

# The Internationalisation Process of Tesco in Asia

著者	Yahagi Toshiyuki
journal or publication title	経営志林
volume	39
number	4
page range	45-67
year	2003-01-30
URL	<a href="http://hdl.handle.net/10114/00016521">http://hdl.handle.net/10114/00016521</a>

# The Internationalisation Process of Tesco in Asia<sup>Note (1)</sup>

Toshiyuki Yahagi

## Outline

1. Introduction
2. The features of Tesco's internationalisation strategy
3. The internationalisation process in Asia
4. The transfer of retail operation systems
5. Summary

## 1. Introduction

Retail internationalisation (RI) is continually being performed in different countries, regions, and cultural spheres, and is a process of dynamic change by which the outcomes of one kind of internationalisation set the stage for the next. Management, in the retail internationalisation process (RIP), will at least make decisions on selecting their entry market by geographically allocating their resources, choosing the entry mode by which they will enter foreign markets that have higher management uncertainty than domestic markets, and deciding on transfer strategies for retail operations in total. As decision making is repeated with each market to be entered into, there is a possibility that a pattern will be formed with regards to RIP on an organizational behaviour level, but at the same time, as there will be complex interaction between the home country and newly entered markets, as well as between several newly entered markets, there is a possibility that a new retail internationalisation process behaviour will be created (Vida & Fairhurst, 1998, Alexander and Myers, 2000, Yahagi, 2002-a)

Based on experimental studies of retail businesses, efforts towards the conceptualisation of RIP have just begun. Mukoyama (1996), Vida (2000), Kawabata (2000), and Goldman (2001) are some of the precedent research.

This thesis brings up the United Kingdom's largest supermarket, Tesco Plc, and analyses their RIP in Asia. Specifically, hearing research has been performed up to September, 2002 at Tesco stores currently open in three countries and regions, being Thailand, South Korea, and Taiwan, which first looks to grasp the special features of Tesco's internationalisation strategy along with the internationalisation process in Asia.<sup>Note (2)</sup>

In addition, we will look at the transfer process of retail operations systems among the three East Asian markets. Here the retail operations systems will be represented by three sub-systems; store formats and operating system, product development and purchasing system, and retail supply chain system. The establishment of efficient stock replenishment for the retail supply chain system, and the development of private brand (PB) products for

the product purchasing system will be the main focuses (Yahagi, 2000). During the analysis attention will be paid to the relationships between the home market and the three East Asian markets, and those between the three East Asian markets themselves, in order to spread light on the interaction between the home and newly entered markets, as well as between the markets that have been entered.

The pioneering research into RIP is simply focused on the overseas expansion of retail businesses. In other words, the phenomenon of retail internationalisation is often set on the relationship between the home and entered market, looking on it as a one-shot, unidirectional move from the inside outwards — overseas expansion. In reality, RIP is different. In the midst of a network structure made between the home market and multiple entered markets, retail internationalisation is repeated, and transfer of management know-how can happen in both directions between the home market and specific markets that have been entered, as well as between the entered markets themselves. Although a tendency for retail businesses to proceed with internationalisation based on transfers of management know-how, human resources, capital, etc., accumulated in the home market, as the development of RIP deepens, the interaction and relationships between markets during the internationalisation process become complex, making it difficult to handle all RIP with a simple RIP approach.

While looking at the relation between the home market and entered market A, and also at the relationships between entered market A and B, and between the home market and entered market B, paying due attention to their interaction, we will analyse the RIP. Given this, RIP can be thought of as an organisational learning process in a worldwide space involving different societal, cultural, and historical characteristics, running into a stage theory-like thesis, that is that “learning sets the stage for future investment” (Sternquist, 1997). In this way, RIP is dynamic (Vida & Fairhurst, 1998).

In order to properly bring the aforementioned variety of global RIP into view, it will be important to make clear the interaction and relationships between markets by making the network structure that connects the home and multiple entered markets together a subject for analysis. This kind of approach we will call the international network approach.<sup>Note (3)</sup>

The two reasons for using the international network approach to analyse Tesco’s case are that we wish to understand the Asian internationalisation process in Thailand, South Korea, Taiwan, and Malaysia amongst the nine countries and regions in East and Central Asia entered by this process, and gain some guidance for carrying out future research into the relatively unresearched area of organisational behaviour level RIP through picking up a number of facts during case studies.

## **2. The features of Tesco’s internationalisation strategy**

Consolidated sales for Tesco in 2002 (as of February, 2002, figures are based on fiscal terms unless otherwise noted) brought in 25.7 billion pounds (at a rate of 1 pound =180 yen, approximately 4.6 trillion yen, including value-added tax), making a before tax profit of 1.2 billion pounds. The sales to pre-tax profit ratio is roughly a very healthy 4.6%. Over 84% of group sales, coming from the domestic division, are centred on supermarkets, holding a 16.7% share of the UK food retail market. The overseas division operates over 100 stores in nine

countries and regions, earning around 15% of group sales. Tesco's strong attitude towards internationalisation became clear in the latter half of the 1990s, and of the 2 billion pounds used for capital investment in 2002, 38% was sent to the international division. Already the international division holds approximately 42% of total sales floor space (2002 annual report). Sales in the Asian division are the equivalent of 63% of the sales of the European division, but growth is startling, with period income reaching the black for the first time for the 2001 operating profit base.

**(1) Focus on the entry market**

Tesco's internationalisation gained speed from the middle of the 1990s. The 1979 purchase of the mid-sized supermarket Three Guys Limited was their first advance overseas, but following this they focused on domestic store expansion. In 1993 they purchased the mid-sized business Catteau, which developed supermarkets and hypermarkets in northern France, but sold it in 1997 due to the strengthening of store-opening regulations in France and increased competition from other large scale chains. This did not, however, imply the end of internationalisation, but the beginning of a new form of internationalisation.

In 1994, Tesco acquired 51% of the stock of the mid-sized Hungarian supermarket chain Global TH, followed in 1995 with the purchase of Poland's mid-sized supermarket chain Savia. In 1997, they bought 16 stores in Slovakia and the Czech Republic opened by the American discount store chain Kmart. The 1996 annual report stated that "this region (central Europe) has seen little investment in retail and distribution, giving great hopes for development", looking towards the possible advantages of early entry.

Another entry market is East Asia. Entry was achieved in Thailand in 1998, followed by South Korea the next year, both through mergers and acquisitions with native businesses. Towards the end of 2000, one store owned by Holland's Makro in Taiwan, started store expansion through a 100% shareholding affiliate, and in 2001 created a joint venture company with local capital in Malaysia.

