MASTER'S THESIS

AN ANALYSIS OF WAL-MART'S GLOBAL STRATEGY IN THE BRAZILIAN MARKET

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# TABLE OF CONTENTS

**INTRODUCTION** ......................................................................................................................... 1

**1 DESCRIPTION OF WAL-MART** .............................................................................................. 4

1.1 General history.......................................................................................................................... 5
1.2 General overview of Wal-Mart.................................................................................................. 6
1.3 Wal-Mart's internationalization ............................................................................................... 8
1.4 Wal-Mart's business model and competitive advantage: past and present ......................... 10
1.5 Key issues/challenges for Wal-Mart ....................................................................................... 13
1.6 The Wal-Mart »culture« ......................................................................................................... 16

**2 THEORETICAL BACKGROUND ON INTERNATIONALIZATION STRATEGIES** ....................... 17

2.1 Motives for internationalization............................................................................................. 19
2.2 Risks in international business .............................................................................................. 21
2.3 The market selection process ............................................................................................... 22
2.4 A review of relevant theories of internationalization ............................................................ 24
2.5 Entry modes ........................................................................................................................... 26
2.6 Determinants of market entry: barriers, resources and capabilities ..................................... 30

**3 MNC STRATEGIES FOR GLOBAL MARKETS** ........................................................................ 32

3.1 Typology and objectives of global strategies ........................................................................... 32
3.2 The Bartlett & Ghoshal typology of MNC strategies ............................................................... 35
3.3 Key strategic challenges of MNC's ........................................................................................ 37
3.4 MNC and competitive advantage ......................................................................................... 39

**4 MARKETING STRATEGIES IN GLOBAL MARKETS** .............................................................. 40

4.1 Segmentation ........................................................................................................................... 42
4.2 Targeting .................................................................................................................................. 44
4.3 Positioning ................................................................................................................................ 45
4.4 Marketing mix .......................................................................................................................... 47
4.5 Standardization-adaptation issues ......................................................................................... 49
4.6 Understanding global consumers .......................................................................................... 51

**5 ANALYSIS OF THE BRAZILIAN MARKET** ............................................................................. 53
Figure 12. Porter's generic strategy framework .................................................. 34
Figure 13. Bartlett & Ghoshal typology of MNCs .............................................. 36
Figure 14. The BCG growth-share matrix ......................................................... 41
Figure 15. Basic market-preference patterns ...................................................... 43
Figure 16. Five patterns of target market selection ........................................... 44
Figure 17. Global positioning strategies ............................................................ 46
Figure 18. Porter's five forces framework .......................................................... 57
Figure 19. McKinsey industry attractiveness matrix ......................................... 62
Figure 20. GRDI country attractiveness ............................................................ 64
Figure 21. BCG matrix ....................................................................................... 65
Figure 22. The low-cost value cycle .................................................................. 69
Figure 23. Wal-Mart Brazil sales volume in years 2007-2016 (in billions BRL) .... 72
Figure 24. Wal-Mart Brazil store chains in 2015 (in %) ..................................... 73
Figure 25. Number of Walmart Brazil employees in years 2007-2015 (in thousands) .... 74
Figure 26. Number of employees in years 2010-2015 (in thousands) ............... 75
Figure 27. Net sales of leading retailers in years 2010-2015 (in billions BRL) ....... 76
Figure 28. Number of stores of leading retailers in years 2010-2015 ................. 77
Figure 29. Sales area of leading retailers in years 2010-2015 (in million sq. m) ..... 78
Figure 30. Number of Walmart Brazil banner stores in years 2010-2015 .......... 80
Figure 31. No. of Wal-Mart stores by format in years 2010-2015 ................. 81
Figure 32. ROI and ROA developments in years 2007-2016 (in %) ............... 85

LIST OF TABLES

Table 1. Wal-Mart's history timeline ................................................................. 6
Table 2. Wal-Mart's internationalization ............................................................ 8
Table 3. Wal-Mart's CEO's ............................................................................. 13
Table 4. Dunning model of internationalization motives ................................ 20
Table 5. Dimensions of country attractiveness and competitive strength .......... 23
Table 6. Advantages, disadvantages and potential risks of entry modes ........... 29
Table 7. Bartlett and Ghoshal's typology of MNCs ........................................... 37
Table 8. Types of challenges facing MNCs, and their consequences .................. 38
Table 9. Ghoshal's organizing framework ......................................................... 40
Table 10. 8P marketing mix framework ........................................................... 47
Table 11. Factors favoring standardization vs. adaptation ............................... 51
Table 12. Hofstede cultural dimensions ........................................................... 56
Table 13. SWOT analysis ................................................................................. 60
Table 14. Global Retail Development Index in years 2014-2016 ..................... 63
Table 15. Corporate strategies ....................................................................... 66
Table 16. Walmart Brazil banners .................................................................. 79
INTRODUCTION

The need to understand global markets is very important regardless of which market company decides to compete in, since domestic markets are known to attract international competitors. Prior to entering a new market three questions, also known as market entry decisions, need to be addressed: where to enter, when to enter and how to enter the potential market. The decisions need to be thoroughly assessed since potential unaddressed decisions can cause major losses in profits and weaken company's market position. Companies are often forced to internationalize in the early stages of their life because of already highly saturated domestic markets, while others tend to go abroad due to immense opportunities the potential markets might encounter. Once a company decides where it wants to expand its operations to, it needs to reconsider the choice of entry modes. In retailing sector most common entry modes are acquisitions, joint ventures, wholly owned subsidiaries and franchising. When making the decisions on the right entry mode companies need to make thorough risk assessment analysis, decide on the level on control and return on investments (hereinafter: ROI). The next step toward internationalization is deciding on what strategy to choose on potential markets. Companies can choose to grow organically, form strategic alliances or grow through acquisitions of other companies. The most frequently used strategy is the growth through acquisitions as a means to achieve geographic and product diversification yet this strategy can be somewhat costly (Hollensen, 2007).

The choice of entry mode is perceived to be the most important strategic decision a company has to make in its internationalization process. Making a wrong decision on the mode of entry can have major consequences, such as high entrance costs, investment losses and can, in some cases, even force the company out of the country. For the young companies willing to expand internationally, it is best to enter first in near-by and familiar markets, where they will have better chances on working the clientele than they would on unfamiliar markets. Growing in neighborhood markets can give companies experiences they need to grow in developing countries, where companies need to consider and evaluate every potential threat, like cultural differences, consumers shopping perceptions, language barriers, poor infrastructure network, etc. in order to stay on the market.

This thesis aims to thoroughly investigate the internationalization process, entry modes and growth strategies of Wal-Mart in Brazilian market. The main focus is set on Wal-Mart's entrance and expansion strategies into Brazilian market, where the company has been struggling to stay afloat even though it is the largest retailer in the world with over 11,500 units, 2,3 million associates and 482,130 million U.S. dollars (hereinafter: USD) accumulated revenues in 2016. This thesis also shows insights on Wal-Mart's operations on Brazilian retail market, relative to operations of leading players on the market, local chain
Companhia Brasileira de Distribuição and French company Carrefour, who remain to be strongly set on the market and are eating away Wal-Mart's share of profits and customers.

The first major foreign player in Brazilian retail market was French company Carrefour in 1975. Because of his early internationalization the company got the first mover advantage with familiarizing to the market and getting the necessary experience to beat potential competitors on the market. Two decades later, when Carrefour had already build a good brand name for itself in the market, Wal-Mart decided to enter this emerging market. With its clear set plan to overtake Brazilians with their American cost leadership strategy, the company was eager to get its share of the market. By setting headquarters (hereinafter: HQ) in the most populous state of the country, Wal-Mart's plan was to build 80 stores in the market in a very short period of time. As they were confident their well developed »American« strategy will work, that wasn't the case in Brazil. So my decision to write thesis on this matter was mainly because I wanted to find out why was the company struggling so hard in Brazil and what were the reasons behind it, since we are talking about a well developed company, which is the largest retailer in the world. Undeniable, Wal-Mart has had plenty of success stories over the years, mainly in familiar markets, where they used their standardized strategies. Yet the same path to success isn't seem to be working in Brazil; the main reason for that is probably due to their lack of adaptation to the market preferences, which is crucial factor in international and unfamiliar markets. Therefore my focus in this thesis will be set on factors slowing them down; the struggles and the barriers they have been dealing with and which are making them lose customers, profits and potential market share.

Furthermore, this thesis critically evaluates the challenges Wal-Mart has been faced with ever since it entered the Brazilian market and gives recommendations on how to assess and overcome these challenges to strengthen its position on this highly saturated market. It has been a rough road for Wal-Mart in this emerging market, which is highly saturated yet still offers many opportunities, especially in e-commerce and neighborhood market segment, so there is still a chance for Wal-Mart to fight its rivals and strengthen its position on the market.

Key research questions that will be addressed in this thesis are as follows:

- Which are the limitations and regulations that global retailers have to consider when entering Brazilian market and why is Brazilian market attractive for global retailers?
- Which problems and barriers is Wal-Mart faced with on Brazilian retail market?
- What are the advantages that Companhia Brasileira de Distribuição (hereinafter: CBD) and Carrefour possess over Wal-Mart?
- How should Wal-Mart change its competitive strategy in order to beat rivals on the market?
• Which lessons had Wal-Mart learned over the course of years present in Brazilian market and how did they assess them?

**Methodology.** In my master thesis I will use next methods of analytical approach: description of the state of the selected company; analysis and synthesis, which are necessary to determine the actual key issues and causes than are an integral part of the covered topic. In the practical part of the thesis I will use an analytical approach, based on the deductive method of reasoning, which means, that I will seek to get useful insights and conclusions from the logical linking of theoretical knowledge in the field of transnational management, marketing on regional markets, global strategies, etc.; and compilation, where I will summarize the observations and conclusions from several case studies, competitor's analyses, etc., which will help me in better understanding of the addressed problem and its assessment.

This thesis consists of seven chapters. In the first chapter I will describe Wal-Mart's operations, which consist of three divisions: U.S. segment, Sam's club and Wal-Mart International and give some insights about their business model and Wal-Mart's culture. Chapter two will review available literature regarding internationalization process and expansion strategies. Three major steps on where, when and how to enter the market are described in a comprehensive manner. This chapter addresses advantages, disadvantages and potential risks of most common entry modes. This topic is especially relevant when dealing with emerging markets and specific industries, such as retail, because it provides insights to what could be profitable and what could turn out as a worst decision ever made. Further on, this thesis aims to analyze key strategic challenges, that multinationals such as Wal-Mart have to deal with in the process of internationalization. The main are costs of doing business abroad, liability of foreignness and common and specific difficulties in internationalization. Chapter three also analyzes Bartlett and Ghoshal's typology on multinational (hereinafter: MNC) strategies, based on local responsiveness and global integration of multinational, transnational, international and global companies. Chapter 4 will provide information on marketing strategies that need to be addressed prior to entering the market, such as segmentation, positioning, targeting, marketing mix and the extent of standardization/adaptation on the market. Without proper understanding and implementation of these decisions in the business strategies companies are doomed to fail, especially if they don't understand the local consumers and adapt to local cultures. Chapter 5 consists of thorough analysis on Brazilian market on macro level with PEST analysis and micro level with Porter's five forces analysis, industry attractiveness analysis and continues with analysis on Wal-Mart's corporate and business level strategies in Chapter 6. Focus in Chapter 7 is set on retail market in Brazil and Wal-Mart's role in it, explaining how the company operates in the market, which challenges are they faced with and how do they struggle to overcome them. Lastly, before conclusion some recommendations are given in
Chapter 8 that could help Wal-Mart improve its position in the market and be competitive to other rivals on the market.

1 DESCRIPTION OF WAL-MART

The company was founded by Sam Walton back in the 1962, when it was only a rural department store with a simple business model: to bring wider selection of products and offer lower prices to urban consumers than to those who lived in more rural areas. Success of Wal-Mart can be attributed to two factors; that is the creation and exploitation of density economies and aggressive investment in information technology, both of which led to huge cost advantages over competing companies. From the 1960's until now it has grown to be the largest and most emulated retailer in the world with over 11,000 operating retail units; selling products and services under 63 banners in 28 countries, e-commerce websites in 11 countries and with over 2,3 million associates worldwide. The company operates in three segments: Wal-Mart U.S., Wal-Mart International and Sam's club (Wal-Mart Inc., 2016a).

Wal-Mart U.S. segment operates retail stores in all 50 states, with supercenters in 48 states, discount stores in 44 states and Neighborhood Markets and other small store formats in 26 states. Supercenters range in size with an average of approximately 55,000 sq. meters. Its discount stores range in size with an average of approximately 32,000 sq. meters. Neighborhood Markets and other small formats range in size with an average of approximately 12,000 sq. meters. Of all the three segments, Wal-Mart U.S. is the largest and has historically had the highest gross profit as a percentage of net sales. In addition, Wal-Mart U.S. has historically contributed the greatest amount to the company's net sales and operating income. In the fiscal year 2016 this segment accounted for approximately 62,3 % of its net sales, which is 3,6 % more than the previous year (Wal-Mart Inc., 2016a).

Wal-Mart International segment consists of its wholly owned subsidiaries operating in Argentina, Brazil, Canada, China, Japan, and the United Kingdom; its majority owned subsidiaries operating in Africa, Central America, Chile, China and Mexico; its joint ventures in China and India; and its other controlled subsidiaries in China. Wal-Mart International operates retail, wholesale and other types of units, including restaurants and some banks. The overall gross profit rate for Wal-Mart International is lower than that of Wal-Mart U.S. because of its merchandise mix. In fiscal 2016 this segment generated approximately 25,8 % of its net sales (Wal-Mart Inc., 2016a).

Net sales of Wal-Mart International in fiscal 2016 equal to 123,4 billion USD, which is a 2,4 % drop by previous year, where net sales amounted to 136,2 billion USD. This segment has been the most rapid growing segment (see Figure 1), since it has grown primarily through new stores and acquisitions. In recent years its net sales and operating income has grown faster than the other segments. There was a slight drop of sales in fiscal
2014 due to fluctuations in currency exchange rates and no significant acquisitions (Wal-Mart Inc., 2016a).

**Sam’s Club segment** covers only membership operations. Members include both business owners and individual customers. As a membership club warehouse, facility sizes for Sam’s Clubs have an average size of approximately 40,000 sq. meters. Sam’s Club also provides its members with a range of merchandise and services online. It has a lower gross profit rate and lower operating expenses as a percentage of net sales than the other two segments. In fiscal 2016 this segment accounted for approximately 11.9 % of its net sales (56.8 billion USD), with 0.1 % drop by fiscal 2015 (Wal-Mart Inc., 2016a).

*Figure 1. Wal-Mart's net sales by segment (in million USD)*


### 1.1 General history

Wal-Mart's history can be described with superlatives - as a story of innovation, leadership and success. It began with a single store, back in 1962, in Rogers, Arkansas. Since then the company grew to be the world’s largest and emulated retailer, some researchers even refer to it as the industry trendsetter (Table 1). In 1979, annual sales of Wal-Mart corporation topped 1 billion USD. By the end of fiscal 2002 Wal-Mart was already world's largest retailer, with 218 billion USD in sales. In fiscal 2016 that number rose to 482 billion USD.
in sales, with a sum of 11,528 stores worldwide and is still growing (Wal-Mart Inc., 2016a).

Table 1. Wal-Mart’s history timeline

<table>
<thead>
<tr>
<th>1960s - Retail revolution</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Sam Walton’s strategy was built on an unshakeable foundation: The lowest prices anytime, anywhere.</td>
</tr>
<tr>
<td>• 1962 - First store opened in Rogers, Arkansas.</td>
</tr>
<tr>
<td>• 1967 - Walton family owned 24 stores ($12.7 million in sales).</td>
</tr>
<tr>
<td>• 1969 - Official incorporation as Wal-Mart Stores, Inc.</td>
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<table>
<thead>
<tr>
<th>1970s - Wal-Mart goes national</th>
</tr>
</thead>
<tbody>
<tr>
<td>• 1970 - Wal-Mart became a publicly traded company. First stock sold at a price $16.50.</td>
</tr>
<tr>
<td>• 1971 - The first distribution center opened in Bentonville, Arkansas.</td>
</tr>
<tr>
<td>• 1972 - Wal-Mart listed on the New York Stock exchange. With 51 stores, they recorded sales of $78 million.</td>
</tr>
<tr>
<td>• 1979 - Establishment of Walmart Foundation.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>1980s - Decade of firsts</th>
</tr>
</thead>
<tbody>
<tr>
<td>• 1980 - Wal-Mart reached $1 billion in annual sales, with 276 opened stores and 21,000 employed associates.</td>
</tr>
<tr>
<td>• 1983 - First Sam’s Club opened in Midwest city, Oklahoma.</td>
</tr>
<tr>
<td>• 1987 - Wal-Mart installed the largest private satellite communication system in the U.S., linking the company’s operations through voice, data and video communication.</td>
</tr>
<tr>
<td>• 1988 - The first Wal-Mart Supercenter opened in Washington.</td>
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<table>
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<tr>
<th>1990s - America’s top retailer</th>
</tr>
</thead>
<tbody>
<tr>
<td>• 1991 - Wal-Mart went global through a joint venture with Cifra, a Mexican retail company, opening first Sam’s club in Mexico city.</td>
</tr>
<tr>
<td>• 1992 - Wal-Mart had opened 1,928 stores and clubs and employed over 371,000 associates.</td>
</tr>
<tr>
<td>• 1994 - Wal-Mart expanded into Canada with the purchase of 122 Woolco stores.</td>
</tr>
<tr>
<td>• 1996 - Wal-Mart opened its first store in China.</td>
</tr>
<tr>
<td>• 1999 - Wal-Mart entered the United Kingdom with the acquisition of ASDA.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>2000s - New Millenium</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Goal: to offer customers a seamless shopping experience, whether they are online, in a store or on a mobile device.</td>
</tr>
<tr>
<td>• 2000 - Walmart.com was founded, allowing U.S. customers to shop online.</td>
</tr>
<tr>
<td>• 2002 - Wal-Mart topped the Fortune 500 ranking of America’s largest companies. Wal-mart entered the Japanese market through its investment in Seiyu.</td>
</tr>
<tr>
<td>• 2009 - Wal-Mart entered China with the acquisition of a majority stake in D&amp;S S.A.</td>
</tr>
<tr>
<td>• 2010 - Bharti Walmart, a joint venture, opened its first store in India.</td>
</tr>
<tr>
<td>• 2011 - With the acquisition of MassMart in South Africa, Wal-Mart surpassed 10,000 retail units around the world.</td>
</tr>
<tr>
<td>• 2014 - Wal-Mart records more than 2.2 million associates worldwide and serves more than 200 million customers each week at more than 11,000 operational units.</td>
</tr>
<tr>
<td>• 2015 - 100% acquisition of Yihaodian, e-commerce business in China.</td>
</tr>
</tbody>
</table>


1.2 General overview of Wal-Mart

Wal-Mart’s operations range in scope and are comprised primarily of three retailing subsidiaries: Wal-Mart stores division U.S., Sam’s club and Wal-Mart international. Each of their divisions is broken down into three types of shopping experiences for their
customers: discount stores ranging in size from 2,700 to over 61,000 sq. meters; neighborhood markets comprised like the typical supermarkets and Sam's club's offering sales of bulk items to its members. Wal-Mart's marketing has changed very little since its inception concentrating on two main principles »Low prices save you money« and »Always low prices, always«. Shared values at Wal-Mart seem to be expansion and overtaking any and all other competition, with no regard to the costs and regardless of affect on public appearance and the public perspective of the organization (Bedford, 2007).

Organizational chart. Wal-Mart operates under a multidivisional structure. They are divided in 13 divisions, some represent traditional functional areas (finance, information technology (hereinafter: IT), corporate affairs, legal department, etc.) and other represent geographic areas of retail operations (Sam's Club, U.S., International division). This type of structure allows Wal-Mart to have increased strategic and operational control and main focus on products and markets.

Listed in Figure 2 are the executive board of directors. Doug McMillon has been the current president and Chief Executive Officer (hereinafter: CEO) since February 2014. In earlier years he was the president of Wal-Mart International. He leads a strong management team and under his leadership, Wal-Mart is bringing together its stores, logistics network and digital commerce capabilities in new ways to empower customers to shop at any given point, location- and time-wise (Wal-Mart Inc., 2016a).

Figure 2. Wal-Mart's organizational chart

1.3 Wal-Mart's internationalization

Wal-Mart opened its first international store in Mexico City in 1991 through joint venture with Cifra, the local retailer. In 1993 Wal-Mart created Wal-Mart International. Since their first joint venture in Mexico, Wal-Mart International has grown rather erratically (Table 2). In 90’s Wal-Mart exported their big-box format, low-price model, a strategy, that was expected to be as successful in foreign markets, as it was in the domestic market. Although Wal-Mart has had quite a successful run throughout the years, it was not always an easy one. For example, in China and the United Kingdom, Wal-Mart's efforts to offer customers lowest prices backfired because of resistance from established retailers. In Germany the company could not seem to fit its business model to local tastes and preferences, so they closed their stores in 2006, with a loss of approximately 1 billion USD. They had plenty of issues in Japan due to the buying habits of customers, for which the Wal-Mart model did not respond accordingly. Its presence in Hong Kong ended after only two years, after rioting incidents in Jakarta. Taking that aside, today, Wal-Mart International is a fast-growing part of Wal-Mart's overall operations, with 6.107 stores and more than 800.000 associates around the world. The company is ranked 20th on Forbes Global 2000 - World's biggest public companies, with revenues amounting to 482,1 billion USD and market value 215,7 billion USD. They rank first in sales, 17th in market value, 21st in profit and 22nd in world's most valuable brands (Forbes, 2016).

<table>
<thead>
<tr>
<th>Year</th>
<th>Country</th>
<th>Mode of entry</th>
</tr>
</thead>
<tbody>
<tr>
<td>1991</td>
<td>Mexico</td>
<td>Joint venture - Cifra</td>
</tr>
<tr>
<td>1994</td>
<td>Brazil</td>
<td>Joint venture - Lojas Americanas</td>
</tr>
<tr>
<td>1994</td>
<td>Canada</td>
<td>Acquisition - Woolco</td>
</tr>
<tr>
<td>1995</td>
<td>Argentina</td>
<td>Wholly owned subsidiary</td>
</tr>
<tr>
<td>1996</td>
<td>China</td>
<td>New opening, joint venture, acquisition</td>
</tr>
<tr>
<td>1998</td>
<td>South Korea</td>
<td>Acquisition</td>
</tr>
<tr>
<td>1999</td>
<td>United Kingdom</td>
<td>Acquisition - ASDA</td>
</tr>
<tr>
<td>2002</td>
<td>Japan</td>
<td>Acquisition - Seiyu</td>
</tr>
<tr>
<td>2002</td>
<td>Germany</td>
<td>Acquisition - Wertkauf, Spar</td>
</tr>
<tr>
<td>2007</td>
<td>India</td>
<td>Joint venture - Bharti Enterprises</td>
</tr>
<tr>
<td>2009</td>
<td>Chile</td>
<td>Acquisition - D&amp;S S.A.</td>
</tr>
<tr>
<td>2011</td>
<td>Southern African countries</td>
<td>Acquisition - Massmart Holding Limited</td>
</tr>
</tbody>
</table>


Wal-Mart International is responsible for the operation of retail stores, wholesale stores, restaurants, drugstores and convenience stores operating under varying banners outside the United States. The segment currently operates 54,64 % of all stores of which 2,360 are located in Mexico, 709 in Central America, 621 in United Kingdom and 485 in Brazil. The
number of stores has multiplied six times since the year 2000, which is shown in Figure 3. The company had opened 70 new stores in Mexico, 29 in United Kingdom and 21 in China. On the other hand, Wal-Mart has decided to close down more than 80 stores in Japan, 58 in Brazil and 9 in Chile due to their poor performance. Amount of units in other countries is growing at a slow pace (Wal-Mart Inc., 2016a).

