Managerial implications and Challenges of Retail market

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**Introduction**

In the recent times there have been continuous discussions about the two largest firms in the global retail industry. The companies are Walmart and Carrefour. The criteria that have been used to analyze the firms are sales and the employment provided by the companies. The companies have prospered despite the overall world has been discussing the lower prices of the products (Colla and Dupuis, 1997). The low prices have been marketed as one of the building blocks of the successful tenures of these companies. Previously the battles between the companies were considered local however with the passage of time, the scenario has changed. Now the firms battle on the international grounds.

The retail market around the world has been seeing a change. The big names are taking over the smaller ones. This action has resulted in an increase in the market shares of the existing companies. Thus the market has become more concentrated as compared to the past. This activity has increased the challenges that are posed to the managers of the companies. Wal-Mart had shown little international development till the year 1998. The company decided to enter the UK market by buying the existing set up of Werkauf. These takeovers meant that Wal-Mart had to convince the stakeholders that it can perform equally well in the markets away from the US. The company in fact showed the intentions to go outside of the US in the year 1991. The company opened the first store in Mexico. In 1994 the company acquired the Canadian store chain Woolco. The stakeholder thought that the company will not be able to adapt to the changed environment. The company was also seen to be inflexible in its stance. Both these factors made the company vulnerable in the eyes of the stakeholders when the international expansion was considered. After entering the markets of Brazil, argentine and china, the company made the international expansion a preferred strategy. The company has been exceptionally fast in going through the expansion process. The company showed great progress in the Europe by acquiring the company named ASDA in Germany. This company was at third number in the UK. By this time the company had assured the stakeholders that it can also perform well on the international forum. The apparent destination of the company was France for the expansion. The questions were there as to which company was the most appropriate to be taken over. The French company Carrefour was one of the options for the company to take over. This would work for the company in two ways, expansion and elimination of one of the potential competitors. This would also mean that Wal-Mart will be positioned at the top of the market in France. The overall scenario of the market changed when the two French companies Carrefour and Promodes joint together and formed a merger at the start of 1999. The Wal-Mart was now challenged by the combination of the companies Carrefour and Promodes. The economic situation at the US has not been very bright. This has also affected the sales in the like for like scenario for the company. These sales were the only source of short term revenue for the company. The two companies were faced by some problems that were similar and different at the same time.

Wal-Mart has not been able to exploit the market of North America to the full potential. The company moved to the top in food retailers of the country but the super centers that were run by the company had ample room for improvement. The company is facing difficulties in covering the German market as were faced by some other companies like Promodes and Intermarche. The major reason behind the difficulty was that there was another company named Aldi that was selling at very low prices. Selling in Germany at the prices that were lower than the prices of Aldi was a big risk. A company which has only limited scope in the food sector would face the risk in much higher percentage. In the UK the company named ASDA has shown good sales but investments are high for the company resulting in the lesser profits.

The companies have not been able to generate short term profits from the e commerce business. This aspect will never produce the short term profits. In the long run the companies have to find a specific economic model that will suit the requirements of the company. Failing this will result in losses or very low profits from the online set up.

Carrefour has also jumped into the e commerce area without considering the potential benefits and dangers. The company also faced losses but not to the extent at which other companies faced. The international market throws a variety of challenges to the companies. Walmart may not be ready for all the challenges that will be presented to it in the international market.

The company who led the way in France i.e. Carrefour saw some economic difficulties in Argentine. The same company also faced some other nature of problems in China. These two scenarios were the major reasons why the merger between Carrefour and Promodes took place. The Carrefour Company is facing much severe problems than the competitors in Argentina, the reason being that the company is the market leader in the country. The political problems in China arose out of the actions taken by the government to control the lower level businesses. These effects will be short termed but the fast growth in the sales is not likely to continue. The profits are not going to be high in China. In Spain, the new established company is suffering. The reason is that in some areas of the country both the companies were very well established as powerful competitors. The company is finding it difficult to retain the individual market share that was possessed by the individual companies. The Carrefour Company is also suffering in France. The company is facing the effects of mergers. These effects are negative in the short run and will be positive in the long run. The company suffered from this aspect when it took over the company named Euro Marché. Another company named Leclerc is benefitting from the situation and is increasing the market share every passing day. Carrefour Company has grumbled its image as a discounter. The French people are highly price sensitive. The companies should keep this in mind and offer such a composition of retail goods that can maximize the value for the customers. Carrefour should react to Leclerc and learn how to tackle the competition pressures exerted by Wal-Mart.

