

Retail internationalization: Lessons from “Big Three” global retailers’ failure cases

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Abstract

Due to saturated domestic markets many retailers seek potential growth and profits in the global market. After reviewing internationalization failures of big three global retailers, Wal-Mart, Carrefour, and Tesco, three important factors emerged which other retailers should consider as they plan strategies for internationalization and expansion. They are (1) adapting to host culture and market; (2) attaining competitive advantages in the new market; and (3) achieving global mindset and strategy. Findings of this paper can help retailers implement their internationalization strategies for the success in the global market.

Introduction

For contemporary growth in international retailing to occur, relatively developed systems of production, distribution and selling are essential. As retailers experience saturated domestic markets, the need for greater investment diversification, legislative hurdles, competition, and economic pressures, many pursue international market entry strategies as a source of potential growth and profits (Sternquist, 2007). Various studies on retail internationalization suggest that retailers favor low risk entry strategies, markets with cultural and geographical proximity to their domestic market, and markets with growth potentials (e.g., Barkema and Vermeulen, 1998; Howard, 2000; Welch and Welch, 1996). Sternquist (2007) observes that all types of retailers participate in international market entry from the strong to the weak and the unique to the standard, but determining the level of market sophistication in which to enter may vary. The strong and the unique retailers may be better equipped to enter more developed markets, while the weak and the more standard retailers may find greater success in less developed markets. However, the failure cases of global retailers’ internationalization efforts have been reported regardless of the strength and uniqueness of retailing format and the level of entry markets’ economic development.

Reviewing failure cases can lead to a better understanding of the common mistakes in market entry and performance to apply to future improvements in the area of global retailing (Burt, Dawson and Sparks, 2004). Because of this interest in assessing failure as a way to benefit future growth, this paper intends to examine selected internationalization

failures of big three global retailers, Wal-Mart, Carrefour, and Tesco (Deloitte, 2009). In determining factors which increased the likelihood of failure, this paper provides conclusions which can be applied by retailers as lessons for change in future internationalization.

Failure Cases of Retail Internationalization

Wal-Mart

Perhaps the most well known and researched case of retail failure deals with the world's largest retailer, Wal-Mart. Known for their dominance in global sourcing, which accounts for 10% of the U.S. trade deficit with China (Workman, 2006), the company has struggled to compete in the global retail market, often in markets with social cultures that conflict with the success Wal-Mart has experience in the domestic market. Their failure and withdrawal from the German market is particularly well documented (Christopherson, 2007; Davison and Burt, 2006; Fernie and Arnold, 2002; Gerhard and Hahn, 2005; Workman, 2006; Zimmerman, Nelson, Ball and Hudson, 2006; "Heading for the Exit," 2006).

Wal-Mart entered Germany at the end of 1997 with the purchase of 21 existing Westkauf stores and shortly thereafter 74 Interspar hypermarkets. Known for their preference to acquire existing companies that can be molded into the existing corporate structure (Fernie and Arnold, 2002), Wal-Mart's purchase of two existing German retailers was not unusual even though it only gave Wal-Mart a 3% share in the German retail market sector (Davison and Burt, 2006). Many of the stores purchased were also outside of town centers, and thus frequented less by German consumers. As the largest retail market in Europe, and with its central location ideal for future expansion in all directions within Europe, Germany looked like an ideal starting point for Wal-Mart in Europe (Gerhard and Hahn, 2005). However Germany is also the most competitive European market with strong and well established hard discounters, heavy government regulations, and strong workers' unions (Davison and Burt, 2006).

Factors which harmed Wal-Mart in Germany included their inability to compete on price in the already heavily discounted German market. Known for "everyday low prices" in the United States, Wal-Mart did not hold a price advantage in Germany where companies already operate on extremely low profit margins and where customers are accustomed to a wide selection of heavily discounted items. Although wholly owned, Wal-Mart was unable to capitalize on that level of control to their advantage. They faced negative factors immediately upon entry into the market. Since most of its German competitors were privately owned and thus less acquirable, Wal-Mart was left to purchase the smaller, available retailers many of whose stores were in need of renovation. A delay on Wal-Mart's part to get their name on new stores, and then to renovate them to represent the Wal-Mart brand well, resulted in an almost immediate negative association with image for the brand. Wal-Mart was never able to achieve status as a significant brand in Germany (Halepete, Iyer and Park, 2008).

