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The Localisation Process of Carrefour in Taiwan

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1. Introduction

The purpose of this thesis is to thoroughly understand the localisation process of Carrefour in Taiwan and to discuss the key factors to successfully adjust store formats and operating systems to the local market.

Carrefour is the world's second largest retailer as well as the largest French retailer, operating 9,200 stores in 30 countries. In 2001, the largest French retailer posted consolidated sales of 69.5 billion euros of which 51% was generated by international business. Its core store format is the hypermarket which extensively handles food and non-food items at low prices under one roof. Their first operation in Asia was Taiwan where the first store was opened in 1989. This was rather late when compared to their entries into Spain in 1973 and Brazil in 1974, both of which marked the early internationalisation period (Table 1). Carrefour's business expansion in Asia picked up in the latter half of the 1990s, encouraged by their success in Taiwan. So far, the French retailer has deployed to nine countries/areas (Hong Kong was abandoned in 2000) and 105 hypermarkets were being operated at the end of 2001.

The ultimate goal of our research is to conceptualise the retail internationalisation process through an accurate understanding of the reality of global retailers' overseas operations. However, facing the difficulties of collecting useful data and conducting feasible surveys, we chose the method of obtaining in-depth data through case studies as the first step of research. The case study of Carrefour in Taiwan should be useful to understand the localization process of foreign retailers in Asia as it is the first and most successful operation by a global food retailer in Asia. ⁽²⁾

Table- 1 : Carrefour: The number of stores in Asia

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Taiwan	1	1	4	5	7	8	10	13	17	21	23	24	26
Malaysia						1	1	2	3	5	6	6	6
China							2	3	7	14	20	24	24
Korea								3	3	6	12	20	22
Thai								2	6	7	9	11	15
Hong Kong								1	2	4	4		
Singapore									1	1	1	1	1
Indonesia										1	5	7	8
Japan												1	3
Total	1	1	4	5	7	9	13	24	39	59	80	94	105

Sources: Annual reports.

2. Retail trends in Taiwan

(1) Retail market situation

Based upon the *Monthly Statistics of Current Commerce* published by the Statistics Department, Ministry of Economic Affairs of Taiwan, there are five different types of stores categorized as “general stores” (Standard Categories of Business Types of Republic of China, revised in April 1998). They are department stores, supermarkets, convenience stores, hypermarkets, and other types of general stores. The growth of hypermarkets as well as convenience stores is remarkable. The total sales of hypermarkets in 2001 was 160.07 billion NT dollars (about 608.2 billion yen at the exchange rate 1 NT dollar=3.8 yen). This is an increase of 3.1 times over the 1994 sales of 50.4 NT dollars. The sales share of hypermarkets in the general stores category leaped from 16.5% in 1994 to 25.8% in 2001. This is second to department stores (Table 2). However, the growth rate has slowed in recent years. This is due to the deterioration of the economy in the short-term and by the maturity of the hypermarket sector in the long-term. The development of hypermarkets quickened after Carrefour and Macro opened their first stores simultaneously in December 1989. As of May 2002, of the 13 major hypermarket operators, there are 109 stores, or one hypermarket for every 240,000 people.

Table- 2 : The amount of sales by general stores in Taiwan Unit: billion NT dollars (1 NT dollar=3.8yen)

	1994	1995	1996	1997	1998	1999	2000	2001
All general stores	305.023	356.662	399.967	446.165	486.306	543.377	593.289	620.773
Dept. store	113.837	128.858	145.060	157.034	156.691	170.882	185.773	193.111
SM	51.098	55.604	61.423	66.270	72.236	75.719	75.682	78.265

	1994	1995	1996	1997	1998	1999	2000	2001
CVS	41.453	49.203	59.695	71.164	84.805	101.129	110.489	122.987
HM	50.472	65.460	77.497	89.830	108.198	129.336	151.230	160.070
Others	47.963	57.537	56.293	61.867	64.375	66.375	70.154	66.340

Sources: *Commercial Activities Statistics Monthly Report*, January 2002, Edited by the authors.
 Note: ① Although not included in the *Commercial Activities Statistics Monthly Report*, sales by traditional markets and street vendors, which have a big influence to the Taiwan's consumer market was 155.978 billion NT dollars (*Investigation Report of the Street Vendors Operation*, 1998), ② SM: Supermarket, CVS: Convenience Store, HM: Hypermarket.

(2) Moves of major hypermarket operators

Table 3 lists the 13 major hypermarket operators as of May 2002. The top four operators in sales are all run by foreign capital, of which the top three operators, Jia Le Fu (Carrefour), Da Run Fa (Ocean) and Ai Mai Geant (Casino), are managed by the French retailers. Carrefour takes the top of the list with annual sales of 45 billion NT dollars, which accounts for 20% of the total sales of all hypermarkets. The largest hypermarket operator is second in total retail sales ranking for Taiwan. First place is occupied by President Chain Stores Corporation, which manages 7-Eleven convenience stores managed by the President Enterprises Group with annual sales of 64.788 billion NT dollars.

Table-3 : Trend of major hypermarkets in Taiwan (as of May 2002)

Names of Stores	Date o First Store Opening	Number of stores	2001 Sales (Billion NT dollars)	Capital	Locations of stores
Carrefour	1989. 12	27	45.000	France: Carrefour 60%, Taiwan: President Enterprises Group 31% (9% of stocks was sold to Bank of Holland in 2001)	Throughout the country
RT-MART	1996. 9	15	9.771	France: Auchan 67%, Taiwan: President Enterprises Group 32% (Stocks were sold to Auchan Group in February 2001)	Same as above
(Ya Tai)	1995. 1	3	7.713	Purchased by RT-MART in 1998	Northern and, Southern areas
(Da Mai Jia)	1994. 6	3	5.173	Tied up with RT-MART in 1997.	Middle and, Southern areas
Ai Mai Geant	1990. 9	12	14.531	Casino of France and Far Eastern Corp. of Taiwan merged in July 2000	Centered around Northern area

Names of Stores	Date o First Store Opening	Number of stores	2001 Sales (Billion NT dollars)	Capital	Locations of stores
Wan Ke long (Makro)	1989. 12	9	9.000	Merger of Macro of Holland, Charoen Pokohand of Thailand And Holinsgreen Group	Same as above
Gao Fong	1975. 4	9	**4.000	Taiwan capital	Centered around Northern area
Wan Jia Fu	1993. 4	6	3.911	Same as above	Western Taiwan
Cyuan Mai	1994. 1	6	—	Same as above	Centered around Middle/Southern areas
Cian Hui	1995. 1	4	—	Same as above	Middle area
Si Ha Hui	1995. 8	4	—	Same as above	Eastern area
Da Lo (DOLLARS)	1992. 3	3	—	Same as above	Southern area
Hao Shin Duo (COSTCO)	1997. 1	3	—	Merger of COSTCO of USA and Da Tong Group of Taiwan	Northern and, Southern areas
Te Yi Gou (TESCO)	2000. 12	3	—	UK TESCO 100%	Northern and, Southern areas
Da Sing Long	1991. 12	*2	—	Taiwan capital	Northern and, Middle areas

Source: Made by the authors based on: *Business Weekly*, 13 May 2002, *Commonwealth Magazine*, 26 Apr. 2002, *Distribution News Magazine*: 20 May 2001 and 20 Jan. 2002, and the home pages of each enterprise.

