



Wal-Mart Development in Chinese Market: Problems and Countermeasures—Based on the Enterprise Culture and Ethics

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Abstract

It is an indisputable that Wal-Mart did not operate smoothly in China. Based on the development dilemma, this paper analyzes the internal and external factors of Wal-Mart developing in Chinese market, finds that differences in consumption habits and management culture, friction with China suppliers result Wal-Mart developed unlucky in Chinese market. Finally, According to Wal-Mart’s SWOT analysis, makes relevant recommendations: changing the principle of direct purchase, adapting to China’s system and culture, changing the location strategy, improving efficiency to reduce costs, and providing safe and high quality goods and service.

Key words: Wal-Mart; Chinese market; Problems and countermeasures; Enterprise culture and ethics

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INTRODUCTION

In 1962, Wal-Mart was founded by Sam Walton in Arkansas in United States. After 50 years’ development, Wal-Mart has become the largest private employer in the United States and one of the largest retail chain enterprises in the world. Wal-Mart has more than 8500 chain stores in the world, and got the first place in the global top 500 enterprises evaluated by “fortune” magazine in three consecutive years. In 1996, the company set up the first “shopping plaza” in Shenzhen, China. However, the development was not smooth as expected. In 2013, Wal-Mart only ranked sixth in Chinese top 100 chain businesses, and this result did not conform to the identity of the world’s first. The failing “of Wal-Mart in China has become the irrefutable fact”.

1. DEVELOPMENT CAPACITY OF WAL-MART IN THE CHINESE MARKET

1.1 Wal-Mart External Factors Analysis

1.1.1 The Policy Factors

To deal with conflict between home and abroad, China has gradually integrated into the pattern of international economic, and been committed to building a harmonious society and enhanced the capacity of sustainable development. China pays more attention to guide the enterprises to focus on workers, consumers, communities, environments and other stakeholders, and to advocate enterprise to fulfill the social responsibility. Through maintaining the sustainable development of China’s environment, supporting female economic independence, ensuring the nutrition and health of supplies, investing in education, rescuing the disaster areas and giving back to the community, Wal-Mart has fulfilled its social responsibility.

1.1.2 Social and Cultural Environment

Chinese culture influenced by Confucian culture profoundly, it pays attention to interpersonal relationship

which has been applied to the political and economic fields. In addition, Chinese people follow the “righteousness”, emphasize “love”, and perform social responsibilities and obligations actively. The concept of “one for all, all for one” advocated by Wal-Mart is adapted to the traditional culture of China.

1.1.3 Science and Technology Environment

The developments of science and technology, especially the development of network technology, accelerate the process of the retail development. In addition, the developments of advanced science and technology make the remote communication, application of logistics, information collection and data processing possible, and the developments also improve the working efficiency. Wal-Mart has the world’s first logistics network that computers can monitor the whole logistics network in the group within 24 hours, and makes the integration of purchase inventory, order, distribution and sales. The network also reduces the waste of a lot of unnecessary time and speeds up the logistics cycle.

1.2 Wal-Mart Internal Factor Analysis

1.2.1 Service Innovation

The customers are positioned to “the biggest boss in the company” by Wal-Mart. Wal-Mart adheres to the concept of “customers’ satisfaction is the investment that guarantees the future success and growth”, and follows two principles of “customer service”: first, the customer is always right; second, if you have any doubt, please refer to the first execution. Wal-Mart provides customers with the commitments of “high quality service” and “unconditional refund” to ensure that every customer has no trouble when they back home after purchasing. At the same time, Wal-Mart has a very famous principle named “three-meter smile”: it requires the staff to look at the eyes of the customers gently and say hello when customers go into the three-meter range, then, ask him or her if they need any help. The series of details create a very comfortable shopping environment for customers in Wal-Mart.