Overall, Wal-Mart is the most successful in Mexico, a near-by market. Since 1991, when they entered this market, they have opened more than 2,360 discount stores, most known as Wal-Mex. In 2006 the company was also approved by local finance ministry to open their own bank and by the end of the year 2010 they opened nearly 250 branches. Wal-Mex's mission was to lure newcomers with easy instructions and entry points (no commissions, minimum balances, etc.). Wal-Mex's plans for future growth involve heavily targeting on people in the age group 16-24 years, which constitutes 55 % of Mexico's population (Wal-Mart Inc., 2016a).

Figure 3. Number of Wal-Mart stores worldwide in years 2000-2016


Burt and Sparks (2006) see Wal-Mart's internationalization process having three phases. The first phase of internationalization is expansion to neighborhood markets (Canada, Mexico), which turned out to be successful; the second a world-market focus, where Wal-
Mart's moves were limited by regulatory issues and incompatibility of some facets of its business model (Germany, Japan) and the last phase a strategic planning approach, where Wal-Mart concentrated on key locations (China).

1.4 Wal-Mart's business model and competitive advantage: past and present

Business models normally consist of three to eight elements. Several studies have attempted to provide a definite list of what a business model should include. Morris et al (2005) suggest a business model concept that answers six questions and has three different levels (ground, business and a rule level). Ground level specifies the type and activities of a company, like choosing to which customers should they sell their products and how to segment the market. At a business level, the model concerns about the combination of various factors like products, distribution channels, human capital, margin rates, etc. Rule level focuses mainly on operational guidelines. On the other hand Hedman and Kalling (2003) suggest that business model should consist of six components (customers, competitors, offering, activities and organization, resources, and supply of factor and production inputs. They also incorporate a longitudinal process component to include dynamics of the business model as well as cognitive, learning, political and cultural constraints.

According to Casadesus-Masanell and Ricart (2010) a business model should be composed of two types of elements: choices, which are made by management and the consequences of these choices. Choices are divided into three branches: policies, assets and governance of assets and policies. Policy choices are determined by the course of actions that companies adopt in course of all aspects of operations, like locating plants in rural areas, encouraging employees to be cost effective, etc. Asset choices refer to decisions regarding tangible resources, such as communication systems, manufacturing facilities, etc. Governance choices refer to the structure of contractual arrangements that confer decision right over policies or assets. The framework has two important additional elements: the idea of rigid consequences (cumulative effect) and the inclusion of casual relationship between choices and consequences (Brea-Solis, Casadesus-Masanell, Grifell, 2012).

Several papers claim to have found the key to Wal-Mart's success, as if it was based on solely one determinant. Consistent with Porter (1996), this framework consists of integrated sets of choices, which are necessary for good company performance. To define a discount retailer business model, it is necessary to identify eight categories of choices (also defined as levers), which are shown in Figure 4 and described further on (Brea-Solis et al., 2012).
The diagram illustrates Wal-Mart's business model, focusing on the following aspects:

1. **Change in profits**
   - Pricing
   - Pressure over vendors
   - Investment in technology
   - Human resource practices
   - Expansion policies
   - Product selection
   - Cost consciousness
   - Customer service

2. **Activity effect**
   - Technical change
   - Operating efficiency

3. **Quantity effect**

4. **Consequences for prices**
   - Evolution of value added
   - Evolution of labor and capital prices

5. **Consequences for quantities**
   - Levers

### Pricing
Wal-Mart's business model focuses on its discount format, location strategy, and corporate culture. When Sam Walton opened his first store, he had in mind that setting low prices would boost up sales, so he aggressively applied this principle in all stores to beat up the competition and gain market pole position. He created a slogan «Everyday low prices» (hereinafter: EDLP), which shaped all of company's business decisions, including usage of technology, branding, imports, and also broad supplier and labor relations. In store decisions, such as pallet use, focus products, convenient packaging type, imaging of private labels, etc. are implemented in a cost efficient way at the retail end, whereas upstream activities in the supply chain are monitored by Wal-Mart's information division. Their private computer database is the largest in the business world. It controls inventory and distribution channel via Retail Link®, centralizes in-store performance figures and works with suppliers to coordinate product development and vendor-managed replenishment procedures (Gereffi & Christian, 2009). Wal-Mart revolutionized the speed and efficiency of getting products to stores through its distribution center location strategy and cross-docking techniques, therefore all distribution centers are located no more than a day drive away from the stores. Company works very close with suppliers to streamline the deliveries so there would be no unnecessary hold-backs (Brea-Solis et al., 2012).

### Pressure over vendors
Sam Walton developed the concept of vendor partnership. The main idea was to strengthen relationship between vendors and the company by exchanging sale and inventory information in order to create bigger value with cutting down the
transaction costs and increasing efficiency. That is why Wal-Mart strategically located its distribution centers in close-by areas of the stores. EDLP strategy soon turned out to be a very profitable decision, as the sales were increasing by a rapid pace and Wal-Mart quickly became a major distribution channel for most of its vendors (Brea-Solis et al., 2012).

**Investment in technology:** Major investments in technology were implemented in 1983, when Wal-Mart set up a geostationary satellite system at a cost of approximately 20 million USD, which helped to enhance communication between executives, store managers and vendors and also speed up the reordering of store merchandise. Inventory costs significantly decreased and inbound logistics became more efficient (Baines, 2012).

**Human resource practices:** Walton's (1992) view on human resource practices is a manifest in the following quote: »If you want people in the stores to take care of the customers, you have to make sure you are taking care of the people in the stores«. When Walton was in charge, the company was ranked and recognized as one of the 100 best companies in terms of employee satisfaction in United States. A diverse array of high-powered incentives was put in place in order to attract store managers, among those were rewards with a percentage of the store profits and after the company went public, stock ownership (Brea-Solis et al., 2012).

**Expansion policies:** Important determinants of Wal-Mart's success were its location choices and geographical expansion. Wal-Mart started out as a small retail store in rural areas and then grew by building stores close to existing distribution centers, afterwards they expanded into other regions. Wal-Mart never made hasty decisions, which could have consequences resulting in a major loss of profits. The main advantage of this policy was the development of a dense distribution network that allowed the company to spread costs (Brea-Solis et al., 2012). Zook and Graham's (2006) research on density patterns surrounding Wal-Mart stores reveals that over 60 % of the entire U.S. population lives within 5 miles of a Wal-Mart store and 96 % population in a 20 miles radius and that there is an inverse relationship between population density and the number of stores. Creating supercenters was one of Wal-Mart's most important strategies. Wal-Mart's entry into the grocery retail sector has helped launching its internationalization process. Global markets offered the attraction of potentially rapid economic development, an increase of consumer spending and the ability for multinational retailers to leverage their superior distribution and IT systems (Wrigley & Lowe, 2002).

**Product selection:** Product selection in Wal-Mart stores is wide, offering a wide variety of products for each and every (demanding) buyer. National brand products and also private brand products are offered in Wal-Mart stores. Various retail formats were tested to attract customers with specific needs. Wal-Mart then created Sam's Club, a warehouse club that targeted customers who were buying wholesale quantities of products. Another significant
aspect of Wal-Mart's product selection was the program »Buy American«, which was first introduced in 1985. Their goal was to sell American products and reduce the U.S. trade deficit (Brea-Solis et al., 2012).

Cost consciousness: Cost consciousness was one of the pillars of Wal-Mart's culture. This was accomplished through the systematic elimination of unnecessary expenses. Managers were constrained to share hotel rooms on business trips, walk to meetings instead of taking a cab, and other limitations, which could result in high expenses.

Customer service: Wal-Mart implemented policies for customers in order for them to have a pleasant shopping experience. Wal-Mart began formally implementing the »aggressive hospitality« program in 1984, where customers were properly greeted, had a possibility of free parking, speedy checkout lanes, wider aisles, clean stores, etc. Wal-Mart also sponsored social programs in communities, where their stores were present (Brea-Solis et al., 2012).

Sam Walton stepped down as CEO in 1988 and since then, there have been four successors given his position. Their main achievements are described in Table 3.

Table 3. Wal-Mart's CEO's

| David Glass       | - Intensive use of technology (major investments in IT, linking vendors and stores) 
| (1988-2000)      | - Increase of supercenters (721)  
|                  | - Building stores in suburban locations 
|                  | - Large foreign investments 
| Lee Scott         | - Transformation of existing discount stores into supercenters 
| (2000-2008)      | - Expansion of global sourcing activities 
|                  | - Improving public image of Wal-Mart, since it was facing a lot of criticism 
| Michael T. Duke  | - Made one of the biggest purchases of 2,2 billion USD (Massmart in 2010) 
| (2009-2014)      | - Beefed up online shopping 
|                  | - Bought experienced social media and e-commerce companies, including mobile media company Kosmix 
|                  | - Revenues record in 2012 (443.85 billion USD), no. 1 on Fortune 500 list 
| Doug McMillon    | - Increase of e-commerce for 21 % 
| (2014- )         | - Plans to improve the customer experience, invest in new capabilities 
|                  | - Plans to build 240 new smaller format stores, like Neighborhood markets 


1.5 Key issues/challenges for Wal-Mart

Wal-Mart stores serve more than 250 million customers per week in over 4,800 domestic locations as well as over 6,100 international stores. The company is not only a corporate
giant, but also a beacon of American entrepreneurship to the global economy. Wal-Mart's keen ability to compete in multiple markets and maintain a standard of escalating profits sets the pace for every competitor. But despite their large success and low price guarantees to the working class consumers, Wal-Mart suffered from the attacks of several groups, that resulted in the loss of shoppers and shareholder value (Davis, 2007). Hereinafter I will describe some of the most relevant issues and challenges Wal-Mart has been faced with throughout the years.

**Ethics:** Attacks on Wal-Mart's ethics and business practices range from employee discrimination to critiques on international outsourcing. In response Wal-Mart developed an extensive reputation management system (Global ethics office), which aims to promote Wal-Mart's codes of ethics globally and has its own set of ten commandments of ethics (Wal-Mart's ethics and integrity, 2014).

**Wal-Mart documentary:** Wal-Mart: The high cost of low price. The documentary, which was released in 2005, presents a negative picture of Wal-Mart's business practices through interviews with former employees, small business owners, and footage of Wal-Mart executives. In response to the release of the documentary, Wal-Mart hired several former presidential advisers to establish a rapid-response public relations team to assess and control the damage. In December Wal-Mart formed a group, called Working families for Wal-Mart, led by UN ambassador Andrew Young (The good, the bad, and Wal-Mart, 2014).

**Labor relations:** Many unions and groups have been formed, which criticize treatment of Wal-Mart managers on its employees, including the Wake up Wal-Mart and Wal-Mart Watch. In 2006 Charles Fishman wrote a book called The Wal-Mart effect, criticizing the decisions company made, but also enumerates positive impacts within society. The main issues that all are implying are exploitation of workers (denied minimum wage, required overtime, child labor violations), wage law violations, gender discrimination, inadequate health care, retailer's anti-union stance, and so on. Altogether, more than 5,000 lawsuits are filed against Wal-Mart every year (The good, the bad, and Wal-Mart, 2014). In 2000, the last year of David Glass leadership, store employees were quitting at the rate of 70% a year and Wal-Mart had to hire roughly 600,000 new employees per year in the U.S. in order to maintain high employment levels (Davis, 2007). Taking into consideration that Wal-Mart is the largest retailer and the largest publicly traded employer on a worldwide basis, with over 2.3 million associates spread around the globe, it is needless to say that it would be practically impossible to please every single employee that works in such multinational company. The fact is that Wal-Mart offers incredible opportunities for any hard-working, ambitious employee, who is willing to work its way up, like Global learning management system, Executive development sessions, mentor program, Global people academy, Walton institute and many more. Wal-Mart even encourages associates to
complete training courses during fully paid work time and offers them a raise after they have completed their course (Altner, 2013).

**Health care:** Many critics attack Wal-Mart for its inadequate coverage options for health insurance. Wal-Mart's health care plans fail to cover hundreds of thousands of associates. In 2009 there were supposedly 52% associates covered by their healthcare plan and has since refused to disclose coverage plans for their 2.2 million associates. Despite efforts to create more affordable options like Health Savings Plans, Wal-Mart's motives are often portrayed as malicious and cruel (Davis, 2007). Despite the allegations, in 2014 Wal-Mart's employees on average paid 32% less for their health coverage than other workers in the retail sector (Halzack, 2014).

**Vicious circle:** Wal-Mart's circle that is shown in Figure 5 reflects the issues that lead companies to slow sales and loss of customers. With understaffed stores there is lesser chance that customers will have a pleasant shopping experience due to high stock-outs, messy stores and poor customer service. Contrary to company statements regarding employee satisfaction, 84% of them claim they would take a better job if such would be presented to them. All the cross-country layoffs in staffing have translated into significantly higher workloads (Marshall, 2011).

*Figure 5. Wal-Mart's vicious circle*

Wal-Mart's brand has build its reputation on low prices, but today, for a variety of reasons, no longer enjoys the kind of pricing advantage it once did. Competitors such as Target, Costco, Carrefour have started to eat away the company's market share. In order to regain the advantage Wal-Mart needs to make changes inside the organization. The first step to a change is to show the associates, who work to please the customers in stores every day, the
respect that they deserve, and to listen to their ideas on how to improve the company's position on a employee and sale wise level. Because after all the company is worth only as much as its employees are. And fact remains that satisfied employees work harder and strive to achieve company's goals in better manner than unsatisfied employees.

1.6 The Wal-Mart »culture«

Organizational culture represents set of shared values, which are held by the majority of employees. It plays a crucial role in shaping behavior in organizations, even though it is sometimes hard to define, what organizational culture actually is or how it affects people's behavior and whether it is something that managers can change. Cultures are dynamic. They shift constantly in response to external and internal changes. Trying to assess organizational culture is rather complicated; it is like trying to chase a moving car. But it also opens the possibility that cultural changes can be managed through continuous processes, rather than through big shifts. People do not normally respond well to fast and major changes, but they learn to adapt to the manner with time. So the culture of the organization should always be focused on constant learning and developing (Watkins, 2013).

The basic assumptions of Wal-Mart's culture are expressed in four beliefs that Sam Walton established in 1962 and are still incorporated as such in every aspect of their business (Wal-mart's culture, 2014):

1. Respect the individual:
   »Our people make the difference is not a meaningless slogan - it is a reality at Wal-Mart. We are a group of dedicated, hardworking, ordinary people, who have teamed together to accomplish extraordinary things. We have very different backgrounds, different colors and different beliefs, but we do believe that every individual deserves to be treated with respect and dignity.« (Don Soderquist) (Wal-mart's culture, 2014)

2. Service to our customers:
   »Wal-Mart's culture has always stressed the importance of customer service. Our associate base across the country is as diverse as the communities in which we have Wal-Mart stores. This allows us to provide the customer service expected from each individual customer that walks into our stores.« (Tom Coughlin) (Wal-mart's culture, 2014)

3. Strive for excellence:
   »The key to success is in improvement in ourselves, with new ideas and goals, that can make us reach further, than we have ever thought before. Trying to find new and innovative ways to push our boundaries and constantly improve is a way to achieve that«. (Wal-mart's culture, 2014)
4. Act with integrity: Moral principles, such as being honest and keeping your words, are the values that the company strives for. Integrity means doing the right thing at all times no matter the cost. Building a reputation of integrity takes years of hard work, but it can be lost in just a drop of a second.

**Figure 6. Wal-Mart's beliefs and values**

- **Respect for the individual**
  - Open door policy
  - Accountability
  - Open communication
  - People development
  - Trust
  - Humility
  - Team work
  - Empowerment
  - Confidentiality
  - Diversity

- **Service to our customers**
  - Friendly atmosphere
  - Pleasant shopping experience
  - Aggressive hospitality
  - Satisfaction guaranteed
  - Community minded
  - Quality always!

- **Striving for excellence**
  - Continuous improvement
  - Dissatisfaction with the status quo
  - Results oriented
  - Integrity always!
  - Competitive spirit
  - Sundown rule
  - Sustainability
  - Failure allowance
  - Risk-taking encouraged
  - Expense control

- **Act with integrity**
  - Moral principles
  - Honesty
  - Fairness
  - Objectivity
  - Straight-forward communication
  - Compliance with the laws
  - Compliance with the policies


Each of these basic assumptions is linked to values that are unique in every organization. Figure 6 presents Wal-Mart's values for each of these beliefs.

**2 THEORETICAL BACKGROUND ON INTERNATIONALIZATION STRATEGIES**

Entering foreign markets is a somewhat natural stage for some companies and for others it is more like a new challenge that they have to deal with. Challenge equals market entry, which consists of three big decisions, that is location wise (where to enter), time wise (when to enter) and method wise (how to enter). Some companies are forced to internationalize in the early stages of their life due to small and saturated markets, which can become too small very fast, while other companies choose to go international due to great opportunities that new markets might have to offer (Peng, 2006). The next decision companies have to face with is the mode of entry. There are several entry modes that companies can choose from, however, in specific industries, such as retail, the most common entry modes are wholly owned subsidiaries (hereinafter: WOS), acquisitions, joint ventures (hereinafter: JV) and franchising, which will be described in the following subsection. Before making the decision on the specific mode of entry, there are some factors, that need to be put into consideration, like risk assessment, return on investment (hereinafter: ROI), level of control, and so on. Another important decision is also the
strategic consideration of growth strategy within the target markets. The fastest strategy is through acquisitions and it is often used as a means to achieve product and geographic diversification (Hollensen, 2007).

The choice of entry modes is one of the most critical strategic decisions a company has to make in its path to international expansion. Choosing the wrong entry mode can cause major setbacks and increase the costs of entry, in extreme cases it can also force the company to close down their operating units and leave the market. Choice of entry mode also affects any future operations and decisions of the company in the certain market (Peng, 2006).

Companies regularly begin their internationalization process by entering close markets, which have similar characteristics as domestic markets, like Wal-Mart started with Mexico and Canada, because the amount of risk is lesser and markets are more or less familiar. After gaining experience from familiar markets companies then feel more reliant about going abroad. When deciding to expand into emerging markets the challenges become greater, accordingly does the risk of adapting to new cultures, environment and buying habits of consumers. Emerging markets are attractive for the companies coming from developed world because of the growth opportunities and large population with increasingly higher purchasing power (Ovcina, 2010).

With growing globalization, free trade agreements and increased cooperation companies are now more than ever turning the focus towards internationalization. However, although it brings several opportunities, internationalization is a challenging process, which Porter (1985) and Dawson, Larke & Mukoyama (2006) divide into four phases: pre-entry, entry, growth and repositioning, as seen on Figure 7.

**Figure 7. Internationalization process**

![Internationalization process diagram](image)

In the pre-entry phase potential new entrant has to make full research of the market, industry and the key decisions: when, where and how to enter. In the entry phase the company is becoming established in targeted market. At this point it is necessary that the company makes an evaluation of its entry. Based on the market reaction the company has to decide whether to continue on a large scale or withdraw from the market. In the growth phase companies normally establish a good position on the market and are likely to experience growth. In the repositioning phase companies are already fully established and their primary goal is to maintain the position that they have gained over the course of years. At a certain point companies will experience maturity, where market share will be lost. At that point there is a need for evaluation of how to reposition itself that would result in most effective manner (Porter, 1985).

Wal-Mart first began its internationalization in Latin America in 1991, when they entered the Mexican market. Wal-Mart is now the leading player in Latin America, with 1,002 retail units and 132,779 associates in Argentina, Brazil and Chile, followed by French Carrefour and Casino Group (Wal-Mart in Latin America, 2016). Wal-Mart's experience faced in the Latin American markets is estimated to be an interesting source of learning for developed country retailers, who are considering entering and expanding into emerging markets.

2.1 Motives for internationalization

Understanding the movies behind a company's decision to internationalize its business activities helps to explain, why and how firms should engage in international business activities. The primary motives of any company, who decides to go abroad are the profit-making opportunities, growth, international reputation and (sustainable) competitive advantage. Profitability also depends on competitiveness, so international expansion may be a good way of reducing costs in a competitive international markets. Increased scale of production leads to minimizing the unit cost (Harrison, 2011).

According to Frynas and Mellahi (2011) there are two sets of factors, that lead companies to considering the possibility of operating in foreign markets: organizational (internal) and environmental (external) factors. Organizational factors can be divided into decision-making characteristics and firm-specific factors. International activities are an essential part of internationalization process. Management characteristics, such as perceptions of risk in international operations have a strong influence on management perceptions of international business activities. Foreign experiences and language proficiency are also important factors. Firm specific factors are mainly the size of the company and international appeal. Surely, size because larger companies have more resources, greater production capacities, and tend to perceive lower levels of risk in foreign operations.
External business environment has a major impact on strategic direction of a company. Among the most important driving forces are unsolicited proposals, the »bandwagon« effect and attractiveness of the host country. The »bandwagon« effect occurs, when for example, one company goes abroad, and the other, afraid, that it will get left behind, imitates the company's internationalization strategy to expand abroad (Frynas & Mellahi, 2011). Attractiveness describes the extent to which the country's host market is desirable for business operations by foreign companies, like host country market size for example. Host country market size is attractive due to great growth potential, profits and stability of operations. The most attractive markets for international companies are the emerging markets (Brazil, Russia, India, China - hereinafter: BRIC countries).

On the other hand, Dunning (1993) introduced a model of internationalization motives, that include four different categories of motives. These are: market seeking, resource seeking, efficiency seeking and strategic resource seeking motives. The first two categories are mainly used by inexperienced international companies. The latter categories are more common for companies, that have been previously engaged in international activities. Dunning (2000) also shows that closer relations with customers and suppliers are important motives and suggests that internationalization is more driven by opportunities rather than threats. The characteristics of Dunning (1993) model of categories of motives are shown in the Table 4.

Table 4. Dunning model of internationalization motives

<table>
<thead>
<tr>
<th>Category</th>
<th>Characteristics</th>
</tr>
</thead>
</table>
| Market seeker (Microsoft, Coca-Cola) | • Focus on demand aspects  
• Promotion/exploitation of new markets  
• Adaptation of products/services  
• Aggressive investments  
• Financial incentives  
• First-mover advantage |
| Resource seeker (Australian coal) | • Foreign investments to obtain resources  
• Physical resources (minerals, agricultural products)  
• Minimizing cost with cheap labor force |
| Efficiency seeker (Delta, Dyson) | • Rationalization of structures of established investments  
• Benefits from economies of scale, scope and diversification  
• Factor endowment  
• Lowering the tax burden |
| Strategic resource seeker | • Intangible resources (patents, copyrights, knowledge, skills, strategic supplies)  
• Access to knowledge through acquisitions, alliances |

Most multinational companies motives for going overseas are identified by several reasons, not solely one. Internationalization process may be characterized in terms of being defensive or aggressive and motivated by either internal or external triggers or by a combination of both. These factors can change at any given time, for every circumstance and stage of development of a company (Wattanasupachoke, 2002).

In more recent retail internationalization research the motives for expanding abroad tend to be less dominant, giving way to the evolving interest in aspects of the process (brand, knowledge transfer) or the experiences of companies that halt expansion after failing company expectations. The tendency for maximizing profit and growth are still the prevailing motivators, however, there are still not any defined strategies that can guarantee that expanding abroad will produce profitable growth, which is a lesson learned for many retailers over time (Evans, 2012). Take Wal-Mart in South Korea for example. Wal-Mart had high hopes for long-term potential in South Korea, but after 9 years of operating in the market, it was still ranked in the bottom five major discount stores in the country. Reason for their failure lies in their inability to adapt to local consumers and culture, which seem to be the reason for their failure in other countries as well. Wal-Mart retrieved from the market in less than a month and joined other foreign giants, such as Carrefour, Nestle and Google, that had experienced the same setback (Gandolfi & Štrach, 2009).

### 2.2 Risks in international business

Every country has its own distinct set of economic and financial conditions reflecting its human and natural resources and the way, how these resources are managed. International economic and financial activity is organized around the concept of national sovereignty, where each country has its own economic, financial, political and legal organization, which determines resource allocation and income distribution within the geographic area it controls, therefore anticipated events at the national level can have serious effects on business climate in the country, where they occur (Clark & Marois, 1996).

As a concept international or cross-border business risk is vast and complex. It refers to the volatility of returns on international business transactions caused by events associated with a particular country, as opposed to events associated with a particular economic or financial agent. Effective risk management involves key issues, such as identifying risk, evaluating its potential effects, identifying and analyzing possible solutions, adopting the most appropriate solutions and monitoring the results (Clark & Marois, 1996).

