

A world map with a light green background and black outlines of continents and countries. The map is centered on the Atlantic Ocean.

# **WAL★MART'S** **INTERNATIONAL EXPANSION**

**A Primer for Activists**

## WAL-MART'S INTERNATIONAL EXPANSION

*"All around the world, we save people money, so they can live better. That's good news – in any language." – Wal-Mart Stores Inc.*

As of May 2007, Wal-Mart's 7,343 stores and Sam's Club locations in 14 markets employ more than two million Associates world wide, serving more than 179 million customers a year. Wal-Mart isn't just another company but it is the largest retailer in the United States and in the world.

Since 2002, Wal-Mart has topped the Fortune 500 list, except for in 2006, when it trailed in second place behind Exxon-Mobil "but only because the world price of oil had risen 50 percent" in that year.<sup>1</sup> Wal-Mart's annual revenue in 2008 was \$378 billion.<sup>2</sup>

All around the world, Wal-Mart exploits people and resources, so Wal-Mart can profit. That's bad news – in any language. As Wal-Mart

*As Wal-Mart expands in a country, its influence and power expand as well, leading to exploitation, political fraud, and the desecration of local culture and farmland.*

seeks to capitalize on its international strategy, it is working toward building new retail empires in other countries, namely India and Russia.

This primer is intended to educate activists around

the world about Wal-Mart's retail development strategies and the company's impact on local retail culture. The three primary tactics used by the company prior to entering a country include 1.) building partnerships with local businesses and organizations 2.) working with government officials and 3.) tapping into the burgeoning middle class's purchasing power. We have chosen Mexico and India as two international case studies to highlight what happens before and after Wal-Mart enters a country.



*Protestors at Wal-Mart Shareholder Meeting in Mexico.  
Credit: Global Exchange, 11/14/06*

## WAL-MART AND MEXICO

In looking at Wal-Mart's ventures in other countries, important parallels and warning signs become evident. In Mexico, Wal-Mart gained access to the "rapidly expanding" Mexican middle class by first engaging in a joint venture with domestic retailer Cifra.<sup>3</sup> While a joint venture with Wal-Mart might seem benign, Wal-Mart's influence and power grows leading to exploitation, political fraud, and the desecration of local culture and farmland.

In Mexico, Wal-Mart's growth has serious costs for domestic suppliers and consumers. Wal-Mart's practices have "aroused concern" that "Wal-Mart takes advantage of local customs to pinch pennies" even "when its Mexican operations [had] never been more profitable." For example, Wal-Mart's Mexican stores utilize unpaid baggers who do not receive "a red cent in wages or fringe benefits." Mexican authorities describe this Wal-Mart practice as "downright exploitative" and "an injustice" when the corporation's Mexican profits were \$280 million in just the second quarter of 2006.<sup>4</sup>

To this day, Wal-Mart continues to incite protest and disharmony among Mexican citizens. Wal-Mart's alleged involvement in Mexico's political process provoked violence where protesters "blocked [Wal-Mart's] cash registers and threw around merchandise," telling Wal-Mart to "stay out of Mexican politics."<sup>5</sup>

In 2007, Wal-Mart saw more unrest from protesters showing "support for [Wal-Mart] employees trying to form a union."<sup>6</sup> In 2008, Wal-Mart Mexico workers went on strike because of "bad treatment from managers" and "not being paid overtime or given benefit packages" comparable to those of other workers.<sup>7</sup>

In addition to disrespecting and mistreating employees, Wal-Mart has shown Mexico's land an equal disrespect. When Wal-Mart decided to place a store in an area of San Juan Teotihuacán, a mere one and half miles from Aztec ruins, some Mexican citizens staged a hunger strike in protest of destroying Mexico's "indigenous heritage". Not only did the Wal-Mart store destroy the "cultural heritage" of the land, it destroyed "alfalfa and cornfields" which were "razed to make way" for the big box store.<sup>8</sup>



Wal-Mart began looking into doing business in India back in 2005. At the time, John Menzer, the former President of Wal-Mart International, said regulatory hurdles, which bar international retailers from directly entering the Indian market, stymied Wal-Mart's plans to set up shop in the country. Citing his talks with leading Indian government officials, he said the government was considering opening up foreign direct investment (FDI) to retailers.

