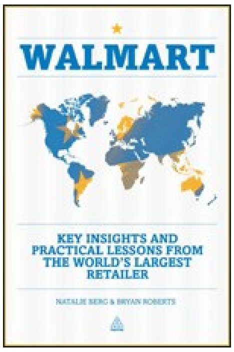

Walmart: Key Insights and Practical Lessons from the World’s Largest Retailer

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Chapter 11: Going Global: Walmart's International Retail Leadership

Overview

While Walmart's US operations give the retailer huge scale and power, the limitations on growth in that market and the exciting growth prospects elsewhere mean that Walmart International has massive potential and is therefore rightly regarded in Bentonville as of colossal strategic importance. Indeed, 2010 was the ~ rst year when Walmart International's stores outnumbered those that the retailer operated in its domestic market.

Exposed to growth-opportunity markets like China, Brazil and India (Russia is the only BRIC country where Walmart has yet to enter – it closed its Moscow market research and evaluation of~ ce in 2011), the long-term potential for Walmart International is immense. Leaving aside any new acquisitions or market entries, Walmart can potentially access nearly 4 billion consumers across the world, of whom 'only' 311 million are in the retailer's domestic market of the United States.

Taken in isolation, Walmart International was, at the time of writing, the world's third-largest retailer (behind Walmart US and Carrefour, and ahead of Tesco and Metro); however, it is expected to have become the second-largest retailer by 2012 as its growth is juxtaposed with Carrefour's divestments. In addition to opening up new avenues for growth, Walmart International has been ful~ lling other valuable functions for Walmart – providing 'reverse synergies' in terms of personnel, small-format expertise, private label, marketing, grocery merchandising and e-commerce.

Notably through acquisition, Walmart International has grown extremely quickly and – against the backdrop of an uncharacteristically subdued Walmart performance in the United States – has become perhaps the most encouraging component of the broader Walmart business in terms of sales and pro~ tability growth over the past couple of years. It should be noted that Walmart International has also been the scene of some dismal failures (Germany is the prime example here, although the list also includes South Korea, Indonesia and Hong Kong), so it would be wrong to regard the organization as a flawless beast that has progressed without any serious setbacks.

With a truly multi-format, multi-banner, global raft of operations, Walmart International serves millions of customers every week in North America, Latin America, the UK, Africa and Asia. Benefiting from being part of a larger retail group, many of Walmart's international operations are growing at an extremely rapid rate and still have significant potential in areas such as further market entries, channel development, e-commerce, private label and financial services.

Walmart International's market entry strategies

The choice of market entry mode is one that faces every retailer and Walmart International is no exception. As we show in the timeline in the appendix, it has used a variety of methods around the world – with varying degrees of success, it must be noted – and we can group them into three main types here:

1. Organic: Walmart enters a country by opening its own stores from scratch and developing its own supply chain and back-office capabilities.
2. Joint venture: Similar to organic market entry, but with the key differential and benefit of opening in conjunction with a local partner that (theoretically) has an in-depth knowledge of the country or broader region.
3. Acquisition: The full or partial acquisition of an existing retailer already trading in the target market.

The acquisition route could be further subdivided into two components: what we would call the land grab and the laissez-faire. Land-grab acquisitions are those in which Walmart has bought a chain of stores with no other intention than to convert them into a Walmart concept. This process was in evidence in Canada, Germany and South Korea. It is notable that two of these collapsed into rather ignominious defeat. Laissez-faire acquisitions have seen Walmart acquire another retailer but largely retain local brand identities and store formats, with only modest changes in consumer-facing aspects such as private label. Where Walmart has made changes in these cases is in back-office areas such as procurement, systems and logistics. This second type of acquisition has generally been more successful.

Table 11.1 plots Walmart's market entry strategies and subsequent growth phases for all of its international markets past and present. Walmart International's strategy is similar to that of retailers like Tesco, who have overwhelmingly favoured joint ventures and acquisitions over organic entry as a vehicle to trading in new markets. What is clear is that there are no hard and fast rules over the efficacy or otherwise of each market entry strategy: both acquisitions and joint ventures have had a mixed record, although we would suggest that laissez-faire acquisitions have been much more successful than the flag-planting land grabs. A more detailed narrative is provided below.

Table 11.1: Walmart: market entry and development strategy by country

Country	Market entry	Phase II	Phase III
Argentina	Organic	Organic/acquisition	Format development
Brazil	Joint venture	Organic/format dev.	Acquisition
Canada	Acquisition	Organic	Format development
Chile	Acquisition	Organic	
China	Joint venture	Organic/acquisition	Format development
Costa Rica	Acquisition		
El Salvador	Acquisition		
Germany	Acquisition	Withdrawal	
Guatemala	Acquisition		
Hong Kong	Joint venture	Withdrawal	
Honduras	Acquisition		
India	Joint venture	Organic	
Indonesia	Joint venture	Withdrawal	
Japan	Acquisition		
Mexico	Joint venture	Acquisition	Organic/format development
Nicaragua	Acquisition		
Puerto Rico	Organic	Acquisition	Format development
S Africa	Acquisition*		
S Korea	Acquisition	Withdrawal	
UK	Acquisition	Organic/format dev.	Acquisition

* Includes stores in over a dozen African markets.

SOURCE: Authors

Argentina: Walmart entered Argentina organically through the opening of a Sam's Club in Avellaneda in 1995, a development followed up later in the same year with the unveiling of a Supercenter in the same region. An arduous and fairly fruitless period of organic growth followed until 2000 when Walmart decided to jettison Sam's Club in the market. Supercenters plodded along at a snail's pace until 2007 when the retailer acquired three former Auchan stores for conversion to the Supercenter format. Supercenter growth has remained slow, but Walmart is finding much faster success with the Changomas and Changomas Express discount-style concept that is being expanded rapidly.

