

Wal-Mart Entry Strategy from the US to Malaysia

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Abstract— Malaysia is one of the developing economies that experience massive economic growth and development due to the availability of key resources. For Wal-Mart Stores, investing in the economy would mean that the company will have the opportunity of maximizing the resources and necessitate competitive edge in the sector. In this report, it provides an assessment of the Wal-Mart Stores' entry mode strategy from the US to Malaysia. The report outlines the opportunities available in Malaysia and the challenges in the US. It also outlines the effective entry mode and the institutional and cultural differences and other opportunities and challenges between the host and home countries. Finally, the recommendations and conclusions are also provided.

I. INTRODUCTION

Figure 1 showed Malaysia general retailing industry has been expanding but at a slow pace. In 2016, the retail industry reported a mere growth of 1.7 percent as compared to the value reported in 2015.

Type	Period	% growth
Retail sales	Oct-Dec 2015	1.3
	Jan-Mar 2016	-4.4
	Apr-Jun 2016	7.5
	Jul-Sep 2016	1.9
	Oct-Dec 2016	0.3
	Jan-Dec 2016	1.7

Figure 1: Percentage change in retail sales, 2015/2016

(Source: Hsin, 2017)

When looking at the different sub-sectors prevailing in Malaysia retail industry, the fashion and fashion accessories sector has been experiencing massive growth and this has meant that it has changed the scope of the overall operations. Figure 2 showed the supermarket and hypermarket and has experienced a slight increase by 0.7 percent and this have meant that majority of the firms can capitalize on this growth and is the reason for Wal-Mart intending to expand its operations to Malaysia.

Retail Sub-Sector	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Whole
Department store cum supermarket	-7.3	3.9	-1.5	-2.3	-3.4
Department store	-15.0	21.1	-6.3	6.0	-1.4
Supermarket and hypermarket	-4.2	8.7	0.7	0.5	0.7
Fashion and fashion accessories	-1.3	6.5	7.6	6.9	5.8

Figure 2: Percentage change in retail sales by retail sub-sector, 2016

(Source: Hsin, 2017)

In this report, it provides an analysis of Wal-Mart Stores retailer expansion from the US to Malaysia through foreign

direct investment (FDI) entry mode. It provides opportunities available in Malaysia retail industry and it indicates the assessment of its external environment, which is the basis for determining recommendations for the company.

II. ADVICE ON THE GENERAL BUSINESS CONTEXT INTERNATIONALLY AND NATIONALLY

2.1 Internationally

Figure 3 showed the political opportunity in Malaysia general retailing industry is Ease of Doing Business has increased from 6% in year 2013 to 23% in 2016. The World Bank report outlined that Malaysia is one of the 17 economies that have implemented economic reforms that enhances business operations amongst the local and international entrepreneurs (World Bank, 2016). The impact that such political opportunity will have on Wal-Mart is on increasing its revenue outlay and market share within Malaysia. This will be aided by the growth in demand for the retail industry activities. The comparative advantage theory explains this opportunity where the majority of the countries, in this case, the US, might not have the relevant economic resources to support the emerging demands of the retail industry (Sen, 2012). The difference in resource availability and reforms formulated by the Malaysian government can contribute to the success of Wal-Mart in Malaysia.

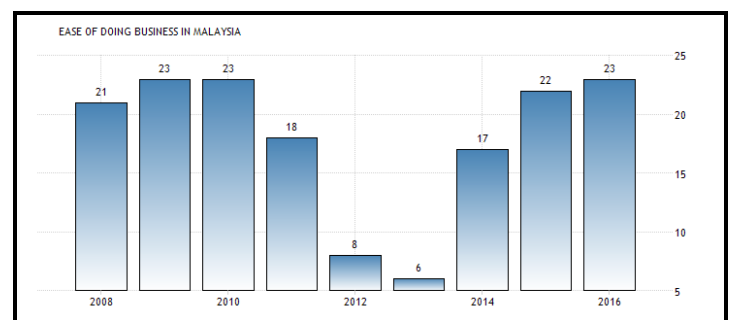


Figure 3: Ease of doing business in Malaysia

(Source: Trading Economics, 2017a)

The economic opportunity in Malaysia general retailing industry is the free trade agreements (FTA). Malaysia is involved with negotiating with different countries to conduct free trade including Singapore. The impact that such economic opportunity will have on Wal-Mart is on increasing the production capacity as it will have to diversify its operations to the FTA countries. One such country is Singapore, which is experiencing massive reforms and this can be critical towards increasing the production capacity and efficiency of the operations. The comparative advantage theory explains this

economic opportunity where one country can have enough resources as compared to another (Sen, 2012). In this case, Wal-Mart Inc. can benefit from the FTA between Malaysia and Singapore and this will increase its competitiveness in the dynamic industry.

