Culture Implications for the Operations Strategy- Walmart Experience in China

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Abstract

Many multinational corporations are aware of the topology of the Chinese market, what they lack is an in-depth understanding and the skills needed for effective operations. The paper describes the challenges faced by walmart as it attempts to replicate in China their lean retailing successes elsewhere in the world. Walmart has so far failed to extend their oligopolistic dominance to the Chinese market. We identified some issues: (1) the formation of *partnership alliances* and their impact on store location choice; (2) the effect of *under-developed infrastructur*e on distribution and logistics; (3) the *unique Chinese business culture* - *GuanXi* (using social capital to build business relationships) and its influence on supplier relationships; (4) the variety of *consumer behavior* and its effect on procurement and sourcing; and (5) an *immature information technology environment* which impedes information sharing between supply chain partners. While walmart had some degree of success, it has not been able to match the combined growth of their larger Chinese competitors. Walmart faces significant obstacles as they challenge China's largest domestic retailers.

Keywords: Chinese Business Culture, Cross Culture, Supply Chain Management, Chinese Retail Market, Operations Management

I. Introduction

China's hosting of the 2008 Olympics in Beijing was a celebratory demonstration of the progress made by the People's Republic over the last three decades. Moving from a stagnant, under-sized, centrally planned economy to the most vibrant in the world, China today is both a gargantuan exporter of manufactured goods and the fifth largest consumer market. Since the economic reforms begun under Deng Xiaoping in 1979, China's economy has continued to grow at a rapid and steady pace. The average growth rate of 10% per year since 1990 is the highest in the world and China was able to maintain a growth rate of 8.7 in 2009 even when the USA and other global economies were in a deep recession.

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Since the 1990s, China has gradually opened its consumer market of over 1.3 billion people to the rest of the world. Multinational corporations (MNCs) who want to take advantage of low operating costs view China as a manufacturing base, and at the same time, have to come to view the country as an attractive retail market. More than 460 Fortune 500 companies are now operating in China (Hexter and Woetzel, 2007). Consumer product and retail firms such as Procter & Gamble, Unilever, Metro, Tesco, Walmart, and Carrefour are among those tapping into this vast opportunity. According to a 2009 annual business climate survey (American Chamber of Commerce in Peoples Republic of China, 2010), 71% of the member firms reported that their businesses were profitable. One out of three reported margins that were on par with the global average (The McKinsey Quarterly, 2007). A recent report (A. T. Kearney, 2010) lists China as the most desirable developing retail market in the world and includes a prediction that it will also be the largest world market for luxury goods by 2015.

In this article, we analyze the challenges faced by retail MNCs by investigating the case of foreign retailers, walmart, in the Chinese market. We analyze both objectives and obstacles in enforcing global standardization in the front-end (retail formats) and back-end (distribution, information technology) operations, as well as implementing necessary localization using the structural paradox perspective provided by Aoyama's (2007) framework. We find support for Aoyama's (2007) finding that a structural paradox works to prevent retail MNCs from accomplishing both vertical and horizontal oligopoly simultaneously.

II. Literature Review and Framework

An interdisciplinary research agenda has arisen in the past two decades to study the significance of emerging retail MNCs as part of the process of globalization. The internationalization of retailing has been a central topic in the business literature particularly in retail management (Alexander 1997; Alexander and Quinn, 2002; Bianchi and Arnold, 2004; Goldman, 2001; Tseng and Foster, 2006; Palmer 2005; Cao and Dupuis, 2009). The issues studied in that literature include motives for internationalization, modes of market-entry, retail format transferability, organizational learning and strategic failure and divestment. Scholars in economic geography have also contributed to this literature stream (Aoyama, 2007; Christopherson, 2007; Wrigley et al., 2005; Reardon et al., 2007). Topics include the impact of the host economy on market entry, the role of the institutional environment of the home market and the host market entered and divestment. Researchers in agricultural and developmental economics have studied the supermarket revolution in developing countries (Reardon and Hopkins 2006; Hu et al., 2004; and Humphrey, 2007). Researchers across the board have argued that the simultaneous process of internationalization and concentration of retail MNCs is leading to global oligopoly. According to Aoyama (2007), the achievement of global oligopoly by retail MNCs involves a structural paradox:

