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International Business Strategy

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Walmart in China

Walmart first entered the Chinese market in 1996 through a joint venture with a local business, according to a report by (The New York Times ,2019). The retail behemoth has expanded since then, opening more than 400 locations in more than 180 cities, making it one of the biggest international retailers in the nation. (Liu and Wei ,2019) point out that Walmart has encountered many difficulties in China, including fierce rivalry from local merchants, cultural disparities, and governmental regulations. The Chinese government has recently passed new laws designed to safeguard regional companies and advance homegrown brands. For foreign retailers like Walmart, operating in the nation has become more difficult as a result of these laws.



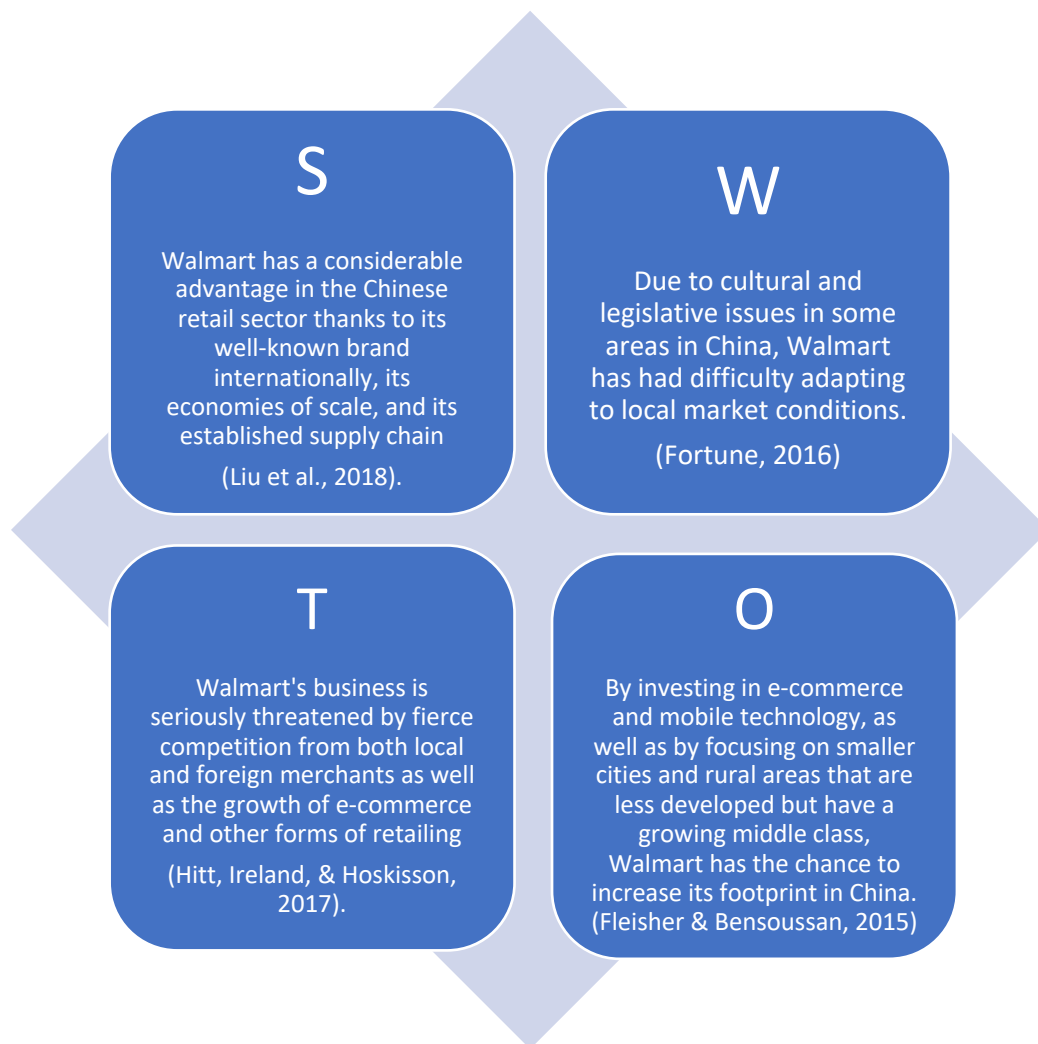
Figure 1: Walmart in China(Walmart,2021)

Walmart has continued to grow its presence in China despite these challenges because it is committed to serving Chinese consumers. For instance, the business has made investments in e-commerce and smaller shop formats to better serve Chinese customers. Walmart has made pledges to sustainability and ethical sourcing in China and has moved to strengthen its connections with regulators there.

