**COLOSSAL FAILURE**

**Why Wal-Mart Did Not Succeed in South Korea**

*By Franco Gandolfi, Mindy Braun, Phil Nanney & Ki-Jun Yoon*

No matter the controversy that has surrounded Wal-Mart Stores Inc., the retail giant remains a tremendous success story. It is the largest private employer in the world and with sales revenues surpassing $350 billion in 2007. Wal-Mart is America’s largest retailer and boasts an estimated 20 percent market share of America’s retail grocery and consumables markets. As of September 2007, Wal-Mart was represented through more than 2,700 wholly-owned operations and joint ventures in 14 countries outside the US. Despite Wal-Mart’s unprecedented success, from its humble beginnings as a discount shop in Arkansas to one of the world’s most powerful and successful corporations, there were two occurrences in 2006 that deeply impacted Wal-Mart’s unrelenting quest to expand globally – Wal-Mart was forced to withdraw international operations in both Germany and South Korea. While the pull-out from Germany was highly publicized, the South Korean withdrawal or failure received almost no media attention in the United States.

Wal-Mart’s global expansion is the result of green-field investments, acquisitions of existing stores, and joint-ventures. With impressive financial results during the 2006 fiscal year with end sales reaching $62.7 billion and operating profits at $3.3 billion, these strategies gave the company excellent market penetration and effectively positioned them for future growth. With more than 500,000 associates in its international markets alone, Wal-Mart sees its rapid expansion throughout North America, Latin America, Asia, and Europe as a solid foundation with many promising areas for further growth. While store development and in-country expansion are significant, it is not the only measurement of Wal-Mart’s stunning achievement.

Wal-Mart International also has an ability to transport and transfer the company’s unique culture and effective retailing concepts to each new market. Wal-Mart International claims that it makes a concerted effort to embrace and adapt to local cultures and become deeply involved in the local community. Associates
respond to local customer needs, merchandise preferences, and local suppliers. By serving each new market in the same way, Wal-Mart International has realized considerable efficiencies and synergies.

Wal-Mart in South Korea

In August 1998, Wal-Mart acquired four stores and six undeveloped sites in South Korea. At the time, the units were operated as Makro stores, a chain of Netherlands-based membership clubs. Three of them were located in the capital city of Seoul and one in Taejon. Each store was a single level unit with more than 100,000 square foot space. Since Makro had only been operating in South Korea for two years, the stores were fairly new.

Wal-Mart’s international division Senior VP and COO, Carlos Perez, was also part of Makro’s entry into South Korea when he was executive VP of Makro. At the time, South Korea’s economy was on a rebound and its currency had declined sharply in 1997 along with all other Asian countries. After a new president took office in 1998, the currency recovered much of its value in the wake of Asia’s financial crisis. The new government pledged to let market forces, rather than the government itself, dictate the process of reconstruction.

Wal-Mart believed that the long-term potential for South Korea’s operations to contribute to the sales of Wal-Mart’s international division was considerable. While the geographical size of South Korea is comparable to the size of Florida, the population is three times as large. At the time, there were 135 Wal-Mart stores and 33 Sam’s Club stores in Florida. There was an underlying expectation that the successful business model in Florida could be replicated in South Korea.

However, prior to Wal-Mart’s withdrawal, Wal-Mart was ranked in the mere bottom five major discount stores in all of South Korea. According to Wal-Mart’s spokesperson, Wal-Mart South Korea had sales of about 750 billion won ($787 million) in 2005, when in fact, at a subsequent press conference in Seoul, it was revealed that the company had operating losses of nearly 9.9 billion won ($10 million) in 2005.

On May 22, 2006, Wal-Mart, the world’s largest retailer, added their name to a list of multinational firms (Nokia, Nestlé, Google) that failed to adjust to the taste of South Korean consumers. Wal-Mart sold its 16 stores to Shinsegae for 825 billion won ($882 million), which constituted a considerable loss. Wal-Mart was the second Western retailer to retreat from South Korea in less than a month.

France’s Carrefour, the world’s second largest retailer behind Wal-Mart, had sold its 32 South Korean outlets to local retailer E-Land on April 28, 2006 for $1.85 billion (1.75 trillion won) – also at a significant loss. As an alternative strategy, Wal-Mart focused on those foreign markets that were most profitable for the firm and its stakeholders and its focus turned back to Latin America, a booming economic zone.

South Korean Consumer Preferences

Most individuals believe that Wal-Mart failed to understand South Korean’s consumer preferences. Wal-Mart had relied on its proven business model and its strategy in offering low prices for products. However, low prices alone were insufficient to make a successful business case in South Korea. South Koreans have different consumer preferences than Americans do; they are not necessarily interested in the same products. For instance, South Koreans like fresh vegetables and fresh food rather than dry products and the type of clothing that Wal-Mart sells. The South Korean culture is also very tied into its markets; they are one of the largest countries that are deeply involved in local markets.