Note: *Number of stores as of December 2001 **Annual sales for 2000

3. Localisation of Carrefour —three stages of store development

The formal company name of Carrefour in Taiwan is PresiCarre Corp. It is a joint venture company established in 1987 by Carrefour and President Enterprises, Taiwan's largest food manufacturer who also operates 7-Eleven convenience stores. The English company name was derived from the names of the parent companies. As of March 2002, 27 stores are operating under the name of Carrefour around the region. When reviewing its store development history since 1989, we find that the store format strategy has been transformed with changes in the times. First, 5 stores were opened in the initial four years, from 1989-1992. This pace is steady, but not explosive. In addition, the sales areas were limited to 4,300 to 5,600 square meters. These fall in the category of small hypermarkets or large supermarkets. Second, the company began to expand membership warehouse-style stores in 1993. Four warehouse-style stores were opened during the years 1993-1996. The sales areas were increased up to 8,590-12,210 square meters. This is almost double the size of 4 stores

opened in the first four years. Of the 27 stores operating at present, 9 are warehouse-style stores. Third, the pace of store development accelerated with the opening of 11 stores during the 1996-1998 period. In addition to rapid store expansion, the store size significantly enlarged and up-scaling of store format became prominent. The average sales area of hypermarket style stores opened after 1996 are 10300 square meters. This is almost double that of the early stores.

Thus, the localisation process of Carrefour, from the viewpoint of store development, can be divided into three stages: the start-up stage in the 1989-1992 period, the take-off stage in the 1993-1996 period, and the expansion stage in the 1997 and on. We will look into the localisation process according to these three stages.

Table- 4 : List of Stores of Carrefour in Taiwan (As of May 2002)

No.	Location	Name of store	Date of Establishment	Sales Area (sq.m)	Parking Lot	Type of store
1	Kaosing City	Ta Shun	Dec. 1989	5610	400	GS
2	Taipei City	Nan Kang	Jan. 1991	*10890	300	GS
3	Kaosiung City	Shir Chuen	Feb. 1991	5280	300	GS
4	Taipei City	Tien Mou	Oct. 1991	4290	340	GS
5	Taipei County	Pan Chiao	Jul. 1992	5610	300	GS
6	Taipei County	San Chung	Nov. 1993	9570	720	WS
7	Tainan County	Chung Hua	Nov. 1993	7590	360	GS
8	Taoyuan City	Tao Yuan	Mar. 1994	12210	720	WS
9	Taichung City	Chung Ter	Jul. 1995	4290	300	GS
10	Tainan County	Chun Cheng	Oct. 1995	8580	680	WS
11	Kaosiung City	Lover River	Oct. 1996	10890	650	GS
12	Taichung City	Ta Tun	Oct. 1996	9900	700	GS
13	Taipei County	Tam Hsui	Dec. 1996	10890	620	WS
14	Ping tung City	Ping Tung	Jun. 1997	11880	700	GS
15	Hsingchu County	Chupei	Sept. 1997	4950	800	GS
16	Chaiyi City	Chai Yi	Sept. 1997	14850	1000	WS
17	Taipei County	Hsi Chih Store	Sept. 1997	12540	800	WS
18	Tainan County	Hsin Ying	Mar. 1998	7590	520	GS
19	Chungli City	Chung Li	Jul. 1998	14520	1100	WS
20	Kaosiung County	Wu Ghia	Nov. 1998	10890	1000	GS
21	Hualien County	Hua Lien	Dec. 1998	9240	600	GS
22	Taichung County	Chung Shing	Mar. 1999	13200	650	WS
23	Zhanghwa City	Zhang Hwa	Jan. 2000	13200	800	GS
24	Nantao City	Nan Tao	Jul. 2000	9900	600	GS

No.	Location	Name of store	Date of Establishment	Sales Area (sq.m)	Parking Lot	Type of store
25	Taoyuan County	Metro Walk	Jul. 2001	14850	1900	GS
26	Kaosiung County	Chung Shan	Aug. 2001	7920	400	WS
27	Taipei County	Tu Chen	Mar. 2002	---	---	GS

Source: Made by the authors based on: *Distribution News Magazine*, 28 Feb. 2001, 30 Mar. 2002, *Retail Market Monthly*, 25 Jan. 2000 No. 331 & 332, 10 Jul. 2000 No. 342, 10 Jul. 2000 No. 366, 10 Aug. 2001 No. 368.

Note: *Carrefour Nan Kang Store was renovated in June 1996 and sales area was expanded to 10,890 sq. m (*United Daily News*, Issue of 21 Jun. 1996).

**Location of each store can be confirmed by the following URL.

(http://www.carrefour.org.tw/warehouse/wh_1.asp) GS: General store (hypermarket), WS: Warehouse-style store.

4. Start-up stage (1987-1992): Adaptation to locality under decentralized operations

When the liberalization of capital investment in distribution/services businesses was implemented in May 1986, the per capita GNP of Taiwan was slightly more than \$3000. This more than doubled to \$7500 by 1989. However, the retail market remained centred around a few local department stores and numerous small shops. In regards to the convenience store sector in 1986, a modest 120 7-Eleven stores were deployed by President Chain Store Corp. as the top chain operator. As for supermarkets, Dairy Farm International of Hong Kong opened its first store of this kind named "Welcome" in 1987. With respect to hypermarkets, the local firm named Gao Fong began to deploy stores in northern Taiwan, but there were few opened. Carrefour moved into Taiwan during this critical time when the retail market was underdeveloped despite the acceleration of economic growth.

(1) Teaming with the partner in Taiwan

After surveying major countries and locations, Carrefour decided to move into Asia in 1986 and selected Taiwan as the first country for store operations. Mr. Gerard Clerc was responsible for the year and a half onsite feasibility study. Later, as the first president of PresiCarre Corp., Mr. Clerc emphasized the following reasons for selecting Taiwan. One, the per capita GNP was low and the consumption style was not refined, but a high level of growth could be expected. Two, the use of passenger cars to visit stores is in an infant stage, but the spread of motorbikes and scooters is remarkable and deserve a special mention (Courbon & Lasserre, 1999-a).

In fact, the market scales of Hong Kong and Singapore were small and both were in a state of rapid urbanization. The per capita GNP of Korea was low and Japan had the restrictive Large-Scale Store Laws. Taiwan was different in these respects. The liberalization of capital investment in the distribution/service industries took place in 1986 and there was an atmosphere which encouraged the entry of foreign capital being stimulated by the success of Taiheiyo-Sogo Department Store which opened in November 1987 as a joint venture.

Carrefour who was unfamiliar with the Asian markets decided to conduct an onsite

search for a partner while considering the geographical and cultural distance between France and Taiwan. They had no previous business relationships with companies there. The French retailer sought advice from European enterprises already in Taiwan and found President Enterprises, which had been deploying the 7-Eleven convenience store chain since 1979, as a tie-up partner (Kao and Chao, 1995).