Ultimately, Walmart's experience in China shows how crucial it is to comprehend local markets and adjust to cultural and regulatory variations in order to be successful in international markets.

Question 1: Critically analyse the Microenvironment of Walmart in China and explain why Walmart has not historically been successful in China.

SWOT analysis



Next step

We have evaluated Walmart China's strengths, weaknesses, opportunities, and threats after conducting a SWOT analysis. Using Porter's Five Forces framework, we will now begin examining Walmart's competitive position in the Chinese retail market. This framework will allow us to evaluate the industry's attractiveness and Walmart's strategic alternatives.

Porter's five forces

THREAT	LEVEL	ANALYSIS
Threat of new entrants	Low	<p>New businesses find it challenging to break into the market because of Walmart's large economies of scale, wide distribution network, and well-known brand. Walmart's position in the market, however, may be threatened by the growth of e-commerce and escalating rivalry from online merchants. (Fleisher & Bensoussan, 2015)</p>
Threat from Buyers	Moderate	<p>Walmart's scale and global reach give it substantial negotiating influence with suppliers. Nevertheless, given China's fragmented and quickly evolving retail scene, it might have trouble finding high-quality suppliers there (Liu et al., 2018).</p> <p>Walmart has a lot of purchasing power because of its size, but its alternatives are limited because of the concentration of suppliers in the retail sector. (Hitt, Ireland, & Hoskisson, 2017)</p>
Threat of Suppliers	High	<p>Because Chinese consumers are growing more discriminating and price-sensitive, they have a lot of negotiating power in the retail market. Walmart needs to react by providing competitive prices and excellent customer service (Zhou et al., 2018).</p>
Threat of Substitutes	High	<p>With several companies providing comparable goods and services, the retail market in China is characterised by a high degree of product and service substitutability. Walmart needs to stand out from the competition by providing special goods and services that cater to Chinese consumers' particular wants (Liu et al., 2018).</p> <p>The traditional brick-and-mortar business model of Walmart is seriously threatened by e-commerce and other forms of retailing. (Fleisher & Bensoussan, 2015)</p>
Threat from existing rivals	High	<p>In China, there is fierce competition for market share from both domestic and foreign businesses. Walmart needs to stand out from the competition by providing special goods, services, and customer encounters that cater to Chinese consumers' particular needs (Zhou et al., 2018).</p> <p>Retailers like Alibaba, JD.com, Costco, and Target, both domestic and foreign, compete fiercely with Walmart. (Hitt, Ireland, & Hoskisson, 2017)</p>

Analysis of the Microenvironment of Walmart in China

Firstly, Walmart in China has a lot of difficulties due to the possibility of replacements. Walmart's traditional brick-and-mortar business model is under threat as a result of the growth of e-commerce and other kinds of retailing, which are changing how people shop. Walmart must change by increasing its e-commerce capabilities and investment in digital technology in order to compete with the convenience and ease of online buying. By collaborating with JD.com, China's largest retailer, to increase its online presence and boost the effectiveness of its supply chain, Walmart is already taking steps in this direction. (Hitt, Ireland, & Hoskisson, 2017).

Secondly, intense rivalry in China's retail market presents Walmart with another formidable obstacle. Domestic retailers with a significant presence in the Chinese market, including Alibaba and JD.com, are formidable rivals. (Hitt, Ireland, & Hoskisson, 2017). The competition has also increased due to the entry of foreign merchants like Costco and Target. Walmart must set itself apart from the competition by providing premium goods and services at low prices with top-notch customer service. (Zhou et al., 2018).