> The structural paradox in retail transnational corporations (TNCs) lies in the balance between their objective in enforcing standardization (at the supra-national level) and the need to conduct localization (at the sub-national level) to ensure customer acquisition. From the operational perspective, standardization, or a direct transfer of retail TNCs' strategic assets—formats, commodities, various retail practices and know-how (e.g. shelving and display, sales events, distribution practices), is an important and cost effective means to achieve scale economies. (Aoyama, 2007, 473)

Standardization involves successful operationalization of firm strategy. Retail MNCs, Walmart and Carrefour, practice lean retailing. Successful lean retailing is dependent on cost-effective relationships with suppliers and the ability to hold down distribution and selling labor costs. Emphasis is often on the use of logistics technology, to coordinate sales with inventory levels, this allows firms to reduce product cost, time-to-market and inventory storage costs—a network domination resource that fosters the ability to move rapidly and autonomously in response to changes in market conditions. This ensures a cost leadership position which when effective captures a significant portion of market share and positions the firm to exercise network domination.

Success of MNC retailers in new markets has been widely asserted to be primarily based on localization. According to Currah and Wrigley (2004) the 'distribution-based' nature of retail MNCs requires them to embed themselves in the new market and quickly understand local cultures of consumption to a far greater degree than 'production-based' firms. Wrigley et al. (2005) used three types of embeddedness (societal, network, territorial) developed by Hess (2004) as relevant for retail MNCs.

There are costs associated with implementation of localization because the MNC must identify market-specific issues and customize their operation accordingly. Localization often defeats economies of scale and it also challenges corporate identity. There can be problems within a corporation when implementing new strategies that counteract and challenge institutionalized corporate identity. This is particularly the case with retail MNCs, as their identity is often closely associated with a 'trade-mark' retail format and standardized in store-front and back-end operations. Under-localized retail MNCs face the possibility of sacrificing customer acceptance but over-localized retail MNCs may lose their very identity and may not find a niche because they inadequately differentiate themselves from domestic competitors.

Consider Walmart for whom standardization, efficiency and corporate identity combined to form its strategic assets, establishing for the oligopolistic power in its home market. One of the most important strategic assets is its know-how in achieving distribution efficiency by employing the factory-direct model. However, the standardization of distribution practices in a new market without oligopolistic power has proved to be a significant challenge for them. Evidence shows that transfer of oligopoly is accomplished more easily in countries that neighbor the home market of retail MNCs (Aoyama, 2007). Walmart's international expansion began in Canada and Mexico.

Our study of Walmart in China shows that while initial expectations for the firms to successfully develop oligopolistic control was high, the structural paradox of retail MNCs, coupled with the lack of oligopoly may prevent them from bringing about changes in the retail/distribution sector in the near future. Firm strategy typically refers to responses to externalities, such as market conditions and the degree and nature of competition. Retailers are embedded in a general environment comprising various social forces that shape and constrain strategy and its operationalization. Standardization may not be successful because of host country regulations and laws and perhaps even more important cross cultural characteristics, *GuanXi* (using social capital to build business relationships), in China (Tseng and Foster 2006).

1. Overview of the Retail Sector

The top 20 retailers in China had 4.9 % market share in 2004 which increased to 8.6% in 2009 (Kearney, 2009). In 2005, Chinese government approved over 1,000 new retailers of which more than half were foreign investors. There are now over 1,000 foreign retailers in China, compared with just 314 in 2003 (Economist, 2006).

The ownership structure of retailers in China is divided into four different types: individually owned, state-owned, privately owned and joint ventures. Privately owned usually means the store is owned and operated by a family. Most Chinese stores are tiny, family-owned outfits and organized retailing remains relatively new. When Walmart and Carrefour entered China in the late 1990s, the government did not allow foreign-owned businesses, and so these corporations needed to establish Chinese/foreign joint ventures, with the Chinese partner hold a majority share (51%). Major players in China retail industry are Carrefour (Foreign Invested), Suguo Supermarket (Foreign Invested), Lianhua Supermarket (state owned and owned by retail giant Shanghai Brilliance Group), Wumart Stores (private), and RT Mart (Foreign Invested). It is clear that Walmart (7^{th}) is still relatively small players in China compared to the top five firms whose sales are two to three times that of the firm. However, according to the rank of chain store in China in Table 1, Carrefour, at 6th and Walmart at 7^{th} are 3^{rd} and 4^{th} among foreign retailers in China.