Negotiations were conducted cautiously. President Enterprises showed interest in the management of the joint venture company since their basic business strategy was to vertically integrate businesses from production through retailing in the food field. But the French retailer did not welcome a partner's intervention in management and personnel affairs and demanded to be autonomous in managing the joint venture. The ratio of investment within the joint venture is a delicate matter. Initially, Carrefour demanded a 100% subsidiary or establishment of a joint venture in which Carrefour secured 70-80% capital investment. As a result, it was agreed that the Taiwanese company secured 40% capital investment and would cooperate only to provide their trust built up in Taiwan, information gathering expertise and investment. The French company would totally manage the joint venture. Thus, a clear-cut division of roles and responsibilities between the two companies was established (*Uni-President Enterprises Monthly*, 1 Oct. 1987).

This relationship between the two companies was a typical arm's length relationship. Carrefour's expansion to Taiwan meant an increase in new sales channels for President Enterprises. The relationship didn't bring better transactions for both President Enterprises, the seller, and Carrefour, the buyer, since their operations were independent from one another.

(2) Development of small stores

Ta Shun, the first store, opened at Kaosiung City, the biggest metropolis in southern Taiwan. During the next 3 years, a total of five stores were opened in two metropolis areas, Taipei and Kaosiung. This number was not bad for a start up, but it took two years to open the first store. It was not a case of all fair winds and flowing seas to get started. The factors which annoyed Mr. Clerc, the first president, most were difficulties experienced when opening new stores and issues related to establishing the standardized concept of business. The sales area of the first store was 5,600 square meters. This is small for a hypermarket. Clerc and his staff originally planned to secure a 10,000 square meter shop area and a 1,000 car parking lot, which are Carrefour's standard. However, the price of land in the Taiwan's metropolitan areas skyrocketed due to rapid growth. A store development manager even experienced 20-30% jump in land values during a negotiation period of several months. Besides, the establishment of large-scale retail stores in residential areas was highly restricted in the metro areas such as Taipei and Kaosiung. Available land for commercial businesses with good location were scarce and property was divided up among many landowners. Large-scale land development was very difficult. Clerc had to reduce the initial investment load by shifting policy from purchasing land to leasing land for store use. He also had to abandon the policy of securing 10,000 square meters per store floor. In the case of Ta Shun, the best Clerc could do was to secure a sales area of approximately 5,600 square meters using one underground and one above-surface floor after setting aside a parking floor (Courbon &

Lasserre, 1999-a).⁽³⁾

Some of the French managers sent from the headquarters insisted on the standard Carrefour business concept of having one large scale shopping area with an outdoor parking lot. But Clerc made a realistic decision based on the belief that the special characteristic of providing one stop shopping offering a variety of food and non-food merchandise could be achieved as far as they adhered to the three basic policies of store operation: low price, freshness, and free parking. These basic policies had been strictly observed in every country for 30 years since Carrefour opened the first hyper-market in a suburb of Paris. The start-up company pushed store opening in residential/commercial buildings due to difficulties finding sites for free-standing stores in the favourable commercial areas. He secured parking floors within buildings and decreased the sales area. For those stores with two shopping floors, an auto-walk system where elevators carry customers and shopping carts was introduced (*ibid.*).

We toured the Tien Mou Store in Taipei City. The store opened in 1991 and is located within a few minutes walk from Jhshan Station on the Tamhsui Line. The station, opened in 1997, is the nearest railway station. This adds a great deal of convenience and compliments the small parking lot, accommodating only 340 cars. The store uses the first and second floors of a medium-sized residence building and the shopping area is a total of 4,290 square meters, which is very small for a hypermarket. The neighbourhood is a residential area, but the surrounding area is a commercial zone. The ceiling is low and the passageways are narrow. There is no feeling of openness in the store, nor massive displays of products. The first floor is allocated to a supermarket and the second floor is occupied by a small scale discount store. We received an impression that this was a large supermarket with an expanded non-food department.

However, we noticed that the store has the standard characteristics of a hypermarket in that the first and second floors are connected by an auto-walk system; the entire store is dotted with advertisements claiming "Specials!", and a lot of service counters are present in the areas where the fresh fish, meat, delicatessen, and in-store bakery are. We observed the store's ideas of adaptation to the region through noting special services provided in consideration of the in-city locality such as super-express check-outs for Carrefour credit card holders and free delivery services for those whose purchases exceed 3,000 NT dollars.

According to the 20 February, 2002 issue of *Distribution News Magazine*, total sales of the Tien Mou Store in 2001 was in the top three among 27 Carrefour stores despite its small shopping area. A survey of the initial 5 stores shows that the three northern stores, Tienmou, Panchiad and Nankang (an enlarged store), have good performances. The stores opened initially are still firmly shouldering the operating foundation of Carrefour.

(3) Decentralised operations

The stores were operated entirely under a decentralized operating system. Operational authority is widely delegated to the store managers and departmental managers such as fresh foods, processed foods, apparel and appliances. Managers make the final decisions in selecting merchandise, plans of sales promotions, inventory control, and personnel management. Initially, the heads of stores were all French. The heads of stores, together with their division chiefs, were under a constant pressure to achieve their sales goals and profit plans

(*JhuoYue Magazine*, Dec. 1992).

In detail, efforts by each store focused on the purchase of good quality fresh foods from local suppliers under the company's competitive policy against rivals. For instance, the stores created a space where fresh fish can be processed in order to maintain freshness and respond to customers' needs. However, internal conflicts between stores regarding purchasing prices and delivery conditions occurred quite often since they independently sought out dedicated suppliers to give them favourable transaction conditions. They did, however, work together at times to negotiate trade deals with makers.

The decentralized operating system had shortcomings, but it helped generate special purchasing efforts in product acquisition to meet the characteristics of local markets. Kaosiung City Shirchuen Store, located near a university hospital, purchased a lot of baby food and supplies, and Tienmou Store of Taipei, located where many foreigners live, prepared a good amount of cheeses, French bread, wines and other imported food products. The main customers of the Nankang Store and Taipei County Panchiad Store are average Taiwan consumers and merchandise for everyday needs are made abundant for them. The Panchiad Store had customers coming from different customer segments on weekends and weekdays. Customers living near the store came several times a week by motorbike or by foot, where customers from Taipei visited on weekends and did their major shopping then (*United Daily News*, Apr. 2, 1993).

There were subtle differences in product assortments among the stores, but there was a common policy of filling the shops with Taiwan's domestic products as much possible to limit imported goods to a minimum because the French retailer wanted to sell domestic products at extremely reduced prices (*Trade United Daily News*, 14 Aug. 1996). The methods adopted to achieve this objective were to focus the number of products at the stores and sell more products at low prices. This way, the company could secure favourable buying conditions. In fact, the image of getting necessities for living at some discounted prices by going to Carrefour stores became widespread among the consumers of Taiwan. They did not visit Carrefour stores to buy things imported from France. The billboards of Carrefour Taiwan, "Jia Le Fu", are in the Chinese language and the local people were not strongly aware that Carrefour was a French store.

