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TEACHING CASE

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Tesco Strikes Out into Asia

Abstract The case looks at the internationalisation of Tesco PLC, a successful UK retailing business, and in particular how and why it has gone about developing its business in Southeast/East Asia. The case is suitable for use with final year undergraduate and especially postgraduate students, in either corporate strategy or international business modules. The case follows Tesco's moves into Thailand, South Korea, and most recently China. It is found that the methods of entry to the new markets/countries and strategies used post-entry have varied country by country, culture by culture. The strategies adopted are found not to have been universally successful, which raises questions as to why that may be. It is expected that students will be able to identify the entry methods and reasons for their use; determine the business strategies adopted country by country, explore why they may differ, and locate the influences of the varying cultures. They will be expected to assess how successful Tesco has been in these processes. Finally, they should explore the question whether the giant China market can indeed be "an ultimate prize" and if so how it should best be tackled. For the time being, South Korea is arguably the most successful part of the company's Asian push.

Keywords retailing, internationalisation, FDI, joint venture (JV), business strategies, East Asia, China

1 Introduction

Tesco is a UK-based, multinational retailer in what was the grocery business but

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has now become the supermarket business as the product range expanded far beyond groceries. They are the largest such business in the UK ahead of the other big players such as Sainsbury, Morrison, Asda (the UK operation of Wal-Mart) and Waitrose. Indeed their product range, like their big rivals', has gone beyond the supermarket trade to encompass petrol selling, usually on large integrated sites with plenty of space for a supermarket hall and adjacent filling station, and banking/financial services. For most of its 20th century existence, Tesco was a UK business, initially with a strong southern bias, which prospered and grew until its aim became to be "the number one grocer in the UK." That objective was achieved at least a decade ago and then in the late 20th century they began an aggressive program of internationalization, perhaps because one country can only consume so many groceries, meat and so on. As well as a change of corporate level strategy to embrace an international element, the business level strategy had changed from what the founder, Jack Cohen, famously described as "pile 'em high and sell 'em cheap" to what would be called a "mixed strategy" in modern, corporate strategic parlance, based on cost leadership and differentiation, see Porter (1985).

By 2010, Tesco had established a significant overseas wing, built primarily in Eastern Europe and East/Southeast (E./S.E.) Asia, comprising about 30 percent of the overall business by volume. The business model was primarily rooted in foreign direct investment (FDI) with a franchise deal later on in India, with Tata Group. The three biggest operations in E./S.E. Asia are in order South Korea, Thailand and China by sales volume, although China, simply by virtue of its great size and population, could ultimately be the venue with the greatest long term growth potential.

The publicly claimed strategy as presented to shareholders in the *Annual Review* (2010: 10) was outlined thus:

> "Tesco has a well-established and consistent strategy for growth. The rationale for the strategy is to broaden the scope of the business to enable it to deliver strong, sustainable long-term growth by following customers into large expanding markets at home–such as financial services, non-food and telecoms–and new markets abroad, initially in Central Europe and Asia and more recently in the United States.
>
> The strategy has five elements, reflecting our four established areas of focus plus Tesco's commitments on community and the environment:
> • to be a successful international retailer;

- to grow the core UK business;
- to be as strong in non-food as in food;
- to develop retailing services; and
- to put community at the heart of what we do."

Overall group sales in the year ended February 2010 were some £62.5bn according to the 2010 *Annual Review*, this figure was made up from UK sales of £42.3bn (67.7%), European sales of £10bn (16%), Asian sales of £9.1bn (14.6%), U.S. sales of £0.4bn (0.6%) and banking revenues of £0.9bn (1.4%). These sales revenues gave rise to "underlying profit before tax" of £3.4bn, comprised proportionately by UK (71%), International (22%) and Banking (7%). Thus banking had chipped in a bit more than its share in profit terms. (Summary accounts for 2010 are shown in Appendix 1). These financial returns were delivered by over 470,000 staff working in just over 4,800 stores in 14 countries. A brief view of the scale and shape of Tesco's international growth can be gleaned from Table 1 below. Lest it be thought that all they touched had turned to gold, it is worth noting that some of their very earliest essays at international moves (into Eire and France in the period 1979 to the mid-1990s) had ended in tears and withdrawal, see Palmer (2005).

Table 1 Growth of Tesco's International Operations, 2000–2010

Percentage contribution	2000	2002	2002	2004	2010
Turnover (excl. VAT)					
UK	90	85	85	80	68
Rest of Europe	7	9	9	11	16
Asia	3	6	6	9	15
Operating Profit					
UK	95	91	91	83	71
Rest of Europe	5	7	7	10	14
Asia	0	2	2	7	13
Total sales area					
UK	70	58	58	51	35
Rest of Europe	20	25	25	28	30
Asia	10	17	17	21	34

Source: ESRC (2005) and Tesco *Annual Review* (2010).

