In Mexico, Wal-Mart Is Defying Its Critics
Low Prices Boost Its Sales and Popularity in Developing Markets
By JOHN LYONS
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JUCHITÁN, Mexico -- For as long as anyone can remember, shopping for many items in this Zapotec Indian town meant lousy selection and high prices. Most families live on less than $4,000 a year. Little wonder that this provincial corner of Oaxaca, historically famous for keeping outsiders at bay, welcomed the arrival of Wal-Mart.

Back home in the U.S., Wal-Mart Stores Inc. is known not only for its relentless focus on low prices but also for its many critics, who assail it for everything from the wages it pays to its role in homogenizing American culture. But while its growth in the U.S. is slowing, Wal-Mart is striking gold south of the border, largely free from all the criticism. Like Wal-Mart fans in less affluent parts of America, most shoppers in developing countries are much more concerned about the cost of medicine and microwaves than the cultural incursions of a multinational corporation.

That fact is making Wal-Mart a dominant force in Latin America. Wal-Mart de México SAB, a publicly traded subsidiary, is not only the biggest private employer in Mexico -- it's the biggest single retailer in Latin America. Sales at Wal-Mex, as the Mexican unit is called, are forecast to rise 16% to $21 billion this year, representing a quarter of Wal-Mart's foreign revenue. International revenue soared 30% to $77.1 billion, accounting for 22% of Wal-Mart's sales, in the fiscal year ended Jan. 31. Wal-Mex profits are forecast to grow 20% to $1.3 billion this year.

Meanwhile, Wal-Mart's biggest stumbles have occurred in more affluent foreign markets like Japan. It incurred roughly $1 billion in charges last year to depart Germany and South Korea.

Wal-Mart is now betting on the world's most populated developing nations as its engine for future growth. The retailer is acquiring a retail chain in China, for instance, and seeking to open in India, where it's been kept at bay, with new local partners.

"Wal-Mart can have a dramatic effect in emerging markets," says Mark Husson, who covers Wal-Mart for HSBC Securities. "If you look where Wal-Mart has been less successful, it's the developed economies like Germany and Japan, where you have sophisticated urban dwellers who have a whole host of other concerns."

Wal-Mart's revenues in the U.S. grew 7.8% last year. In an attempt to import some of Wal-Mex's success, the company promoted Eduardo Castro-Wright, a top Wal-Mex executive from 2001 to 2005, to serve as chief executive of its U.S. stores. Mr. Castro-Wright is also a board member of Dow Jones & Co., publisher of The Wall Street Journal.

When Wal-Mart was building a store in Juchitán in 2005, local shopkeepers and leftist groups tried to rouse popular sentiment against the American invader. The efforts failed, and by the end of opening day sales were so strong "the place looked like it had been looted," says Max Jimenez, the store's 31-year-old manager. The store's sales nearly doubled Wal-Mart's initial projections last year, and it still attracts customers from hours away.

Wal-Mart bet on Mexico just as the country was opening to global trade. After Mexico's devastating currency crash and economic collapse in 1994, Sears Roebuck & Co. and former rival Kmart both pulled up stakes, but Wal-Mart stuck it out. Carrefour SA, a key global rival for Wal-Mart, pulled out in 2005 after failing to gain share in an increasingly competitive market.

A Counterweight
In Mexico, Wal-Mart has been a counterweight to the powers that control commerce. One of the most closed economies in the world until the late 1980s, Mexico was dominated for decades by a handful of big grocers and retailers. All were members of a national retailing association called ANTAD, and cutthroat competition was taboo. At the local level, towns are still hostage to local bosses, known here as caciques, the Indian word for local strongmen who control politics and commerce.

Wal-Mart's jobs pay well by Mexican standards and serve as a gateway to the state health and pension systems. Full-time jobs with regular salaries are scarce. About half Mexico's labor force -- 20 million people -- work in a so-called informal economy of day laborers, unregistered taxi drivers and street vendors. Their salaries are in cash and they pay no taxes. Because they aren't in the tax system, they are also not eligible for the state-run health-care system and government mortgage subsidies, and they have no pensions.

In a country where family connections often matter more than skill, Wal-Mart trains floor workers to rise to management. Plus, Wal-Mart lowered prices on thousands of staples from tomatoes to diapers, helping stretch low wages here for millions of middle-class and poor consumers.

The retailer entered Mexico in 1991, teaming up with local retailer Cifra SA. When Wal-Mart started to publish price comparisons showing how much cheaper its prices were, other retailers were outraged. In 2002, Wal-Mex was forced to resign from ANTAD. Then rivals were forced to improve service and keep up with price cuts to stay in business. In January alone, Wal-Mart cut prices on 7,500 items.

Some in Mexico aren't happy with the fact that Wal-Mart now accounts for half of the country's entire supermarket sales. Mexico's beloved open-air food markets, where hawkers buff up the fruit and offer tasty sample slices, have been hit hard. Over the past few years, local shopkeepers have teamed up with leftist intellectuals to try to block the construction of new Wal-Marts in several places.

"When the small-business owner goes out of business, the middle class gets smaller," says Sebastián Alvarez, a 34-year-old liquor-store owner who is part of a group in the tourist mecca of Los Cabos, at the southern tip of the Baja California peninsula, seeking to block a Wal-Mart. Though opposition is small today, he said he expects criticism of Wal-Mart to grow in coming years -- just as it did over time in the U.S.

For now, however, such efforts have been largely unsuccessful. Global Exchange, a San Francisco-based antiglobalization group, is advising Mr. Alvarez and others in Los Cabos who want to prevent Wal-Mart from entering Baja California Sur, the only Mexican state without a Wal-Mart store. The group figured it might sway the town's new left-wing mayor, Luis Diaz, a member of a political party that opposes free trade.

