

WAL-MART GERMANY

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ABSTRACT

This case, set at the time that Wal-Mart entered Germany, illustrates how a giant retailer uses its domestic experience and limited international exposure to enter into culturally different and legally unfamiliar territories with the same mentality without addressing local values. The result, as depicted in the case, is nothing but cultural acceptance and legal frustrations for the largest and perhaps the most successful retail establishment in the world. Students in international marketing course can use the case information to discuss the merits of localization and the limits to global standardization even in *perceived* culturally similar environments.

INTRODUCTION

Sam Walton opened the first Wal-Mart store in 1962, became a corporation in 1969, opened its first distribution center in 1970 and went public in the same year. Wal-Mart became international in 1991 opening Cub Aurrera in Mexico City. Puerto Rico was the second place Wal-Mart opened outside of 50-US states by 1992 and in 1994; Wal-Mart had acquired 122 of Canada's Woolco stores. In 1996, Wal-Mart entered Korea and China through joint ventures and in 1997, Wal-Mart quietly entered Germany. Wal-Mart Corporation's international philosophy is friendly customer service and everyday low prices and this is exemplified through its greeters and its "Roll Back Price" and "Everyday Low Prices" slogans.

As the largest retailer in the U.S., Wal-Mart was considered a pioneer in many aspects of retail business such as the distribution system that it has implemented through Distribution Centers. However, Wal-Mart's International Division has not been able to set up such a smooth distribution system in places like Germany. Some of Wal-Mart Germany's problems with distribution are due to the local supplier's inability to keep up to the retailer's standards. Therefore, Wal-Mart International lacks the most important internal factor needed to succeed in Germany- a distribution network. With revenues in hundreds of billions, Wal-Mart does not have financial problems yet in Germany; the giant retailer is believed to be losing \$200 million per year and is not expected to break even until 2003.

In the U.S. its core competencies are low-prices, quality products and good customer service. The company has unsuccessfully attempted to transfer these competencies into Germany and has failed to convince German consumer that its concept is new, different and viable. Wal-Mart's advantage as first-mover and risk-taker when it entered the German market has also turned against it because Germans have not yet accepted Wal-Mart as their neighborhood store. Other internal factors such as Wal-Mart's ethnocentrism have also created problems. Up until recently, Wal-Mart also failed to recognize and adapt to the German culture from the corporate level to the associate level and its first few German managers did not even speak German.

GERMAN MARKET ENVIRONMENTAL ANALYSIS

Cultural Environment

- ❖ Customer Service. Wal-Mart Germany is focusing on providing the best customer service as the concept of customer satisfaction is relatively new for German retailers and consumers.
- ❖ Credit Card Purchase. One of Wal-Mart's latest innovations in the German market was the introduction of credit card purchase in 1999 to add to consumers' convenience. Wal-Mart was the first discounter to accept credit cards in Germany.
- ❖ Grocery Bags. Germans are environment friendly and retailers do not provide grocery bags. Customers either pay for grocery bags or use plastic baskets to hold their goods. Going against the norm, Wal-Mart decided to provide free grocery bags preprinted with the "Thanks for shopping at Wal-Mart" slogan.
- ❖ Store Hours. Wal-Mart brought more customer satisfaction when it decided to open its stores at 0700 instead of the traditional 0900 opening and also remained open for an extra two hours on Saturdays.
- ❖ Store Appearance. Another innovation attributed to Wal-Mart was the remodeling of some of its stores with wider aisles allowing customers more space when shopping at Wal-Mart.
- ❖ Employees. Wal-Mart expects its employees to be friendly and to treat customers well. Its goal is to instill a positive attitude within its employees. Therefore, employees are supposed to offer assistance if they are within 3 meters of a customer. Every morning, the employees participate in the Wal-Mart cheer, which is designed to instill pride and teamwork into the employees. German laws make replacing employees difficult and employees get health benefits, insurance and an average salary of \$8.85 to \$11.47 per hour.

Financial / Economic Environment

Since 1997, Wal-Mart has not been able to turn a profit in Germany. Wal-Mart Germany has gained 10% of the market share but is only generating 2% of Wal-Mart's sales. While Wal-Mart does not publish regional profit figures, the German operation is said to be losing \$200-300 million/year. Wal-Mart is still investing \$100 million into the refurbishment to make its 95 stores more attractive to consumers. German GDP increased by 6.7% between 1994 and 1998. Although the German economy is strong, they had a high unemployment rate of 10.5% in 1999. Unemployment has been a problem and is a result of the unification of West and East Germany. The unemployment rate in West Germany is 7.7%, compared with 17.3% in the East. Wal-Mart has played an active role in the economy by creating jobs, for example, when the first Wal-Mart supercenter opened in Dortmund, 1,200 new jobs were created.