The move into Asia really began in the 1990s with entry to South Korea and Thailand in that decade, with China in 2004. This case focuses on the methods of entry to and development of those markets. What is interesting is that the details differ among the three countries suggesting that in the language of international

strategy, Tesco has adopted what may be described as a multi-domestic strategy, see e.g., Hill and Jones (1995). The rest of the case looks at the countries one by one starting with Thailand since it was the first of the three to be countries entered, albeit South Korea followed very soon afterwards. Entry to both countries, or at least the timing of the entries, can be seen as attributable to the "Asian (economic) flu" which was at its peak during 1997–1998 (see Haggard, 2000, for the story of the Asian flu). The domestic economies of those two Asian Tigers were suffering and assets were for sale at much more attractive prices than just a year to eighteen months earlier, when their "Tiger" label was still intact.

2 Entry to Thailand

As noted earlier, Tesco entered the Thai market in the late 20th century. In fact the move came in May 1998, when Tesco acquired an initial 75 percent stake in the Lotus stores chain, which had been set up by the Thai conglomerate CP Group. Thailand had a fairly underdeveloped grocery/food, retail environment until the late 1980s, see Ruangrai (2006). Small local retail outlets and the widely available wet-markets were the places in which most Thais shopped for groceries, meat and fish. Fresh milk and bread were not easy to lay hands on. Up to that point such supermarkets as there were found within department stores, such as those of the famous (in Thailand) Central Group, often but not always in the basement or ground floor. The economic boom of the late 1980s into the 1990s witnessed rapid development of Bangkok's suburbs and with them came neighbourhood supermarkets, operated by both domestic Thai firms and foreign companies (albeit in joint ventures—JVs—initially), ranging from Dutch firm Makro to Japan's Seiyu.

Things moved fairly rapidly and one of the first steps was the addition of the Tesco name in front of Lotus to create the Thai market brand "Tesco-Lotus." In the initial acquisition came 13 large supermarkets (or mini-hypermarkets). This moved on quickly so that in their 2010 *Annual Review* Tesco reported some 663 stores across Thailand, see Table 2. By 2010, the stores were no longer focussed only in and around the capital, shops could be found even in medium-sized towns out in Issan the rural heartland of the so-called North-East (this is the great plain area East and North-East of Bangkok bounded to the South by Cambodia and round northwards by Laos, Thailand's rice bowl). The shops in the rural areas might be more modest in size by the standards of the large supermarkets found in the UK or in Bangkok, a kind of Thai-Metro or Express store, a format which became increasingly successful in the Asian region as the decade unfolded (see,

e.g., *The Sunday Times*, 13th April, 2008). As business boomed, Tesco sought to gain complete control over their Thai chain and soon upped their stake to 92 percent by early 1999. In 2003, the process was completed when CP Group, having lost interest in the company, sold its residual share to Tesco. The brand however had been established in Thailand as Tesco-Lotus, so as that it remained. On the other hand, despite the localised branding the message was clear, Tesco-Lotus was a foreign owned company trying to deliver a modern and efficient food retailing service to Thai consumers and placing "Tesco" firmly to the fore emphasised this pitch.

Table 2 Tesco's Asia Region in 2009–2010

Country	Revenue-ex-VAT (£m) [Revenue per employee, £k]	Store numbers	Employees
South Korea	4,162 [183]	305	22,739
Thailand	2,344 [67.4]	663	34,775
China	844 [37.2]	88	22,668
Malaysia	633 [67.3]	32	9,423
Japan	449 [96.8]	142	4,636
Total	8,432 [89.5]	1,230	94,241

Source: Created from data in Tesco *Annual Review,* 2010.

So successful were Tesco in Thailand that in the early years of the 21st century small bombs (or hand grenades) were detonated against their stores by aggrieved players (or their "pals") from the "traditional retail" sector who complained that the value-for money package being delivered was driving them out of business and it "just wasn't fair." They even went so far as to suggest that the government should take action to curb this "unfair competition" but by now Thailand was a member of WTO and anti-foreign regulations were not, and are not, part of the WTO credo. Of course Tesco simply thought they were being efficient both in buying practices and logistics. Even some of the earlier entrants to the supermarket business were being blown away by the likes of Tesco and Carrefour: those who fell were just not efficient. Ruangrai (2006) estimated that over a five year period from 1997 to 2001 (inclusive) the Modern: Traditional split in this market changed from 26:74 to 53:47. "The times they were a changin'," in the words of the Dylan song, and the booming Thai middle class liked what it was being offered! Carrefour was a significant rival to Tesco-Lotus in Tesco's early days in S.E. Asia having entered Thailand in 1996 and building up its store cluster to some 44 prior to its 2010 exit, a departure perhaps brought on by overstretching, by being in too many countries, suggested the *Bangkok*

Post (2010). It had been one of the early foreign entrants, preceded mainly by a small cluster of Japanese retailers including Seiyu and Jusco.

