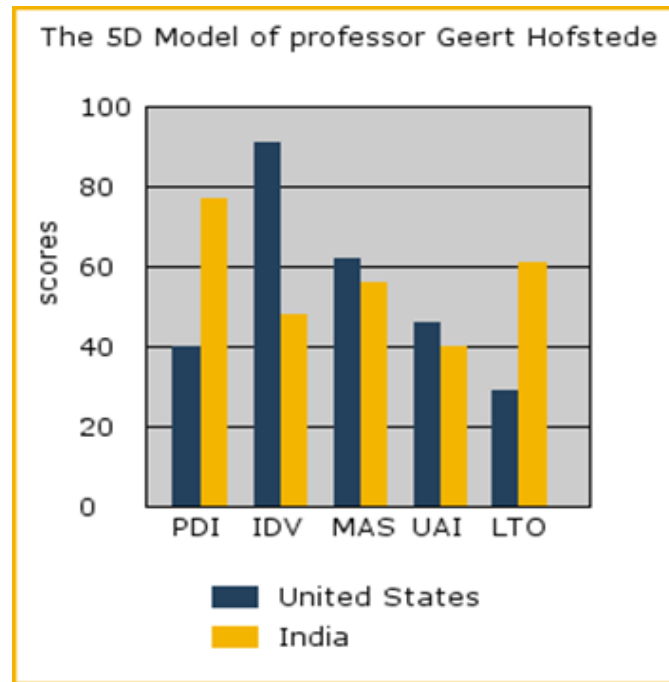
Structure of the Indian Retail Industry Sector

- 51% FDI in multibrand retail
- 100% FDI in wholesale cash & carry
- State laws

- Highly competitive
- Growth in organized retail ~15%
- Family owned (Reliance, Goenkas)
- Large unorganized sector ~15 mill small store owners
- ~USD 800 bill in 2022
- 14% GDP



Locational Characteristics CAGE Distances: Indian Culture



High Power Distance: Less
Egalitarianism/More Capitalist/More wage
differentials

More Collectivist: Labor unions

Masculine: Aggressive/Direct in
Communication Style

Uncertainty tolerant: Willingness to
experiment

Long-term Orientation: Emphasis on social
welfare than only economic gains

Strengths

- \$50 bill opportunity for market leader
- Bharti market leader in telecom
- 10 largest companies in India, market cap of \$25 bill employing 30K people
- Experience with foreign collaboration (Warburg Pincus, Singtel)
- Sunil Mittal's long list of accolades
- Government rapport
- First-mover advantages for Walmart beating Carrefour, Tesco
- Opportunity to build large scale modern supply chain infrastructures, cold chain etc. (with Gazeley Walmart's supply chain arm)

Weaknesses

- FDI restrictions, and contentious policies (e.g. 30% sourcing from India in multibrand retail, 50% investment in back-end infrastructure)
- Supply chain problems
- Political pressures from small businesses, social movements
- CSR lawsuits, predatory pricing
- Controversies under FCPA, lobbying in India

Walmart-Bharti Update

- In 2013, Walmart acquired stake, in the 50:50 JV for back-end operations/cash-and-carry
- Bharti acquired Walmart's stake in the Easyday stores
- In 2018 Walmart invested in e-commerce company Flipkart (\$16 bill, 77% stake)
- In 2020 in a reverse merger, Flipkart acquired Walmart's cash-and-carry business

Conclusions and Key Lessons

1. Determinants of Internationalization Success

Value Creation = (O)wnership assets +
(L)ocational Attractiveness +
(I)nternalization Choices (Organization/Partners/Mode of Entry)

