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Corporate Communications Case Study: Lessons from Wal-Mart in Germany

Importance of Integrating Corporate Values and National Culture

### **Case Objective**

Discount retailing became a major international industry with the triumph of global capitalism at the end of the 20<sup>th</sup> century. This case will illustrate that researching and implementing effective cross-cultural communication strategies is critical for global success. Organizations must understand how national culture impacts corporate values and adapt constituent communications appropriately. When leadership can understand their international constituents and constituents can understand their parent company, cultural gaps diminish. This is a win-win situation for all parties. The bottom line: good communication means good business.

### **Executive Summary**

In 1997, Wal-Mart continued a strategy of global expansion and purchased two German retail chains for \$1.6 billion (Edelsen and Drier). Eight unprofitable years and 85 stores later, Wal-Mart backed out of Germany in July 2006 and sold the entire lot to Metro AG at a garage sale price. With worldwide success in locations like Mexico, Brazil, and Canada Wal-Mart was not prepared for this fiasco. Wal-Mart entered the German market with existing competition and a gloomy economic environment in 1997. The failure to recognize cultural

differences and communicate properly with their German employee, supplier, and customer constituencies contributed to Wal-Mart's poor image and inability to gain sufficient market share for profitability.

## **Background**

### *Humble Beginnings*

In 1945 with \$20,000 in borrowed money, Sam Walton purchased a Ben Franklin five and dime franchise in Newport, Arkansas (Slater 25). Six years later Walton wanted to expand, but his wife refused to live outside a small town. He opened the first Walton 5 and 10 in the small town of Bentonville, Arkansas. Eleven years later in 1962, the future of modern discount retailing was born as Kmart, Target, and the first Wal-Mart Discount City all opened their doors for business. Sam Walton found his market niche in small towns catering to the needs of rural and suburban families.

Lacking capital, Wal-Mart grew slowly, opening only fifteen stores in the next eight years. In 1970, Wal-Mart stock was offered on the New York Stock Exchange. By 1980, 276 stores were spread across eleven states. The rest, as they say, is history. Business was booming for Wal-Mart during the 1980's and Wal-Mart dominated the market with 1400 stores.

### *Going Global*

Shortly before Sam Walton's death in 1992, Wal-Mart began an aggressive globalization effort. Wal-Mart's strategy epitomizes the capitalistic attitude towards global expansion. Having saturated United States markets, the company felt pressure to explore other opportunities. Investors and employee shareholders expected sales and profits to continue increasing. CEO David Glass commented in 1990, "You constantly have to consider what you're going to be doing five years out. I think the stock market pressure has driven us to plan further out so that

there will be some consistency next year, and the year after – not only to our profitability but to our operating sales, our gross margins, and those sorts of things” (Slater 95).

Discount retailing had become highly competitive internationally due to favorable conditions like reduced trade barriers and advances in information technology. In addition, new markets with less disposable income were ripe for discount retailers (Govindarajan and Gupta). Wal-Mart opened the first international store in Mexico in 1991.

#### *Wal-Mart Today*

With 1200 discount, 2000 combination discount and grocery, and 565 warehouse stores worldwide (Hoovers), Wal-Mart is the largest retailer in the world. The numbers tell the story of this reigning global retail king. In fiscal year ending January 31, 2006, sales were \$312 billion. 176 million customers in Asia, Europe, South America, and North America visit Wal-Mart each week. With 1.8 million associates worldwide (WalmartFacts.com), Wal-Mart is the largest employer in Mexico and largest private employer in Canada.

Wal-Mart’s almost unstoppable international success sets a high standard for the future of global retailing. In his autobiography Made in America, Sam Walton writes “I believe our way of looking at things is going to come into its own in this decade and the next century. The way business is conducted worldwide is going to be different, and a lot of that difference is going to reflect what we egotistically think of as the Wal-Mart way” (qtd. in Dicker 33). Today, Walton’s statement regarding Wal-Mart’s impact on international business seems prophetic.

After his death, Wal-Mart’s leadership made a commitment to keep the customer-focused corporate culture developed by founder Sam Walton. These principles represent the core of Wal-Mart’s identity. Among these ideals are the “Three Basic Beliefs”: Respect the Individual, Service to our Customers, and Strive for Excellence (Wal-Mart Stores). Sam Walton also firmly

believed that excellent employer-employee relationships were essential to creating an enthusiastic store atmosphere. In turn, this would result in a positive shopping experience for the customer.

### **Welcome to Germany**

Wal-Mart purchased the 21 store Wertkauf hypermarket chain in December 1997 and the 74 unit Interspar hypermarket chain in January 1998. Together, the acquisitions gave Wal-Mart 95 stores in Germany. Hypermarkets are large European discount retailers, selling food and nonfood merchandise.

