

Internationalization strategies

[Business](#), [Company](#)



\n[[Table of Contents](#)]\n

\n \t

1. [Introduction](#) \n \t
2. [Global Retail Food Environment](#) \n \t
3. [References](#) \n

\n[/toc]\n \n

Introduction

In early days of civilization, people in most of the cultures and societies across the globe use to live in families, growing their own food, making their own clothes and supporting their lives through various other self made goods. Then the population of the world increased, and production and distribution of goods began to improve. This advanced the dependence of people on others for making some products. This dependence intensified further with people becoming specialized in producing certain products and doing certain works. This specialization and dependence formed the basics of the modern business system. Like people within a society who are dependent upon each other for some products and services, countries are dependent upon each other too. Countries across the globe have different specialization over others in producing certain products and services.

Countries are either innately specialized in some areas due to their natural resources and geographical features, or achieve their specialization over some time with due diligence in some areas. However, despite achieving a certain level of economic independence, even some of the most developed countries in the world depend upon other nations for some products or

services. For instance, most of the coffee consumed in US comes from Brazil, while Japan depends on other nations for most of its oil. The business activities that facilitate the exchange of products and services among different nations is referred to as International Business. The growth of international business (internationalization or global business) reflects the phenomenon of globalization.

While a wide range of academic literature indicates that internationalization and globalization is advantageous, expansion of businesses across countries involves considerable challenges and difficulties (e. g. Kacker, 1986). These challenges and difficulties underscore the importance of an international business strategy specifically aimed at determining a favourable international market for expansion, choosing a viable market entry strategy, and formulating relevant business level strategies to steer the expanded business towards success. This essay evaluates the international business strategy of two retail giants Wal-Mart and Tesco. Considering the enormity of the subject of international business, this essay narrows its focus towards evaluating the international business strategy of these firms in context of South Korea.

Global Retail Food Environment

The global retail food industry has been enjoying a steady growth over the past few decades. It was estimated to be worth USD2, 000 billion by the year 2010 (Euromonitor, 2009). The retail food industry is mainly dominated by large hypermarket and supermarket retail chains with smaller businesses such as luxury foods retailers, and independent convenient stores having a

very small market share (Euromonitor, 2009). It creates a favourable situation for some of the world's biggest supermarket chains such as Carrefour, Wal-mart and Tesco, to pursue international expansion. The global retail food industry is increasingly being consolidated by some of these major market players. Wal-Mart and Tesco, both having considerable resources at their disposal, are in a sound position to expand their businesses to favourable overseas market. Among many emerging markets, South Korea is certainly a big opportunity for any such supermarket chain.

FDI Strategy of the Host Market

The foremost objective of an international business strategy of a company is to assess the favourability of the foreign direct investment strategy of a new market. Foreign companies usually take on resource and capital intensive projects of large scale and are thus concerned with the level of support afforded to them by host governments. The host governments, on the other hand look for benefits of the spill over effect of technological and capital influx brought by the foreign firms (Conyon et al., 1999).

Historically, the economy of South Korea has been a closed one especially in terms of retail operations. It was not until 1988, that foreign ownership of a retail establishment was allowed in South Korea. In 1988, the government of South Korea initiated a number of 3-year open-up plans aiming to enhance the efficiency and productivity of the local retail sector. The foremost plan which was implemented in 1989 allowed for the establishment of subsidiaries of foreign companies in South Korea. The second plan of the

open-up policy enabled foreign retailers to set up stores within a limited size of 1, 000 sq m (Retail 360, 2012).

The final plan of the open-up initiative further relaxed the number and size of retail outlets that could be owned by foreign companies. In 1993, foreign companies were allowed to open up as many as 20 retail stores with a maximum size of 3, 000 sq m. However, it was in 1996, that the FDI policy for the South Korean industry was completely liberalized allowing foreign supermarket giants to expand their international business operations in earnest. Sensing this opportunity, both Wal-Mart and Tesco entered the South Korean market almost at the same time; with both adopting different international business strategies (Retail 360, 2012).

Market Entry Strategy

Upon liberalization of the South Korean market, Wal-Mart attempted to make its way into the new market by building its own stores in remote urban areas of the South Korean cities where real estate prices were relatively lower than the main commercial centres. It was a clear replication of Wal-Mart's US strategy of smaller-city store build-up. Wal-Mart succeeded in opening up a total of only 16 stores in all of South Korea; with having only one store in the Seoul metropolitan area. With this, the company failed to achieve the economies of scale. Wal-Mart anticipated that the Korean consumers, like those in the US, would drive to its remotely located stores for bulk price shopping. However, this location strategy proved to be contrary to the South Korean consumers' lifestyle and shopping behaviours. Korean consumers

preferred buying smaller units of goods more frequently and thus favoured accessibility to a store more over bulk price buying (Retail 360, 2012).