1.2.2 Human Resources

Walton once said: “The 75% business of Wal-Mart belongs to the manpower, because the special staff shoulders the mission of caring about customers. The concept that takes employees as the greatest wealth of the company is not only right, but also natural.” Therefore, in the overall planning of Wal-Mart, the establishment of partnership between enterprise and employees is regarded as the most important part. Wal-Mart implements “profit sharing plan”, “employee discounts”, “scholarship” and other incentives, and it also requires equal treatment to every employee and give employees the best. The people-oriented enterprise culture greatly inspires the enthusiasm and creativity of employees, and employees often give the advises to cut down costs, design original goods display, and invent many flexible ways of promotion.

1.2.3 The Price Advantage

The one of the biggest reasons why Wal-Mart can be popular in the world is “everyday parity” that be achieved through the operation of “three lows” mode including the low purchase price, low cost, low price. First, there is no rebate in the Wal-Mart’s shopping, and Wal-Mart doesn’t need suppliers to provide advertising services and delivery, but needs the lowest price. Second, Wal-Mart’s office expenses only 2% account off of the turnover, and the cost is very low. Third, Wal-Mart’s concept of “saves every penny for customers” makes many ordinary consumers be loyalty to the Wal-Mart due to the low consumption.

2. THE “FAILING” REASON OF WAL-MART IN CHINA

The rise of China’s middle class made Wal-Mart be confident to the Chinese market, and it even brought the most advanced technology to China, including Telxon portable bar code reader, Retail link and speeding up checkout system (Linerusher), with the hope that it can replicate its success in the United States in this emerging new market through its rigorous management, strong logistics distribution and advanced technology. However, as Wal-Mart was constrained by the American model deeply and ignored the Chinese consumer culture, it sank into the predicament of difficult localization.

2.1 Porter’s Competitive Model of Wal-Mart

The strength of the industry’s competition: Wal-Mart’s competition pattern in the United States can’t succeed in China. Chinese consumers prefer the large shopping plaza in the densely populated areas where a few and even ten retailers scramble.

The analysis of substitutes: Wal-Mart’s shopping mode is faced with the risk of replacing by “the convenience stores” in China.

The analysis of potential entrants: “The potential entrants” are special in China. For example: the pharmacy can sell the general merchandise. On the one hand, Chinese consumers prefer convenience and prefer buying some daily necessities when they buy medicine; on the other hand, there are hundreds of millions of consumers have the “health cards” and the money in the card can’t be cash, so buying the general merchandise is the best choice.

The suppliers’ bargaining power: As a large enterprise, Wal-Mart’s bargaining power with suppliers should have some advantages. But in China, the bargaining advantage under the competition of the local supermarkets, such as relationship marketing, local government protection, etc., has ceased to exist.

The buyers’ bargaining power: Chinese consumers are not used to the American mode—the “Membership”, and are not used to the shopping environment of the large packaging warehouse. In addition, China’s regional is so vast that

the consumers' tastes differ in thousands ways, which is contradict with Wal-Mart's unified purchasing model.

The industrial growth: As the leader of the world's retail chain, Wal-Mart has the advantages of the innovative technology, the financial resources, the brand value and the talent reserves, etc. Its growth is promising and it is necessary to make good use of these advantages.

The government's regulation: China's economy has the

characteristic of economic transition, and has not set up the perfect market system and the market mechanism. In many cases, the government's policy has the characteristic of administrative interference. For example: Wal-Mart wanted to set up a shop in "West-wood village" in Shanghai, but it failed, because it didn't understand the Chinese laws and regulations fully.