Thirdly, consumers in the Chinese retail sector have strong negotiating power. Customers have a wide range of options and are very price-sensitive. To keep customers, Walmart must maintain cheap pricing while providing high-quality goods and services. To be able to offer competitive pricing, Walmart must have solid connections with suppliers and an effective supply chain management system.

Finally, Walmart has a competitive advantage in the Chinese market thanks to its expertise in international retailing and supply chain management. Walmart operates in China with efficiency and effectiveness thanks to its significant knowledge in these fields. (Fleisher & Bensoussan, 2015) Targeting smaller cities and rural areas, which are less developed but have a burgeoning middle class, will also allow Walmart to increase its presence in China. Walmart may take advantage of these chances to expand its company in China by focusing on these markets and investing in e-commerce and mobile technologies.

To summarise, Walmart operates in a difficult microenvironment in China, where it must contend with a number of issues like the danger of alternatives, fierce competition, and strong

customer bargaining power. (Liu et al., 2018). To preserve its place in the market, Walmart can also take advantage of its strengths and chances. Walmart must continue to adjust to shifting consumer preferences and market dynamics in order to be successful in China. Moreover, it must set itself apart by providing premium goods at aggressive prices and top-notch customer service.

Analysis of Walmart has not historically been successful in China

Walmart has not historically been successful in China. Walmart has suffered in China for a number of reasons, including:

Cultural differences: Walmart may not operate according to Chinese cultural norms and consumer expectations in terms of business operations or management style, which makes it challenging for the company to engage with Chinese customers. For instance, Chinese shoppers who value quality and brand reputation may not find Walmart's emphasis on low pricing to be appealing (Forbes, 2014).

Late entry: Walmart entered the Chinese market somewhat late and was up against established local merchants in fierce rivalry. Walmart reportedly began doing business in China in 1996, some years after other international shops like Carrefour and Tesco. Local shops had already secured a substantial market share and a firm foothold before Walmart entered the market (Fortune, 2016).

Store format-When Walmart first established enormous supercentres in China, Chinese customers preferred smaller, more convenient stores, therefore these stores didn't appeal to them. The same Fortune article claims that Chinese consumers frequently go grocery shopping and want smaller, more convenient supermarkets that are placed closer to their houses (Fortune, 2016).

Supply chain issue: Walmart has struggled to establish an efficient supply chain in China, which can lead to higher costs and lower profitability. Forbes notes that Walmart has faced challenges in managing its suppliers and ensuring product quality, which has resulted in high levels of inventory and increased costs (Forbes, 2014).

Government regulations: It has been difficult for Walmart to navigate China's complicated regulatory environment, which can make it challenging for international businesses to operate in the nation. (Fortune,2014); (Fortune,2016)

Competition: Local merchants and e-commerce firms like Alibaba and JD.com, which are more familiar with the Chinese market and consumer tastes, pose a serious threat to Walmart. (Liu and Wei ,2019); Forbes, 2014)

Reputation: Walmart has received criticism for how it has treated Chinese suppliers and employees, which has hurt its standing there. Walmart has been under fire for its labour policies, notably in connection to its low salaries and lengthy workweeks, according to Liu and (Wei,2019).

Question 2. a)Analyse the different income segments of the Chinese market (low, middle and high segments) and explain the opportunities and challenges in each income segment from the perspective of Walmart. b) Given the opportunities and challenges in each income segment, what market positioning strategy would you recommend for each segment to enhance the prospect of Walmart in China?

Part(a)

Analyse the different income segments of the Chinese market (low, middle and high segments)

To analyse the different income segments of the Chinese market using the World Bank's statistics on China's gross national income (GNI) per capita, a widely recognised indicator of a nation's economic progress and income level.

The World Bank employs the GNI Atlas method to determine a country's Gross National Income (GNI) per capita. The gross national income (GNI) is a measurement of a country's overall economic output, which includes revenue made by its citizens and enterprises both at home and abroad.

China's per capita income in 2021was USD 11880(China GNI per capita ,2021), which is a huge gain from the preceding ten years, according to data from the World Bank (World Bank, 2021a). China has a highly skewed income distribution, with a tiny portion of the population receiving high earnings and the remainder earning poor to moderate incomes (Gao, 2020).