Country specific risk combines economic, financial, political and currency risk. The concept of country risk was first introduced in 1960s as a response to banking sector's efforts to define and measure its exposure to loss in cross-border lending. While economic, financial and currency risks are market-based, the political is broader and refers to the
probability that decisions, which are unfavorable to the company interests, will be taken at the political level (Clark & Marois, 1996).

**Economic risk** refers to the volatility of macroeconomic performance and is often measured by gross national product (GNP) or gross domestic product (hereinafter: GDP). It plays a fundamental role in determining the outcome of individual business transactions undertaken within its borders. Volatile macroeconomic environment can likely increase the riskiness by generating volatility in the profits of local companies and financial institutions. **Financial risk** refers to the ability of the national economy to generate enough foreign exchange to meet payments of interest and principal on its foreign debt. **Currency risk** is most known type of country specific risk. It can also be defined as volatility of exchange rate (Clark & Marois, 1996). Root (1973) makes a distinction of **political risk** between transfer, operational and risks on control of capital. But, in fact, there is actually no general agreement, what assessment of political risk is supposed to measure. Distinctions are made in terms of political events, like war, revolutions, strikes, etc. and political decision in the forms of laws or decrees.

Engaging in risk adverse behavior to counteract the market risks of international business is one approach to business success, but theory on international business also recognizes how the risk taking propensity of international business managers can be critical to business success. Risks in international business can stress risk adverse behavior to counteract foreign market uncertainty or individual entrepreneurial risk taking behavior dependent on the characteristics of the company and the individuals. International business theory would suggest that the perception of risk may vary in situations, where new market entry is incremental, taken in mature or earlier stages, or whether it is experienced in a continually fluctuating manner dependent on resources and changing market conditions. In this regard, managing international risk is neither static nor rigid and it involves factors from within and outside the business entity (Canavan & Scott, 2012).

### 2.3 The market selection process

There are several methods to analyze attractiveness of a chosen country. The Boston Consulting Group (hereinafter: BCG) is one of them. BCG matrix is used to decide on the best mix of businesses in order to maximize long-term profits and growth of the company. The main benefit is relating company's products to competition not isolating them. BCG matrix analyses two determining factors, that is country attractiveness and competitive strength of the company (Table 5) (Braunerhjelm, Oxelheim & Thulin, 2005).
Table 5. Dimensions of country attractiveness and competitive strength

<table>
<thead>
<tr>
<th>Country attractiveness</th>
<th>Competitive strength of the company</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Market size</td>
<td>• Market share</td>
</tr>
<tr>
<td>• Market growth</td>
<td>• Marketing ability and capacity</td>
</tr>
<tr>
<td>• Competitive conditions</td>
<td>• Product and positioning fit</td>
</tr>
<tr>
<td>• Market uncontrollables (cultural, legal and political environments)</td>
<td>• Quality of distribution services</td>
</tr>
</tbody>
</table>


Assessing competitive strengths means looking for resources and potential of the company to achieve its goal in the potential new market. Several questions need to be answered at this point regarding how to gain market share, how many resources to spend, how to fit products in new markets, where to position and so on. Companies have to make some weighting of these factors to find the right match in the market (Elg, Ghauri & Tarnovskaya, 2008). Figure 8 presents a matrix, depicting relative market investment opportunities for different types of match.

**Figure 8. Market portfolio analysis**

![Market portfolio analysis matrix]


This matrix reveals that, depending on the careful use of analysis, companies have several options, when making a decision on right entry strategy (Elg et al., 2008):

**Invest** represents a country, where attractiveness is based on size and growth of the market. Companies can attain its competitive strength to achieve its objectives. Though, this analysis suggests that this country is suitable for entry and major investments. **Divest** represents a market, where investing is a bad option. If the company is already present, it should divest and withdraw from the market. This type of markets will force heavy
investments in order to get slight market share. **Joint venture** refers to quite attractive, but difficult market, that demands huge investments in order to gain considerable market share. If the companies cannot dominate the market this is not a decision, you would want to make. **Selective strategy** refers to category of markets with fierce competition, therefore it is hard to maintain a stable market share. However, if company has other strengths (product fit, powerful brand, etc.), it can decide to invest in this moderately attractive market.

BCG matrix is a useful tool that provides some insights into company or country match and compatibility. Its major strength is that companies can compare different markets, thus revealing which one suits them best, and it helps to look at companies capabilities in the context of international competition in each market.

Once a company decides to go abroad, it must decide, when and how to enter new market. Timing of market entry is of crucial importance for many wider strategic reasons, like e.g. first movers advantage. This concept suggests that pioneering businesses are able to obtain higher profits and other benefits as the consequence of early market entry. Early entrance can have five generic advantages (Lieberman & Montgomery, 1988):

- cost advantages (larger economies of scale, accumulating experience before the entry of possible competitors),
- pre-emption of geographic space (securing marketing channel),
- technological advantages (adapting products/services before new entrants),
- differentiation advantages (reputation of established brands),
- political advantages (support from foreign government in raising barriers to late entrance movers).

Being the first in the market can have its perks as well, so the timing of the market entry is obviously as important as the company's ability to fully exploit the early market entrance. Studies show that first mover advantages in foreign markets depend on several internal and external factors, including the strategic importance of investments, rate of technological changes and the policies of the host country government (Frynas, Mellahi & Pigman, 2006).

### 2.4 A review of relevant theories of internationalization

The literature on the internationalization process of firms can be broadly divided into two streams of theories, one being an economic approach and the second a behavioral approach to theory. Economic approach has its base in mainstream economics, its focus is on the companies and the environment. It assumes that companies are party rational in their choice of investments and that the decision maker has access to all information. Theories
that follow behavioral approach are focused on the impact of international experience on the pace and direction of subsequent internationalization. Importance here is on the role of organizational process (Andersson, 2000).

Among the most known theories that follow an economic approach are Dunning’s eclectic theory, the international product life cycle model and the transaction cost approach. Theories, following the behavioral approach are Ahroni's decision making model, the Uppsala model and the innovation-related internationalization models (Ólafsson & Hermannsdóttir, 2009).

The concept of eclectic paradigm was created by John H. Dunning and is also known as OLI paradigm. According to the model, the concrete form of international operation that a foreign company takes in a particular potential market is the result of three advantages combined. First, a company must have a specific Ownership advantage, that compensates for the general liability of foreignness, which comes from operating at a distance as well as the generally superior competitive position of rival domestic companies in the desired market. Second is the Location advantage of the desired market that has to be identified and evaluated with respect to fit with the company's strategy. Third, the company has to assess if the O advantage has a way to be best realized through Internationalization, like being able to retain assets and skills within the firm rather than renting them out to external parties (Dunning, 1988).

Vernon's (2004) international product life cycle model conceives the internationalization process as being systematic, incremental and predictable sequence, where the form of entry abroad depends on the life stage of the traded products (introduction, growth, maturity, decline). In the introduction stage companies export their products because they are lacking knowledge about foreign markets. Once they gain experience and the proper knowledge they will shift production abroad. In the growth phase exports increase and the demand for products expands into additional markets, leading to locating production in proximity of target markets. In the maturity stage markets are saturated with products and what happens is the standardization of products. Companies in this stage look for countries where they can minimize the production costs. In the last stage companies will export its products from less developed countries back to the country, where the product originated.

The Uppsala model, which is considered one of the primary stage models of internationalization, was developed by Johansson and Vahlne in 1977. Model is based on four key concepts: market knowledge, market commitment, commitment decisions and current activities. The model divides these concepts into state and change aspects. First two are considered to be state aspects, while the latter two are considered to be change aspects. State aspects reflect the resource commitment to foreign markets, while the change aspects include the performance of current business operations and decisions to commit resources
(Gustafsson & Zasada, 2011). The model basically implies that rather than investing in several countries at the same time, companies should rather take small steps and invest within one or few neighboring countries, learn from people that operate at the companies and only then subsequently enter new markets with successively greater psychic distance (Ruzzier, 2006).

More recent network model varies from the market with regard to relations between companies, competitors, etc. and is based on control, coordination and cooperation. Its distinction from Uppsala model is in the fact that this model is not gradually progressing in nature. The actors on the markets are linked to each other through exchange relationships, their needs and capabilities are mediated through the interaction taking place in the relationships. The relationships of a company in domestic network can be used as a bridge to other networks in other countries. The network model therefore focuses on four categories of firms, which are characterized by the degree of internationalization of the company on one hand and on the other the degree of internationalization of the market. The early starting companies in the domestic and as well in foreign markets have no relevant international relationships and only have little market-specific knowledge so they use agents to enter the foreign market. Being the lonely international means the company has experience of relationships with others in foreign countries, which are based on knowledge, culture, institutions, resources, etc. Late starters often find it difficult to establish new positions in a tightly structured network of internationalized actors because the best distributors are already linked to competitors so there is less or very little chance for the new companies to get high profits from the start. There is a high possibility of competitors using predatory pricing and leave newcomers out to dry. In a situation of being the international among others, companies have the possibility to use positions in one network to bridge over to the other networks, with regard to both extensions and penetration, like for instance along the entire value chain. Bridging mechanisms between networks can in this way serve as a step towards a rapid internationalization (Hollensen, 2011).

2.5 Entry modes

Choosing a suitable entry mode is a difficult decision for companies which are interested in global expansion. Sometimes international companies may even use more than one entry mode simultaneously. There are many factors that can affect the entry mode, such as host country factors, resource commitment, cultural differences, etc. There is also a variety of market entry strategies to choose from, where each has particular advantages and shortcomings, depending on company's strengths and weaknesses and the commitment that the company is willing to make (Figure 9).
**Exporting.** Exporting is the action by the company to send produced goods from domestic to foreign countries, therefore it does not need large amount of resources and is more cost friendly than the alternatives. It is also easier to withdraw its operations with minimal damage. Exporting is a frequently employed mode of internationalization, it is also one of simplest and most common approaches between small- and medium- sized companies (SME) in their desire to enter foreign markets. Companies generally use exporting for two basic reasons, one being that companies need to gain experiential knowledge, but they would not do it for a high price, meaning taking high risks or making strong commitment; the second reason are economies of scale (Frynas & Mellahi, 2011).

**Licensing.** International licensing is the transfer of patented information and trademarks, information and know-how and other intellectual property assets for the manufacturing and sale of company's products. Benefits of licensing are fast way to market, especially if companies lack sufficient skills, capital or personnel to enter a foreign market quickly (Frynas & Mellahi, 2011).

**Franchising.** Franchising is a rapidly growing form of licensing, where franchiser provides a standard package of products/services and the franchisee provides market knowledge, capital and personal involvement in management. The combinations of skills allows flexibility in dealing with local market conditions and still provides the parent company with a reasonable degree of control. Franchising is an important form of vertical integration (Lima, 2008).

**Wholly-owned subsidiaries (WOS).** Contrary to first three forms, WOS involve a higher degree of risk. MNC have two options: green field investments (completely new facilities) or merging (with pre-established local company). Green field investments give companies full control over all ongoing operations, therefore avoiding the challenges, which are often experienced in joint ventures or mergers. This type of entry mode is quite expensive (low sales compared to major costs in the early stages), risky and makes the company less flexible in case of a withdrawal from the market due to, for example, new regulatory barriers (Peng, 2006).

**Mergers and acquisitions (M&A).** An international merger is a transaction where two companies from different countries are combined in order to establish a new legal entity. In short-term, cross-border mergers and acquisitions (hereinafter: M&A) can have positive effects for the shareholders of the acquired firm, but on the long-term the profitability gains are often limited or do not exist (King, Dalton, Daily & Covin, 2004). M&A are most commonly used as mode of entry in retailing. There are three types of M&A’s (Frynas & Mellahi, 2011):
• horizontal M&A, which involves two competing companies in the same industry (e.g. automobile, petroleum, pharmaceutical industries),
• vertical M&A, which involves mergers between companies in the supply chain (e.g. supplier with manufacturer),
• conglomerate M&A, which involve mergers between companies of unrelated industries.

**Joint ventures (JV).** Joint ventures are basically a third newly created company, which is jointly owned by two or more parent companies. The advantages of using JV as entry mode are in the shared costs and risks, quick access to knowledge of the host country environment and in the fact, that joint ventures may be politically more acceptable than WOS, which can enable a smoother entry process (Dawson et al., 2006). JVs are often used as entry mode in foreign markets in order to reduce manufacturing costs and to develop new technologies and are even preferred entry modes, since it gives companies the opportunity to establish a business operation in a foreign country, where WOS are too expensive, risky or not a feasible option because of various reasons. Emerging markets have high political and economic instability, poorly developed legal and institutional framework and lack of market information and communication system, thus can better overcome these challenges (Zang & Wang, 2006).

*Figure 9. Modes of entry and control versus risk*

![Figure 9](image)


Each of these entry modes has its advantages and setbacks (Table 6). Therefore, MNCs have to make trade-offs, when they are faced with the decision on which mode is the most suitable. Control and risk are the two most important factors that companies take in consideration when deciding on the right entrance strategy. These two factors often go hand in hand, meaning that obtaining more control requires higher risks and the other way around (Anderson & Gatignon, 1986).
Table 6. Advantages, disadvantages and potential risks of entry modes

<table>
<thead>
<tr>
<th>Entry mode</th>
<th>Advantage</th>
<th>Disadvantage</th>
<th>Risk</th>
</tr>
</thead>
</table>
| Exporting  | • No requirements for high resource commitment  
             • Cheap way to gain experiential knowledge in foreign markets  
             • Low-cost strategy to expand sales and achieve economies of scale | • Hard to control operations abroad  
             • Very small experiential knowledge in foreign markets | • Disruption in case of political instability  
             • No control of costs (transport, shipping costs, insurance) |
| Franchising| • Quick entry to foreign markets  
             • Moderate resource commitment in the targeted country  
             • Moderate-cost strategy to achieve economies of scale | • High monitoring costs  
             • High potential for opportunism  
             • Possible damage to reputation and image of the company  
             • No experiential knowledge in foreign markets | • Franchiser may not follow the directives of the franchisor  
             • Increasing profits by reducing the quality of inputs |
| Licensing  | • Fast entry to foreign market  
             • No requirements for high resource commitment  
             • Possible step towards more committed mode of entry  
             • Low-cost strategy to expand sales to achieve economies of scale | • Hard to monitor partners in foreign markets  
             • High potential for opportunism  
             • Hard to enforce agreements  
             • Small experiential knowledge in foreign markets | • Sub-optimal choice  
             • Opportunism  
             • Quality risks  
             • Production risks  
             • Payment risks  
             • Contract enforcement risk  
             • Marketing control risk |
| WOS        | • Low risks of technology appropriation  
             • Control of foreign operations  
             • High experiential knowledge in foreign markets  
             • Low level of conflict between the subsidiary and parent company  
             • No cultural problems | • Cannot rely on pre-existing relationships with customers, suppliers  
             • Adds extra capacity to the existing market  
             • Seen as a foreign company by local stakeholders | • High operational risk  
             • Political risk in host countries |
| JV         | • New international markets  
             • Entrepreneur skills and site location  
             • Recruiting new executives  
             • Establish store image and retail brand in new market  
             • Secure political and business influence | • Culturally diverse partners with divergent aims and objectives  
             • Inefficiency of the alliance in terms of effective equity and operations control due to partner disagreements | • Finding the right partner |

(table continues)
For markets, where total perceived risk is low, companies mainly use strategies that require a high level of resource commitment (WOS, JV), whereas in markets, where total perceived risk is too perilous, companies might no longer believe that it has control over the risk. In such case it is best to share the risk through a JV, or pass it along to a partner (licensee, franchisee), who might be more qualified to assess and manage this kind of risk (Frynas & Mellahi, 2011).

2.6 Determinants of market entry: barriers, resources and capabilities

Before entering a foreign market companies normally undertake extensive analysis on the target market in order to reveal its strengths, opportunities, challenges, potential threats and barriers to enter the targeted market. Depending on the size and internationalization rate of companies they set different rates of significance on their international expansion and market entry strategies. While internationalization strategies focus more on the overview and strategic direction without significant considerations on targeted country, market entry strategies are implemented on a country-specific basis (Lees, 2014).

According to Hollensen (2007), there are four groups of factors, that have direct influence on the means and time of foreign market entry:

- internal factors (company size, international experience, product complexity, market share targets, profit targets, differentiation advantages, etc.),
- external factors (socio-cultural differences between country of origin and targeted country, market risk, uncertainty on demand, market size and growth rate, direct and indirect trade barriers, competition, industry feasibility, market barriers - tariff barriers, governmental regulation, distribution access, exit barriers, etc.),
• desirable entry characteristics (low risk, control, flexibility) and
• business specific factors (export know-how, opportunistic behavior, transaction costs).

According to Welch et al (2007) there are three key groups of factors that influence entry mode strategy. These are the company background factors, specific company mode concerns and influences of the foreign market. Figure 10 shows a vast array of different factors that influence the decisions on entry mode strategy.

**Figure 10. Influences on foreign entry mode decision making**

<table>
<thead>
<tr>
<th>Company background</th>
<th>Specific company mode concerns</th>
</tr>
</thead>
<tbody>
<tr>
<td>• resources;</td>
<td>• control;</td>
</tr>
<tr>
<td>• size, global spread;</td>
<td>• risk and uncertainty;</td>
</tr>
<tr>
<td>• experience - international and market in question;</td>
<td>• partner;</td>
</tr>
<tr>
<td>• product, service, systems;</td>
<td>• flexibility;</td>
</tr>
<tr>
<td>• global strategy</td>
<td>• revenue, profitability;</td>
</tr>
<tr>
<td></td>
<td>• speed of foreign market entry</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>FOREIGN MARKET INFLUENCES</th>
</tr>
</thead>
<tbody>
<tr>
<td>• market conditions, e.g. size, growth, competition, inflation, exchange rate, etc.;</td>
</tr>
<tr>
<td>• government;</td>
</tr>
<tr>
<td>• politics;</td>
</tr>
<tr>
<td>• way of doing business, etc.</td>
</tr>
</tbody>
</table>


According to Wrigley and Lowe (2010) there are two broad types of barriers, that have important affects in the decision making process of entrance on foreign markets. First, the institutional, cultural and organizational barriers, such as territorial embeddedness (e.g. constraints imposed by local supply capacity), transference (replication of existing capabilities with no modification), splicing, enhanced imitation, and so on, which companies must overcome in order to achieve market competitiveness in the targeted country. Second type of barriers are a wide range of regulatory barriers, covering a spectrum from inward retail - foreign direct investment (hereinafter: FDI), market competition, property and zoning, minimum capital requirements, to store opening hours, selling below cost, etc.
3 MNC STRATEGIES FOR GLOBAL MARKETS

3.1 Typology and objectives of global strategies

Understanding global markets is important regardless of where companies decide to compete. In selecting strategies for entering global markets there are two primary options that need to be considered. Those are the advantages of global integration and the advantages of local responsiveness. Strategy of global integration considers the extent to which standardized products and other strategic elements can be designed in order to compete on a global basis. Objective of this strategy is to identify market segments that span global markets and to serve these opportunities with global positioning strategies. The main consideration with local responsiveness strategy is how to segment global markets. Increasingly, the basis for global segmentation is not by country; rather other segmentation variables become more important, such as climate, language group, income, etc. (Cravens, Piercy, 2009). The strategy of a global company must be tailored to match every element of each globalization driver, being in part global and in part adapted to local requirements, as conditions dictate. Finding the right balance between the two is important for the market strategies. The use of the term global strategy can be seen as slightly misleading, because the strategy combines both global and local components, therefore more appropriate term is a transnational strategy (Stonehouse, Campbell & Hamill, 2004).

*Figure 11. Global and transnational strategy formulation*

| Analysis of the global business environment | Identification of core competences | Analysis of the global business environment |
| Markets | Identification of generic strategy | Value-adding activities |
| Competitive scope: | Where and how can competences be exploited? | Configuration |
| • broad | | • concentration |
| • narrow | | • dispersion |
| Geographic scope: | Leverage and build core competences and build collaborative ventures | Coordination |
| • global | | • integration |
| • local | | • responsiveness |

One of the key objectives of any kind of business strategy is to achieve sustainable competitive advantage. This implies that first, a strategy will lead to superior performance in specific industry, and second, that the superior performance can be sustained over time. A successful international strategy must create and then sustain competitive advantage across national boundaries, regardless of a regional or a worldwide basis. There are many theories that seek to explain how competitive advantage is created and sustained. Figure 11 shows the process how a transnational strategy can be formulated. This process incorporates various approaches, such as »inside out« (organizational) and »outside in« (environmental) to global strategic management (Stonehouse et al., 2004).

Several authors have developed typologies of global strategies, which can be broadly divided into three categories (Stonehouse et al., 2004):

1) **competitive positioning**: focus is on companies generic strategies and its competitive positioning as the sources of competitive advantage (Porter's industry analysis, value chain analysis, generic strategy). Based on this approach, the companies must be able to select the appropriate generic strategy for their industry and configure value-added activities, which will generate competitive advantage;

2) **knowledge and competence-based strategy**: focus is on know-how, resources, capabilities, competences as sources of sustained superior performance. This approach is based on the work of Penrose (1959), Prahalad and Hamel (1990), Kay (1993) and Sanchez and Henne (1997). Superior performance is based on the ability of the company to develop core competences that competitors do not possess in order to create perceived benefits for consumers. More recent research, based on the work of Grant (1997), Stonehouse and Pemberton (1999), etc., show that the attention has turned to knowledge as the key element of core competences, in terms of companies being able to develop new knowledge quicker or more efficient than its competitors;

3) **global strategy**: emphasizes coordination and integration of geographically dispersed operations in the pursuit of global competitiveness. This approach is based on the work of Porter (1986), Bartlett and Ghoshal (1989), Prahalad and Doz (1986) and Yip (1992).

**Porter's generic strategy framework.** Porter (1985) argued that competitive advantage depends on selection of the most appropriate generic strategy for achieving companies objectives in the context of the competitive environment. Framework distinguishes three types of competitive strategies: a cost leadership, differentiation and focus strategy, which are shown in Figure 12.
Cost leadership strategy emphasizes low costs in the relation to costs of competitors, but does not neglect other aspects like service or quality of the products. This type of strategy can be most efficient in situations, where price elasticity of product demand is high. Companies can sell at average or even below average prices to gain big market share. When the prices in the maturity/saturation phase decline, companies can still maintain its leading position and profitability in contrary to other firms in the industry. However, this is a strategy, which can be imitated by competitors at any given time, since the product itself do not offer any competitive advantage. Differentiation strategy should allow companies to charge above average prices due to uniqueness of products, superiority of brands or superior services. This strategy can be achieved with better research and development (hereinafter: R&D) capabilities, creative development team, better marketing, brand name, and many more. Companies adapting this type of strategy can face various challenges, such as changes in customers preferences, imitation by competitors or niche players, who are pursuing a focus strategy. Focus strategy is used, when companies target only a special group of customers and within that aim to achieve either a cost advantage or differentiation. Due to narrow market and low volumes of products or services these companies may have lesser bargaining power with their suppliers, but on the other side, they can pass on higher costs to their customers. Challenges that companies have to face with are mainly copycats, pressure from other focus players and threats from cost leaders (Grunda, Stankevičiūtė & Bartkus, 2012). Good examples of focus strategy are Porsche and Ferrari in automotive industry, where they only focus on the performance car segment and do not produce for other segments, therefore the cars are sold on the basis of the brand, consumer perception and preferences - better design, superior performance, etc.

Regional strategies. Under certain circumstances companies may choose to adopt a regional strategy as opposed to global or transnational strategies. This type of strategy focuses on one or few geographical regions of the world instead of entire global market. Prahalad and Doz (1986) argued that even though companies must be present on more than
just one market, they may benefit from choosing to expand its activities on certain somewhat critical markets (profit sanctuaries, state-of-the-art consumers, competitive intensity with reasonable margins).

**Global strategies.** According to Andreff (2008) MNC global strategy combines, links, integrates or even merges into a single strategy resource-, market-, efficiency- and asset seeking strategies within a single company. These four types are based on Dunning's (2006) model of MNC strategies.

**Resource seeking:** Developed when MNCs were keeping their production units in developed countries and were only investing abroad to secure deliveries of natural resources, raw materials or primary goods. MNCs adopt this strategy mainly in developing countries.