Legal Environment

Wal-Mart is a leader in everyday-low pricing strategy. By the end of 1999, Wal-Mart redefined the price structure for local merchants and challenged competitors for customers and market share. Wal-Mart cut prices by about 20% on hundreds of products like food, cordless phones, pharmacy-items, electronics, vacuum cleaners, and baby clothes. In June 2000, the German anti-trust authorities, better known as the cartel in charge of regulating competition and monopolies, began investigating possible illegal price-cutting by Wal-Mart. Complaints made against Wal-Mart stated that it was breaching rules on retailing. German cartel laws state that it is illegal for stores to sell goods consistently below the acquisition price. After two months of investigations, the cartel found evidence that Wal-Mart was using its size and market share to sell products below acquisition price. The German authorities ordered Wal-Mart to raise prices on food items such as milk, butter, sugar, flour, and rice or face a government fine of \$443,999.

Competition

Wal-Mart faces competition in Germany primarily from the big German chains among which are Karstadt Quelle, Lidel, Aldi and METRO AG.

- Karstadt Quelle is the result of a merger between Germany's biggest department store group, Karstadt, and the biggest mail-order firm, Quelle. Karstadt Quelle is not only well known for its 210 Karstadt and Hertie departmental stores, but also for its 200 specialty stores. These stores are more expensive and have smaller assortment than Wal-Mart, but they offer higher quality products.
- Lidel & Schwarz Stiftung & Co.'s corporate philosophy is simple- "We buy and sell". The company buys and sells everything from pantyhose and peas to produce and PCs in more than 3,000 discount department stores and supermarkets throughout Europe. Originally a major supermarket chain, Lidel is now one of the largest deep discounters in Germany with more than 1,700 stores. The company has very low prices, but the service is poor and they don't offer as many products as Wal-Mart.
- Aldi, a discount food retailer, is one of the world's biggest grocery chains and runs 4,800 stores worldwide. It offers deeply discounted prices on more than 100 popular food items. The firm buys cheap land, mostly on city outskirts, builds cheap warehouses, keeps a tiny staff, and carries mostly private label items, and displays them on shipping pallets rather than shelves. Aldi eschews advertising and relies mainly on word of mouth. Its prices are similar to Wal-Mart's.
- METRO AG owns and operates about 2,100 wholesale stores, supermarkets, hypermarkets, department stores, and specialty stores, primarily in Germany and the rest of Europe. Store banners include Metro, Makro, Praktiker and Galeria Kaufhof. Praktiker, Metro and Kaufhof are the ones that are most competitive with Wal-Mart. Praktiker sells home improvement articles. Metro, under the label of either Metro or Makro, offers a broad and deep food assortment with special emphasis on fresh products and a broad non-food assortment for general business supplies to professional customers and institutional bulk buyers. Kaufhof is an upscale designer clothing retailer with higher prices than Wal-Mart.

MARKETING STRATEGY

Wal-Mart entered the German market in 1997 with the acquisition of 21 Wertkauf hypermarkets. By 1998, Wal-Mart became the 4th largest retailer by acquiring 74 Interspar hypermarkets. Wertkauf stores and the Interspar chain generate annual sales of \$1.4 billion and \$1.7 billion respectively. This gives Wal-Mart 95 store locations and 13% market share in Germany. Wal-Mart has invested \$100 million in improving the structure of the newly acquired stores and by January 2000, had retrofitted 10 of its 95 stores, complete with company name and logo and plans to convert the rest of its stores to supercenter format by 2001. The acquisitions allowed Wal-Mart to quickly move into Germany and these locations will be a base for further growth and expansion into the European market.

Branding Strategy

Wal-Mart Private Brands

The ideology of creating global brands motivated Wal-Mart to utilize two private labels in both German and U.S. markets: Great Value and Sam's Choice. The range of products marketed under these brands does not change much in both markets. However, in Germany, some products go through some modification to fit cultural preferences.