Why Germany? That's the question Wal-Mart executives found themselves revisiting eight years later. With 80 million people, Germany represented Europe's largest economy. Translation: lots of customers. In addition, the country is educated, wealthy, and technologically advanced. However, for two years Wal-Mart had been looking to enter the European market, and the purchase of Wertkauf and Interspar simply presented a good opportunity. According to Martina Menz, spokeswoman for Wal-Mart Germany, "There's no special reason why [Wal-Mart entered the market in] Germany and not the U.K. or France," she adds. "The [German] market was interesting, so when the opportunity came up to buy the Wertkauf stores, we took it"(Andrews).

Germany immediately presented economic and marketing difficulties for Wal-Mart. The discount retail industry in Europe was already mature with a number of successful players. Wal-Mart underestimated the tough competition from existing hypermarket chains like Aldi, which offered high quality goods at very low prices. German discounters were extremely no frills, similar to American warehouse stores like Costco and BJ's. Big stores with cheap prices weren't a new idea. Aldi had 4000 stores and a 19% market share (Ewing). For Aldi, location provided

consumer convenience. Wal-Mart simply did not have enough stores in enough locations in an already crowded marketplace. 95 stores only represented between two and four percent of the market (Liang).

Backed by the confidence of international success in Mexico (807 stores), Brazil (293 stores), United Kingdom (322 stores) and Canada (278 stores), Wal-Mart stayed in Germany until 2006 (Wal-Mart Facts) despite the absence of a positive cash flow.

### **Problem Statement**

Wal-Mart's strategy to export the successful, packaged corporate formula resulted in significant cross-cultural communication issues with constituents in Germany. Executive management failed to anticipate the clash of cultural differences between German traditions and the Wal-Mart way.

### **Key Issues**

Wal-Mart, and other retailers considering globalization, must develop strategies for incorporating their corporate culture and identity into an international culture.

#### *Cultural Differences 101*

Companies and executives doing business overseas benefit from learning the basics of business culture in their destination. Resources for this are plentiful, including websites, books, and consultants.

However, Wal-Mart believed that the legendary focus on enthusiastic customer service and displays of employee devotion would win over Germans. After all, these elements were all part of the corporate identity that had been well-received elsewhere in international locations. Executive Don Soderquist commented on worldwide acceptance of Wal-Mart culture, and confidently stated his belief that all customers were looking for the same thing "...Frankly, we

find that customers want the same thing...The most amazing fact is that our associates around the world embrace and protect this culture that they have built over the last thirty-five years” (qtd. in Slater 133). The first president of Wal-Mart Germany, American executive Ron Tiarks, said “The customers will be our guides as we build on Wertkauf’s many strengths and begin introducing Wal-Mart’s culture, traditions, and support” (Wal-Mart Facts-Newsdesk). Tiarks, who didn’t even speak German (The Economist) and two subsequent American executives were later replaced by German Kay Hafner as president and managing director.

Wal-Mart proudly implemented trademark customer service like grocery baggers. German customers, however, didn’t like strangers handling their food. Store clerks, like their American counterparts, were trained to smile at customers. Greeters welcomed customers into the store. German males interpreted this as flirtatious and found it offensive (Norton). The Harvard Management Communications Letter discusses Germany’s cultural nuances in a 2000 article. “First and foremost, Germans are reserved. This is reflected in greetings” (Newton and Bierck). Germany was described as the “ultimate nonservice culture” by Stephen Arnold, professor at the School of Business at Queen’s University, Kingston, Canada (Thorne). The German public’s reservations about the arrival of Wal-Mart were reinforced by these actions. Customers quickly developed a negative image of Wal-Mart as out of touch with their customs and traditions.

Hans-Joachim Koerber, chief executive of the Metro chain that eventually purchased the German Wal-Mart stores shares his bottom line opinion: “The company’s culture does not travel, and Wal-Mart does not understand the German customer” (Hall, Bawden and Butler).

*The Paid Constituents: Employees*

Employees, like the reserved customers, didn't care for Wal-Mart's public displays of corporate moral such as the morning cheer (Edelson and Drier). Wal-Mart also angered German employees over policy and language in the newly translated ethics manual, distributed in 2005. According to German press, employees were told to follow the guide or lose their jobs. The policies reflected the conservative leadership of the American corporation. Employees were forbidden take gifts from suppliers, forbidden to have romantic relationships between employees and superiors, and required to report co-workers who didn't comply with the code (DW World). In Germany, the ethics code was seen as an intrusion into private lives and encouraging spying on co-workers. The German court in Wuppertal ruled that parts of the employee code of conduct were void and in breach of worker rights (Hall, Bawden and Butler).

