

Factors that compelled tesco to exit the japanese market?

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



Executive summary

Tesco is the third largest retail company in the world after Wal-Mart Stores Inc. and Carrefour SA. The paper provides an overview of Tesco PLC and its market expansion strategy in competitive markets, specifically Japan. The paper briefly provides information on Tesco's entry into the Japanese retail market. It provides details of the factors that compelled Tesco to exit from the Japanese retail market. It is argued that other foreign retail companies had failed in the Japanese market primarily due to unique shopping habits of Japanese consumers.

Synopsis of the Case study

Tesco is a UK based retailer company founded in 1919 (Humby, 2008). The company is the third-largest in the world in terms of sales, behind Wal-Mart Stores Inc. of the United States (US) and Chain Carrefour SA of France (Humby, 2008). Tesco carried out extensive research during several years in its strategy to expand its market to other already established and emerging markets internationally. Tesco embarked on expansion, into new markets, establishing new stores in the US, entering emerging markets in Central Europe and Japan through acquisition and entering markets like South Korea and Malaysia through a joint venture (Tesco's internal data, 2009). At the end of August 2011, Tesco announced its exit from Japan where it had entered the market through acquisition. Tesco's exit from Japan was motivated by its failure to establish enough scalable business after its 8 years operation in Japan, the economic and demographic factors which have affected the purchasing trends among the Japanese, Japanese consumers

switched from purchasing branded luxury products in Tesco stores and preferred more affordable private labels. In addition there were a series of food safety scares that hit the Japanese retail market and Tesco's British business format. Additionally, Tesco failed to compete with department and supermarket stores in Japan. The paper critically assesses the factors that compelled Tesco to withdraw from the Japanese Market.

The company has in excess of 500,000 employees in its chain stores around the world. Tesco aims at delivering a consistently strong customer offer based on each customer visit and transaction by focusing on the Group's core business purpose. Tesco enjoys a 30% market share in the British grocery market making it the biggest player in retail business in the UK. Other players are Asda with 16.9% of the market, Sainsbury's with 16.4%, Morrison's with 11.5% and Co-op/Somerfield with 9.2% of the market share (Tesco's internal data, 2009).

Theoretical framework

Tesco has expanded its presence to about 5400 chain stores operating in 14 markets outside the UK. The company has grown its business value and operations to become the third-largest retailer in the world behind Wal-Mart Stores Inc. of the US and France's retail Chain Carrefour SA (Tesco's internal data, 2009). Tesco's main business focus is to expand its business in established markets and emerging markets around the world. With a focus to expand its business operations, Tesco operates about 1400 stores in Asian countries of Japan, China, Thailand, Malaysia and South Korea.

Tesco began its expansion to the Asian market in 1998 when it acquired a

75% majority controlling in Thailand's Lotus, a chain of 13 hypermarkets for 111 million British pounds. In March 1999, Tesco further expanded its business expansion strategy in the Asian market with a joint venture with Samsung in South Korea. In 2002, Tesco entered the Malaysian retail market through a joint venture with a local company called Sime Darby Behad (Tesco's internal data, 2009) The collapse in asset values caused by financial crisis in the late 1990s significantly facilitated the company's expansion in South-East Asia.

Tesco expanded its market into the Japanese market in 2003 by acquiring a controlling interest in the C Two-Network Co, a discount supermarket chain. However, in September 2011, Tesco PLC took the decision to withdraw its retail business operations from the Japanese market and sold off its operations consisting of 129 chain stores. The stores were in the Tokyo area and other stores operating under the Tesco brand, Tesco Express and supermarkets under the Tsurukame brand.

The supermarket sector in Japan is fiercely competitive and unprofitable. From the case study, it seems clear that Aeton and Itoh Yokado, the two largest supermarket groups in Japan are struggling to make profit even though they enjoy huge economies of scale. Tesco and other global supermarkets with their plentiful capital failed to successfully penetrate the Japanese market. Despite Tesco's intending to offer low prices on bulky purchases, things did not turn out to be successful and eventually Tesco had to exit the market.

Sogo and Seibu, a big-name in Japanese departmental stores failed to dig into the Japanese retail market. Tesco, and other foreign players like

Carrefour and Wal-Mart moved to fill the gaps left by the ailing domestic retailers in the general merchandise store (GMS) segment by setting up their stores or forging an alliance with a domestic player. Despite the business strategy, Tesco and other foreign retailers struggles to successfully penetrate into the difficult Japanese market.

Answer to the question.

At the end of August 2011, Tesco announced its exit from Japan. The following are the factors that compelled Tesco to withdraw from the Japanese Market.