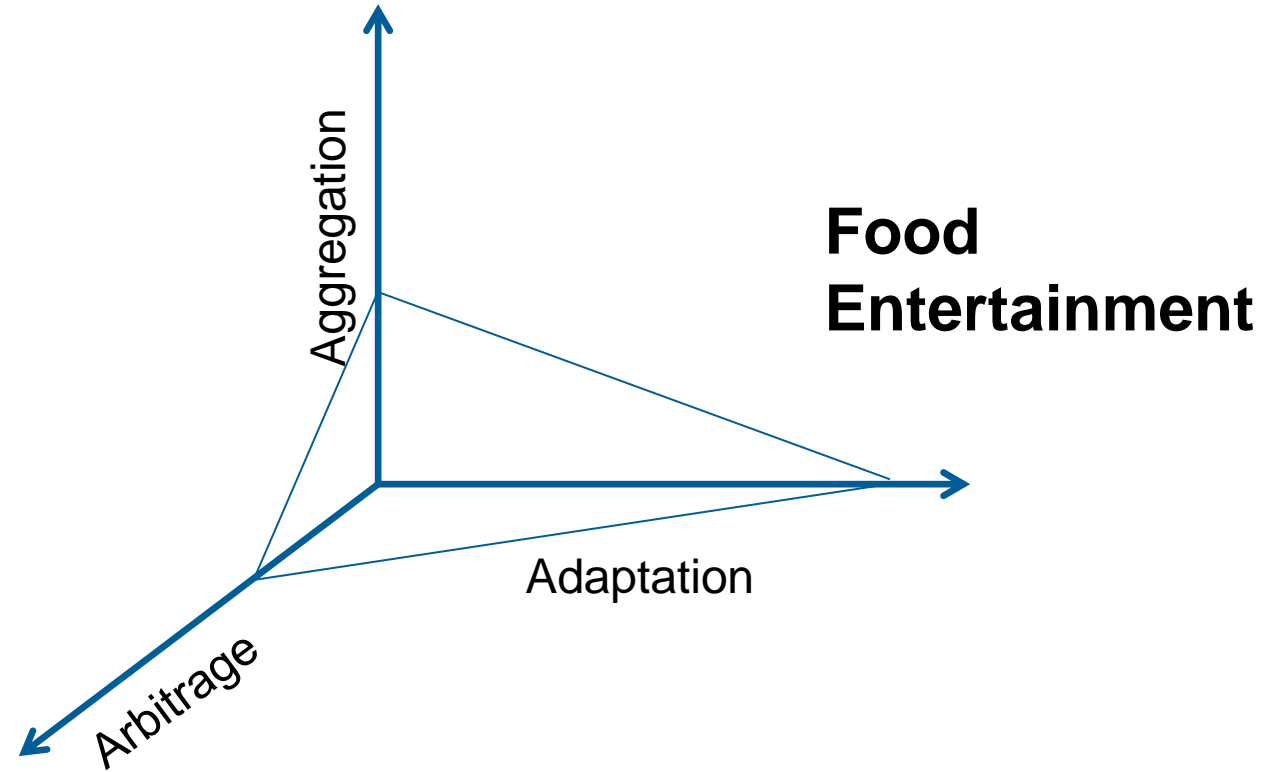
2. Generic Strategies: Necessary but Not Sufficient

- Value creation
 - Markets, cost, differentiation etc...but still generic
- Value capture:
 - Competitive dynamics i.e. anticipating what rivals will do
 - Organization/Implementation capabilities in contracting, forming alliances, acquisitions
 - AAA strategies