Wal-Mart also erred in misreading the German's expectations for customer service. Wal-Mart's friendly sales staff approach was not well received by German consumers who found the smiling sales staff's behavior disconcerting (Workman, 2006). Due to the travel distance to stores located outside of local shopping districts, most German customers relied

on Wal-Mart for monthly purchases rather than their regular weekly and thus main shopping purchases (Gerhard and Hahn, 2005). Wal-Mart is generally considered to have two areas of organizational advantage over their competitors: (a) control over suppliers which affects cost, storage and distribution time as well as (b) the technological ability to move rapidly with market changes. With these advantages Wal-Mart normally achieves a cost advantage over their competitors across a very wide range of products. Unable to achieve the same level of control over German suppliers, distribution channels, and employees as they experience in other markets, Wal-Mart was unable to gain significant advantages over their German competitors (Christopherson, 2007). Wal-Mart was also unable to adjust to the social norms of a German labor force, including assigning a director over German labor interests who spoke no German ("Heading for the Exit," 2006). The German labor movement is accustomed to direct involvement in company decisions. By not adequately including employee's unions in every step of company practices, Wal-Mart lost the support of their employees and subsequently the general public which places a high value on labor's involvement in corporate affairs. In July of 2006, Wal-Mart sold their 85 German stores to powerful German retailer Metro AG.

Wal-Mart also experienced a text-book like case of failure in the South Korean market. Forming a joint-venture in 1998, Wal-Mart operated 16 stores in South Korea. Similar to the German market, South Korean consumers found the warehouse style retailing unfriendly and housewives felt the selection of food and beverages did not meet the needs of Korean families (Workman, 2006). Wal-Mart failed to adequately adapt to these differences in taste. As well, they were unable to gain network advantages over their competitors, a key to Wal-Mart's success in other markets. With only 16 stores in the market, Wal-Mart Vice Chairman Michael Duke noted, "... it became increasingly clear it would be difficult for us to reach the scale we desired" (Workman, 2006). Wal-Mart also lacked a diversification of investment in their joint-venture arrangement within South Korea. A country dominated by family-controlled conglomerates with interests in manufacturing, retailing, and real estate, Wal-Mart was challenged to compete against these conglomerates that had strong control over sourcing, costs, distribution, and store locations. As in Germany, Wal-Mart was unable to achieve their successful, competitive advantage of control over suppliers and technological advantages in distribution and market adjustment. Price wars were common as domestic retailers earnestly met Wal-Mart's efforts to lower prices (Halepet et al., 2008). Wal-Mart consistently ranked fifth among the top five retailers in South Korea ("Wal-Mart Sells Korean Business," 2006). In May of 2006, Wal-Mart sold its 16 stores to South Korea's largest discount retailer, E-Mart owned by Shinsegae.

Carrefour

Competing in highly developed markets has also proven a challenge for France's number one retailer, Carrefour. Entering the Japanese market in 2000 with eight stores, Carrefour was significant as the first greenfield wholly owned international entrant (Aoyama, 2007). As would Wal-Mart in Japan, Carrefour experienced aggressive price competition from existing domestic retailers. Japan has one of the world's strongest luxury brand markets, with few low-income households which results in a smaller market for discounted items. Upon entry to the market, consumers anticipated Carrefour would represent luxury French products for which there was a demand. Instead, Carrefour

followed their internationally successful strategy of working with local suppliers for goods common to the local market. Unfortunately, the market for local products was saturated thus Carrefour held no advantage over established retailers. Although they attempted to adjust, by bringing in French wine and other food products, the initial damage was too great to overcome their failure to achieve enough of the market share to remain viable (Baek, 2004).

Carrefour also miscalculated the desire for service and appearance to the Japanese consumer. By instituting statement merchandising, Carrefour sacrificed store appearance for shelved product maximization. Aoyama (2007) suggests that Japanese consumers are relatively price-insensitive and value a fashionable store atmosphere and location, as well as higher customer service, over lower prices. Japanese consumers tend to be extremely brand conscious, even on every-day products and food. They regularly associate low-price with cheap-quality and prefer instead retailers who provide entertaining shopping experiences and products which enrich their lives (Aoyama, 2007). While Japanese consumers do monitor pricing, in this highly developed market where domestic retailers are able to establish equal or lower prices to international retailers, Carrefour was unable to achieve any competitive advantage on pricing. Carrefour also faced distribution and locational challenges within Japan. Without that advantage, and by not meeting consumer's expectations, Carrefour was unable to achieve an economy of scale large enough to compete in the market. Carrefour split their store locations between Osaka and Tokyo, which resulted in neither location achieving a strong market share. The distribution systems in Japan are notably complex to outsiders (Aoyama, 2007), involving layer upon layer of difficult to track wholesalers, manufacturers, and transportation companies. Accustomed to direct distribution from manufacturers, and faced with unwillingness on the part of distributors to adapt to a fairly weak retailer, Carrefour was unable to gain its usual advantage over competitors in its distribution channels. In March 2005, Carrefour sold their 8 brand new stores to Japan's number one retailer Aeon.