Unlike Wal-Mart, Tesco took a more gradual path of market entry. Tesco entered the South Korean market through a joint venture with Samsung. Samsung is one of the largest South Korean conglomerates operating across a wide range of business sectors. With this market entry strategy, Tesco benefited from Samsung's knowledge and know-how of local market and consumers behaviours whilst limiting its focus upon transferring its core retailing skills to the South Korean market. Tesco did not try to replicate its British version of retail business in the new market. Tesco gradually increased its stake in its joint venture until it acquired 95% of its stake (Retail 360, 2012).

Firm Size and Internationalization

Management literature prescribes four fundamental business strategies and their coinciding business models for firm operating internationally. These are:

Multinational organizational strategy: It resembles a 'decentralized federation', wherein each of the foreign subsidiaries of an organization can adapt the company's products and services and even business strategies, to meet the local requirements of its international destinations. The head offices of those companies adhering to this strategy presumably maintain only financial controls over its subsidiaries.

International organizational strategy: This type of strategy resembles a ‘coordinated federation’ wherein the head office of a business is determined to transfer its knowledge, expertise and technology to its subsidiaries in new markets. The subsidiaries in foreign markets depend upon the headquarters for developing products and services, processes and ideas; although some tasks and authorities are decentralized. The subsidiaries enjoy some autonomy regarding policies and business level strategies.

Global organizational strategy: This strategy essentially forms a ‘central hub’ wherein the centre has a stringent focus upon marketing standardized product and services across the globe through a predefined unified strategy. The head office observes a tight control over all the business activities with foreign subsidiaries being strictly confined to the implementation of the policies and procedures of the head office. Their task remains to provide only sales and service.

Transnational organizational model: It resembles an ‘integrated network’ wherein ideas and information flows both ways from the head office to the subsidiary and vice versa. This strategy is prevalent in knowledge organizations and information technology firms and knowledge organizations. (Kairimi and Konsynski, 1991; Hill, 2003; Johnson and Turner, 2003)

Considering the above theory, business strategy of Wal-Mart in South Korea can be described as being of ‘global organizational strategy’. Wal-Mart, which entered South Korea in 1996, disappointed South Korean customers by sticking to its Western marketing strategies. The company insisted upon

focusing more on dry goods, ranging from clothing to electronics, just like its American stores, while its rivals focused more on selling food and beverages which according to experts attracts South Korean customers to hypermarkets/supermarkets. Moreover, Wal-Mart stores followed their traditional store design, making them look too simpler in appearance than its local rivals. Its store simplicity was further marked by its display strategy in wherein it sold its products in boxes, while most of its rivals built eye-catching display with clerks appealing to customers over megaphones and through hand clapping like a traditional street market (Sang-Hun, 2006 a). For instance, Wal-Mart displayed fish wrapped in cellophane, disregarding the South Korean custom of buying fresh fish (alive in tanks). Furthermore, by applying US standards to its stores in South Korea, the company failed to alleviate various difficulties faced by its customers. For instance, adhering to the US standards, the height of the shelves at Wal-Mart stores was too high for short South Koreans (Sang-Hun, 2006 b).

Meanwhile, the business strategy of Tesco, can be described as that of a 'multinational organization'. The South Korean subsidiary of Tesco operates with complete autonomy in terms of its business strategy and approach, following an organizational structure of a decentralized federation. This approach is evident from the company's articulated 'Homeplus' stores, which have relatively different features than those of Tesco's home country stores. The chairperson of the company's South Korean division appears to formulate and execute its business strategy with a stern local perspective; a key constituent for the business's success in South Korea.

The most critical challenge for any company undergoing international expansion is to take into account the cultural differences between its home and foreign market (see Hofstede, 1991, 2001). From the case of Wal-Mart in South Korea, it is evident that cultural habits and preferences play the most crucial role in determining the success or failure of a retail food business. In order to overcome this challenge, Tesco adopted a strategy to run its South Korean business in a strictly localized way. Pertaining to this strategy, the company employs a large number of local staff, even at its top most managerial positions. For instance, in 2008, out of its 23000 employees, only four of them were British; one of them being the regional director while the others were positioned at middle management (Davey, 2009). This strategy has proved to be very successful for Tesco. According to Martin Uden, the British ambassador to South Korea, the success of Tesco in South Korea is attributed to its strategy to run the business like a local one. He states that Tesco is just using its general retailing skills to run the company with a Korean approach (Davey, 2009).