Table # 1: Top 10 Chain Stores in China at the End of 2009 & 2004

2009 Rank	Company	Ownership Form	2009 Sales (CNY $million)	Number of stores	Sales Growth from 2004%	2004 Rank	2004 Sales (CNY $million)	Number of stores
1	Suning Home Appliance	Private	117,002	941	429%	4	22,108	193
2	Gome Home Aplicance Group	Private	106,810	1170	347%	2	23,879	227
3	Brilliance Group Co., Ltd (Sub: Lianhua Supermarket Holdings Co., Ltd)	State-Owned	97,915	160	45%	1	67,627	5493
4	Dashang Group	State-Owned	70,535	941	206%	3	23,085	120
5	CR Vanguard (Sub: SUGUO Supermarket)	Foreign-Invested	68,000	1852	390%	8	13,880	1345
6	RT Mart Shanghai	Foreign-Invested	40,431	121	x	na	x	x
7	Carrefour	Foreign-Invested	36,600	156	125%	5	16,241	62
8	Anhui Huishang Group Co., Ltd	State-Owned	34,378	2884	x	na	x	x
9	Walmart	Foreign-Invested	34,000	175	345%	20	7,635	43
10	Wumart Stores Group	Private	32,700	2333	146%	10	13,277	608

Source: China Chain Store & Franchise Association

2. The Structural Paradox

Walmart adopted a "low price" strategy, just as it has done in its home market and elsewhere in the developed and developing world, allowing them to call upon their familiarity with business practices and IT systems that had already worked for them successfully. Walmart has highly centralized operations with virtually all procurement done through Global Procurement Centers. It should be noted that the two centers located in China account for about 70% of Walmart's world-wide purchases (Gereffi and Ong, 2007).

2.1 Front-end operations: resolving the paradox

What explains the relatively slow penetration of retail MNCs in China? We begin our analysis with a brief discussion of socio-economic data which will highlight the challenge that MNCs face when entering the Chinese market. As discussed in the subsequent section, Walmart insisted on their proven strategy of seeking operational efficiency through standardization and offering customers low prices, but they struggled with the implementation of localization and in some ways eroded customer appeal. Walmart's initial entry into the market forced them to locate their stores in areas that did not fit their market niche. We focus on the major aspects of front-end operations, examining how both companies approach the implementation of operational efficiency through business partnership, localization and marketing on low prices.

2.1.1 China's Emerging Middle Class

A McKinsey Global Institute (MGI) research paper (Woetzel et al., 2009) highlighted how the spending power of the Chinese urban middle class in China will soon redefine the Chinese market. MGI estimates that by 2011, the lower middle class (CNY¥25,000- CNY¥40,000) will reach 290 million people, which represents the largest segment in urban China and accounts for about 44% of the urban population with a total annual spending power of CNY¥4.8 trillion. By 2025, hundreds of millions household will join the upper middle class (CNY¥40,000- CNY¥100,000) segment. The upper middle class will by then reach 520 million, more than half of the expected urban population of China, with a combined total disposable income of CNY¥13.3 trillion (Farrell, Gersch, & Stephenson, 2006). At that point, urban Chinese households will make up one of the largest consumer markets in the world.

Table 2: China GDP per Capita 2000-2009 (Current US$)

2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
949.18	1,041.64	1,135.45	1,273.64	1,490.38	1,731.13	2,069.34	2,651.26	3,413.59	3,744.36