Brazil: Walmart entered Brazil in 1995, initially through a 60/40 joint venture with the major general merchandise retailer Lojas Americanos (ironically now a bitter rival). Initially trading through the Supercenter and Sam's Club concepts, Walmart augmented organic growth through the design and roll-out of the Todo Dia discount-led concept. Greater scale, and a broader geographic spread, was achieved through two major acquisitions: in early 2004, Walmart Brazil acquired Bompreço's 118 stores in the northern region from Ahold, a deal followed by the late 2005 purchase of Sonae's 140 stores in the southern region. Since then, virtually all formats have been expanded organically, although there has been a strategic skew towards low price and cash & carry concepts.

Canada: Walmart Canada was established through the acquisition of the Woolco Canada chain of 122 stores in 1994. Woolco was the chain of large discount department stores operated by the F.W. Woolworth Company. The stores were rapidly rebadged to the Walmart fascia, although the company took longer than expected to reach profitability. The next major development came in 2003 when Walmart opened its first four Sam's Club warehouse outlets in Canada. This development – which pitched it against the established might of Costco – was fairly short-lived, the stores closing in 2009. More successful was the launch of the Supercentre chain in Canada. The first stores opened in late 2006 and the expansion of the chain has been rapid, exerting a strong impact on grocery competitors in the market. The launch of e-commerce in Canada followed in June 2011 when the retailer launched a site selling computer games, since augmented by a number of other categories.

Chile: Walmart debuted in Chile in 2009, through the acquisition of a majority stake in D&S. According to Craig Herkert, Walmart EVP and CEO of the Americas at the time, 'Partnering with D&S, with its strong brands and its position as Chile's largest food retailer, is an important step in implementing Walmart's international strategy. We continue to focus on portfolio optimization, global leverage and winning in every market.' With net revenues in excess of US~$3.8 billion, D&S operated more than 180 stores, 10 shopping centres and 85 PRESTO financial services branches at the time of the acquisition.

China: Walmart opened its first superstore (Luohu district) and Sam's Club (Futian) in Shenzhen in 1996. By necessity, these stores were opened through local joint ventures. Walmart went on to open its Neighborhood Market concept in China and followed up with the acquisition of a majority stake in hypermarket chain Trust-Mart in 2006 (there has since been a convoluted process that has seen Walmart edge towards taking full control of Trust-Mart). A more recent development has been the opening of the low-price proximity-format Smart Choice and the launch of a compact hypermarket, also under the Smart Choice brand.

Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua: Walmart's entry into Central America was completed in late 2005 when Ahold sold its indirectly owned stake of 33.33 per cent in CARHCO, its Central American joint venture, to Walmart. CARHCO owned an 85.6 per cent stake in La Fragua, a discount store, supermarket and hypermarket company in Guatemala, with a presence in El Salvador and Honduras. CARHCO also fully owned Corporación de Supermercados Unidos (CSU), a discount store, supermarket and hypermarket operator in Costa Rica, Nicaragua and Honduras. In late 2009 Walmart Centroamérica was acquired by Walmex. Walmex said it would pay $110 million in cash and would issue around 593 million new shares to compensate minority investors in the Central American retail chain who agreed to be paid in shares. By 2009, Walmart owned 51 per cent of Walmart Centroamérica, with the remainder in the hands of local investors, and the deal gave it control in Central America as the US parent company also has a majority share in Walmex.

Germany: Walmart entered Germany in late 2007 through the acquisition of the 21-store Wertkauf hypermarket business, followed over a year later by the purchase of the 71-strong Interspar hypermarket chain. After a nightmarish period of heavy losses, no small amount of controversy and constant under-delivery, Walmart 'sold' its operations to Metro Group, although subsequent regulatory filings revealed that Walmart effectively paid Metro to take its German business off its hands.

Hong Kong: By no means the horrific ordeal that Germany was, Walmart also failed to find success in Hong Kong. In 1993, Walmart established a partnership with Charoen Pokphand (CP), the Asian business conglomerate. The venture was extremely short-lived, with the market exit coming just three years after entry. The stores traded as Value Club and were warehouse club outlets targeted at small businesses. It is understood that the stores suffered from poor locations and a somewhat misguided assortment. There was also speculation that Walmart and CP clashed often over strategy, with each side blaming the other for demanding too much control.

India: Walmart became active in India in 2007 when Bharti Enterprises and Walmart signed an agreement to establish Bharti Wal-Mart Private Limited, a joint venture (JV) for wholesale cash & carry stores and back-end supply chain management operations in India. The JV is now trading through a chain of Best Price Modern Wholesale stores and Walmart also supports the activities of Bharti Retail, the operator of easyday supermarkets and compact hypermarkets. Owing to the onerous restrictions on foreign retailers, Walmart is currently unable to operate its own retail activities in the Indian market, although – at the time of writing – there are limited indications that these restrictions might be at least partially relaxed.

Indonesia: As in Hong Kong, poor locations and assortment were accusations also levelled at Walmart's ill-fated presence in Indonesia. It entered the country in 1996, after signing a franchise agreement with Lippo Group the previous year to open Walmart stores. Weak trading was compounded by the fact that one of its stores in Jakarta was looted and burnt during the 1997–98 riots. A *Business Week* story in early 2008 reported that Walmart was seeking to end the franchise agreement with Lippo after claims that Lippo violated the agreement when, without Walmart's prior knowledge, it bought a controlling stake in rival discounter Matahari, with Walmart fearing that the acquisition would give its rival access to proprietary information. 'There was a clear non-compete clause' in the franchise agreement, said a Walmart spokesman, adding that Lippo owed Walmart millions of dollars in franchise fees.

Japan: While there are no signs that Walmart is considering quitting Japan, its activities in the country have become another arduous tale of losses and struggles to rejuvenate operations in a very crowded and competitive market. It first acquired a minority stake in Seiyu in 2002, before gaining a majority stake and making Seiyu a subsidiary in 2005. The business struggled to gain market share or turn a profit, despite Walmart implementing many initiatives around systems, supply chain, private label and pricing. A gradual turnaround now appears to be in place, however, with business picking up after Walmart implemented its hallmark EDLP positioning.

Mexico: Walmex has been a phenomenal success for the retailer. It enjoys a colossal market leadership in the country and continues to grow at a breakneck pace, notably through its Bodega Aurrera family of banners. Walmart entered Mexico in 2001 through a JV with Cifra and the opening of a Sam's Club. Walmart acquired a majority stake in Cifra in 2007. Thanks to this acquisition it operates a diverse portfolio of operations, including restaurants and clothing stores alongside its grocery activities. Walmex acquired Walmart Centroamérica in late 2009 in a move that created significant growth potential and synergies.