Part of the problem probably came from translation issues. In addition, German employees, unaccustomed to workplace restrictions, were quick to take offense to the new regulations. Seven years after opening in Germany, Wal-Mart officials once again failed to appropriately consider local response to one of their communications. This time it was the American code of conduct. Simply put by Ulrich Salibor, an official from the ver di service-workers union representing all German employees, "They have to communicate better"(Ewing).

In Germany, unions are extremely active, and frequently are involved in corporate decisions involving working conditions. Union representatives said that Wal-Mart ignored these co-determination rules, and didn't keep employees adequately informed about decisions like store closings (Ewing). Hans-Martin Poschmann, secretary of the Verdi union said "They didn't understand that in Germany, companies and unions are closely connected" (Landler and Barbaro). Wal-Mart had a long-standing history of avoiding organized labor. Sam Walton

himself believed unions were a threat and would increase costs. He refused to allow anyone to unionize a store. (Slater 33).

German employees were not used to Wal-Mart's aggressive style in integrating and consolidating acquisitions. Office closures and relocations, though a mainstay of U.S. Wal-Mart culture, annoyed Germans. When Wal-Mart shut-down the Wertkauf corporate headquarters, executives quit rather than move 180 miles north to the Interspar office (Chain Store Age).

### *The Supply Chain*

Lack of mature vendor relationships, the bread and butter for retail stores, also contributed to cross-cultural problems for Wal-Mart. Each of the chains used different distribution schemes. Suppliers became confused by Wal-Mart orders, frequently resulting in no available stock (Liang). Wal-Mart was not familiar with German merchandising tastes, and often ended up with products that were unwanted by customers. For example, Wal-Mart sold pre-packaged meat, although Germans prefer to purchase meat from a butcher (Landler and Barbaro).

### *Go Global, Think Their Local*

Wal-Mart's expectation that German constituents would quickly adapt to the corporation's culture proved disastrous. Management made a mistake by not anticipating the *extent* of cultural differences *before* opening shop in Germany. Lack of sensitivity and understanding of language barriers, local traditions, consumer behavior, merchandising, and employment practices irreversibly damaged Wal-Mart's image in Germany.

Even as early as the 1970's, researchers analyzed the connection between cultural awareness and global retailing. In 1989, well-known national and organizational cultures expert

Geert Hofstede stated “Cultural awareness is one of the subtle factors of competition on world markets, and firms which are better at it have a distinctive advantage over their competition” (qtd. in Gerhard and Hahn). Recent research also confirms that cultural differences in consumer behavior will not decrease even as retail globalization continues. In fact, another study by de Mooij and Hofstede reports that cultural values become even stronger as consumer spending becomes global, and that “retailing strategies for one country cannot be extended to other countries without adaptation.” Their study also notes that values and traditions are often “rooted in history and resistant to change (2002).” This statement certainly applies to German culture.

According to communications expert Paul Argenti, corporate communication strategies involve several variables: “defining the organization’s overall strategy for the communication, analyzing relevant constituencies, and delivering the messages appropriately” (35). He further emphasizes that an organization must analyze constituency *responses* to communications. The frequency and number of cultural missteps in Germany implies that Wal-Mart’s communication strategy appeared to disregard the importance of these concepts (see table 1).

### **Potential Resolution – A Six Step Strategy**

Giving consideration to the documented impact of national culture on retail globalization, Wal-Mart and other companies should implement a plan for cultural communication analysis to avoid similar scenarios. The main idea is to prevent problems rather than just responding. A six step strategy, suggested below, will decrease the extent of culturally based communications problems between the parent organization and an overseas local unit (see fig. 1).

*Step One: Location Analysis*

Overseas location scouting should take place over an extended period of time, and carefully explore the political, social, and cultural climate. When expanding internationally, retailers should not minimize how well the organization will assimilate into the new culture. In Wal-Mart's case, Germany was selected primarily because of a central European location and economic attractiveness of the Wertkauf acquisition. Superficial research would have shown that Germany had strong national values resistant to change; possibly the most deeply rooted retail traditions in Western Europe.

*Step Two: Identify and Analyze Potential Constituents*

Significant advance research should take place regarding potential constituents. Using both existing studies and original investigation, organizations should identify all possible groups including but not limited to consumers, suppliers, employees, unions, politicians, and the media.

*Step Three: Develop Constituent Relationships*

After identifying constituent groups, actively cultivate relationships with representatives *prior* to opening doors for business. Wal-Mart's merchandising problems were partially due to immature relationships with local suppliers and buyers. Advance meetings with labor leaders would have been helpful to establish expectations between Wal-Mart executives and union members.