Source: World Development Indicators, 2010

These numbers present the somewhat misleading image that Chinese consumers have considerable disposable income. With economic growth of 10% every year, there is no doubt about the increase in consumer purchasing power. But despite the tripling of average household income from 2000 to 2009 (Table 2), 2009 average household income of US$3,744 was still only 8% of a USA household (US$45,989) (The World Bank Data & Statistics, 2010). Furthermore, China's ratio of disposable income to spending of 39% is about ½ of the USA and is the lowest in the world (Woetzel et. al, 2009). Also, the type of expenditures made by consumers who are just progressing from subsistence is very different than those made by the middle-classes. Foreign retailers are more interested in selling consumer goods than staples. Varying perspectives exist on the effect of growing household income in China; some believe the opportunity is across the entire country, others think the market can be divided into two worlds; Beijing, Shanghai, and Guangzhou and everything else. (McEwen, et al., 2006). A recent study by Roche et al (2010) reports on how China's consumer economy is responding to the economic down-turn and recovery. They segment the population into Tier 1 and Tier 2 city middle-class residents with incomes > CNY¥60,000, Tier 1 and 2 residents with income< CNY¥60,000, and the middle-class in small cities with income >CNY¥60,000. They report the Tier 1 and 2 middle-class to be cautious about the future, the middle-class in smaller cities to be optimistic and the large city working class to be under considerable pressure. These findings may be an artifact of using the same income level to define middle-class across all cities. The cost of living in a Tier 1 city may be double that of a small interior city, thus the difference in outlook, although real may simply reflect a dramatic difference in real standard of living.

2.1.2 Geographic Segmentation of Consumers

Due to the rising economy, during the past decade, the consumer goods competition is now shifting from the Beijing, Shanghai, Guangzhou, Shenzhen (Tier 1 cities) to Tier 2 and 3 cities. According to the China Statistical Year book 2009, China has a total of 815 cities, 200 of which has a population over one million. The city level classification is based on three variables: population, per capita income, and administrative status. Tier 1 cities are Beijing, Shanghai, Guangzhou, and Shenzhen. Tier 2 cities are provincial capital cities. Tier 3 cities are prefecture level cities and Tier 4 cities are county level cities.

The Chinese market is a collection of local markets and these markets are at a different stage of development, which depends on its location and consumer preference. Local markets generally evolve through three stages of development: nascent, emerging, maturing (Bellens, et al., 2009). The Xinjing province (Northwest of China) is considered a nascent market with its cities classified as Tier 3 and Tier 4. Emerging markets such as those in Jiangsu and Sichun provinces (Central of China) has mostly Tier 2 cities. Maturing markets are the Tier 1 cities such as Beijing and Shanghai. Generally speaking, the further west the location, the higher demand for basic, functional, low cost products (Penhirin, 2004). All four Tier 1 cities are located on east coast of China and are inhabited by about 50 million people with the highest income and the largest GDPs. Many multinational corporations consider the huge market diversity and the vast scale of China as the biggest challenges when expanding into this market. Fong et al (2006, B.1) report on the difficulty of selling to the diverse Chinese consumer:

> Consumers in northern China like [milk powder] sweet, but southern Chinese prefer low-fat varieties. Soybean oil and sunflower oil sell well in Shanghai, but not in Beijing, according to suppliers. Tsingtao may be China's best-known beer globally, but Yanjing beer is far more popular in Beijing…Local tastes -- in a country with over half a dozen major dialect groups and climates ranging from tropical to subarctic -- are extremely diverse, making it hard to stock shelves in large quantities. In the northeastern province of Shandong, for example, the top carbonated soft drink isn't Coke or Pepsi. It's a local brand called Laoshan.

2.1.3 Business Partnership, Localization and Marketing on Low Prices

Walmart entered China in 1995 by partnering with a state-owned company, Shenzhen International Trust & Investment Co (SZITIC). After signing a “Joint Investment Contract” with SZITIC and establishing “Shenzhen Walmart Pearl River Co., Ltd.” Walmart opened its first store in Shenzhen in 1996 (SZITC, 2011). SZITIC is known for developing high quality commercial construction projects in the most commercially developed and wealthiest cities in China. When SZITIC develops a new property, the company usually includes a Walmart, as this increases the visibility of the plaza. Furthermore, partnering with the state-run business allows Walmart to take advantage of the prime locations that characterizes a typical SZITIC project. With this arrangement, Walmart entered into long-term leases with SZITIC, and seemingly gained an advantage by learning how to accommodate to a *Guanxi* culture (using social capital to build business relationships). This should have allowed Walmart to function smoothly with central, provincial and local government officials. However, the drawbacks of the partnership soon became apparent. All the business finances of all the stores were located in Shenzhen. Thus it is not surprising that Walmart's joint venture partnership initially led to a relatively slow expansion.