China GNI per Capita, Atlas Method (I:CGNIZVIG)

11880.00 USD for 2021

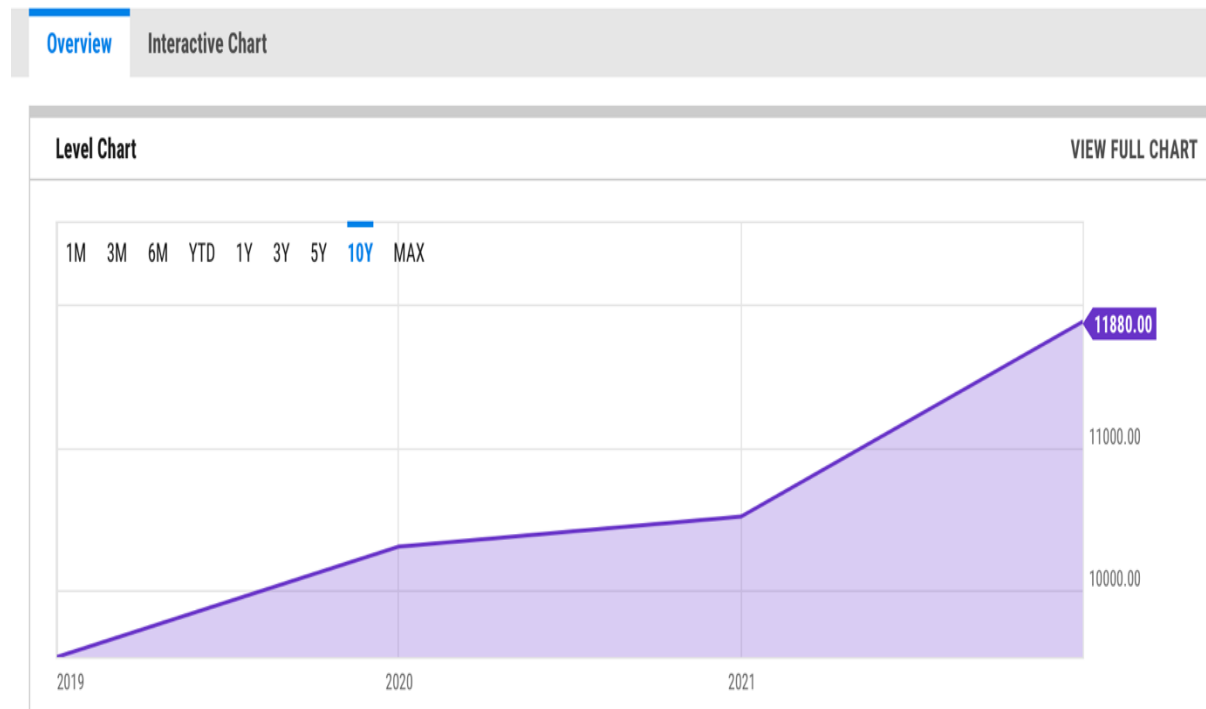


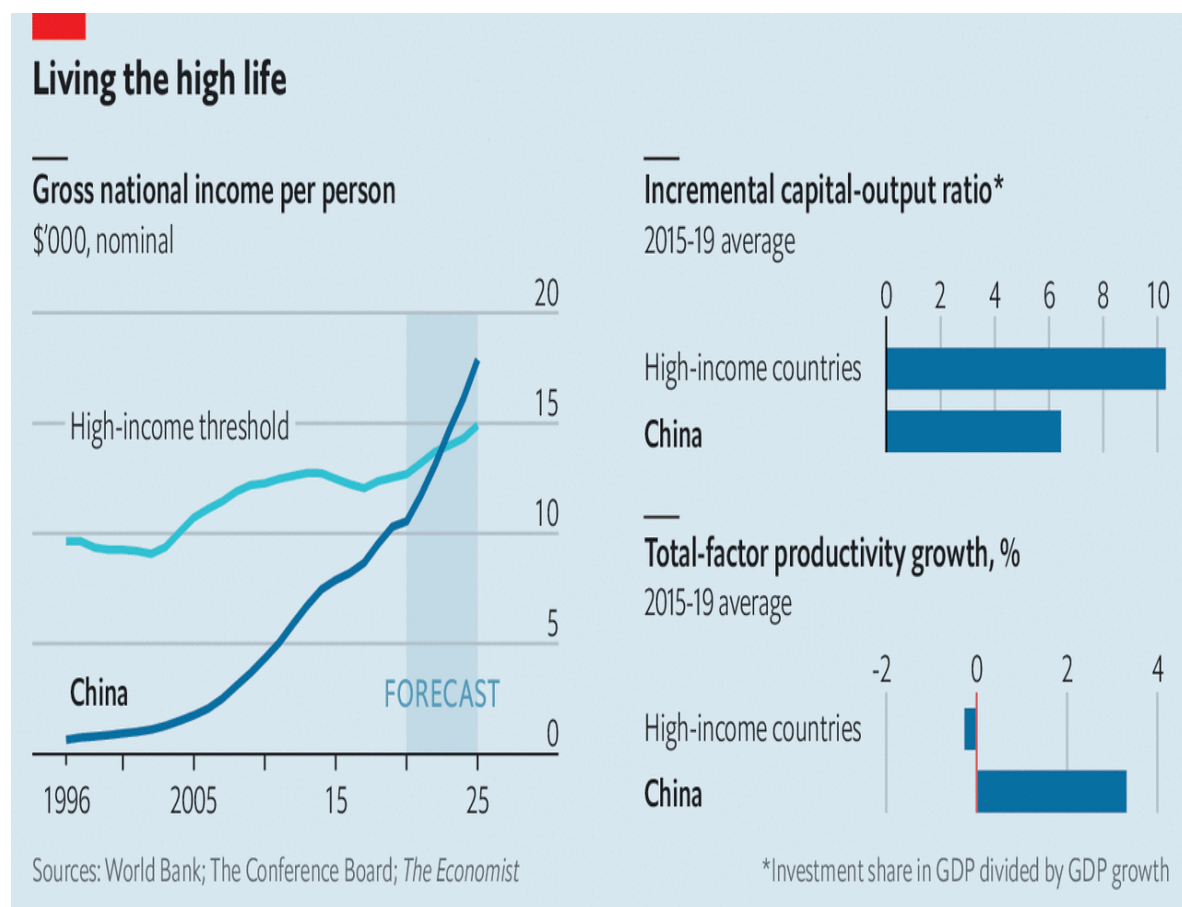
Figure 2: China GNI per Capita (*China GNI per capita ,2021*)

Low-income Segment : Those who make less than USD 5,000 annually are included in the low-income section of the Chinese market. The World Bank estimates that in 2020, 8.9% of China's population lived below the poverty line, which was set at RMB 4,000 (USD 620) per year (World Bank, 2021b). Many of these people reside in rural areas where agriculture provides the majority of their income (Gao, 2020).

Middle-income Segment: Those who make between USD 5,000 and USD 15,000 annually are included in the middle-income section of the Chinese market. This group makes up a large chunk of China's population and is projected to keep expanding in the years to come. The World Bank estimated that 46.6% of China's population was in this income category in 2020. (World Bank, 2021b). This demographic is a key target for consumer products and services since they have more spare money and the ability to spend on non-essential items.

High-income Segment: Those who make more than USD 15,000 annually are included in the high-income section of the Chinese market. This group is still tiny but expanding, and it is anticipated that its size will grow over the next few years as China's economy expands. Just 4.5% of China's population, according to World Bank estimates, was in this income group in 2020. (World Bank, 2021b). Nonetheless, because to their high level of spending power, this group is widely sought after for upmarket products and services.

Overall, the middle-income category is the largest in the Chinese market, which may be divided into low, middle, and high-income segments. For businesses wishing to effectively target Chinese consumers, it is essential to comprehend the traits and preferences of these categories.



The Economist

Figure 3: Gross national income per person (The Economist, 2022)

Opportunities and challenges in each income segment from the perspective of Walmart in China.