- “Smart Price” Brand

“Smart Price” is Wal-Mart’s European private label developed from scratch to cover British and German markets. This brand, whose logo features a red fox, includes label goods such as sugar, rice, milk, pizza, cereal, and instant coffee. Wal-Mart currently has approximately 80 products under this brand and it hopes to expand the line to 120 by end-2000. No special advertising was used to promote this brand and the products are simply labeled on the shelves. Some of the products sold under the “Smart Price” brand have undercut Aldi, Germany’s long low-price leader. Nevertheless, it is difficult to notice such small savings of 2.5 pfennigs (cents) for a kilo of sugar purchased at Wal-Mart rather than Aldi. Wal-Mart Germany’s profit margin is only between 1 and 2 percent, compared to its British counterpart’s healthy 4 and 6 percent.

- “Great Value” Brand. This brand includes 65 products ranging from staple goods to cleaning supplies and general household merchandise.
- “Sam’s Choice” Brand. This brand, created for the U.S. market in 1992, includes items such as soft drinks and sand juice. Like the “Great Value” Brand, the “Sam’s Choice” brand has been well accepted in countries like Germany and the United Kingdom.
- Alcott Ridge wines. At the beginning of this year, Wal-Mart partnered with E&J Gallo Wineries to develop its generic wine selection, which will be available in the U.S. and also in Wal-Mart’s international market. The wine selection includes four of the most popular wines: Cabernet Sauvignon, White Zinfandel, Chardonnay, and Merlot.
- Better Homes & Gardens. Wal-Mart’s private brand for gardening products, supplies, and equipment covers more than 100 items. This particular brand, however, has not been marketed outside the United States.

Private label products generally do well especially when national brands are set at high prices. In US, Wal-Mart’s private labels have been gaining market share. For some time Sam’s Choice detergent, for example, was selling better than Procter & Gamble’s leading Tide brand.

- Wal-Mart’s Equate Brand. This label has not yet been introduced in the international market.
- Other Wal-Mart brands include: White Cloud toilet paper: Trademark bought from Procter & Gamble, O’l Roy Dog food, Faded Glory Apparel, Ever Start Car Batteries, Ever-Active Alkaline batteries. Wal-Mart also has licensing agreements to distribute brands for: Kathie Lee, Mary-Kate and Ashley brand and General Electric.

Distribution Startegy

➤ In U.S.

Wal-Mart is a company that does almost all these activities on its own. It also has different ways of sending the products to the consumer. One is the traditional method of selling products through different types of stores. The other is direct selling through the Internet. Currently, Wal-Mart operates 1,723 discount stores, 866 supercenters and 469 Sam’s Clubs that are supplied by 43 distribution centers in the United States. From these distribution centers, the company is able to operate everything. The company’s philosophy is to build up the stores throughout 200-square-mile area around the distribution centers in order to fulfill two major goals: to cut distribution and transportation costs and save time in restocking and to maintain operational control.

Wal-Mart’s distribution in the international segment is operated in a specific way. There are distribution facilities in several U.S. states to support the product shipment to the Latin American and Asian markets.

Additionally, Wal-Mart operates the same kind of facilities locally in several countries to distribute all imported and domestic products to the operation units. Besides the traditional distribution channel through retail stores, Wal-Mart also offers a wide range of products to its customers through online shopping via the Internet.

➤ **In Germany**

With the acquisition of 21 Wertkauf stores in 1997 and 74 Interspar stores in 1998 in Germany, Wal-Mart now operates 95 retail stores all over the country. The size of these stores varies from 400 to 2500 square-meters. Also, in 1999, Wal-Mart moved its headquarters from Karlsruhe to the former Interspar headquarters in Wuppertal. At the same time, Wal-Mart introduced its approved product distribution and logistics system in Germany. Strategic opportunities have to be taken advantage of, especially in a highly satisfied and mature market like Germany's wholesale and retail market. Finding good distributors is very important and to ensure frictionless operation, Wal-Mart cooperates with the British company, Tibbett & Britten Group, plc, one of the world's biggest logistic companies with 31,000 employees and operations in 26 countries.

With this cooperation, Wal-Mart was able to implement its distribution system in Germany and now operates all activities through one big distribution center which is located in Kempen with 30,000 square meters of storage capacity. By focusing on one logistics headquarter and centralizing all activities, Wal-Mart reduced the direct shipping of products – except grocery - to different retailers and was able to avoid inventory inefficiencies. The major problem was that Wal-Mart disregarded the structure of distribution in German food retailing which relies on decentralization rather than on centralized and controlled distribution operations to retailers. Wal-Mart's suppliers were not able to adapt to its demands, as a result, deliveries failed to arrive in time and the out-of-stock rates were sometimes more than 20% compared to an average 7% in this industry. The lack of the economies of scale made this problem even worse. Wal-Mart's performance in Germany was by far not comparable to those in other countries and the acceptance and awareness of Wal-Mart by German customers was considerably low.