3 South Korean Venture

South Korea presents a picture at first similar to the Thai story but also very different in some respects. It was similar in that Tesco initially entered the country by buying a 51 percent stake, in March 1999, in a business which Samsung had already established, at a time when the domestic economy and even the likes of the mighty Samsung were suffering. Later in 1999, they upped their stake to 81%, so that management control was firmly vested in the Tesco side of the partnership. The joint venture had a very small number of stores initially but grew briskly in its first five years to have some 28 (discount) stores accounting for 2.9 million square feet of selling space by early 2004, and it was fighting for market share against both local retailers (primarily E-Mart and Magnet) and other multinational retailers (most importantly Carrefour and Wal-Mart) as part of a broader restructuring of Korean retailing towards a larger store style of operation. Indeed up to the time of the deregulation, it was estimated that around 80 percent of Korea's retailing (in the South!) was through small scale, family outlets. Related to this the distribution industry supplying retail was weak in structure.

However, other things differed from the Thai picture. The name in Korea is Samsung-Tesco and it is said that sits well with Korean people, and the stores are actually badged "Homeplus," again suggesting a localised aspect to matters. This is important in a country where nationalist sentiment is strong and legislation limiting foreign participation in markets such as retail, up to the time of the Asia flu, could be seen as verging on the mildly xenophobic. Quite simply Korea's retail sector, along with a number of others, was closed to foreign participation until 1995, see ESRC (2005) and Suh and Howard (2009). Even when the regulations were changed to allow foreign companies to invest, it was reported to remain a difficult trading environment for several years and it was the 1997–1998 crisis which effectively opened the door, since the collapse of the Won made assets a cheap buy for MNCs and opened the minds of Korean players, including the government, to the possible benefits of foreign investment. Tesco believed they had entered a good market and the data such as that in Table 2 and other corporate data in the Annual Review suggest they are right but their project would need careful handling. Indeed taking revenue per employee as a marker, Korea's figure above of £183k/employee exceeds even the UK datum of

£134k/employee.

The name is one signal concerning the in-country operating strategy: another is the striking statistic, presented in a Q&A section of the Tesco *Annual Report* (2009) by Philip Clarke, International and IT Director, that, of their staff of over 22,000 in Korea in 2009, only 6 were (British) ex-pats. In other words there was an aggressively localised slant to the management of the business in Korea. This message was underscored by repetition in a "highlight box" in the *Annual Review* (2010: 5) which read:

> We've learnt how to be ''local''; in South Korea, our largest international business, we have over 22,000 employees and just six UK ex-pats.

This process of staff localisation began in a sense with the initial acquisition, at which point all the existing Samsung staff, including the CEO, Lee Seung-Han, were taken over from Samsung by the then predominantly British owned JV. He was the first "local" CEO in a Tesco Asian subsidiary. This approach is in contrast to some of its major competitors who are much keener to have ex-pats in senior management positions, Carrefour being a striking example of this approach. One could say that Tesco operates a kind of creative bi-polar management system with the in-country management very localised and with strong discretion over certain types of decisions but set within an international framework administered from the UK.

The position was summed up in an ESRC (2005) sponsored report in which (p. 3) the authors noted:

> *While in some areas the company has been integrated into Tesco's broader corporate structures (which will be termed "network" embeddedness), in general Tesco's strategy in South Korea is best characterized as one of "strategic localization," with several aspects of the firm's activities being intentionally localized to meet the needs of the political and institutional frameworks, industrial structures, and cultural norms and expectations of the South Korean market (a series of dynamics here termed "territorial" embeddedness). This is not the same as saying that Tesco will pursue the same kind of strategic localization approach in all its international territories. Instead, it is important to think in terms of differing degrees of both network and territorial embeddedness for different realms of corporate activity in, and between, different country operations.*

One point to make here is that the sharing potential of the globalisation of companies of which Tesco's expansion is a part is not just a Korean-British

exchange. The Korean new recruits were able to be sent to Thailand for training/sharing of the "Lotus" experience, regarding IT systems. According to the Korea Institute for International Economic Policy (Korea IIEP) (2005), the setting up of the Samsung-Tesco JV enabled it to tap into networked information resources that Tesco Plc had developed around the global network. Samsung-Tesco, without taking risks in developing and testing a new IT system "in the battlefield" (the competitive retail market of Korea), was able to adopt a global standard IT system along with related experiences and business know-how that had been developed in Thailand. The stages of the process are set out in Table 3.

Table 3 Content of Stages of IT System Transition

Stage 1, *Survey*: July to December 1999 30 managers from product/operation/accounting/IT were sent to Thailand to review the Lotus system. Korean version of Lotus was established and Korean manual was developed. **Stage 2**, *Education*: December 1999 to February 2000 60 trainers were sent to Thailand to experience actual operation of the system. **Stage 3**, *Adoption*: January to May 2000 Change management project launched to minimize the friction from the transition.

Source: Korea IIEP (2005)

The fundamental pitch of the Homeplus chain is what they call a "value store" but the English term best representing their conjoint pitch of pressure on prices combined with quality produce for the consumer is value-for-money (VFM), perhaps most famously espoused by Marks & Spencer. This VFM pitch is different from being simply a discount store chain as Suh and Howard (2009) clearly note.

To deliver this VFM deal for customers, it is possible to identify four strands to the operating strategy of Samsung-Tesco:

(1) Tesco delivers transferable, technocratic skills for the retailing world into Korea. These range from approaches to evaluate site-selections; through soft technology for supply chain management, supported by existing, British sourced IT and logistics systems; to store layout expertise, with due regard for local mores. Around the supply chain, the company has sought to build relations with manufacturers and suppliers with the aim of reducing costs to as low a level as possible consistent with maintaining friendly relations–typically not as low as they achieve in the UK.