In November 2006, Wal-Mart beat out Tesco for a joint venture opportunity with Indian mobile services leader, Bharti. The reason was because Wal-Mart was more flexible about the retail model to be adopted. The company's priority seemed to be an early entry, so that

the world's largest retailer did not miss out on the Indian consumer boom.<sup>9</sup> As per the agreement between the two corporate giants, Bharti would manage the front-end of the business, while Wal-Mart would take care of the supply chain, logistics and other back-end operations.<sup>10</sup>

Under the plan with Wal-Mart, Bharti would have 100 per cent ownership of the front-end stores and will form a 50/50 joint venture with Wal-Mart to provide wholesaling and logistics. Bharti also said it would launch a "small-store format" under which it would partner with existing local retailers through franchise agreements. Bharti originally said it would open the first stores in cities with a population of 1m in the first quarter of 2008.<sup>11</sup> "If the research says Bharti Wal-Mart is preferred, then we'll go with Bharti Wal-Mart. If the research says it doesn't matter, then possibly, it doesn't matter," Bharti Chairman Sunil Mittal told the paper.<sup>12</sup>

Wal-Mart planned to launch joint-venture wholesale stores in India by the middle of 2008 and expand to 75 cities in five to seven years.<sup>13</sup> But due to major opposition, they had to scale back their plans. In April 2008, Bharti Retail quietly launched three stores under the name "Easy Days" in Punjab.<sup>14</sup>

Bharti's Sunil Mittal said 90 per cent of sourcing would be from the local market and going forward this joint venture would help in increasing Wal-Mart's global sourcing from India.<sup>15</sup> The proposed Bharti venture seeks to serve the retail market by supplying it with goods directly from producers such as agriculturists, craftsmen and artisans.<sup>16</sup>



*Children protesting FDI in India  
Credit: Associated Press, 8/07*

India is a ripe and appealing market for Wal-Mart with its growing middle class of 250 million and an economic growth rate of nearly 9%.<sup>17</sup> Although the FDI laws of the country are relatively stringent, government officials are not opposed to engaging foreign businesses in the Indian market. During their 5 year effort to enter India, Wal-Mart executive often met with high-level officials in India, including the Prime Minister and the Minister of Commerce.<sup>18</sup>

The people of India have not taken this retail invasion in stride. The leaders of the retail market are the 12-40 million tiny mom-and-pop retail shops which are predominantly run by small family businesses. Many of them are not organized and this economic sector is the second highest employer in the country. India also has the largest density of such small shops. Since the announcement of the Wal-Mart/Bharti JV, one leading organization has emerged to represent the interests of the small mom-and-pop stores. This is India FDI Watch and in addition to educating the owners about Wal-Mart, they have held large rallies and demonstrations against Bharti, Wal-Mart, and other big-box retailers. The mom-and-pops have an advantage as they are conveniently located on street corners or in the heart of cities and usually have personal relationships with most consumers. However, they do not carry the variety of goods that larger retailers do.



Wal-Mart is no stranger to international retail failures. In 2006, Wal-Mart shut down its operations in South Korea and Germany after trying hard to lure customers in both countries for almost eight years. Amidst low sales and protests, the company was forced to sell its money-losing operations in those countries for a pretax loss of more than \$1 billion. "Less than one in three international retail expansions succeed when expanding overseas," according to research conducted by consulting firm Bain & Co.<sup>19</sup>

According to an analyst at Good Morning Shinhan Securities in Seoul "Wal-Mart was a typical example of a global giant who failed to local-

ize its operations in South Korea..."<sup>20</sup> Wal-Mart posted over \$10 million in losses the year before it decided to pull its operations.<sup>21</sup> In Japan, "Seiyu has struggled in the intensely competitive market since Wal-Mart first invested in it in 2002 and hasn't made a net profit on an annual basis since then." In 2007, Seiyu reported losses of over ¥20 billion. "The poor earnings suggest the Arkansas-based company's "Everyday Low Price" strategy has backfired..."<sup>22</sup>



With its market in the United States nearing saturation, Wal-Mart is increasingly looking abroad to expand its empire. The company's strategic retail invasion in Mexico is repeating itself in India and countries across the globe. Soon, Wal-Mart will follow a similar path in Russia and its neighboring countries. As Wal-Mart fine-tunes its international strategy, the global community must be increasingly innovative and collaborative in its campaign against Wal-Mart. We hope that this primer will be a useful resource to your community. For support, please contact us at [info@walmartwatch.com](mailto:info@walmartwatch.com).

#### Endnotes

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