The company's Homeplus format of stores is another reflection of its multinational business strategy. The Homeplus format stores are regarded as highly popular cultural centres as they facilitate community education within the premises of the hypermarkets. Overall, Homeplus stores in South Korea have more than 650 classes being conducted simultaneously to a school term in numerous subjects such as English and Chinese, Cookery and Ballet among others. In South Korea, sending children to private tuitions after school hours (called as 'hakwons') is a common practice. The provision of community education where children attend regular classes while their

mothers occasionally accompany them for shopping is a highly successful approach.

Apart from this, the Homeplus format offer sitting, resting and play areas for children. Moreover, instant snacks such as noodles and others are served at the corners of various aisles throughout the stores (Davey, 2009). South Koreans value the street market shopping experience along with the convenience of a hypermarket offered by Homeplus store. Such customer-focused approach which has been very popular in South Korea is achieved by the company's overall international business strategy.

Conclusion

The opening up of South Korean market and its favourable FDI policies paved way for the international expansion of large multinational retail chains within the South Korean market. Wal-Mart chose to enter the new market with complete ownership of its subsidiaries, anticipating its success based on its homeland experience. Meanwhile, Tesco treaded the new water more carefully by choosing to enter the new market through joint venture, and gradually increasing its stake in the business.

The international business strategy of Wal-Mart and Tesco differed starkly in regard to the South Korean market, with the former adopting a standardized approach, adhering to a global organizational strategy while the latter following a customized approach for the expansion in South Korea, adhering to a multinational business strategy. The standardized approach adopted by Wal-Mart failed to deliver the level of success desired by the company,

leading to its ultimate exit from the South Korean market in the year 2006. Tesco, on the other hand, continued to progress and succeed in its South Korean market, acquiring a 95% stake in its joint venture with Samsung. It can be concluded that when there are stark cultural differences within the home country and the new target market, a multinational firm should best adhere to a multinational organizational strategy rather than adhering to a standard global strategy for international business. This is not to say that this perspective is the single factor behind the success and failure of Tesco and Wal-Mart in South Korea. Various other factors usually intertwine to determine the success or failure of a firm in an international market. However, this perspective can be considered as the leading cause behind it.

References

Conyon, S. Girma, M. Thompson, S., Wright P. (1999). The Impact of Foreign Acquisition on Wages and Productivity in the UK; Centre for Research on Globalisation and Labour Markets, School of Economics, University of Nottingham

Czinkota, M., Ronkainen, I. and Moffett., H (2005) “ International Business”, Wiley.

Davey, J. (2009) Tesco enjoys a Korea break with Homeplus. The Sunday Time {online} <http://www.thesundaytimes.co.uk/sto/business/article183991>. ece (cited on 28th December, 2012)

Euromonitor, (2009)Euromonitor International {online} <http://www.euromonitor.com/> (cite on 9th August, 2012)

Hill, (2003) in Lan, C. (2005) “ Global Information Society: Operating Information Systems In A Dynamic Global Business Environment”, Idea Group Inc

Johnson, D. and Turner, C. (2003), “ International Business: themes and issues in the modern global economy”, Routledge

Kairimi and Konsynski (1991) in Lan, C. (2005) “ Global Information Society: Operating Information Systems In A Dynamic Global Business Environment”, Idea Group Inc

Mckinsey Quarterly (2002) Taking Tesco global: David Reid, deputy chairman of Tesco, the United Kingdom’s largest grocer (2002), explains his international strategy. {online} http://www.mckinseyquarterly.com/Strategy/Globalization/Taking_Tesco_global_1221 (cited on 28th December, 2012)

Retail 360, (2012) Korean retail therapy for foreign chains Tesco , Wal-mart and Carrefour International Retail Consultants {online} <http://retail360uk.wordpress.com/2012/05/27/korean-retail-therapy-for-foreign-chains-tesco-wal-mart-and-carrefour/> (cited on 28th December, 2012)

Sang-Hun, C. (2006 a) Wal-Mart quitting South Korea {online} http://www.nytimes.com/2006/05/23/business/worldbusiness/23shop.html?_r=0 (cited on 28th December, 2012)

Sang-Hun, C. (2006 b) Wal-Mart quitting South Korea {online} http://www.nytimes.com/2006/05/22/business/worldbusiness/22iht-won.html?_r=0
(cited on 28th December, 2012)