**Market seeking:** MNCs duplicate their units of production overseas in order to open or enlarge their access to a foreign market. In such strategies FDI is primarily oriented to supplying goods and services to markets with high level of economic development, and with a demand arising from high revenue consumers, like BRIC countries.

**Efficiency seeking:** MNCs reorganize their activity on a global scale in specializing their subsidiaries in different activities, including production of semi- or finished products in a network of plants, which are located in low labor cost countries.

**Asset seeking:** MNCs acquire assets, located abroad, that are likely to facilitate their further expansion, productivity and competitiveness, like high technological plants and research laboratories. This type of strategy is the only strategy that cannot rely on green field investments and is based completely on transborder M&As.

With a global strategy MNC assesses potential host countries competing for hosting its foreign subsidiary and no longer a nation state that trades off between MNCs looking, where to locate new outward FDI. After a thorough analysis on potential country's advantages (investment climate, country risk, comparative advantages), a global MNC is used to rank the most attractive countries and then bargain for the best investing conditions while national governments overbid on these conditions for effectively hosting foreign investments (Andreff, 2008).

### 3.2 The Bartlett & Ghoshal typology of MNC strategies

Bartlett and Ghoshal (1991) developed a typology based on matrix of international, multinational, global and transnational strategies, which will be explained further on. In the course of determining the model they argue that local responsiveness and global
integration can be achieved simultaneously, therefore making a recommendation that MNCs should pursue a transnational strategy, which combines both identified factors (Figure 13).

Figure 13. Bartlett & Ghoshal typology of MNCs

<table>
<thead>
<tr>
<th>Global integration coordination</th>
<th>National responsiveness differentiation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low</td>
<td>Low</td>
</tr>
<tr>
<td>High</td>
<td>High</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Global strategy</th>
<th>Transnational strategy</th>
</tr>
</thead>
<tbody>
<tr>
<td>International strategy</td>
<td>Multinational strategy</td>
</tr>
</tbody>
</table>


**Multinational strategy** (low pressure for integration - high pressure for differentiation) is based on responsiveness to local market demands, for example offering locally adapted products in each market. This strategy is viable in situations where local responsiveness, differentiation and adaptation are critical, while opportunities for efficient production, global knowledge transfer, economies of scale and scope are minimal. **International strategy** (low pressure for integration - low pressure for differentiation) is based on home country expertise and is largely treated as an inferior strategy chosen only by MNC with lesser international experiences. **Global strategy** (high pressure for integration - low pressure for differentiation) is heavily based on integration of productions to manufacture standardized products in a highly cost-efficient way through global integration. **Transnational strategy** (high pressure for integration - high pressure for differentiation) aims to maximize both responsiveness and integration, where knowledge and innovation is sought developed and dispersed within the entire network. This strategy combines the benefits of global scale and learning with benefits of locally adapted products and processes. It also allows selected subsidiaries to become strategic centers for a particular product or technology, meaning that its essence is in matrix management (Bartlett & Ghoshal, 1998). The ultimate objective is to have access and make effective use of all globally available resources, including both global and local knowledge. Implementation of this course of action is extremely hard to achieve in its pure form due to very intensive management processes (Table 7) (Kluyver, 2010).
Table 7. Bartlett and Ghoshal's typology of MNCs

<table>
<thead>
<tr>
<th>Company characteristics</th>
<th>Multinational</th>
<th>Global</th>
<th>International</th>
<th>Transnational</th>
</tr>
</thead>
<tbody>
<tr>
<td>Key strategic capabilities</td>
<td>Building strong local presence through sensitivity and responsiveness to national differences</td>
<td>Building cost advantages through centralized global-scale operations</td>
<td>Exploiting parent company knowledge and capabilities through worldwide diffusion and adaptation</td>
<td>Multinational flexibility, global competitiveness and worldwide learning</td>
</tr>
<tr>
<td>Development and diffusion of knowledge</td>
<td>Knowledge developed and retained within each unit</td>
<td>Knowledge developed and retained at the center</td>
<td>Knowledge developed at the center and transferred to overseas units</td>
<td>Knowledge developed jointly and shared worldwide</td>
</tr>
<tr>
<td>Role of overseas operations</td>
<td>Sensing and exploiting local opportunities</td>
<td>Implementing HQs strategies</td>
<td>Adapting and leveraging HQs competencies</td>
<td>Making differentiated contributions by national units to integrated worldwide operations</td>
</tr>
<tr>
<td>Configuration of assets and capabilities</td>
<td>Decentralized and nationally self-sufficient</td>
<td>Centralized and globally scaled</td>
<td>Sources of core competencies centralized, others decentralized</td>
<td>Dispersed, interdependent and specialized</td>
</tr>
<tr>
<td>Structural configuration and coordination</td>
<td>Decentralized federation</td>
<td>Centralized hub</td>
<td>Coordinated federation</td>
<td>Integrated network</td>
</tr>
</tbody>
</table>


Bartlett and Ghoshal (1998) assume, that many MNCs will have to adopt the transnational strategy due to increasing competitive forces and intense globalization. Many modern MNCs will therefore, most likely, need to choose a transnational strategy in order to master both the art of cost reduction and local differentiation to maintain its competitive edge.

### 3.3 Key strategic challenges of MNC's

Challenges faced by MNCs as they expand into foreign markets have traditionally been analyzed by using three concepts: costs of doing business abroad, liability of foreignness and difficulties in internationalization. First concept - cost of doing business abroad, was first mentioned by Hymer (1976), referring to additional costs that a company undergoes in order to operate in a foreign market, such as investments needed for operating, dealing
with political, economic, social, technological (hereinafter: PEST) characteristics, and for dealing with possible discrimination by the host government (Cuervo-Cazurra & Un, 2007).

Liability of foreignness was first introduced by Zaheer (1995) and was initially defined as the cost of doing business abroad that had resulted in a competitive disadvantage for a MNC subunit, but later studies moved focus away from costs toward institutional differences as the distinguishing characteristics of the liability of foreignness. The sources of liability of foreignness are lack of adaptation to local institutional requirements, lack of legitimacy and lack of membership of information networks (Zaheer, 2002).

Table 8. Types of challenges facing MNCs, and their consequences

<table>
<thead>
<tr>
<th>CHALLENGE</th>
<th>DESCRIPTION</th>
<th>CONSEQUENCE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Specific</td>
<td>• Resource in current operations loses its advantageous characteristic, when transferred to new country • Uselessness of products in the new country • Resources, transferred to the new country conflict with existing practices in the country • Host government discrimination in terms of their country of origin (COO) • Consumer discrimination in terms of their COO • Lack of complementary resources needed to operate at a larger scale, required by the expansion in new country • Lack of complementary resources, required to compete in the industry in new country • Lack of complementary resources, required to operate in the institutional environment of the new country • No value from transferred resources because customers in the new country lack complementary assets, needed to use their products</td>
<td>• Lower revenues, lower performance • No revenues • Inefficiencies in operations, revenue and performance below potential, independent of competitors, domestic and foreign • Reduced revenues, limited operations, higher costs, lower profitability, higher taxes, exclusion from subsidies or government contracts • Revenues below expected, lawsuits, violence against facilities • Inefficiency at headquarters, lower overall performance • Reduced revenues and performance in compared with established companies, but not with new domestic entrants • Revenues below expected, higher costs after investment in complementary resources to operate in the country • Zero or reduced revenues</td>
</tr>
<tr>
<td>Common</td>
<td>• Inability to create value • Government-based disadvantage of foreignness • Consumer-based disadvantage of foreignness • Liability of infrastructure</td>
<td></td>
</tr>
</tbody>
</table>

Source: Adapted from A. Cuervo-Cazurra, & C.A. Un., *Types of difficulties in internationalization and their consequences*, 2007, p. 15.

Concept difficulties in internationalization refer to the challenges that MNCs face when expanding across borders. This concept has been used to systemically identify the causes of difficulties, which are shown in Table 8. It incorporates the cost of doing business
abroad as part of the solution to some of the difficulties and incorporates the liability of foreignness as one of the difficulties companies face, when they have to deal with a new institutional environment (Cuervo-Cazurra & Un, 2007).

3.4 MNC and competitive advantage

Generic strategies, how companies can achieve competitive advantage, were developed by Porter (1985) and mainly refer to cost leadership and product differentiation strategies, which were previously described in Chapter 3. Beside these, competitive advantage can also be achieved through innovations. Innovations can be manifested in a new product design, production process, marketing approach and so on. That involves investments in skills and know-how as well as in physical assets and brand reputations. Innovations can create competitive advantage by perceiving an entirely new market opportunity or by serving market segments that others have ignored or neglected. If competitors slowly respond to changes, that kind of innovations practically yields competitive advantage (Porter, 1990). For example, Japanese companies gained their initial advantage in home electronics by making small, compact, lower capacity models that other competitors neglected due to smaller profits, lower importance and poor appearance.

Once a company achieves competitive advantage through innovations, they must find a way how to retain it. That means constant improvements and new developments because nowadays almost any advantage can be copied. Competitors will not hesitate to overtake companies that will stop improving and innovating. Therefore it is of essential importance to gain as much know-how as possible from worldwide innovators (Porter, 1990).

In order for companies to sustain competitive advantage they must adopt a global approach to strategy, meaning selling products on a worldwide basis, under its own brand name, through international marketing channels that it controls, and also locating production facilities in cheaper countries, as to take advantage of the lower wage rates, gain market access or just to take advantage of foreign technology. The other objective is that companies must take its ongoing advantage as outdated in order to create more sustainable advantage or the competitors will do that instead of them (Porter, 1990).

Competitive advantage is an advantage, that is gained by offering customers greater value, in terms of lower prices or by providing products with greater benefits and services that justify a higher price for customers. Value creation has three aspects, that provide insights into the sources of competitive advantage: the benefits, received by customers (product differentiation), the costs incurred by the company and its suppliers (cost efficiencies), and the particular combination of customers and suppliers (transaction innovations) (Porter, 1985).
Ghoshal's framework classifies MNCs goals into three categories, one being that companies must achieve efficiency in its current activities, second, that it must manage risks, assumed in carrying out those activities, and third, that it must develop internal learning capabilities in order to be able to innovate and adapt to any future changes. Some illustrative factors are shown in Table 9.

Table 9. Ghoshal's organizing framework

<table>
<thead>
<tr>
<th>Strategic objectives</th>
<th>Sources of competitive advantage</th>
<th>National differences</th>
<th>Economies of scale</th>
<th>Economies of scope</th>
</tr>
</thead>
<tbody>
<tr>
<td>Achieving efficiency in current operations</td>
<td>Benefiting from differences in factors costs - wages and cost of capital</td>
<td>Expanding and exploiting potential economies of scale in each activity</td>
<td>Sharing of investments and costs across products, markets and businesses</td>
<td></td>
</tr>
<tr>
<td>Managing risks</td>
<td>Managing different kinds of risk arising from market or policy-induced changes in comparative advantages of foreign countries</td>
<td>Balancing scale with strategic and operational flexibility</td>
<td>Portfolio diversification of risks and creation of options and side-bet</td>
<td></td>
</tr>
<tr>
<td>Innovation, learning and adaptation</td>
<td>Learning from societal differences in organizational and managerial processes and systems</td>
<td>Benefiting from experience - cost reduction and innovation</td>
<td>Shared learning across organizational components in different products, markets or businesses</td>
<td></td>
</tr>
</tbody>
</table>


Competitive advantage is therefore developed by taking strategic actions that optimize company's achievements of these different, and sometimes also conflicting goals. MNCs can choose from three sets of tools for developing such competitive advantage: national differences, economies of scale and economies of scope. The key to a successful strategy is to manage interactions between these goals and means (Ghoshal, 1987).

4 MARKETING STRATEGIES IN GLOBAL MARKETS

Global marketing strategy is primarily concerned with the global scope and coordination of marketing activities, the extent of standardization and adaptation of products, brands, promotion and advertising (Stonehouse et al., 2004). The first step to developing coordinated global marketing strategy is typically to decide in which countries and product lines it should be involved. Because global coordination necessarily involves some managerial constraints on marketing activities of domestic companies, a global strategy cannot be completely localized to a specific market. In practice global coordination should not be attempted for truly multi-domestic products, where demand situations are unique in
every single market, but for intrinsically global products, such as high-tech products, it is a natural strategy, that comes with great amount of benefits (Johansson, 2009).

Any type of global marketing strategy has to be formulated and implemented within constraints, which are set by the overall corporate market plans. The basic task in planning global strategy is the efficient allocation of resources across products and markets around the world. It is important to know the amount of total budget, which should be assigned to each of the subsidiaries in different markets in order to introduce new products on the market, design adaptations, advertising, distribution, etc. The optimal allocation is where the marginal payoff is the same across all markets and all products, which is not as easily done, as it is said. MNCs need data on sales, costs and projected profitability for every product by country market to determine an optimal allocation. An easier solution for MNCs is to decentralize operations because it simplifies management and helps preserve location motivation (Johansson, 2009).

But as the need for global coordination of marketing throughout the years increased, decentralized operations have given way to more top-down control. What represents an obstacle is the independence of local subsidiaries, whether it is to coordinate global product rollouts or to match competitors ad campaigns, etc. Global marketing coordination requires more top-down centralization and a companywide resource planning tool, such as BCG growth-share matrix, which is a tool, used to allocate resources between products, yet it can be easily extended to markets as well (Johansson, 2009). BCG matrix divides company's products into four categories, based on market growth and market share. The four categories are stars, question marks, cash cows and dogs, shown in Figure 14.

Figure 14. The BCG growth-share matrix

<table>
<thead>
<tr>
<th>CASH USE (Growth rate)</th>
<th>CASH GENERATION (Market share)</th>
</tr>
</thead>
<tbody>
<tr>
<td>High</td>
<td>High</td>
</tr>
<tr>
<td>Low</td>
<td>Low</td>
</tr>
</tbody>
</table>


**Cash cows** represent slow growing markets, where high market share of products should be used to cast off money to invest elsewhere - in **Star products**, where the market is
growing and further investments can yield good returns. Question mark represents fast growing markets, but their share is relatively weak, therefore it would require a great deal of support to become Stars. Dogs represent products with small shares in slow-growing market and should get little or no support (Johansson, 2009).

The development of a global marketing strategy involves four main stages (Stonehouse et al., 2004):

- defining the global marketing mission (which major markets to target, how to segment markets, which competitive position to adopt);
- the global segmentation strategy (global, national, mixed market segments);
- the competitive market-positioning strategy;
- the global marketing mix strategy.

The right selection and implementation of global marketing strategy can achieve one or more of four major categories of potential globalization benefits, which are cost reduction, improved quality of products and programs, enhanced customer preference and increased competitive advantage (Kotabe & Helsen, 2010).

4.1 Segmentation

The objective of market segmentation is to break down the market for a product/service into several different groups of consumers, who differ in their response to the company's marketing mix program, in order to satisfy the needs of the target segments. The criteria for effective market segments are as follows (Kotabe & Helsen, 2010):

- identifiable - easy to define and to measure, e.g. per capita income,
- sizable - large enough to be worth targeting, e.g. young adults from 20 to 30 years,
- accessible - easy to reach through promotional and distributional efforts, e.g. storage facilities, media infrastructure, internet penetration,
- stable - changing composition or behavior over time might lead to failure,
- responsive - segments should respond differently from each other to differentiated marketing mixes,
- actionable - consistent marketing mix with goals and core competencies of the company.

The choice of a segmentation method depends on factors such as market maturity, competitive structure and the company's experience in the market. Global market segmentation typically involves a two-stage procedure. In the first - macro segmentation stage, countries are grouped based on more or less general criteria to identify clusters of countries that are similar in socioeconomic and cultural characteristics. This stage helps to
show, which countries are not attractive and do not offer good market opportunities for companies. Procedure can be also useful for companies with various product lines, since it offers general insight applicable across all the company's products. In this stage the groups of companies are homogeneous in general characteristics, therefore they might be responsive to a standardized and coordinated marketing strategy. In the micro segmentation stage, companies need to perform a market research to collect data on the potential customers in various countries, belonging to the selected cluster, like variables, related to product usage patterns, price sensitivity, media usage, shopping behavior, and also on the individual background variables (socio-demographic, income). Next step is to factor out dimensions along which customers in a country market differ from each other and from customers in other countries. The last step in assessing the size and sales potential for each segment and finally, analyzed data find the best ways to reach and communicate to each of the segments (Johansson, 2009).

Market segments can be built up in different ways. The most common method is to identify preference segments, seen on Figure 15 (Kotler, 2002):

- homogeneous preferences (all consumers have similar preferences, so there is no natural segments),
- diffused preferences (great variances between consumer preferences),
- clustered preferences (distinct preference clusters-natural market segments).

![Figure 15. Basic market-preference patterns](image)


Good marketers examine such segmentation patterns carefully in order to better understand the various positions, they might take in a market - and the competitive implications. Market segmentation and identification of target markets are significant elements of marketing strategies. Its importance lies in the fact that buyers of products/services are not a homogeneous group because every buyer has its specific needs, resources, preferences, etc. Marketers adopt several approaches in order to segment a market, like product variety, mass-, micro-, customized-, personalized-, or target marketing. Target marketing requires
marketers to take on three steps: market segmentation, targeting and positioning (Kotler, 2002).

### 4.2 Targeting

Once the company has identified its market-segment opportunities, it is ready to initiate market targeting. Each segment is properly evaluated to determine how many and which ones to target and enter. To evaluate various market segments, companies must look at two factors. One is segment's overall attractiveness (e.g. size, growth, profitability, economies of scale, low risk) and the other is company's objectives and resources (Kotler, 2002).

#### Figure 16. Five patterns of target market selection

<table>
<thead>
<tr>
<th>Single-segment concentration</th>
<th>Selective specialization</th>
<th>Product specialization</th>
<th>Market specialization</th>
<th>Full market coverage</th>
</tr>
</thead>
<tbody>
<tr>
<td><img src="image" alt="Pattern Diagram" /></td>
<td><img src="image" alt="Pattern Diagram" /></td>
<td><img src="image" alt="Pattern Diagram" /></td>
<td><img src="image" alt="Pattern Diagram" /></td>
<td><img src="image" alt="Pattern Diagram" /></td>
</tr>
</tbody>
</table>


After evaluation process is finished, companies can consider five patterns of target market selection, as shown in Figure 16 (Kotler, 2002):

- **Single-segment concentration** (e.g. Bugatti concentrates on the sports car market). Through concentrated marketing companies gain thorough understanding of the segment's needs and can therefore achieve a strong market presence. However, concentrated marketing involves higher risks than normal if the segment does not turn out profitable because of the changes in consumer buying patterns or new competition.

- **Selective specialization.** Companies select objectively and appropriate number of segments, which ensure high profits. Due to variety of segments the company's risk is diversified.

- **Product specialization.** This approach specializes in making specific product for several segments. Companies can build a strong brand image/reputation in specific product area through this strategy.

- **Market specialization.** Companies concentrate on serving many needs of a particular customer group and thus, gaining strong reputation in serving this customer group.

- **Full market coverage.** Companies try to serve all customer groups with various products they might need. This approach can only be handled by large MNCs, such as
General Motors, Coca-cola, Microsoft. There are two broad ways, how to cover a whole market, that is through undifferentiated or differentiated marketing. In undifferentiated marketing companies ignore market-segment differences and go after the entire market with one market offer, focusing on basic buyer needs with mass production. In differentiated marketing, companies operate in various market segments and designs different programs for each segment (e.g. Microsoft offers Office 365 for enterprises, educational purposes, government, nonprofit organizations and home use).

Targeting decisions need to be based on competitive intensity in each country and the company's competitive advantages and drawbacks in the segment. It is also important to recognize that the best target customers might see other benefits in the products than marketers or customers do in the original country. In order to determine the level of competitive intensity, companies have to go beyond simple identification of which domestic and global competitors operate in each market and which segment they are targeting. Companies also need to assess the commitment of these competitors to defend their market positions and the resources they can call upon to sustain their local advantages in selected segments (Johansson, 2009).

4.3 Positioning

A key question in global positioning is the degree to which the position should be identical on a global scale. Several global brands attempt as much similarity as possible to reinforce their image, but do not always succeed. A good example of successful brand is Coca-Cola, on the other hand McDonalds has had to change its American image to a more localized position in several European countries with adapted menus, decor, etc. (Johansson, 2009).

Positioning initiatives are closely linked to business strategies because strategic positioning comprises the efforts of companies to deliver superior value of products/services to their customers. Major initiatives that are necessary in strategic positioning are positioning concept, strategy and effectiveness. Positioning concept refers to the management's desired positioning of the products through the eyes of consumers. Positioning strategy is the combination of marketing mix strategies, used to display the positioning, desired by management to the targeted buyers. Positioning effectiveness considers, how well management's positioning objectives are being achieved in the target market. The main positioning objective is to have each targeted customer perceive the brand distinctly from other competitors and other brands. Actual positioning of the brand is determined by the customer's perceptions of the company's positioning strategy (and perceptions of competitors' strategies). Desired outcome is to gain an important, distinct and enduring position, that is considered significant by the targeted consumers (Cravens & Piercy, 2009).
Perry (1988) identifies two main types of positioning: market positioning, which refers to the competitive position of a product in the market; and product positioning, which refers to the attributes of a product, compared to other products or consumer needs. These types of positioning can occur in the marketplace or in the customers' mind. Marketplace emphasizes the importance of competition, while the other focuses on customer orientation.

Formulation of the positioning strategy, either local or global, takes several steps before it can be used. The main steps are (Kotabe & Helsen, 2010):

- identification of competitive frame (competing products, brands),
- determination of current operations, held by customers, about product/brand and the competition,
- development of possible positioning themes,
- screening of positioning alternatives and selection of the most appealing ones,
- development of marketing mix strategy, which will implement chosen positioning strategy,
- monitoring the effectiveness of implemented positioning strategy over time.

Roughly speaking, MNCs have two choices to choose from. They can either target a universal segment across countries or pursue different segments in different markets. If they choose to focus on a uniform segment, management needs to decide, whether it is wise to use the same positioning all around the world or use positioning themes, that are tailored to each individual market. If companies decide to choose different segments on a country-to-country basis, it is necessary to also customize the positioning appeals (Kotabe & Helsen, 2010). Figure 17 shows an overview of different strategic options.

*Figure 17. Global positioning strategies*

<table>
<thead>
<tr>
<th>Uniform positioning strategy</th>
<th>Different positioning strategies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Universal segment</td>
<td>Different segments (case-by-case)</td>
</tr>
<tr>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>3</td>
<td>4</td>
</tr>
</tbody>
</table>

If there are a lot of similarities between target customers worldwide, like for instance sharing common core values and showing similar buying patterns, then a uniform positioning strategy would probably work. Many companies position a mainstream brand in its home market as a premium brand in their foreign markets, thereby targeting a narrower segment, who is willing to pay a premium price for imported products. This strategy is especially efficient in product categories, where local brands are already entrenched and have imported brand potential to leverage the cachet of being imported. Local brands usually enjoy a first-mover advantage, therefore, instead of competing head to head with the local competition, foreign brands are mostly better off with targeting the upscale segment. Uniform positioning themes may be desirable, but to come up with a good positioning theme that appeals target markets on worldwide basis is harder to achieve. That is why universal themes are often called bland and not very inspiring (Kotabe & Helsen, 2010).

4.4 Marketing mix

Once the company has decided how to enter international market, the next step is to form an adequate global marketing mix. The original 4P (product, price, place, promotion) marketing mix was primarily derived from research on manufacturing business to consumer (B2C) companies, where the essence of the concept is the idea of collecting controllable variables at the disposal of marketing management, which can be used to influence customers. The marketing mix is however also influenced by the interaction process between buyer and seller, so that the influence process is negotiation and not persuasion, which is implied in the traditional 4P marketing mix. There has also been many concerns, that the classic 4P mix do not incorporate the characteristics of services such as intangibility, heterogeneity, inseparability and ownership (Hollensen, 2007).