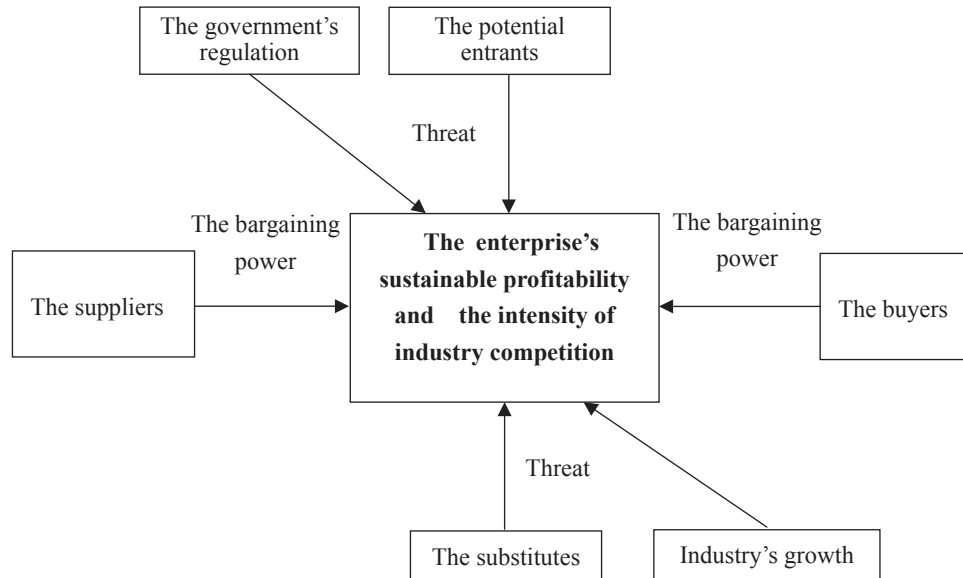


Figure 1
Porter's Competitive Model

2.2 Different Consumption Culture

2.2.1 Consumption Habits

Americans used to go to the supermarket for shopping in a fixed time every week, so they tend to buy what they need in a week. While most Chinese have the consumption habit of "going frequently and buying less, doing recreational shopping", they prefer going to many stores and shopping frequently.

2.2.2 The Way of Shopping

Americans' shopping purpose is very strong, they will prepare for a list of goods, so that they can buy them directly; In China, most people regard shopping in supermarket as a way of pastime, they have no direct list and prone to conform to the sales promotions and herd behavior.

2.2.3 The Attention to Price

American consumers are very concerned about the cost of "time" they pay for when they are shopping; While Chinese consumers prefer to determine through prices, for example, they are more willing to do price comparisons and prefer promotions, etc.. So whenever there are large-scale promotional activities, market will become very crowded.

2.2.4 Location

Most American people live in the suburbs, and always drive to shopping malls; When Chinese choose living places, they focus more on the convenience of life, so that they often purchase the things they need completely when go out for a walk.

2.3 Differences in Management Culture

Wal-Mart was selected as "the most popular company among employees" due to the success of its corporate culture in the United States. Now, it introduces some management philosophies like "public servant leadership" into China. There is no position marked on the staff card but only the names, photographs and a slogan that "our colleagues create wonder". Though Wal-Mart employees are rich in human interest under this management approach referred to "on-site guidance and encouragement" in the United States, those in China showed a general lack of interest in incentive mechanism. In addition, full-time staff of Wal-Mart accounts for only 20 percent of all employees, which is a measure taken to reduce operating costs by the originator Walton and been transplanted to China. However, this measure gives rise to a lack of sense of belonging, resulting in the loss of lots of talents.

2.4 The Friction Between Wal-Mart and Chinese Suppliers

Wal-Mart requires distribution of goods in accordance with US standards, and most Chinese supplier in the establishment of distribution system of chain management and network of the logistics supply is still on the preliminary stage, it is difficult to match Wal-Mart's strict management. Wal-Mart takes Back-casting method to determine the commodity prices, which is contrary with China's habit, makes it hard to be accepted by the Chinese

suppliers. Wal-Mart starts to allow the procurement personnel to collect festival activities and charge back costs fees from suppliers, makes the suppliers' profits very low, which in turn makes the supplier take a variety of ways to delay supply for Wal-Mart, which seriously impacts on Wal-Mart's daily operation.

Based on the above, the business model and cultural ideas of Wal-Mart have always been used in the world each branch with consistent stand ,but the culture cannot simply be copied, the building of enterprise culture cannot be realized by being written on the manual, shouting out slogans or having meeting to educate, but to continuously accumulate in the aspects of business philosophy, viewpoint of value and the moral standard in the process of development, it permeates every employee' ideology in the enterprise . In the development process of Wal-Mart in China, it focuses on strategy and expansion, but neglects the building of enterprise culture to support the running of the system, so that the most valuable part is not saved in the part of its core competence. The problem of enterprise culture is the crucial reason of many phenomena behind Wal-Mart in the management.

