

No, Not Always

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INTERNATIONAL BUSINESS

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WIESBADEN, Germany, July 31 -- Three days after Wal-Mart Stores announced that it would pull out of Germany, Roland Kogel was wandering through the aisles of a somewhat threadbare Wal-Mart in a strip mall in this western German city.

"Why are they giving up now?" he asked. "They have good prices and a good variety of products."

Yet Mr. Kogel, 54, confessed that he never bought groceries at Wal-Mart. Food is cheaper at German discount chains. He also does not visit this store often, because it is on the edge of town and he does not own a car. His one purchase for the day was tucked under his arm: a neck pillow.

Shoppers like Roland Kogel help explain why Wal-Mart raised the white flag in Germany, the site of the company's first foray into Europe.

After nearly a decade of trying, Wal-Mart never cracked the country -- failing to become the all-in-one shopping destination for Germans that it is for so many millions of Americans. Wal-Mart's problems are not limited to Germany. The retail giant has struggled in countries like South Korea and Japan as it discovered that its formula for success -- low prices, zealous inventory control and a large array of merchandise -- did not translate to markets with their own discount chains and shoppers with different habits.

Over all, Wal-Mart is still expanding outside the United States, particularly in markets where it entered by acquiring a strong retailer. Still, given Wal-Mart's formidable record at home, the company's recent setbacks have exposed a rare vulnerability overseas.

Some of Wal-Mart's problems stem from hubris, a uniquely powerful American enterprise trying to impose its values around the world. At Wal-Mart's headquarters in Bentonville, Ark., however, the message from these missteps is now registering loud and clear.

In particular, Wal-Mart's experience in Germany, where it lost hundreds of millions of dollars since 1998, has become a sort of template for how not to expand into a country.

"It is a good, important lesson, a turning point," an international spokeswoman for Wal-Mart, Beth Keck, said. "Germany was a good example of that naivete." She added, "We literally bought the two chains and said, 'Hey, we are in Germany, isn't this great?' "

Among other things, she said, Wal-Mart now cares less whether its foreign stores carry the name derived from its founder, Sam Walton, as the German Wal-Marts do. Seventy percent of Wal-Mart's international sales come from outlets with names like Asda in Britain, Seiyu in Japan or Bompreco in Brazil.

Wal-Mart is also trying to integrate acquisitions with more sensitivity -- a process that involves issues like deciding whether to consolidate multiple foreign headquarters and how aggressively to impose Wal-Mart's corporate culture on non-American employees.

In Germany, Wal-Mart stopped requiring sales clerks to smile at customers -- a practice that some male shoppers interpreted as flirting -- and scrapped the morning Wal-Mart chant by staff members.

"People found these things strange; Germans just don't behave that way," said Hans-Martin Poschmann, the secretary of the Verdi union, which represents 5,000 Wal-Mart employees here.

Wal-Mart's changes came too late for Germany, but they could help it crack other markets, like China, where it already has 60 stores and 30,000 employees. Far from being chastened by its setbacks, Wal-Mart is forging ahead with an aggressive program of foreign acquisitions.

In a single week last fall, Wal-Mart completed the purchase of the Sonae chain in Brazil, bought a controlling stake in Seiyu of Japan, and became a partner in the Carcho chain in Central America. The deals added 545 stores and 50,000 employees to Wal-Mart's overseas empire.

"I'm hard pressed to name a U.S.-based general merchandise retailer that is doing

better than Wal-Mart International," said Bill Dreher, who follows Wal-Mart for Deutsche Bank in New York.

Starting from scratch 14 years ago, Wal-Mart International has grown into a \$63 billion business. It is the fastest-growing part of Wal-Mart, with nearly 30 percent sales growth in June, compared with the same month last year. Even subtracting one-time gains from acquisitions, it grew at nearly 12 percent, about double the rate of Wal-Mart's American stores.

Sustaining that pace is critical for Wal-Mart, because high fuel prices have helped sap the buying power of Americans. In June, store traffic in its home market declined. Wal-Mart estimated that its sales in the United States in stores open at least one year would increase only 1 percent to 3 percent in July.

Wal-Mart Germany, with 85 stores and \$2.5 billion in sales, is almost a footnote for a company focused on Asia and Latin America. But the problems it encountered here have echoes elsewhere. For example, it never established comfortable relations with its German labor unions.

"They didn't understand that in Germany, companies and unions are closely connected," Mr. Poschmann said. "Bentonville didn't want to have anything to do with unions. They thought we were communists."

Ms. Keck said Wal-Mart did cultivate good relations with the leaders of the works' council, which represents the unionized work force, and changed policies in response to employee concerns.

Wal-Mart will soon get another chance to deal with organized labor, albeit of a less independent sort. In China, the state-controlled All-China Federation of Trade Unions is organizing workers in Wal-Mart's stores.

Germany also provides a lesson in the perils of buying existing chains. Wal-Mart's purchase of Wertkauf and Interspar saddled it with stores in undesirable locations. The Wiesbaden outlet is worlds away from a squeaky-clean American Wal-Mart: nearby are a couple of sex shops.

"These were some of the least attractive of the big-box retailers out there," said James Bacos, director of the retail and consumer goods practice at Mercer Management Consulting in Munich.