<table>
<thead>
<tr>
<th>Element</th>
<th>Marketing function</th>
<th>Wal-Mart</th>
</tr>
</thead>
<tbody>
<tr>
<td>Product</td>
<td>Presentation of an item seeking to satisfy target consumer need in a manner of making a purchase.</td>
<td>Consumers have the choice to buy a wide variety of products at a very attractive price. Consumers are also attracted towards items by the displays on the billboards which are prominently placed where customers can easily get to them.</td>
</tr>
<tr>
<td>Promotion</td>
<td>Effective communication of product's core benefits and differentiated features in terms of customer awareness of its existence, features and locations of purchase.</td>
<td>Wal-Mart promotes its products with trained sales staff who distribute brochures or give demonstrations in the stores. Wal-Mart also uses other types of billboard advertisements as well as hoardings with special offers on the cards to entice both old and new customers.</td>
</tr>
</tbody>
</table>

(table continues)
<table>
<thead>
<tr>
<th>Participants</th>
<th>Providing a human interface, where it is necessary, because of their impact on overall satisfaction of customers, customer perceptions of product quality, etc.</th>
<th>Wal-Mart employs people greeters, who welcome customers at the door and prevent potential threats.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Place</td>
<td>Ensuring that company's range of products are located in relevant retail outlets as expected by the target buyers. It also ensures that their distribution channels are capable of representing and selling the products effectively and efficiently.</td>
<td>Many products at Wal-Mart are kept and arranged by the priority consumers have for them. Some of the items are kept ready to be packed away when consumers purchase them online.</td>
</tr>
<tr>
<td>Price</td>
<td>Recoupment of the total cost of production with some predetermined level of profit. Price may also be used for positioning a product within a given market space.</td>
<td>All items are displayed prominently with their price attached along with it. Wal-Mart always has the advantage of giving out part of the discounts or price incentives on bulk purchases to the end customers due to bulk purchasing from manufacturers and wholesalers. That is why Wal-Mart can afford lower prices than competitors.</td>
</tr>
<tr>
<td>Physical evidence</td>
<td>There are no physical attributes for services, therefore, it is often vital to offer customers some tangible clues to assess the quality of the provided service, like providing brochures, websites, warranties etc. to indicate the nature of their offerings.</td>
<td>Wal-Mart has a trained and friendly staff who are always handing out brochures and making demonstrations of their wide spread assortment of products.</td>
</tr>
<tr>
<td>Productivity and quality</td>
<td>Ensuring that requisite level of service is provided to the customer with strict regard to their customers' expectations throughout the entire process of making a purchase (before, during and after purchase event).</td>
<td>Wal-Mart keeps up three tiers of quality standards. Lower tier of standards is set for most of its brands, such as Great value. Middle tier specifies average quality for low-cost retailers. It is applied for the performance of its sales personnel. The upper tier is applied only for a minority of products, such as goods under the brand Sam's choice.</td>
</tr>
<tr>
<td>Process</td>
<td>Providing a structured system through which buyer and seller are able to interact and perform their roles effectively in a market transaction, like ensuring customers to understand the process of acquiring services and accept the queuing and delivery time.</td>
<td>Wal-Mart online store uses strategies to pull customers by attractive slogans such as «grab it before it's gone», which pushes customers to take a purchase decisions immediately, before the deals expire.</td>
</tr>
</tbody>
</table>


The most influential alternative framework is Booms and Bitner's (1981) 7Ps mix, which suggests that the traditional 4Ps need to also include participants, process and physical evidence. In 2006 Zeithaml, Bitner and Gremler highlighted another dimension to the extended model that needs to be addressed in terms of delivery, that is productivity and quality throughout the entire marketing process (Table 10).

Being able to integrate 8Ps into a coherent marketing mix strategy demands from the company to answer a number of important questions regarding their target customers, and
perhaps more importantly, about how the firm is placed to systematically satisfy customers needs and wants over time (Constantinides, 2006).

### 4.5 Standardization-adaptation issues

Standardization means that companies sell their products in the exact same manner all around the world. The main target of standardization is therefore to minimize the costs by the process of economies of scale. The process can be referred to the whole production chain or can be based on a specific part of the marketing mix like packaging, design, product itself or even the development of distribution. Sometimes standardization is important as it not only reduces the operating costs but also allows the company to considerably reduce the risk while going in a unknown foreign market. Standardization has a lot to do with customers' needs and desires. Due to technological evolution, enhanced by the era of communication, there is a certain conjunction of consumers needs all over the world. Therefore companies no longer target customers in different countries but target different segments either in specific region either entire world (Yip, 1996).

Adaptation on the other hand refers to the changes companies operate with while going on new international markets. It can be driven by different factors such as the infrastructure of the host country but companies mainly use this approach in order to sell their products to a population of people with different cultural styles. Using adaptation strategy can lead to higher revenues by convincing more customers who usually have different needs from companies home market's consumers. The most important factor in adaptation strategy is the knowledge of company entering a new international market, which must ensure that they identify the actual need of the consumers and reply to it in such manner through its products or services. Consequently, adapting companies have to acquire not only the financial requirements for the internationalization but they also have to know the major needs of the host country consumers and also know how to respond to it. Companies must have capabilities to adapt to host country, but they also have to obtain the appropriate resources, both capital and human, in order to do so. Specialists often stipulate that consumers respond differently to foreign advertisements or products. That is why cultural distance is the key factor that pushes adaptation to the host country market (Ramos, 2012).

The standardization-adaptation strategy differs according to certain factors that are linked, like selection of the host country, the choice of entry mode, the capacity of the companies going international, and so on. Those are important factors, that will push companies to make a choice of adapting or standardizing in foreign markets. The most challenging decision companies are faced with is the degree of standardization and adaptation in its operations. Factors, influencing the degree of standardization and adaptation regarding the external factors, are as follows (Toyne & Walters, 1993):
• **Language differences**: language diversity may result in a need for alteration and translation of messages, trade names, brands, slogans and advertising content (e.g. Ford Pinto in Mexico, Ford Kuga in Slovakia).

• **Cultural differences**: religions, beliefs, attitude and education are few of cultural aspects influencing communication process. Culture affects how people observe signals and symbols as well as their preferences and dislikes, which in turn affects how messages should be developed and which media should be used.

• **Social differences**: attitudes to promotion and principally advertising may be rooted in historical and social biases, e.g. German consumers tend to interpret statements more literary than Spanish consumers.

• **Economic differences**: economic conditions like literacy rate, media availability, consumer perception of luxuries and necessities in countries affect communication strategies.

• **Legal and regulatory differences**: local restrictions and industry norms affect the choice of media and content of promotional material.

• **Competitive differences**: how much to spend on promotion, frequency of communication, and type of approach is often affected by the communication strategies and intensity of competition.

The most important internal factors are the overall global strategy of a business and relationship between HQ executives and foreign subsidiary management. The scope for global promotion is far greater when transnational strategy places greater emphasis on coordination of activities rather than adopting a locally responsive approach. Likewise, greater the degree of centralized control the greater the standardization of promotion. When decision-making power is decentralized, then there is greater scope for local variations in promotion (Stonehouse et al., 2004).

Table 11 shows factors, favoring standardization and factors, favoring adaptation. There has been plenty debates on which strategy is best for international marketing strategy and the researchers are torn into two over this. First are arguing that standardization is the best solution for the global marketplace as the world is becoming increasingly more homogeneous due to globalization. According to Levitt (1983), standardization of international marketing strategy means that the same marketing activities should be performed worldwide and that advancement and recognition in means of communication and transportation the world preference structure gets pressed into homogenized commonality. On the other hand the supporters of adaptation strategy argue that although globalization has made its impact on the world, there are still significant differences in cultural, political and socio-economic condition of the countries, which are to be found across the countries and as well within the countries. According to Kotler (1986), the failure of most international products on a global manner is due to the lack of product adaptation. Because of this grounds Kotler and Armstrong (2008) give the concept of
adapted marketing mix an international marketing strategy for adjusting the elements of marketing mix to each international target market, bearing more cost but hoping for large market share and return.

Table 11. Factors favoring standardization vs. adaptation

<table>
<thead>
<tr>
<th>STANDARDIZATION</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Economies of scale in R&amp;D, production and marketing (experience curve effects)</td>
</tr>
<tr>
<td>• Global competition</td>
</tr>
<tr>
<td>• Convergence of tastes and consumer needs (consumer preferences are homogeneous)</td>
</tr>
<tr>
<td>• Centralized management of international operations (possible to transfer experience across borders)</td>
</tr>
<tr>
<td>• A standardized concept is used by competitors</td>
</tr>
<tr>
<td>• Easier communication, planning and control (through Internet and mobile technology)</td>
</tr>
<tr>
<td>• Stock cost reduction</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>ADAPTATION</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Local environment-induced adaptation: government and regulatory influences (no experience curve effects)</td>
</tr>
<tr>
<td>• Local competition</td>
</tr>
<tr>
<td>• Variation in consumer needs (consumer needs are heterogeneous due to cultural differences)</td>
</tr>
<tr>
<td>• Fragmented and decentralized management with independent country subsidiaries</td>
</tr>
<tr>
<td>• An adapted concept is used by competitors</td>
</tr>
<tr>
<td>• Legal issues - differences in technical standards</td>
</tr>
</tbody>
</table>


Both standardization and adaptation have advantages and pitfalls. Some of the elements can be more standardized and some less compared to others. The key to a success in the global market place is creating the right balance between the two.

4.6 Understanding global consumers

According to Ger and Belk (1996) there are at least four different ways to interpret culture of global consumers: the proliferation of transnational corporations, the proliferation of global capitalism, global consumerism and global consumption homogenization. Global consumerism is defined as a widespread and unquenchable desire for material possessions. A culture, where the majority of consumers eagerly desire and accordingly try to acquire and display goods and services, that are valued for non-utilitarian reasons such as status seeking, envy provocation and novelty seeking. The rise of large-scale, democratized consumption as a legitimate and positively valued human activity has in most countries led to emergence of a global consumer culture.

Consumer culture guides people in defining their tendency towards a certain set of possessions. For example, the standard U.S. package of goods has developed into a standard world package, which includes a car, home with electric lightning, refrigerator
and a television. The same stands for services since the fast-food joints had become part of
the standard world package. McDonalds can be set as an example, where people can
strongly identify with its offerings around the world, because you expect to get the
standard burgers, fries and drinks everywhere in the world. Standard also means that
product quality remains the same unless new technological developments allow
improvements which supplement the previous attributes (Ritzer, 1993).

The most disputable aspect of globalization is the implicit assumption that we are all
oriented towards a modern lifestyle. This view of cross-cultural buyer behavior focuses on
three assumptions (Usunier & Lee, 2005):

- modernity is a given and technology is our path to a bigger and better place for all,
- all societies can be placed on a continuum of social change even if they differ
  externally,
- the criterion for placing a society on the continuum is its degree of resistance to the
  changes brought about by modernity.

The emergence of a global modern culture is frequently vague with the convergence of
local cultures, which leads to an inaccurate description of the globalization phenomenon.
Mistakes, happening often, are misleading «modern» for «American», while it is true that
U.S. MNC's have been literally the champions and predictors of modern culture in
consumer goods and services industry, globalization is not just a worldwide extension of
«American way of life». The increased adoption of modern culture cross-nationally is
wrongly interpreted as a sign of full reconciliation - and as a testimony to the progressive
disappearance of local cultures. Noteworthy elements of local cultures (language, religion,
customs, etc.) are still intact and quite visible in the global manner. Cultural barriers do not
seem to matter much because they rarely appear as the main explanation for behavior.
However, local cultures allow a deeper understanding of consumption in a specific context,
like for example perception of coffee drinking consumers varies in U.S., where it is normal
for consumers to take their coffee «to go», whereas in some countries in Europe and
Australia consumers prefer their coffee with their meal and to take their time with it in
order to have a pleasant coffee experience (Usunier & Lee, 2005).

In various cases local consumers cultures can be strong enough to develop resistance
toward globalized consumption if one is perceived as pernicious to local cultural and
economic interests. Yet in most cases the emergent pattern is one made of a mix of local
and global behavior, which is based on kaleidoscopic ways of assembling diverse
consumption experiences and making sense of them in everyday life (Usunier & Lee,
2005).
5 ANALYSIS OF THE BRAZILIAN MARKET

Brazil is the fifth largest country in the world, both in terms of territory (8,349,320 km²) and of population (209.5 million in July 2016), which is increasing rapidly. It is a key emerging world economic power, which - according to a number of recent estimates - could constitute one of the world's biggest economies by 2050, the so called BRIC countries. Brazil is divided into 26 states and one federal district. It has a highly centralized system, in which local units have very little authority. Each of Brazil's 26 states has its own constitution and popularly elected legislature and governor. Rio de Janeiro and São Paulo are the principal distribution centers; the largest numbers of importers, sales agents, and distributors are located in these cities, having branch offices in other areas. Other major commercial centers are Recife and Pôrto Alegre, in the northeast and the south; Belém, which serves as a distribution center for the whole Amazon River Valley; and Salvador, which is the main distribution center for Bahia and the neighboring states (Social development in Brazil, n.d.).

5.1 PEST analysis

PEST analysis investigates the important factors affecting the industry and influencing companies operating in that sector. It is a perfect tool for managers and policy makers, since it helps them analyze the forces that are driving their industry and how these factors will influence their businesses and whole industry in general.

Political environment. Brazil has a longstanding history of government intervention in regards to import regulations and restrictions. For many years, the country focused on inward industrial development that was deliberately built through restrictive trade policies. Brazil managed to weather the recession well, and is continuing its growth momentum as it establishes a more prominent place for itself in the global market. High tax and interest rates, however, have surfaced as major concerns, coupled with increasing inflation. Brazil is the world’s fifth most populous nation, which offers huge market opportunities with a growing skilled labor force available at low expense. This has opened up the door for 100 % FDI in major sectors as iron and bauxite reserves, and oil and gas, which contributes to the economic stability of the country. Brazil’s R&D spending is less than the average in the advanced economies and the government is focused on addressing that shortcoming. Brazil's environmental concerns are evident in the voluntary steps taken to reduce its greenhouse gas emissions (Market Research Reports, 2015).

There are quite few challenges that potential entrants are faced with when entering Brazilian market. The main constraint remains corruption, affecting the quality of services provided, infrastructure and overall investment in the country. According to Transparency International Brazil ranks 79th out of 168 countries with consumer price index (CPI) score.

53
40, same as India, Belarus and China. Although President Dilma Rousseff adopted a strong stance against corruption in government, risks in the sector have lingered. For example, a number of public officials have been charged with demanding bribes, particularly to hurry bureaucratic processes. From 2003 to 2012, the federal auditor’s office fired nearly 4,000 employees from public service. And most of these charges stemmed from corruption or dishonesty. The most recent - Petrobras affair, show how collusion between businesses and politicians siphons off billions in revenue from national economies, benefitting little at the expense of the numerous people. This kind of grand corruption not only violates human rights but also prevents sustainable development and fuels social exclusion (Transparency International, 2017).

Companies operating in Brazil have to deal with a wide range of regulatory agencies. In effect, this heavy bureaucracy can increase the likelihood of demand for bribery by public officials. Brazil also inadequately tackles bribery in international business. Although the country ratified the Organization for Economic Cooperation and Development (hereinafter: OECD) Anti-Bribery Convention, there has only been a slight enforcement in the matter. Twelve years following ratification, only one case and two investigations have been pursued by officials (Corruption by country: Brazil, 2015).

**Economical environment.** Brazil emerged as one of the most stable and prosperous countries in Latin America with a 2,41 trillion USD GDP in 2014, which represented 3,90 % of the world economy, ranking it the seventh-largest economy. GDP growth in Brazil has slowed by 4,5 % in 2006-10 to 2,1 % over 2011-14 and 0,1 % in 2014 due to reduced demand for Brazilian exports in Europe and Asia and modest consumer demand from Brazil’s large middle class. Brazil has been hit by a deep recession in 2015 and is showing even more intense and challenging as some anticipated, as it is already perceived to be the worst recession in its history. Recession had caused a major drop of commodity prices and unemployment rate has risen to 12,6 %, which makes for more than 12,9 million unemployed. On average GDP in Brazil was worth 610,4 billion USD in 2015, representing a total 2,86 % of the world economy. Inflation rate had decreased to 5,35 % in January 2017; the lowest since 2012. In long term inflation rate is projected to trend around 3,6 % in 2020. Brazilian economy is anticipated to grow to 3,17 trillion USD in 2017 with a 4,3 % compound annual growth rate (hereinafter: CAGR) during 2012-2017. Brazil’s medium-term outlook will depend on the success of the current adjustment and the adoption of further growth-enhancing reforms. To achieve higher growth in the medium-term, raising productivity and competitiveness is of crucial challenge for Brazil. With the growth drivers over the past decade- credit-fuelled consumption, labor expansion and the commodity boom- receding, growth will need to be based on higher investment and gains in productivity (Economic development in Brazil, n.d., Brazil inflation rate, n.d.).
Strong domestic demand is a key driver for the Brazilian economy. Brazil's large population offers the basis for a strong work force that represents a solid driver for the country’s economic development. The country's natural resources also contribute to Brazil’s economic growth. Brazil is the fastest-growing economy in Latin America and has the largest number of sectors open for FDI. With new economic policies, Brazil is attracting more FDI and foreign institutional investors. Brazil's political stability has been a benefit to the country making it a favorable destination for FDI and institutional investors. The economy also reflects a low risk from the euro crisis. The Brazilian economy is vexed by steep interest rates and a high tax rate structure. While high taxes are increasing the price of goods and services produced in Brazil, the interest rates have suppressed the growth of the real estate and automotive sectors, among others. Another major challenge for the Brazilian economy is the regional economic disparity present in the country. Brazil faces many challenges in terms of income inequality and the nation’s high crime rate. A stable Brazilian government and its economic reform policies, however, are anticipated to steer the economy through its trials, leading to economic growth over the long term. The current and projected economic situations in Brazil make it one of the more favorable destinations for investments in various sectors such as energy, automotive, retail, and construction emissions (Market Research Reports, 2015).

Brazil’s trade figures have been fairly low in the past, but in 2011 Brazil's trade picked up speed with exported goods worth approximately 256 billion USD, and imported goods worth about 237 billion USD. It is thus neither a leading export nor a leading import country. Its most important export and import partners are China, the United States and Argentina (Statistics and facts on Brazil, n.d.).

Brazil’s national debt has been reduced over the last ten years: making up about 75 percent of the GDP in 2003, it decreased to about 60 percent in 2013, since then it has been an rising spiral to 78,28 % in 2016 and projected estimate of 90,8 % by 2020. In 2014 GDP was about 2,24 trillion USD and is estimated that Brazil will have the fourth highest GDP in the world by 2030. A new fiscal rule is currently being implemented which should, in combination with a planned reform of pensions and social benefits, strengthen fiscal sustainability and could simultaneously lead to stronger declines in income inequality (National debt of Brazil in relation to GDP 2020, n.d.).

**Socio-cultural environment.** The core culture of Brazil is derived from Portuguese because of its strong colonial ties with the Portuguese empire. Among other influences Portuguese introduced the Portuguese language, Roman Catholicism and colonial architectural styles. The official language of Brazil is Portuguese. Brazil’s income inequality levels remain among the highest in the world. It is the most outstanding in Latin America because 10 % of the richest absorb 42,7 % of all income compared to 1,2 % going to the poorest 10 % (Meyer, 2015).
According to OECD, 88% of population in Brazil believe that they know someone they could rely on in a time of need, less than the OECD average of 90%. There is a 3 percentage point difference between men and women, as 90% of men believe they have this kind of social support, compared with 87% of women. Brazilian society is more markedly divided by social class lines, although a high income disparity is found between race groups, so racism and classism can be conflated. Perhaps the most significant social challenge facing Brazil is caring for the millions of children, lacking sufficient education, housing, health care and nutrition (Social development in Brazil, n.d.).

According to Hofstede cultural dimensions approach power distance index is 69, shown on Table 12 meaning that Brazilian culture accepts a greater amount of inequality and hierarchy. It is considered to be a more collectivistic society meaning people are more integrated into strong, cohesive groups, extended families, which continue to protect them in exchange for loyalty. Masculinity dimension show that roles between gender are almost equal. It is interesting that uncertainty avoidance index is 76, indicating the society's low level of tolerance for uncertainty. In an effort to minimize this level of uncertainty, strict rules, laws, policies, and regulations are adopted and implemented. Long term orientation shows that Brazilian values associated with it are intermediate. Brazil's high score with indulgence means that people in societies have a positive attitude and a tendency towards optimism, so they place a higher degree of importance on leisure time, being their own boss and spend money as they please (The Hofstede centre, 2015).

Table 12. Hofstede cultural dimensions

<table>
<thead>
<tr>
<th>Power distance</th>
<th>Individualism</th>
<th>Masculinity</th>
<th>Uncertainty avoidance</th>
<th>Long term orientation</th>
<th>Indulgence</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rank</td>
<td>69</td>
<td>38</td>
<td>49</td>
<td>76</td>
<td>44</td>
</tr>
</tbody>
</table>

Source: The Hofstede centre, What about Brazil?, 2015.

**Technological environment.** Technological research in Brazil is largely carried out in public universities and research institutes, with the majority of funding for basic research coming from various government agencies. Brazil’s most esteemed technological hubs are the Oswaldo Cruz Institute, the Butantan Institute, the Air Force's Aerospace Technical Center, the Brazilian Agricultural Research Corporation and the INPE (National Institute for Space Research). The Brazilian Space Agency has the most advanced space program in Latin America. Uranium is enriched at the Resende Nuclear Fuel Factory, mostly for research purposes, as Brazil obtains 88% from its electricity from hydroelectricity, and the country's first nuclear submarine was delivered in 2015, by France. Brazil is one of the three countries in Latin America with an operational Synchrotron Laboratory, a research facility on physics, chemistry, material science and life sciences. Brazil is also the only
Latin American country to have a semiconductor company with its own fabrication plant (CEITEC). It is the world's tenth largest energy consumer with much of its energy coming from renewable sources, particularly hydroelectricity and ethanol; the Itaipu Dam is the world's largest hydroelectric plant by energy generation. The first car with an ethanol engine was produced in 1978 and the first airplane engine running on ethanol in 2005. Recent oil discoveries in the Pre-salt layer have opened the door for a large increase in oil production emissions (Market Research Reports, 2015).

5.2 Porter's five forces of competition

Porter's five forces of competition framework was developed by Michael Porter (1979) as a simple framework for assessing and evaluating the competitive strength and position of a business organization. Theory is based on the concept that there are five forces, which define the competitive intensity and market attractiveness (Figure 18). Analysis is useful in terms of helping identify where power lies in a business situation, which makes it applicable in understanding the strengths of a company's current competitive position, and the strength of a position that a company may look to move into.

Figure 18. Porter's five forces framework

Wal-Mart's strategies can be interpreted very well with this framework. The company succeeded in achieving the leading position in global retail industry. However, the external factors in the industry environment impose pressure, which must be addressed to sustain
and develop its customer foundation and ensure a profit. Wal-Mart needs to develop strategies that address the bargaining power of buyers and suppliers and effective strategies in order to withstand the threats of substitutes and new entrants, so the company must keep evolving to ensure long-term viability (Greenspan, 2016).

**Bargaining power of buyers.** Wal-Mart faces comparatively low to medium pressure from customers mainly in the food category because it can be easily substituted with other brand name due to low switching costs. Though customers can purchase items from other competitors at a comparable price, Wal-Mart and other discount retailers are creating huge supercenters so the customers can make only one stop, where they can buy a wide variety of products, so they do not have to go from store to store to find the cheapest products. Also the expediency that is provided by Wal-Mart is its unique selling proposition (EDLP, Rollback, Special buy). They are aware that consumers will be more price cautious if they do not have a lot of resources to spend so they try to lure them to the stores with special discounts and other marketing strategies, which works in both ways.

**Threat of new entrants.** Wal-Mart and also other retailers have to address the intensity of new entrants, since small retailers can compete on the market with factors like convenience, location, specialized products and so on. But starting a business in new market can be very costly, whereas giants like Wal-Mart can utilize economies of scale, which spread the costs of production over the number of produced units. Wal-Mart's brand name is broadened globally and its vast product portfolio under a single roof is its most important differentiating factor from the new entrants. Temporary price drop of new entrants products could work for a short amount of time but in the long run it is very difficult to force the giant out of market. The access to distribution channels with secure distribution for their products is one main feature of their strategy. There are also high entry barriers for companies aspiring to enter the market because Wal-Mart possesses unique resources and capabilities that are hardly substitutable. The market is close to saturated in the country's largest cities (Rio de Janeiro, São Paulo). Expanding to the rest of the country would require significant investment which can dissuade new players from entering new markets. Also consumption patterns vary in a great manner according to salary, creating additional challenges for retailers, etc. However, costs of opening and operating a new retail firm are fairly low, so newcomers can keep operating on the market and pose a potential threat to companies like Wal-Mart (Basu, 2010).