Puerto Rico: Now included in the Walmart US business unit, activities in Puerto Rico have featured a familiar combination of organic growth, acquisition and new-format development. The retailer opened its first stores in Puerto Rico in 1992 and 10 years later announced the acquisition of Supermercados Amigo, the country's leading supermarket chain with 35 outlets (a few stores had to be divested to meet regulatory requirements). More recently (late 2008), Walmart opened a new chain under the Super Ahorros brand. It is a bodega discount format, similar to the Bodega Express chain operated in Mexico.

South Africa: Walmart announced its move into South Africa in September 2010 through a $4 billion offer for Massmart. At the time of the announcement, Massmart traded through nearly 300 stores in 13 African countries. The deal was approved by regulators in June 2011. Massmart operates four operating divisions, comprising: Massdiscounters (Game discount stores and Dion Wired electronics stores); Masswarehouse (which comprises the Makro cash & carry chain), Massbuild (a variety of home improvement retail concepts including Builders Warehouse, Builders Express and Builders Trade Depot); and Masscash (a portfolio of grocery wholesale, retail and symbol group activities that trade as CBW, Jumbo Cash and Carry, Shield, Thaba Cash & Carry, Sunshine, Cambridge and Astor).

South Korea: Walmart's presence in South Korea lasted from 1998, when it acquired a handful of stores from Makro, until 2006, when the retailer announced the sale of its 16-store chain in South Korea to Shinsegae for $882 million. The company had failed to achieve enough scale to compete effectively in the market and had misread local tastes, and its stores also suffered from poor locations.

UK: Alongside Mexico, the UK is the most important overseas market for Walmart International. Walmart acquired Asda in mid-1999 and has developed the business ever since, despite the difficulty it has encountered in opening big-box outlets. Although its initiatives such as George clothing stores and Asda Essentials failed, it has found greater success through Asda Living and e-commerce. Its 2010/11 acquisition of Netto saw its supermarket division increase from around 30 to 170 stores.

By the numbers

As already noted, Walmart International has been one of the fastest- growing components of the broader Walmart business, and Table 11.2 highlights the development of the unit in terms of store-count, tracking the company from the handful of stores in Mexico to the true multinational giant it is today.

Table 11.2: Walmart International, store count 1991–2010

Year	Stores
1991	4
1992	5
1993	14
1994	163
1995	191
1996	227
1997	601
1998	715
1999	1,004
2000	1,071
2001	1,170
2002	1,288

2003	1,355
2004	1,587
2005	2,285
2006	2,734
2007	3,098
2008	3,615
2009	4,112
2010	4,557

SOURCE: Authors, from Walmart filings

A similarly impressive trajectory can be seen when one considers the growth of sales from the Walmart International segment since 1995 (the first year that sales for the segment were split out). See Table 11.3.

Table 11.3: Walmart International, sales 1995–2010 ($ m)

Year	Sales
1995	3,712
1996	5,002
1997	7,517
1998	12,247
1999	22,728
2000	32,100
2001	35,485
2002	40,794
2003	47,572
2004	56,277
2005	62,719
2006	76,883
2007	90,421
2008	98,645
2009	100,107
2010	109,232

SOURCE: Authors, from Walmart filings

Walmart International in context

As already noted, Walmart International has become a colossal retail enterprise in its own right and, as a standalone company, is among the largest retail operations in the world (Table 11.4).

Table 11.4: Top 10 global retailers, net sales (2010, $m)

Walmart US	260,261
Carrefour	126,739
Walmart International	109,232

Tesco	93,173
Metro Group	87,714
Kroger	78,834
Costco	78,394
Schwarz Group	76,339
Seven & I	70,959
Home Depot	68,002

SOURCE: Company reports; author's estimates

Walmart International performance

Faced with an extremely sluggish performance in the United States, attributable to strong competition, ongoing travails in terms of consumer confidence and at least a few self-inflicted tactical errors, Walmart US suffered something of a slump between 2009 and 2011 in terms of comparable sales growth. Importantly, the business remains hugely profitable and has made stellar progress on areas such as inventory reduction and efficiency, but it is fair to conclude that the US unit is being overshadowed to an extent by Walmart International as the star performer and growth engine of the future.

The years 2009 and 2010 were not so great for Walmart International based on top-line sales data, but a brief look behind the top line shows a much more encouraging picture of the business living up to its own impressive growth standards. If currency effects are stripped out of the 2009 and 2010 sales performances, the growth rates appear much more impressive. Indeed, Walmart is often vocally proud of the performance exhibited by its International division: as Mike Duke, the CEO of Walmart, asked investors after a particularly gruelling quarter: 'Let me ask all of you a question.

How many of you know a $100 billion dollar business that grew top-line sales by 12 per cent and grew profit by 19 per cent in this very difficult economic environment during this fourth quarter? I know you're thinking about it, but, let me go ahead and name one for you. The name – Walmart International.'

The scope and scale of Walmart International

Contrary to popular belief (a perception perhaps fostered by the bad old days of the retailer slapping down Walmart Supercenters in markets as diverse as Argentina, Germany and South Korea), the Walmart International of 2012 is an immensely diverse business trading through over 60 different store concepts. Furthermore, thanks to the acquisition of many different banners – and the humility to preserve local brand equity – well over three-quarters of the stores within Walmart International trade through a non-Walmart banner.

The Walmart International business is spread across five main territories, although two of these are effectively single-country operations. In North America, Walmart International trades in the form of Walmart Canada. South American operations are effectively split in two, with Walmart de Mexico taking control of Walmart Centroamérica in late 2009. The remainder of Walmart's operations in the region (Argentina, Brazil and Chile) are overseen by Walmart Latin America. Walmart Asia comprises activities in Japan, China and India, while – following the divestment of stores in Germany – the hope of developing a European division was effectively shelved, leaving Asda as something of a metaphorical and literal island (although hopes were raised of a return to European ambition in June 2011 when reports in the UK suggested that Walmart was establishing a research team near Heathrow Airport to evaluate new European market entries). The final territory, Africa, was established through the acquisition of a majority stake in South African-based retailer Massmart in 2011.