Figure 4 showed the socio-cultural opportunity in Malaysia general retailing industry is power distance. The distribution of power in Malaysia is unequal done and this implies that individuals in low-power distance are the ones who follow orders from the top executives. The impact of this opportunity in Wal-Mart is that it reduces the cost of operations especially those involved in the marketing of the company's activities (Hofstede Insight, 2017a). In marketing the services of the company, the concern is on providing quality information on the nature of services offered and this is integral in achieving the desired success in the way operations are conducted in the sector. The theory that explains this socio-cultural opportunity is the Heckscher-Ohlin Theory on factors of production and their cost (Subasat, 2016). The socio-cultural opportunity reduces the cost of labor associated with increasing marketing team as this will be reduced, hence reducing the cost of production.

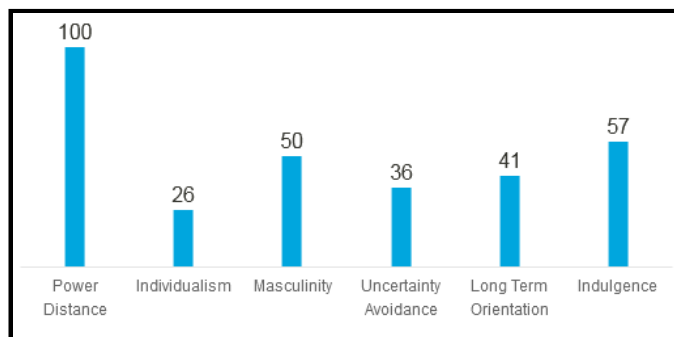


Figure 4: Hofstede Cultural Dimension

(Source: Hofstede Insight, 2017a)

The technological opportunity in Malaysia general retailing industry is the technology innovation. Malaysia has incorporated measures to ensure that it becomes competitive through offering quality services and goods that articulates to modern trends in the industry (Amineh, 2010). The impact of this opportunity on Wal-Mart is that it will reduce the cost of operations and increase the production capacity. The competitiveness of Wal-Mart in the industry is based on its ability to utilize the available resources and its innovativeness in increasing the overall production capacity. The theory that is utilized is the global strategic rivalry theory, which outlines the need for the company to utilize available resources including technology innovation and optimizing its economies of scale (Arribas, et al., 2009).

The threat of new entrants in Malaysia general retailing industry is the capital investments and access to the new technology. The retail industry requires the business entity to inject high capital during its initial phase of operations. The impact of this threat on Wal-Mart is that it will strategize on the best way in which it can improve its overall presence in the dynamic and competitive economy of Malaysia. The

company will be involved in increasing its capital outlay as the basis for necessitating competitiveness in the industry. The theory that is utilized in this opportunity is on the product lifecycle theory where the concern of Wal-Mart will be on maximizing the available resources in increasing competitive edge in the industry (Beaudreau, 2016).

The bargaining power of customers in Malaysia general retailing industry is the switching of retailers. With Malaysia currently experiencing an increase in the level of competition, there is the possibility for the customers and buyers shifting allegiance on a particular brand (Djajadikerta & Zhang, 2015). The impact of this opportunity on Wal-Mart is that it will have to establish itself is one of the reputable and reliable brands globally. The theory that is applicable to this opportunity is the firm-based theories where the focus is on offering customers with quality and technology advanced services (Wignaraja, 2016).

The threat of substitute in Malaysia general retailing industry is the availability of established brands. Wal-Mart is facing the challenging of ensuring that the prices that it offers to consumers make them be irreplaceable (Djajadikerta & Zhang, 2015). The quality of the services that the company offers should consider the views of the clients and it is important when formulating strategies that will necessitate convenience of operations. The theory applicable for this opportunity is the Global Strategic Rivalry Theory (Bernhofen & Riezman, 2009). The competitiveness of the company provides that there is need to develop measures that will integrate well with the available resources for the company including conducting intensive research and development in the economy. With this in place, the quality of the products offered by Wal-Mart will guarantee the management of competitive edge in the industry.

