Failure of Wal-mart in Germany

Introduction

Wal-mart entered in Europe via Germany in 1997 through acquisition of Spar Handel and Wertkauf stores. Wal-mart changed all the stores of these companies into Wal-mart stores. Wal-mart hoped to replicate its US success in Europe using the same strengths of Everyday low prices (EDLP), efficient operations, strong organizational culture and good customer service. Lot of analysts believed that the domestic retail players would not be able to compete with the North American giant and that the domestic retail industry would suffer (Bergmann, 2000). However, this was not to happen. The company was not able to replicate its success in Europe. In fact, they had to exit Germany in 2006 and has not achieved leadership position in England.

This report studies the performance of Wal-mart in Europe in general and Germany in particular. The reasons for bad performance are studied and the lessons learned are discussed.

PEST Analysis

This analysis would give a good overview of the external environment prevalent in Germany at the time when Wal-mart made an entry into the country:

- **Political:** The policies in Germany were not conducive to the entrance of big retailers in the country. The number of maximum hours allowed per week was amongst the lowest in the world. Also, there was a very stringent policy against price cut. Retailers were not allowed to sell goods below the cost price. It was also difficult to get a license to enter in the retail industry of the country. There were various regulations that rendered Wal-Mart's resources of economies of scale and network control useless in Germany (Christopherson, 2007)
- **Economic:** Germany is the biggest retail market in Europe and the GNP of the country in 2000 was 2 trillion Euros with the total population of 80 million people. Retail industry in Germany is very competitive and low margin industry. Wal-mart entered the country because of the big market, but during that time the industry in the country was saturated (Senge, 2004).
- **Social:** People in Germany were very price conscious when it came to the retailing industry. Many more people considered themselves as price conscious rather than quality

and service conscious. As a result, the retail industry in Germany was least profitable as compared to other industries in Germany as well as retail industry of other countries. Overall, the culture in Germany was very different than that in US.

- **Technological:** The technology used by German retailers was among the best in the world. They used the available technology such as IT systems and RFID to improve the efficiency of their businesses. German firms had resources of highly skilled labor, technological logistics application and complex network coordination (Christopherson, 2007)

Retail industry: Porter's Analysis

Porter's Analysis (Porter, 1985) will give us a good idea of the various factors at play in the retail industry in Germany.

- **Competitors**: The retail industry in Germany was least profitable as compared to other industries in Germany as well as retail industry of other countries. The profits were less than one percent of sales for most of the retailers and very few were able to generate healthy returns on capital. Most of the retail operations were run by family owned businesses and the focus was not on shareholder returns. The market during early 2000 was consolidating at that point with percentage of revenues by top players in the industry increasing. The top 5 companies accounted for the market share of 63%.
- **Customer power:** Customers were very price conscious and held high buying power over retailers since there was no cost of switch over and the product available was same at all the retail locations. Most of the customers were influenced by prices rather than quality and service.
- **Supplier power:** Lot of suppliers worked due to relationship building with the relationship between suppliers and existing big players being very strong. Also, suppliers preferred retailers who would give them high volumes. Manufacturers enjoyed much higher power in Germany, as opposed to the US market where the power lie in the hands of the retailers (Christopherson, 2007)
- **Threat of substitutes:** There was little threat of substitute for retailers. Though online retailing was increasing, it was very small in comparison to the physical retail shops.

- **Barriers to entry:** It was difficult for a new entrant to enter in the German retail industry since the political climate and the policies were not encouraging in this regard. Also, supplier relationship and cultural integration proved to be big barriers in the industry.

Why Wal-mart entered Germany

It is useful to understand the reasons behind Wal-mart's decision to enter Germany. This would give us the parameters to judge how successful the company was based on these reasons:

- The retail market in United States was getting saturated without much growth. The industry has reached the mature cycle and Wal-mart had undertaken all the initiatives it could to increase its top line and bottom line. Having expanded in all the parts of US, the company had to look towards international expansion in order to maintain growth.
- The population of US was not increasing much and hence there was no growth opportunity from that front as well.
- Entry barriers were not high in the retailing industry due to increasing globalization and some small players were trying to make an entry.
- The competition amongst retailers was intense in US. Competitors like K-mart were giving stiff competition to Wal-mart and market share was under pressure.
- Wal-mart wanted to leverage its successful strategy of everyday low pricing in other countries as well. The belief was that this strategy could be successfully replicated to foreign countries.

Entry Strategy of Wal-mart and Reasons for failure

Wal-mart made an entry in Germany through two acquisitions. One of the acquisitions has been widely described as flawed and resulting in huge failures. Also, Wal-mart was unable to culturally integrate its US management team with German team on ground and this lead to huge friction. The company also did not always follow the law and received bad publicity due to this. Following section discusses these reasons in detail

Bad Acquisitions Strategy

The second acquisition of Spar by Wal-mart was highly flawed and proper study and analysis was not done by Wal-mart before making the acquisition. The stores were located in poor locations and there was no uniformity in the operations. In a rush to expand, Wal-mart ended up paying much more than what Spar was worth for. The company wasn't able to achieve the minimum sales in order to generate sustainable profits.

Failure with Cultural Integration

Lack of cultural integration is one of the biggest reasons of failure of mergers and acquisitions and the same happened with Wal-mart in Germany. Many employees left Wal-mart after acquisition and there was mistrust between the new management and existing employees. Wal-mart forced the usage of English as the official language in the company and the new management made no efforts to connect with existing employees. Wal-Mart's employees are unhappy about the low pay in the company and are not happy with the quality of products that they sell. Wal-mart was not able to lay down employees in Germany as easily as it did in US. There were stringent laws in this regard and the labor unions were very strong.

Failure of Everyday Low Prices Strategy

The basis of Wal-mart's success in most of the markets has been its strategy of everyday low prices where they undercut the competitors and gain market share. However, in Germany the price cut was matched by competitors and Wal-mart was unable to provide goods at cheaper price. Also, the goods made available were not at high discount and some newspapers and magazines exposed the low price promise as an empty one. Wal-Mart was unable to achieve cost leadership since it was unable to attain economies of scale and control over retail network(Christopherson, 2007)

Lack of Customer Satisfaction

Wal-mart has enjoyed high customer satisfaction in US market, but was unable to replicate this in Germany. Wal-mart was unable to tweak its services according to the German preferences and ended up paying the price in form of dropping customer satisfaction.

Conclusion

As a result of all the failures discussed in the report, Wal-mart exited from the German market in 2006. The retail industry in Germany was not attractive enough to enter and the acquisition made by Wal-mart was not based on good judgment. The macro environment as well as industry was not attractive. Also, Wal-mart was unable to come up with a proper positioning in Germany and the company was not able to culturally integrate the US management with German workers.

References

- Christopherson, S. 2007. Barriers to 'US style' lean retailing: the case of Wal-Mart's failure in Germany. *Journal of Economic Geography.* Vol 7, pp 451-469
- Fernie, J. and Arnold, S. 2002. WalMart in Europe: prospects for Germany, UK & France. *International Journal of Retail and Distribution Management*. Vol. 30(2), pp. 92-102.
- *O'Brian, K.*(2000), Wal-Mart: Angst in Europe. Bloomberg Markets. No. 11
- Porter, M.E.1985. *The Competitive Advantage.* New York: The Free Press
- Senge, K. 2004. Der Fall Wal-Mart: Institutionelle Grenzen. *Soziologische Arbeitspapiere,* Vol. 4.