

# Sainsburys opportunities for expansion: analysis



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## 1. Introduction

The aim of this report is to analysis the accessibility and strategies for Sainsbury's to entry India retailer market. Based on findings, the report employs Dunning OLI theory and Porter's diamond framework to discuss the possibility of Foreign Direct Investment (FDI), gives recommendation on whether Sainsbury's should access Indian supermarket sector or not. Furthermore, it provides some available strategies for addressing and strengthens risks and opportunities in India. Strategies comprise of several elements, which include entry mode, location choice, main products, human resource strategy and marketing strategy.

As known, with huge domestic demand and fast growing GDP rate, India is one of the fastest growing emerging markets. Although, bearing various restraints for MNEs, it also has high potential in economic development, which makes India one of the ideal destinations for multinational enterprises (MNEs). Strict commercial regulations set by Indian government pose additional potential risks for MNES to cooperate with local enterprises. By giving emphasis on regulation aspect, this report also examines Sainsbury's ability for surviving in the competitive market.

Wal-Mart and Tesco have invested capital into India market for a while. Some people keep positive think that they can successful survive in local competitive market. But some people still keep looking this new market. No matter what difference of MNEs consideration, Invest in India seems a new trend in many industries. Based on very different opportunities and risks,

what kind of strategy does Sainsbury's can develop in India, and that is our group learning from here and concerning.

## **2. Company profile**

Sainsbury's is the third biggest supermarket retailer in the UK. There are more than 290 convenience stores and 502 supermarkets across the UK. According to statistic provided by Datamoniton (2010), more than 18 million customers visit Sainsbury every week. The financial performance is excellent for the past few years, as reported the pre-tax profit increased by 57.3% from £466 million in 2009 to 733 million in 2010. (Key note, 2010). Food and grocery are the main products, despite of displaying high-end products from other independent suppliers, the own brand which accounts for 40% of its sales, also showed promising driving power. Moreover, its new strategy is to develop more products of private labels and promote local organic products (GMID, 2010).

## **3. Macro and micro investment environment analysis**

The macro and micro investment environment analysis integrated two methodologies. Basically, this report adopts Dunning's (1988) OLI theory to critically examine Sainsbury's ownership, location and internalization conditions in India. However, due to the limitations of OLI theory, the report also employs Porter's diamond theory to help to give full interpretation. It would contribute to give a depth and board analysis of investment environment.

### **3. 1 Ownership analysis**

#### **Table1. Ownership analysis**

##### **Advantages**

##### **Disadvantages**

Capital advantage

High reputation for offering good quality food to customers

Low demand of electric energy

Less FDI experience in Asia

Relatively weak demand of matched customers

Low level infrastructure and poor electricity supply

In terms of Sainsbury's ownership, there are three principal advantages.

##### **3. 1. 1 Strong capital position**

Sainsbury's has stronger position that superior to the Indian local biggest retail companies. Compared Pantaloons Retail Limited, which is the biggest Indian retailer with an asset of Rs 1030. 16 million, Sainsbury's has a net current assets £4, 966 million in 2010 (£1= Rs47. 273, Feb, 2011)

(Sainsbury's annual report, 2010, refresh annual report, 2009-2010, Yahoo finance, n. d.). Big Bazaar and Food Bazaar, the subsidiaries of Pantaloons, are the first and second biggest retail shops in India (Techchandani, n. d.).

##### **3. 1. 2 Serve for customers**

Sainsbury's has strong awareness of offering good quality foods to customers. In the UK, proprietary, a system that retailers indicate quality assurance by selling products under their own labels as their brand products, is a common method (Holleran, Bredahl and Zaibet, 1999). Under this system, Sainsbury's sells foods as its brand, and consumers trust its brand (Cotterill, 1997). It is because the high quality own brand merchandise that enhanced Sainsbury brand influence, also improved supply chain management, to fulfill the customers, suppliers and Sainsbury's needs (Baidu, 2011)

### 3. 1. 3 Low electric energy store operating skills

During 2009 to 2010, Sainsbury's reduced its consumption of energy 2. 5% despite of extending over 6% of its space by introducing eco-light bulb for store operation (Sainsbury's, 2010). India is fifth biggest energy consume county and its energy supply is in a poor condition (India Energy Market Overview, 2010, Central Electricity Authority, 2010). Therefore, operating stores in instable electric condition, this low energy store operating skill might be competitiveness when competing with others (Sainsbury's, n. d.).