**Table 1 Tesco: Performance over the past five years**

	1998	(%)	1999	(%)	2000	(%)	2001	(%)	2002	(%)
Total sales (Million pounds)	17,779		18,546		20,358		22,773		25,654	
UK	14,071	(91.0)	15,835	(92.3)	16,958	(90.2)	18,372	(87.5)	20,052	(84.8)
Europe	1,481	(9.0)	1,167	(6.8)	1,374	(7.3)	1,756	(8.4)	2,203	(9.3)
Asia			156	(0.9)	464	(2.5)	860	(4.1)	1,398	(5.9)
(Total)	16,452	(100.0)	17,158	(100.0)	18,796	(100.0)	20,988	(100.0)	23,653	(100.0)
Operating profits										
UK	875	(95.9)	919	(95.2)	993	(95.2)	1,100	(93.7)	1,213	(91.1)
Europe	37	(4.1)	48	(5.0)	51	(4.9)	70	(6.0)	90	(6.8)
Asia			▲ 2	(▲0.2)	▲ 1	(▲0.1)	4	(0.3)	29	(2.1)
(Total)	912	(100.0)	965	(100.0)	1,043	(100.0)	1,174	(100.0)	1,332	(100.0)

	1998	(%)	1999	(%)	2000	(%)	2001	(%)	2002	(%)
Number of stores										
UK	618	(79.1)	639	(77.8)	659	(78.0)	692	(76.3)	729	(74.5)
Europe	163	(20.9)	168	(20.5)	167	(19.8)	183	(20.2)	200	(20.4)
Asia	0	0.0	14	(1.7)	19	(2.2)	32	(3.5)	50	(5.1)
(Total)	781	(100.0)	821	(100.0)	845	(100.0)	907	(100.0)	979	(100.0)

Notes: (1) Total sales includes VAT, sales for each country and region do not include VAT.  
(2) Europe indicates countries in Europe excluding the United Kingdom. (3) The year is based on that year's annual report.

Table 2 Tesco: Hyper markets overseas

	1997/98	1998/99	1999/2000	2000/01	2001/02E	2002/03E	2003/04E	2004/05E	2005/06E
Hungary	2	5	9	15	21	27	31	35	37
Poland	0	1	4	10	14	18	22	25	28
Czech Republic	0	2	4	6	9	12	14	16	17
Slovakia	0	0	2	5	8	12	15	17	18
<b>Total central Europe</b>	<b>2</b>	<b>8</b>	<b>19</b>	<b>36</b>	<b>52</b>	<b>69</b>	<b>82</b>	<b>93</b>	<b>100</b>
Thailand	0	14	17	24	33	41	45	48	50
South Korea	0	0	2	7	14	23	32	40	48
Taiwan	0	0	0	1	3	4	7	9	11
Malaysia	0	0	0	0	0	4	8	12	15
<b>Total Asia</b>	<b>0</b>	<b>14</b>	<b>19</b>	<b>32</b>	<b>50</b>	<b>72</b>	<b>92</b>	<b>109</b>	<b>124</b>
<b>Total international hypermarkets</b>	<b>2</b>	<b>22</b>	<b>38</b>	<b>68</b>	<b>102</b>	<b>141</b>	<b>174</b>	<b>202</b>	<b>224</b>

Sources: Annual report, CSFB Report  
Note: E=Estimate

As can be seen, Tesco's internationalisation strategy focused on two regions: Central Europe and East Asia. The 1999 annual report states "Our international growth strategy is to develop large stores in big markets where we can establish a leading position", indicating a clear direction. In other words, their objective was to go to regions which could hold potential markets and become a leading retail business there, and in order to do this they recognized that "hypermarkets" would be a successful format. The two markets of Central Europe and East Asia therefore fulfilled the basic requirements.

Both markets could be seen as having economic growth potential, but the retail market was underdeveloped, meaning success would likely be earned through transfers of management know-how and other management resources. Central European nations had only begun the move towards market economies following the collapse of the Berlin Wall, and Tesco decided that "The opportunities in this region are tremendous, with economic growth rates of between 3% - 6%, more than double of Western Europe. With rising consumer incomes and car ownership, prospects for future spend on food and non-food products look very good" (1997 annual report). At the same time, East Asian nations were reeling from the 1997 Asian Financial Crisis, but the large scale of the market and the high potential growth rate were quickly reappraised. The 1999 annual report points out that "We have been researching the south-east Asian markets for nearly three years. Despite current economic growth

difficulties, the region meets all our criteria for future growth in retailing.”

In the late 1990s, Central Europe and East Asian were good targets for foreign investment in M & As with English capital and a strong pound. For example, the purchase price for the mi-sized supermarkets in Hungary and Poland were 12 million pounds (at 1 pound to 180 yen, roughly 2.2 billion yen) and 8 million pounds (approximately 1.4 billion yen at the same rate), leading to the conclusion by some that “each purchase price is less than the investment necessary for one outlet of a superstore in the UK” (IGD, 1996). In addition, the buying price for the stock of the native Thai retail firm Lotus was 111 million pounds (approximately 20 billion yen), which ran 13 hypermarket stores. The investment needed for one store in Thailand was estimated to be five to six million pounds in rural areas and 15 million pounds near Bangkok. This is the reason for saying “Tesco has an advantage” (IGD, 1998).

Focus on the market to be entered and advancement into two regions simultaneously are the special features of Tesco’s internationalisation strategy, and goes to increase the possibility of a well timed entry.

## (2) Using M & As and local partners

Tesco’s internationalisation strategy has M & As (mergers and acquisitions) at its centre. Rival French Carrefour has, since putting its weight into international competition in the mid 1990s, oriented itself towards a 100% branch system in entered markets and examples of starting stores from zero have increased, making it a rather contrasting case. M & As have the merits of allowing for quick store openings as well as earning human resources and management know-how. Tesco, when compared to other powerful European capital firms like Carrefour, Ahold, and Aldi, is behind in internationalisation. In order to make up for lost time, their intentions to quickly build their operating base in entered markets through purchasing firms, utilize local partners in particular in Asia, and speed up store openings through quick internal development can be seen. In Thailand and South Korea, at the same time they developed their footing quickly in local markets through M & As, they established cooperative relationships with local partners, and speedily completed the needed organization for numerous store openings. We will look at this point more closely in the next section.

## (3) A flexible business format strategy

Choice of business format is a major feature of Tesco’s internationalisation strategy. While domestically their core format is superstores, overseas they are expanding through hypermarkets that offer both food and non-food merchandise at competitive prices.

Superstores in the UK typically have between 1,700 and 4,000 square meters of selling space, are on the edge of or out of town, and are known for offering a full line of food items, a limited amount of non-food items, and a wide variety of services. Compared to a traditional supermarket, specialty departments such as service delicatessens, in-store bakeries, magazine centres, and food and beverage services are more available, and many stores are built with large and charge-free car parks. In contrast, hypermarkets, which developed in France, are “stores with between 5,000 and 20,000 square meters of selling space where food and non-food items as well as services are offered at competitive prices” (Carrefour’s 2001 annual report).

Self-service selling and free parking, special attention to fresh and delicatessen foods, and periodic sales promotions are all common points, but hypermarket stores are vastly larger and handle a wider variety of non-food items when compared to supermarkets and super-stores.

Tesco's core business in the UK is the superstore. For a time overseas, as well, they continued along the supermarket line, but as internationalisation sped up they shifted over to hypermarkets. As of February, 1998 they had opened only two hypermarkets overseas, but by the same month in 2002 that number had risen sharply to 102. In five of the nine countries stores were being opened in (Thailand, Hungary, Czech, Slovakia, and Ireland) they had taken the leading position in the hypermarket business (2002 annual report).

The normal process of retail internationalisation had been looked upon as being the transfer of a domestically proven business format to a foreign market. The market model of RI by Alexander & Meyers (2000) purports this view. Tesco's business format strategy is, instead, something different from the standard, simple internationalisation strategy of geographically expanding an existing format. The problem resided in the opposite place. The hypermarket was chosen and developed as the best format for internationalisation. This is not format transfer, but rather format exploitation.

