

Tesco assignment

[Business](#), [Marketing](#)



This Tesco case study explores the approach and problems in other Asian markets that Tesco has entered earlier, to help better understand its general market entry and growth strategy. It has a greater emphasis on Thailand, since it has had the longest presence there. The Thai experience has highlighted a range of Tesco criticisms and government attempts at legislation to control Tesco which have been repeated in a few other countries.

It then focuses on the China experience so far. 4. 1. 1 Introduction Tesco is Britain No. 1 grocer, the biggest and most profitable supermarket chain in the UK. It is also one of the most successful global expansionists from the UK in the last 10 years. Now Tesco is Europe's second largest supermarket after the French firm Carrefour, and is the fourth largest supermarket business in the world. It operates 1, 878 stores in the UK, 261 stores in Europe and 179 stores across Asia, and plans to open 184 stores worldwide in the next 3 years.

Tesco has drawn many critics as a result of its “ apparent” success. They claim that behind the fascia of the ‘ under one roof’ out-of-town Tesco Extra, or the friendly high street Tesco Metro, lies a ruthless billion pound operation. In recent years, Tesco and its major supermarket rivals have faced criticism for abusing their monopoly positions and contributing to some of the major social and environmental problems plaguing society today. These include exploiting small farmers in the UK and worldwide and hastening their replacement with industrial monoculture plantations where wages are low and labour rights are minimal; undercutting almost every other retailer and hence turning our town centers into boarded-up ghost

towns; co-operating with climate criminals such as Exxon; as well as numerous other corporate crimes. (Julia Finch, The Guardian 6/3/04) (Note: some of the references cited may appear to be old, however I am relating them to the move into the Chinese market and the climate within Tesco at the time.)

Table 4-1 Market Share of the Top Four Supermarkets (%) | 1998 | 1999 | 2000 | 2001 | Sep 2003 | Apr 2005 | Feb 2006 | | Tesco | 22. 9 | 23. 4 | 24. 2 | 22. 8 | 29. 8 | 26 | 30. 6 | | Sainsbury's | 19. 8 | 19. 1 | 18. 6 | 15. 8 | 16. 2 | 15. 9 | 16. 3 | | Asda | 14. 1 | 14. 8 | 16. 2 | 12. 4 | 17 | 16. 5 | 16. 6 | | Safeway | 10. 2 | 10. 0 | 10. 1 | 9. 3 | 10 | - | - | | Morrisons | - | - | - | - | 6 | 12. 2* | 11. 1* | | Follows Morrisons' takeover of Safeway Sources: BBC

News(<http://news.bbc.co.uk/1/hi/business/4694974.stm>) and Yahoo

UK((dates?)) [pic] Figure 4-1 Tesco's Share Price (July 2004 – May 2006) . 1.

2 The global expansion Tesco operates 2, 318 stores in 12 countries around the world and employs 87, 000 people overseas. According to Terry Leahy, Tesco is market leader in 6 out of the 12 countries that it operates in, with its largest store, not in Bristol or Birmingham, but in Budapest. 9 (Web: tesco.com (26/01/04), Sir Terry Leahy speech) Tesco is a company that appears to be doing things right, at the end of 2003, Tesco was voted most admired company and its chief executive, Sir Terry Leahy was voted most admired leader by Management Today.

The most impressive aspect of Tesco's triumph was the ' margin of victory' in both categories. Tesco also came top in other categories, ' Quality of Management', ' Quality of Goods & Services', ' Ability to Attract, Develop &

Maintain Top Talent’, ‘ Value as a Long-Term Investment’, ‘ Quality of Marketing’ and ‘ Use of Corporate Assets’. Only in the rankings for ‘ Community and Environmental Responsibility’ did it fall outside the top 10. (Management Today, 12/03) These accolades have continued to the present day. The publically stated strategy of Tesco places strong emphasis on its international expansion. We have continued to make strong progress with all four parts of our strategy ” a strong UK core business, non-food, retailing services and international growth by keeping our focus on trying to improve what we do for customers: 1. Making Their shopping trip as easy as possible 2. Constantly seeking to reduce our prices to help them spend less 3. Offering the convenience of either large or small stores 4. Bring simplicity and value to complicated markets (Source from Website: grouptree. co. uk, “ Tesco preliminary result” 05/2004)