### 3. 1. 4 Weakness

On the other hand, there are also limitations. Though, Sainsbury's is operating a head office in Hong Kong and it trades Asian products directly to Sainsbury's in the UK, the operating type is not a retailer. Without investment or operations overseas as a retailer company, Sainsbury's is lack of experience (Import Bureau, n. d.).

### **3. 2 Internalization analysis**

As relative data mentioned, it shows that immature supply chain management and poor quality of infrastructure and technology skills are keys to add transaction costs. Recently, Sainsbury's is aggressively developing strategy of private label, it includes food and non-food product (GMID, 2009). In order to maintain high quality and low costs own-brand, logistics management and advanced technology play critical roles. However, India supply chain is not well developed. For example, many food suppliers cannot prevent food spoil in hot weather. Therefore, Sainsbury's cannot exploit local logistic to link present strategy of private label (GMID, 2010).

Furthermore, it is a challenge for Sainsbury's to decrease transaction costs effectively in India. Tsao et al (2010) reported that it is high spoilage rates around between 25% and 30% in grain supply chains. Besides, lack of information technology, logistics concepts make the service price greater crop costs approximately over 2. 4 times. Sainsbury's incurred high costs by 210% despite the fact that wholesalers, retailers and the intermediaries are the foundation for determining the final price. By contrast, in the western countries, the rates are approximately 3% and between 50% and 100%. Therefore, in this immature environment, Sainsbury's may greatly shrink its margin.

### **3. 3 Location analysis**

#### **Advantages**

3. 3. 1 Market size (Porter's diamond)

The organized retail sector makes up 5% of the Indian retail market.

According to a research, investment in the organized retail market was around \$ 503. 2 million in 2009, and will increase to \$1. 26 billion in the next four to five years. India's retail sector is expected to have a 10% increase in its compound annual growth rate and also estimated to reach US\$ 833 billion by 2013 and US\$ 1. 3 trillion by 2018 (' Business maps of India').

### 3. 3. 2. Increasing demand (Porter's diamond)

Nowadays, potential investors are attracted to the Asia Pacific retail market because of their population size and growth prospects, the relative immaturity of many markets in these regions helps them to take advantage by organizing the retail sector and increase the share of overall retail sales (' Business Environment Outlook', 2010). The A. T. Kearney's annual Global Retail Development Index for 2010 categorises the retail market in India is as the fifth largest destination in the world and also the third most attractive emerging market for investment in the retail sector (' Market Overview', 2010).

### 3. 3. 3. Low Labor costs (Eclectic paradigm)

A new survey shows that labor costs in India are euros 2, 024 a year, while the financial cost of employing a worker in Belgium, Sweden and Germany is more than euros 50, 000 per year (' SiliconIndia news', April 2005). Besides, there is a high level of qualified English speaking workforces in India.

### 3. 3. 4. Competition condition

According to the retail market data, the table shows that India maintains the 2nd position with a high score of 63 for its market entry potential. This simply reflects India's underdeveloped retail market as well as the absence of local and multinational competition. India also recorded a good score for the value of retail sales and prospects for retail growth.

In this market, there are local mom and pop family stores and the existing supermarket brands occupying the majority domestic market, as well as multinational brands which are planning to enter. Mom and pop family stores still dominate supermarket business. Since the large super market chain has not build an effective supply chain yet, it leads to the increase of products' prices. Moreover, people prefer the service, as most of these shops offer home delivery, easy credit, and gifts and discounts for customers, by contrast, large supermarket cannot offer as good service as Mom and Pop. In addition, more than 2000 supermarket chain closed in 2008 due to these little shop and economic downturn. It is a significant challenge for the most supermarkets now and future (Srivastava, 2009). Despite of the existing 15 stores spanning India, Marks & Spencer Reliance India are planning to open 35 stores over the next five years. Carrefour SA, the largest retailer of Europe, is planning to open wholesale stores in India by 2010 and has planned to set up the cash-and-carry outlet in the National Capital Region. Mahindra Retail, a part of the Mahindra Group, is also planning an investment at about \$ 19. 8 million.

## **Threats**

### **Table2. Asia pacific retail business environment ratings**

Source: India Retail Report Q3 2010, pg. 10

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### 3. 3. 5 Limits of Potential Returns

Within the country structure category, India drops to the bottom of the table with a score of 40 indicating that a high score for the size of its population is balanced by low scores for its small urban population and spending capacity of its general population (Business Environment Outlook, 2010).

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### 3. 3. 6 Risk of Realisation of Returns

The market risk data shows that India has the second lowest score. This signifies that the regulatory environment would affect factors relating to market entry.