(2) Local tastes are catered for in the product range both in terms of the types of products offered, food and non-food (a U.S. style global approach does not play well in Korea), the desired freshness of perishable foodstuffs, and the pleasant environment for the shopper seen as a sine qua non by Korean shoppers. A large proportion of the produce is sourced from within Korea; where there are imports of fresh goods—to ensure continuity of supply—they come mainly from China. Own Brand goods are increasingly being developed.

(3) Sites selected have typically been in the hearts of cities or towns. This is in contrast to the policies adopted other foreign, hypermarket operators, who have tended to locate themselves in the suburbs, as indeed Tesco frequently did and does in Thailand. The view of the competition is that one goes "out" to find sites at acceptable costs, especially since land prices are high in urban Korea. The Samsung-Tesco alternate view is that the even more important thing is get an optimal site, with good access to mass transit systems, from which to serve their local customers.

(4) The company has sought to foster a hybrid corporate culture, recognising the strengths of both the local Korean people and the British parent. As the *Korea Times* (8th January, 2001) reported, in order to secure local employee loyalty to the company, CEO Lee has sought to create a new organizational culture, which combines the "Shinbaram (excitement)" culture of Korea with a more "rational" British business culture. In another newspaper he was quoted as saying, "Korean customers want the human touch and the customer-friendliness. We have combined the best of Tesco and the western way and the best of Samsung and the eastern way. Tesco has brought us professionalism and logistical strength but we have kept our Korean qualities." (*Financial Times* 11th January 2002, p.28).

Growth continued apace, first organically and then boosted in 2008 by the acquisition of 36 (according to *The Guardian*, *The Times* said 39) hypermarkets, run under the Homever brand by E-land Group, for a consideration of £958m, see Finch (2008), with 20 of the 36 being in the key Seoul and Gyeonggi locations and typical sizes being 80k sq ft. These added hypermarkets joined a stock of 66 hypermarkets and 72 Homeplus Express outlets Finch states. Thus, as in Thailand, the Express format had come in to partner the big shop format. These stores added 3m sq ft of retail space together with another 1.3m sq ft of adjacent shopping mall space, although it was feared that the Korean competition regulator might well require some sell-offs since the new deal would install

Samsung-Tesco to be neck and neck with local operator Shinsegae. By the end of the 2009/10 financial year, the Tesco Board reported to shareholders that the acquired stores were safely bedded in and trading profitably within the local subsidiary. This was significant since the Homever stores had had a chequered history. They were originally Carrefour's but were then acquired by E-land when the French giant pulled out of Korea. E-land in turn had experienced difficulty in making them operate profitably, but the Homeplus format seemed to be working.

4 The Move to China, the New Superpower

4.1 The Background in China

The market into which Tesco was now moving was both potentially huge on the one hand but less than easy on the other hand. China indeed has a huge population of around 1.3 billion souls but many are relatively poor and live in countryside areas, and hence are not potential customers for the more upmarket type of shopping which foreign retailers such as Tesco represent. The main centres of affluence, at least by China's standards, are in the big cities and in particular the big cities of the more developed eastern region, of which the most obvious are Beijing, Shanghai, Tianjin, Guangzhou and Shenzhen.

Table 4 below sets out trends in some key indicator data for the retail trade: namely, all for the period 2000–2009, the growth rate of China's GDP; the growth rate in retail sales; and, per capita income for urban and rural areas (in RMB). These GDP data show that there was sustained rapid growth over the decade and that retail sales grew even faster, as discretionary spending money became more evident. Similarly, per capita income grew such that nominal incomes were up by almost a factor of three but the rural dwellers' relative incomes diminished slightly over the period, emphasising the importance of the developed urban areas for incoming foreign retailers.

Table 4 Contextual Data for the Retail Trade in China 2000–2009

Indicator	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Real growth in GDP (%)	8.4	8.3	9.1	10.0	10.1	10.4	11.6	13.0	9.0	8.7
Retail sales growth (%)	9.7	10.1	11.8	9.1	13.3	12.9	13.7	16.8	21.6	15.5
Income/cap urban (RMB)	6280	6860	7703	8472	9422	10493	11760	13786	15781	17175
Income/cap rural (RMB)	2253	2366	2476	2622	2936	3254	3587	4140	4761	5153

Source: Compiled from data located at www.uschina.org/statistics/economy.html

By 2010, estimates suggested that at least 45 percent of China's population lived in urban areas, compared to 34 percent in Thailand and 82 percent in South Korea (*Whitaker's Almanack*, 2013). The comparable figures for western developed countries such as the UK and the U.S. were 90 percent and 82.3 percent respectively.

All of this serves to underscore the latent demand in China for companies such as Tesco driven by basic economic principles, provided they can adapt successfully to local conditions, together with a social trend towards urban shoppers using large, more up-market stores, even for food shopping. This social trend is underpinned across all retail sectors by the desire of some to engage in what is known in the west as "conspicuous consumption." That may mean paying more for one's food in a posh supermarket or it may mean buying a new Mercedes or Ferrari mainly to show that one has the money to buy it.