The bargaining power of suppliers in Malaysia general retailing industry is the availability of the suppliers' network (Djajadikerta & Zhang, 2015). The retail industry does not rely on the services and operations of the company that is available locally rather it inclines its operations on the diversity in necessitating competitiveness in the industry. The impact of this opportunity on Wal-Mart is that it increases the efficiency of operations and it provides consumers with quality products and services that they require in the sector. The theory that is applicable for this opportunity is the firm-based trade theories and this includes the understanding of the trade flows and the views of the management towards achieving the desired satisfaction levels of the clients (Wignaraja, 2016). With this in place, the company will be assured of increasing the customer loyalty and brand awareness.

The competitive rivalry in Malaysia general retailing industry is the existing retail companies that are operational in Malaysia. The level of competition in the industry can have an implication on the market share report, and depending on the way in which the management increases its productivity, it will be essential in necessitating success in the industry. The theory that is applicable is the Porter's National Competitive Advantage theory, which stipulates that different local companies have unique characteristics that will be integral in

upgrading the services (Wignaraja, 2016). The innovativeness in the dynamic retail industry in Malaysia offers an insight into the way different companies can conduct their operations in realizing competitive advantage.

2.2 Nationally

Figure 5 showed the political threat to the US general retailing industry is the Ease of Doing Business index slightly increased from 7% in year 2013 to 8% in 2016. Since 2012, the US political environment has faced unfriendly retail industry with the information provided showcasing that it has dropped its rank from 4th (2012) to 8th (2016) (Trading Economics, 2017b). Investors are no longer prioritizing the US as the haven for doing business and they are considering other developed and developing economies. The impact of this threat on Wal-Mart is on affecting the production capacity and it negatively impacts the market share in the dynamic industry. Wal-Mart understands that for it to realize global brand reputation, it needs an environment that is stable politically as this will be integral in interaction with the key customers. The theory in support of this threat is the comparative advantage theory where one country is more business-friendly than the other (Sen, 2012).

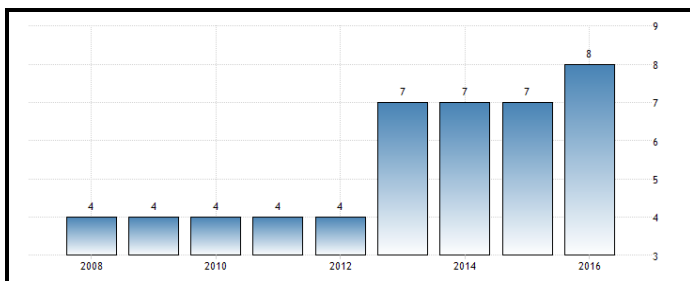


Figure 5: Ease of doing business in the US

(Source: Trading Economics, 2017b)

The economic threat in the US general retailing industry is the Economic Trade Incentives. The success of companies within a region is based on the capability of the management in increasing the operations in the economy by providing incentives that can benefit different business initiatives (Kohl, Brakman & Garretsen, 2016). The US is an established economy and there are no clear trade incentives that can meet the emerging needs of the sector. The impact of this threat on Wal-Mart is that it will be difficult to compete with other established international business companies across the globe. The theory that is applicable is the comparative advantage theory where the comparison between the resources available in the economy is essential in determining the success of the companies within a geographical region (Sen, 2012).

Figure 6 showed the socio-cultural threat in the US general retailing industry is the individualism. It measures the degree in which individuals are independent of the society and it has a rank of 91 (Hofstede Insight, 2017b). As such, it implies that the management relies on the individual teams and employees in providing information regarding the needs of customers. The impact of this threat on Wal-Mart is that there is need to develop measures that will address the hierarchical trends in

the economy and the various measures that will be integral in meeting the divergent needs of the clients. The theory applicable to this threat is the Global Strategic Rivalry Theory, which provides the distinct obstacles that the employees and management face in obtaining competitive advantage and sustainability in the sector (Arribas, et al., 2009). The business processes that are unique and the extensive experience of the individual firms play an important role in enhancing economic sustainability.