Walmart's strategy has always been to offer a wide choice of inexpensive merchandise to consumers through its trademark "every-day-low-prices." The firm has had great success for decades, primarily in suburban or exurban areas and in the smaller cities of the USA, areas that were typically limited in retail choices. Walmart not only was cheap and reliable, it offered a far greater range of consumer products than had been previously available. More recently, and with some resistance, Walmart has entered large urban markets. Walmart's value proposition is well known, it competes on price and the quality of its fulfillment, offering a large choice of items from bread to flat screen TVs:

> "*If we work together, we'll lower the cost of living for everyone…we'll give the world an opportunity to see what it's like to save and have a better life* (Sam Walton, walmartstores.com, 2010).

In the target USA markets that made Walmart a success, consumers agreed with Sam Walton's vision. To duplicate its USA strategy in China, Walmart would have had to have begun market penetration in Tier 3 and 4 cities and small towns. In these markets Walmart would have encountered both a lack of purchasing power and infrastructure. Walmart would also have needed to undertake the process of educating consumers to prefer their staples in name-brand packages as compared to the bulk bins weighed and priced by local merchants. This process is not part of the Walmart USA success story, that work having been done by Sears, Woolworth's and A&P a century ago. However, due to its partnership with SZITIC, Walmart's initial locations in China were the exact opposite, located in the most commercially developed and wealthiest districts. Walmart's first Chinese supercenter was opened in 1996 in Shenzhen, the special economic zone located in southeast China near Hong Kong which is a highly populated, urban area where retail competition is very keen. But Walmart chose, or was forced, to locate in Shenzhen because its joint venture partner was headquartered there.

Walmart now has seven stores in Beijing and some are situated in the most expensive and commercially developed district in the city. The Walmart Supercenter Jianguo Road Branch is in an area which now boasts high status domestic and foreign stores including Tiffanys, Louis Vuitton, Montblanc, Harry Winston and Dior. Affluent Beijing consumers know the difference between luxury and discount and Walmart's brand identity has little appeal for them. Table 3 shows the number and types of cities Walmart entered in China, and the numbers of stores in these cities as of May of 2009. By the end of 2009 Walmart had increased to 175 stores.

Table 3: Distribution of Walmart Stores by City Type-May 2009

City	# of Cities	# of Stores
	Walmart	Walmart
Tier 1 City (4)	3	22
Capital City (34)	19	53
Tier 2 & 3 City (622)	40	71
Total	62	146

Source: Walmart website

Walmart has recently shown some sensitivity to local consumer demographic differences. The company sells a wide variety of take-out meals in its Beijing, Chaoyang store, to accommodate its young professional customers. In contrast it focuses on fresh produce in its Haidian district store because the customers are older and used to preparing home cooked meals.

2.2 Back-end Operations: Transferring the Strategic Asset without Oligopoly

One of the most significant and persistent challenges faced by retail MNCs in China is the implementation of their preferred lean retail model, which includes an integrated supply chain including procurement and distribution practices. Distances are great and the highway system is nascent. Without achieving control over distribution, retailers are unable to control and exert pressure on manufacturers/suppliers prices. Walmart was unable to convince manufacturers to adopt a lean retail model, in part due to the lack of established track-record in China, and in part due to the lack of the oligopolistic position they enjoy in their U.S. markets. The failure in implementing their tried and true distribution strategies in China put them at a disadvantage with insufficient local market knowledge. In the subsequent section, we examine organizational characteristics of Walmart's procurement and distribution and logistics systems. We then discuss supplier relations and Guanxi and conclude with comments about information technology.

2.2.1 Procurement, Basic Infrastructure and Distribution and Logistics Strategy

> *Mr. Lee [Wal-Mart China's supply chain director], insists that a US-inspired modern supply chain will make the Chinese operation more efficient and profitable. "If you can centralise distribution, instead of 200 deliveries a day (to stores), you*

can make two (deliveries) and the goods go straight to shelves (instead of sitting in the store room)"(Rigby, 2007, 10).

Procurement

Walmart uses the same centralized procurement concept in China that it does in the USA. After establishing a Walmart Global Procurement Center (WMGP) in Shenzhen in 2002, purchase orders for all products manufactured in China moved from USA headquarters to the WMGP, which sources and negotiates for new products and sets prices with manufacturers. Centralization has been very effective and Walmart's strength as a global buyer is unsurpassed particularly for its success in globalizing procurement activities for the USA market. Researchers in economics have identified Walmart as an oligopsonistic retailer and explain that "oligopsony, i.e. oligopoly of the demand side, has detrimental consequences on the bargaining power of manufacturers and food suppliers" (Aoyama 2007, 472).