It has acquired stores in Japan, China, Taiwan, Poland, Slovakia, Ireland, Turkey, South Korea and Malaysia amongst others and has links with Safeway Inc in the United States and too much publicity introduced a new type of store in the USA “ Fresh and easy” in urban areas. So where does Tesco go from here? Have they reached a peak in the UK from which there is now only a downward trend or are there strategies that Tesco can put in place to cement their position in the UK market and continue to expand abroad in the future. (Web: bized. co. uk, Tesco Activity 2005) 4. 1.

International strategy In most countries Tesco’s preferred tactic seems to be to buy an existing retail chain, or a significant share of one, and turn it into a Tesco subsidiary. Then it can begin the usual tactics of undercutting local traders by aggressive pricing, selling petrol, launching loyalty card schemes,

24 hour opening and so on. These practices have worked well in the UK.

(Web: bized. co. uk, Business Strategy 2005) Tesco has favoured large hypermarkets for its international stores, since in most countries it is easier to get planning permission for these than it is in the UK.

The hypermarkets have an emphasis on non-food items: 55% of the sales area in a typical Asian hypermarket and 50% in a European one. Tesco is also opening petrol stations in Hungary, Ireland and Thailand. (Web: corporatewatch. org. uk, 16/06/04) Rather than expanding into other West European countries, Tesco is focusing on ex- Soviet countries and South East Asia. According to David Hughes, professor of agribusiness and food marketing at the Centre for Food Chain Research at Imperial College in London, supermarkets from rich countries feel obliged to do this because (Web: just-food. om, 12/04/2004) “.. They’ve got nowhere else to go. Their domestic markets are saturated, so they are looking for countries with large populations, high population growth, per capita GDP edging toward consumer levels, high income growth, and low supermarket presence. Countries with all five of these characteristics are a good bet, and companies rush to get there before everyone else. ” (Web: www. just-food. com/features_detail. asp? art= 841) The rest of this section surveys Tesco’s Asian activities and corporate experience on a country-by-country basis. 4. 2 ASIA

The arrival of Tesco and the other major international supermarkets means that retail patterns are rapidly changing in the developing world. Tom Reardon, professor of international development and agribusiness/food

industry at Michigan State University, argues that ‘ this retail revolution poses serious risks for developing country farmers who have traditionally supplied the local street markets. (Web: corporatwatch. org. uk “ Tesco” 09/2004) A survey from the International Food Policy Research Institute suggests that farmers in Asia are having a hard time getting used to the procurement systems supermarkets set up.

Rather than growing their produce and taking it straight to a market, they have to deal with a new chain of middlemen such as procurement officers, wholesalers and so on. They also have to deal with supermarkets’ standards of uniformity in shape and size, meaning that a lot of produce is rejected. “ The small farmer will not be the one making the decision about what to grow. That’s a fundamental change for farmers,” explains Jean Kinsey, co-director of the University of Minnesota Retail Food Industry Centre. (Web: corporatwatch. org. k “ Tesco” 09/2004) Once the food has been grown, and if the supermarket chooses to accept it, farmers can also have trouble with transporting it. Payment is then often delayed for up to 60 days after the product has been delivered, too long for many people to wait. The system is set up so that supermarkets only have to deal with a small number of large and often mono-cultural farms, a fundamental change from the way food has traditionally been produced which means that a lot of small farmers who are used to producing a variety of crops will have to either make radical changes to their practices or go out of business. Web: Corporatwatch. org. uk, Tesco Plc Overview) The Malaysian and Thai governments are clearly concerned about Tesco’s power and are making attempts at curbing it. Tesco’s entry into both Thailand and Malaysia seems to have prompted a

new wave of legislation aimed at reducing the power of foreign supermarkets and big business. However, Asian governments may feel they are treading a fine line between on the one hand encouraging foreign investment and boosting their country's economy, and, on the other, letting multinational chains take over at the expense of local traders.