### **3. The internationalisation process in Asia**

#### **(1) Thailand**

It was 1999 when Thailand started capital liberalisation, and before then foreign firms were not permitted to own over 49% of stock in local businesses. Even so, the Thai economy saw strong development over the nine years from 1988 to 96 with yearly growth between 8 and 9 %, and foreign investment had been carried on sporadically from a relatively early period. Of capital from Europe and America, Holland's cash-and-carry wholesaler Makro and their joint venture, Siam Makro Public Company Limited (in which Makro held 40% of investments), with the strong Thai firm CP Group, which ran chicken ranches and other food businesses, is an early, successful example.

In May, 1998, Lotus, which had just been purchased by Tesco, was CP Group's hypermarket division. CP Group started opening hypermarkets in 1994, and operated 13 stores at the time of Tesco's purchase. At that point only two companies, Makro (17 stores) and France's Casino chain of hypermarkets Big C (20 stores), had more stores than Lotus, and Carrefour had only seven (Smith & Mandhachitara, 2000).

Tesco created a holding company, and, in an effort to avoid foreign capital restrictions, left Lotus in charge of 70% of stock. The store name was changed to Tesco Lotus (this name will be used here-on for convenience, the actual name of Tesco's local corporate name being Ek-Chai Distribution System Co., Ltd.), and ambitious goals, like doubling the number of stores and becoming the market leader over the next three years, were set. In fact, the amount of investments over the next five years to 2002 totalled 42 billion bahts (roughly 117.6 billion yen, with 1 baht at approximately 2.8 yen), and store number had risen quickly to 24 by the end of February 2001 and 33 a year later, fulfilling their initial goal of taking the top in the hypermarket business.

The choice of purchasing firms as the method of entry proved correct when seen through Tesco Lotus' rapid success. Lotus, in 1994, developed their business format based on the supercenter, the American version of the hypermarket developed in the United States. A management consultant company established by retired executives of Wal-Mart, the largest in the supercenter business, sent a management services team, the format was developed, and a permanent management team saw to store openings and administration. The total amount of selling space for the 13 stores purchased came to around 144,000 square meters, giving one store an average selling space of roughly 11,000 square meters. This goes beyond the standard size for hypermarkets (Aihara, 2000). Also, in 1995, a regional distribution centre was established in Wang Noi, Ayuttaya, north of Bangkok, and product delivery to stores was carried out through centralised distribution.

#### Tesco in Asia

1998: Thailand, Acquisition of a 70% share in Lotus

1999: South Korea, JV with Samsung (Tesco share: 81%)

2000: Taiwan, 100% subsidiary

2001: Malaysia, JV with Sime Darby (Tesco share: 70%)

The first store in 2002

A customer base had also, to some degree, been established. According to the 1998 consumer survey of 500 households in Bangkok by AC Nielson, the number of people who used a hypermarket over the previous four years had risen to 52% from 43% the previous year, and a greater percentage of users of Tesco stores were of the high income bracket when compared to users of other hypermarkets (Smith & Mandhachitara, 2000).

Tesco had managed through purchases to gain in one action the necessary management resources for quick store expansion.

## (2) South Korea

Korea's hypermarket industry experienced severe competition for store openings with capital liberalisation in 1996. In 1993, a leading department store operator, Shinsege began things by opening stores under the name E-mart, followed by Carrefour opening its first store through a full branch in 1996, and in 1998 Wal-mart purchased the stores owned by Holland's Makro. The joint venture Samsung Tesco Co., Ltd. came late in May of 1999.

Amidst this, in the mid 1990s, the renown Korean corporate group Samsung Corporation, in order to diversify its business, began to enter retail industries including department stores, hypermarkets (store name "Home Plus"), and specialty stores. The first Home Plus store was opened in Daegu, Gyeong Sang Bukdo in September, 1997. Of the five floors of the building, the first and second had a combined selling space of approximately 8,000 square meters, and the third to fifth was made into parking spaces. Sales following the store's opening have steadily increased, and even now "boasts the top world standard in sales efficiency" (Lee, 2002).

However, due to the IMF crisis which assaulted the Korean economy in 1997, Samsung Corporation lacked the funds needed to expand its just-started hypermarket division, and was forced to start restructuring this enterprise. After approaching a number of foreign capital



firms, it was decided that a joint venture would be established with Tesco, who was both financially strong and held the same belief in customer-oriented management. Tesco invested 81%, while Samsung Group laid out 19%. Tesco's amount of investment was 142 million pounds, and, as a result, "Through our partnership with Samsung, we now have two outstanding hypermarkets which are among the highest turnover stores in the Tesco group" (2000 annual report). As of February, 2002 Tesco's rate of investment has been increased to 89%.

Following the establishment of the joint venture, the first store was opened in July, 2000 in Ansan, a southern suburb of Seoul. Sales from the first day set a new record for the Korean merchandise store industry. Store numbers have been steadily on the rise, with 14 stores open in December of 2001, and sales of 1.54 trillion won (at 1 won to 0.1 yen, 154 billion yen). In the hypermarket industry (in Korea hypermarkets and general merchandise stores are called discount stores), Shinsege's E-mart is at the top, with Carrefour and Tesco battling for second. A standard store has a daily average of 11,000 customers and sales of 46 million yen, but despite the fact that the same level of store investment has been made by other companies in the same industry, sales relative to selling space is reported at being over 50% beyond competitors (Lee, 2002).

Tesco was able to advance quickly in Korea as well. Current goals are to open ten stores per year beyond 2002, with a total of 55 stores by 2005, and sales of 10 trillion won. Besides the success of Home Plus before the establishment of a joint venture, Samsung Corporation also brought with them human resource management information gathering abilities, and their reputation. The outer walls of the stores have "Samsung Tesco" written on them, expressing that one of Korea's best companies is behind store management. Also, one third of stores opened by March, 2002 were properties developed by Samsung group affiliates.<sup>Note (4)</sup>

### (3) Taiwan

Tesco, for almost a year after they decided to enter the Thai market in 1998, performed a feasibility study on Taiwan. Distribution in Taiwan was more modernised than that in Thailand and South Korea, and competition in the hypermarket industry to open stores was already heating up. This was due to early capital liberalisation in 1986. By 1989 Carrefour and Makro had opened their first stores, and as of May, 2002 a total of 109 stores have been opened by the 13 major hypermarket companies. Even so, the study team found that there is still room for the retail market to grow, and think that Taiwan offers good preparation for advancing to the Chinese mainland.<sup>Note (5)</sup>

As a result, a full branch, Tesco Stores (Taiwan) Co., Ltd., was established, and in December of 2000 Tesco's advance into Taiwan took the form of the purchase of a Makro store in a suburban shopping mall called Taimall in Taoyuan, northern Taiwan. In the mean time, they looked into the possibilities of establishing a joint venture firm with a local partner and M & As with local retail businesses, but could find no one suitable. One reason for this was that market restructuring was already underway, making the search for a partner difficult. From 2000 to 2001, French firms Auchan and Casino purchased tens of stores owned by local hypermarket chains. Local retail chains with fewer than ten stores were all that remained of

local firms (Shou and Yahagi, 2002).