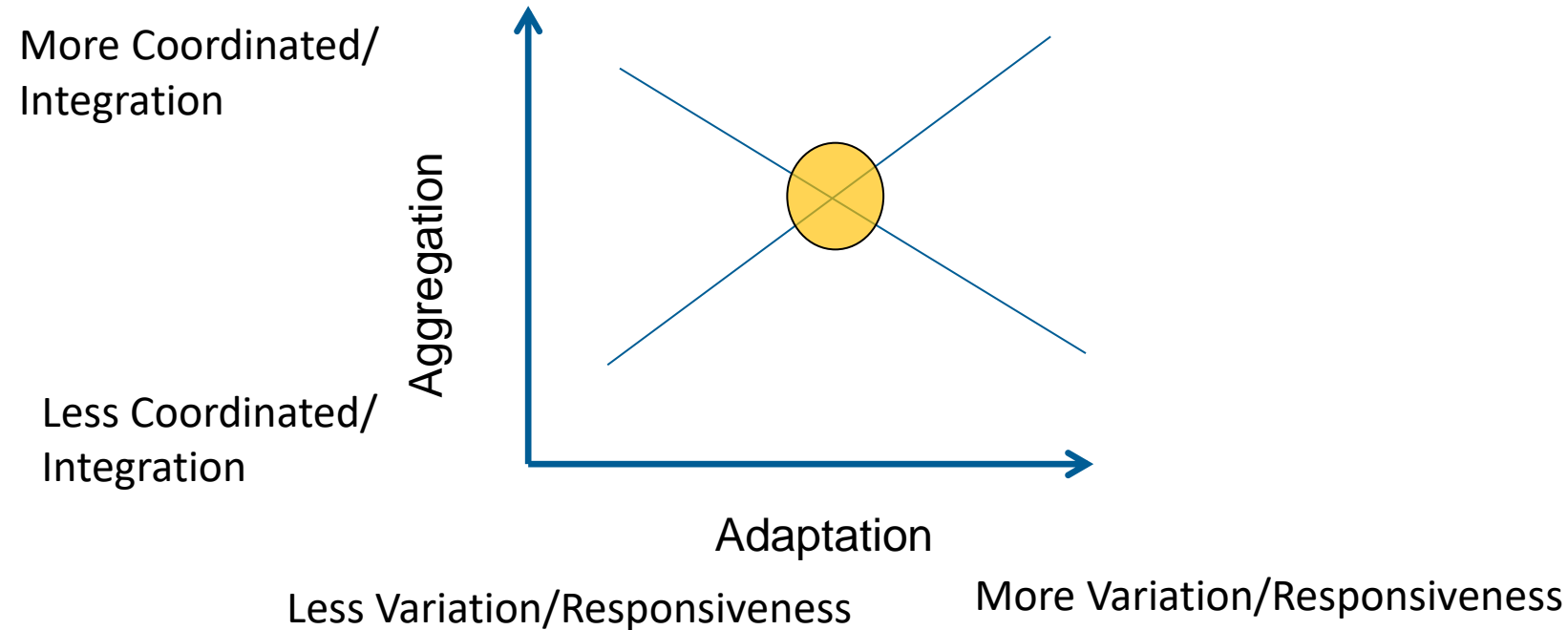
Organizational Implications

- Adaptation
 - Localized Joint ventures/Alliances
 - Platforms/Modularity
 - Innovation
- Aggregation
 - Regionalization (home-based, portfolio, hub/HQ, network), horizontal relationships
 - Non-country groupings (e.g. industries, products, customers)
- Arbitrage
 - Vertical relationships (e.g. outsourcing)
 - Platforms/Intermediaries

AAA Trifecta



3. How To Capture Value: Integration-Responsiveness Framework



Why is Adaptation So Hard?

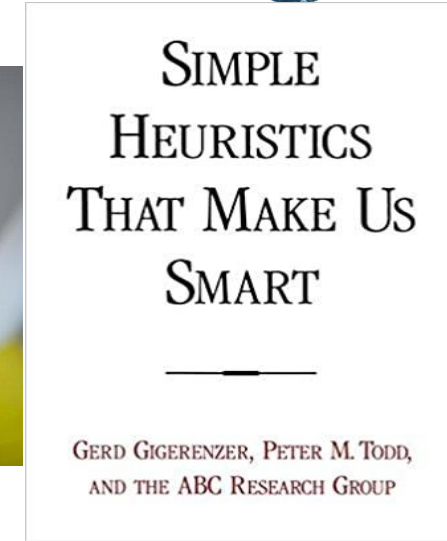
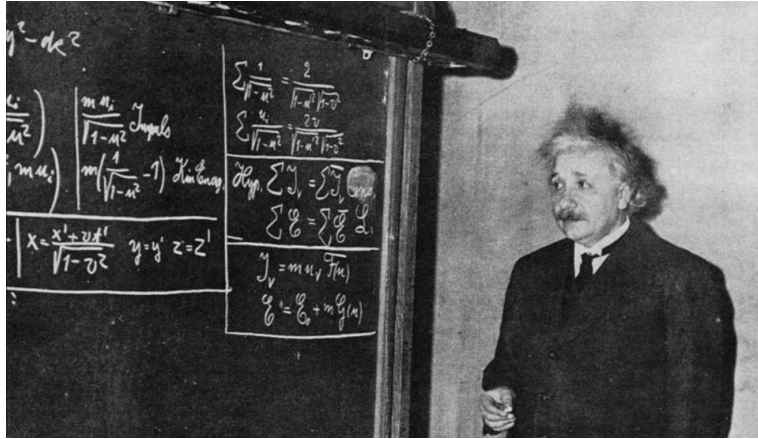
The Role of Cognitive Biases

- Rules of Thumb or Heuristic Biases (Tversky and Kahneman, 1974)
- Optimism and Overconfidence
- Status Quo Bias
- Automatic vs. Reflective Thinking

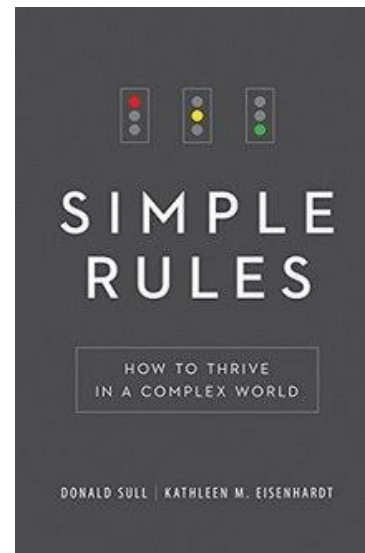
In a complex world, busy managers may not think deeply about every choice they have to make (Nudge: Thaler and Sunstein, 2008)

The first step for managing complexity is to understand it.

