

# The international strategy of tesco plc

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



## **Abstract**

This study explores the different theories of international entry strategies and then analyses the international strategy of Tesco Plc. Firms can enter the international markets through different strategies, including licensing technology abroad, direct investment acquisition, exporting, strategic alliance in foreign market and establishing joint ventures. The findings of this study indicate that Tesco Plc uses international joint ventures, acquisitions and Greenfield investments to enter into foreign markets. However, Greenfield investments have led to failures and as such it is recommendable that the company explores international joint ventures and acquisitions as part of its future entry strategies.

## Introduction

International strategy is very important for all business organisations operating in the international market. This is because the strategy plays an important role in determining the opportunities present in the international market and how to exploit them (Hensmans et al., 2013). Tesco Plc. is one such company with significant development in the international market. The supermarket chain has managed to expand its operations across Europe, Asia and North America with huge success. This international expansion has affected all the facets of the company like business structure, financial status, corporate culture and organisational structure (Ryans, 2013). This study looks at different international strategies, why they are important to Tesco Plc, related theories and their applications.

## International Strategies

The current business environment is very competitive and as such companies need to venture into the international markets in order to generate more profits (Hitt et al 2008). However, choosing the right international strategy is never easy; whether it is licensing technology abroad, direct investment acquisition, exporting, strategic alliance in foreign market, or establishing joint ventures. This study will focus on a few of these strategies that are of importance to Tesco Plc. These strategies are joint ventures, foreign acquisitions, and Greenfield investments. All these strategies have their own benefits and risks arising from the products or services being offered and the cultural, economic and political environment of the target market (Sternquist & Witter 2011). However the choice of the choice of international strategy is highly dependent on organisational resources, commitment and the extent of risk that it is willing to incur.

Joint ventures involve cooperation among different companies. The partners often come together to consign risks, allocate resources and delegate responsibilities (Krafft & Mantrala 2010). These ventures are often disbanded once the project is completed. Joint ventures can enable an organisation to market its products or establish its manufacturing plants in a foreign country with the assistance of the local foreign partners. These local partners equip the foreign organisations with the relevant knowledge on government regulations, workings, local markets and the available channels of distribution. Joint ventures are ideal for Tesco Plc. as it will help it in

understanding the foreign markets and mitigate risks (McLoughlin & Aaker 2010).

In foreign acquisitions a foreign organisation acquires an interest in a local firm through foreign direct investment (Hensmans et al 2013). In most cases foreign acquisitions occur only in proven markets after years of exporting or success experienced through existent joint ventures. Once an organisation has obtained controlling interests, it attains full authority over policies regarding aspects like quality control, finance, production, marketing strategies and expansion programs. Foreign acquisitions are ideal for Tesco Plc. as it will help it acquire other companies that are already performing well in foreign markets. The last strategy is Greenfield investment which is a type of foreign investment that entails investing in foreign markets by starting new subsidiaries and then fully owning them. This is a strategy that is suitable for Tesco Plc. because it allows it to venture into new unexploited markets and exploit the opportunities present.

### Theories of International Strategies

There are different theories that explain the reasons why an organisation opts to pursue a specific international strategy in a specific target market. This is the reason why organisations pursue different foreign markets using different strategies depending on their unique characteristics (Hitt et al 2008). These theories are monopolistic advantages, transaction cost, internalisation, strategic behaviour, internationalisation, bargaining and eclectic theories. These theoretical perspectives at times hold divergent

perceptions on the relative importance of the different factors that influence choice of entry into foreign markets.

The monopolistic advantage theory was proposed by Hymer and represented a major shift from the previous theories of capital investments and international trade (Sternquist & Witter 2011). The previous theories like that of Heckscher and Ohlin had restrictive assumptions on the immobility of the factors of production. Hymer argued that organisations could use their firm-specific advantages or monopolistic advantages that other organisations do not have to expand into foreign markets. These advantages are things like superior technology, economies of scale, superior knowledge in finance, marketing or management (McLoughlin & Aaker 2010). Therefore foreign direct investment was made possible by product and market imperfections. These market imperfections are structural and are as a result of control ownership advantages like proprietary technology, economies of scale, special access to inputs, product differentiation and gathered managerial expertise. According to this theory, the direct investor is often a monopolist or an oligopolist in product markets. Therefore these organisations pursue market power and monopolistic advantages in the foreign markets leading to the increased growth of international trade.

Internationalisation theory builds on the monopolistic advantage theory and it holds that firms often expand into foreign markets whenever there are market imperfections and they can gain advantage by internalising markets across countries (Seth & Randall 2011). This results to the growth of the firms as they increase their operations across the borders to take advantage

of the existent opportunities. As the organisations increase their efficiency through internalisation of transactions, the vertical integration of operations across the world lead to efficiencies and economies that include long term contracts, opportunity to exploit tax differentials and better quality control. The theory perceives the internalisation process and entry strategies as being products of series of incremental decisions that result in increases involvement in international operations (Alexander & Doherty 2009).

