

Chapter 38: Exam practice question

Walmart inches into India

1 Define the following terms:

a diseconomies of scale

(2)

These are negative factors that make operations more expensive or less efficient as a business grows. They may include internal and/or external factors. Internal factors may include reduced control or co-ordination, less efficient communication, deterioration in working relationships within a larger organisation, complacency and increased bureaucracy. External factors may include land scarcity and an increase in prices if too many businesses locate in one area, lack of qualified workers and transport congestion.

b joint venture.

(2)

This is a separate legal entity set up by two other businesses, combining their expertise and sharing the costs, control, risks and eventual profits/losses.

Apply **Resources table 3a** mark band descriptors.

2 Produce a SWOT analysis for Walmart's decision to expand into India.

(6)

Due to the 4-aspect nature of SWOT, 8 points are more usual in IB marking.

It is, however, sometimes possible for IB marks to be amended for special reasons or where the total marks for a question need to add up to a set maximum.

Strengths (internal):

- Walmart have an established office in India which can do market research, strategic analysis, and lobby the government
- long experience and international experience
- access to large amounts of capital

Weaknesses (internal):

- diseconomies of scale when expand so far from HQ
- lack of core competence (USP) which would allow them to differentiate themselves

Opportunities (external):

- huge potential market – second most populated country in the world
- 200 million middle income consumers
- market not saturated
- legal restrictions may be dropped
- joint venture with local companies to circumvent laws preventing foreign retailers from owning shops

Threats (external):

- Indian tradition of buying from small stores and market traders
- local competition – Reliance hypermarkets
- weak supply chains

6 marks:

Balanced analysis with at least one valid point made under each SWOT heading and use of business terminology. It must be recognised that strengths and weaknesses are internal and opportunities and threats are external factors.

0 marks for basic recognition of each SWOT element.

1 mark for each valid point made under each heading.

FOR INFORMATION ONLY: more usual marking for an 8-point SWOT:

Balanced analysis with at least **two** valid points made under each SWOT heading and use of business terminology. It must be recognised that strengths and weaknesses are internal and opportunities and threats are external factors.

1 mark for basic recognition of what SWOT stands for.

1 additional mark for each valid point made, up to a maximum of two under each heading.

- 3** Use Porter's Five Forces model to analyse the business environment Walmart will encounter in India if it is allowed to open its own retail stores. **(6)**

Define Porter's Five Forces model: a framework that analyses an industry as being influenced by five forces. It can be used to establish competitive advantage over rivals, to better understand the industry and to take appropriate strategic decisions. Competitive rivalry is the focus of the other four forces: threat of entry, supplier power, buyer power, threat of substitutes.

Threat of entry:

- Local businesses have fewer restrictions on entering the market.
- The longer it takes Walmart to gain government clearance, the more likely that local businesses may be better prepared or be first to open a hypermarket.
- It is not easy for a local business to enter this market as it requires significant capital to open hypermarkets.

Buyer power:

- Local buyers traditionally prefer small retailers and market stalls.

Threat of substitutes:

- This does not mean substitute products in the same industry – it refers to substitute products in other industries. In the food supply industry it could, for example, mean extension of online business to supply groceries. This is not mentioned in the case study.

Competitive rivalry:

- This is a combination of the other four factors. It sums up the ‘whole picture’.

HL: apply **Resources table 2** mark band descriptors.

A justified conclusion is **not** required.

4 Evaluate Walmart’s strategy of expanding into emerging economy markets. **(9)**

Define emerging economy: these are countries in the world that are experiencing fast growth and industrialisation.

For:

- potential profits
- non-saturated markets
- less competition, so potentially greater margins to be made
- few alternatives left for expansion for very big international companies
- lower costs, e.g. land and labour
- may be government incentives in some countries to set up there (e.g. tax breaks or grants)
- less restrictive laws in some countries
- any other relevant point

Against:

- lack of supporting local infrastructure
- weak supply chains
- communication problems far from HQ
- culture clash
- local laws restricting foreign ownership
- language
- lack of local knowledge/contacts/influence
- substantial investment needed prior to being able to start
- any other relevant point

HL: apply **Resources table 2** mark band descriptors.

A justified conclusion is usually required for a 9-mark question.