Simple Rules for Managing Complexity



“Everything should be made as simple as possible but not simpler.” Albert Einstein

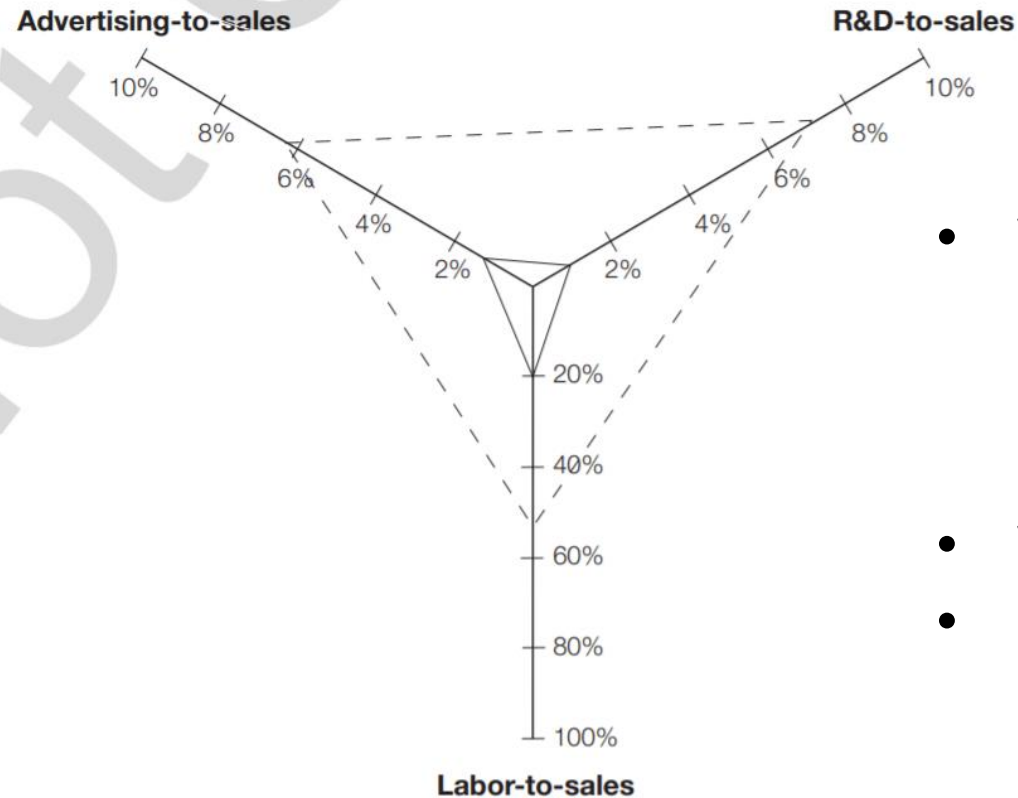


- Who, What, How to move the needles
- Remove bottlenecks to achieve goals
- For repeated critical activities
- Concrete guidance not overly prescriptive
- Not one-size-fit-all
- Simple rules work (triage)
- Minimize costs of coordination (e.g. AirBnB)

Simple Rules and AAA Strategies

FIGURE 7-4

Industry expenditure intensities



- Which of these strategic mixes does your company use in a single or multi-country context?
- Why?
- How does the organizational approach match these strategies?

The Maggi Revolution



“Mummy, I’m hungry...”

How often have you said this! Each time with delightfully mouth-watering results. Because mummy knows you love to eat Maggi Noodles, at any time of the day. Be it after school, or after play.

Maggi 2-minute noodles come in four delicious flavours — Chicken, Masala, Capsika, and Sweet Sour. Try a different one each time.

Maggi-times are fun-times...always!



MAGGI
2-minute noodles
FAST TO COOK! GOOD TO EAT!



<https://www.youtube.com/watch?v=K3oeGNuwWh0>

Thank You!