Therefore firms move from exporting to foreign production as they continually gain international experience. This experience enables the firms to build their knowledge and developing deeper understanding of the foreign markets.

The transaction cost theory holds that firms try to minimise the costs associated with exchanging resources with the environment and the bureaucratic costs of exchanges within the firm (Krafft & Mantrala 2010). Therefore they weigh the costs of exchanging resources with the environment against the bureaucratic ones that arise from performing the same operations within the firm. It perceives institutions and markets as possible forms of organising and coordinating economic transactions. Firms grow whenever the external costs exceed the internal bureaucratic costs because they are able to operate more cheaply compared to performing the same operations in the market (Seth & Randall 2011). However, the firms should be downsized whenever the bureaucratic costs exceed the external transaction costs. Therefore the firms will keep expanding for as long as they can perform their operations cheaply within the companies compared outsourcing them to external market providers.

The bargaining theory was advocated by Fagre and other scholars and holds that the choice of entry is a function of the bargaining processes between the firm and the host countries (Ryans 2013). The interaction between the host country and the firms is often characterised by power struggles. Although the host country can exercise its bargaining power through controlling market access, the bargaining power of the firms lie in the ownership advantages that they have (Hensmans et al 2013). Therefore the relative power determines the entry strategy of a firm into a foreign market. The last theory is the strategic behaviour theory and it is based on the premise that firms derive comparative advantage from the resources that contribute towards giving them the advantage over the others (Thain & Bradley 2012). This is particularly true when some resources are worth more to an organisation owing to the special linkages between the firm and such resources. When the firms have such resources, they are more likely to opt for high control strategies for instance wholly owned subsidiaries. This decision is mostly made with the assumption that such linkages will be influential in enhancing the relative position of the firm in the new foreign market. In addition to the highlighted theories, the integrative theoretical perspective on foreign market entry holds that the firm's decision to enter into a foreign market and its choice of entry are functions of multiple factors that arise from location and ownership-specific advantages (Alexander & Doherty 2009). Although these theories differ in many important aspects they allow for broad generalisations on the factors that influence an organisation to enter into a foreign market and the entry strategy. The next

section analyses the international strategy of Tesco Plc based on the integrative framework.

### Tesco Plc International Strategy

The company enters foreign markets mainly through joint ventures with local firms, acquisitions and Greenfield investments (Mosley & Barrow 2013). The company aims at being the market leader in the foreign country it enters within a period of five years. It has registered huge successes in Asia and most of the European markets. However, the situation in America has been different because the company has struggled to gain market control (Harrison 2013). The success of Tesco Plc in the international market has been aided by its sensitivity to the local culture of the host countries and the market environment. This has mainly been done through partnerships, mergers and acquisitions which have made it easier for the company to offer the local markets with what they want by serving their unique needs. This has been particularly helpful in high context cultures like in the Asian market.

The global expansion and diversification of Tesco Plc are based on the long-term desire for the company to develop sustainable growth and development. Morschett (2011) claims that one of the main reasons why the company decided to pursue the international market was that the local UK market had reached saturation and maturity making it very difficult to grow without exploiting overseas opportunities. This was therefore the only viable solution for the company if it was to remain relevant for the economy in the long run. The main factors influencing the choice of entry for Tesco Plc are



the different threats that it may encounter in the international markets.

Some of the common threats are industrial structures and cultural factors.

Nonetheless, the primary influencers of the choice of entry for the company are based on cultural factors (Harrison 2013).

Tesco Plc has consistently preferred to use international joint ventures as an entry strategy in the Asian market. This is partly because these countries have high context cultures that require organisations to build interpersonal relationships (Alexander & Doherty 2009). In these cultures, relationship networks among business associates, colleagues and even clients tend to be close and personal. As a consequence, it is important for firms to build trust and relationships during business interactions. The importance of these relationships arises from the fact that they have high uncertainty avoidance levels; therefore relationships and trust reduce the level of uncertainties, risks and ambiguities (McLoughlin & Aaker 2010). For instance in South Korea, the international joint venture with Samsung helped the company establish contacts with the local suppliers and manufacturers. This was very important in penetrating the market in South Korea because the customers there often shop frequently as they prefer fresh and quality products like vegetables and meat which is different from the customers in the UK who like piling stock. Based on the internalisation theory, Tesco Plc gained advantage by internalising the market in South Korea. This was done through building local networks to ensure that the company sales remain as high as possible. Therefore it employed all the employees of Samsung to ensure that the normal operations were not interfered with. The local managers were also given the authority to make decisions on behalf of the company

because of their experience with the local market. Additionally, this was part of the company's plan to deal with the challenges associated with the competitive environment by positioning itself using localisation and decentralisation while the other players in the industry pursue globalisation strategies (Hitt et al 2008). According to the bargaining theory, localisation and decentralisation gives the company a local image thus making it highly responsive to the tastes and lifestyles of the local consumers. This gave Tesco Plc a competitive advantage in the South Korean market compared to the other foreign firms like Wal-Mart and Carrefour.