**Threat of substitute products.** Though there are a lot of similar products which any retail store like Wal-Mart can offer, the convenience and low pricing that is provided by Wal-Mart is very rare for any competitors. Many of competitors have tried to imitate their unique business system, but failed. Wal-Mart has an excellent customer service that provides pleasant shopping experience, which is unique to their value chain. Though customers could go to different specialty stores for each of their different products, Wal-
Mart wholesales every item under one roof and at a price, which is lower than in the specialized shops. In making substitutions, consumers sometimes forget about the quality of the products, brand name or even the service the stores provide just to get cheaper products. Wal-Mart tries to provide the best customer service possible, but due to high-traffic store, it is generally impossible to provide one-on-one service. Moreover the online shopping also provides another advantage as the customers do not need to be physically present in the store in order to buy the product, therefore they can simply make an online purchase and have the items delivered to their nearest store (Chande & Auberty, 2015).

**Bargaining power of suppliers.** Wal-Mart is such a dominant force and has become such an important account for their suppliers that they managed to diminish the power of suppliers. With that done Wal-Mart can pursue achieving their goals and concentrate entirely on their cost leadership strategy, which serves customers with products at prices suitable for all pockets. Wal-Mart however forces its suppliers to cut their margins and provide the best products. Though many suppliers have criticized it, they are forced to meet the requirements as Wal-Mart is a large buyer and accounts for approximately 40-50 % of their supplies. The switching cost for Wal-Mart to another supplier is also lesser as that supplier might only be supplying about 5 % of Wal-Mart’s requirements. Wal-Mart also hand picks its suppliers and tries to keep good and long standing relationships with them because that is their key to achieving goals and maintaining good pricing strategies. On a global note Wal-Mart works with over 60,000 suppliers, but its difficulties to establish strong ties with suppliers in order to offer the best and cost friendly goods show that suppliers have managed to maintain some negotiating power (Wal-Mart Inc., 2016a).

**Competitive rivalry within industry.** Due to strong opportunities in retail sector over the past year on the back of Brazil's large consumer base and rising incomes, retail market has benefited from strong investments, especially from international retailers, which had translated into high competition. The leading retailers in Brazil are CBD with gross revenues 72.8 billion Brazilian Real (hereinafter: BRL) in 2014 and 2159 stores, Carrefour Brazil with gross revenues 37.9 billion BRL and 258 stores, and Cencosud with gross revenue 9.7 billion BRL in 2014 and 360 stores. Wal-Mart had generated gross revenues 29.6 billion BRL in 2014 with 550 operating stores (Nes, 2015).

Over the past few years, CBD and Carrefour have experienced rapid growth in Brazil. By December 2014, Carrefour reported organic growth of 8.0 % in the country. Carrefour benefits from the knowledge of Abilio Diniz, the former chairman of Grupo Pao de Açúcar (hereinafter: GPA), who acquired a 10 % stake in Carrefour Brazil in December 2014. On the other hand, CBD benefits from the solid financial backing of French retailer Casino. Whereas, Wal-Mart Brazil - country's third largest retailer, has lagged behind its competitors in building strong ties with its local suppliers, explaining why it has not
managed to increase its market share over the past few years. It is important for Wal-Mart to stay aggressive in order to remain competitive in the market (Chande & Auberty, 2015).

Once having assessed the forces affecting competition in an industry and their underlying causes, the corporate strategist can identify the company's strengths and weaknesses. Then the strategist can devise a plan of action, which may include positioning the company so its capabilities provide the best defense against competitive forces or influence the balance of forces through strategic moves, thereby improving company's position or anticipate shifts in the factors underlying forces and respond to them in ways, hoping to exploit change by choosing a strategy that is appropriate for the new competitive balance before rivals recognize it (Porter, 1979).

5.3 SWOT analysis

SWOT analysis can be used to give an overview of a company's status at a given time and is structured as company's internal situation (strengths, weaknesses) and external parameters that influence the company (opportunities, threats) (Table 13). Once data is analyzed the main idea is to match key strengths with promising opportunities and see these in relation to threats and weaknesses.

Table 13. SWOT analysis

<table>
<thead>
<tr>
<th>STRENGTHS</th>
<th>WEAKNESSES</th>
</tr>
</thead>
<tbody>
<tr>
<td>• customer loyalty</td>
<td>• little differentiation</td>
</tr>
<tr>
<td>• high brand value</td>
<td>• low reaction to changes in market</td>
</tr>
<tr>
<td>• scale of operations</td>
<td>• negative publicity, labor related lawsuits</td>
</tr>
<tr>
<td>• strong market position</td>
<td>• low current ratio</td>
</tr>
<tr>
<td>• good inventory control system</td>
<td>• failure to contain operating expenses</td>
</tr>
<tr>
<td>• good reputation on quality and low price</td>
<td>• business model easy to replicate</td>
</tr>
<tr>
<td>• emphasis in human resource management and</td>
<td></td>
</tr>
<tr>
<td>development</td>
<td></td>
</tr>
<tr>
<td>• competence in information systems</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>OPPORTUNITIES</th>
<th>THREATS</th>
</tr>
</thead>
<tbody>
<tr>
<td>• strategic alliances and mergers</td>
<td>• cultural differences in new markets</td>
</tr>
<tr>
<td>• increase demand</td>
<td>• countries economic problems</td>
</tr>
<tr>
<td>• technological developments</td>
<td>• stringent regulations</td>
</tr>
<tr>
<td>• new retail formats</td>
<td>• antitrust issues</td>
</tr>
<tr>
<td>• customer concern regarding environment</td>
<td>• intense competitive conditions (brick, mortar, online</td>
</tr>
<tr>
<td>• trend toward healthy eating</td>
<td>competitors)</td>
</tr>
<tr>
<td>• rising acceptance of own label products</td>
<td>• failure to sustain cost advantage</td>
</tr>
<tr>
<td>• online e-retailing</td>
<td>• risk of a new global economic crisis</td>
</tr>
</tbody>
</table>

**Strengths.** Wal-Mart has a very well established brand name, which is recognized all around the world as it is considered to be the largest retailer with the most stores and revenues. Scale of operations means that it can achieve better economies of scale, especially in terms of the volume of products they sell. This can be passed onto the customer in a form of lower prices, which makes it difficult for competition to beat. The company has taken several programs, which helps it achieve price leadership, such as EDLP, rollbacks, savings catcher, Wal-Mart pickup and money back guarantee. Wal-Mart is also admired for its technologically advanced information system for order tracking, inventory, customer relationship management and sales that can be tracked in real time for better decision making and more efficient supply chain management, meaning that they can ensure shelves are stocked at all times to maximize sales. They offer the widest array of products among all retailers, including well-known brand names and own private label brand, which allows customers to get the most for their money as well as getting to choose between the best possible array of products. With having a chance to find everything they need at Wal-Mart and not visit multiple retailers, customers will be more likely to return to their stores (Global data, 2015).

**Weaknesses.** Wal-Mart has experienced numerous lawsuits related to its treatment of employees, including discrimination, unequal wages, unfair promotions, poor benefits, etc., which cost Wal-Mart significant amount of money and also tarnished the brand reputation. Business suffers from high employee turnover that increases Wal-Mart's costs due to frequent training of new employees. The main reason for high employee turnover is low skilled and poorly paid jobs. Another weakness is that Wal-Mart has no differentiation compared to its competitors, which might hurt the company in the future if commodity prices or average consumer income would increase. In such case, low cost leadership strategy wouldn't be as effective as it currently is and Wal-Mart's main competitive advantage would erode (Global data, 2015).

**Opportunities.** Successful execution of its online business strategy may help Wal-Mart attract new customers and generate higher revenues. Wal-Mart offers online shopping in 11 countries (U.S., Argentina, China, Canada, South Africa, Brazil, India, Chile, Mexico, Japan and UK). In fiscal 2016 Wal-Mart planned an investment of 1.2-1.5 billion USD into e-commerce websites and mobile commerce application to strengthen its digital retail capabilities for better serving its customers and support its stores and clubs. Wal-Mart also intends to expand its international retail network. In fiscal 2015 they invested 3,936 million USD in Wal-Mart International segment and opened 183 new stores and for 2016 they plan to remodel existing stores under Wal-Mart International banner. With the rising store number they hope to increase the visibility of the company that might encourage more customers to visit Wal-Mart stores and clubs (Global data, 2015).
**Threats.** Wal-Mart is faced with a lot of threats which have to be assessed in order for the company to keep its market share. Like for instance a conflict of interest with their green operations. Wal-Mart has plenty of maneuver space, yet due to its size and pricing strategies, it is kind of hard to think of how far they can actually go. Low prices still have some limitations. It is true that industrially processed food is cheaper than homegrown products, but quality has to remain there in order for customers to keep on buying the products, even though it is considered cheap. Wal-Mart is trying to work out this threat by building sustainable facilities. They have also raised a goal to design more energy efficient stores (25-30 % savings) and produce 30 % less gas emissions. Another major threat represent competitors like CBD, Carrefour, Lojas Americanas, Lojas Renner, etc. with their efforts to eliminate high price differences. Wal-Mart's low pricing strategies are their main advantage and if they lose that, competitors will more likely gain power over their customers. Another threat on international basis are the barriers and regulatory, binding laws, which can, in some cases be very long-lasting and expensive (Global data, 2015).

**5.4 McKinsey's industry attractiveness**

The McKinsey matrix uses the dimensions of industry attractiveness and business unit strength, which include a wide variety of factors that companies choose. Matrix is more sophisticated than BCG matrix in terms of having more flexibility and a wider scope. To determine the industry attractiveness, companies first need to define the following factors: market growth rate, market size, pricing trends, PEST factors, Porter's five forces factors, workforce availability, fluctuations in demand, profit margins, legal and entry barriers. Matrix offers a systematic approach for decentralized companies to determine where it is best to invest money. Rather than relying on business units projections in future prospects, companies can judge their units based on two factors: attractiveness of desired industry and unit’s competitive strength within that industry (McKinsey, 2008).

*Figure 19. McKinsey industry attractiveness matrix*

![McKinsey Industry Attractiveness Matrix](image-url)

Placing business units within the matrix provides an analytical map on how to manage them. Figure 19 shows that where units are above the diagonal, companies are strong in competition in attractive markets so they may pursue strategies of investment and growth. Wal-Mart's discount stores are the units that are the most profitable and carry out benefits like economies of scale, so they should definitely invest in them more. With units along the diagonal, companies should consider selective investment, and for units below the diagonal, it would be best to sell them, liquidate or leave them open to run purely for cash. Sorting units into these categories is a main starting point for the analysis, but judgment is required in order to weight the trade-offs involved (McKinsey, 2008).

According to Global Retail Development Index (hereinafter: GRDI) Brazil ranks 20th due to political and economic instability and international investment downgrades in the previous year (Table 14). In comparison to previous year, where they ranked 8th, that is quite a major drop. Market is still highly attractive and is becoming saturated with premium brands, especially in São Paulo and Rio de Janeiro, where the share of wealthy consumers had increased over the past few years (Kearney, 2016).

<table>
<thead>
<tr>
<th>Year</th>
<th>Rank</th>
<th>Market size (25%)</th>
<th>Country risk (25%)</th>
<th>Market saturation (25%)</th>
<th>GRDI score</th>
<th>Population (million)</th>
<th>GDP per capita</th>
<th>Retail sales (billion USD)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>5th</td>
<td>99.4</td>
<td>59.8</td>
<td>48.7</td>
<td>60.3</td>
<td>202.7</td>
<td>16.096</td>
<td>759</td>
</tr>
<tr>
<td>2015</td>
<td>8th</td>
<td>98.0</td>
<td>60.4</td>
<td>45.2</td>
<td>57.9</td>
<td>203</td>
<td>15.000</td>
<td>776</td>
</tr>
<tr>
<td>2016</td>
<td>20th</td>
<td>85.9</td>
<td>65.7</td>
<td>20.4</td>
<td>43.0</td>
<td>205</td>
<td>15.690</td>
<td>445</td>
</tr>
</tbody>
</table>


Low GDP growth, soft commodity prices, high demand for products from China and largest trading partners increasing exports are the main challenges that Brazil is currently faced with. Retailers are trying to adapt to the market with adjusting store formats in big cities, hoping to find a way to boost up sales. According to Brazilian Institute of Geography and Statistics (hereinafter: IBGE), retail volumes sales index has dropped by 4.5% in 2015 in comparison to previous year. As a major setback to the government's economic policy, GDP in Brazil contracted to 1.89 trillion USD in 2015 from 2.62 trillion USD in 2011; an average decline was 3.54% per year. Brazil's gross debt to GDP ratio of 66% appears small if you compare it to Greece, where its 175%, but the situation is more worrisome than it appears. For instance Central Bank's benchmark SELIC rates surged by 10% to 14.25% in solely two years, which made debt obligations more expensive to service. A negative factor are also increasing interest rates. Inflation accelerated in 2015 and 2016 to over 9%, which is far higher than Central Bank's self-imposed upper limit.
At the beginning of 2017 inflation dropped to a 5.39 % and is projected to fall even more, to 4.5 % according to International Monetary Fund (IMF). Another negative factor is the unemployment rate, which according to IBGE, rose significantly to almost 8 % in mid-year 2015; that is almost double the amount than same time in year 2014 (PwC, 2015, IMF, 2017).

Brazil may appear to be in grip of recession but it still has a significant potential for foreign and domestic investors. In Brazil there are more than 14,500 convenience stores, approximately 5,300 discount stores, over 1,220 hypermarkets and more than 8,300 supermarkets, which makes the market hard to dismiss, since it is amongst three largest markets for Unilever, Avon, P&G, TIM, Johnson & Johnson and second largest global producer of organic food. Recent currency depreciation in Brazil offers more opportunities for foreign companies, which are planning to either enter or expand in the country. Depreciation has dramatically reduced asset values, which made Brazilian market more conducive for deal making. Retail industry in Brazil accounts for 20 % of the GDP (more than 600 billion USD). Retail sector is also one of the largest employers in Brazil. The largest retailer Pao de Açúcar employs over 170,000 employees, which is more than in entire automotive industry in Brazil. Second largest retailer Carrefour employs over 75,000 and third Wal-Mart over 73,000, which makes retail sector all the more important in a market, where unemployment is constantly rising and pension and unemployment benefits have been curtailed (Figure 20)(PwC, 2015).

Figure 20. GRDI country attractiveness

![GRDI country attractiveness](image)

In order to avoid being irrevocably impacted by the economic downturn, retail and consumer product companies are taking various approaches toward achieving a common goal on how to beat the downturn. Those include rationalizing costs, optimizing investment, refreshing product portfolios and identifying alluring value propositions that would intrigue customers to start spending money yet again; leading to a positive cycle of consumption-led growth. In theory that sounds quite easy, but practice shows it is quite tricky. Decisions on further investments become rather difficult to justify when consumer spending is declining. In such situations it makes sense to manage conflicting priorities and to trim costs but that can cause long term issues. In order to spur growth pragmatic companies try to find balance between cost cutting and investments (PwC, 2015).

5.5 BCG matrix

BCG growth-share matrix shows industry attractiveness relative to competitive advantage. This framework implies that increase in relative market share will result in increase of cash generation. Matrix is divided into four categories, as seen on Figure 21: dogs with low market and growth share (very little potential), cash cows with return on assets greater than market growth rate, question marks with rapid growth and large consumptions of cash, which gives them potential to become a star, which generate large amounts of cash due to their strong relative market share (Johansson, 2009).

Figure 21. BCG matrix

Source: Adapted from J. Johansson, Global marketing: foreign entry, local marketing and global management, 2009.

Retail market share in Brazil amounts to 445 billion USD and is 7 % higher than previous year. Wal-Mart's share in the market is 20.61 % (calculated data is based on annual and industry reports). Supercenters market growth is fairly high because of the increasing
demand for buy-all-in-one-place customer mentality. Customers with a rather low budget appreciate their EDLP and low opportunity costs as they are not only time but also money saving. Neighborhood markets are rapidly expanding as they do not require large space and can be situated practically anywhere, preferably in residential areas close to customers. Low prices have made these strategic units popular and well accepted between customers, therefore taking market share from small entities. Sam's club uses a membership reward system along with the low pricing strategies to enjoy economies of scale. In order to retain customers rivals use membership reward system, which grows slowly but stagnant on the market. Despite low growth this entities enjoy high market share and market stability, generating 11.7 % of Wal-Mart net sales (Wal-Mart Inc., 2016a).

6 ANALYSIS OF WAL-MART'S STRATEGIES

There are two main levels of strategy that have to be addressed in order to fully comprehend strategies used by Wal-Mart on local and international levels. First are corporate strategies, which direct a company toward sustainable competitive advantage. Second are business strategies, which identify how strategies business units (hereinafter: SBU) or product lines (divisions) will compete in its product range. In some cases, companies also use functional strategies, which guide activities within a specific range of operations, such as R&D, marketing, human resources, etc.

6.1 Corporate level strategies

Strategies on a corporate level are based on decisions like what business and national markets should a company participate in to gain competitive advantage. Companies need to decide whether to focus on single business, form a supply chain, expand internationally, vertically integrate or diversify its operations. The goal of strategies is boosting company's overall performance, which is measured by profitability and profit growth. Corporate strategies are suppose to evolve with time; it is not something that should be written in the »bricks« and used regardless of the situation and position, they are in (Table 15) (Dess & Miller, 2005).

Table 15. Corporate strategies

<table>
<thead>
<tr>
<th>Strategy</th>
<th>Typology</th>
<th>Wal-Mart</th>
</tr>
</thead>
<tbody>
<tr>
<td>Focus on a single business</td>
<td>Strategy is used in cases where company is growing at a rapid pace, consuming all available capital resources, also the time and energy of its leading managers. Nearly all companies start out by focusing on a single industry and as long as revenues are growing, they continue to use this strategy.</td>
<td>95 % of revenues come from their single business strategy on which they concentrate and try to perceive it as much as they can with their low prices and good services. On the other hand this type of strategy poses a threat, since it is never a good thing to put all your eggs in one basket.</td>
</tr>
</tbody>
</table>

(table continues)
Table 15. Corporate strategies (cont.)

| Vertical integration | This kind of strategy involves moving upstream to supply level or downstream into businesses to output level. It is used to improve competitive position of companies main businesses by lowering its costs or to differentiate their product portfolio. | As a part of vertical integration strategy Wal-Mart created its own private brand called Sam's Choice, named by its founder. This array offers products like water, soda, cereal and dog food. Wal-Mart's cooperation with its suppliers can also be seen as vertical integration because of the constant analysis and improvement of the manufacturing processes. |
| Diversification | Strategy involves entrance into new business areas. There are two types of diversification: related, which focuses on business activities similar to existing activities in the value chain with some distinct similarities and unrelated, which is not related to business activities in any form. If diversification is successful it should improve performance of the company with leveraging core competences, increasing economies of scope and superior internal governance skills. | Wal-Mart is one of the most diversified companies in the world. By using related diversification, they have achieved better economies of scope. They have 63 banners around the world, offering basically anything from groceries, general merchandise, wholesale products and various services, like photo, petrol, bazaar, pharmacy services, etc. Diversification of the company is possibly one of the reasons the company is staying at the top of Fortune 500 list. |
| International expansion | International expansion can be a good way to increase company's performance. It can broaden the market for their products, thereby boosting profit growth. Companies can also carry out economies of scale, which gives them a possibility to realize location economies and increase profitability with different cost-efficient activities. It is also a good way to transfer skills between different subsidiaries, making global learning increase profit growth. | Wal-Mart has been part of a global community since 1991 and has since then achieved very good results on international markets (Mexico, Canada) and also a few bumps on the road (Germany, India). Their imperative is to cater every region's differences in product preferences (»Different stores for different folks« philosophy). |

Source: Adapted from G. Dess & A. Miller, Strategic management, 2005.

Companies have various possibilities to choose a corporate strategy by (Porter, 1987):

- **Identifying the interrelationships among existing SBU{s}:** transfer of activities or skills between SBU{s}. With this action companies can enhance competitive advantage and also encounter possible diversification avenues.

- **Selecting the core businesses that will be the groundwork of the corporate strategies:** core strategies are based on having the potential of achieving sustainable competitive advantage, are used in attractive industries and provide skills and activities representing a foundation, from which it should diversify.

- **Creating horizontal organizational mechanisms to facilitate interrelationships among core businesses and laying the foundations for future related diversification:** Interrelationships can be alleviated by emphasizing cross-unit collaboration, organized grouping, modifying incentives in order to build a strong corporate and brand name.
• Pursuing diversification opportunities that allow shared activities: Companies applying this strategy should inventory activities in existing SBUs that represent strongest groundwork for sharing (strong distribution channels), which will in turn lead to potential new business areas.

• Pursuing diversification through the transfer of skills if there are limited opportunities for sharing activities: The main objective is to build a cluster of related and mutually reinforcing SBUs. It is a risky strategy due to tough conditions necessary for it to work. Transfer of skills shouldn't be the only reason for diversification, rather it should also use shared activities.

• Pursuing a strategy of restructuring if it fits skills of management or in case if there are good opportunities for forging corporate interrelationships: A restructuring strategy can be used in case of uncovered undermanaged companies, where it can deploy proper management skills and resources. It can be used as a permanent strategy or a way to form a group of businesses that support a shift to another corporate strategy.

• Paying dividends in order for shareholders' ability of becoming portfolio managers.

A successful corporate strategy is the one where all the managers, from top to bottom level, implement it and understand their role in the process in order to build and sustain competitive advantage of the company (Dess & Miller, 2005).

6.2 Business level strategies

Business level strategies' main concerns are decisions on how companies should compete in selected industries. There are two ways of gaining competitive advantage; by low cost and with differentiation strategies. Low cost strategies focus mainly on supplying consumers with low-priced goods and services as efficient as possible. For instance, if you want to go shopping in Wal-Mart, do not expect fancy stores that are overwhelmingly decorated, expect more like a warehouse store, where you can find just about anything you please at a reasonable price, which suits your budget. Successful low-cost strategy is the one, where a company can drop prices below rivals prices, yet it still makes profit out of it and subsequently eats away competitors market share (Figure 22) (Dess & Miller, 2005).

Differentiation strategy on the other hand is mainly concerned with increasing of the value of product array in consumers eyes. Differentiation can occur by superior reliability, greater design, functions or features, presale, sale and after sale services, etc. For comparison purposes of a perfume bought at Wal-Mart and one bought from Calvin Klein, it is needless to say they have nothing in common whatsoever, from packaging, scent, intensity of the products, store atmosphere to sales personnel, who can help even the most demanding customer find something they like. If customers value a differentiated product
more than the one sold at competitors, a company will gain over competitive advantage, with which it can obtain more demand from customers (Dess & Miller, 2005).

Figure 22. The low-cost value cycle

Wal-Mart uses both strategies in order to gain competitive advantage and market share by providing a wide variety of products and services, which are of the same or better quality than rivals products. Its strategy led them to become the largest retailer in the world. They have maintained this position since year 2003. Their main focus is finding ways on how to lower the costs by continuously rethinking how to complete their primary and support activities in order to minimize costs still further, while sustaining competitive levels of differentiation. The main factors for their efficient cost leadership strategy are their logistics and inventory system, supply chain management, and so on. Changes in retail environment and evolving consumer buying habits and preferences have forced Wal-Mart to made some improvements to their business model by adding two new strategic levers. Wal-Mart's business model is based on four strategic pillars (Appendix) (Vij, 2015):

- **Lead on price** (due to innovative cross-docking inventory system, constant focusing on suppliers, etc.).
- **Invest to differentiate on access**:
  - Improve customer accessibility to physical stores (using small store formats to offer homegrown and prepared food to improve shopper accessibility).
  - User friendly online shopping platforms (Wal-Mart acquired tech companies in order to develop its global technology platform, so customers can order their products via smart phone or online and have the products delivered to the nearest store for pick up).
  - Provide high end difficult-to-access services (Wal-Mart invests into health insurance and clinical care and is the only retailer so far to offer products from its own pharmacies, vision centers and care clinics).
- **Be competitive on assortment** (offer array of products that suit local consumers via physical or digital channels).
• Deliver a great experience (Wal-Mart was criticized a lot about their unfriendly employee policies, low wages, expensive health insurance programs, etc., which reflected on poor shopping experiences. More recently they announced they will increase employees hourly wages and provide better shopping experiences across channels).