Some of the major competitors for Tesco are: from the foreign firms, Wal-Mart (284 stores in China by April 2010, including 172 Supercenters), Carrefour (around 160 stores at the same time) and Metro (from Germany, with under 100 stores); and local competitor Beijing Hualian Group (more than 80 stores of over 10k square metres in 35 cities by 2007). At least in some people's minds the Tesco, Carrefour, Wal-Mart competitive nexus is at the heart of the long-term struggle for China's evolving supermarket trade; local firms will also compete but these three foreign "behemoths" will set standards (Hall, 2009). Hall also provides the interesting snippet that Shenyang in Liaoning Province is one of the few cities in the world where the three compete head-to-head.

However, it is not always easy for foreign firms in what are for them alien environments. Up to China's access to the WTO in 2001, retailing had been categorised as a restricted business segment and all foreign invested enterprises (FIEs) wishing to engage in retailing had to do so via a JV with a Chinese partner. Post WTO, this has no longer been required since 2005. Nevertheless there are other regulatory requirements in China which may prove tricky for FIEs as will be mentioned later. It is also a fact of life that logistics costs tend to be higher than Tesco may find in the UK or Carrefour in France. Part of this is the size of the country and hence the long distances between centres.

Finally, if a foreign retailer falls foul of some regulation or law, it may be subjected to some harsh public criticism. For example, in 2008 there were demonstrations outside Carrefour stores in at least nine major cities driven by anti-French sentiment, regarding some political issues linked to Tibet, rather than anything the retailer had done in its retailing work. Very recently it was reported that Carrefour would be subjected to a fine of at least 50,000 yuan and possibly

as much as 500,000 yuan for failing to charge correct prices (the tills were ringing up charges which differed from prices as displayed on the shelves), see Cordeiro (2012). Perhaps more important for the foreign retailer was the emphatic, perhaps humiliating, reporting of the events by the official China news agency Xinhua. Nor are such problems limited to the French, Wal-Mart faced strong criticism when a number of its employees were arrested in Chongqing, charged with mislabelling ordinary pork meat as organically produced meat over a two year period (Lee, 2011). Such stories destroy trust in the minds of China's consummers.

4.2 Tesco's Entry and Strategy in China

The initial move into China by Tesco in 2004 was affected via purchase of a 50 percent stake in hypermarket/supermarket trader Hymall, for a consideration of £140m, from Chinese company Ting Hsin. This stake was raised to 90 percent in December 2006. This deal delivered a JV which initially operated 25 hypermarkets in the "rich" eastern coastal area of China. This appears to represent a classic posture for the western investor into the PRC (People's Republic of China): an operation capable of delivering some economies of scale in the rich, tier 1 cities of the East, of which the most important are Beijing, Shanghai and Guangzhou. As noted in the last sub-section, the JV model was an inevitable consequence of China's ownership laws at that juncture, albeit regulation of the retail sector had eased markedly with their accession to WTO membership in 2001. Things would change by the end of the decade however in at least two important ways; unit scale/types would be widened—up and down the size scale—and the targeted locus for operation would also change, as the text highlight box below illustrates:

On 9th April, 2008, Tesco launched a new element of its China growth strategy: They opened their first Tesco Express store to complement their previous hypermarket offering. The Store was located in Cangzhou Road in the Yang pu district of Shanghai and the man in charge of the run-out of the new, smaller size, convenience style store was Yorkshireman, Ian Longden, see *The Sunday Times*, 13th April, 2008. The moral seemed clear, in China at least, ex-pat staff, expert in a particular aspect of the retail business had their role to play even six thousand miles from home in a country whose culture many see as radically different from that of the UK. No more than a year later the new initiative unveiled to the buying public was at the other end of the scale, a Lifespace shopping mall—see the highlight box in Table 5.

Table 5 Lifespace—Our Unique Approach in China

The size and scale of China provides unique challenges for a retailer but also offers a huge opportunity for a business prepared to show flexibility and vision. Our strategy is to expand into less developed second and third tier cities by opening hypermarkets in leading shopping malls. We've found it hard to find locations with the right facilities in some cities—giving us an opportunity to develop our own malls, to ensure they are the right size, location and design to meet the needs of the new Chinese consumer. During the year we opened our first three Tesco Lifespace shopping malls in Fushun (*in Liaoning*), Qingdao (*in Shandong*) and Qinhuangdao (*in Hebei*) and we will open nine more this year. Each mall comprises approximately 500,000 sq ft of retail space over five floors and is a one-stop destination providing shopping (including a 100,000 sq ft Tesco hypermarket), entertainment, dining and leisure. We are partnering with investors to share the capital commitment on some of these projects, enabling us to roll out more sites faster.