Some individuals commented that the location of Wal-Mart was poor and miscalculated. A South Korean professor Byung-Chul Shin commented, “The most important mistake of Wal-Mart South Korea was its location.”

Most Wal-Mart outlets in South Korea were placed outside instead of in the cities. South Koreans expect easy accessibility to shopping facilities within the larger cities without the need to travel. Also, South Korean consumers shop more frequently than most Americans do. They may not purchase many things at once, but they will usually get at least one item. Some individuals felt that Wal-Mart should have been located in the center of the cities where consumers felt more comfortable with their shopping needs.

South Koreans do not distinguish between discounts and normal prices. Thus, they may not see a compelling reason to shop at Wal-Mart. Gen Kanai, a South Korean marketing professional observed, “Wal-Mart put off South Korean consumers by sticking to Western marketing strategies that concentrated on dry goods, from electronics to clothing, while their local rivals focuses on food and beverages, the segment that specialists say attract South Koreans to hypermarkets. South Koreans really like fresh vegetables and beverages.”

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Source: Wal-Mart Stores, Inc. - *Represents more than 500,000 associates
South Koreans are also visually-oriented customers. They tend to purchase products not just because of the product itself, but also because of its appearance or the service the customer receives in the store. “In fact, some South Korean ladies do not like the warehouse-like atmosphere of Wal-Mart, which the American consumers seem not to mind since the products are still cheap. They prefer the department store-like, neat, clean, and sophisticated atmosphere. If you go to E-mart which is the biggest South Korean supermarket, you never think of it as a discount market,” said Hye-Won Jang, of the Korea Times.

These and other characteristics seem subtle and intricate to the foreign observer, yet are obvious, even standard to local marketers. As a result, local perspective among Koreans is that Wal-Mart’s failure in South Korea was primarily due to its inability to understand the shopping preferences of local consumers and to adjust its business model to the prevailing domestic culture.

Wal-Mart’s View on its Economic Failure

Wal-Mart is a corporation unaccustomed to failure. In contrast, Wal-Mart is used to success, and not just any success, but success on a colossal scale. When financial failure struck at Wal-Mart, there were many stunned constituencies. Mike Duke, Vice Chairman of Wal-Mart Stores, Inc. oversees international operations. His perspective was that in the existing environment at that time “it would be difficult for us to reach the scale we desired.”

Wal-Mart also believed the pursuit of its Western market strategies that mainly focused on dry goods, electronics, and clothing hurt them while in South Korea. For example, E-Mart used techniques, such as megaphones and hand clapping along with fancy displays, while Wal-Mart sold products out of boxes. Wal-Mart designed its South Korean stores based on US customer preferences, but different cultures have different idiosyncrasies.

Wal-Mart has come to realize that even though it is a very large, powerful firm, it is subject to relentless market, environmental, and business pressures and continually exposed to localized cultural expectations. The retailer learned that local customization, flexibility, and adaptation are essential ingredients in the successful pursuit of international business operations. Consequently, Wal-Mart’s view on its own failure was that South Koreans simply preferred their own domestic shopping centers. A similar situation occurred in Germany where Wal-Mart withdrew its 85 stores.

An External Perspective on Wal-Mart’s Failure

Unsurprisingly, various constituencies have speculated about Wal-Mart’s failure in South Korea. While not widely exposed in the U.S. media, international business analysts had no shortage of perspective, “Wal-Mart is a typical example of a global giant who has failed to localize its operations in South Korea,” said Na Hong Seok, an analyst at Good Morning Shinhan Securities in Seoul.

South Koreans strongly believe that Wal-Mart brought over its Western sales tactics and company culture. South Korean consumers are generally not interested in shopping in a store that has distinctly American flavor and style. In fact, South Korean consumers expect to see local products presented in a localized fashion; this is probably the main reason why South Koreans did their shopping at E-Mart rather than Wal-Mart. Even when Wal-Mart first arrived in South Korea it was not in a position to capture greater market share nor to force competitors to sell its products at lower prices. Wal-Mart could not offer what localized stores, such as E-Mart had. Thus, many consumers stated that they preferred shopping at E-Mart because of the localized feel.

Moving Forward from Failure

What lessons can be learned? The most important aspect for firms going global is that they must know what the local consumers really want, desire, and need. American commentator, Ray Bracy explains that Wal-Mart was unable to connect with South Korean consumers because of bad strategy and overlooked “adapting its business model to the complexities of foreign markets.” Others, such as Young-Gu Ham believe that Wal-Mart’s lesson in South Korea is salvageable, “If they change their strategies and make an effort to satisfy local customers, Wal-Mart will definitely succeed anywhere in the world.”

As firms expand internationally the virtues of flexibility and adaptability become of primary significance. However, these areas of strengths are by design, rather than by accident. They need to be incorporated into the strategic thinking of firms intending to go global. Said best by Byung-Chul Shin, “Firms need to focus on the differences between countries; Wal-Mart will be a good example for other firms wanting to go global. And, with the exception of core values he concludes, “it is essential for companies to change their strategies... to succeed in international markets.”

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