A business-level strategy is most successful if everybody in the company understands and implements it accordingly. It should be updated or revised on a regular basis in order to stay ahead of competition.

7 WAL-MART'S ROLE AND CHALLENGES IN THE BRAZILIAN MARKET

Brazil's retail market is estimated to be worth about 287 billion USD, and is driven mostly by domestic demand. Over the past 10 years retail sector has generated over 3.7 million jobs throughout the country. An important role in encouraging the retail sector also plays population distribution. 30.7% of population lives in the 10 principal metropolitan cities, the largest being São Paulo with a population over 44.4 million, Minas Gerais with 20.8 million and Rio de Janeiro with 16.5 million inhabitants. The consumption habits of Brazilian urban population are very diverse. While low income sections spend more on essential goods, upper income class splurge their money on leisure, luxurious and durable goods. Brazilian market can be described as the most internationalized among the BRIC countries because top 10 retailers corner almost 60% market share among themselves. They use private label strategies in order to gain better market position and get an opportunity to reach new customer segments by influencing on their perceptions and buying habits (CBD - Taeq, Carrefour - Viver, Walmart - Bompreço). In the past few years retailers have given more attention to smaller format stores in neighborhood markets, which turned out to be quite profitable, since they appeal to wide population of working-class Brazilians with offering of locally produced goods (Thomas White Int., 2012).

7.1 Entry into Brazilian market

Wal-Mart has entered the Brazilian market in year 1995 through joint venture with a local company Lojas Americanas (60-40 % partnership), which was at the time leading department store chain. Their HQ are located in the largest city in Brazil, São Paulo with Flavio Cotini managing the division. Intentions of Wal-Mart were to reach leading position in the market as soon as possible and displace Carrefour, who was the first international retailer in the market and is still ahead of Wal-Mart in the industry. With the budget of 120 million USD, Wal-Mart intended to open 3 Sam's Clubs and 2 Supercenters in a very fast period of time, located in most populous city São Paulo and surrounding areas. First five stores were opened in couple of months after their entrance, attracted many customers with
their very aggressive low-pricing strategy and a wide array of products (approx. 50,000 products). Wal-Mart tried to implement strategies that had been effective in the U.S., like product assortment, internal space utilization and product mix. Overall, during the initial stage Wal-Mart captured a very favorable image from customers and was thinking that the only way from that point was up. With its location in near-by of Carrefour and two Pao de Açúcar stores in Osasco, Wal-Mart broke the sales record with 1 million USD a day purchases. But what first seemed a promising strategy it came to a halt after Wal-Mart encountered severe operational issues. Some of the issues for not gaining over market share were unreliable supply lines, high stock out rates (nearly 40 %), long checkout lines, faulty management and performance measures, etc. The amount of visitors in the initial start was so large that store management was forced to limit the amount of customers, consecutively there were long checkout lines. On some days store had to be closed because of high stock out rate of products. Wal-Mart was forced to delay advertising at one point in order to not attract any more customers in their already full stores. Other issues that Wal-Mart was facing were the Brazilian buying habits among working class people. Middle-class workers were used to buy certain products on credit and Wal-Mart did not offer credits. To assess the issue, Wal-Mart needed to adapt in using postdated checks, which was a common practice between retailers (46 % of all supermarkets used postdated checks) and partnering with a major bank for longer-term consumer financing. Another major problem Wal-Mart did not anticipate was the relationship with suppliers. Wal-Mart tried to use the same standards for suppliers that they have applied in U.S., but the relationship in Brazil was very different with oligopolies in the industry, where a very small number of companies were controlling 50-80 % market share of major mass consumption products. Also when they set prices below the production cost, they made suppliers like Nestle very angry and some even refused to sell to them at that point. Because of their dumping prices they got a lot of negative publicity from other top managers of multinational corporations. But the main reason for their failure laid in their unwillingness to adapt to a local market and assimilate Brazilian managerial culture (Kotabe, 2003, Rocha & Dib, 2002).

After revised strategy Wal-Mart planned for adoption of more conservative and controlled expansion, consolidation of distribution lines and localized cultural assimilation. As for their previous strategy with opening 80 new stores, they decreased the number to opening only 10 stores during the years 1995-1997 and acquired existing retail chains instead of exploring other partnerships, as was previously laid out. During the time when Wal-Mart struggled the most, competitors began to work harder to recover their losses. Not only did they gain back their customer base but they also accelerated their expansion. Carrefour for instance opened five new stores in 1996, making sure to maintain its leading position in retail market. Wal-Mart had in that same year accumulated a cumulative loss of 32 million USD (Rocha & Dib, 2002, Kotabe, 2003).
In 2001 Wal-Mart opened a large distribution center in São Paulo (35,000 sq. meters), making sure that all of stores will be able to get supplies on time and overall giving them better control over supply lines. In the same year Wal-Mart opened its first Todo Dia store in São Paulo region, where population has mainly low to middle income. With its small store format they wanted to appeal to a different market segment. Todo Dia was set like a test store, used for figuring out if it would be a wise idea for future expansion into local, budget-oriented neighborhoods (Kotabe, 2003).

During the years 2004-2005 Wal-Mart had made two major strategic acquisitions; one was with the company Bompreço, which owned 118 stores and 2.3 million sq. meters store space and the second was Grupo Sonae with 139 new stores and 3.4 million sq. meters store space. Wal-Mart only then learned to adapt to the local market, with Bompreço and Sonae's hyper-local approach and use of innovative ideas coming from local workers. This investment that has significantly increased Wal-Mart's competitive position and put them on a third position in Brazil retail market, has cost them around 1.037 billion USD (Bustilo, 2009).

Figure 23. Wal-Mart Brazil sales volume in years 2007-2016 (in billions BRL)

![Figure 23. Wal-Mart Brazil sales volume in years 2007-2016 (in billions BRL)](image)


In 2008 Wal-Mart launched virtual e-store with array of 60,000 products, which on a daily basis served more than a million customers. In 2009 they invested heavily in opening a record of 89 new stores. Total cost of investment amounted to 1.6 billion BRL. Investments in Brazil have grown over the years, from 2005 to 2009 the amount of investments equaled to 4.5 billion BRL. In 2010 Wal-Mart accounted over 87,000 employees, who served more than a million customers on a daily basis, 479 stores, 21
distribution centers and revenues that amounted to 22.3 billion BRL (Figure 23) (Walmart Brazil, 2011).

In 2011 Wal-Mart decided to close down few of units in order to concentrate on different regions and build smaller hypermarkets with a unique portfolio that was better aligned with consumer preferences and desires. In the overall efficiency analysis, Wal-Mart showed an evolution of 6.4 %, which means each store had increased revenues for around 5.25 %. In that year they decided to introduce the EDLP strategy as it was known worldwide; keeping prices low for a longer period of time, not just for a limited time in order to extend decision-making power with indulgence to purchases and savings (Walmart Brazil, 2011).

*Figure 24. Wal-Mart Brazil store chains in 2015 (in %)*


Currently there are 485 Wal-Mart units operating in 18 states in Brazil under 9 different banners. 32 % of Wal-Mart chain represent neighborhood markets (Todo Dia), 27 % hypermarkets (Walmart Brasil, Hiper, BIG), 26 % supermarkets (Nacional, Mercadorama, Bompreço), 9 % wholesale (Maxxi) and 6 % Sam's Club as seen on Figure 24. The maximum of operating stores was 557 in 2013, but Wal-Mart decided to close down 58 units in 2015 due to their poor performance (Wal-Mart Inc., 2016a).

Wal-Mart Brazil accounted for over 70,355 employees at the end of year 2015, of which 45.1 % were male and 54.9 % female. 41 % of women were employed in leadership positions. Average employee of Wal-Mart Brazil is aged between 20 and 30 years; there are 5,280 employees, who are aged above 50. Region with most employees is the South region (36.6 %), second largest is Northeast region with 27,356 associates. Throughout the past five years, the number of full-time employees decreased for 16.39 %, mainly due to foreclosure of unprofitable units (Figure 25) (Walmart Brazil, 2016).
Wal-Mart offers a wide variety of training for its employees and apprentices, like Logistics Academy, Wal-Mart Leaders Program, Associates training plan and many more. There are over 107,000 employees attending training courses on annual basis, which are held throughout all year. Employees can attend several training courses, which are helpful to advancing their career (Walmart Brazil, 2015).

### 7.2 Competition

In 2015 retail industry in Brazil accounted for 315.8 billion BRL sales, which accounts for 5.35 % of national GDP. Although the country was struck by a deep recession the retailers have been less affected by it than other segments. With 14.500 convenience stores, 5.300 discount stores, 1.220 hypermarkets and over 84.000 supermarkets Brazilian retail market presents a fierce competitive place for national and multinational companies, which are already present in the market, as well as for the new players. Brazilian retail market is dominated by the CBD, followed by French group Carrefour and Wal-Mart in the third position. In addition to the leaders of the industry, there is a need to mention a company Companhia Zaffari, which generated revenues of 35.95 billion BRL in 2012 and jumped from the 18th to 5th place of largest retailers in just three years time. Companhia Zaffari has managed to outperform nearly all of its rivals with their innovative strategies, differentiated positioning and segmentation in the market. Four mentioned companies together generated revenues of 135.83 billion BRL, representing 11.68 % of grocery market share. Retail sector is also one of the largest employers in Brazil, CBD alone employs over 170,000, which is more than its entire automotive industry (Foscht, 2016).
Carrefour. Carrefour entered Brazilian market in 1975 by adopting expansion strategies through large metropolitan areas like São Paulo and Rio de Janeiro with brands Carrefour Bairro and Atacadão. They introduced the hypermarket format to the Brazilian customers, which had a strong value proposition during hyperinflation of 1980s and early 90s. Their early success can also be attributed to being the first mover, which gave them the ability to acquire local knowledge before any other rivals arrived. In 1999 Carrefour merged with a Brazilian retailer Promodes SA in attempt to gain even stronger position as the leading retailer in the country. Carrefour currently operates its 288 stores under 4 banners: 103 hypermarkets (Carrefour), 122 Atacadão, 42 supermarkets (Bairro, Supeco), 21 convenience stores (Express) and e-store (carrefour.com.br). Atacadão is a distinctive store format with a mix of wholesale and self-service characteristics. Stores are spread all around the country and their strategy is fully adapted to Brazilian culture and their buying habits. With its decentralized management style it encourages initiative and creativity among 76,000 accounted associates (Figure 26). Among all social classes Carrefour is known as the retailer with the lowest prices. Also 90% of their product portfolio represent locally bought products. Carrefour has also launched a portal CarrefourNet, where potential and existing suppliers can access information, data and applications on partnering up with them. In order to fully meet customer expectations on a local basis Carrefour opened its first Express store in 2014, followed by 17 more in 2015, giving customers the
possibility to choose from a wide variety of freshly produced goods. In 2015 Carrefour celebrated its 40-year operation in Brazilian market and generated 39,1 billion BRL net sales by the end of the year, which is 34,4 % higher than Wal-Mart got in the same time span. They are currently working on a progressive expansion of Express banner, as well as the renovation program covering hypermarkets, supermarkets and Atacadão stores (Figure 27) (Carrefour S.A., 2015a).

Figure 27. Net sales of leading retailers in years 2010-2015 (in billions BRL)


Companhia Brasileira de Distribuição (CBD). This company started its operations in 1948 in São Paulo, when it was known as Grupo Pao de Açúcar. From 2012 the company is controlled by French Casino Group, one of the world's leaders in food retailing. CBD runs its operations on a multi-format strategy; they were the first in the market to open a multi-format convenience store in Brazil. A lot of their success can be attributed to its acquisitions of local companies, enabling its operations to be perceived as local. CBD ranks first in retail market revenues, with net sales amounting to 76,9 billion BRL, which is more than Carrefour and Wal-Mart generated altogether. In 2008 they had launched a new marketing tag line: »Nourishing a world of diversity«. Their intention was to reflect their focus on precision rather than on mass-market retailing. Under their banners you can find it all - from grocery, furniture, post services to electric supplies. They are present in 20 Brazilian states, where they are competing aggressively to focus on promoting their standards and private labels in order to strengthen their position in the market. Throughout the years 2010-2016 CBD opened 430 new stores which sum up to total of 2.181 units
In 2015 CBD accounted for 160,082 full-time associates, 48.4% of them were females (8% in the leading positions). Number of females in executive positions has been decreasing over the past few years; from 14% in 2013 to 8% in 2015, amounting to a total of 6,198 female top managers (GPA Institucional, 2015).

**Figure 28.** Number of stores of leading retailers in years 2010-2015

CBD operates under 9 different banners: 17.6% supermarkets (Pao de Açúcar, Extra Supermercado), 6.3% hypermarkets (Extra), 14.3% neighborhood markets (Minimercado Extra, Minuto Pao de Açúcar), GPA Malls, e-commerce Cnova and 1349 (61.8%) non-food formats (Drogaria Extra, Posto Extra, Assai Atacadista, Casas Bahia, Pontofrio). Looking at the overall banner sales, CBD can be easily defined as a market leader. They have only been outperformed by Carrefour in 2010, when they generated 32,09 billion BRL net sales, whereas Carrefour profits were 15.94% higher. They have double the amount of stores than Carrefour and Wal-Mart together, sales area of their stores in 2015 equaled to 2,646 million sq. meters (Figure 29). Their strategic goal for future is to invest in different formats of malls, intended for customers with different lifestyles and preferences, which consequently leads to increasing customer loyalty (GPA Institucional, 2015).
Companhia Zaffari. Companhia Zaffari started its operations in 1935 with the small size store located in Rio Grande do Sul. They opened first self-service store in 1965 and in 1974 opened a totally new format of store to the market. Its stores had multiple sections dedicated to imported products, books and bazaar. Opening of the first hypermarket (Bourbon Hypermarket) represented an important change in their strategy and trend, which reflected on the actual positioning of a company in the retail sector. Companhia Zaffari operates only in two states, Rio Grande do Sul and São Paulo under two banners: Zaffari Supermercados, Bourbon Supermercados. In 2013 company accounted for 30 stores with 9,551 employees. The company generated revenues of 3,54 billion BRL in 2013, with store productivity amounting to 121,84 million BRL. Two years later they generated revenues that equal to 4,51 billion BRL. Currently they have 31 operating stores, five of which are shopping malls with sales area of about 2,01 million sq. meter. With its outstanding performance and modern appearance it has climbed to the fifth position in ranking of largest retailers in Brazilian market (Foscht et al., 2014, Fonseca, 2016).

Overall it can be said that Brazilian retail market is a very fierce and competitive. Top 10 retailers were in control of a 57,4 % market share in 2015; the largest share had CBD (24,3 %), followed by Carrefour (13,5 %) and Wal-Mart (9,2 %). Companies use strategies such as acquisitions of local competitors, price reductions, forcing suppliers to cut prices, optimizing inventory management and heavily investing in opening neighborhood shops in
order to increase their regional power. According to Brazilian Supermarket Association (hereinafter: ABRAS) both Carrefour and CBD reported an exceptional growth of their Atacadão and Assai stores, whereas for supermarkets and hypermarkets it is not moving toward planned expectations. The forecast for growth in this sector is quite promising. Expected sales in packaged goods for 2019 with a growth rate 22.2 % are estimated to reach 463.18 billion BRL (Brazil country profile, 2016).

7.3 Store format

Store formats are a type of retail composition adopted to customers preferences. Retail stores, which serve overlapping needs and target segments are likely to be classified in accordance to a certain store format. Different retail formats characterize the retail competitive structure and indicate the attractiveness of a distinct market segments. Retailers tend to create, alter or discard certain types of formats to attract consumers to their stores and to maintain competitive advantage over its rivals. Within a retail industry two levels of competition can be defined: intra (same store) and inter (different store) format. Determination of retail format is based on the modulation of product mix, offered by retailer. The most potential in Brazil have smaller shops, which have shown better financial performance. Another fast growing market are also discount stores and cash & carry stores (Miotto & Parente, 2014).

In Brazil Wal-Mart operates under 12 different brands: BIG, Bompreço, Hiper Bompreço, Magazine, Maxxi, Mercadorama, Nacional, Sam’s Club, Supermercado Todo Dia, TodoDia, Walmart and Walmart Posto (Figure 30). TodoDia are neighborhood stores, which are focused on C, D and E class consumers and are located in the suburban areas, offering an approximate of 2.500 products and financial services. This brand also has a supermarket and a hypermarket format. In 2014 this brand was repositioned due to expansion of consumer potential in C, D and E class consumers and increasing needs of another retail option, offering lower prices and convenience for consumers. Maxxi Atacadão is a wholesale format, allowing small businesses to buy large quantities of supplies from its 6.000 products array, offering items from cleaning products to freezers. Mercadorama is one of the oldest and best known banners in the Paraná state. Store offers up to 15.000 products from food supplies, cosmetics, electronics, etc. There are currently 13 stores operating under this banner (Table 16) (Wal-Mart Inc., 2016b).

<table>
<thead>
<tr>
<th>Store format</th>
<th>State of operation</th>
<th>Sales area (m²)</th>
<th>Format</th>
<th>Product array</th>
</tr>
</thead>
<tbody>
<tr>
<td>Walmart Brasil</td>
<td>8</td>
<td>7.500</td>
<td>Hypermarket</td>
<td>65.000</td>
</tr>
<tr>
<td>Hiper Bompreço</td>
<td>9</td>
<td>7.500</td>
<td>Hypermarket</td>
<td>65.000</td>
</tr>
</tbody>
</table>

Table 16. Walmart Brazil banners
Table 16. Walmart Brazil banners (cont.)

<table>
<thead>
<tr>
<th>Walmart Brazil Banner</th>
<th>Number</th>
<th>Size (sq. m)</th>
<th>Type of Store</th>
<th>Sales (in 1000s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>TodoDia</td>
<td>9</td>
<td>2,150</td>
<td>Neighborhood market</td>
<td>2,500</td>
</tr>
<tr>
<td>BIG</td>
<td>3</td>
<td>7,500</td>
<td>Hypermarket</td>
<td>65,000</td>
</tr>
<tr>
<td>Bompreço</td>
<td>9</td>
<td>2,500</td>
<td>Supermarket</td>
<td>15,000</td>
</tr>
<tr>
<td>Nacional</td>
<td>2</td>
<td>2,500</td>
<td>Supermarket</td>
<td>15,000</td>
</tr>
<tr>
<td>Maxxi</td>
<td>14</td>
<td>4,000</td>
<td>Wholesale</td>
<td>6,000</td>
</tr>
<tr>
<td>Mercadorama</td>
<td>1</td>
<td>2,500</td>
<td>Supermarket</td>
<td>15,000</td>
</tr>
<tr>
<td>Sam's Club</td>
<td>12</td>
<td>7,500</td>
<td>Warehouse membership club</td>
<td>5,000</td>
</tr>
</tbody>
</table>


**Nacional** banner operates supermarkets in Santa Catarina and Rio Grande De Sul, with 15,000 perishable products that are brought to customers with the lowest prices in the region. **BIG** hypermarket store offers anything from food supplies to electronic devices. Some units also have drugstores, restaurants, photo centers and gas stations. They are located only in 3 states in the South region. In 61 **Bompreço** stores with a size of 2,500 sq. m you can find a wide array of groceries, cleaning products and also bazaar and photo services. They are located in 9 states in the Northeast area. Bompreço banner operates mini-markets and Balaio discount stores as well as few Hiper Magazine stores (Wal-Mart Inc., 2016b).

![Figure 30. Number of Walmart Brazil banner stores in years 2010-2015](image)

**Hiper Bompreço** is a larger format of Bompreço, offering customers from 40 to 65,000 products of clothing, toys, electronics, houseware, industrial products and convenience services. They are located in Northeast area. **Sam's Club** is a membership only store, directed toward customers and entrepreneurs looking for domestic or imported products, some with exclusive packaging. The most known banner Walmart operates hypermarket stores, which are mainly located in the most populous South area. With its 65,000 EDLP array of electronics, books, gardening supplies and convenience services such as pharmacies, restaurants, coffee shops and gas stations, this is the largest format Wal-Mart has to offer to Brazilian consumers. There are currently 53 Walmart hypermarkets operating in 8 Brazilian states (Figure 31) (Wal-Mart Inc., 2016b).

*Figure 31. No. of Wal-Mart stores by format in years 2010-2015*


In 2011 ABRAS conducted a survey on setting a profile of Brazilian stores. Analysis shows that supermarket format with average sales area 1,293 sq. meters with 77,7 % food items out of array of 15,379 products generated the most gross sales (76,8 %), followed by hypermarkets (13,1 %) and wholesale clubs with 6,4 % on the third position. In 2013 there were over 83,000 supermarkets spread around Brazil, with the main region in Southeast, covering 48,7 % of all stores. Southeast region is also the most profitable in Brazil, its revenues represent 29,3 % of total industry revenues. On average consumers in this region spend around 1,800 BRL a year in supermarket stores. Even though Brazil has been struggling with recession in the past two years the number of stores continue to rise. According to ABRAS there were 84,547 operating stores in 2015. Top 10 retailers accounted for 34,7 % of total industry sales (315,8 billion BRL). CBD and Carrefour registered a slight sales increase, while Wal-Mart experienced sales deceleration due to...
closure of 60 underperforming units. The most successful retail format in 2015 was Atacarejo. The penetration of this format rose from 35.5 % in 2014 to 40.9 % and is considered to rise even more; an estimate for 2016 was 46 %, which was already surpassed by 0.4 % in September 2016. Atacarejo format shows a strong growth trend on the long run (Fonseca, 2013, Fonseca, 2016).

7.4 Key competitive challenges

Wal-Mart has been struggling with trying to win over Brazilian consumers ever since they entered the market in 1995. It has been one of their biggest challenges with their strategy to spread their high-volume discount retailing around the world. They have learned the hard way that adapting to the market is necessary and that consumer buying habits are of crucial importance when analyzing the market and implementing business strategy to the preferences of the buyers. Challenges that Wal-Mart has experienced from the point of entry in Brazil can be grouped into six categories: state of economy, cultural differences, management, advertising, logistics and competition.

State of economy. During the time of Wal-Mart's entrance and onward Brazil's economy was very unstable. Currency hyperinflation in 1994 made inflation drop by 40 % in 1994 to 3 % in 1999. In 2001 Brazilian economy was struck by the energy crisis, increased consumption that exceeded over the production and forced them to import electricity from Paraguay. Also, with its high tariffs, uncertain customs system, high tax burdens and overburdened legal system Brazil ranked 123 out of 190 countries in 2017 according to WB Doing Business Report, which makes it quite challenging for international companies, who have to struggle through all the binding rules and regulations. The best way to overcome the barriers and be successful on the market is through local companies and with highlighting their commitment to the local market (Doing business in Brazil, n.d.).

Cultural differences. Cultural differences are the main reason for Wal-Mart's failure in the Brazilian market. Their inability to adapt to local consumers and tastes cost them several billions and good market position before they realized that American consumer preferences are not the same as Brazilian. Brazilians consider product quality the most important in the buying process, followed by price of the products, customer service, tidiness of the stores and distance. Average Brazilian consumer likes to shop in near-by stores, that have a small or medium sized format, and makes a trip to supercenter only once a month. They don't mind going to several stores to get the best products for the lowest price. They are also not fond of paying membership fee to shop in Sam's Club, because the savings are not so extensive and they do not provide overall benefits to the end consumer (Kotabe, 2003).
Management. Due to income and culture dissimilarities between home and Brazilian market, there was more managerial autonomy needed in Brazil. Management used wrong strategic measures like a fault product mix and space misallocation, setting prices below cost for artificial stimulation of demand and inflating sales volume numbers. After realizing the sales were not getting higher, they started a head-hunt for competitors managers to set them back on track. During 2004-2005 they made good strategic decisions by acquiring local companies Sonae and Bompreço, which gave them the opportunity to serve local consumers in urban and also suburban areas. By opening smaller sized convenience stores Wal-Mart managers were hoping to appeal the new consumers and gain them better market position in this highly competitive industry. Wal-Mart's management decided to close down the 59 least profitable stores in 2015 and focus more on getting higher profits from the rest of 485 currently operating units (Kotabe, 2003).