Walmart is currently active in 28 markets (27 excluding the United States) in terms of the markets in which it, or its JVs, operate stores. Markets in which it is no longer active comprise Hong Kong, Indonesia, Germany and South Korea.

Channel strategy

While Walmart International becomes an ever more esoteric and diverse business, it is fair to suggest that there are some common trading formats that form the backbone of the global business unit.

Walmart is active across a large number of channels and store types. In grocery, it trades through all channels with the exception of convenience stores. Convenience retailing is unlikely to feature on Walmart's radar anytime soon owing to its unwillingness to sacrifice its EDLP stance and preference for national pricing across all of its markets (many grocers like Tesco will typically charge higher prices in their convenience stores in order to cover off the higher operating costs of staffing and servicing these smaller outlets).

On a global level, Walmart is reliant on hypermarkets (Supercenters) for the majority of its revenues, with its other key channels comprising warehouse clubs/cash & carries and general merchandise discount superstores (or discount stores as they are known by Walmart US). As discount superstores in North America are transitioned to Supercenters, the discount superstore channel will decline in importance, with regular grocery supermarkets and superstores likely to be the third-largest sales channel by 2015.

Hypermarkets/Supercenters

As already noted, Supercenters and hypermarkets (54,000 sq. ft +) are the backbone of Walmart's global business, thanks in part to the scale of the channel for Walmart in the United States. The channel is also key for Walmart International, with Walmart Supercenters trading in Argentina, Brazil, Canada, China, Costa Rica, Guatemala, Honduras, Mexico and Puerto Rico. Other hypermarket concepts include Big and Hiper Bompreço (Brazil); Hiper Lider (Chile); Trust-Mart (China); Livin and Seiyu (Japan); Bodega Aurrera (Mexico); and Asda Walmart Supercentre (UK). Hipermas (Costa Rica) and Hiper Paiz (Guatemala and Honduras) stores were converted to the Supercenter concept in the summer of 2011.

The hypermarket concept is key for Walmart as the stores enable the retailer to exhibit its strong credentials in general merchandise, particularly in areas such as toys, electronics and apparel, as well as being able to offer a full grocery assortment and auxiliary services such as photo-processing, pharmacy and financial services. However, Walmart faces limits on the potential growth of these larger formats, particularly in saturated markets like the UK and Japan, and also in smaller markets such as certain Central American territories where there is a limit to the number of major cities that can sustain these large-format stores.

Superstores

With many of its international acquisitions Walmart has picked up a significant presence in the superstore (27,000–54,000 sq. ft) channel. These stores still offer a non-food range in many cases, but are more akin to regular grocery stores. Walmart's presence in this channel comprises Changomas (Argentina); Bompreço (Brazil); Mas-x-menos (Costa Rica); Hiper Paiz (El Salvador); Seiyu (Japan); Bodega Aurrera (Mexico); Amigo (Puerto Rico); and Asda (UK).

Supermarkets and neighbourhood stores

Again largely through acquisition, Walmart has picked up a raft of supermarket (less than 27,000 sq. ft) operations around the world, including: Changomas Express (Argentina); Bompreço, Nacional and Mercadorama (Brazil); aCuenta and Express de Lider (Chile); Neighborhood Market (China); La Despensa de Don Juan (El Salvador); Maxi Bodega (Costa Rica, Honduras and Guatemala); Supertiendas Paiz (Guatemala and Honduras); Seiyu, Seiyu SSV; Food Magazine, Sunny and Seiyu The Food Factory (Japan); Superama, Bodega Aurrera Express and Mi Bodega Aurrera (Mexico); La Union (Nicaragua); and Asda Supermarket (UK). Please note that some of these concepts could also be classified as discount stores or proximity concepts – more of which below.

Discount superstores

On the one hand, these stores are something of a dwindling legacy. In both the United States and Canada, Walmart discount superstores are plummeting in number as they are expanded or relocated to become Supercenters. Walmart also operates the Walmart discount superstore concept in Puerto Rico. In the UK, however, the Asda Living general merchandise superstore concept is poised to become a significant growth channel: the retailer has a medium-term goal of trading through 150 such units. This type of activity was bolstered through the 2011 acquisition of Massmart in South Africa – enabling the Game discount store chain to be welcomed into the Walmart global family. It should be noted that the addition of FoodCo departments to the Game store concept might see them transition into more of a hypermarket or superstore concept in the fullness of time.

Discount stores

Although a similar size to supermarkets, these stores can be characterized as discount stores thanks to sharing characteristics such as a limited assortment, high private label penetration, a fairly Spartan in-store environment and a focus on low prices. Another way to describe this type of store is 'proximity discount' – small stores offering low prices near to where people live and work. Stores in this category include Todo Dia (Brazil); Smart Choice (China); Ekono (Chile); Pali (Costa Rica and Nicaragua); Super Ahorros (Puerto Rico); and Despensa Familiar (El Salvador and Honduras).

Warehouse club/cash & carry

Walmart has long been a dominant global participant in this segment thanks to its Sam's Club business in the United States. However, Sam's Club has proven less portable than other Walmart concepts, having been closed down in Canada and Argentina. That said, Sam's Club still trades successfully in China, Mexico, Brazil and Puerto Rico. Walmart also has the rapidly growing Maxxi Atacado cash & carry chain in Brazil, the two-store ClubCo business in Guatemala and the Best Price Modern Wholesale operation in India. Again, this segment of the Walmart International business was augmented through the acquisition of Massmart in South Africa: the deal added operations including Makro, Jumbo Cash & Carry and Thaba Cash & Carry.

Others

While we have covered the main components of Walmart International's empire, it is worth mentioning that Walmart's acquisitive expansion has endowed it with a legacy of all kinds of activities around the world. These include: Vips and El Porton restaurants in Mexico; a single Hiper Magazine bookstore in Brazil; the Suburbia clothing chain in Mexico; the Wakana delicatessen business in Japan; Dion Wired electronics stores in South Africa; and the Builders Warehouse, Builders Express and Builders Trade Depot home improvement retail chains in the same country. A more recent proactive initiative was the news that Asda was seeking a franchise partner to open standalone fashion stores in the Middle East.