Source: Tesco *Annual Review* (2010, p.12)

By February 2010, the total number of Tesco outlets in the PRC had reached 88 and over 20,000 staff were employed. One notable point was that the sales per employee yield for China was the lowest of any of its E./S.E. Asian operations, perhaps unsurprising in comparison with South Korea but less understandable versus Thailand perhaps-China's per capita GNI in 2008 was 2/3rds that of Thailand and the proportion of urban dwellers in China is slightly higher (40 to 33 percent), see Foster (2011).

The mix was about 90:10 big to Express size stores. The shopping mall projects such as that involving the three initial sites referred to in the highlight box were planned to be operated via a series of JVs according to Browning's (2009) piece on *Bloomberg*. The piece continues that the initial venture was being made in conjunction with "HSBC Nan Fung Chan Real Estate Fund, Metro Holdings Ltd and Nan Fung Group in Hong Kong who [would] own 50 percent of the project." The core urban areas of the cities highlighted above have populations of around 2m, 2.3m and 0.8m respectively-their wider municipal areas have larger populations twice or treble those of the core city. At the time of that article's writing in early November 2009, it claimed that the total operating cluster of Tesco in China comprised 65 (large) supermarkets and 6 small Express type outlets. Thus the uplift to 88 opened stores by the time of the 2010 *Annual Review*, 3–4 months later, was indeed a surge of some magnitude.

As in Thailand and South Korea there are some localisation issues in China. A story is told of a man going into a new store in Shanghai and, on seeing a tray of ready minced meat, asking how he could be sure the produce was fresh! He

argued that seeing was believing: this is an amusing anecdote, albeit one full of underlying meaning. Other systematic aspects of Tesco's store localisation include (Hall, 2009):

- In some less developed areas (hence with lower levels of car ownership) the company provides a free minibus service to bring shoppers to their big stores.
- Fresh vegetables and meat are sold in an environment which, to a non-Chinese observer, seems more akin to the local wet markets than the somewhat sanitised interiors found in European supermarkets.
- Live fish are displayed for sale in water-tanks (even in Hong Kong supermarkets this is not the norm).
- Quirky products such as coffee flavoured tea are on sale.
- In initial Lifestyle malls (see above), such as the one in the Tie Yi area of Shenyang and the early Qingdao opening, the floor design is that Tesco's own selling space begins on the first floor with the ground floor let out to other retailers chosen by Tesco "to complement its product offer," and as we shall see later not everyone thinks this was a good piece of design.

Further, own brand product sales grew by a factor of ten over the period 2007–2010, 148m units up from 15m, see Towle (2010).

5 Concluding Comments to This Point

Tesco had made a major breakthrough into the E./S.E. Asian supermarket (suitably defined) sector by 2010. Its proportion of profit as compared to sales from Asia was slightly but not worryingly down compared to the home UK engine but the region certainly was yielding a decent profit, unlike some non-grocery-based UK retailers, e.g., Kingfisher officially claimed to have lost money in China in the financial years 07/08, 08/09 and 09/10, see *Kingfisher Annual Reports* (2008, 2009, 2010). The model was not identical in the three countries examined in this case: there had been a degree of localisation within the overall international strategy driven from London. As noted here plans to grow the business further in the region existed, especially in China now officially the second biggest economy in the world, as well as in their most recent area of tentative action, the U.S. Coe and Lee (2006) ponder in their conclusion, in essence, the potential for a regional E./S.E. Asian strategy for Tesco, as distinct from simply a national-global dichotomy.

Some of the key questions still facing the international team in London seem to include: how successful they can be; where and how they should be growing; and whether they have really cracked the cross-cultural selling barrier if such truly exists. For example in the matter of the local/expatriate mix in management is the approach in Korea necessarily right for China or Thailand? At least initially, Tesco opted for a British top manager, with a Tesco veteran Ken Towle as the President CEO for China. [There is literature which suggests there may not be any one "right answer" to this question, see for example Hutton (1988) and Foster and Tseng (2012).] One piece of information, indicative of recent corporate thinking, emerged just as the first draft of this case was completed. It was reported (Hall, 2010) that Tesco was one of several bidders (ten in all, although not all were interested in acquiring all of the stores as a job-lot) seeking to take advantage of Carrefour's decision to exit from what they had decided were for them "minor positions" in Thailand, Malaysia and Singapore. Some 61 stores were for sale and Carrefour were reportedly hoping to realise something like $800m to $1,000m from the sale. On 15th November, *The Bangkok Post* (2010a) reported that the Thai retailer Big-C Supermarkets had succeeded in acquiring 42 stores in the pool located in Thailand for €868m (approximately $1,100m), while *Reuters* referred to the acquirer as French retailer Casino, who in fact have a 63 percent stake in Big-C. Harrison (2010) meanwhile noted in *Retail Week* that Tesco remained a bidder for the remaining stores in Malaysia and Singapore.