But Mr. Diaz is welcoming the American retailer. "I can understand that some businesses might be hurt by Wal-Mart, but the fact is that the people here want it. It increases the purchasing power of people with very little money," Mr. Diaz says in an interview.

**Hero With Politicians**

Wal-Mart's success among the poor of Mexico has made it something of a hero with politicians here. Compare how Wal-Mart's applications to move into banking were received in the U.S. and in Mexico. North of the border, labor unions and banks have all but killed the plan. U.S. Federal Reserve Chairman Ben Bernanke raised concerns about regulating a combined lender and retailer.

In contrast, Mexico's central banker Guillermo Ortiz is a Wal-Mart fan, once crediting its price cutting with helping control inflation in the years after Mexico's 1994 currency collapse. Mr. Ortiz and other regulators hope Wal-Mart will change Mexican banking, which is dominated by a few foreign-owned financial firms.
that cater mainly to the wealthy. Wal-Mart got its Mexican banking license quickly, and branches of its Adelante bank (which means "forward" in Spanish) are set to open this year.

Wal-Mart's success in Mexico is on display in Juchitán, a sun-soaked desert village of 90,000 residents near southern Oaxaca state's Pacific coast. The town, a hotbed of left-wing politics, fought off the Aztecs, the Spanish and the invading French over the centuries. Many people here still prefer to speak Zapotec rather than Spanish.

When Wal-Mart started to build one of its "Bodega Aurrera" stores -- austere versions of the Super Center designed to meet small-town needs -- a scattering of marchers gathered on a few days to protest that the new store would put local merchants out of business, and harm the local culture. But the protests died out because most people wanted the store, the first big national retailer to venture in.

In Juchitán, as in other small Mexican towns, consumer goods often cost far more than in cities, partly because of transport costs. But Wal-Mart's huge fleet of trucks and computerized logistics allow it to sell a microwave at the same price in Juchitán as in Mexico City. To do it, Wal-Mart squeezes out overhead even more aggressively in its small-town stores. The floors of the Bodega store are concrete, which requires a smaller cleaning staff.

In recent months, as rising prices for U.S. corn pushed up the price of Mexico's corn tortilla, a staple for millions of poor, Wal-Mart could keep tortilla prices largely steady because of its long-term contracts with corn-flour suppliers. The crisis turned into free advertising for Wal-Mart, as new shoppers lined up for the cheaper tortillas.

Wal-Mart also overcame a Juchitán cacique, or local boss: Héctor Matus, a trained doctor who goes by La Garnacha, the name for a fried tortilla snack popular in town. Dr. Matus, 55, owns six pharmacies, stationery stores and general stores. He has also held an array of political posts, including Juchitán mayor and state health minister. As town mayor from 2002 to 2004, he says he blocked a national medical-testing chain from opening in town because it meant low-price competition to local businessmen doing blood work.

But Dr. Matus couldn't persuade local and state officials to block Wal-Mart, and he is feeling the pinch. Sales are off 15% at his stores since Wal-Mart arrived, and he is now lowering prices in response. Even so, he's still more expensive. A box of Losec stomach medicine costs 80 pesos ($7.30) at one of Dr. Matus's stores, marked down from 86 pesos. The price at Wal-Mart is 77 pesos ($7.20).

Dr. Matus isn't happy about the competition. "I could still kick them out of town, because I know how to mobilize people," he said, sitting in his living room surrounded by pictures of him with leading Mexican politicians dating back to the 1970s. Despite his bravado, town officials say Wal-Mart is staying. "The ones who have benefited the most [from Wal-Mart] are the poorest," says Feliciano Santiago, the deputy mayor. "I hope another one comes."

Fitting In

When Wal-Mart opened its doors here, it tried hard to fit in. It found Zapotec-speaking interviewers to put applicants at ease. At the morning sales meeting here, the obligatory Wal-Mart cheer is shouted in Zapotec
"Gimme a W!" is "Dane Ná Ti W!"). Product announcements are broadcast in Zapotec by saleswomen in traditional flowing skirts and ornate blouses. Shoppers hear the strident trumpets and cymbal clashes of local tunes, called *sones de Tehuantepec*.

In Mexican towns like Juchitán, shopping at a Wal-Mart is a high-end experience. The air conditioning and lights are on. Across town at an outdoor market, flies swarm on buckets of shrimp and fish piled on counters without ice, let alone refrigeration.

Gisela López, the 31-year-old head of billing at the Juchitán store, benefited from the retailer's system of promoting from within. Raised by her uneducated, Zapotec-speaking grandparents, Ms. López earned a computer degree at Juchitán's small technical college and then left for the booming northern city of Monterrey in search of opportunity.

Lacking connections, she couldn't find the office job she dreamed about, and took a job at one of Wal-Mart's stores. After three months, Ms. López made cashier supervisor, and later moved over to the billing department. When Wal-Mart opened a store in Juchitán, Ms. López jumped at the chance to move home -- and was promoted to billing chief in the process.

"It's a very different place to work, because you can succeed by your own effort," says Ms. López, whose $12,000-a-year salary now puts her in Mexico's middle class.

Ms. López's story of economic mobility is a rare one. Most of her childhood friends don't have steady jobs, she said. The success stories are friends who inherited jobs from their parents at the state oil company's big refinery in Salina Cruz, about an hour away.

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BORDER CROSSING

- **The Situation:** As its growth slows in the U.S., Wal-Mart is turning its attention to developing countries, such as Mexico, India and China.

- **The Debate:** Critics fear the retail giant could harm local markets and traditions. But the stores have been welcomed by workers and consumers.

- **What's Next:** An antiglobalization group is seeking to rally opposition to Wal-Mart in Baja California Sur.

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