They don't always have a choice, since they risk WTO action if they take measures to restrict the power of the multinationals. (Web: Corporatewatch.org.uk, Tesco Plc Overview 2004) For example, the Thai government in November 2002 withdrew plans to legislate against foreign-owned supermarkets – which now control more than half the Thai market – by restricting their opening hours ' because it feared retaliation under international trade rules'.

The then Thai Prime Minister, Thaksin Shinawatra, told a meeting of small shopkeepers, ' We already have existing laws that can be modified and enforced quickly, which won't be viewed as a trade discrimination practice. Why don't we use them? From now on, there won't be a new law, just let it rest. ' (Web: www.siamfuture.com/asiannews/asiannewstxt.asp?aid=2422) However, Deputy Commerce Minister Wattana Muangsuk said that Thai policy would continue to use planning legislation to favour Thai traders. In only seven years, Tesco has reached annual sales of ? 2. 8bn in Asia.

It has a total of 179 stores, covering 9. 5 million square feet, and plans to open another 65 in the coming year. 46 (Web: Corporatewatch.org.uk, Tesco Plc Overview 2004) 4. 3 Thailand Thailand is particularly interesting from a Tesco viewpoint because " Industry onlookers expect Tesco to use

Thailand as a launch pad for a large-scale Asian expansion. “(Web: www.just-food.com/news_detail.asp?art=49430&nd=02) This it may give some clues as to its strategy and plans in other Asian countries. Tesco first moved into Thailand in 1998 by buying a large stake in the Thai-owned Lotus chain of convenience stores.

Thailand was the first south-east Asian country into which Tesco moved in on a large scale, and by the end of 2002, Tesco had already captured 31% of the Thai market. (Web: www.siamfuture.com/asiannews/asiannewstxt.asp?aid=2422) During 2004, Tesco also plans to buy the remaining stake in Tesco Lotus. After Tesco buying out all Lotuses, from 2004-2008, Tesco take up 70% the Thai market, most local supermarket joined the Tesco brand and become Tesco Metro or Tesco express. It has been successfully become another No. 1 supermarket in Thai after UK.

When it successfully entered the Thai market, Tesco was keen to point out that it would be sourcing produce locally, employing local people, and generally benefiting the local economy – ‘the company is committed to helping its local suppliers access local and international markets, and sell to multinational retailers, by helping them improve their quality and service standards’. (Web: www.tesco.com/overseas_market_2004) However, today issue, it is embroiled in accusations of unfair trading practices and conflicts with local businesses: 4. 3. 1 Sourcing locally Tesco was very vocal about its intentions to source products locally.

This sounds good, but it is hard to believe Thai farmers can’t keep working in a traditional manner when trying to supply produce for hypermarkets. (Web:

<https://assignbuster.com/tesco-assignment/>

http://81.201.142.254/presentResults/results2003_04/Prelims/site/a/a3.htm) Even where Thai products are being used, they are still likely to have been intensively farmed at the expense of small farmers, traditional farming methods and the environment. The use of centralized distribution centres also means that even if a product is produced locally, it has probably been on an epic journey before it reaches the supermarket. Web: corporatewatch.org.uk “ Tesco overview” 2005) 4. 3. 2 Exploiting suppliers Sourcing local produce does not mean treating local suppliers any better. In July 2002 Tesco Lotus was taken to court along with several other international retail chains including Carrefour, and found guilty of charging slotting fees to carry manufacturers’ products, charging entry fees to suppliers, advertising fees and product display fees, and displaying own-brand products next to similar branded products. (Web: www.just-food.com/news_detail.asp?art=51694) . 3. 3 Benefiting the local economy It may be claimed that though increasing the general traffic of money in the area where it sets up new stores ” i. e. creating a culture of wanting to buy more things and encouraging people to spend more money on things they would probably not otherwise even want ” only a tiny percentage of this money stays with local people, even those who have been promoted to store manager. The vast majority of profit goes towards making the corporation ” and the directors and shareholders ” even richer.