Economic and demographic factors that have affected the purchasing trends among the Japanese.

The Japanese grocery retail is a mature market valued at US\$370 billion, and it's the second largest in the world behind the US market. The Japanese grocery sales per capita boosts as the highest in the world at more than US\$ 3, 300 in a year. However, the market still remains troubled. A combination of economic and demographic factors have resulted in the grocery retail market slipping by 1. 2% in 2004 (Tesco's internal data, 2009).

Since the bubble burst in early 1990s, the Japanese economy has been in the doldrums, followed by deflation in the consumer price in subsequent years.

Since the economic downturn, consumer confidence has never fully recovered. In relation to demographic factors, the population growth has been stagnant in recent years, resulting in diminished volume growth opportunity, in the retail market. The consumption patterns of the Japanese have changed along with the demographic shifts and varying lifestyles. The

birth rate is declining and the population is ageing.

High levels of unemployment have prompted people to migrate to city areas that provide more work options. The consequence is an increased demand for freshly prepared and convenience Japanese-style foods. The foods are readily available in at food halls and convenience stores in department stores. The Japanese masses have not widely embraced Western cuisines resulting in a bumpy ride and the eventual fallout of the both the domestic and foreign retailers such as Tesco.

In July 2011, supermarket sales in Japan diminished by 1. 2% overall to 1. 05 trillion Yen. The fall has been recorded for the last 20 consecutive months based on a year-on-year comparison. In July 2011, a decline of -0. 6% in food was recorded, -2. 7% decline in household products, -0. 8% decline in clothing, -1. 7% decline in services and a decline of -3. 3% in miscellaneous items (Tesco's internal data, 2009). The statistics indicate that supermarket sales were dwindling, and Tesco found it hard to continue operating within such a difficult environment (Williamson, 2013).

Tesco failed to establish enough scalable business after its 8 years operation in Japan.

According to CEO, Philip Clarke, Japanese shopping habits were very different from those envisioned in business strategies and business processes of Tesco. According to Clarke, the British consumers enjoy carrying out a " big shop" once in a week since there is enough room to keep their shopping. In contrast, for many Japanese, space is premium and carrying out a big shop is not an option. Tesco, like other foreign retail companies, failed to adapt fully to the local shopping habits of the Japanese consumers.

Consumers switching from branded luxury products in Tesco stores to more affordable private labels.

Despite the demand for staple food and household items remaining flat, some consumers switched from purchasing branded luxury products to private labels that are more affordable. However, the penetration of such private labels products has not been popular compared to branded products because the Japanese consumers are still conscious of the product brand of the item they purchase.

A series of food safety scares hit the market.

The outbreak of Bovine Spongiform Encephalopathy (BSE) in Japanese cows, use of non-approved additives in packaged foods and product origin being mislabeled eroded consumer confidence and caused a series of food safety scares in the grocery retail market.

The British business format of Tesco failed to compete with department and supermarket stores in Japan.

The people of Japan put much emphasis on the quality and freshness of food items. They, therefore, prefer to shop many times in a week instead of carrying out a single bulk shopping in a weekly basis. Departmental store food halls began offering high price but high quality foods while low priced standard food products were offered by supermarkets. Although discount stores started increasingly introducing fresh food product to encourage more customer visits, they were considered to be at the lower end of the market along with convenience stores.

The small retail channels have increased their market share in recent years

because their business format meets the Japanese consumers' preference for shopping several times each week. They have also widened their range of services such as the provision of added-value services, bill-paying facilities, cash machines and delivery services. The small retail channels business format is in contrast with Tesco business format. As a result, Tesco faced a challenge of penetrating the highly competitive business segment.

The Japanese people are highly demanding and fussy consumers who need to be provided with a wide selection of goods and foodstuffs. The Japanese consumers also value freshness of their produce, and they are likely to question of the stock in a hypermarket such as Tesco. Japanese consumers make frequent visits to many different stores per week instead of carrying out a one stop-shop within a single supermarket store.

Conclusion

In summary, the expansion strategy taken by Tesco into the Japanese market was a well-timed one. However, the Japanese market posed many difficulties which prevented Tesco penetrating the market and achieving profits. Despite that Tesco invested many resources and formulated strategies to gain the Japanese retail market, its failure to establish a business format to suit the Japanese consumers' lifestyle envisaged its eventual exit. Other foreign retail companies such as Carrefour SA of France had failed to attain profit. Economic factors also led Tesco's exit as consumers changed preference. The consumer patterns of the Japanese can be difficult to accommodate and formulate a business format to suit their demands and lifestyle.

References

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