But this rigid, centralized purchasing system gives Walmart very little flexibility to respond quickly to fluctuations in the variable Chinese market. Walmart has begun to modify its procurement system by establishing five regional purchasing centers. Two of them focus entirely on domestic procurement, and report to the Shenzhen headquarters directly; one is located in the south and the other is located in the north. All product selections, price negotiations, display, and promotion events in China are controlled by the Purchasing Centers. Each provincial capital that has outlets has a purchasing office as well. Exhibit 1 shows Walmart new procurement structure.

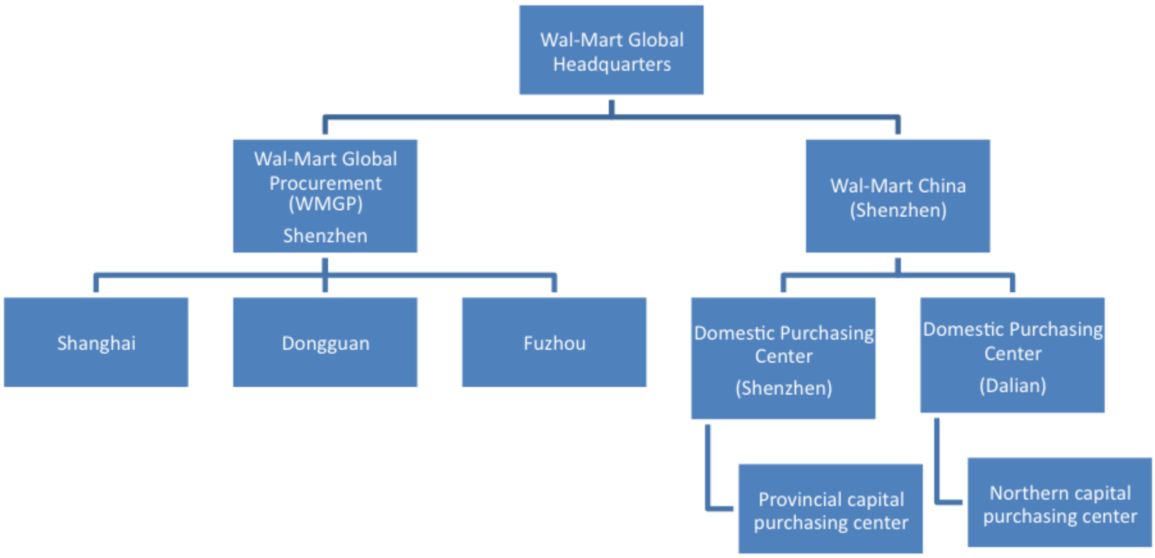

Exhibit #1: Wal-Mart Procurement Structure in China

Basic Infrastructure and Distribution and Logistics Strategy

Walmart's competitive advantage is to sell the same products for less than its competitors. By utilizing a state-of-the-art distributions and logistics system, the chain is able to lower inventory and supply chain costs. The flexibility and efficiency of its centralized distribution and cross-docking systems contribute heavily to Walmart's success in its home market. With over 130 distribution centers (DCs) in the USA, and an established interstate network of well-maintained roads, Walmart can get goods from a distribution center to any outlet in less than a day.

Some of the Chinese outlets are over 1,000 miles away from the nearest distribution center. Coupled with the underdeveloped highway system, this makes the USA one-day strategy impossible in China. The national highway system is fairly new, for before 1997, China rarely had expressways that covered long distances. China and the USA are of comparable sizes, but by the end of 2004 China's 20,572 miles of expressways were less than half of the 46,000 miles found in the USA. While China's interstate systems are expected to overtake the USA by 2020 (MacLeod, 2006), its road system is clearly an obstacle to efficient procurement and distribution. In addition to these physical limitations, local protectionism practices and regionalism, inter-provincial customs, clearances and laws make a speedy delivery system impossible.