The entry strategies of Tesco Plc have also been shaped by cultural factors like psychic distance. Psychic distance refers to the extent to which a firm is uncertain on the nature of the foreign market (Thain & Bradley 2012).

Acquisitions and international joint ventures with the local businesses in the high context cultures are important in reducing risks, adaptation costs, psychic distance and cultural barriers. The acquisition of the local distribution channels gave the company a huge advantage over the other multinationals like Wal-Mart which were struggling because the Korean market is characterised by a strong nationalist outlook. The company pursued the same strategies in Thailand and China and this enabled it to penetrate the market with ease compared to other multinational companies. Therefore international joint ventures and acquisitions enabled Tesco Plc. to succeed in markets where Carrefour and Wal-Mart had failed eventually being forced to exit the market in 2006 (Mosley & Barrow, 2013). In Thailand for instance, after the acquisition of Lotus, Tesco Plc has managed to grow and is currently the market leader as it has pumped huge investments into organic

management. The company also diversified its operations in Thailand to include smaller express stores so as to reach more customers.

Tesco Plc has made huge successes whenever it chose to enter foreign markets through strategic alliances and acquisitions; however Greenfield entries have proved to be costly and inappropriate. Although Greenfield entries provide the company with full control and ownership over its operations, it has proved to be unsuitable because of the dismal results. Despite the extensive research that the company made prior to joining the US market, its failure there demonstrates that the research was either flawed or inadequate (Krafft & Mantrala 2010). Additionally, its operations in the US were an attempt to duplicate its operations in the UK because it tried to standardise instead of localising them. Part of the problem with the market research was that it only concentrated on the buying behaviour of the Americans and ignored other important variables like shopping experience, value, aesthetics, store atmosphere and quality. This was a great mistake because corrective investments should have been made in response to these marketing aspects (Morschett 2011). For instance the Tesco sells pre-packaged fruits was a big mistake because Americans prefer selecting their own fresh fruits.

Tesco failed to appreciate the US customer base because it underestimated it. This is the reason why the company handled its operations in the US as an extension of the UK market. The company was attracted to the US market by the booming economy and the ever rising property value (Ryans 2013). These are the factors that prompted it to go for Greenfield investments in

US. This was a viable option; however the company failed to account for the deeper financial dynamics that could have saved it from the 2009 financial crisis. In addition to this, the choice of Tesco Plc to enter the US market through Greenfield investments was partly influenced by managerial short termism and egoism. As a consequence, several mistakes can be pointed out from its entry and post entry strategies.

The first mistake that the company made at the point of entry is that it increased its exit barriers by aggressively increasing more stores despite the fact that it was making huge losses. Secondly, the company may have been driven by managerial subjective interest for power emanating from the previous international successes. This led to overconfidence therefore blurring the vision of the managers to see that they were driving the company in the wrong direction (Morschett 2011). However, the biggest mistakes that Tesco Plc made was that it failed to plan and strategize for post entry and this led to flaws in its quest to compete in the home market of the world's largest retailer. As a result the company made huge loses in the US and was eventually forced to exit without ever recording any profits. In Taiwan, the situation was the same as that of the US; Tesco entered the market in 2000 without partnering with the local companies. The company was able to establish six hypermarkets through organic growth. However, just like in the US the Taiwanese retail market was hugely dominated by Carrefour which had the advantage of having all the strategic positions. Just like in the US, the company was unable to attain the market scale necessary for building central distribution centres. Therefore in 2005, it was forced to exit the market through a divestment deal with Carrefour.

## Recommendations

Based on the findings of this study, the following recommendations can be made for Tesco Plc for it to succeed in its quest to establish its presence in other international markets. First off, the company should abandon Greenfield investment strategies because they have proved to be very costly in the past. The company struggled in the US and Taiwan and was eventually forced to exit because lack of local partners made it very difficult for it to succeed in markets that are dominated by the two retail giants. The company should have strategies that fit into the culture of the target market like it did in South Korea. The retail industry is very sensitive because it represents the daily necessities of the consumers and as such must be responsive to their cultural habits. For a multinational company to succeed in a foreign market it must have strategies that are responsive to the needs and culture of the local people. Therefore Tesco Plc. should continue incorporating localisation strategies and respond to the culture of the local markets. It should be more innovative and proactive in its marketing strategies in the international markets. For instance the company should enhance its market intelligence and customer database in order to be able to customise service delivery to the customers.

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