(4) Moving into the black

The first store had a good start with profits and losses on a par with the first year. Most of the stores in the early days were located in commercial or residential areas where the population density was high and the stores were small scale. The majority of customers came from a narrow area lying within a 3 kilometre radius. The amount of purchase per visit was about one third that of in France, but the average frequency of visit was rather high, two times a week, so these stores were used like supermarkets. Although the final profit and loss balance was in the red in 1990 and 1991 due to the initial investment load, in 1992, the third year, total sales reached 6 billion NT dollars and the balance sheet switched to the black (Courbon & Lasserre, 1999-a). In June 1993, Mr. Clerc, the first president, for his achievement in Taiwan was promoted to the position of CEO of the Asian headquarters in Hong Kong, and Mr. Jean-Luc Chereau became the second president. (*Economic Daily*

News, 24 Jun., 1993) The achievement of Mr. Clerc, where he laid the foundation for realistic small and medium sized stores considering the restrictive conditions encountered without following the standard hyper-market style, should be commended.

5. Take-off Stage (1993-1996): Development of warehouse-style stores and a gain in market share

Entering the 1990's, the per capita GNP of Taiwan exceeded \$8,000. In 1992, it went onto the \$10,000's. The growth of major retail businesses, from department stores to convenience stores, picked up remarkably and the competition among domestic and foreign capital became tough. In the hypermarket sector, the top was Macro of Holland which organizes membership cash and carry wholesalers covering both retail and wholesale. Carrefour adopted a clear-cut competition strategy against Macro and succeeded in expanding their market share. It was during this period that Carrefour's operation was firmly localised in Taiwan.

(1) A loophole in land use restrictions

Macro was at the top of the hypermarket world until the first half of 1990. Taiwan Macro was established in 1989 with the following capital investment ratio: head office of Macro Holland 55%, CP Group, an enterprise group of Thailand, 10%, Holinsgreen Group of Taiwan 35%. Macro, together with Carrefour, aggressively entered the Asian food retail market as the first mover. Macro operated using a membership system for both the retail business for consumers and the cash and carry wholesale business for various small business owners like grocery stores and restaurant operators. It has common characteristics with hypermarkets in that it handles food and non-food items at competitive prices. But the cash and carry system adheres to one floor operations and a limited number of items focusing on larger packages that can reduce operating costs. As of 1994, Taiwan Macro had 7 stores, less than Carrefour's 8, but its sales areas ranged from 10,000 to 13,000 square meters, much larger than those of the early Carrefour stores. The Dutch operator also had an ideal parking lot which accommodated 700-1,000 cars (Courbon & Lasserre, 1999-b).

Macro's success in the early stages can be attributed to the warehouse-style stores with wholesale functions opened in industrial zones. According to the land use planning, it was forbidden to establish retail business facilities in areas for general industrial use. However, wholesale and warehouse businesses were allowed to operate under certain conditions. Macro's stores located in industrial land space under the "wholesale" category allowed the lease of a wide-open area at a reduced cost. The Dutch operator could easily carry out its basic business style concept, dictating "one floor shop area and an outdoor parking lot". According to the October 1998 *Money Magazine*, the average lease cost for land used for hypermarkets was 1,200-1,300 NT dollars per 3.3 square meters in residential areas, but only 200-300 NT dollars in industrial areas. This shows a big difference.

In contrast, Carrefour experienced hardships opening smaller stores on commercial land in cities and residential areas due to the restrictions on land use. This resulted in comparably high store development costs and difficulties in opening large stores because of

complicated landowner relationships. Commercial land was scarce and good locations for stores were usually in residential areas. Because of this, trouble relating to land use restrictions occurred involving the inhabitants of the surrounding areas. In the case of Taipei County Panchiad Store, the expansion plan was met with objections from residents living in the same collective residential building due to issues of exhaust gas and sewage. The trouble escalated and the residents sat at the entrance of the store demanding reparations. (*Economic Daily News*, 24 Nov., 3 Dec. and 6 Dec. 1993) In the case of Tainan County Chun Hoa Store, opened in November 1993, a protest campaign was launched by residents due to the allegedly illegal enlargement of sales areas and the negative effect of store operations upon the neighbourhood environment (*Commercial Times*, 5 Jul. 1994, for other troubles, see note⁽³⁾).

Carrefour set out to develop membership warehouse-style stores on industrial land in order to remove the disadvantages brought to store development by land use regulations.

(2) Expansion of warehouse-style stores

Carrefour consecutively opened warehouse-style stores: Taipei country Sanchung Store in November 1993 and Taoyuan City Chuenr Store (currently Taoyuan store) in March 1994. It was at the Chuenr Store where trouble occurred. The store was built on land formerly used by a chemical plant at Chuenr Road in Taoyuan City and the store area included land for industrial use where retail facilities could not be opened. It was considered illegal to operate a retail business on the land. The French hypermarket operator opened the Chuenr store in March 1994, while the legal issue was still pending. The store area was about 12,000 square meters. This was the largest of the eight stores. Parking was also on a grand scale and accommodated 720 cars. Part of the store's land was zoned for commercial use, but the majority of the land was for industrial use. The illegality of the Chuenr store was brought to issue. Taoyuan City immediately issued a warning to Carrefour (*Commercial Times*, Aug. 29, 1992, Jun. 24, 1993 and Mar. 5, 1994, *Economy Daily News*, Apr. 27, 1994, May 19, 1994).

The French retailer attempted to cope with the legal issue by converting the Chuenr store into a warehouse-style wholesale business, but the issue was not solved immediately. In 1999 the store was finally approved as a "warehouse-style wholesale business" (*Commercial Times*, Sep. 30, 1994, *Economic Daily News*, Oct. 4, 1994 and Jun. 14, 1999).

At about the same time of the problem at the Carrefour Chuenr Store, there was an incident where two Macro stores were forced to close in May 1994 by the local government for illegally opening stores in an industrial zone. Establishment of wholesale businesses in industrial zones was accepted under set conditions, but the business characteristics of a cash & carry wholesaler made the situation complicated. First, it was difficult to determine which business the customers mainly dealt with. The ratio of sales between retail and wholesale vary slightly depending upon conditions of location and operational strategies. Secondly, there was an issue concerning the membership fee. Collection of the membership fee is supposed to be a good source of income, but in reality, out of the desire to promote sales, there were cases when no membership check was conducted at the entrance or, if any checks were made, they were very loose. In most of the cases, customers were admitted free

of charge by just writing down their name and address on the spot. It became very difficult to differentiate the membership warehouse-style stores from hypermarkets. This issue foreshadowed the closure of Macro's warehouse-style stores opened in industrial zones and Carrefour's Chunr store problem.

Courbon & Lasserre (1999-a) reported that behind the Macro stores forced closure incident, there was friction between Taiwan's central government and local governments. The friction involved the administration of land use and the negative reaction of local businessmen against the expanding foreign firms. There are many unclear aspects to the whole picture of the incident, but Macro, forced to close the two stores, began taking a cautious attitude towards opening new stores.⁽⁴⁾

The Taiwanese government disclosed a bill for industrial land usage titled "The key points of consideration on financial management and business planning of distribution, warehouse-style wholesale and software industries" in July 1994, and tried to get the situation under control. At present, the establishment of commercial facilities in industrial zones is still forbidden. However, the operation of wholesale and warehouse industries is approved when the following two conditions are met: [1] when a certain area of land is designated for wholesale and warehouse industries in the specified industrial areas of Taipei and other cities. [2] when there is a development area exceeding a certain set scale or there is a donation of land or funds or there is an intention of cooperation in the improvement of public facilities such as green zones and roads. In both cases, however, the same construction restriction standards for general commercial facilities must be applied to protect against fires and provide evacuation routes.⁽⁵⁾

Carrefour was catching up with Macro by opening one or two warehouse-style stores every year between 1995 and 2001 except for 2000. The sales area of warehouse-style stores was on a scale of 7,900-10,000 square meters, so the scale to compete with Macro was maintained. We toured the Taoyuan warehouse store (former Chuenr store). It is located along the main road of Taoyuan City which can be reached by car travelling south-west from Taipei. The surrounding area has commercial businesses, residences and offices are mixed together, and the traffic is busy. The store is a three story building consisting of a shopping floor for the 1st floor, and parking lots on the second and third floors partially shared by a food court. We were not members but allowed to go into the store after we wrote down our names, addresses and points of contact and were given a temporary membership card for free. The store layout and interior are quite similar to those of Carrefour' other old stores. Instant noodles and shampoo can be purchased individually as in a hypermarket. In the eyes of consumers, it is difficult to notice the significant difference between a warehouse-style store and a hypermarket.