In the words of Boonton Vimuttayon, a Bangkok grocery store owner whose sales have declined by more than half since a Tesco Lotus store opened on his street four years ago: ‘ The foreigners get richer and richer, while we get poorer all the time. ’ (Website: www.time.com) Tesco is very proud of its

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price reductions in South East Asia – ‘ Just as in the UK and Europe we carry out price campaigns to deliver unbeatable value for our customers’ ” www.tesco.com. However, it seems to be starting a war ” of prices, opening hours, and so on – that local retailers cannot possibly compete in.

It is worth remembering that from Tesco’s point of view, the only serious rivals are other international companies, namely Carrefour and Wal-Mart, and local ones who suffer as a result are merely ‘ collateral damage’. (Web: corporatewatch.org.uk)

4. 3. 4 Genetically Modified (GM) food dumping

According to a report from Greenpeace Southeast Asia, in 2003 a high percentage of GM Soya was found in a Tesco Lotus own-brand Chinese Sausage which was not labelled as containing any GM product. (Web: www.greenpeacesoutheastasia.org/en/seanews72.tml) The article points to Thailand’s weak labelling laws as the problem, but surely if Tesco was as committed to organic agriculture as they like to claim, there wouldn’t be GM Soya in its products in the first place? It seems unlikely that Tesco would even consider taking such a risk in its UK stores, where GM is firmly on the agenda as a consumer issue. A Greenpeace campaigner said: ‘ The loopholes in the labelling law allow multinational companies to dump GM Soya into Thailand. It is time to make this law stricter to protect consumers and give them a genuine right to know. The same article says that Tesco Lotus is on Green peace’s blacklist of businesses because of their use of GM Soya and lack of labelling. Greenpeace South-East Asia continues to campaign against the use of poorer countries as ‘ GM guinea pigs’. (Web: corporatewatch.org.uk, Tesco plc overview 2004)

4. 4 Malaysia

Tesco has had a presence in Malaysia since 2002 when it teamed up with Sime Darby, the Malaysian-

based multinational conglomerate, to develop 15 hypermarkets. Tesco holds 70 per cent of Tesco Stores (Malaysia), the joint venture company. It also contributed 70 per cent of the ? 15m investment – or some ? 150m to the venture. In 2006 Tesco bought the Malaysian chain of Makro Cash and Carry. The CEO of Tesco’s Malaysian unit, Chris Bush said that there will be 27 Tesco stores by the end of 2008. It has added seven new hypermarkets and reopened four ex Makro stores under the Tesco Extra banner. 4. 5 South Korea The Tesco experience in South Korea is particularly notable as it is now its second most profitable market after the UK. In May 2008 it bought another 36 discount stores from E-Land (South Korea) to become the second largest retail chain in the country.

Its success stands in stark contrast to the relative failure of its two largest international competitors, Carrefour and Wal-Mart who have exited the South Korean market. Analyst cite their strategy of entering the market with a local partner (Samsung) and of being flexible in their local operations and not imposing operating models from elsewhere as being key factors. (Web: Corporate watch, Tesco overview) “ They (Tesco) have adapted their store formats very well and have been very good at working with local management. They do have an extremely clear idea about what their business is about, but they are not macho about how they apply it.

There are some firms that if they buy a company in another country, putting their brand name on it as quickly as possible is almost a source of corporate pride. “ 1 Rita Clifton, Chairman, Interbrand², in 2006. (Web: icmrindia. org, “ Tesco Globalization Strategies and Success in South Korea”) 4. 6 Japan

Tesco began its expansion into the notoriously difficult Japanese market in July 2003 by buying a 94.54% shareholding in the C Two-Network, a successful retailer with 78 neighborhood supermarkets and some wholesale outlets around the Tokyo area.

