

Wal-Mart's
ChallengeIncrease in the retailer's Brazil net sales
in 2013's fourth quarter

▲5.3%



▼3.4%

Decline in its store traffic as many locals
remain cool to one-stop shopping

has the best deals on cleaning supplies, but only on Wednesdays, when they're on sale. And a local street fair is where she finds the cheapest produce. One place the store-hopper hasn't tried is Walmart. "I've seen their ads on TV, and their prices don't seem that much better than everyone else's," she says. "It's a question of savings. Most Brazilians don't make very much and we need to save where we can."

Two decades after entering South America's biggest market, **Wal-Mart Stores'** Brazil unit is still struggling to connect with consumers and losing money. While the company's relentless focus on everyday low prices helped it become the world's largest retailer, the strategy isn't working in Brazil where shoppers routinely hit multiple stores to snag the best deals on every item.

The retail giant is battling competition from **Carrefour** and **Casino**, French retailers that have bought local chains and readily embraced Brazilians' penchant for promotions and bargain hunting. Despite having more than 550 stores in almost 200 Brazilian cities, Wal-Mart hasn't integrated the systems and logistics of its local chains enough to wring out costs as it has done so effectively back home. And some of its large stores are outside the urban neighborhoods where many shoppers live. In its fourth-quarter earnings released in February, Wal-Mart reported that while net sales in Brazil grew 5.3 percent, traffic to stores declined 3.4 percent. "Brazil feels hopeless," says Michael Exstein, an analyst for Credit Suisse in New York, who called Wal-Mart's

international division a distraction.

Spokesman Kevin Gardner wrote in an e-mail that the retailer is "pleased" with sales of food and other consumables in Brazil, which he said represent the bulk of business there. Wal-Mart continues to work on everyday low pricing in Brazil, he said, adding that a local e-commerce website, which made its debut in October, has shown early signs of success.

Wal-Mart executives have said the company needs to more clearly explain its pricing to Brazilian shoppers eager to stretch paychecks that average about \$900 a month. Chief Executive Officer Doug McMillon, who ran the international division for five years, acknowledged at an October analysts' meeting that "we're not making the most" of Brazil, where the company has had four local CEOs in a decade.

Better communication is probably beside the point, says Thales Teixeira, a Harvard Business School professor, because Brazilians will shop at several stores if that's what it takes to get the lowest prices. "They're cherry-picking the promotions. They care more about that and less about Wal-Mart's one-stop shopping convenience," says Teixeira, who grew up in Brasilia. "At Wal-Mart, they're finding a fair price for their basket, but it's not necessarily the lowest price for all the items in it."

Sticking with the everyday low price strategy is hurting the company, says Richard Cathcart, a retail analyst at Banco Espirito Santo de Investimento in São Paulo. The hyperinflation of the 1980s that once drove Brazilians

to stock up at large stores such as Wal-Mart's no longer exists. "People would get paid, and then they would go to the hypermarket and buy as much as they could for the whole month—that is not the situation anymore," Cathcart says. "You either have to bring people in by changing their culture and the way they like to shop or you're stuck."

Wal-Mart's push overseas was supposed to offset slowing growth at home. That hasn't happened. In the fiscal year ended Jan. 31, the international division eked out about a 1 percent sales growth, down from some 7 percent the previous year and 15 percent the year before that. An examination by Brazilian tax authorities led to assessments that trimmed earnings, as did worker lawsuits triggered by Wal-Mart's cost-cutting efforts. The company is contesting some of the tax assessments and is fighting the lawsuits.

It's not Wal-Mart's first stumble overseas. The company sold its German and South Korean units in 2006, following years of disappointing results. Last year, it dissolved a joint venture in India amid local restrictions on foreign investment there. And facing stiff competition in China, Wal-Mart is closing 29 underperforming stores and battling perceptions its food is unsafe after fox DNA recently showed up in meat it sold as donkey.

Despite Wal-Mart's struggles, Brazil has been a strong market for other multinationals including **Procter & Gamble** and **Nike**. **Coca-Cola** has had years of success and growth there, **Domino's Pizza** continues to expand, and **Dunkin' Brands Group** is opening 65 stores. "Companies understand conditions aren't ideal but decide it's still worth it," says Mauro Guillen, a management professor at the University of Pennsylvania's Wharton School.

"However difficult the Brazil bureaucracy may be, other foreign retailers have figured it out."

That means Wal-Mart must win over more shoppers such as Keiko Kusano, a 63-year-old night nurse recently checking prices on irons at a Walmart in São Paulo. She says she's skeptical about claims the company's prices are the lowest and only stops by Walmart because it's close

to her house. Kusano ends up leaving the store without buying the iron. The reason is simple: She's planning to go to Extra and Carrefour next to check their prices. — *Renee Dudley, Christiana Sciaudone, and Jessica Brice*

The bottom line Despite having more than 550 stores in Brazil, Wal-Mart has struggled to win over local shoppers.

Retail

Why Wal-Mart Hasn't
Conquered Brazil

- Its everyday low price strategy falls flat in a country that favors sales
- "They care...less about Wal-Mart's one-stop shopping convenience"

When asked where she does her shopping, Ivanira de Pontes Duarte, a 51-year-old maid in São Paulo, says it depends on what she's looking for. If she needs olive oil, a small shop in the middle of her two-hour commute is her go-to spot. Hypermarket chain Extra, a unit of France's **Casino Guichard-Perrachon**,

FROM LEFT: PAULO FRIDMAN/BLOOMBERG (2); ROBERT LATOUR/REX USA