Walmart, one of the biggest retailers in the world, has been doing business in China for more than 20 years and has a lot of expertise catering to various income groups in the Chinese market. Walmart can encounter the following opportunities and challenges in each income segment:

Low-income Segment

Opportunities

- substantial and growingly urbanised customer base (Li & Yang, 2016)
- Possibility of offering products at a reduced price and putting cost-cutting measures in place (Li & Yang, 2016)
- greater interest in e-commerce platforms (Chen & Li, 2021)

Challenges

- Must adjust to the particular requirements and tastes of customers who are concerned about costs (Chen & Li, 2021)
- fierce competition from neighbourhood stores and online shopping sites (Chen & Li, 2021)
- Building brand loyalty with clients that value price over brand awareness and reputation is challenging (Chen & Li, 2021)

Middle-income Segment:

Opportunities

- Use Walmart's brand recognition to your advantage and provide higher-quality goods to clients with more disposable income (Jiang, Zhang, & Li, 2019)
- Provide distinctive goods and services, such as exclusive brands or in-store experiences, to set oneself apart from rivals (Jiang, Zhang, & Li, 2019)

- escalating need for e-commerce platforms and convenience (Yang, Chen, & Huang, 2019)

Challenges:

- competition is fierce in the middle-income market (Yang, Chen, & Huang, 2019)
- Customer expectations for product quality and the shopping experience must be met or exceeded (Yang, Chen, & Huang, 2019)
- maintaining a high standard of customer service while adapting to changing client expectations (Yang, Chen, & Huang, 2019)

High-income Segment:

Opportunities

- Provide premium goods and services to clients with sizable purchasing power (Wang & Zuo, 2019)
- Utilize Walmart's global supply network to provide a wide range of high-quality goods and services (Wang & Zuo, 2019)
- Possibility of increasing Walmart's market share in the expanding luxury sector in China (Yang, Liu, & Liu, 2018)

Challenges:

- Intense rivalry with other luxury brands and high-end merchants (Yang, Liu, & Liu, 2018)
- adjusting to local customs and customer tastes (Yang, Liu, & Liu, 2018)
- To increase brand reputation and customer loyalty, major marketing and service quality investments are required (Yang, Liu, & Liu, 2018)

Part(b) For Walmart in China, the following market positioning strategies might be suggested based on the potential and difficulties in each income segment:

Walmart should place a stronger emphasis on accessibility and affordability for the low-income market. The corporation can sell products at lower rates by utilising its global supply

chain and economies of scale. It can also employ cost-cutting strategies, such as minimising store layouts and inventory, to slash operating costs. Walmart should increase its digital and online sales channels since low-income shoppers are becoming more interested in e-commerce platforms (Chen & Li, 2021). Walmart may concentrate on providing consistent quality goods and services at low rates, as well as tailored promotions and rewards programmes, to develop brand loyalty with customers who value price over brand awareness and reputation.

Walmart should prioritise product quality, convenience, and distinctive shopping experiences for the middle-class market. Walmart can use its brand recognition and reputation for quality to give middle-class customers with more disposable income higher-quality goods and services. By providing exclusive products, in-store experiences like product demonstrations, and individualised shopping services, Walmart may set itself apart from competitors. Walmart should concentrate on enhancing its digital capabilities, such as online ordering and home delivery, to meet the needs of middle-class customers given the growing need for e-commerce platforms and convenience (Yang, Chen, & Huang, 2019).

Walmart should concentrate on offering high-end products and services that cater to the demands of clients with significant spending power for the high-income market. Walmart can offer a variety of high-quality products, including luxury and exclusive brands, and specialised shopping services like personal shoppers and concierge services by utilising its worldwide supply network and experience. Walmart can invest in marketing and service quality to boost its brand recognition and customer loyalty in order to enhance its market share in China's developing luxury market. Walmart should also adhere to regional traditions and preferences because wealthy consumers in China have particular preferences for high-end products and services (Yang, Liu, & Liu, 2018).