With the vast number of stores in the USA, Walmart also enjoys the economies of scale not yet possible in China. Each DC serves about 120 stores within a one-day driving distance. In China however, cities have restricted the number of market entries. By 2005 Walmart only had 43 stores, showing little evidence that they would become a major force. The store number increased speedily to 175 (see Table #3) by the end of 2009 due to the lifting of restrictions to comply with the WTO timetable. But the inefficient use of Walmart's DCs in China makes its logistics cost relatively higher than its Chinese competitors.

Due to the underdeveloped infrastructure in China, Walmart encourages, but does not force, its local suppliers to deliver merchandise to the DCs. As it does not have its own truck fleet, as it does in the USA, it contracts for the transportation of goods from the DCs to the outlets. One of the suppliers we interviewed in China hired a third party to manage all the logistics of getting merchandise to Walmart's outlets directly, instead of to the DCs, as a cost-saving measure. The supplier's firm is one of the biggest commodity manufacturing companies in China owned by the government. Clearly, the transportation-and-delivery system that Walmart employs in China is less efficient than its USA operation, where its fleet of trucks, the largest in the world, not only picks up goods from manufacturers, but also delivers them to the outlets.

2.2.2 Chinese *Guanxi* Culture and Supplier Relationships

Low prices are the key to Walmart's marketing efforts. Consequently, Walmart pressures its suppliers to find all possible ways to cut costs. However, this has had a negative effect on the company's relations with reputable factories in China. Many factories are now starting to demand higher prices or subcontract the low-priced orders to less reputable manufacturers, leading to decreased accountability and worker safety. According to WalmartWatch (2007), China's largest hosiery manufacturer, Yiwu's Langsha Group, announced in July of 2007 that it would no longer fill Walmart's low priced orders. Langsha had filled more than $5 million dollars worth of Walmart orders in two of the prior three years. In order to continue the relationship, Walmart began paying the higher prices that Langsha demanded, and their business arrangement continued, with Langsha fulfilling orders (WalmartWatch, 2007).

Unlike purchasing products from suppliers directly in the USA, Walmart negotiates price and supply with intermediary trading companies in China. In November 2007, hoping to get better deals, Walmart attempted to implement a direct purchasing model. However, according to our interviewee comments, due to the risks and cost concerns of working with the chain directly, suppliers rejected the plan.

To date Walmart has been unable to gain the strong bargaining power it enjoys in the USA due to its small size relative to the Chinese market. Its revenues are still low when compared to its major competitors, the top five retailers have between double and triple Walmart's sales. However, more and more local suppliers have begun appreciating the supply chain management knowledge and practice that Walmart shares with them. Walmart claims that it had always treated its suppliers as partners, helping them improve the efficiency and effectiveness of their supply-chain management, and the local suppliers we interviewed all confirmed this to be true. They agreed that the "Walmart way" improved how they managed their inventory. Walmart also implements a strict standard and procedure on procurement, prohibiting its employees from accepting gifts or dinners from its suppliers. Because of this, there is little corruption in the process. More detailed procurement strategies will be discussed in the following section.

Walmart has developed strong relationships with the central government, but due to local protectionist practices, the company's representatives still have a way to go to fully understand the Chinese market. Guanxi, or an association facilitated by the exchange of mutual favors freely and often given, is an important part of doing business in China, and a better understanding of the social relationships between partners would greatly benefit Walmart executives in developing long-term, mutually successful dealings with local governments and suppliers. Walmart's success in the USA began by expanding into small communities first in the southern USA and then in other regions that eagerly accepted the firm's value proposition based on price and completeness of its retail offerings. Its model has been to build the same store with the same products run by the same employees, everywhere. Objections to the elimination of local entrepreneurs have always been trumped by Walmart's customer value proposition. Once zoning approval was granted, Walmart did not need to worry about social relationships with the local community beyond sponsoring events and avoiding scandal; they achieved immediate oligopoly. Not having embraced the Chinese version of Guanxi, it is not surprising that Walmart has continued to mishandle local relationships in China.

2.2.3 Information Systems

Walmart has enjoyed a world-wide competitive advantage with its state-of-the-art information system. It owns a private satellite system and its Information Technology Center is the second largest in the USA. The use of electronic data interchange (EDI) and point of sale (POS) systems has allowed Walmart to share its daily sales information with its suppliers. By implementing cross-docking warehouse strategy at its DCs, the merchandise remains there no longer than 15 hours before it is distributed to the outlets. With the largest truck fleet in the USA, each Walmart outlet has its stock replenished twice a week.