Both Walmart and Carrefour have shown that they do not like the lower price concept. This is the only similarity that exists between the companies. The views to see the future and the way they will reach there is totally different. The retailers are getting huge. They are using the most modern machines to work on. The concept applied by Walmart is based on the powerful value chain that is put in place by the company. The company works to reduce costs related to the purchases. This allows the company to increase the overall profit margins. Some players in the market also promote their own brands such as Carrefour.

**Challenges**

The challenges offered to the companies by the international market are categorized in the form of seven questions in the next section. This section will basically contrast the strategies followed by the two companies.

**Vertical competition or horizontal specialization**

The leaders of the market in terms of the industry have changed over time. The time has come to look closely on the value chain and redefine the role that retailers have to play in it. The retailers are getting more and more powerful in terms of labeling the products and certain other aspects. The Walmart Company tries to reduce the costs while Carrefour considers the revenues. The implication or challenge for the managers is that they have to rethink the costs and benefits of certain techniques used and then assess which option would be the best out of the two.

**Where should the innovation come in?**

Both the companies have brought in certain changes to the industry. The changes brought in by these two companies are different to each other in nature. Carrefour was the company that came up with the idea of the hypermarkets in 1994. These hypermarkets put some older ideas to action. These hypermarkets are considered a strong weapon for the company in the competitive aspects both at national and international levels. Wal-Mart has not brought in any particular changes in the format. It basically followed the footsteps of K mart. The company followed the concept of wholesale membership club put in place by Costco. The company took the concept of hypermarket form Meijer and implemented the same in the US market.

The company has shown great speed in the implementation of various new concepts. It has also adapted the concepts to the different markets successfully. The company has also been the most innovative in the technological aspects. The databases have been set up by the company to take on the data from various parts of the society. The stock management systems have been in place as well. These systems have been the most modern ones. The company invests in the technology even more than the amount spent by NASA.

**Question 3: What are the key factors to succeed in the international markets?**

Many researchers have been interested in the success factors of the retail stores while working in the international markets. The aspects do not relate to whether and when should the companies go to the international market but the ways in which the company can succeed in the different cultures and countries. The company should have the strategies for introduction in the market along with the growth strategies and the survival strategies for the particular markets. The problems presented by the multi-cultural operations are still to be explored by the researchers. Some of the companies have reached their peak. The companies are finding new ways to understand the markets. The channels have been studied and the impact of both parties on each other have been studied in details. The practical implication has been seen in case of 7 eleven in Japan and Habitat France in Europe. The fight between the two companies shows the characteristics of the battle grounds concerning the retail market. Wal-Mart is catering the European market but Carrefour could not settle in America. The adaptability is more on the part of the hyper market model presented by Carrefour. On the basis of this model, the company has successfully entered the Asian and other markets. In the same market Walmart has not been able to bring the changes required to succeed. The company is better suited to the developed countries of the Northern Europe. The company that can make and keep long and good relationships with the retailers as well as with the suppliers and distributors will be successful. The management of teams in a different culture is also a tough task and Carrefour has made it one of its strengths. The proper management of the supplier process is also a considerable issue. Thus the companies need such services that provide the products on the shelf. This is especially true with the products that have uneven demand patterns or which go out of fashion very quickly. In this regard, Wal-Mart is the leader of the market. Its long term experience in the non- food market helps it to manage the things properly.