Small-box development

Although Walmart International is dominated by bigger-box grocery retailing, many of Walmart's international divisions are embracing a shift towards smaller boxes that are focused on offering consumers smaller assortments, low prices, an extensive range of private labels and a degree of convenience. This shows us that Walmart is realizing that – particularly in emerging markets – many shoppers are keen to see stores that are close to them and that offer a quick and easy shop that also provides good value for money.

This shift to 'proximity' retailing is proving to be highly successful in markets such as Mexico, and other countries such as China, the UK, Puerto Rico and even the United States are looking to follow suit. Indeed, as we discussed in the multi-channel chapter, Bill Simon, President and CEO of Walmart US, was quick to point towards Walmart International's success in proximity retailing as an inspiration for Walmart's planned assault on urban retailing in the United States through the Walmart Express concept.

The winning formula hit upon by Walmart is the combination of true convenience without the premium prices traditionally associated with proximity retailing. One other significant plus-point for the retailer is that these smaller concepts open up a whole new world of growth potential. While there is a clear growth ceiling for big-box development in many markets, the progression of these smaller concepts means that a large number of smaller towns and cities are now on Walmart's radar.

For suppliers, the strategic shift to small-box retailing by Walmart International will undoubtedly have a number of implications. There might well be some margin pressure as Walmart's small boxes heap further pressure on the informal retail sector and Walmart's increasing focus on low-price, narrow-assortment proximity retailing will mean that suppliers in certain markets will have to innovate in terms of pricing, value and pack sizes to win a place on the shelf.

Walmart International has either acquired or organically developed proximity store concepts in markets around the world, and below we present the concepts and some of their key features.

Changomas Express & Mi Changomas (Argentina)

Changomas Express and Mi Changomas are smaller-footprint versions of the main Changomas chain. All of the concepts are based on the Bodega Aurrera concept from Walmart de Mexico. Changomas itself is a bodega-style concept trading from around 48,000 sq. ft. The chain introduced the smaller Changomas Express concept in late 2008 and Mi Changomas in late 2009. These concepts largely sell groceries without the non-food assortment of their larger equivalents. Private labels are featured extensively, with Great Value, Equate and Ol' Roy present in the grocery assortment.

Todo Dia (Brazil)

While many of the Toda Dia stores are fairly hefty and come in at over 20,000 sq. ft, many of the stores are as small as 300 sq. ft (the size of a typical convenience store) and are located in populous areas, serving as a neighbourhood discount store. They trade as soft discounters with the look and feel of a warehouse, with concrete floors, no air-conditioning and products displayed in pallets or open boxes. Todo Dia stores sell food and household items at prices which are 5 per cent less than neighbouring family-owned supermarkets and drugstores (and even 2 per cent less than Walmart's own

Supercenters). Along with Maxxi Atacado, Todo Dia is one of the fastest-growing chains in the Walmart Brazil stable.

Ekono (Chile)

Ekono was a new concept that was developed by D&S prior to its acquisition by Walmart. Nonetheless, the chain is growing quickly and very much models the ethos of proximity retailing seen elsewhere in Walmart International. Launched in January 2007, D&S presented Ekono as a brand new 'discount' format in Chile. This format basically offers food and is located in highly populated areas, for top-up shopping because of its quick and easy access at low prices. It also offers a broad range of own-brand products, which account for a 30 per cent share of total sales, and it has a low-price policy owing to the reduced costs of running the store. It has a product range of approximately 1,500 items and its sales floor is 3,800 sq. ft on average, with a maximum of 4 checkouts and 11 employees per store.

Smart Choice (China)

The relatively new stores – designed to attract value-conscious consumers in the economic slowdown – were loosely designed to be a small-box equivalent to Sam's Club, trading from around only 3,000 sq. ft in size. Smart Choice sells only groceries and there are around 2,000 SKUs in the store. The concept epitomizes a low-cost retail model: its small size saves on rent and the unit is decorated in a fairly Spartan fashion. The units feature deep shelving and there is a strong focus on shelf-ready packaging. Many products are in multi-buy packages with further discounts and the retailer tells consumers clearly how much they can save. As for private labels, Smart Choice has not introduced its own but has some taken from the Walmart Supercenter chain, such as Mainstays, SIMPLYBASIC, and Great Value.

Pali (Costa Rica and Nicaragua)

Established in Costa Rica and since expanded into Nicaragua, Pali is a simple operation, based on economy and efficiency. Stores are fairly austere and offer a limited range. The stores offer an extensive range of private brands, including global Walmart brands such as Equate.

Despensa Familiar (El Salvador, Guatemala and Honduras)

These hard discount stores are located in high-traffic locations, carrying between 8,000 and 9,000 SKUs. These are primarily dry groceries, although stores also carry a non-food section including clothing, footwear and stationery. Around 800 SKUs are private labels, which account for some 30 per cent of total sales.

Mi Bodega Aurrera and Bodega Aurrera Express (Mexico)

Mi Bodega Aurrera units are smaller-format grocery stores, designed to help Walmart Mexico compete more extensively with independent neigh-bourhood retailers and c-store chains. The stores have a selling space of between 4,000 and 5,000 sq. ft, around a tenth of the size of a traditional Bodega Aurrera unit. Stores sell a mix of grocery items, c-store impulse lines and other FMCG staples.

Bodega Aurrera Express is said to have surpassed expectations in productivity and profitability. It is a new prototype – a discount and convenience store all rolled into one – that targets income levels D and E in markets ranging from 12,000 to 20,000 inhabitants and allows Walmart to meet the replenishment needs of customers at Bodega Aurrera prices.

Super Ahorros (Puerto Rico)

This is a bodega discount format, similar to the Bodega Aurrera Express chain operated in Mexico. The first store opened for business in mid- November 2008 in the municipality of Villalba. The new concept offers an extensive selection of private labels, with the product category mix standing at 80:20 in favour of groceries.