The total number of Tesco stores as of May, 2002 comes to three. The first and second stores are not well located and are struggling. Originally, it was planned that 25 billion Taiwan dollars (approximately 92.5 billion yen at 1 Taiwanese dollar to 3.7 yen) would be invested over five years from 2001 to 2006, along with 22 stores opened, but in order to deal with early losses, the number of stores to be opened by 2006 has been reduced to about 10.<sup>Note (6)</sup>

The business environment is definitely harsh. Taiwan's economy lost speed in 2001, running in to the planned time for store expansion, and sales fell well below expectations. In addition to the matured retail market land prices were high, and the presence of building restrictions made selection of store sites difficult. Late-comer Tesco had little renown. Carrefour, with its nationally spread 27 stores and 13 years of experience in the market, is in a strong position to win customers (Shou and Yahagi, 2002).

Taiwan was the first time for Tesco to enter a foreign market alone and attempt to build stores from nothing, making it a completely different scenario from the road to quick business made possible through M & As in Thailand and Korea. It will take time to adapt to the local market and establish a customer base in Taiwan.

#### (4) The effectiveness of mergers and acquisitions

The realities of the three markets vary greatly: overwhelming success in Thailand, good possibilities in Korea, and difficulties in getting started in Taiwan. Financially, operating profits in the Asian division went from slight losses in 1999 and 2000 to profit in 2001, and in 2002, 29 million pounds in operating profits have been produced. Thailand and Korea have covered the losses in Taiwan, and are contributing to group profits. Although we cannot thoroughly analyse the differences in success in the three markets, it can be seen from condition survey reports that, for great or for small, differences in entry method and entry market environment had an effect on the outcome.

In other words, in Thailand and Korea, partnerships were formed with strong local firms, and quick expansion was made using retail formats which had been successful locally. At the base was the many management resources and societal renown built up by the local partners. We will discuss retail services in the next section, but for now let us add something about the creation of the local management teams.

Tesco is known in England as a retail business that puts great import behind human resource management. 15 million pounds are spent yearly for store human resource development, and the training program continually accepts 2,000 store staff trainees from around the world, 500 sales floor managers and management trainees, and 130 store managers and management trainees who can work internationally. Tesco's management concept and direction for business operations are communicated overseas while management teams utilize local human resources more than competing companies (2000 annual report).

Tesco-Lotus has nine upper-level managers under CEO Michael J. Raycraft. Of this number only a minority were sent from England, the majority having been hired locally. In addition, as of February, 2002, all 33 stores open have locally hired store managers. The employee turnover rate in Thailand is very high, but a goal of lower than 20% has been set for

2002. Tesco has selected to use local human resources, heighten employees' sense of loyalty, and utilize a human resource development program aimed at the mastering of operations through an extensive training program.

Samsung Tesco's management localisation has progressed that of Thailand. As of March, 2002, the board of directors is made up of 16 members, only three of whom are people dispatched from Tesco, the rest, including company president Seung-Han Lee, being Korean. Many of the Korean executives were originally Samsung Corporation employees. In contrast, the board of directors at Carrefour Korea from the top down are mostly people dispatched from France, and of their 22 stores only one third have Korean store managers. It can be seen how far Tesco has come in localising.

In comparison, Tesco Taiwan's troubles were beyond average. They had to create a local management team from nothing. As of May, 2002, over ten employees dispatched to start operations remain, and are working on store development and operations.

#### **( 5 ) Thailand as the crux for transferring management know-how**

Tesco-Lotus, as Tesco's first advance into an Asian country, holds a role as the Asian home office. In 1999, Raycraft was given the new title of Asia Director to strengthen ties with the local regional branch. Currently, an Asian management meeting is being held every other month rotationally in four countries and regions in Asia. Its members consist of the top management of local entities and the International Management Support Office and financial directors from the home office in England, and over two days reports are given from each country and region as well as directives from the home office, as well as exchanges of opinions on them. Thailand fills the role of business affairs office. Store inspections are also included, the best practice for each country and region introduced, with the purpose of encouraging international transfers. In the months without meetings, two hour video meetings are conducted where contacts and confirmations are made.

According to the 2001 annual report, the best practices for Asia are, in Korea, fresh food sales operations, and in Thailand non-food sales operations, particularly in home electronics sales, where the development of simple Thai private brand items is highly appraised, not only in the Asian region but in every Tesco Group country, as an example to be followed.

Thailand, through its ties with the home company in the UK, aids operations in each country and region, and provides training and education for employees. In particular, it has become the centre in Asia for information technology development, and directed the introduction of IT systems in Korea and Taiwan. Based on IT know-how from England, Thailand cooperated with local hardware and software makers and developed an information system that ties together the home office, stores, and delivery centres. Currently, 90 specialised technicians are employed to comprehensively manage inventory control, sales forecasts, distribution centre operations, account management, wage calculations, etc.. In terms of store operations, results are being delivered with the automatic stock replenishment system and their quick and accurate stocking methods. The same system has been installed in Korea and Taiwan as the command centre of the retail supply chain. The integration of information systems in Asia is being looked upon to allow for management improvements and

the transfer of management know-how, as well as contributing to regional stock management.

Management support efforts made by Thailand for other local Asian branches become most prominent when new local branches and new stores are set up. From hearing surveys in each country, it became clear that the transfer of Tesco's management know-how in Asia comes by two routes, either from the home office in England or the Asian region. The route from the home company involves a variety of country and region specific as well as worldwide training held in England (from executive to human resource management training), in addition to local guidance by members of the International Support Office and special operations divisions.

Thailand is the main centre for the Asian region route. For example, aside from the relatively long periods of training in England (from two to three months to half a year) a number of executives and human resource directors from Korea's Samsung Tesco underwent around the time of the establishment of the joint venture, before the opening of the Ansan store, the first following the creation of the joint venture firm, six trainees, including potential store managers, studied for two months in Thailand. In June, 2000, when information systems were being introduced from Tesco Lotus, local training and technical instruction from Thailand was carried out. Also, in Taiwan, where things started from zero, five to six directors from each store were sent to Bangkok for up to three weeks in preparation for the opening of new stores. In addition, trainees from each division were sent for short periods of training.

In what follows, let us look at the international transfer process for each major retail operation.

#### **4. The transfer of retail operation systems**

##### **(1) Hypermarket development**

How and when did Tesco decide on hypermarkets as their chief format strategy for Central Europe and East Asia and develop this business format? Through looking at materials and filling in blanks with interview surveys, several priming events can be found in the early stages of internationalisation.

The first is their experience running hypermarkets following their purchase of France's Catteau in 1993. Catteau ran 103 stores centred on the traditional supermarket format, but of these seven were hypermarkets. Although few in number, the hypermarkets made up for 30% of sales, the competitive power of which was recognized by Tesco (1997 annual report). Raycraft testified that "We learned a great deal from Catteau. One thing was that supermarkets of small to medium size had a hard time up against large hypermarkets." Note(7)

The next move was the 1994 purchase of Hungary's Global. At first, Tesco opened two traditional supermarkets, but in November of 1996 decided to open a large store which handled both food and non-food items in Budapest. With 5,850 square meters of selling space, it was not called a hypermarket in the 1997 annual report, but described as a large superstore. The store was equipped with an in-store bakery, a hot chicken corner, and other

prepared food counters, making the Budapest store the pilot for later hypermarket openings in Central Europe.

The third event was the late purchase of Lotus in Thailand come 1998. This has already been discussed. Through the compiling of successful experiences of internationalisation in France, Hungary, and Thailand, it appears that they became convinced of the competitive advantage of hypermarkets under certain retail market environments. Raycraft appraised hypermarkets in an interview as follows.

