

Brihan Maharashtra College of Commerce

International Relations Assignment-1

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- **Case study-NAFTA-Walmarts success in Mexico**

1. How has the implementation of NAFTA affected Wal-Mart's success in Mexico?

Ans:- The North American Free Trade created in 1994 affected Wal-Mart's success in Mexico in three specific ways. Wal-Mart had a marketing campaign where it offered "Everyday Low Prices", but this was not quite true in Mexico because it had significant import charges on many of the products brought from the U.S. After the implementation of NAFTA, Mexico became a free trade zone. This made it possible for Wal-Mart to reduce its tariff from 10% to 3%. This led the government to solve the logistical problem due to the fact that Mexico's transportation system was below average. NAFTA encourages Mexico to improve the transportation system, which lowers the logistical cost. Additionally, NAFTA allows foreign investment in Mexico. As a result, Wal-Mart was able to build manufacturing plants in Mexico because of the cheap labour. In this particular case we can observe how low labor cost contributes to obtain low import tariffs therefore leads to cheaper products. Wal-Mart's success in Mexico was definitely possible because of the NAFTA implementation.

2. How much of Wal-Mart's success is due to NAFTA, and how much is due to Wal-Mart's Inherent competitive strategy? In other words, could any other North American retailer have the same success in Mexico post-NAFTA, or is Wal-Mart a special case?

Ans:- NAFTA benefits every company that is willing to operate abroad. This agreement solved some difficulties but Wal-Mart's inherent competitive strategy was effective in the Mexican Market. As we all know Wal-Mart's strategy to win against its competitors is its offered prices. The company is considered leader in the market because it has the capability. To offer the lowest prices for this reason Wal-Mart is considered to have a large negotiating power. They can negotiate with suppliers to drop prices and consequently lower prices. In my opinion NAFTA benefits plus Wal-Mart's purchasing power was the combination that allowed the company to be successful. Wal-Mart uses time inventory system which allows them to keep track of what they need and communicate this to their suppliers. Wal-Mart's purchasing power is not available in other companies therefore if competitors any to survive they should compete against the companies prices or change the type of business.

3. What has Comerci done in its attempt to remain competitive? What are the advantages and challenges of such a strategy, and how effective do you think it will be?

Ans:- Comerci realized that in order to keep up with Wal-Mart they had to lower their prices. In 2004 they joined forces with two other Mexican chains but their purchasing power was still low compared to Wal-Mart's. They had formed the consortium to negotiate bulk prices. One of the first challenges they faced was the rejection behalf the CofeCo and the Product Council of Mexico feared that they will lower the prices unreasonably. The second challenge they found was that Synergies' Purchases are limited to

local suppliers. In my opinion the consortium strategy can benefit them in the long term run because they have to increase dramatically their purchasing power in order to lower the prices. The way they can achieve this by maintaining as a solid and attractive company for local and foreign investors that are willing to be part of a company that is seeking to compete with Wal-Mart because of its good growth and potential.

4. What else do you think Comercial Mexicana S.A. should do, given the competitive position of Wal-Mart?

Ans:-Comerci should consider what option is best in order to survive the presence of Wal-Mart. The two options consist in merging with a local retail chain or merging with a foreign Retail chain. The first step they should take is examining the market and trying to differentiate from its competitor. The company should carefully identify if they have enough assets to survive in the current environment. Comerci should also benefit from the market opportunities provided by NAFTA. Finally they must be able to identify what are their assets and what they expect from local or foreign partners. All the information that will be gathered will contribute to make wiser operative decisions that would allow them to compete against the market leader.

5. Which strategies were responsible for Wal-marts competitive edge and its global success?

- Ans:-leveraging technology was the right strategic move for Walmart because it has given them significant advantages over their competition. In my opinion, Walmart would be wise to ensure they maintain their technology leadership and ensure Amazon does not steal this position from them. Taking a technology leadership position is not always the right strategic choice though for every business. Whether this is right for your business or not depends on the industry you operate in and who your main competition is. Sometimes it is better to be a close follower to the technology leader, allowing them to incur the large costs of being the leader and learning from their mistakes.
- being an industry leader in supply chain management is the right strategic focus for your company depends on the business and industry you operate in.
- for many businesses dealing directly with suppliers and building strong relationships with the source supplier will be beneficial. Only in limited situations does it make sense to deal with a 3rd party or to not put significant resources into further deepening relationships with suppliers
- having a motivated workforce is essential and anything that an organization can do cost-effectively to increase employee motivation will return very good rewards for the business.