As a result, Walmart may improve its chances of success in the Chinese market by implementing a tailored market positioning strategy that caters to the needs of customers in every economic bracket. Walmart can deliver high-quality goods and services that are reasonably priced, practical, and customised by utilising its global experience and skills. Walmart can set itself apart from rivals and foster brand loyalty with Chinese consumers by putting a premium on product quality, distinctive shopping experiences, and individualised services.

Question 3: Using Bartlett and Ghoshal Model of International Growth, which strategy would you recommend for Walmart's operations in China?

A framework for comprehending how multinational firms can create and put into action a successful global strategy is provided by Bartlett and Ghoshal's model of international growth strategy. Based on the model's two elements of global integration and local responsiveness, organisations can choose between four different strategic orientations.

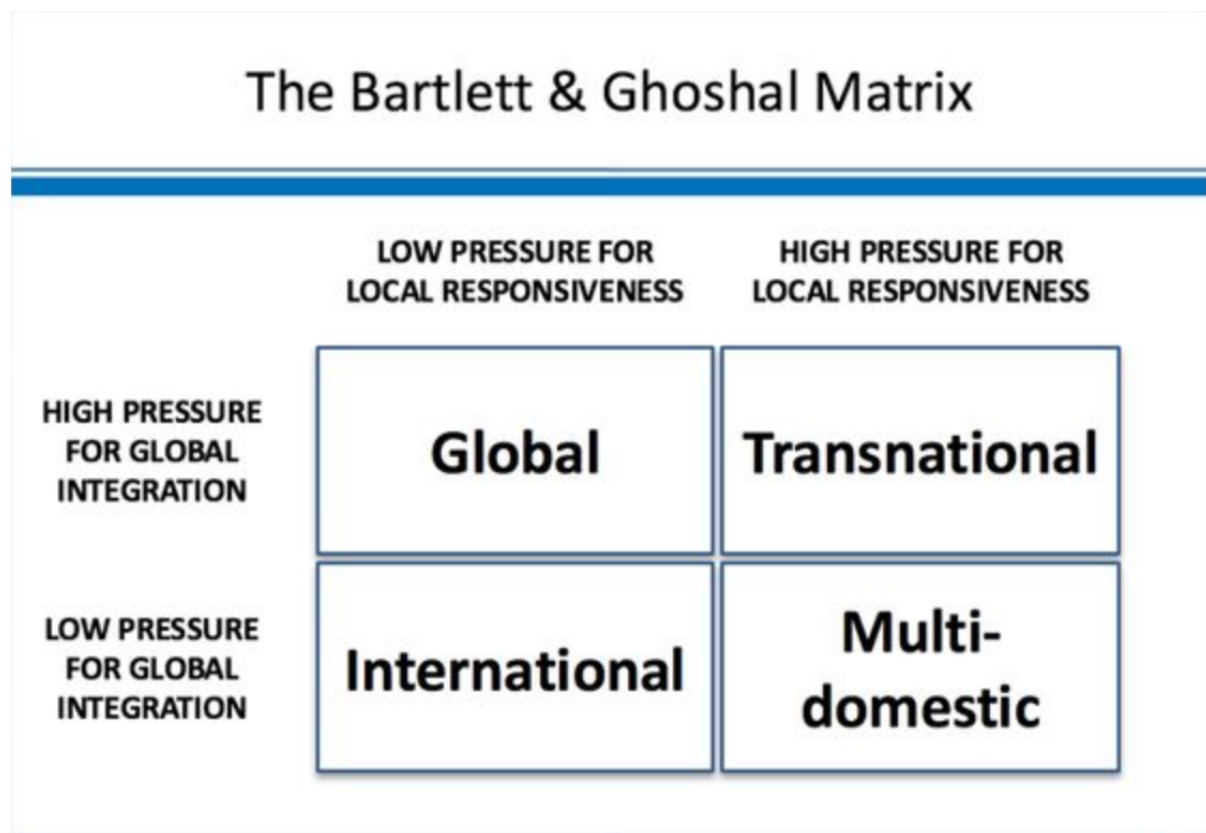


Figure 4: Bartlett and Ghoshal Matrix

The first strategic orientation is international strategy, which has a modest level of global integration and local response. Companies that operate in marketplaces with little diversity and uniform client needs should use this technique.