“Hypermarkets can serve successfully as total shopping places in areas where the retail market is relatively underdeveloped. There are already the examples of French hypermarkets. Hypermarkets are the universal approach to retail markets still in the process of development.”

Looking at the annual reports, Tesco began to consider hypermarkets as the main pillar of their internationalisation strategy from 1998. In the 1998 annual report, the fact that “the two hypermarkets in Hungary are very well supported by customers, and are among only a handful of all of Tesco’s stores with such a sales volume” is brought up, stressing the importance of hypermarket strategy in Central Europe, and, when reporting on the purchase of hypermarkets in Thailand in the 1999 annual report, hypermarkets are clearly referred to as the pillar for their international development strategy.

Meanwhile, the opening of the hypermarket Extra started in the home market from 1996. Tesco, in the 1990s, responded to the maturation of the superstore market and strengthening of regulations on opening suburban stores by diversifying their business format. In 1992, the urban-style supermarket Metro, and in 1994, the convenience store plus gasoline stand chain Express were started. Domestic development of hypermarkets came out of these advances. With the purchase in 1999 of Asda, owned by the United State’s Wal-Mart, it can be surmised that strategy wise, strengthening of non-food item divisions and the opening of hypermarkets began to hold a great amount of importance.

However, there is a slight difference in the hypermarkets opened overseas and domestically. Hypermarkets overseas are; 1) to place greater weight behind non-food items, 2) to hold sales promotion more frequently, and 3) to offer a full range of products and services for one-stop shopping (1999 annual report). With the joint transference of management know-how between hypermarkets, how the differences in hypermarkets listed above will change is something to be watched for.

It should also be emphasised that the development of hypermarkets had a close relationship to the entry market strategy decision to focus on entering the markets in Central Europe and East Asia. It can be assumed that, for a period in the late 1990s, Tesco’s top management realised the effective combination of an entry market strategy focusing resources on retail markets in regions which were underdeveloped but had a high market potential and the hypermarket format strategy, which offers modern one-stop shopping at low prices.

## (2) “Standardisation of format” and “adaptation of its”

Tesco CEO Terry Leahy said the following on retail format and its operating system.

“Our formula is to develop a world-class hypermarket format with a common layout,

common operations and common systems, overlaid with local marketing, local services, local staff and local management” (2000 annual report).

The business system for hypermarkets can be standardised, and through this standardisation the benefits of transferring management know-how can be quickly realised, but at the same time, adaptation of its operations to regional markets and localisation of customer services and the establishment of the local management team are necessary conditions for success is what Leahy is proposing. Let us look through how a standardised business format has been adapted locally in the three Asian countries and regions through a look at the stores.

The author was able to visit the cutting-edge Bangna store in Thailand in November, 2001. The Bangna store is located in the Eastern suburbs of Bangkok, next to the major roadways. This was the store Tesco offered in response to a request to see the “newest in standard stores”. Total floor space for the two floor building is 34,000 square meters, with parking, restaurants, accessory store and other tenant shops, as well as a food court on the first floor, and selling space and tenant shops on the second floor. Selling space comes to 13,000 square meters, in addition to a roughly 500 square meter food court, and around 10,000 square meters containing over 100 tenant shops including book sellers and other merchandisers, international eating establishments, banks, and beauty salons. This is one of the largest stores in the chain. It has extended operating hours from eight in the morning to twelve at night. This is because of the large number of evening shoppers generated due to the hot climate.

The layout of the second floor sales space is not appreciably different from competing French hypermarkets. The main aisle runs along the left side facing the store’s front where sales promotion items are stacked, and on the right side of the main aisle are the hard-line products. In the very back are products with the largest amount of customer attraction. Along the left side of the main aisle along side of the registers are women’s apparel and accessories, health and beauty products, and household items. Behind this is men’s clothing and processed foods. Along the wall facing the front entrance is a large fresh foods service sales area, followed by the meat prepared foods areas and the bakery, with the stereo and electric fan sales area in the rear on the right. Produce is found in front of the meat and prepared foods area in the central floor, set up almost like an island on the sea.

The author also was able to visit the busy Rama IV store inside Bangkok. Clear similarities were found between the Bangna and Rama IV stores. A simple, clear sales floor layout in a short building, a large in-store bakery, and a substantial food section including a wide variety of prepared foods are all features similar to rival hypermarkets, but the large number of tenants and food court establishments, plus the children’s play area built with the shopping centre were innovative additions. This is a reflection of Tesco’s store building concept which reflects the fact that “in Thailand shopping at hypermarkets is an outing for fun by the entire family.” Note (8)

The author also visited the Ansan store in Korea, opened in August of 2000 as the first store following the establishment of the joint venture, and, in Taiwan, the Ching Kuo store, in Tao Yuan city the most stable of the three there. Both were stores introduced to the author following a request for a visit to a “typical store” in the capitol area. The selling

area of the stores are similar at 11,000 and 18,900 square meters. Incidentally, during interviews in the three countries/regions, average stores were said to have “selling space between 10,000 and 12,300 square meters and 1,000 parking spaces”. Also, the initial store plans and store hardware, such as store fixtures, were said to have been brought in to Taiwan and Korea from Thailand.

The Korea's Ansan and Taiwan's Ching Kuo store continue the hypermarket format in terms of one-stop shopping, low prices, and free parking, and, in addition, offer expanded services in eating, drinking, and entertainment establishments, and specialty tenant shops in an attempt to increase their appeal as shopping centres and their competitiveness, similar to what is being done in Thailand. Even so, the building structure and tenant constituency varies greatly by country and region. In Thailand, where land is cheap and space can be used in abundance, stores tend to become large. In contrast in Korea and Taiwan, where land is expensive and the area a store can be built on limited, stores with many floors are common.

Since it is difficult to reserve space for an outdoors parking lot, most parking space is made inside the building.

The Ansan store in Korea has four floors, with parking on one part of the first and all of the third and fourth floors (1,000 spaces). The first floor has a large food court (2,100 square meters), and the second floor sales area holds over 30 tenant shops. The Taiwan Ching Kuo store is a five story building with a basement and four above-ground floors, with sales space divided between the basement and first floors, and parking on the basement and third and fourth floors (1,000 spaces). On the second floor are 80 tenant shops and food court with an area of approximately 1,100 square meters.

As the structure of the buildings differ, the layout of stores in the three countries and regions vary slightly, but there is little obvious difference in the product categories handled. Tesco Stores (Taiwan) Co., Ltd. CEO David Orchard-Smith observes that “The positioning in local markets varies slightly. In Thailand food items are big, where in Korea stores emulate department stores to up-scale themselves.” The direction he now points to is “if possible, I would like to bring the best of both into Taiwan and adapt to the local market.”

An example of the features of a local market can be seen in the Ansan store that is not present in stores in Thailand and Taiwan. In order to increase the customer enjoyment of the shopping centre through tenant makeup, a cultural centre was created on the first floor of the store. Classes in dance, music, computer literacy, cooking, etc., are held, with 700 people participating at the start and at present in July, 2002, this number has risen to 2,500. This centre also had a lounge in which customers can read and chat. According to a director at the Ansan store, as Koreans have a great deal of enthusiasm about education, a cultural centre is an important tool for creating lasting customers.

Taiwan is looking to localise store management in the opposite way from Korea. As competition from earlier French chains including Carrefour is stiff, Tesco Taiwan is making “We sell for less” their motto of store management. The Ching Kuo store is right in front of one of Carrefour's, and inside the store “We sell for less” posters are put up everywhere.