The country risks data also rating India as the second lowest. This shows that India possesses a high score in the areas of economic instability and policy, moderate in the areas of financial risk, short-term economic rating and short-term political rating. Finally, India has a poor score for long-term inflation, institutions, physical infrastructure, market orientation and labour infrastructure (Business Environment Outlook, 2010)

### 3. 3. 7 Infrastructure of advanced factor (Porter's diamond)

The Global Competitiveness Report 2010-2011 reports that India's infrastructure is in serious need of upgrade especially in respect to transportation and energy supply (' World Economic Forum'). In relation to this, much of India's farm produce gets to rot to market because of few refrigerated trucks and lack of modern transport logistics management (The Telegraph, 2011).

### **Table3. India's development stage**

Source: Global Competitiveness Report 2010-2011

The diagram above shows the stage of development in comparison with the rest of the world. The diagram indicates that India is still in stage 1 which is the factor driven stage. India scores 3.5 out of 7 with respect to its infrastructure which is quite poor and needs an upgrade.

It is very important to possess efficient infrastructure because it is a critical determinant for economic growth and it determines the location for economic activities and this helps to connect markets between regions and also reduce the cost of marketing in another region (' World Economic Forum')

## **4. Recommendation**

Based on analysis of Dunning OLI theory and Porter's diamond, the shortages makes Sainsbury cannot fulfill all elements at the same time.

Despite of India's huge market size and fast growing economy, there are still shortcomings which will affect Sainsbury's investment. It lacks good infrastructure, high level of corruption, long-term inflation, unstable government policies and issues with government regulations on FDI.

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Furthermore, it is facing the competition from both local competitors and other multinational enterprises which are investing or planning to. A good example for lack of infrastructure is the need for more enough refrigerated trucks to preserve farm produce during transportation to the markets and this can also be related to the lack of a modern transport logistics management. Lastly, it may not have cost efficiency as invest supermarket in India. Therefore, we strong recommend Sainsbury's do not direct invest supermarket in India now.

However, we support the second option for Sainsbury's. We suggest that Sainsbury enter India in the term of operating as a supplier business.

It based on followed reasons:

1. In July 2010, Dean Nelson reported that India is making a move to deregulate its retail sectors so as to allow British supermarket giants like Tesco and Sainsbury's has the opportunity to set up new stores throughout the country.
2. More also, Britain is hoping that India will lift its restrictions in various sectors like banking, insurance, financial and professional services so as to allow law and accountancy firms to practice there. It is believed that the establishment of British Universities in India would help meet the high demand for higher education (The Telegraph, 2011). The purpose of this relationship is to exchange knowledge and technology that can both benefit the two nations and can help the growth of mutual trade and investment.

Although the relative regulation has not passed yet, it actually can give investors more confidence. Hence, we suggest Sainsbury's can start with supplier business and prepare for establishing supermarket someday when the timeliness is ripe for it. Furthermore, it will benefit Sainsbury's to own more competitive advantages in the future.

## **4. 1 Entry modes of Sainsbury**

There are several modes that the multinationals can apply, such as joint venture, mixed venture with the government and take part in privatisation. However, as mention above, there are various regulations making the joint venture the only possible mode. There are both advantages and disadvantages regard with joint venture.

### **4. 1. 1 Advantages**

From ownership aspect, it can reduce the capital of investment since local government accounts for 51% and organization owns 49% share. This can decentralize the risk and save the capital because this model can substantially reduce risks of being subject to nationalization or other types of adverse government interference.

Another benefit is Sainsbury take the advantage of partnership in terms of original channel, reputation, knowledge, technique and existing system. For example, Sainsbury's can share local knowledge and marketing experiences with local partner, such as management system, skills, language and culture that are necessary for competing in India. Moreover, the local company can help to handle many issues with local government, such as labour dispute, environment and union issues.

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#### 4. 1. 2 Disadvantages

Nevertheless, this entry mode also is facing several shortcomings, such as the multinationals are easy to lose control over the technology, unable to engage in global strategic operation, and easy to lead to conflicts over goals and objectives.

Because of India's restrictive commercial laws, instead of operating as a retailer, Sainsbury's can only form an alliance with domestic conglomerates to undertake wholesale-only operation, such as outlet, cash-and-carry wholesale stores, before the government loosen its restriction over this field.