**Question 4: The perfect size**

The companies differ in the geographical basis they possess. Wal-Mart is based in a whole continent while Carrefour is present in some countries of Southern Europe. The Carrefour Company will have to wait until its Asian markets get established. Till then it will have to remain smaller than its rival. The takeover options are there in the USA but their outcomes are not fully predictable. The other option is that the company takes over the companies in other countries of Europe. This would be difficult as the company will have to consider many other issues. Carrefour has gained dominance in the markets where WalMart is still a small company. Carrefour leads the markets in Europe and Walmart does so only in the UK while it is much Weaker in Europe. There is no critical limit of size in the international market which can assure the company to have the market leadership globally. The main reason of considering the international markets is the increase in the firm value. Size is also not a critical aspect of success. Rather the innovation, change and managerial excellence decide the leaders. Scale and expertise can result in advantage in certain countries. The leaders have certain competitive advantages like savings on purchases etc. Some international organizations related to trade and customs have also played their part in this scenario. They have altered the scenarios to a certain extent. These unions have specially altered the logistics aspect of the business.

**Question 5 the portfolio of store formats**

The single format strategy has been successful for the companies to work in the foreign markets. The concept of globalization has also applied that the companies can apply the multiformat strategies as well. Wal-Mart has been successful in implementing the strategy. The company has exported only one or two kinds of the stores that it operated in USA. The next step for the company =may be to establish medium sized stores just like some companies did in England. If we talk about the Carrefour Promodes group, we see that Promodes has been a multi format company while Carrefour is a starter in this regard, the group may however be considered a multi format group.

**Question 6: The challenge posed by electronic commerce**

Walmart Company has taken advantage by using the latest technology for its benefits. The giant has used various processes to help lower the costs. Carrefour has never been a leader when it comes to the use of latest information technology equipment. The advantage of the company includes the adaptability in the foreign and international markets. Especially under the new leadership the company has taken big improvement steps in various aspects. The logistic support and the technology aspects have improved particularly. WalMart is ahead of the company in B2B and B2C aspects of the online business. Many companies have joined hands to take advantage of expertise of each other. The economic aspects are improved when the company improves the production or operations. This aspect is in the favor of WalMart. WalMart was the first company to enter the B2C market with the internet sales options. The Wal-Mart AOL combination caters the people living in the small cities.

The managers have to consider the sustainability of the competitive advantages over a long period of time. They will also have to see that different markets require the different considerations when assessed on the basis of competitive advantage. These and many other questions will have to be answered by the managers.

**Question 7 Relationship with suppliers**

The companies differ significantly when the approach towards the suppliers. The legal aspects of the home countries have also played their part in the changing of relationships. In France the relationship between the retailer and supplier has never been very friendly. The stock turnovers and the credit terms provided to the suppliers are also considered. The entry of Wal-Mart in the European market may change the scenario regarding the relationships.

The above discussion has shown some aspects of the retail competition. The managers have to ponder on the various aspects of the situation. The managers may have to convince the company higher management about the usage of vertical competition or horizontal specialization. The managers will carefully assess the condition of the given market and the respective strengths and weaknesses of the company. Then the company will decide what area will be suitable to make the desired changes so that innovation comes in to play. The managers will also have to decide what factors will have to be considered while going towards the internationalization. The managers will have an important role to play here because they are the persons who will recommend and implement a particular strategy. The implications for managers will be much complex. They may have to go and work themselves in some other country. The managers will have an important role in allocation of resources. This decision will also include the recommended size that will be suitable for the company. The managers will help the company in gathering market information. This information will in turn help the company to ascertain the suitable type and number of stores in some particular area. The managers will also suggest the exact formats that will suit some particular area. The managers will suggest the need or otherwise for the company to offer the e commerce options of the sales in some particular area. This suggestion will again be based on the study of market carried out by the managers.

Thus stated in simple words, the competitive environment in the retail market has been very tough. This will provide the managers with a good number of challenges and they will have to bring out their best to cope with them.

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