Carrefour: Opportunities in Mexico (C)

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Introduction:

1995 was not a stellar year for the Mexican economy. Interest rates rose to well over 50% and inflation spiked up to 52%. The economy which was expected to have increased by four or five percent in 1995 instead contracted over 7%. The Bolsa index was down 26% in dollar terms and political scandals were mounting. Interest rates were, however, falling, and job losses had been halted, suggesting that the Mexican economy may have bottomed out. Indeed, some analysts were predicting a 20% rise in dollar terms of the Bolsa Mexicana de Valores, however most economic forecasters were looking for expansion of no more than 2%.[1]

The end of 1994 had heralded a new era in the retail climate when the peso was devalued in order to slow the over-heated Mexican economy. The cost of imported merchandise rose by over 40% overnight while wages were held to increases below that of inflation. Same store sales for the largest retailers plummeted more than 19% as same store sales for department and specialty stores dropped more than 35%. For retailers which had financed their expansion with debt, the combination of a decline in sales and sky-rocketing interest rates created a precarious situation.

The devaluation of the peso at the end of 1994 and other governmental programs designed to slow the inflationary Mexican economy had muted the price advantage so important to Wal-Mart. Prices were no longer as competitive or attractive to the Mexican consumer. In addition, it was increasingly difficult to keep stores stocked, especially with items made in Mexico with imported components. Wal-Mart operated 11 supercenters and 22 SAM's clubs in Mexico and had plans to open another 13 SAM's clubs and 12 Supercenters in 1995.