Sale display signs are also highly visible. Amidst fierce competition, they offer a lowest price guarantee for items of the same type, and daily, at the front of the store, post a price comparison list of 25 major items at competing stores.

### (3) Carrying out management principles

The last segment stressed the localisation of store management and management teams, but this is not meant to indicate a lack of management principles regarding stores and organizations among the local entities. "To create value for our customers, to earn their lifetime loyalty" (2000 annual report), Tesco's philosophy of management, has been carried over by local branches, and there are common methods used to bring this about. To be concrete, the customer satisfaction surveys and consumer panel surveys carried out in the UK are also performed in Asia, and all local entities perform a management improvement method known as the "steering wheel", where yearly plans are made for all employees and evaluated, dividing things into four areas: customers, human resources, operations, and finance.

Taking customer surveys as an example, in addition to regular pre-opening customer characteristic and product range surveys, local Asian branches also perform customer satisfaction and customer image surveys yearly at each store, and hold customer panel surveys as needed using representative customers from each store, asking for qualitative appraisals. In Thailand for 2001, over 40 customer panel surveys were held, and heard from several thousand customers what they would like improved in how things were run. In fact, from these panel surveys a canopy over the outdoor parking lot to relieve the heat has been added, display of expiration dates has been thoroughly carried out, a free shuttle bus service from the nearest station of the central Bangkok monorail system to the store has been started, a wider register for the physically handicapped was opened, free cold water has been provided, more varieties of cards have been added for customers with children, and overhangs were attached over the entries and exits for rainy days. Some additions useful for other local branches in Asia have been transferred to them. One example would be the Taiwan Ching Kuo store, where free cold water and a variety of shopping carts have been added.

### (4) Construction of the retail supply chain

Tesco has created a superior retail supply chain, and realized a wonderful operating effectiveness. Store delivery systems went through three stages: up to the 1970s Tesco used direct delivery to stores from suppliers, in the 1980s they shifted to delivery through numerous regional distribution centres, and in the 1990s moved to a delivery system that centred on composite distribution centres that can handle products stored at a variety of temperatures (Yahagi, 2000).

There are plans to shift to store delivery using regional distribution centres or composite distribution centres once a certain number of stores has been reached in Asia. The Wang Noi distribution centre in Thailand has brilliantly adopted the retail supply chain know-how earned by Tesco in its home market. Following Tesco's purchase, they took immediately to increasing the number of distribution centres and reworking their operations system. First, in 1998, they increased the space for consumable goods, which have a poor rate of stock turnover, by about 10,000 square meters, and, on top of the distribution service holding pre-existing stock, added a new cross-docking distribution system. Combining internationally recognized electronic barcodes and a sorting conveyer system, they created a scheme by which merchandise brought in to a centre could be delivered to stores within 24 hours. Also, in 2001, they added a fresh food centre (roughly 9,000 square meters floor



space) with temperature controlled areas at minus 27, plus 1, 8, and 5 degrees Centigrade for produce, meat, frozen foods, and chilled merchandise.

With this, a composite distribution centre featuring storage at all temperature ranges was completed, a stock replenishment system for all products serving 33 stores using three to four large trucks daily was set up, and product delivery to stores through centralised distribution centres reached approximately 90% of total volume. Distribution covers fresh foods to apparel, seven days a week, with a delivery lead time of 12 to 48 hours, including rural areas. The stockout rate for items requested by stores is a low 6 in 10,000. They have realized a high physical distribution service level, comparable to that at Tesco in the UK.

Their third increase of floor space was 20,000 square meters and scheduled to be completed in the middle of 2002. Expansion of the cross-docking system and introduction of a piece picking function, capable of sorting and arranging individual items, for their new convenience store venture are the main purposes for the increase, which expand the 50,000 square meter composite distribution centre, already the largest in Southeast Asia, to an enormous 70,000 square meters.

The composite distribution centre, the hub of the retail supply chain, has already been proven in the home market as a revolutionary management technology system. Composite distribution centres typically contribute to stock reduction, at the stores and centres lowering distribution and store operating costs, reducing the number of delivery vehicles, and providing high quality of distribution services, but also aid the introduction of paperless transactions and automatic replenishment systems through the construction of an information network linking stores, the main office, and distribution centres (Yahagi, 2000). One of Tesco's strengths in Thailand comes from the development of their retail supply chain.

In Korea and Taiwan, improvement of the product supply system is a topic set to be handled in the future. As for Korea, there is a distribution centre with a building area of 14,200 square meters in Deok Pyeong about one hour by car outside of Seoul, but product delivery through centralised delivery centres is a low 35%. At the beginning of 2003 a composite distribution centre with a building area of 50,000 square meters and multiple temperature-controlled zones will be built in Chonang, positioned almost in the centre of South Korea. This is on the same scale as the composite distribution centre in Wang Noi, Thailand, and promises to utilize the design, facilities, technology, management methods, and experience gained in Thailand. At that point product delivery through centralised centres looks to reach 90%, the same as in Thailand.

Taiwan still has only three stores, generating a volume that does not warrant the creation of a distribution centre. According to planning, when a total of six stores have been opened a regional distribution centre will be created to handle processed food and handle consumable goods.

##### **( 5 ) Introduction of private brands**

The final part of retail business strategy is obtaining products, the pinnacle of this being the development of private brand products. Tesco's strength in its home market comes from its involvement in their own private brand products, from product development, management of the production process, to product distribution. In Asia the development of

private brand products is proceeding slowly. Thailand, as of March 2002, sells 500 products under the private "Super Save" brand, including canned goods, beverages, paper products, and a variety of cleaning products. 98% of these are provided by over 110 native Thai makers. They make up under 10% of sales, well below the over 40% seen domestically in the UK.

In Korea, development of private brand products began in earnest in 2001 along with store development getting on track. Private brand development focused on necessities of living, with 120 products in 1999 making up yearly sales of only 39 billion won, but this increased to 286 products and 17.5 billion won in 2000, and 430 products with 60 billion won in 2001 (Kim and Lee, 2003).

Private brand development has not started in Taiwan, leaving them to import inexpensive private brand products such as tea and jam from the UK, but this only makes up a small percentage of sales.

Compared to retail format and the supply chain, local private brand development faces many problems including limited sales volume, selection of manufacturers, product development strength, and technological instruction, making progress slow. However, there is hope that private brand development in Asia will advance. The reason for this is that Tesco is placing expansion of its non-food division both domestically and otherwise as a major business goal, with Asia being looked at to become a major supply point (IGD, 2000).