6 The Post-2010 Phase

6.1 Tesco Takes Positive Steps

Up to the endpoint of the first phase of the case (as above), Tesco's biggest East Asian business by far in revenue terms was in South Korea although it had more outlets and staff in Thailand. Looking forward, in broad aggregate market terms, China could be a potentially bigger market but not always an easy one for retailers to exploit, as Kingfisher found, see Foster and Tseng (2012). Not only are there regulatory and cultural attuning issues to handle but there is a more subtle question of whether China can be developed as a single market utilising a single policy. Could it be that China, huge and diverse as it is, needs to be handled as several markets requiring differing approaches, just as the Thai model had to be tailored and developed for South Korea? By spring 2012, Tesco had publicly identified, as their target market, a subset of China running down the east coast from Liaoning in the North to Guangdong and round to Guangxi on the south coast, with a population of 600m (*Annual Report 2012*). This area is in turn

broken down into 3 sub-regions designated North, East (centred on Shanghai) and South. The initial appointments to lead these regions saw two ex-pats as Vice Presidents of the North and East Regions (Messrs Baker and Reid), with Winnie Liu as the VP for South Region. By the end of 2010, each region had at least one fresh food distribution centre per region as a component of the integrated supply chain to which the company was and is committed (Towle, 2010).

Table 6 shows the continued growth in the East Asian countries in which Tesco already has a major operation, while the plan is to exit Japan, viewed as a difficult market.

Table 6 Activity in Tesco's Asia Region in 2010/11 compared with 2009/2010

Country	Revenue-ex-VAT (£m)		Store numbers		Employees	
	2010	2011	2010	2011	2010	2011
South Korea	4,162	4,984	305	354	22,739	23,131
Thailand	2,344	2,844	663	782	34,775	38,395
China	844	1,141	88	105	22,668	27,096
Malaysia	633	794	32	38	9,423	11,023
Japan†	449	476	142	140	4,636	4,367
Total	8,432	10,278*	1,230	1,419	94,241	104,071

Source: Created from data in Tesco *Annual Reports,* 2010 and 2011.

Note: * This increased revenue generated a trading profit of £570m.

† The 2012 report notes that the Japan business is going to be sold off.

As Table 6 together with Tables 1 and 2 shows, the Asian sector of the business already accounts for a significant proportion of the overall operation and is growing briskly but as Tesco themselves admit in their 2011 *Annual Report* (p.13):

> *South Korea [is] our largest international business; Homeplus already generates £5 billion of revenue. Yet, if Homeplus were to grow to have the same proportion of the total retail market that Tesco has achieved in the UK, the business would be more than three times as large as it is today.*

Nevertheless, the data in Appendix 3 suggest that Asia, especially South Korea, is well on the way in terms of at least one sales productivity measure.

6.2 But Some Problems Arise—Is China a Sure Bet?

In 2012, Tesco's fair weather progress in Asia suffered some setbacks. As noted before, they had determined upon a strategic withdrawal from Japan but now problems hit both in South Korea and China. In South Korea, a change in Sunday

trading laws saw hypermarkets required to close on at least two Sundays per month, hitting Tesco among others hard. Their hours have also been restricted on other days, but it is Sunday which accounts for twenty percent of retail sales in South Korea which is hitting hardest, see e.g. Creevy (2012). It was reported that these measures were at least in part due to complaints of "unfair" competition from smaller retailers. On August 23rd, Tesco announced the successful completion of a sale and leaseback transaction in South Korea, embracing four of its Homeplus stores plus accompanying mall floorspace. The deal was between Homeplus Co. Ltd, Tesco's key, local subsidiary and a consortium of investors led by IGIS Asset Management, a local leader in retail property investment, and was said to be worth in excess of £300m (see *Tesco News Release*, 23rd August, 2012).

In China meanwhile, trading had become more difficult. In July, the *Financial Times* ran a piece under the heading "Tesco scales down ambitions for China," Rabinovitch and Felsted (2012), which included a graphic portrait of a semi-deserted store in Qingdao on the coast of Shandong. But Tesco's spokesman affirmed their commitment to China. Nevertheless, the negative rumours persisted leading to the company having to make another denial on September 20th, as did French retailer Carrefour (Zhang, 2012). This need for a pattern of statements of commitment reflected local reports such as that by Zhang that foreign retailers were feeling the heat.

So what was the real story? Tesco has admitted to scaling back its proposed rate of growth in China but asserts it is committed for the long-haul. There will be fewer openings than were presaged in 2010. Moreover, some analysts suggest (see Bloomberg News, 19th October, 2012) that Tesco and other foreign retailers are not as nimble and "savvy" about operating in local markets as some of their local competitors. This may be true in some ways and less so in others. Certainly the location of supermarket selling space on the first rather than the ground floor in Qingdao may well be a mistake (Rabinovitch and Felsted, 2012) and the quoted local opponent Liqun may well have a brand recognition/loyalty advantage but why did that Tesco store experience some difficulties sourcing supplies (and if one then why not others)? A reliable, but unattributable, source within China indicated to us that supplies were being artificially bought up or blocked from Tesco. This causes one to wonder whether there may have been a systematic, and possibly "officially approved," program of interference with the supply chain of the foreign retailer, different in form but similar in intent to the kind of problems which suddenly hit B&Q around 2007, just when they felt their business was starting to boom (Foster and Tseng, 2012). Whether attacking tier 2 and 3 cities is prudent for a foreign retailer remains an open and key issue.

