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Walmart's International Market Entry Strategies: Benefits and Challenges

Yingtong Ji[1,a,*]

[1]University of Macau, Macau, 999078, China
a. bc10459@umac.mo
**corresponding author*

Abstract: As the ongoing process of internationalization, there are more and more emerging multinational corporations (MNCs) who seek for international expansion. The first step of going global is to choose a proper entry mode to enter the foreign market. Walmart, a US-based multinational leader in retailing, has expanded its global presence into 19 countries over the past several decades. This article analyzes several entry strategies of Walmart's international expansion, including joint ventures, acquisitions, and wholly owned subsidiaries. This study combines real cases and data to evaluate each entry strategy utilized by Walmart and their benefits and shortages. The research is based on an inductive approach by the use of secondary data, and utilized Perlmutter's EPRG Model, as well as the international strategic management mindsets. Walmart's international entries show the benefits and challenges for each entry mode, which instructs MNCs' international expansion decisions according to their own resources and capabilities as well as the host country conditions.

Keywords: International expansion, market entry strategies, Walmart, retailer

1. Introduction

When a multinational corporation (MNC) has the plan to expand overseas, it has to make a decision on an entry strategy, either a non-equity investment such as joint ventures, or an equity-based mode where the foreign subsidiary is wholly or partially owned [1]. Walmart began its international expansion in the early 1990s, aiming to replicate its U.S. success in global markets. It remained the world's largest company by revenue for 11 consecutive years, according to the Fortune Global 500 list in 2024 [2]. As of 2024, Walmart is present through majority-owned subsidiaries in India, Mexico, and Central America (which includes Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua) as well as wholly-owned subsidiaries in Canada, Chile, China, and Africa (which includes Botswana, Lesotho, Malawi, Mozambique, Namibia, South Africa, Eswatini, and Zambia) [3]. Walmart also entered Brazil, Agentina, Germany, South Korea, the UK, and Japan before their exit.

This research aims employs a variety of data sources, including academic journals, media stories, Walmart's financial reports, and big data, to analyze the market entry strategies of Walmart and their success or failure. While Walmart has been successful in many foreign markets, it has experienced failures and eventual exits in underperforming markets, such as Germany and South Korea. As Walmart International had net sales of $114.6 billion for fiscal year 2024, representing only 18% of its fiscal 2024 consolidated net sales [3], it is believed that Walmart's international expansion will

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continue. As a result, Walmart should learn from its past accomplishments and shortcomings. In addition, other retailers or multinational enterprises can learn from Walmart's cases in order to choose their correct market entry strategies.

2. Joint Ventures

Joint ventures were defined as activities in which two or more firms' operations are partially, but not totally, functionally integrated to perform buying or selling, natural resource exploration, development, and/or production, research and development, and engineering and construction operations [4]. Walmart has strategically employed joint ventures as a key market entry tactic in its international expansion, leveraging partnerships to make a presence in new markets, such as Mexico, India, China, and Brazil.

2.1. Benefits of Joint Ventures and Walmart's Successes

Joint venture with local companies brings advantages, including sharing local experience, better understanding of local demands, and regulatory compliance. This mode of entry minimizes the risks of expropriation, cultural differences, different consumer preferences, and economic and political environment. Since the domestic partner has the relationship capital that the international company does not, the information that the local partner provides is unquestionably valuable to the multinational [5].

Walmart's expansion to India is a successful example of entering through joint ventures. Walmart encountered regulatory restrictions when entering the Indian market. The government's Foreign Direct Investment policy in multi-brand retail limited admission to only the Business-to-Business channel to protect small merchants [6]. In November 2006, Walmart announced a 50/50 joint venture with Bharti Retail, a local partner, to enter the Indian market. Through the joint venture, Walmart successfully entered the Indian retail market without violating the legal restrictions. They established a joint venture titled "Bharti Wal-Mart Private Ltd." for wholesale cash-and-carry and back-end supply chain management in India [6]. Walmart managed the wholesale side of the business through franchisees because foreign companies were prohibited from directly entering the retail industry. Walmart has Best Price Modern Wholesale shops in India. In 2012, the Indian government relaxed the restrictions to approve 51% FDI in multi-brand retail.