Asda Supermarket (UK)

While far removed from the bodega retail operations in Latin America, it is worth pointing out that smaller-footprint stores are very much on the agenda for Asda in the UK. The impetus behind small-store development was ratcheted up in 2010 with the acquisition of most of the Netto discount chain in the UK. In converted stores, customers see a much broader range of products. As part of the Netto to Asda Supermarket conversion programme, the number of products rose from an average 1,800 up to around 10,000, with up to 12,000 in the larger stores.

Cambridge Foods (South Africa)

Cambridge Foods, a small cash & carry-style retail store developed by the Masscash division of Massmart, is likely to be the subject of intense acceleration following the takeover of the South African retailer by Walmart. Walmart has confirmed that Cambridge will be the focal point of investment, with the concept deemed ideal for serving those lower-income shoppers currently underserved by the modern retail trade in South Africa and beyond.

Walmart International: the good, the bad and the ugly

While Walmart International has become a formidable presence in its own right, dwarfing other leading global retailers, its progress has by no means been a flawlessly executed rise to glory. Indeed, some of Walmart International's misadventures have epitomized the very worst in clumsy commercial colonialism and breathtaking arrogance and stupidity. At the same time, Walmart's entry and leadership in other markets have been virtual case studies in how to expand successfully overseas. Why the contrast? Simply put, Walmart learnt some extremely hard lessons in some markets in the first couple of phases of its international expansion.

The 1997 quote earlier in the appendix from Bob Martin, then president of the Walmart International division, provides some of the reasons why Walmart International did not fare so well in some markets. While it was true that 'the Walmart name is better known outside the United States than any of us imagine', it did not necessarily follow that trading as Walmart in foreign markets was the right move. In some Asian and European markets, the Walmart brand did not resonate in the slightest and smacked of the Americanization of global society that many consumers have proven to be so distrusting of.

Furthermore, some of the hideous failures undergone by Walmart International proved that the Walmart Supercenter store model, so beloved in the United States, was something of a lame duck in certain international territories. In markets with different shopper behaviours, different transport systems and different successful domestic retailers, the Supercenter concept was quickly exposed as cookie-cutter retail colonialism gone awry. The Walmart Supercenter is one of the most pivotal and successful concepts in the history of commerce; but that does not mean it is one of the most portable.

Martin's assertion that Walmart stood for 'low cost, best value... to customers everywhere' was also a debatable premise. While Walmart's EDLP stance, enabled by its scale and high efficiency, ensured that it succeeded against less efficient local competitors in a market like Mexico, the same could not be said for markets like South Korea and Germany. In South Korea, Walmart was a relative minnow compared to the might of Lotte and Shinsegae. As we demonstrated in the chapter on procurement, FMCG buying is still largely a local affair, and Walmart's lack of scale in the South Korean market meant that its EDLP model was stretched beyond breaking point. In Germany, Walmart was pitting itself against the likes of Aldi, one of the most brutally efficient low-price retailers in the world of retailing. By taking EDLP to the home of EDLP, Walmart was effectively embarking on an unwinnable war. There were other factors at play in the German market that turned the odds against the US interloper (such as gentlemen's agreements between both retailers and suppliers to hamper Walmart's progress), but the fact that Walmart could never be the lowest-price retailer while still making money in Germany was apparent to external observers from the outset.

Walmart International's evolution over the past 20 years can be broadly split into four phases. The first phase, between 1991 – when Walmart first kicked off its trading in Mexico – and 1999 was an era of flag-planting colonization. Within the space of 10 years, Walmart embarked on a rapid flurry of JVs, acquisitions and organic market entries into a mix of mature and emerging markets. The distinction between mature and emerging markets is an important one: Walmart's greatest successes have come in emerging markets, where the retailer's state-of-the-art logistics and EDLC philosophy have enabled it to outmanoeuvre and undercut local chains, meeting with a great reception from less affluent shoppers. On the flip side, Walmart's most humbling failures have taken place in mature, modern retail sectors where Walmart International squared up to an established local hegemony.

The decade saw Walmart International embark on a fairly scattergun approach with a seemingly high tolerance for loss-making ventures. It is also worth remembering that this era was one in which Walmart exhibited an almost total insistence on using the Walmart brand in many of its international ventures. Attempts at achieving synergies in this era, which saw Walmart enter Mexico, Brazil, Argentina, Canada, Puerto Rico, Indonesia, Hong Kong, China, the UK and Germany, are best described as hesitant and inconsistent. As already noted, the entries into Hong Kong and Indonesia were aborted in fairly short order.

The period was also one of learning for Walmart International: it was slowly coming to grips with the fact that the cookie-cutter approach was not a wise one. For example, in Argentina, Walmart noted that it did not anticipate the heavy customer traffic, which temporarily overwhelmed its stores' relatively narrow aisles. It also made mistakes in product selection in categories such as jewellery and meat. Walmart was forced to adjust its offer to cater for what it called 'cultural nuances', offering Argentine shoppers specialized cuts of meat and simple gold and silver jewellery ranges in retooled stores with wider aisles.

Walmart International's John Menzer acknowledged at the time that:

> it wasn't such a good idea to stick so closely to the domestic Walmart blueprint in Argentina, or in some of the other international markets we've entered, for that matter. In Mexico City we sold tennis balls that wouldn't bounce right in the high altitude. We built large parking lots at some of our Mexican stores, only to realize that many of our customers there rode the bus to the store, then trudged across those large parking lots with bags full of merchandise. We responded by creating bus shuttles to drop customers off at the door. These were all mistakes that were easy to address, but we're now working smarter internationally to avoid cultural and regional problems on the front end.

The next phase – 2000 to 2005 – can be characterized as Walmart attempting to build global scale for local advantage. The nascent Walmart International business unit, formed in 1993, was making progress in constructing a global management structure to accelerate local development, with Bentonville exporting best practice in private label, IT systems and supply chain to global markets. At the same time, Walmart was expanding through organic growth in key markets like China, completing in-fill acquisitions in key markets (Brazil and Central America) and acquiring businesses in new markets (Japan).