Advertising. Various promotional tools in stores like signs, banners, displays were used to attract consumers, generate traffic, purchases and also to reinforce company's strategic positioning format characteristics. Because of low literacy level banners and signs were put together as simple as possible in order to properly appeal the potential buyers. Regarding media recognition, average consumer in Brazil listens to a radio on a daily basis, therefore the proper technique for advertising should be over radio stations, which Wal-Mart did not follow. They used TV and newspaper advertising, which as expected did not turn out as profitable as they hoped it would. With 2% of Wal-Mart's revenues that was given for advertising, they hired a local advertising company - Norton, but they were still lacking the »local« factor due to lack of autonomy given to the advertisers. With the technological improvements happening on daily basis advertisement are nowadays sent through e-mail, since it is the cheapest way to »spread the word« around. In February 2014 Wal-Mart was labeled as the spammer of the month with sending a massive load of marketing campaigns, taking advantage of the fact that Brazilian laws don't prohibit bulk email marketing (Kotabe, 2003).

Logistics. Wal-Mart has 21 distribution centers spread out around the country, located in a close-by range of stores in order to keep stacks of products up on to fill up at least two supercenters at all times. Brazilian suppliers though are lagging behind in logistics technology, therefore the cross-docking inventory system that was very successful in U.S. here turned out to be more or less useless. Another major issue represent the constant traffic jams in larger cities, causing lags in supplying stores and distribution centers on a daily basis (Wal-Mart Inc., 2016b).

Competition. Competition has been increasing over the years, making retailers focus on different retail formats in order to win over targeted customer segments. The way how retailers compete in Brazilian market is with opening new stores. Focusing on opening new stores is sometimes not a good idea due to looking at a larger perspective, whereas the
most important in equation are the buyers. Stores on its own don't bring out profits, customers are the ones that do, so companies should rather work on how to attract potential buyers to come to their stores. Price wars are the most visible effects of impetuous competition and competition in Brazil is really intense. Major players are focusing on opening smaller sized stores (GPA Minuto, Carrefour Express) as future trends show the potential profit in such formats, offering goods and groceries from local suppliers. Although cash & carry stores are trending, supermarkets still remain the leading format by revenues and also by amount of stores in Brazil. There are more than 84,000 units accounted for in 2015 and the largest amount is located in São Paulo region (Thomas White Int., 2012, Fonseca, 2016).

Wal-Mart's entry in Brazilian market had a somewhat major impact in retail practices, since companies rushed to adopt new retail technologies, knowledge and skills, including modifications in retail practices, management professionalization and training, adoption of information technology, investments in logistics and distribution and changes in store formats. After Wal-Mart started its operations in Brazil with their wide array of EDLP products, competitors saw a potential in broadening their product mix as well in order to stay on the market. In order to get more inside know-how, lots of retailers started hiring experienced executives, others heavily invested in management education and third went out to developed countries to learn about foreign retailer practices and how their knowledge could help them implement its position in Brazil. IT had an important role in Brazilian market, as it, with entrance of Wal-Mart and their automated check-lines, generated more profits. According to A.C. Nielsen in 1996 stores with automated check-out lines were responsible for 64 % of all industry sales. Another factor, that had a major impact on high profits were bar codes on products. In only three years time (1992-1995) a number of products with bar codes increased for nearly 1000 %. Another major movement by leading retailers was to increase sales area. On average sales area of top retailers grew for over 19 % in last four years, which was a result of companies looking for economies of scale in order to be able to lower the prices of commodities. Last few years e-commerce has come to a rise as well, with sales rising from 54,2 BRL in 2014 to estimated 83,4 billion BRL in 2018 with an increase of nearly 40 %. 80 million online shoppers in 2015 put Brazil on the 9th place in largest e-commerce markets in the world. In 2016 approximately 69 % of digital buyers made cross-border purchases. The main reason for making online purchases customers stated lower prices (mainly ordering clothing and accessories from China and U.S). Digital shopping will increase the extent of complexity and challenge retailers to juggle around the ways on how to communicate, relate and sell products and services to ever demanding buyers. That is why Wal-Mart is planning to invest heavily into e-commerce and digital retail; with 1,1 billion BRL investment they are hoping to boost up sales and attract new customers (Rocha & Dib, 2002, Weinswig, 2015, Frederick, 2017).
Over the course of years Wal-Mart has made several large investments to recover its position on the Brazilian market and gain over more market share. Between 2007 and 2011 they have invested about 6 billion BRL into new store appearances, adaptations, opening of new, more adapted formats of stores to appeal local consumers, etc. Since 2007 they have opened 200 new stores; the largest amount of units were opened in 2009, when the company made a 1,6 billion BRL investment to open 89 new stores. On average they have opened 18 new units every year with ROI moving between 19,2 % to 19,9 % (Figure 32). In the overall efficiency Wal-Mart had shown an evolution of 6,4 % in 2012. With 15,8 million USD revenues per store they ranked 25th in store productivity among retailers. In 2015 they generated 29,3 billion BRL revenues, which is 1,01 % drop by the previous year and is mainly due to Wal-Mart's negative impact from fluctuations in currency exchange rates, according to company's annual reports (Wal-Mart Inc., 2016a).

Figure 32. ROI and ROA developments in years 2007-2016 (in %)

As for the competing retailers in the market, in same time span (between 2007 and 2011) Carrefour acquired Atacadão and CBD acquired Assai, which are cash and carry stores, known as a atacarejo - format, that is very appealing for Brazilian customers since it focuses on socioeconomic class in neighborhood areas. Good performance of these stores has led Carrefour to reorganization of their strategy from hypermarket to atacarejo format. According to Euromonitor International (2014) in 2012 Carrefour generated 12,1 billion BRL revenues only from atacarejo stores, whereas CBD and Wal-Mart generated 32 % and 34 % less revenues. Carrefour's productivity per store in 2012 was 44,4 million USD, putting them on a second place in the productivity per store among retailers.

In five year time span from 2006 to 2011 CBD was the retailer with the highest growth rate in retail sector. They generated 10,1 million USD of revenues per store in 2012. By the end
of 2013 Assai stores generated an outcome 32.7% higher than in previous year. EBITDA had reached 346 million BRL, which was 38.6% higher than in 2012. In 2014 CBD made an investment towards opening a record amount of stores (212), which had cost them 1.9 billion BRL and to keep up the pace of organic growth, the company made another 2 billion BRL investment to open 118 new stores and modernize 62 hypermarkets and supermarkets in 2015. Their strategic focus was also to invest in different mall formats, dedicated to customers with different life styles and to increase the customer loyalty. Their plan for 2017 is to open 17 new Assai stores, which will help them accelerate the expansion of this banner all across Brazil and expand GPA's market share in the food segment, giving them opportunities for future investments and prospects for growth. They are on a mission to grow sustainably with a clear focus on the customers, while streamlining operations and adopting best management practices in all activities (CBD S.A., 2016).

Although, international retailers such as Cencosud and Wal-Mart, are in the time of deep recession faced with several challenges on Brazilian market, such as macro issues and a complex taxation system, additional import tax, corruption, inefficient and expensive logistics and additionally having difficulties in finding a reliable local sourcing. Due to current situation many stores have been closed and investments postponed. According to data from CAGED (entity tracking payroll job creation) the amount of stores during 2004-2014 has increased by a yearly growth to 109%. With the strike of recession, retailers of all sizes have posted double digit drops in 2015, larger retailers in over 14%, respectively. Wal-Mart had closed 58 of its units in 2015, 14 more in 2016, summing to 485 operational units currently. CBD also closed 50 Via Varejo stores and some newcomers stopped their operations after only six months on the market. Revenues in retail sector were increasing by a very steady pace throughout last four years, growing for approximate of 7.7% per year according to Planet Retail. The largest, 9% share of revenues in 2016 had the largest retailer in the market, CBD, followed by Carrefour and Wal-Mart, respectively. Over the time period 2013-2018 a 4% CAGR is expected, driven mainly by the growth of convenience stores and discounts. Trends like the desire for convenience and income growth between middle-class people are predicted to be the long-term drivers of growth in retailing. In hope of Wal-Mart getting a larger share of the pie, they announced a restructuring program in 130 of its units, which will, according to Euromonitor, cost them about 1 billion BRL. They also plan to withdraw two of its brands (Big and Bompreço) from southeastern and northeastern regions and turn them into Walmart brand (Monteiro, Andrede, 2016, Euromonitor International, 2017).

7.5 Wal-Mart's lessons learned

The key question for retailers is if they can and how to succeed when entering a foreign market, which is sufficiently mature. Many retailers export the existing format to a new
market when expanding internationally as did Wal-Mart with their EDLP pricing strategies and supermarket store format, but the question arising is which strategy can be more transportable to a new market. Carrefour's first mover advantage with decentralized and adapted to local taste strategies turned out to be key to their success and is considered transportable. On the other hand Wal-Mart has tried to export its cost-efficient concept and its own inventory and logistics system and failed. Some argue that the main reason for their failure lies in their inability to adapt to local market and their centralized control of its operation from its main HQ in Arkansas, but its operation show a different perspective to the story. Wal-Mart's strategies should be assessed in a manner to deliver a unique value proposition in a new and unknown environment. When using existing IT in Brazil, they needed to accomplish two goals; capture information relevant to the local market and make good use of decisions that were planned out in the main HQ. Due to several language barriers among Wal-Mart employees it has taken them a long time to adjust the systems needed to capture the information specific to the Brazilian market. What took even more time is the understanding and usage of decision making tools developed by U.S. managers, which needed to be adapted to the local market. Same applies for distribution and logistics (Bell, Lal & Salmon, 2004).

The first and the most important lesson Wal-Mart had learned in Brazil was their inability to adapt to the needs of local consumers, which had shown in the figures quicker than they thought. Brazilian consumers perceived Wal-Mart products more American than local, which wasn't appealing to them to a manner of making a purchase over local fresh produced goods. They didn't make any differences between low- and high-income areas, maintaining same assortment and pricing techniques. Even store layouts were considered too distant, at first offering only 20% of space that was assigned to groceries. Wal-Mart invested heavily in this Latin American market but their lack of understanding, appealing to local customers and their buying habits hadn't turn out nearly as good as perceived. Even though it is often rather difficult to forecast success rate, especially on unknown and emerging markets, Wal-Mart's management expected more, especially after first few months, when turnout had shown quite profitable. With its ups and downs over the years Wal-Mart has currently 485 operating stores on the market, which is almost half more than Carrefour operates with on the market, it is still struggling the most among the top retailers to keep up with the market leaders - Carrefour and CBD (Bell et al., 2004).

Secondly, Wal-Mart's business EDLP strategy might work well in developed world, where consumers consider shopping as a somewhat everyday chore, which makes EDLP a great value proposition. But in Brazil on the other hand shopping is considered more like a social event, where consumers meet on a regular basis to discuss and give recommendations to their friends and family, so EDLP doesn't have the same appeal as it does to U.S. customers. Customers are more price sensitive and will go to several stores to get the
lowest prices, rather to buying everything in one place, which is what Wal-Mart's one-stop-shopping strategy main objective is (Bell et al., 2004).

Some analysts say that Wal-Mart's biggest mistake was losing a battle in 2007 over Atacadão chain to Carrefour, who paid 3,5 billion BRL for Brazil's largest cash & carry chain. Others claim they haven't integrated IT systems and logistics of its local chains enough in order to obtain costs as effectively as they did in the U.S. Overall, it seems that Wal-Mart management never really understood Brazilian consumers. With poor choices of not adapting on local manner, setting prices that weren't appealing to low- and middle-class consumers and wrong focus on stores rather than on potential buyers, it was a downward spiral on a path to failure for Wal-Mart in this emerging market. So, in order for Wal-Mart to get the best of this demanding market, which is currently in the worst recession ever, they need to realize that customers' needs have to come first and that understanding and adapting to the market is of crucial importance to stay afloat. Otherwise, Wal-Mart can add another country to their blacklist of failures, which already include Germany, India, South Korea and China (Haynes & Layne, 2016).

All in all, there were many issues Wal-Mart didn't reconsider when they entered in Brazilian market. To say that they have learned their lesson with their use of standardized approach, it would be quite right. It was like somebody forgot to do the thorough analysis on consumer's buying habits before they have entered the market. Using standardized strategies with no adaptation to local culture was probably the reason, why they never got ahead of Carrefour and CBD. Just because the growth strategies proved to be successful in some countries that doesn't mean the same would work everywhere. The need to adapt to local culture is a must when a company decides to enter a market, where customers are highly demanding and price cautious. In my opinion Wal-Mart made a crucial mistake here, because they used a U.S. technique with EDLP products, that were mainly screaming this is American company and we will run it as it is, it had no or very little value to Brazilian customers, so their brand name never got the taste of local but had always a foreigner status. Once customers made up their mind about their brand it would be very difficult to change their perception. And Brazilians never accepted Wal-Mart as a local player because of their unwillingness to adapt to their preferences and buying habits. It is needless to say that Wal-Mart was on a path to failure from the very beginning. With all investments Wal-Mart's management had made in Brazilian market the question arises if it was all worth it. Was it worth buying a local company which was already in negative figures? Was it worth setting a costly logistics network, which was practically useless in Brazil because of their poor infrastructure? Was it worth setting up stores in less profitable areas, where customers had over an hour drive to get to the stores? If the company would generate at least twice the profits than it actually does, the answer to those questions would still be questionable. But in current state, I would say it wasn't worth it.
8 RECOMMENDATIONS

For Wal-Mart to achieve long-term strategic objectives set for Brazilian market it is necessary to be innovative. There are multiple approaches, that can be applied to their business model, like concentrating on competency, creating value for its customers, building products, assets and capabilities that will make Wal-Mart stand out in front of competitors. Business model needs to be adapted to a level that is appealing to the mainstream customers needs and desires. Wal-Mart had failed to do so with their one-shoe-fits-all business model. They have learned the hard way that same approach cannot be applied in several different countries. Even if a strategy is successful in one country, there is no guarantee that it will work as well in other countries, especially not in countries where commodity prices are high and population is very price cautious. Overlooking key components, like their unwillingness to adapt to the Brazilian market and cultural differences, it has caused setbacks in building its business model effectively. With heavy investments that were set to improve company's performance and image on the market, Wal-Mart had been and is still struggling to stay afloat in this highly competitive market. They have set up new stores, renovated the existing ones and made few acquisitions over time that managed to set them in third place of the top retailers list, but they completely forgot about what is really important, that is the end customers. In the end they are the ones buying their products and bringing profits to the company. I think Wal-Mart management should pay more attention to customers when applying business strategies to the markets. Instead of thinking just about the profits, they should put themselves in customer's shoes and think of ways how to please them best and how to give them a great shopping experience. At times when retail earnings are on a decline and consumers are very price cautious it is important to develop innovative ways how to connect with existing and potential customer base.

There are different ways on how to apply a cost-leadership strategy and still get high profit outcomes. Due to strict regulation and high taxation, importing products is not a good solution because it is costly. A better way is to connect with local suppliers offering local products and maintain good relationships with them. Brazilian market is a difficult one in terms on pleasing the customers. Stiff buyers expect quality products for the lowest price possible. If they don't get the cheapest product in one store they will go to another one until they get their money's worth. Working with local producers gives companies an opportunity to lower the margins and still get profits for products that potential buyers will rather buy due to its origins. Therefore finding the right partner in emerging markets is a strategic endeavor, since having a local partner helps foreign brands like Wal-Mart give undivided attention on the business and offer them a bandwidth needed to create value for their buyers. Therefore Wal-Mart, instead of selling foreign products, should incorporate sections in stores where only home grown and products with domestic origin should be sold. With wide chains of suppliers, proper advertisements and quality products it would
be a good start to change its centralized strategies to reposition themselves on the market (PwC, 2015).

Another way of creating company's values is by focusing on people productivity, where Brazil is currently at a standstill in this area. Real minimum wage had increased by 76 % during 2013-2014 and productivity increase had remained at 1 % in the same period. Higher incomes are normally a sign of development, yet real wage gains without corresponding productivity gains could be unsustainable on the long run. Labor laws and regulations in Brazil also have an impact on productivity and increasing costs for some retailers, especially for part-time workers, where laws are very strict. Wal-Mart currently employs 4.288 part-time workers, which is less than 6 % of all hired workforce set in Brazil. For instance in 2014 Wal-Mart had started a campaign called Compartilhando Histórias [Shared stories], which encourages employees to nominate other employees for their contributions and outstanding performances. Human Resource department hands out small gifts to the contributors and publish their stories in internal magazines and other communication channels. Employees then discuss who takes the winning prize, which is a lunch set with the board of directors. Wal-Mart also offers a wide array of training programs (Logistics Academy, Walmart Leaders Program, Associates Training Plan, etc.) in order to improve technical, operating and behavioral capacity of its employees (Wal-Mart Inc., 2016b).

Technological improvements in recent years have enabled retail and consumer product companies to track and choose customer information in order to unlock greater efficiencies, offer customized services and a new set of costumer experiences. Operating with digital devices enables the possibility of developing customer relationships and appeal costumers with personalized services. With high internet penetration e-commerce in Brazil is booming. Retailers use digital tools to gather consumer insights and create differentiated offerings for its 80 million users, which are crucial for their success. Digital stores can target a diverse set of consumers that have various purchase expectations. Some customers will pay more attention to products with fast delivery times, others might look for higher quality, accessibility and third for similar products that have lower price but might have lesser features. In the digital era Wal-Mart should definitely invest in e-commerce more, since results have so far been very positive. E-commerce is rising at a very fast rate in Brazil and also on a worldwide base, so only retailers with tailored business strategies will be able to get on board and get a major part of this pie. In 2012 Wal-Mart's web sales amounted to 1,2 billion BRL and in 2013 already grew for 67,4 % to over 2 billion BRL. Wal-Mart's digital store offers a wide array of products and services with online assistants to guide them through every step of the way; they have also created an application to be transferred to a mobile phone so buyers can shop 24/7, no matter where they are physically located. Because there is no actual physical contact between buyers and sellers, it makes it harder to attract potential buyers since their desires and preferences are unidentified. In
order for Wal-Mart to get stronger on the market it is necessary that their brand image stands out and be recognized in a way customers will perceive it as local as CBD's. However, sustainable and profitable success can only be achieved when there is customer understanding and a significant proposal for value and quality in the implementation of the operation. In my opinion management should reconsider its advertising strategies and work on changing customers perceptions of an American company becoming a local company (PwC, 2015).

In order for Wal-Mart to survive on Brazilian market it needs not only to reduce costs to the low extent but also manage conflicting priorities, like adapting its business and operating model to sustain the right balance between cost optimization and innovation. It is also important to align Wal-Mart's core competencies to support their business strategy and focus on solutions that would add value to potential buyers. Products and services need to be sharpened to a point where they are different and appealing to customers and would in the end lead a company to gain a stronger market position (PwC, 2015).

CONCLUSION

Wal-Mart is known as the largest retailer in the world, with over 11,000 operating units and 2.3 million associates spread worldwide. Their main strength is benefitting economies of scale due to the size of its operations. Investments in IT and logistics systems have led the company on top of Fortune 500. Its cross-docking inventory system has proven to be very efficient since all stores can be stacked up in a solely manner of hours. Distribution centers are strategically located in surrounding areas of shops so no center is located more than a day drive away. Wal-Mart follows cost leadership strategy which points out their Every Day Low Prices pricing strategy. With their strategy they have achieved major success in U.S. and Mexico, but in a Brazilian market it was a quite different story.

Wal-Mart has had a long line of struggles ever since it entered the highly fragmented Brazilian market in 1995. Wal-Mart's internationalization in Brazil started through a joint venture with Lojas Americanas, a local department store chain. With their American culture and principles they have tried to implement the same strategy as in U.S. and apply it in Brazilian market, including product assortment and internal space utilization as well as its product mix, but failed. The intention of Wal-Mart was to achieve the number one retailer position in the Brazilian retail market very quickly. To achieve that goal, Bentonville HQ planned a logistics and communication infrastructure capable of supporting almost 80 stores in the Brazilian market. The store location strategy was developed, targeting at the most populous areas with high consumer purchasing power (São Paulo, Rio de Janeiro, Minas Gerais). But their EDLP strategy didn't have the same effect on Brazilian consumers as it did on Americans, especially if a company is selling American products, which have no or very little value to Brazilian customers. After
opening first five stores in São Paulo region things seemed better than they later turned out to be. High stockout rates, poor infrastructure and unwillingness to adapt to local market and consumer preferences are just some of the factors that have caused major setbacks for the company and Wal-Mart was on a fast track of losing everything, they have been working on.

Store formats were set improperly; only 20% of space was used for foods whereas in other supercenters the space for foods was three times the amount. Also the one-size-fits-all format didn't attract Brazilian costumers because of their price awareness and different perceptions. And in the end Wal-Mart didn't even have the lowest prices as it was advertised. Brazilian costumers preferred going to more local stores than to drive almost an hour away where supercenters were located in order to make one stop to get everything they needed. It was just one mistake after another for Wal-Mart - the most important one was not understanding Brazilian consumer preferences and their buying habits.

After realizing their strategy wasn't working, they started looking for different approaches on how to attract customers to their stores. On a limited budget they hired a local advertising agency to help them spread brand image around and change customers perceptions of Wal-Mart but the management from Arkansas didn't give the agency the opportunity to work freely on the project, that is why advertisements didn't send out the right message. In addition, advertising was not done through proper channels therefore it did not reach targeted segments, so it was another investment gone bad for Wal-Mart's operations.

In 2004 Wal-Mart decided to go on a buying spree for some local companies. With 1,1 billion USD investment funds they acquired a local company Bompreço, which had 118 operating stores at that time and a year later another local company Sonae, which had 138 units on the market. With almost 300 operating local units, things finally started to look better for Wal-Mart's operations. It took them almost a decade to get the grip of what meant to be a local player on the market, but they finally got the touch of what Brazilian customer's perceptions are and they are adapting and restructuring store formats to satisfy every customers' needs. By using their hyper-local approach it has set them firmly on a third position among the retailers present in Brazilian market.

A good strategic move for Wal-Mart was launching a digital store (www.walmart.com/br) in 2008, giving the company opportunity to reach new customer clientele with a 60.000 product assortment. In 2013 online store generated sales of over 2 billion BRL, which represented almost 7% of total sales in Brazil and estimates for 2016 had shown web sales increase to 72,2 billion BRL. Online retailing with its high internet penetration is considered a fast growing market in Brazil, which currently ranks the 9th largest market in the world with over 80 million shoppers, therefore Wal-Mart should definitely make a step
toward investing heavily in e-retailing if they want to become country's best and largest retailer.

Overall, Wal-Mart has still a long way ahead if they want to reach the two leading retailers in Brazil. Twice the amount of stores and lesser profits than Carrefour is a clear sign that things are not looking good for Wal-Mart in Brazil. Their growth has decreased due to almost saturated market, cannibalization of its own stores sales and the economic downturn. In addition Wal-Mart will have to face more challenges with the economy raising consumer's purchasing power as the high end products will be more demanding and potential buyers won't look only at prices, when making a purchase. Also cheap products won't be appealing as much to customers due to more affordable high end products. Therefore Wal-Mart will have to reassemble their business strategies - use a differentiation strategy to improve its reputation, meet the local demand and stay aggressive, if they want to remain competitive in the market. A step toward better recognition and higher profits is the plan to remodel existing stores under Wal-Mart International banner and invest 1 billion USD to expand e-commerce in the country. It is still a long and bumpy road ahead for Wal-Mart in this highly fragmented Brazilian market. Even though this emerging market has a lot of potential, it might end up being too costly for Wal-Mart on the long run.
REFERENCE LIST


APPENDIX
APPENDIX: Wal-Mart's strategic pillars

Figure 1. Key elements of Wal-Mart business model