3. WAL-MART'S STRATEGIC OPTIONS IN CHINA ASSESSMENT

Wal-Mart's competitive advantage is based on the core of the everyday low prices that form the marketing mix, the basis of this competitive advantage is that Wal-Mart constructs a cost control based business processes, and the ability to control the cost finally derived from Wal-Mart's competition resources, includes distribution centers, information systems and corporate culture. In China, Wal-Mart is severely disrupted in the acquisition and

application of these three types of competition resources in the process.

(1) Shop disruption, poor transportation conditions unfavorable factors make it difficult for Wal-Mart distribution center to play a role. The performance of shop disruption mainly as follows: the policy limit, unfamiliar with the Chinese market, the government tensions. The performance of poor transportation conditions: First, highway construction are fall behind and serious charges. Second, the behind logistics norm slow down the development of China's logistics industry.

(2) The information systems cannot be made full use of in China. China's Internet information environment is far behind the United States, the supplier's IT is difficult to achieve the level of Wal-Mart's request, lack of appropriate information processing capabilities.

(3) The Wal-Mart's culture applied in the United States does not fit China. Wal-Mart's stubborn adherence to apply its US corporate culture in China conflicts with Chinese society, culture, and actual situation, leading to an unfriendly relationship between Wal-Mart and the Chinese government and suppliers.

(4) The suburb sitting strategy does not match the Chinese consumers' spending habits. After entering China, Wal-Mart insists the US strategy that choose urban fringe or rural as shop location, which in contrary with Chinese consumers' spending habits: shopping in leisure and nearby.

4. THE RECOMMENDATION FOR WAL-MART'S DEVELOPMENT IN THE CHINESE MARKET

By using the SWOT analysis method, and searching some relevant information of Wal-Mart , we can get the following table.

Table 1
The SWOT Analysis of Wal-Mart's Development in the Chinese Market

Strengths	Weakness
Wal-Mart has the international logistics system supported by advanced information technology. The operation of the promotion: Wal-Mart stores have uniqueness in many aspects, such as commodity demonstration, limited promotion and so on. The price advantage is obvious: The purchasing rebates are very attractive.	Because of Wal-Mart's various types of goods, it may have no advantage in comparison to competitors in some relatively concentrated field. The company's global scope is not wide enough and the international markets are also not enough. The human resource management strategy has conflicts with the localization of the future development of Wal-Mart.
Opportunities	Threats
Expanding the overseas markets can bring a lot of opportunities. The low price strategy has created more opportunities for Wal-Mart. Take measures of the acquisition, merger or strategic alliances with other international retailers, and focus on the specific markets, such as Europe or the greater China region and so on.	The dominance of Wal-Mart in retail makes it become a target that all competitors want to catch up. Wal-Mart's globalization strategy may have political problems in its business nationals. The cultural differences and the national differences have effects to Wal-Mart's operations.

Though SWOT analysis, we have a further understanding of various aspects of the company. Wal-Mart should adhere to the principle that it need to use the

advantage factors, overcome the disadvantage factors, take advantages of opportunity factors, dissolve the threat factors. What's more, Wal-Mart wants to get the

estimation and reliance of the vast number of consumers and trade people, it is necessary to think more about the past and current and adhere to focus on the future. (1) To change the always pursued principle of direct purchase, aim at improving the large number, but small-scale, low information level of suppliers in China, cooperating with the Chinese middlemen. (2) To enhance communication with the Chinese government, familiarize and understand Chinese laws and regulations as soon as possible to adapt to China's system and culture. (3) To give up suburb sitting strategy, open Wal-Mart shops in the city center to adapt to the Chinese consumer spending habits. (4) To reinforce Wal-Mart's procurement advantage, improve efficiency to reduce costs, so that give lots of benefits to consumers, and thus attract more customers shopping in the store. (5) To constantly enhance the basic work, focus on business of every store, provide safe and high quality goods and service for consumers.

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