However, the information technology (IT) environment in China is still at a nascent stage and most suppliers do business by fax and telephone. From the onset, Walmart has attempted to educate and train Chinese suppliers to adopt "Retail Link," the system that efficiently managed inventory replenishment for the chain in the USA. Most suppliers initially refused to install an EDI system due to the high cost. Recently, Walmart's efforts have become much more successful. According to our interviewees, all suppliers in China now are either fully or partially integrated with Walmart's Retail Link system to fulfill Walmart's orders. But getting suppliers to use the EDI is only the starting point. Another challenge is the integration of the distribution and logistics between suppliers and the DCs and then from the DCs to the outlets. Only a small number of suppliers, as noted earlier, deliver merchandise to Walmart's DCs. At the same time, Walmart's advanced IT system can only be fully utilized if the Chinese government continues to successfully invest in their transportation and IT infrastructure.

III. Conclusion, Limitations And Directions For Future Research

The experiences of Walmart illustrate the challenges retail MNCs face as they attempt to successfully solve the structural paradox (Aoyoma 2007) that arose as they attempted to transfer their price leadership customer value proposition to China. Cost leadership requires lean retailing practices that have proven difficult to achieve because of various host country conditions. In each case, these retail MNCs executed strategies with a belief that appeal to prices was universal and prices alone would win customers. Thus, localization and differentiation were often at odds with each other. This study also shows the importance of integration of front-end and back-end operations in achieving success in new markets. Significant barriers exist for retail MNCs to transfer oligopoly and oligopsony across markets to China. We conclude that they continue to face considerable challenges in transferring strategic assets developed in their home markets to China.

The lifting of restrictions for foreign retail business in December, 2004 created the opportunity for retail MNCs to extend their operations throughout China. The record, to date, for the world's the largest MNC retailer has been unimpressive. Our analysis applies Aoyama's (2007) structural paradox model which focuses on the tension between standardization and localization as retail giants attempt to extend their success in new markets by establishing oligopolies and oligopsonies. Their strategies are based on a cost leadership customer value proposition which fosters lean retailing practices. Although some progress has been made, lean retailing in China remains a vision rather than a reality for both firms.

Walmart has had a variety of development, procurement and distribution problems which have negatively affected standardization. This study supports Aoyama's (2007) assertion that the integration of front-end and back-end strategies presents a paradox for MNCs attempting to extend their hegemony to new markets. Walmart has struggled to deliver on their almost legendary lean retailing abilities. In the case of Walmart, the major challenge was to encourage standardization without their trade mark distribution and logistics system. The attempts at successful standardization have so far been thwarted due to an underdeveloped infrastructure. Walmart's market entry was also flawed because its choice of a Chinese partner limited its geographic penetration. Walmart's strategy was risk-averse and it carefully followed China's laws and regulations only to face protectionist practices by local governments. Furthermore, Walmart may have been over-confident in its power over local suppliers. They seemed to have believed that their market share elsewhere would have an effect even though they were a small player in China.

Our study has identified key standardization and localization issues faced by the two leading global retail MNCs in China: partnership alliances, under-developed infrastructure; immature technology environment, market segmentation, Guanxi culture, protectionism and local competitors. Without a doubt, MNCs encounter stiff competition from regional and national domestic rivals. The Chinese retailers thoroughly understand local customs and consumers and have long-established relationships with suppliers and local governments based on Guanxi. From their foreign rivals, they are learning and implementing new front-end and back-end techniques.

Several issues need to be considered for future research. First, this paper focuses on qualitative analysis of the current retailing situation in Chinese market; future research may explore the potential market opportunities by using quantitative methods. Second, much needs to be done to understand the economies of the smaller cities which have been little studied. Evidence suggests that these cities may present the next opportunity for expansion of MNCs. Finally, because Walmart has found the right mix of standardization and localization in China, research at the granular level which reports specific instances of success and failure is needed. The experiences of Walmart , as well as our interviewees' inputs, should help those wishing to explore the uniqueness of the Chinese market and the challenges that will be encountered when expanding their businesses in China.

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