## 5. Summary

### (1) Features of Tesco's internationalisation strategy

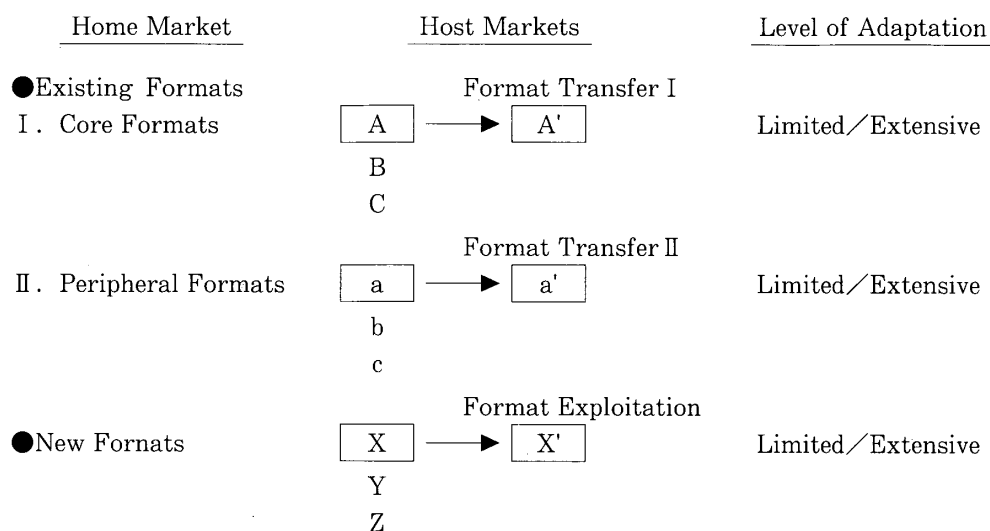
Tesco's internationalisation strategy has three major features. The first is its focus on the entry market. Central Europe and East Asia are the two regions within this focus, and the concentration of resources there has sped up the internationalisation process. Second is the use of mergers and acquisitions. This is a successful method for quick internationalisation and avoiding risks. However, Tesco's M & As differ from those of the United State's Wal-Mart in that they do not use large-scale M & As, but instead purchase small and mid-sized local firms or establish joint ventures. In particular, they obtain effective local partners in Asia, and expand stores through internal development. Third is their use, not of the normal store-format transfer strategy in which a competitively superior format in the domestic market is spread geographically, but a store-format exploitation strategy, in which the hypermarket format was developed along the retail internationalisation process itself.

Of the features of their internationalisation strategy, a correlation has been pointed out between the selection of the entry market and the use of a store-format exploitation strategy. This is a problem of, in response to the selection of entry market by the retail business and changes in the entry market, how to create the store format strategy, and whether to use a format portfolio strategy involving the use of one or multiple kind of formats in overseas markets (Goldman, 2001). Tesco's store-format exploitation strategy offers valuable hints regarding the format portfolio.

Formats, which are the focus of format portfolio strategy, can be divided into two types: those already in existence in the home market, and new formats. Existing formats can also be divided into core formats and peripheral formats, used to diversify business. The

most common is Format Transfer Strategy 1, in which a competitively superior core format developed in the home market is used overseas. However, if the market to be entered and the peripheral formats are seen as being compatible, the format deemed to be most likely to succeed will probably be selected from the periphery formats in the home market, using Format Transfer Strategy 2. The conditions under which the last store-format exploitation strategy is selected is very different from that of the format transfer strategy. This is when in the market to be entered, that is, in the global market, a format that can win competitive superiority cannot be found among those in the home market. This comes from a motivated decision to develop a new and effective format for developing the global market, and earning an opportunity for development through internationalisation.

Chart 1. International Format Strategies



Three format portfolio strategy patterns deal with problems at the time of format transfer between the home market and market to be entered, changing over time first from a simple Format Transfer Strategy 1, entering Format Transfer Strategy 2 with the ripening of the market, leading, most likely, to a combined strategy involving periphery formats.

Following entry, adaptation of the selected format to the local market begins. This is a problem of the level of adaptability of retail operations. The comparative case study on the adaptability of Seven Eleven and Toys R Us in Japan (Yahagi, 2002-b) points out different levels of adaptation. One is "limited adaptation", where the store format concept and its operation systems were copied, but partial adjustments to local market conditions were made for items handled, store location, store size, etc. that are by and large inevitable in the domestic operations, too. This adaptation pattern is similar to the multinational strategy which Salman and Tordjman (1989) called. The other is "extensive adaptation" or "continuous adaptation", where the basic store formats like a hypermarket and a supermarket was maintained but the operation systems including supply chain and product development and purchasing are entirely adapted in addition to items handles, store location selection, and so on. Toys R Us Japan did the former, where Seven Eleven Japan chose the latter.

From this, an outline for analysis of the internationalisation process for retail operations can be organised into a diagram. Tesco's internationalisation process in Asia, in

terms of format portfolio, selected store-format exploitation strategy with a geocentric orientations, and the level of adaptability to local markets in which an extremely standard format was used can be seen as a very "limited adaptation". Also, from the fall of 2001 in Thailand, convenience stores have been opened, showing that the combination with Format Strategy 2 added to the format portfolio strategy has begun.

## (2) The internationalisation process in Asia

Tesco's internationalisation in Asia has consistently involved thorough preparation and large investments, but their results differ in the three countries and regions so far have been "two wins, one loss". Internationalisation of leading retailers like Wal-Mart and Carrefour also show the variance in the outcomes in the different markets entered. For this reason, there are no surprises in the variance in Tesco's success, but why performance differs in entered markets is a question that needs explanation.

There is a limit to the ability of this paper to explain the variance in performance in different markets. In entered markets distanced by social, cultural, and economic factors, this paper was able to point to the use of local partners or the purchase of local firms which are versed in the local market. However, acquired firms such as Lotus and Home Plus are not always found in every market. The difficulty of searching for a local partner became apparent, without a doubt, in the third market of entry, Taiwan.

Performance in different markets can be thought of as being determined by entry method, entry timing, the environment of the market to be entered, the management ability and resources of the entry firm, the compatibility of the market environment with the advancing firm, etc.. What now must be analysed is the importance of the explanatory variables concerned with multiple markets in which global retailers are active.

## (3) The transfer of management know-how in the international network

Within the international network structure formed by the home market and numerous entered markets, we examined the interaction of transferring management know-how regarding retail operations and the relations between markets. It goes without saying that the hypermarket did not suddenly generate itself. Through experience in managing hypermarkets following the purchase of a mid-sized French supermarket chain, and through construction and successful operation of a large store in Hungary, and through acquiring management knowledge in Thailand through the supercenter set up by previous Wal-Mart executives, this direction was most likely settled on. In terms of time, this covered roughly several years in the 1990s. The use of hypermarkets itself was the strategy of choice for the internationalisation arena, but the fact that Tesco developed the hypermarket as a new format for themselves in order to pursue internationalisation can be looked highly upon.

Let us organize the interaction in the internationalisation process from the relations between the home market and markets entered, and between the entered markets themselves. Their concrete relationship can be illustrated as in the diagram. As can be expected, management know-how involving quality control in fresh foods, in-store bakeries, etc., running stores 24 hours, e-commerce, developing private brand products, constructing and

operating the retail supply chain, etc., etc., is often transferred overseas from the home market. However, although few, highly seasonal sales promotions held often (mostly from Central Europe), the development of simple private brand items (mostly from Thailand) were ideas which flowed from the outside in. Operation management and non-food private brand product development for hypermarkets can be seen to transfer themselves in two directions, both from the inside out, and the outside in.

Transference of management know-how within Asia is handled by Thailand, which serves as the regional headquarters, from which help is given in a broad range of areas: store design for when local entities are established or new stores are opened, sales floor layout, store fixtures, staff training in store management, etc.. Also, through the holding of managerial meetings, the best practice for each country and region, as well as new ideas can be absorbed.