The contribution of the warehouse-style stores to the success of the French hypermarket operator in Taiwan is notable. According to the sales records of 2001 in *Distribution News Magazine*, Taoyuan warehouse store recorded the highest level of sales and San-Chuang warehouse store also achieved a high sales efficiency comparable to that of Taoyuan.

(3) Climbing up to the top

Four warehouse-style stores were opened in the four years between 1993-1996. The

same number of general stores also opened during the same period. Of these stores, Taichung City Tatum Store and Kaohsiung City Love River Store are large-scale, having 10,000 square meters, demonstrating that the store development ability of Carrefour was upgraded. As a result, in 1996, the total sales of Carrefour amounted to 25 billion NT dollars, exceeding that of Macro for the first time and gaining the top position in the hyper-market world. Moreover, in 1997, the annual sales of Carrefour reached 31 billion NT dollars leaving Macro's 21 billion NT dollars in a distant second place. This was a big leap forward compared to the 6 billion NT dollars of 1992 (*Wealth Magazine*, Mar. 1998).

The background of this success was the deepening of Carrefour's localisation in Taiwan. The largest French retailer took root as the main shopping place while rapid westernisation of life styles greatly contributed to its operational stabilization. This is evidenced in the sharp increase of sales at existing stores achieved through the quick introduction of new products. When new products such as audio products, large sized colour televisions, outdoor merchandise like camping needs and barbeque sets, and interior goods are introduced to specific stores and achieve success, the same merchandise is introduced successively to other stores, and thus total sales increase.

Viewing recent data (a questionnaire survey taken from the consumers living in Taipei area by *Breakthrough Magazine* reported on in the September 2000 issue), we learn that hypermarkets are not merely a place for shopping for everyday needs, but they are becoming a place families visit, especially on weekends. The percentage of those who "go with family" were an overwhelming 63%. The motives for visiting the stores are listed in the following order: "the convenience of one-stop shopping" (32%), "low prices" (30%), "easy parking" (25%) and "great selection of merchandise" (22%).

In April 1993, Carrefour divided its store operations into two regions, the north and the south. A Frenchman was assigned to each region as the area manager. This was a strategic move to coordinate buying and sales promotion plans. At the same time, local employees began to be promoted in preparation for store expansion. In the beginning, all store manager positions were occupied by French nationals, but by the mid 1993's, three out of eight managers were Taiwanese and of two out of the three were female. Thus, the localisation of personnel also made progress, although rather slowly (Courbon & Lasserre, 1999-a).

6. Expansion Stage (1997 and on): High growth and up-scaling of stores

The per capita GNP of Taiwan reached \$13,260 in 1997 and competition between various retail store formats intensified. As of 2002, the number of hypermarkets is over 100 and convenience stores number over 6,600. Tough competition led to the consolidation of the retail industry: the tie-up between RT-Mart and Da Mai Jia in January 1997, the purchase of Ya Tai Hypermarket by RT Mart in September 1998, the merger of Far Eastern Ai Mai (Ruenter Group) and Jian Hyper-Market of the French Casino chain in July 2000 and the linking of RT mart (Ruenter Group) and Auchan of France.

Carrefour's store expansion progressed rapidly in the midst of intensifying competition. The hypermarket operator opened up eight stores in two years, 1997 and 1998, including warehouse-style stores. Among them, new store concepts were introduced, for which

management know-how was transferred from France. One is shopping centre-oriented large stores with different specialty stores and food service businesses as tenants or joint-store developers and another is a new store layout which introduces “shops-in-shop” sales areas in major areas like CD’s and Videos and health & beauty aids. Up-scaling of stores was intended to help differentiation from the competition and generate more customer traffic. In the distribution system, an en masse store delivery system via distribution centres was set up to reduce buying costs during this period.

In June 1999, the second president of Carrefour Taiwan, Jean-Luc Chereau, moved to China and Mr. Francois De Boyer took the job. Chereau became the model of success in Taiwan. During the six years of his tenure, from July 1993 to May 1999, the number of stores increased from 5 to 22 (*Distribution News Magazine*, Jun. 20, 1999). Recent operations and results at Carrefour in Taiwan are stable. According to the estimates by trade magazines, Carrefour achieved 43 billion yuan in sales from 24 stores in 2000, an increase of 11% over the previous year. The net profit is estimated to be 1.64 billion yuan. Sales in 2001 were impacted by the slow economy, but sales of 4.5 billion yuan, an increase of 5%, were marked.

(1) Up-grading trend

In 1997, Carrefour introduced a shopping centre-oriented system that introduces many specialty shops and restaurants as tenants. In the cases of the Pin Tung Store, opened in June 1997, and Chai Yi Store, opened in September of the same year, a number of restaurants and specialty shops in addition to the regular shopping areas were established outside of the checkout counters. Mr. Meng Chiun, The Store Development Manager of Carrefour Taiwan, explained as follows.

“Carrefour, with seventeen stores, has entered a new stage of development. The shopping centre-style operation with various businesses as tenants is one of our most important operational strategies. We have already had successful experiences with Mac-Donald’s and other food service operators and specialty shop chains for sporting goods, brand name watches and other items” (*Economic Daily News*, 12 Nov. 1997).

The variations of store format also increased in parallel with the increase in the number of stores. The Nan Tao Store, opened July 2000, was built with a bus terminal and the Tao Yuan County Tu Chen Store, opened in July 2000, was the first store built within a large-scale shopping centre. A big change in the store layout has also taken place. The new store layout, called the “MAGALI concept” in France, was first introduced in the Metro Walk Store. Under this concept, “shops-in-shops” were introduced in major product categories in order to generate a pleasant and easy-to-shop atmosphere by manipulating interiors. This latest store layout, developed in France, was introduced partially at the Makuhari Store in Japan (*Retail Store Monthly*, Jul. 10, 2001, *Distribution News Magazine*, Jul. 10, 2001, the homepage of Metro Walk Shopping Centre).

The new store layout was introduced consecutively at the Kaosiung County, Chung Shan Store in August 2001 and at the Taipei County, Tu Chen Store in March 2002. Of these two, we visited the Tu Chen Store, driving south about one hour from Taipei, which is located in a multiple floor commercial building in a city area. As we entered the store through the

entrance at the 1st basement floor, the books/magazines and CD shops were positioned on the right with the appearance of a specialty shop. There are corners for newly arrived CD's and for test listening. At the end of the main hallway, there were shops for the mainstay merchandise items, occupying more than 10% of sales, like home electrical appliances, audio products and PCs. On the right side near the entrance, apparel and home products were exhibited in a manner different from the traditional displays where merchandise is piled up.