Walmart's entry into Mexico through joint venture is another successful example. When Walmart decided to enter its first international market outside the US, it partnered with Cifra, a leading Mexican retailer, to enter the Mexican market. Mexico was an important country with approximately 93 million inhabitants and strong long-term growth prospects for Walmart. This collaboration allowed Walmart to understand the Mexican market and adapt its business model to the local culture and consumer preferences. The venture has market knowledge and cultural insights into the regional markets, giving it a high competence in this field. It was highly successful, and Walmart eventually acquired Cifra to take full control of operations in Mexico. Today, Mexico is one of Walmart's most profitable international markets and Walmart de México is the largest retailer in the country.

2.2. Operational Challenges of Joint Venture and Walmart's Failures

Joint ventures have certain shortages, including risking conflicts over strategic direction, operational decisions, or resource allocation, impacting the venture's success.

Although the Indian government relaxed the restrictions to approve 51% FDI in multi-brand retail, foreign ownership was still limited. This limited foreign ownership posed certain challenges on foreign enterprises, such as ambiguous decision making power and operational inefficiency. An insider said that Bharti's promoters were not pleased with Walmart's bureaucratic practices,

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especially considering how quickly they had expanded their Telecom business, Bharti Airtel Ltd 5 [7]. While Walmart was actively running the operation, Bharti behaved more like a financial investor. Walmart and Bharti finally split up in 2013, which may also raise concern for other foreign retailers who have a desire to enter the Indian market.

3. Acquisitions

An acquisition is a transaction in which one company purchases most or all of another company's shares to gain control of that company. Walmart has entered several international markets utilizing acquisition mode, including Canada, Germany, South Korea, the UK, Japan, Central America, Chile, and Africa. Walmart has adopted an aggressive acquisition strategy to acquire big supermarket chains, such as the acquisitions of German hypermarket giants Wertkauf and Interspar, and French big supermarket chains Casino and Auchan [8].

3.1. Strategic Advantages of Acquisitions and Walmart's Successes

By acquiring established companies, Walmart gained immediate access to local infrastructure, supply chains, and customer bases, which enabled rapid scale.

In 1999, Walmart acquired ASDA, the UK's second-largest supermarket chain, for $10.8 billion. This strategy allowed Walmart to compete directly with Tesco, a dominant player in the UK market. Walmart was able to leverage ASDA's established market position and join the competitive UK market. The strategic importance of the British market is high since it is a large and highly sophisticated retail market. The joint venture had a high competence in several fields that will be valuable throughout the Walmart company, including e-commerce, private label, clothing, and direct sourcing [9]. In the first five years since being acquired by Walmart, Asda's grocery market share has increased from 13% to over 16% without acquiring any new stores [8].

3.2. Challenges of Walmart's Acquisitions

The main factor that led to Walmart's failure after foreign acquisitions lies in its poor cultural adaptation and ethnocentric approach of management in the host countries.

To enter the South Korean market, Walmart acquired four Makro stores and six undeveloped sites. Walmart's failure in South Korea stemmed from poor cultural adaptation and wrong decisions about strategic partners. Its hypermarkets did not align with Korean's shopping preferences, which favored smaller, community-focused stores. Although Korean consumers are also price sensitive, they prioritize trendy fashion, quality, and personalized offerings over cost [10]. As a chain of Netherlands-based membership clubs, Makro also lacks a deep insight into the Korean market and local preferences. This partnership between the two foreign enterprises did not achieve synergies. Additionally, Walmart underestimated the importance of localization in product offerings.

Walmart faced several challenges after entering the German market through acquisition, including an inability to export its main strategic advantage, a shortage in transition management, and cultural differences. It acquired two local chains, Wertkauf and Interspar hypermarkets, to enter the German market. Considering the substantial renovation needed in several stores, Walmart did not immediately start to renovate after the acquisitions. This resulted in a negative image of the brand, which was associated with the image of run-down stores by customers [11]. Walmart's main competitiveness lies in its low-cost leadership and everyday low price strategy, complemented by long opening hours, which ensure sales volume. However, the long operating hours were not applicable in Germany, which set the maximum opening hours of 80 per week for retailers [12]. Furthermore, the unfamiliarity of local zoning laws and land regulations restricted Walmart's rapid scale-up of new stores. Thus, Walmart lost its primary competitiveness, which are economies of