Chart 2. Tesco: Transfers of management know-how

	UK	Overseas (country/region)
<b>[Retail operations]</b>		
1. Basic operation systems	→	**
2. Hypermarket operation		← (CE, T) *, **
3. Seasonal sales promotion		← (CE) *
4. Fresh food operation		← (K) *, **
5. In-store bakery operation		← (CE) *
6. Non-food operation		← (T) *, **
7. Opening 24 hours	→	*, **
8. Royalty card operation	→	*
9. E-commerce	→	*, **
<b>[Merchandising]</b>		
1. Private brand program	→	**
2. Development of simple PB		← (T) *, **
<b>[Supply chain]</b>		
1. Basic SCM	→	**
2. Continuous replenishment	→	**
3. Composite distribution center	→	**

Notes: (1) Compiled from the annual reports (\*), and field studies (\*\*) in Thailand (T), Korea (K), and Taiwan. (2) "Overseas" indicates markets entered and the name of the country/region in parentheses indicates the ones which transfer "best practices" to the home and other overseas markets. (3) CE stands for Central Europe.

Having looked at the transfer process for major retail operations, retail format and transfers within management systems for these formats is the most prevalent and active, and this is followed by transference of knowledge regarding retail supply chain structure and management for maintaining product supply. Local product acquisition is the mainstay, while transfers of private brand development knowledge and exportation of private brand goods is sluggish. This is a result to be expected from retail business management where know-how is transferred in the order of retail format, product supply, and product development, but having been able to identify this in the internationalisation process holds no small meaning from the standpoint of creating management strategy for an entered market.

However, in regards to the complex interaction between markets, there are more things still unknown than came to light. This has to do with the limit of field studies of companies, but even in the case of Tesco, the issues of more carefully dividing up retail operations and examining the international transfer process of each, the makeup and role of the International Management Support Office established at the home office in the UK, the relations between the Central European and East Asian markets, training and management of temporary staff, etc., have yet to be examined. In the same way, an enormous comparison with competitors which are internationalising will also be necessary.

[Notes]

(1) This paper was presented to The Asian Pacific Retail Conference 2002 at the Chinese Academy of Social Sciences, Beijing in November, 2002.

(2) The following is a list of the field studies in Tesco.

Thailand:

- 1) 7 March, 2002, Tesco Lotus (official company name EK-Chai Distribution System Co., Ltd.), CEO Michael J. Raycraft
- 2) 7 March, 2002, Tesco Lotus Bangna, Assistant Department Manager
- 3) 8 March, 2002, Tesco Lotus distribution centre, Vice President

The Republic of Korea:

- 1) 26 May 2001, Ji-Hwan, Store Directing Manager, Seong-Min Cho, personal Department Manager, Ansan store
- 2) 5 March, 2002, President and CEO of Samsung Tesco Seung-Han Lee (in Tokyo)
- 3) 2 April, 2002, Samsung Tesco Regional Retail Office #1 Director Sung-Ryong Lee, Regional Retail Office #1 Personnel Department Manager Seong-Min Cho

Taiwan:

- 1) 8 May, 2002, Tesco Stores, Taiwan, CEO David Orchard Smith
- 2) 8 May, 2002, Tesco Stores, Taiwan, Raymona Tsui, store general manager, Tao Yuan-Ching kuo store

Before the studies listed above, a preparatory study involving store observation was performed around Bangkok from the sixth to the ninth of March, 2001. Also, in order to avoid confusion, the relationships between these studies and hearing studies have been greatly omitted within this paper, unless specified.

- (3) The international network approach is that discussed in IMP Group's Hakansson and Snehota (1995).
- (4) From a hearing study conducted 2 April, 2002 with Samsung Tesco Regional Retail Office #1 Director Sung-Ryong Lee
- (5) From a hearing study conducted 8 May, 2002 at Tesco Stores, Taiwan, with CEO David Orchard Smith. The quotes from Smith which follow are from the same study.
- (6) Same as above.
- (7) From a hearing study conducted 7 March, 2002 at Tesco Lotus (official company name EK-Chai Distribution System Co., Ltd.) with CEO Michael J. Raycraft. The quotes from Raycraft which follow are from the same study.
- (8) The same as above.

**[References]**

Text in English:

- Alexander, N. (1997), *International Retailing*, Blackwell Publishers, Oxford.
- Alexander, N. and H. Myers (2000), "The retail internationalization process", *International Marketing Review*, Vol.17 No. 4 / 5 .
- Davies, R. and T. Yahagi (eds), (2000), *Retail Investment in Asia Pacific: Local Responses and Public Policy Issues*, Oxford Institute of Retail Management, Templeton College University of Oxford.
- Goldman, A. (2001), "The transfer of retail formats into developing economies: The example of China", *Journal of Retailing*, 77.
- Hakansson, H. and I. Snehota (1995), *Developing Relationships in Business Networks*, International Thomson Business Press.
- IGD (1996–2002), *Tesco Plc (Account Management Series)*, IGD Business Publication, Watford, England.
- IGD (2000), *Global Retailing: The future*, IGD Business Publication, Watford, England.
- Johanson, J. and J. Vahlne (1977), "The internationalization process of the firm model of knowledge development and increasing foreign market commitments", *Journal of International Business Studies*, Vol. 8 No. 1 .
- Salmon, W. and A. Tordjman (1989), "The internationalization of retailing", *International Journal of Retailing*, Vol. 4 No. 2 .
- Shou, S. and T. Yahagi (2002), "The localization process of Carrefour in Taiwan", The paper presented to The Asia Pacific Retail Conference 2002 in Beijing, China, A forthcoming publication.
- Smith, T. and R. Mandhachitara (2000), "The internationalization of retailing in Thailand", in Davies, R & Yahagi (2000).
- Sternquist, B. (1997), "International expansion of US retailers", *International Journal of Retail and Distribution Management*, Vol.25 No. 8 .
- Vida, I. (2000), "An empirical inquiry into international expansion of US retailers", *International Marketing Review*, Vol.17 No. 4 / 5 .
- Vida, I. and A. Fairhurst (1998), "International expansion of retail firms: a theoretical approach for future investigations", *Journal of Retail and Consumer Services*, Vol. 5 No. 3 .
- Whitehead, M. (1992), "Internationalization of retailing: Developing new perspectives", *European Journal of Marketing*, Vol.26 No. 8 / 9 .
- Williams, D. (1992), "Motives for retailer internationalization: their impact, structure, and implications", *Journal of Marketing Management*, Vol. 8 .

Text in Japanese:

- Aihara, O. (2000), "Innovation in French hypermarkets", in *Yahagi (2000)*.
- Kim, Y. and S. Lee, (2003), "Transfer of retail management know-how in Korea", in T. Sekine and S. Oh (2003), *Retailing in Japan and Korea (eds.)*
- Kawabata, M. (2000), *The Internationalization of Japanese Retailers: Locations and Strategies*, Shinhyoron.
- Lee, S. (2002), *Tosco's Asian Strategies—From the Success in Korea*, A speech at the International Seminar by The Japan Retail Association in Tokyo on March 5<sup>th</sup> 2002 (handout)
- Mukoyama, M. (1996), *Toward a Pure Global Path*, Chikura Shobou.
- Yahagi, T. (2000), *Retail Innovation in Europe (ed.)*, Hakuto Shobou.

Yahagi, T. (2002-a), "Research notes on the retail internationalisation process", *Keiei Shirin (The Hosei Journal of Business)*, Vol.38 No. 4.

Yahagi, T. (2002-b), "The adaptation of foreign retailers to Japan", *GNOSIS (Journal of CBIR, Hosei University)*, No.11.