Carrefour had faced similar difficulties on a smaller scale in the American market when it entered with stores in Philadelphia in 1988. As in Japan, they entered a well established, consumer relevant market. At the time of their entry, many of the innovations of Carrefour's hypermarket format were not unique or significant to American consumers (Dupuis and Prime, 1996). Large scale parking lots were not uncommon and established retailers such as Wal-Mart and Kmart were already providing discount priced items to consumers. At the time, the American market had also not yet adapted to the concept of purchasing food items and non-food items at the same store. As they would later experience in Japan, apparently unable to learn from their U.S. market experiences, Carrefour was unable to achieve a large enough economy of scale to affect purchasing price to make a significant boost to its ability to compete in the market. Similar to Wal-Mart in Germany, Carrefour also faced employee union resistance which directly resulted in negative public opinions towards the company brand. As they would do in Japan almost a decade later, Carrefour closed their U.S. operations in late 1993 ("Carrefour Makes Plans," 1993).

Tesco

British retailer Tesco has experienced market failure and exit as a result of errors in market entry decisions. In the late 1970's Tesco initially purchased a food retailer as a way

into the retail market in Ireland. By treating the market as an extension of the UK operations, they neglected to adapt to local Irish tastes and suppliers which resulted in a general distrust on the part of the local consumers due to the fact there were few Irish products offered for sale (Palmer, 2004). Like Wal-Mart would do in Germany, they also made a poor choice in their wholly owned purchase as the stores they acquired were mostly in poor, less densely populated locations not well suited for Tesco's products. Tesco sold their stores to an Irish supermarket chain in 1986. Interestingly, Tesco re-entered the Irish market in 1997 with the purchase of another food retailer, this time securing the position as largest food retailer in Ireland with 109 stores. Although cautious initially to not repeat errors which led to customers' distrusting the Tesco brand, the company again failed to meet customers' expectations. Legal problems concerning female employees' dress code and a revelation that the company was regularly overcharging customers in error and not fully refunding the charges created new distrust for Tesco on the part of the Irish consumers (Palmer, 2004). Learning from previous mistakes and with scale surpassing all other Irish food retailers, Tesco adopted a "buy Irish" campaign to improve their image and currently over half of the products sold in their Irish stores are Irish made or grown. They purchase over €650 million in Irish products each year for export to their global stores (Tesco, PLC, 2008).

In 1992, Tesco attempted entry into the French market with the purchase of 85 per cent of a small regional chain, in hopes of expanding it into a national wide brand. Hindered by a down turn in the market and concern across Europe as Wal-Mart entered Germany while Carrefour and Casino expanded, Tesco was handicapped by their lack of experience in global markets. Ultimately it became apparent that the amount of effort needed from the domestic office to sustain the French market exceeded the profits returned to the company, and Tesco chose to divest from the market to focus their attention on the more profitable domestic and international markets (Palmer, 2004). Yet as an example of the need for retailers to plan for divestment in conjunction with market entry strategy, it took three years for Tesco to locate a suitable purchaser for their French stores, finally selling the chain of 90 stores to Promodes in 1997.

Discussion

Failure Factors of Retail Internationalization

According to Cairns, Doherty, Alexander, and Quinn (2008), five factors link together to form a foundation for the process of divestment including: limitations of an inward looking corporation, lack of stability in the domestic market, negative effects of maintaining failing globalization strategies, problems with new management, negative results from initial entry mode strategies. The lack of stability in the domestic market was the only factor that was not shared by the failure cases examined in this paper (see Table 1). Burt et al. (2004) noted that the average time each retailer took before the market exit was between four and six years from market entry. The companies examined here took on average six years and eight months before they exited the market.