The second perspective is a Multi Domestic Strategy that places a high emphasis on regional responsiveness and little emphasis on global integration. This approach is suitable for

businesses that serve customers with distinct needs and operate in extremely different marketplaces.

The third direction is the global strategy, which emphasises strong global integration and low local responsiveness. Companies that compete in highly competitive markets with a standardised set of client needs should use this technique.

The fourth approach is the transnational strategy, which emphasises high levels of global integration and local responsiveness. Companies that operate in extremely different markets with distinct consumer needs and are subject to fierce international competition should use this strategy.

The transnational strategy would be the best recommendation for Walmart's operations in China according to Bartlett and Ghoshal's model of global growth. Using both the advantages of global uniformity and local responsiveness, the transnational strategy aims to maximise results. In addition to adjusting to regional markets and consumer demands, this strategy strives to increase efficiency and effectiveness through global integration.

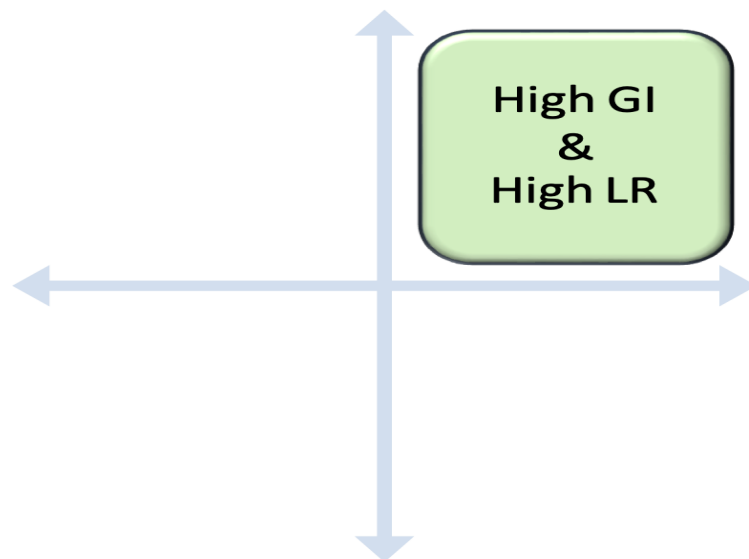


Figure 5: Transnational strategy

According to Bartlett and Ghoshal, a transnational strategy aims to maximise competitive advantage in a foreign market by striking a balance between global integration and local responsiveness (Bartlett and Ghoshal, 1989). Because to cultural variations and governmental constraints, Walmart must adjust its operations to the local market conditions in China. The market requires high degrees of local response (Li and Qian, 2016). Walmart must simultaneously take advantage of its global reach to generate cost savings and scale advantages.

By utilising the company's global resources and capabilities, a transnational strategy enables Walmart to tailor its product offers, marketing, and supply chain operations to match the specific needs of Chinese consumers (Katsikeas et al., 2015). For instance, Walmart may provide locally tailored goods and services that address the needs of Chinese consumers while utilising its extensive worldwide network of suppliers to find cheaper goods.

A transnational strategy's implementation is not without difficulties, though. Balancing the conflict between global uniformity and local responsiveness is one of the major issues. While local responsiveness necessitates adjusting to local client needs and preferences, global standardisation necessitates consistency in branding, products, and operations across regions. Effective coordination and communication are needed to avoid the potential conflicts that can arise between the corporate headquarters and the subsidiaries.

Companies executing a transnational strategy must establish a solid organisational structure and culture to reconcile these opposing logics. This entails having a distinct global strategy and a solid corporate culture that encourages innovation and local market adaption. To guarantee alignment and coordination, businesses must have efficient channels of communication between the corporate headquarters and the subsidiaries.

Overall, a transnational strategy would be the best course of action for Walmart's activities in China given the market's high demand for local responsiveness and great potential for growth. With the help of its worldwide resources and capabilities, Walmart is able to adapt its operations to fit the particular needs of Chinese consumers while achieving cost advantages and strengthening local capabilities.

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