The period from 2006 to 2008 saw Walmart lose patience with its loss-making ventures that had little or no hope of achieving scale and/or profitability. By jettisoning its businesses in South Korea and Germany, Walmart had shifted its strategy to 'major on the majors': the retailer had enacted a more stringent evaluation of international operations, deciding that it would exit certain geographies if sufficient profitability and scale was not a feasible outcome. For its other markets, Walmart was exercising perpetual vigilance for acquisition or new-format opportunities in existing markets and acquisition opportunities in adjacent or high-growth potential markets. It is notable that no new markets were entered in this phase.

The final – and current – phase in Walmart International's development has taken place very much under the banner of 'serving the underserved'. Walmart International has placed its strategic focus on serving less affluent (often rural) shoppers, entering new 'emerging' markets, developing small-box proximity stores to take custom from informal retail, using price and private label to deliver value for money and enacting a renaissance of cash & carry within the world of Walmart. In this phase, Walmart has entered markets like Chile, India and South Africa.

Walmart has very much learnt some hard lessons from its failures in markets such as Germany. That failure – which ranks alongside Tesco in France, Sainsbury's in Egypt and Carrefour in Russia in terms of risibility – really drove home to Walmart the importance of local brand equity; the absolute need for humility; and the advantage of driving change (and bringing to bear Walmart's global scale) behind the scenes of an acquired international business. Indeed, a key theme emanating from Bentonville, and from the global operating companies themselves, is that each country's business unit is a local retailer 'powered by Walmart'. While no-one but the most vigilant shopper might notice that Walmart was the owner of stores in, say, Chile or South Africa, the benefits of Walmart's scale will be felt through lower prices and enhanced private label offerings.

Where next?

One of the joys of being an analyst who covers Walmart is the constant stream of speculation one encounters, particularly with regard to the countries or regions that Walmart might enter next. Over the years, there have been very few parts of the world that have not been touted as a possible destination for Walmart International, ranging from the logical (further markets in Latin America) and the improbable (Scandinavia) to the commercially suicidal (France).

One question that needs asking here is whether or not Walmart actually needs to enter new markets. Put another way, is there not enough potential in its existing markets to satisfy even the most ambitious retailer? Walmart certainly has enough to be getting on with in its existing global operations. The retailer told investors and employees at its 2011 shareholders meeting that there was, over a five-year time period, a $2.4 trillion growth opportunity in existing markets (compared to what could loosely be described as a relatively modest $800 billion opportunity in the United States over the same time period.) As the retailer's Cathy Smith said at the meeting: 'There's not a single Walmart market that is even close to saturation.' Considering that statement included extremely crowded markets like the UK, the ambition inherent in Smith's statement is manifest.

There is undoubtedly huge scope for Walmart to expand in its existing territories. The addition of Massmart's African empire (including a presence in Nigeria, regarded with great anticipation as a potentially huge untapped market by FMCG suppliers) has increased the number of potential shoppers and consumers that Walmart can theoretically reach from 3.48 billion to 3.85 billion. Markets like China and India (should the Indian government ever deregulate the retail sector) have colossal scope. Indeed, such is the strength of local retailers in the market – coupled with the virtually limitless scope for new-store growth in the market – Doug McMillon told investors in 2011: 'I don't know if we'll ever be the largest retailer in China.' Walmart is aggressively expanding into e-commerce in China, which should hasten its growth there, although word reaches us from within Walmart China that the ongoing integration of the Trust-Mart chain in the country is turning into something of a living hell for both parties, which doesn't bode well for the overall health of the business in that market.

Walmart has established a holding company structure in Japan that has been expressly designed to completed M&As – a necessity if Walmart wishes to gain any sort of genuine scale in a market widely regarded as an ultra-competitive bloodbath.

Elsewhere, the prospects and the sentiments are altogether more ebullient. Although performance in the UK might not have been quite where Walmart would want it, there are growth opportunities in food (through acquisitions such as Netto as well as e-commerce) and non-food (an acquisition of Homebase and Argos owner Home Retail Group has been a frequent rumour on the financial pages). In Canada, Walmart continues to grow at a rapid rate, while in markets such as Chile, Central America, Brazil and Argentina there is still plenty of headroom for further acquisitions and organic expansion. Further acquisitions are particularly likely in Brazil and Argentina, with a senior figure from Carrefour telling us that Walmart had been actively pursuing both Carrefour and CBD in the Brazilian market. In Chile, Walmart plans to double the size of business to $10 billion by 2018, and a postponed entry by Walmart's Chilean business D&S into Peru is also likely to be revived.

Perhaps the brightest growth prospects lie in Africa. Through its acquisition of a majority stake in Massmart, Walmart has accessed a presence in a wide variety of African markets and an impressive portfolio of food and specialist non-food retail formats. Cambridge Foods is the concept that has Walmart International licking its lips with anticipation, although – perhaps counter-intuitively – officials within Walmart International have communicated to us that they are also extremely excited by the potential of Massmart's DIY retail activities. The African housing market is poised for a boom, and a presence in home improvement retailing puts Walmart International on the cusp of a potentially very lucrative wave.

The question remains: where next? The only gap remaining in the so-called BRIC economies of Brazil, Russia, India and China is Russia. In what must have been a fairly expensive episode of shooting blanks, Walmart operated a well-staffed development office in the Russian market, tasked with evaluating opportunities – both acquisitive and organic – in the market. After the best part of three years, the office closed without yielding any progress.

The issue appears to us to have been one of culture rather than any other: there is no shortage of possible acquisition targets in the market (although the price tags attached to them might be considered eye-watering) and it was surely not beyond the wit of Walmart International to open its own stores. However, the potential risks must have substantially outweighed the possible rewards. The Russian market is notoriously corrupt and foreign retailers have been incessantly and infamously targeted by shady government officials looking to make a fast buck (or several hundred thousand fast bucks if some of IKEA's revelations about doing business in Russia are to be believed). Given Walmart's zero-tolerance policy towards the use of brown envelopes in business, it seems as though the retailer will await a commercial environment that is somewhat more chaste before it decides to entertain its entry into the Russian market. Walmart has reiterated its long-term interest in Russia, but there are several more sizeable fish to fry at present.