#### **4. 2 Wholesaler advantages in India**

Sainsbury's is good at developing own brand product in UK. And, some India enterprise start to realize the advantages of own-brand, such as decrease unites costs and enhances customer loyalty. The market orientation of Sainsbury's is upper class level in the retailer or wholesale areas, and the main customer group is targeted at middle class and even higher. Moreover, in terms of the consumer behavior is rapidly changing in India; some tend to seek for the high-quality product with low price and the brand name. Thus, it successfully increases the market demand of the own brand goods of Sainsbury's. In sum, Sainsbury's can adopt high-end and differentiation strategy via private label for increasing competitions in market (GMID, 2011 & Key note, 2011).

### **4. 3 Localization**

Kerala state is chosen as the best location for Sainsbury's subsidiary because of the optimal investment environment and considerable population of middle class.

From the investment environment perspectives, in addition to the well-constructed infrastructure, the education popularization, universal health insurance is the highest across India and as well. The average income in local around \$1, 040, and the economic growth rate around 13. 5 % and high level of FDI (\$2. 6 billion) between 2000 and 2008. Retailer, tourism, education, IT and IT service are main industries there. Literacy rate is 90% of local residents, and it has a widely influence of making people to accept a concept of higher quality food and other product. (Ministry of economic affairs of ROC, 2010)

The follow table gives more information in terms of competitive advantage by Porter's diamond.

#### **Table4: competitive advantage on Kerala state**

##### **Factor endowment**

Educated population rate higher than other state in India

Developed natural resources and agricultural environment

Well Infrastructure

##### **Demand condition**

Increasing awareness of brand and food quality in south India.

People have well educated and higher consumption capacity

Health food is expected to become important to urban consumers

## **Relating and support industries**

Generate spillover effect due to flourishing farming industry

Develop rapidly in Service industry

## **Firm strategy, structure, and rivalry**

Increasing rivalry including local and international enterprise, e. g. Hindustan

Unilever, Nestlé

Export-oriented food industry in local enterprise

Sources: GMID, 2010

Moreover, according to OLI analysis in previous sections, it can substantially reduce threats if Sainsbury's invest in Kerala. For example, the skill of food manufactory and infrastructure are superior to other places in India. The local government intends to build advanced transportation network to link with other big cities. It can release the stress of food spoil, and it will cover a greater region in south India for Sainsbury's. Furthermore, high degree of education is the key to implement Sainsbury's strategy (i. e. quality product and own brand).

## **4. 4 Marketing strategy**

When Sainsbury's run business in India, its high quality reputation will be able to opportunity on it marketing activities, on the other hand, cultural differences will be a risk. To utilize the opportunities and manage the risk,

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target marketing strategy and localization strategy might be useful (Salomon, et al., 2009). For example, Sainsbury's high quality reputation is its competitiveness, so if it focuses on quality sensitive Indian customers it can make clear discrimination with competitors. Also, localization of products, promotion and price is also important for Sainsbury's to success its business in India. For example, over 80% of people are Hinduism and they do not eat beef and many people are vegetarians (Hill, C. W. L, 2011). About the population, young age structure (0-14 years) is 30. 5% and it is higher than U. K. and it might affect its offering products promotion (Central Intelligence Agency, n. d.).

#### **4. 5 Human resources management**

Superior human resource management (HRM) can be a sustained source of high productivity and competitive advantage in the global economy (Hill, 2011). There are three types of staffing policy. According to the International Business, if Sainsbury's use the global standardization policy, it has two advantages which use HRM efficiently, and build a strong culture and unofficial management networks (2009). However, it still has some disadvantages, such as high cost, and limitation from national immigration policies. When Sainsbury's invests in India, it needs to estimate the consumption ability and business performance of India, and then to calculate initial personnel cost which has to accordance with local regulations and culture, to carry out with Sainsbury's organization chart recruitment. There are two stages of recruitments (see Table 1).



## **Table5. Strategy of recruitments**

### **Strategy**

### **Advantage**

### **Disadvantage**

### **Short term**

Internal recruitment

External recruitment

Part time recruitment

To build human resource database

Have more time option and retention talents

High cost of HRM

Lack talents

Expatriate failure

### **Middle and Long term**

To train staff

Cultural training

Practical training

Compensation

Department rotation

To develop international view

To decrease culture myopia

To improve local responsiveness

Training and relocation costs increase

Need a higher compensation structure

Source: HRM, n. d.; International Business, 2011

As can be seen from the above table, the short term illustrates that internal recruitment is the fastest method for HRM, but it does not have any assist to build a new HR database in India. At the beginning of the investment, Sainsbury's needs to spend high price for HRM (HRM, n. d.). After this stage, training staff is very important, because it can get some benefit such as developing international view for employees which will cost a lot than before. Sainsbury's needs to consider this point and makes a balance about the cost.