The method is similar to that of a department store. Merchandise is segregated by type and displayed on hangers in an island fashion and the shop had try-on rooms. At the far side of the diagonal line extending from the entrance, several "shops-in-shops" were positioned for automotive and sports related merchandise and toys.

Moving to the second basement floor, we found a snack/tearoom corner on the immediate right, like the one we were familiar with from the Makuhari Store in Japan. In front of the corner, "shops-in-shops" were gathered for such items as cosmetics, liquor, breakfast, noodles and seasonings. They are so brilliantly arranged through the use of murals and displays that customers know what is sold in the shop the moment they walk in. Deep in the back, shops for fresh fish, fresh meats and side dishes are positioned and a "marketplace" atmosphere can be experienced.

We noticed in the store that the basic operating policies of hypermarkets were consistently applied. The slogan EDLP (Everyday Low Price), one checkout counter system, an auto-walk system connecting two floors, and the arrangement of fresh food shops where freshness is emphasized through items delivered directly from production areas were among them. A clear up-scale strategy was pursued in this store. Improvements in services emphasized everywhere in the store are a good example. In fact, the operating policies displayed in the store included two slogans, side by side with EDLP: "The most advanced store installation" and "Far reaching services".

(2) Strengthened merchandising activities

As the first store in the world to sell generics (so-called no-brand merchandises) in the world in 1976 in France, Carrefour became known for its innovative merchandising activities.

However, the PB (Private Brand) ratios to total sales in the following years are not necessarily high when compared to those of British supermarkets. This is due to the restrictions imposed by the decentralized operation system which allows for each store's buying in the local market. The largest French retailer introduced Carrefour brand as a PB in 1985 and strengthened its program with the aim of retaining loyal customers and improving gross margins (Aihara, 2000).

The development of PB products picked up in earnest in 1997. Currently, there are eight types of PB products as shown in the list, covering three categories: clothing, food and home appliances. The procurement of PB products is accomplished through three methods/channels: [1] consignment production by local manufacturers, [2] merchandise developed at the Common Buying Centre of Carrefour (Hong Kong), and [3] import of PB products developed in France, Spain and host countries (*Economic Daily News*, 4 Jul. 1997). Regarding consignment production by local manufacturers, we believed it would be interesting to see the President Enterprise Group, the top food manufacturer and Carre-

four's partner, begin production of Carrefour's PB products. At present, there is not a single PB product manufactured by the President Group on the shelves of Carrefour. According to the President Group, they once produced milk under the Carrefour brand, but their inability to solve problems concerning quality and inventory management resulted in the deal being discontinued. There were talks between the two on multiple PB product development, but each side had its own operational situation and they could not come to an agreement on prices and conditions. Today, the President Group does not produce any PB products for their French partner. The consignment production of PB products for Carrefour is performed mainly by small-and middle-sized local manufacturers.⁽⁶⁾

Table- 5 : PB Merchandise Program of Carrefour Taiwan (As of May 2002)

Name of PB	Date of Introduction	Merchandise Category	Price Standard
Harmonie	1997	Apparels, Interior	Low Price
Carrefour	1997	General food, Everyday needs	20% lower than NB products
Firstline	1997	Electric products	20-30% lower than NB products
Green Genie	1998	Cleaning materials	20% lower than NB products
Carrefour Jewelry	1998	Precious metal Merchandise	10-20% lower than going price
First Price	2000	General food Everyday needs	20-40% lower than NB products
Topbike	2000	Bicycles	15% lower than the same quality products
Number One	2001	Sports goods	15% lower than the same quality products

Source: Made by the authors based on: *Distribution News Magazine*, Jun. 30, 2001, *Retail Market*, Mar. 10, 2000, *Economic Daily News*, Jul. 4, 1997, Dec. 2, 1997, and Feb. 16, 2000.

In general, the development of the PB program is a new challenge of Carrefour in Taiwan. The ratio of PB products to total sales is still at a low level when compared to those of France where food is 22% and non-food is 15% PB (*NIKKEI Business*, issue of Mar. 5, 2001). At the Tu Chen Store, the newest large store, it is advertised in the store that the PB products are 20-40% cheaper than NB (National Brand) and a number of PB products like "Green Genie" are on display, but the number of PB items is a low 200.

(3) Shift to central buying system

Buying responsibilities in the early days was delegated to each store, but from 1995, a central buying system was introduced step by step. In October 1996, Mao Yong Company accepted operation of the distribution centre to deliver grocery and some other items to the stores. At present, it is estimated that the majority of product items is now delivered to the stores under a central buying system via distribution centres, but the details are unknown (*Economic Daily News*, Oct. 3, 1996, *Commercial Times*, Oct. 11, 1996). There is a known

exception. The President Group, the biggest supplier of grocery products, adheres to a direct delivery system to stores via its own distribution network. The reasoning for this is claimed to be: "The use of distribution centres by the retail side causes changes in conditions of deals and makes price control by manufacturers more difficult. It also makes the direct information gathering of sales and stock more difficult."

The shift to a central buying system in the use of distribution centres caused some problems in business relationships. Suppliers were requested to pay distribution centre fees by Carrefour since the French retailer delivers products from distribution centres to stores instead of suppliers. It is very difficult to set reasonable amounts for fees to which both sides agree. The supplier side became frustrated with the distribution centre fees since they already shouldered the new store opening support fees, promotional costs, new product introduction fees and other allowances. The Fair Transaction Committee of Taiwan took action in October 2000 and fined Carrefour 4 million NT dollars for unfair trade practices. In fact, there was an incident which escalated into a social problem when the French retailer requested frozen food manufacturers who in winter supply the ingredients of Taiwan style dishes to pay distribution centre fees ranging from twenty thousand to thirty thousand yuan and met with strong rejection by the manufacturers (*Commercial Times*, 11 and 22 Oct. 1996, *Freedom Times*, 1 Nov. 1996, *Economic Daily News*, 20 Oct. 2000).

(4) Credit Card Strategy

Carrefour Taiwan is wrestling with credit card strategy for the purpose of promoting sales and securing regular customers. In September 1998, the French retailer made it possible for customers to pay using major credit cards issued by other companies. As of March 2001, other hypermarkets accepted only specified credit cards, but Carrefour accepted most kinds (*Economic Daily News*, 18 Mar. 2001). Another credit card strategy is the issuance of a house credit card. The head office of Carrefour in Paris issued "The Pass Card" in 1981. In Taiwan, a house card with credit card functions was issued in 1998. Card members are privileged with the use of an exclusive checkout counter and are able to do cashless shopping. They can purchase special products designated every two weeks at discounted prices. In addition, they get rebate points equal to 0.5% of the payment amount. Also, when the purchase price of home electric appliances exceeds 5,000 yuan, an instalment of 3-24 payment becomes available at a low 1% interest plus quality assurance (according to an advertising pamphlet of Carrefour as of May 2002 and from the card application rules). The number of house card holders exceeded 180,000 as of September 2001 (*Economic Daily News*, 11 Oct. 1999, *Distribution News Magazine*, 10 Sep. 2001).