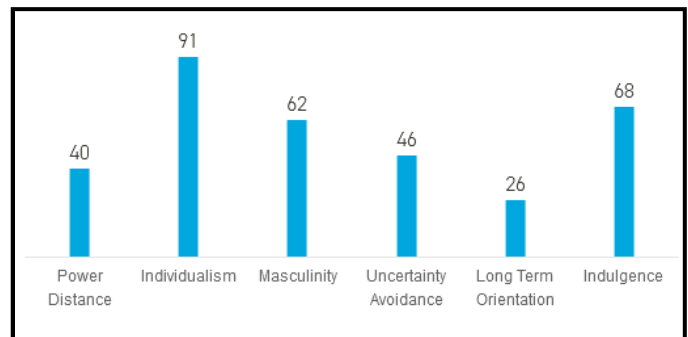


Figure 6: Hofstede Cultural Dimension

(Source: Hofstede Insight, 2017b)

The technological threat in the US general retailing industry is the technology investment. The success of every organization is based on the ability to utilize the technology resources and increase its production capacity (Kohl, et al., 2016). When comparing the US with other developed economies such as Japan, it is evident that it is lagging behind in terms of technology investment. The impact of this threat on Wal-Mart is that it will be difficult for the company to compete with companies that are operating in regions that have invested heavily in technology. The theory applicable to this threat is the comparative advantage theory (Sen, 2012). The comparison between the technological investments of different countries can provide a clear scenario on the competitiveness in the dynamic environment.

The threat of new entrants in US general retailing industry is the high cost of starting a retail store. The capital outlay required in starting a retail company is quite high and this can have an implication on the initial profitability level of the company (Dikova & Brouters, 2016). The competitiveness of the industry and the dynamic nature of operations of the established firms can impact the way the new companies are operational in the industry. The impact of this threat on Wal-Mart is that it can fail to establish its market share as some of the companies that have already established their business initiatives in the industry. The theory that is applicable to this threat is the Country Similarity Theory, which offers an understanding of the preferences and needs of consumers within the industry (Garcia, 2012).

The bargaining power of customers in the US general retailing industry is the purchase in bulk where the consumers are interested in purchasing commodities in bulk. Such consumers understand that they should be appreciated by the company and the management should always provide them with benefits whenever they make purchases on the

company's premise (Dikova & Brouthers, 2016). The impact of this threat on Wal-Mart is that the company should always be involved in offering quality products and services to the consumers and this will be integral towards realizing integral success in the key operations of the company. The theory that is applicable is the firm-based theories, which outline on the effective measures that should be undertaken in realizing competitive edge in the industry (Wignaraja, 2016).

The threat of substitute in the US general retailing industry is the quality of the other brands. Consumers, in the retail industry, are concerned with the quality of the products that are offered to them, and this is essential in achieving competitiveness in the industry. The impact of this threat on Wal-Mart is that the company will be required to increase its quality and innovativeness in meeting the needs of the clients. The changing trends in the consumer products have impacted the consumer behavior and this has meant that there is a need for developing coherent measures that can address the competitiveness in the industry and this can be instrumental towards increasing overall market share (Dikova & Brouthers, 2016). The theory that is applicable for this threat is the Global Strategic Rivalry Theory that outlines the need for innovation and technological advancement in increasing the market share in the economy (Arribas, et al., 2009).

The threat of bargaining power of suppliers in the US general retailing industry is the availability of large population of suppliers within the economy. With this in place, it implies that the decision-making of the large volume of suppliers will impact the progress of business initiatives in the sector (Verbeke & Asmussen, 2016). The impact of this threat on Wal-Mart is that the price of commodities will significantly increase making it expensive for the consumers. The large volume of suppliers for similar products articulate to the quality and the customer services that are offered to the respective consumers and this will be integral to the competitiveness of the organization. The theory that is applicable to this threat is on the Global Strategic Rivalry theory (Arribas, et al., 2009).

The threat of competitive rivalry in US general retailing industry is the prevailing number of retailers prevailing in the market. The level of competition can have an implication on the profitability level of the company and this is evident from the services that are offered by different companies in the US. The impact of this threat on Wal-Mart is on negatively affecting its market share and the customer base. The success of any organization is on ways in which it can offer quality services and improve the efficiency of the operation. The theory that is applicable to this threat is the firm-based theories (Wignaraja, 2016).

III. ADVICE ON ENTRY MODE

Wal-Mart can use direct export to enter Malaysia because it provides the company with an exclusive degree of control of its business operations. However, it requires additional human resources in cultivating the desired customer base. Also, there is the unavailability of buffer zone thus the company is held liable for any wrongdoings (Lempp, 2011).