Hot on the heels of the BRICs are the more exotically feline group of countries that are being portrayed as the red-hot investment destinations: the CIVETS. Sharing some attractive characteristics for retailers (large and young populations; diverse and rapidly growing economies; relative political stability and reasonably well-regulated financial systems), Colombia, Indonesia, Vietnam, Egypt, Turkey and South Africa have been held up as the next batch of rising stars.

Walmart has already chalked up a presence in South Africa via its Massmart deal, while Colombia is thought to be next in line – along with Peru – for market entry in Latin America. That said, there is still a sizeable opportunity for backfilling operations in markets like Brazil, so Walmart International might be able to afford to be patient and/or opportunistic when it comes to Colombian market entry.

With regard to Indonesia, a market that left Walmart with a discernibly bitter aftertaste, the retailer has been linked as a potential investor in, or strategic partner to, local retailer Matahari. Press reports in late 2010 linked Walmart to a possible bid for Hypermart, Matahari's hypermarket chain, although subsequent reports in early 2011 suggested that Matahari was instead looking for a 'global strategic partner' to help it develop the business. At the time of writing, there have been no further updates, but it seems fair to conclude that Indonesia is still very much a market on Walmart's shortlist.

Vietnam is a market that Walmart has already been briefly and tangentially active in already: its Japanese arm Seiyu operated a franchised department store in Hanoi while Walmart was building its stake in the Japanese business. Although Walmart has been putatively linked to an entry into Vietnam, there has been nothing more substantive than idle tittle-tattle to suggest that Walmart is considering entering the Vietnamese sector, and indeed Vietnam has not been mentioned to us by Walmart International personnel as an immediate priority.

Egypt also appears off limits for the time being. Although Asda will be setting up franchised stores in the Middle East, there has been nothing to so far suggest that North Africa is on the radar. While we cannot rule out an eventual expansion into the North African market from the south via Massmart, it would appear unlikely that the Egyptian market is very high up Walmart's wish list in the immediate future, particularly in light of the unrest that afflicted the country in early 2011 (Metro Group reported that both its Makro stores in Cairo were damaged, with one store, which was set on fire, having had to be rebuilt).

Of more interest will be the Turkish market. Walmart is the only one of the global retail pioneers not yet present in the Turkish market, with Carrefour, Tesco and Metro Group already firmly entrenched in the sector. The most likely entry mode for Walmart would be an acquisition of, or joint venture with, Migros Ticaret, a leading retail business majority controlled by investment vehicle MH Perakendecilik. This vehicle is controlled by Moonlight Capital, which itself is controlled by private equity firm BC Partners. The retailer – once the Turkish offshoot of leading Swiss retailer Migros – trades through over 700 Migros, Tansa*6*, Macro Center and 5M stores in Turkey and 27 Ramstore stores in Kazakhstan and Macedonia. The group disposed of its 1,244-strong hard discount chain *5*ok in 2011. With private equity typically looking to spin off or exit its investments after a period of five or so years, it seems reasonable to suggest that Migros could be an acquisition opportunity for the likes of Walmart in 2013 or, indeed, earlier.

The establishment of a European M&A office in London is understood to have been completed, with staff now in place to evaluate potential deals across Europe. There has been some reasonably substantive speculation linking Walmart with two possible transactions. Press reports in 2011 put Walmart in the frame for a somewhat implausible, if not impossible, return to Germany through an acquisition of the Real hypermarket chain from Metro Group. The reports suggested that Metro Group was planning to spin off the Real division having successfully turned around the performance of its hypermarket chain, which trades through around 320 stores in Germany and around 110 stores in Poland, Romania, Russia, Turkey and Ukraine. While Walmart would be understandably reticent about returning to the scene of its humiliation in a German market that has only got more competitive since the retailer left, it is understood that the ability to forge a presence in Poland, Romania, Russia, Turkey and Ukraine might be a sufficient sweetener for Walmart to contemplate a move for Real. As an aside, it is worth pointing out that Asda has also been linked as a possible suitor for Metro Group's UK cash & carry chain, Makro. Makro has been racking up losses for a number of years and speculation has suggested that, faced with a paucity of food retail acquisition opportunities, Asda might countenance a move into wholesaling by taking over Makro and turning it into a Sam's Club-style warehouse club operation.

A similar situation applies in the speculation that Walmart is casting its eye over the international discount store chain Dia, spun off by parent company Carrefour in 2011. The situation is similar as, while Walmart would not wish to enter the French market, Dia has other store networks that are of great strategic interest for Walmart. Dia, the world's third-largest discounter behind German stalwarts Aldi and Lidl, generates nearly €10 billion in sales through around 6,400 stores in France, Spain, Portugal, Turkey, Brazil, Argentina and China. It is the market-leading hard discounter in Spain, Brazil and Argentina, number two in Portugal and Turkey and number three in France.

As an attraction for Walmart, Dia can offer stores that are in Walmart's current sweet spot of proximity discount retailing, the business can offer sizeable expansion in markets like Brazil, Argentina and China (where the Dia brand could be retained, or the stores could be re-bannered to Todo Dia, Changomas or Smart Choice, respectively) and market entry in Turkey. Also of possible interest would be an opportunity for Walmart to enter the Iberian grocery market. The main drawbacks for Walmart would be its reluctance to enter the French market (Bentonville insiders have told us that the French labour laws are anathema to the company) and also the heavy skew of the Dia business towards franchised stores (over 2,000, or 32 per cent, are franchised units), which is at odds with Walmart's love of controlling its own stores.

There is no shortage of other potential acquisition targets for Walmart across Europe. Whether these are single chain operations in particular markets or regional retail conglomerates, Walmart clearly has the deep pockets and resolve to make more of a concerted effort to become a serious pan-European retailer. These European ambitions, alongside a strong strategic presence in North America, Latin America, Africa and Asia and a very realistic potential to expand successfully into the Middle East and markets like Australia (where Walmart could conceivably consider an acquisitive entry into a market already successfully penetrated by the likes of Aldi and Costco), will mean that Walmart International will almost certainly become the second-largest retailer in the world behind Walmart US. In all likelihood, there is no tangible reason why Walmart International will not become the largest retailer in the world.