Compounding the problem, Wal-Mart shut down the headquarters of one of the chains, infuriating employees who opted to quit rather than move. Such a decision would have been routine in the United States, where Ms. Keck said, "moving is a big part of the Wal-Mart culture." In Germany, she said, it prompted an exodus of talented executives.

In South Korea, Wal-Mart had only 16 stores -- a small presence that contributed to its decision in May to sell out to a Korean discount chain. Many Koreans have never heard of Wal-Mart. In Seoul, a sprawling area of 10 million, there is only a single store.

This lack of scale causes another problem that has afflicted Wal-Mart in several countries: its inability to compete with established discounters, like the Aldi chain in Germany and E-Mart in Korea.

The obvious lesson is to try to bulk up. In Brazil, Wal-Mart opened only 25 stores in its first decade there and struggled to compete against bigger local rivals. Then, in 2004, it bought Bompreco, giving it a presence in the country's poor, but fast-growing, northeast.

Wal-Mart did not change the names of the stores, which range from neighborhood grocers to large American-style hypermarkets. But with 295 stores in Brazil, Wal-Mart now ranks third in the market, after Carrefour of France and the market leader, Companhia Brasileira de Distribucao.

Size has given Wal-Mart increased leverage with suppliers there, though analysts say the company needs even more stores to be in a position to undercut local discounters on the prices it offers customers.

At a Wal-Mart store in suburban Rio de Janeiro the other day, Ana Paula Cunha de Almeida, a 26-year-old housewife, had loaded her shopping cart with rice, beans and flour. But she was also carrying a bag from a smaller grocery store, where she had bought meat, cheese and cold cuts.

"These are always cheaper somewhere else," she said.

The grocery business has proven the most difficult for Wal-Mart to crack. Aldi, with 4,100 stores in Germany, undercuts Wal-Mart on price, while still offering high-quality food.

Even in Canada, where Wal-Mart steamrolled local department store chains when it entered the country as a nonfood retailer in 1994, the grocery trade looms as a challenge. Wal-Mart recently announced plans to build supercenters that will also sell groceries. But analysts predicted Wal-Mart would face stiff competition from Canada's largest chain, Loblaw.

Bernie Skelding, a vacationer shopping at a Wal-Mart in Huntsville, Ontario, north of Toronto, said he liked going to the store when he had a varied shopping list. But he added, "If I'm looking for food, I go to Loblaw's."

Wal-Mart's most successful markets, like Mexico, are those in which it started big.

There, the company bought the country's largest and best-run retail chain, Cifra, and has never looked back. This year, Wal-Mart is spending more than \$1 billion in Mexico to open 120 new stores.

Taking over Cifra "gave them a critical mass to build from," said Tufic Salem, an analyst at Credit Suisse First Boston in Mexico City. "The management stayed, and they knew the market very well."

Perhaps the most striking example of a Wal-Mart success is Asda, which was Britain's No. 1 discount chain when Wal-Mart acquired it in 1999. With sales of \$26.8 billion, Asda now accounts for 43 percent of Wal-Mart's international revenue.

Wal-Mart's German experience also taught it to use local management. The company initially installed American executives, who had little feel for what German consumers wanted.

"They tried to sell packaged meat when Germans like to buy meat from the butcher," Mr. Poschmann said.

Some of Wal-Mart's missteps -- selling golf clubs in Brazil, where the game is unfamiliar, or ice skates in Mexico -- are so frequently mentioned, they have become the stuff of urban legend. But even more subtle differences in shopping habits have tripped up the company.

In Korea, Wal-Mart's stores originally had taller racks than those of local rivals, forcing shoppers to use ladders or stretch for items on high shelves. Wal-Mart's utilitarian design -- ceilings with exposed pipes -- put off shoppers used to the decorated ceilings in E-Mart stores.

Beyond the ambience, Wal-Mart's shoes-to-sausage product line does not suit the shopping habits of many non-American shoppers. They prefer daily outings to a variety of local stores that specialize in groceries, drugs or household goods, rather than shopping once a week at Wal-Mart.

"They have stacks of goods in boxes," said Lee Jin Sook, 46, a housewife sitting on a subway in Seoul. "That may be good for some American housewives who drive out in their own cars." But Koreans, she said, prefer smaller packages: "Why would you buy a box of shampoo bottles?"

"I heard Wal-Mart later tried to change their style," Ms. Lee added, "but I guess it was too late."

Photos: Wal-Mart owns stores in such outposts as, from left, Niiza, Japan; Beijing; and Guntersdorf, Germany. Not all have done well. (Photos by From left, Haruyoshi

Yamaguchi for The New York Times; Elizabeth Dalziel/Associated Press; Jens Schlueter/Agence France-Presse -- Getty Images)(pg. C1); In South Korea, Wal-Mart had only 16 stores -- a small presence that contributed to its decision in May to sell out to a Korean discount chain. (Photo by Chung Sung-Jun/Getty Images)(pg. C4)

Chart/Map: "Wal-Mart's World"

More than 175 million people shop at Wal-Mart locations around the world, but as the chain's plans to withdraw from Germany this week illustrate, not all its ventures yield success.

Map of the earth showing locations of Wal-Mart stores.

(Source by the company)

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