*Step Four: Align Corporate Values and Local Culture*

Use feedback gathered from location analysis, constituency analysis, and constituent relationships to conduct a detailed comparison of corporate values and national culture. Which aspects of identity need to be modified for cultural acceptance without sacrificing the overall corporate mission? Include a review of employee manuals, advertising, merchandising, work

ethics, and other materials. This step will also force organizations to clearly define globalization goals. For example, is the bottom line dollars and cents? If so, then perhaps it is not necessary to use visual embodiments of identity in the new location. Wal-Mart put the company name on many German stores before being fully established. Immediately, the run down stores left an impression on consumers who formed a negative image of the Wal-Mart name.

*Step Five: Review Plan with Local Subject Matter Experts*

Assemble a team of corporate and local experts to review communications prior to distribution or other action. Ensure sure that reviewers check for any cultural gaps affecting constituent needs, values, or attitudes. Make necessary corrections. If required, revisit Step Four and continue through the process.

*Step Six – On-going*

An effective cross- cultural communications strategy doesn't stop when business begins. Corporations have a responsibility to continue on-going analysis of their communications and constituent responses. Elements of the six step strategy should be revisited to evaluate problems before they escalate and cause irreparable image, reputation, and economic damage.

**Wal-Mart Response**

In their defense, Wal-Mart did attempt to resolve some of the issues in Germany by using aspects of the above strategy. The difference: Wal-Mart only acted responsively rather than proactively. Morning cheers were stopped, and greeters were eliminated. Stores were remodeled and local brands were stocked. Perhaps the most entertaining attempt at developing customer loyalty was the “Singles Shopping” campaign which ran for over a year at all German stores. For two hours on Friday evenings, hundreds of singles each week were given a big red

bow to attach to their cart. “flirting points” were set-up throughout the stores complete with romantic merchandise (Bhatnagar). However, these attempts were too little, too late.

Wal-Mart admits that Germany taught the company tough but valuable lessons about the corporate globalization strategy. With greater focus on strategic communication concerning constituents and the retail culture in Germany, Wal-Mart would have increased their chances of success. For example, maintaining Wal-Mart’s domestic identity abroad isn’t necessarily in the best interest of Wal-Mart International or the local community. Britain’s Asda chain, Japan’s Seiyu, and Brazil’s Bompreço and other non-Wal-Mart names contribute 70% of international sales (Landler and Barbaro). The company learned to use local management who understand the customers. Wal-Mart now treats acquisitions with greater sensitivity and is careful with consolidations.

### **Questions For Discussion**

1. What would Sam Walton have thought about the cross cultural communication problems caused by the implementation of the Wal-Mart culture in Germany?
2. How could Wal-Mart have maintained corporate identity, in particular outstanding customer service, without offending German customers?
3. Assuming that a company follows the six steps, how would the organization determine if the differences were too substantial to attempt alignment of corporate values and national culture? What, if any, are examples of insurmountable differences?
4. What methods can an organization use to develop positive constituent relationships prior to opening for business overseas?
5. What lessons from the Wal-Mart experience and the six step strategy can be applied to improving communication during domestic expansion?

Table 1

## Wal-Mart Germany: Constituency Communication Analysis

Constituency	Corporate Policy or Communication	Constituent Response	Underlying Cultural Value
Customers	Grocery bagging service	Customers offended and didn't want their food touched	Not a service oriented culture
	Smiling Greeters	Males viewed action as flirtations and negative	Germans are reserved, especially in public situations
	Selling pre-packaged meat	Didn't buy meat	Fresh meat usually purchased at butchers
	Prematurely renaming local stores to Wal-Mart	Stores seemed old and uninteresting	Cautious about change
	Selling U.S. size pillowcases	Didn't purchase because product wouldn't fit any German pillows	
Employees	Wal-Mart Cheer	Not interested and resented obligation to participated; criticized in press	Germans are reserved. Not a service oriented culture
	Ethics manual translation	Anger	Literal translation may have contained insensitive wording subject to misinterpretation
	Closing Wertkauf headquarters and consolidating with Interspar building	German executives quit because relocations were expected	Germans don't aggressively consolidate operations and expect relocations during acquisitions
	No flirting	Anger; considered policy invasion of privacy	Germans don't have a restrictive workplace environment, especially concerning personal matters; legal issue
	Dating discouraged between employee & superior	Same as above	Same as above
	Exclude employee rep from working condition decisions	Anger; felt American management was infringing on rights	Workers traditionally included in discussions that concern working conditions; lack of understanding company/union relationships in Germany
	American president	Perceived that management unable to relate to local issues	Need German-speaking local management to understand needs
	Increased working hours	Felt pressured and threatened by negative American-style work habits	Lack of understanding German work ethic
Suppliers	Distribution from two locations rather than one	Confused; lost respect for Wal-Mart management	Need local buyers and merchandising experts
	American president	Frustration; didn't understand German merchandising	Need German-speaking local management