(5) Partnering

The trade relationship between the President Enterprise Group and Carrefour has been consistently maintained "at arm's length". In fact, there was no set agreement between the two on the transaction relationship. In other words, the President Enterprise Group invested in the joint venture, but the largest Taiwanese food manufacturer has never freely controlled Carrefour's sales network. According to the Special Sales Division of the President Enterprise, the French hypermarket operator did not offer any special treatment to them

when concluding annual contracts or at other trade negotiations. The President Enterprise paid seasonal sales promotion expenses and other allowances for the display of their products on the shelves, the same as other manufacturers did. The share of President Enterprise merchandise in the total sales of Carrefour's grocery food department was about 7% in 2001. It is estimated to be slightly lower than that of RT Mart, the second largest hypermarket and higher than that of Ai Mai Geant, the third largest.

Toward the end of 2001, the President Enterprise Group sold 9% of its 40% stock holding in the joint venture in order to earn capital gains. This shows clearly the "arm's length relationship" between the two. On the occasion of Carrefour's advance into China, the President Enterprise Group, which already had plants on site, invested in multiple Carrefour stores, but again, the policy of delegating operation and management to the French retailer was followed.⁽⁷⁾

7. Summary

Mr. Chie Yun Meng, Director of the Store Development Department of Carrefour in Taiwan, summarized its localisation process as follows at a meeting hosted by the Taiwan Chain Store Association (*Chain Store Magazine*, 16 Feb. 1998): The strategic target of the company during the early days of market entry was to seek out a policy under a decentralized operation system to make appropriate adaptations to meet local needs in order to efficiently manage the turnover of products and funds. The success of individual stores was closely related to the operational adaptation to local markets at the store level. Based on the stabilized store operations built up in the early days, the strategic target of the management team shifted to achieve more customer satisfaction through strengthening the relationships between the stores and customers, suppliers and employees. In actuality, there were a lot of things to do, including expansion of one-stop-shopping functions, improvement of services, unification of ordering, delivery and inventory management systems at the store level, active use of information technologies and so on.

Mr. Chung Yu Tien, the Managing Director of Carrefour in Taiwan, judges the current status as being on the way to the next stage, as Mr. Meng suggested above (*Distribution News Magazine*, 20 Feb. 2001). In the early days, the number of hypermarkets was few, so they could attract customers by offering low prices. However, given the current situation of intense competition between hypermarkets, it became necessary to demonstrate their competitive advantages over rival stores in areas other than prices. In this respect, the differentiation between Carrefour and its rivals is not large, and the challenge in the future lies in the improvement of the customer-perceived values of products, services and stores. Analysis by the Managing Director of Carrefour in Taiwan of the current status suggests that although the localisation of the company is marked by great success, at the same time, significant problems have yet to be solved. He suggests the company faces unknown factors at present. These are in the areas of up-scaling of stores, brand mix of NB and PB products and a central buying system along with the establishment of distribution centres. Mr. Tien implies how successfully the company can handle these matters and achieve its competitive advantage over the rival hypermarkets has yet to be seen.

In fact, the French hypermarket operator has some operational issues when compared to those in the home country and in other Asian host countries. Traditionally, hypermarkets were operated like a branch office as in Taiwan. Even nowadays, the store operations of hypermarkets are not so strictly controlled by the central office as those of supermarkets. Carrefour in France was historically positioned at the middle of two groups, according to some researchers' view: one favouring centralised management control of stores which places importance on a central buying system at the head office like Casino and Promodes, and the other favouring decentralized store operations placing importance on local buying like Leclerc and System U. However, starting in the mid 1980's, the largest French retailer gradually shifted to a centrally controlled management system in the midst of increasing its number of stores (Burt, 1994, Aihara 2000). Intensification of PB product development, increase in the numbers of specialty shops and shops-in-shops, improvement of service businesses such as travel and insurance, shift to en-masse delivering system, etc., are activities promoted under a centrally controlled management system.

This coincides with the strategic development appearing during the growth stage of Carrefour in Taiwan. This might be one example of transferring management technique from the home market to the overseas host markets. However, it is still unknown if these actions will bring competitive dominance over other stores or how long the prosperous period will last. In fact, it is worrisome to note the growth rate of hypermarkets in France, where all kinds of products are sold to all kinds of customers, slowed in the 1990's. The food department is doing well comparatively, but in the areas of apparel, furniture, audio products and computers, hypermarkets are losing a competitive edge on the category-killers (Castrillo, Forn and Mira, 1997).

Certainly, the firm establishment of a centrally controlled management system is a challenge for Carrefour when competing against global retailers like Wal-mart, Tesco and Ahold. Those retailers, for many years, established chain store systems with characteristic centralized store operations and buying activities. But we must note that global retailers are either not yet in Taiwan or, as in Tesco's case, only have a few years of operations there. The competing hypermarkets are Casino, Auchan of France and Macro of Holland. Chain store management and the competitive advantage of Carrefour have not been fully tested yet as far as Taiwan is concerned.⁽⁸⁾

Delicate issues related to land use and unfair transactions between the company and local society occurred. We cannot determine the outcome without a detailed investigation, but a study team from INSEAD (Courbon & Lasserre, 1999-a) pointed out the noncommittal attitude of the administration and suggested that there are complex trade customs and ambiguity at the root. We are interested in watching if the largest French retailer can make the best use of lessons learned in Taiwan in the other Asian areas where similar societal backgrounds exist.

8. Some implications

(1) Toward the conceptualisation of international retailing process

In the following we list the implications for the conceptual framework of the retail internationalisation process obtained through the observation of facts in the localisation of Carrefour in Taiwan.

(a) The multinational strategy

Carrefour successfully localized in Taiwan. The prerequisite was an excellent operational capability to exploit the international market with a hypermarket store concept which provided discount prices and one-stop-shopping for consumers. In other words, the key was Carrefour's core competence as a hypermarket operator which had proven to dominate competition in the home country and some other host countries. It was, however, not just copying a standard formula to Taiwan, but adjusted to local market situations. This adjustment of the standard formula of retail operations which Salmon & Tordjman (1988) named the multinational strategy resulted in the development of small hypermarkets in the early days and the warehouse style stores in the industrial zones opened during the second stage. Its strategy is quite similar to that taken by and leading to the success of Toys R Us Japan which Yahagi (2002) called "limited adaptation" strategy.

This localization process is unavoidable for almost all retailers directly serving local consumers. Adjustment activities of standard retail operations are frequently required in the domestic market when opening stores in areas with different social, cultural and economic features. In the retail internationalisation process, these adjustments are unavoidable since retailers enter markets where social, cultural and economic differences definitely exist. Very rare exceptions may occur in the case of luxurious brand name shops where a "perfect standardization" is vitally important in product and store image. Salmon & Tordjman (1988) labelled it as the global strategy which replicates the same formula worldwide.