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Appendix 1 Summary Accounts for Year ended February 2010

Table A1 Summary Group Income Statement for 52 Weeks Ended 27 February 2010

	2010(£m)	2009 Restated (£m)(*)
Continuing operations		
Revenue (sales excluding VAT)	56,910	53,898
Cost of sales	(52,303)	(49,713)
Gross profit	4,607	4,185
Administrative expenses	(1,527)	(1,252)
Profit arising on property-related items	377	236
Operating profit	3,457	3,169
Share of post-tax profits of joint ventures and associates	33	110

(*To be continued*)

(*Continued*)

	2010(£m)	2009 Restated (£m)(*)
Finance income	265	116
Finance costs	(579)	(478)
Profit before tax	3,176	2,917
Taxation	(840)	(779)
Profit for the year	2,336	2,138
Attributable to:		
Owners of the parent	2,327	2,133
Minority interests	9	5
Aggregate	2,336	2,138
Earnings per share		
Basic	29.33p	27.14p
Diluted	29.19p	26.96p

Table A2 Non-GAAP Measure: Underlying Profit Before Tax

	2010 (£m)	2009 Restated (£m) (*)
Profit before tax	3,176	2,917
Adjustments for:		
IAS 32 and IAS 39 "Financial Instruments"– fair value remeasurements	(151)	88
IAS 19 Non-cash Group Income Statement charge for pensions	24	27
IAS 17 "Leases"—Impact of annual uplifts in rent and rent-free periods	41	27
IFRS 3 Amortisation charge from intangibles arising on acquisition	127	32
IFRIC 13 "Customer Loyalty Programmes" – fair value of awards	14	33
Exceptional items:		
IAS 36 Impairment of goodwill arising on acquisitions	131	–
Restructuring costs	33	–
Underlying profit before tax	3,395	3,124

Table A3 Summary Group Balance Sheet at 27 February 2010

	2010 (£m)	2009 Restated (£m) (*)
Non-current assets	34,258	32,085
Current assets (including non-current assets held for sale)	11,765	13,479
Current liabilities	(16,015)	(17,595)
Net current liabilities	(4,250)	(4,116)
Total assets less current liabilities	30,008	27,969

(*To be continued*)

(*Continued*)

	2010 (£m)	2009 Restated (£m) (*)
Non-current liabilities	(15,327)	(15,063)
Net assets	14,681	12,906
Equity attributable to owners of the parent	14,596	12,849
Minority interests	85	57
Total equity	14,681	12,906

Note: **Balance sheet** Net assets increased by £1,775 million to £14,681 million. Non-current assets increased by £2,173 million, after charging depreciation and amortisation of £1,384 million.
Group capital expenditure was £3.1 billion. UK capital expenditure was £1.5 billion. Tesco Bank capital expenditure was £0.1 billion. Total international capital expenditure rose to £1.5 billion, £0.8 billion in Asia, £0.6 billion in Europe and £0.1 billion in the US. In the year ahead [they] forecast
Group capital expenditure [would] be around £3.5 billion.
(*) See Notes to Accounts in Annual Report for basis of restatement

Source: *Annual Review* (2010).

Appendix 2 Country Data for Tesco's Economic Footprint

Country	Store numbers as at Feb 2010	Population (m)	GNI ($bn)	Urban resident percentage
South Korea	305	48	955.8	81.0
Thailand	663	65	193.7	33.0
China	88	1300	2621.0	40.5
Malaysia	32	26	171.5	68.0
Japan	142	127	4828.9	66.0
India	*	1130	909.1	28.7

Note: *Tesco currently operates in India via an exclusive franchise agreement with Trent, the retail arm of the Tata Group. They are supporting the development of Trent's Star Bazaar format. In addition they plan to open a first cash and carry store by the end of 2010.

Source: Created from data in *Whitaker's Almanack*, 2010.

Appendix 3 Intra-Regional Country Comparisons

Table B1 Comparative Data Asia Region In 2009/10 And 2010/11, With UK Baseline

Country	Revenue-ex-VAT (£m)		Store numbers		Employees	
	2010	2011	2010	2011	2010	2011
South Korea	4,162	4,984	305	354	22,739	23,131
Thailand	2,344	2,844	663	782	34,775	38,395
China	844	1,141	88	105	22,668	27,096
Malaysia	633	794	32	38	9,423	11,023
Japan	449	476	142	140	4,636	4,367
Total-Asia	8,432	10,278	1,230	1,419	94,241	104,071
Asia\South Korea	4,270	5,294	925	1,065	71,502	80.940
UK	38,558	40,766	2,482	2,715	287,669	293,676

Table B2 Revenue per Employee 2009/10 Versus 2010/11

Country	Revenue/employee, £k		Percentage Increase
	2010	2011	
South Korea	183.0	215.5	17.76
Thailand	67.4	74.1	9.95
China	37.2	42.1	13.17
Malaysia	67.2	72.0	7.14
Japan	96.8	109.0	12.60
Total-Asia	89. 5	98.8	10.39
Asia\S Korea	59.7	65.4	9.55
UK	134.0	138.8	3.58

Source: Created from data in Tesco *Annual Reports,* 2010 and 2011.