Sources: Compiled from Chain Store Age, Edelson and Drier, Gerhard and Hahn, Landler and Barbaro, Schaefer, The Economist, Thorne,

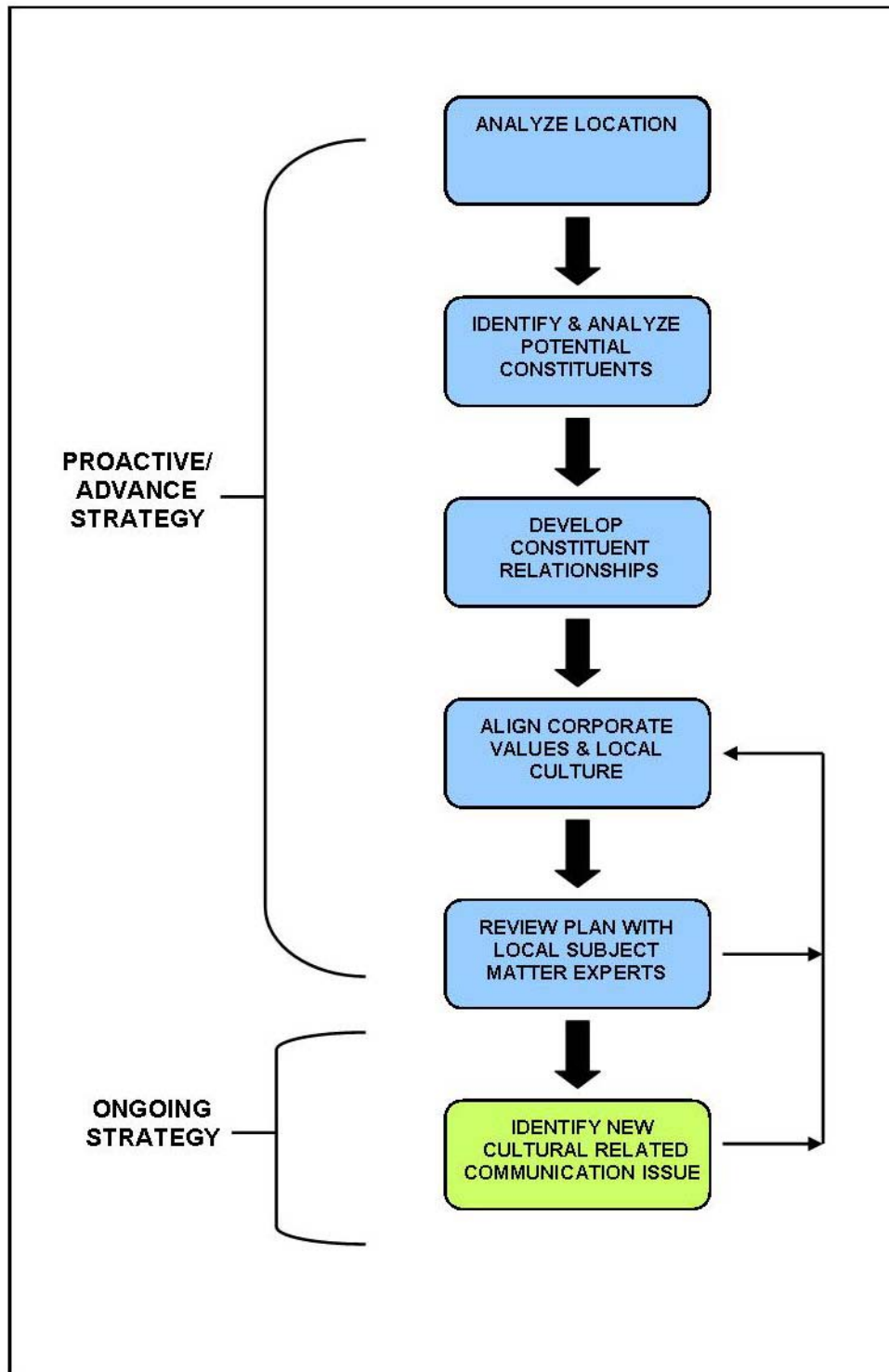


Fig. 1: Six Step Strategy to Improve Cross-Cultural Communications During Corporate Globalization

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