(b) Locality

It was confirmed that the key to the localization of Carrefour was to adapt its standard formula to fit local market conditions. The challenge facing the chain stores with a number of stores using the standard format is to make some aspects of store operations flexible in order to suit the local market conditions at each unique store location. It is fundamental to the operation of retail business to understand the needs of and competition in the local market and to reflect those characteristics in the product range, pricing and other attributes of store operations. In overseas markets, where the social, cultural and economic conditions differ, the difficulty intensifies. In Taiwan, during the late 1980's to early 1990's, the magnitude of impact brought about by the restriction of land use was felt. From the viewpoint of foreign retailers, the fundamental factor of successful localisation in Taiwan was a flexible store expansion strategy that suited local conditions such as strict land use restrictions, skyrocketing land prices and the structure the of town.

(c) The timing of entry

Immediately after the liberalization of capital investment in retailing and services, Carrefour began a feasibility study and arrived at the opening of its first store, allowing ample time for preparation. The modernization of its commercial facilities was lagging behind the accelerating economy. There was huge potential for hypermarkets. Domestic retailers made attempts at the potential market but the world's second largest retailer, with its huge capital and excellent management know-how, had enough economic power to explore a potential market. The combination of Carrefour's capability and the immature retail market of Taiwan came at the right time, combined with superb timing of entry. In this respect, the impact of timing of entry on business results was critical in the case of Carrefour in Taiwan.

(d) Evaluation of the entry mode

Carrefour selected President Enterprises as its partner in Taiwan, its first operation in Asia. Next, it entered into China, Indonesia and Thailand in a joint venture system. Presumably, this was done to meet the restrictions applied to foreign capital firms. The company expanded into Hong Kong, Korea, Singapore and Japan, where capital investment is liberal, using a 100% subsidiary method. Later, Thailand became a 100% subsidiary as restrictions loosened. The French retailer adhered to the policy of holding autonomy in management by securing the majority of stock of the joint venture company in Taiwan. Thus, Carrefour consistently selected an entry mode which enabled the French retailer to hold a high level of control over local businesses. In fact, the partnership with President Enterprises was of a limiting nature.

(e) Comparison between Asian markets

At the end of 2001, Carrefour had more than 100 stores in eight Asian markets, leaving Wal-Mart and Tesco behind. The French retailer expanded multiple formats in Europe and South America, but exclusively hypermarkets in Asia. Carrefour entered into the Hong Kong market in 1996 and opened four stores, but decided to withdraw from the area in August 2000. According to the press release, it was difficult to find a parcel of land suitable for a hypermarket and it was judged impossible to obtain a significant market share in a short time. The French retailer operates more than 20 stores respectively in the three markets of Taiwan, China and Korea on the one hand, and less than 10 stores in Malaysia and Singapore on the other. In Japan, the rate of new store expansion is very slow since its entry at the end of 2000. It is extremely difficult to uncover the variables which could explain the differences in performance in each country/region. In the case of Carrefour in Taiwan, the superb entry timing and the adaptability of the onsite management team are considered the main reasons for success.

It is worth emphasizing that Taiwan played the role of leading model for Asian operations. Success in Taiwan was solidified by the mid-1990's. The management executives of Carrefour in Korea stated in an interview that the success in Taiwan was a strong motive for the expansion into Korea and other Asian markets in the second half of the 1990's.

(2) Future items of research

There are numerous items to study in the future. In the retail internationalisation process from the organizational viewpoint, first, we must accurately identify, country by country, the factors that influenced successes and failures of a international retailer and evaluate the factors which favourably promoted or obstructed internationalisation. Second, it will be necessary to complete comparative studies between major international retailers since considerable differences in the results of competition among them according to country and region are identified. Third, in Asia and elsewhere, we should look into the process of the transfer of management know-how. Otherwise, we will be unable to understand international retailing as the organizational learning process. In other words, we must uncover whether or not retail enterprises are achieving management innovation while conducting global growth. By taking actions to solve these issues one by one, we can consolidate the foundation for conceptualisation of the process of retail internationalisation.

[Notes]

- (1) Su-Lin Chung is a doctoral student at Ritsumeikan University.
- (2) Multiple requests for an interview with Carrefour in Taiwan were made, but it was never approved. Visits to three stores were done during the period of May 6-10, 2002 while were Taipei City Tienmou Store, Taoyuan City Taoyuan Warehouse and Taipei Country Tu Chen Store. Interviews with the top management of Carrefour Japan and Carrefour Korea were done by one of the authors (Yahagi), respectively on Sep. 7, 2001 and Apr. 2, 2002 prior to the Taiwan survey. Interviews with the managers (plural) of Special Sales Department of President Enterprises Corporation were done on May 7, 2002 by the authors (Chung and Yahagi).
- (3) The land use categories of residential, commercial and industrial ones defined in the Land Use Plan for medium sized stores during early days of Carrefour could not be confirmed. As we state later in the case of Chuenr Store (Currently Taoyuan Warehouse Store), the land use category of warehouse-style stores opened in the industrial zone is clear, but in the case of general hypermarkets, we presume that some stores opened in or close to the residential zone were included. In the residential zone, restrictions are set on the number of floor used for commercial facilities and the size of sales area allocated to a retailer. The Land Use Plan was partially relaxed in 1996, but there were tight restrictions when Carrefour opened the initial stores before it; [1] Floors allowed for commercial use were limited to one in the basement and one on above ground. [2] Total store area allowed was below 500 square meters. (*Economic Daily News*, 3 Aug. 1996). At general hypermarkets Carrefour opened in or close to the residential zones, trouble occurred between Carrefour and the local administration and the residents. The trouble sometimes centered around the difference between the sales area written in the store construction application and actual sales area used. Stores involved in this type of land use issues were: Nankang Store (*United Daily News*, issue of 10 Sep. 1995, *Economic Daily News*, issue of 18 Sep. 1996), Chun Hua Store (*Commercial Times*, 5 Jul. 1994, *Economic Daily News*, 26 Jul. 1995). At Ta Tun Store, a category change from residential to commercial was attempted, but due to improper contribution money needed for the change, the French head of the store was indicted (*United Daily News*, 21 Sep. 1997).
- (4) It is unknown why Macro delayed store openings during this period. Macro is a diversified enterprise founded by a coal wholesalers' group of Holland and is still engaged in the sales of LPG (liquefied

- petroleum gas). As of the end of 2001, it maintains 60 cash and carry wholesale stores in 6 Asian countries, but its European department was sold in 1997.
- (5) The Taiwan Government, in order to cope with the advent of large hypermarket, in 1994 engaged in the review of the Land Use Plan. One of the political challenges is to promote the diversion of existing industrial land to commercial land due to the limited existing commercial land. Two laws, “Establishment policy of combined industrial/commercial zones” and “Combined industrial/commercial zones development /control” laws were promulgated by Taiwan’s Department of Economy and Department of Internal Affairs in 1994 and revised in 1997 and 1999. In accordance with these laws, 39 combined Industrial/commercial zones were planned and 11 of that 39 were approved for development. The Taoyuan Country Tai Mall shopping centre, where the first Tesco store is located, and Taoyuan Country Metro Walk shopping centre where Carrefour opened a store, were established as a result of the enforcement of the new laws.
- (6) Interviews with the executives of the Special Sales Department of President Enterprises (done on May 7, 2002)
- (7) The interviews listed above.
- (8) As to the relationship between the organization and competitiveness of the chain stores, see Yahagi (2000), Chapter No. 6.
- (9) Interviews with executives of Carrefour Korea done by one of the authors (Yahagi) on Apr. 2, 2002 at the company in Seoul.

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