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scale from both suppliers and logistics. In the short term, transition management is vitally important for Walmart after acquisitions, including focusing on concrete operational results and providing the acquired company with a strategic identity. Lack of strategic direction, integration plan, communication, and operational focus are sources of failure for acquisitions. Although acquiring several local supermarkets, Walmart was not able to adjust its strategies to the German market or to find a niche in Germay's fragmented retail industry. Additionally, internal and external cultural factors also led to Walmart's failure in Germany. Internal management style differs between a U.S. parent company and a German subsidiary in many aspects, which can be demonstrated by Hofstede's cultural dimensions or other models. The cultural differences, such as enforcing an American-style management in the German branch, may cause internal conflicts and management obstacles. Overall, Walmart's centralized decision-making clashed with Germany's decentralized retail culture. External factors concern the general German market and customers' preferences. For example, the merchandise mix and customer service practices (e.g., smiling at customers is viewed as strange and interpreted as flirting in Germany) did not tailor to local needs.

4. Wholly Owned Subsidiaries

Wholly owned subsidiaries are entities established by a parent company in a foreign market where the parent company owns 100% of the subsidiary's shares. In wholly owned subsidiaries, the parent company has full control over all aspects of the subsidiary's operations, strategies, and decision-making processes. Except for the initially established wholly owned subsidiary in Argentina, Walmart also moved from joint ventures to full ownership gradually in many of its international markets, such as China.

4.1. Advantages of Full Control and Walmart's Successes

Wholly owned subsidiaries facilitate easier knowledge transfer, centralized management, and alignment of corporate culture.

Walmart entered the Argentina market by building stores from scratch rather than forming joint ventures or partnerships. That is, greenfield investment, or wholly owned subsidiaries. Walmart started operating in 1995, with the launch of its first shop in Avellaneda. Walmart Argentina operates under different formats, such as hypermarkets (Supercenters), Changomas, Mi Changomas, Punto Mayorista and its e-commerce platform, as well as with its own Distribution Center, located in Moreno, and three bakery, meat and cold cut production centers [13]. Establishing wholly owned subsidiaries allows Walmart to take full control over its operations, including implementing its operational strategies, supply chain efficiencies, and pricing models without interference from local partners. Also, by operating under its own brand, Walmart could ensure consistency with its global identity and customer experience. Another significant benefit is that Walmart can retain 100% of the profits without sharing with local partners.

4.2. Challenges and Limitations

While wholly owned subsidiaries offer greater control, they also involve higher risks and investment compared to other entry modes due to the need for full financial commitment and operational responsibility. It also requires the company's adaptation to the local cultures, price sensitivities, and competitive dynamics, leading to Walmart's few usages as initial market entry mode. As Walmart utilized the ethnocentric approach to manage its international businesses, there is a higher risk of failure in that the company tends to replicate its home country strategies instead of responding to local needs.

When Walmart built its first stores in Argentina, it imposed its US-based low-pricing tactics and shopping traditions that were rapidly rejected by most Argentinian consumers [14]. Without a local partner to gain local insights and a high level of control of its own foreign subsidiary, Walmart failed to achieve initial success after its entry and had to adjust the operating strategies.

5. Conclusion

Walmart has not been able to simply export its "Everyday Low Price" approach to the host countries. According to the Perlmutter's EPRG Model, Walmart utilized an ethnocentric approach in its international development, which limited its level of local understanding and adaptation. Thus, a local partner became important to Walmart. It is important to choose a proper entry mode by understanding cultural differences in the way people shop in addition to understanding the market, economy and laws of various regions around the world. The decision of an entry mode affects how an MNC is able to develop a competitive advantage in foreign markets and how it can affect its positioning in local customers' minds [15].

While Walmart is very successful in many foreign markets, it faced negative consequences in markets where the outlook was poor, and ultimately exited Germany and South Korea. It is almost certain that Walmart's international expansion will continue. Its international expansion journey illustrates the complexity of entering foreign markets. The advantages gained and challenges faced by Walmart when entering foreign markets are valuable lessons for Multinational Enterprises that are looking for international expansion. After taking serious considerations on cultural sensitivity, strategic partnerships, and market-specific adaptations, MNEs can make their final decisions on a suitable international market entry strategy.

Online shopping is now having a significant influence on Walmart and other retailers' international expansion. However, the use of technology for shopping is not a globally homogenous experience [12]. While the emergence of online retailing offers new opportunities and possibilities to retailers, they need to make more elaborate assessments before opening brick-and-mortar stores in new markets. Additionally, the factors critical to brick and mortar expansion are also applicable to online business, which can be utilized in assessing online international expansion.

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