Pricing Strategy

Wal-Mart has the same pricing strategy in Germany as it has in the U.S. It maintains uniform prices, except where lower prices are necessary to meet local competition. The company's strategy is to establish price and quality leadership. High competition in Germany made it launch a price war, selling some products below costs. German regulators have stepped in to keep some semblance of price. German authorities accused Wal-Mart in September this year of selling six private label products below cost, something that is illegal in Germany. Between "price setters" and "price followers", Wal-Mart is definitely a "price setter" in Germany. Wal-Mart uses "Everyday Low Prices"- that is if a customer can find any of Wal-Mart's products at a lower price with 50 kilometers from a Wal-Mart store, it will pay the price difference. This is what they call "Wal-Mart Price guarantee". Another thing Wal-Mart uses is the "Rollback-pricing" which means that products are getting cheaper over several weeks.

Promotion, advertising and public relations Decisions

Wal-Mart maintains very similar advertising and promotion in Germany as it does in the U.S. In fact, when Wal-Mart first entered the German market, it used a Texas based advertising agency, GSD&M. This ad agency used the same kinds of promotion in Germany as it did in the U.S., changing the language and a few of the localized products of course, but essentially they were the same. However, as of November 2000, Wal-Mart enlisted a German advertising agency, Uilot Media. More than \$12.2 million will be

budgeted for German advertising for the next year and it hopes that this will increase its sales through more culturally compatible ad campaigns.

In both the U.S. and Germany, Wal-Mart distributes weekly publications through local newspapers. These publications feature a variety of products Wal-Mart has to offer and also inform the consumer of any specials or promotions offered that week. Wal-Mart employees and their families serve as the clothing models, which helps consumers become aware of Wal-Mart's friendly employees. Customers feel more connected to Wal-Mart employees as they see them in the weekly ads. The products advertised in the flyers in both the U.S. and Germany are localized for items such as food, household items, and vitamins because consumer tastes on these items differ greatly between the U.S. and Germany and consumers want to buy the names they trust.

In both U.S. and Germany, Wal-Mart ads can be found on TV, in pamphlets and on billboards. In October 1999, Wal-Mart Germany launched its first television ad campaign in order to create awareness of the new Wal-Mart stores in Germany. These ads featured the "Rollback prices" promotion and Wal-Mart hopes they will help to educate the German public on Wal-Mart values. Wal-Mart uses billboards in both U.S. and Germany as well. Billboards are strategically placed near Wal-Mart stores and are easy to notice. Unlike the US, the company even uses promotional posters that are placed near Wal-Mart stores to inform German customers about Wal-Mart.

Wal-Mart's largest promotional campaign right now is the "Rollback Prices." The rollback campaign promotes permanently lowered prices on more than 100 items, including Pepsi, coffee, chicken, men's jeans, detergent, and even Siemens appliances. This promotion has been heavily advertised in the U.S. by way of numerous TV commercials. It is also the largest promotional campaign for Wal-Mart Germany. Wal-Mart also runs television commercials in Germany for this campaign, even though it is unusual for retail establishments to advertise on TV in Germany. Another promotion used exclusively in Wal-Mart Germany is for the "Smart Price" products. It will be the second premium priced Wal-Mart brand offered in Germany. Wal-Mart focuses on excellent public relations, which is exemplified through its commitment to excellent customer service. In the U.S., customer service is a common practice and is expected by most U.S. consumers. Germans, however, are not at all used to customer service and have mixed reactions about it. This has been seen as a challenge in the German market. Wal-Mart Germany has trained its staff to greet customers and offer assistance. Wal-Mart hopes to change the way Germans view customer service and it feels this will help increase customers and profits.

DISCUSSION QUESTIONS

1. Wal-Mart used the same marketing strategy in both USA and in Germany such as low price and friendly shopping environment. Do you agree with Wal-Mart's "global" strategy?
2. Given the fact that Wal-Mart Germany was not profitable at the time, would you suggest that Wal-Mart withdraw from Germany or keep its presence there and change its strategy?
3. What are Wal-Mart's advantages and disadvantages in Germany compared to local competitors and how should it have utilized its advantages and minimized the disadvantages?
4. How do cultural and legal differences between the U.S. and Germany affect Wal-Mart's marketing mix strategies?