Table 1. Summary of Selected Failure Cases

Retailer	Country of Entry	Years in Market	Factors for Exit

Wal-Mart	Germany	9	Poor Entry Strategy: wholly owned instead of joint venture - Inward Focus: prevented market adaptation
	South Korea	8	Poor Entry Strategy: weak joint venture - Inward Focus: prevented market adaptation
Carrefour	Japan	5	Poor Entry Strategy: split locations for loss of distribution advantages - Inward Focus: prevented market adaptation and misplaced confidence in strategy
	United States	5	Poor Global Strategy: not innovative in US marketplace - Inward Focus: unable to adapt to US consumers
Tesco	Ireland*	8	Poor Entry Strategy: failed selection of wholly owned stores - Inward Focus: unable to adapt to Irish versus UK consumers
	France	5	Inward Focus: lack of experience for market adaptation and lack of global strategy

*Market re-entered in 1997 and remains to date.

Lessons for Future Global Retailers

Based on the review of the global companies presented in this paper, three potential factors emerged which other retailers should consider as they plan strategies for internationalization and expansion. Each of these factors taken individually or in conjunction with one or more of the other factors can provide highly beneficial insight for retailers, helping them identify and isolate potential failure risk in their own internationalization aspirations and subsequent planning.

Adapt to Host Culture and Market. A company unable to coordinate a smooth transition into a new market and adapt their domestic strategies to specific host market culture and social norms will find it nearly impossible to operate a successful venture. All three global retailers reviewed for this paper suffered from some level of ineffective market adaptation. All retailers preparing to enter international markets must take very seriously the risks they will face, including their level of ability to adapt to subtle and not so subtle cultural differences. It is easy for companies to overestimate their appeal to consumers in turn expecting similar results as they have found in their domestic markets. Companies must take steps to gain awareness of host country culture and social norms by such methods as hiring highly qualified local talent and then actually listening to and learning from this labor resource, researching consumer expectations of existing retailers in the market as well as ways they are not being adequately served, and exploring ways to connect the retail store to the local culture through product selection, customer service, and community participation.

Attain Competitive Advantages in the New Market. Wal-Mart and Carrefour suffered from difficulty surrounding replicating their competitive advantages in new markets, especially those related to price and economy of scale, which they enjoyed in their domestic markets. Wal-Mart was especially harmed in both Germany and South Korea by a lack of distribution and price advantages which are fundamental to their success historically. Highly developed local competition and regulations limiting store development both hindered their ability to compete. Before retailers enter a new market, it is critical that they closely examine their existing market advantages that are critical to their success and plan for how they can achieve similar results in the new market. If they find they will not be able to replicate the same advantages, they must seriously consider the

validity of entry into that particular market unless they have identified different but equally valuable advantages they can develop in the new market which can help insure successful market entry. As Wal-Mart learned, a company cannot attempt to counter the lack of advantages in the host market with the success of those in the domestic market as the resulting strain creates fundamental harm to the domestic corporate whole, resulting in domestic economic pressure for change.

Achieve Global Mindset and Strategy. Extensive research in global mindset (e.g., Bartlett and Ghoshal, 2000; Begley and Boyd, 2003; Gupta and Govindarajan, 2002) can help companies find ways to improve their level of global competition. Carrefour in Japan and Tesco in France all suffered from a lack of global mindset and significant strategy for entering the global market competitively. For example, Carrefour held a misplaced confidence in their global strategy which prevented them from taking appropriate steps for market success when they sought out expansion into Japan. All retailers, even those operating only in a domestic market, need to consider that they are operating in a global economy and find ways to achieve a strong global mindset within their organization in order to compete. Dependence on past success without awareness and planning for future challenges and competition is futile. Companies unknown today may be the main competition tomorrow. Retailers can work towards stronger internal policies which foster global mindset (Begley and Boyd, 2003). They can seek out globally minded employees to hire as well as develop ways to train existing employees towards global and cultural understanding (Gupta and Govindarajan, 2002). Finally, they can set goals for global competition and work at developing strategic intent to foster achievement in the global marketplace (Bartlett and Ghoshal, 2000). The companies examined for this paper all experienced varying degrees of difficulty in achieving success in global markets, all of which in time led to market failure and exit. Poor overall preparedness in terms of global mindset, strategy, knowledge, flexibility and competencies reduced their ability to compete successfully.

Conclusion

While companies may experience denial when they fail at internationalization endeavors (Cairns et al., 2008), it is critical that they and other retailers learn from each situation's mistakes to better arm and prepare themselves to achieve success in the ever expanding global market. To play the game, you must know the rules, and the rules in international retailing continue to evolve and grow with each case of success and failure. Awareness of global market culture is the only consistent defense when competing and succeeding in future global retailing.

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