Wal-Mart can use franchise licensing to enter Malaysia because it provides the management with the level of independence and enhancing the business network. However, it dictates the way businesses should be conducted. Also, it provides restrictions to the management on the way in which businesses can be operated (Rogmans, 2012).

Wal-Mart can use joint ventures to enter Malaysia because it facilitates access to quality resources including technology and specialized staff. However, restrictions to the organizational flexibility can be reported in the management. Also, there is the possibility of vague objectives being undertaken in the organization.

Wal-Mart can use the foreign direct investment to enter Malaysia because it provides the company with the acquisition of new technologies and this can be critical in improving the efficiency in the sector. However, higher costs of investment are required and this can be an expensive task to the management. Also, the political changes in the country of expansion can mean that the business initiative is risky (Lempp, 2011).

Based on this analysis, the most appropriate entry mode as internationalization strategy of Wal-Mart stores to enter Malaysia is foreign direct investment because stimulate growth of Wal-Mart, necessitates economic boost and employment, ease of conducting international trade from Malaysia's bilateral trade agreement economies, and increases production capacity (Rogmans, 2012). The steps for Wal-Mart to enter Malaysia general retailing industry is through 1) understanding the culture of Malaysia, understanding the fluctuation of currency value, understanding the laws prevailing in Malaysia governing business initiatives, conducting focus groups in testing the culture of the country, and determining the level of competition.

IV. ADVICE ON DEALING WITH INSTITUTIONAL AND CULTURAL DIFFERENCES AND OTHER OPPORTUNITIES AND CHALLENGES

Cross-cultural risk impacts the operations of the entity, and they include the aspect of ethics, beliefs, and morals prevailing in a region (Curtin, 2014). The cross-cultural opportunities between US and Malaysia are expertise and performance level of the company are highly valued, and negotiations are conducted in an efficient manner and this is made possible through the communication amongst different individuals. The cross-cultural challenges between US and Malaysia are communication is not similar to the US population communicate in the English language while Malaysians communicate in Malay, and the US advocates for honesty in their decisions while Malaysians focus on end-result. The solutions to deal with cross-cultural challenges between the US and Malaysia is through advocating for common language and training of employees in the first six months. Also, the focus should be on articulating to the policies and principles of the organization.

Country risk involves the collection of different risks that face a company when it invests in a foreign economy (Hoefele, et al., 2016). Country opportunities between the US and Malaysia are stable political environment, and economic

stability is prevalent. The country challenges between the US and Malaysia are fluctuation in exchange rates, and freezing of the capital of a foreign company operating in the region. The solutions to deal with the country challenges between the US and Malaysia is through the provision of financial hedging as a strategy for minimizing the implication of the currency fluctuations. Also, the two countries should have bilateral trade agreements in minimizing freezing of capital outlay.

Currency risk is the risk of losing its currency when it is exposed to the changes in the fluctuation of the foreign exchange rates (Lempp, 2011). Currency opportunities between the US and Malaysia are on the minimal fluctuations in the foreign currency between the two countries and there is economic stability that has enhanced the overall process. The currency challenges between the US and Malaysia is the lack of financial hedging as this will be integral in improving the productivity of the companies involved (Preece, et al., 2016).

Commercial risk involves the risk that faces the organization when it is offered with credit from financial institutions with no collateral (Curtin, 2014). Commercial opportunities between the US and Malaysia include the company being offered with unlimited financial assistance in Malaysia. It also involves the provision of quality loans

without any collateral. The challenges with this are the financial risk and the fluctuations in currency within the respective economies. However, this can be offset through conducting financial hedging and understanding the asset-base of the companies involved.

V. RECOMMENDATIONS AND CONCLUSION

In general business context of internationally and nationally, the opportunities for Wal-Mart are the access to new technologies in Malaysia and availability of free trade agreements between different countries. The threats for Wal-Mart are the increase in competition and fluctuation of currency. For Wal-Mart to be successful, the suitable entry mode for the company is through foreign direct investment because it offers the company with the opportunity of increasing its production capacity and stimulates the company's growth rate. The risks for Wal-Mart to enter Malaysia need to deal with include cross-cultural risk, country risk, currency risk, and commercial risk. The investment for Wal-Mart to enter Malaysia should go ahead because it provides a viable opportunity for the expansion of business initiative in the industry.