TOP EXPANSION MISTAKES TO AVOID

Learnings from global retailers to keep in mind while foraying into a new market. Because in retail, there's no one-size-fits-all formula to expansion

By Chetan Nayak

The recent deal between US giants Walmart and Indian startup Flipkart wasn't the first and won't be the last to hit the Indian market. However, big companies have rushed into foreign markets and have failed to make the desired impact, ultimately being forced to back out to avoid further losses. What could've gone, wrong?

Let's have a look at the most common wrong turns taken by giants in the past few decades, all of which come under the general umbrella of failing to understand the subtleties of a local market.

Ill-planned expansion can hurt the brand in more ways than one

1. PRICE SENSITIVITY

Pricing strategies that worked back home may not make sense in another country. One of the primary reasons for Walmart's poor performance in Germany was failing to understand this. Germans had higher minimum wages, which meant they had more cash to spend than average people in other countries. Due to this, they were more concerned with the 'best quality' than the 'best price'. While its inability to gauge the people's preference for small neighbourhood stores over larger, impersonal chains was also a factor, low price based positioning proved to be the main culprit. After six years of struggle, Walmart finally had to quit losing 1 billion dollars. "It does no good to force a business model onto another country's market just because it works well somewhere else," said David Wild, CEO, Walmart Germany.

The exact opposite happened to US-based Best Buy in China. Though China surpassing the US as the biggest market for iPhones, may suggest that the Chinese are willing to pay more for higher quality products, such statistics do not hold true when the difference in population is so huge. A percentage of US's roughly 300 million population cannot be compared with the same percentage of China's population of over a billion.

Best Buy implemented the same American model of layout, organisation, and selling tactics in China, where the large middle class looked for products that were cheaper than what Best Buy offered. Best Buy was eventually forced to quit in 2012. "What we learned, is that in China you cannot make revolutionary change. You have to work at the pace of the Chinese consumer," said Kal Patel, Asia-President of Best Buy back then.

2. LOCAL MINDSET

When US based Home Depot had a good run in the US, it came to China, acquiring a local firm expecting the market to move at a similar pace. It opened 12 stores. What it didn't take into account was that when the Chinese want to improve their homes, they simply hire handymen as labour is cheap. The American Do-It-Yourself culture doesn't exist there. Furthermore, people buy homes for investment and hence don't spend much on improvement. "China is a do-it-for-me market, not a do-it-yourself market," said Home Depot spokeswoman Paula Drake.

When US-based company Groupon tried to sign up local vendors in China, it was asked to come back with more realistic expectations. Because of their large numbers, the local vendors had an upper hand in negotiating with group buying operators. Also, they had to pay only 10% of their profit as opposed to 50% to Groupon'. "They (Groupon) can't use the same (American) mentality when it comes to China," observed Feng Xiaohai, CEO of Manzuo.com, a popular group-buying site in China.

3. GOING TOO FAST TOO SOON

When expansions go well, it can be tempting to step up the pace. But if all factors like logistics, setup time and local shopping habits are not analysed, it proves to be a mistake.

In 2013, US based Target bought 220 leases of Zellers, which was a declining Canadian discount chain and opened for business shortly thereafter. But it launched with a bigger footprint than it could handle at the time. The locations and design were sub-par compared to Target's usual standards. Also, there was a challenge of restocking, often leaving stores appearing empty or poorly stocked, which gave the locals a poor first impression.

"Our Target Canada business had reached the point where it could not continue to meet its liabilities. We were losing money every day," Brian Cornell, CEO, Target wrote in a blog post. Target eventually pulled the shutter down on its 133 stores in Canada in 2015, less than two years after making its foray.

Coffee chain Starbucks too faced a similar challenge Down Under. Australia, unlike many countries where Starbucks is a hit, already had a rich, historical coffee culture. Locals didn't really connect with the concept of an international coffee chain with premium prices. By the time Starbucks realised this, it had already opened over 80 outlets, 60 of which had to be shut down amounting to losses of $143 million in just eight years.

4. CULTURAL DIFFERENCES

Understanding cultural differences is key to a business's success in new markets. eBay's experience in China is a case in point. eBay entered the country by acquiring a local website Eachnet.com, which had a market share of 90% at the time. However, competitor Taobao by Alibaba.com had one key ingredient which was most critical in a country like China – personal bonds, or as the Chinese call it, 'guanxi'.

Unlike eBay, Taobao added a simple chat feature on its site where buyers and sellers could get to know each other before striking a deal. It also went fee-free for the first three years. This pulled down eBay's market share from 90% to 10% in just two years.

"eBay is a shark in the ocean. We are a crocodile in the Yangtze River. If we fight in the ocean, we will lose. But if we fight in the river, we will win," Jack Ma, executive chairman, Alibaba had commented in the media on the topic.

TO CONCLUDE

"If you want to be successful in a foreign (or new) market, you have to know what your customers want. That's the most important lesson," Walmart Germany CEO had said when pulling out of the country. While the above examples are of retail brands entering new countries, the learnings hold true for expansion to any new market. Expansion could be one of the best decisions for a company, provided it is done in a carefully planned manner, in a location where it makes sense.