Tesco was delighted by the acquisition, Terry Leahy describing it as ‘ a continuation of our international strategy for long term growth. C Two-Network provides Tesco with an excellent opportunity to enter a large and unconsolidated market where we have potential to grow. ‘ Tesco said that the two companies shared a similar management approach, corporate culture and retailing vision, and that the Japanese stores would continue to be run by the current management team, with the support and guidance of the Tesco Group. (Web: Tesco. om 2003) In April 2004, Tesco also acquired Fre’c, another Japanese chain. 63 Fre’c was a bankrupt Japanese chain, with 27 stores on the outskirts of Tokyo. According to the Guardian, Tesco is expected to use C Two-Network’s links to processed-food wholesalers and Fre’c’s knowledge of fresh produce to open between five and ten small stores a year. In Japan, Tesco is relying on customer loyalty to the high street, whilst its US and European rivals, including Wal-Mart, CostCo, Carrefour and Metro believe their fortunes lie in encouraging a culture of out-of-town superstores. The Guardian, 01/06/04) “ We very much go in for the model that people [in Japan] shop two or three times a week, and tend to go to quiet neighborhood supermarkets,” Mr. Trenchard said to explain Tesco’s “ very cautious attitude” (. <http://www.guardian.co.uk/business/2004/jun/01/japan.supermarkets>)

4. 7 China China’s middle class is expanding by 20% a year and will increase spending on food by 17%

a year in the next decade to ? 300 billion, according to the consultancy firm AT Kearney.

Tesco is targeting the new and fast-growing group of cash-rich, time-poor Chinese consumers. “ There are enormous numbers of new consumers who want to grab something quickly on their way to or from work,” said Towle, head of Tesco China. (Web: tesco. com china report) The Tesco strategy for China appears to have been very similar to those described above in other SE Asian countries. In March 2004, it was revealed that Tesco was negotiating to buy 50% of Ting Hsin International, which owns 25 hypermarkets in China, operating under the names Hymall and Le Gou. In July 2004, a ? 40m deal was confirmed that will give it a presence in some of the key Chinese conurbations, link it with a good local operator, and provide plenty of scope for rapid expansion. More than that, however, the deal will give it a market-leading position in Shanghai “ China’s largest retail market ” leapfrogging over arch-rival Carrefour in the process. (Web: news. bbc. co. uk/1/hi/business/3532713. stm) In February 2008, Tesco owned 52 comprehensive supermarkets in China and the company plans to invest RMB300 million to open 10 more supermarkets each year.

It also launched the Tesco Express brand (convenience store) in Shanghai in a diversification from its big superstore strategy so far. [pic] Figure 4-2 “ Chinese shoppers in Tesco (John Arlidge From the Sunday Times April 13, 2008) Tesco follows Wal-Mart, Carrefour, the German chain Metro and the Dutch Makro, all of whom have had moved into the Chinese market. China is considered an important, but difficult market by international retailers. A

relaxation of Chinese trading rules after the country's entry to the World Trade Organization could mean more Western companies move in fairly rapidly.

China is seen as a desirable country for foreign investment because of the increasing encroachment of capitalism and the low cost of labor. The key tenant in Tesco's global strategy is the 'Tesco' approach – 'To create value for our customers, to earn their lifetime loyalty'. Its two values are: 'No-one tries harder than we do for customers' 'We treat people the way we like to be treated' (Web: www.tesco.com/corporateinfo) It has been argued that these values are, however, rather selectively applied to customers and shareholders rather than farmers and smaller competitors.

Tesco is lagging well behind Wal-Mart and Carrefour in the world's fastest-growing consumer market. Carrefour has twice as many hypermarkets as Tesco and nearly 200 discount stores "branded Dia" in China. Wal-Mart also has twice as many wholly owned hypermarkets and an interest in a further 102 Trust-Mart stores. Tesco seems to have adopted the same strategy of large hypermarkets (but still usually in city centers) to attract wealthier customers and smaller more local sites (Tesco express) to address the "time poor cash rich" urban worker shopping behavior "buying fresh, often and locally.

Tesco is betting its dual-format approach will give an edge. Ken Towle, head of the firm's Chinese operations told The Sunday Times: "All around the world our research shows that customers tend either to be migrating to large shopping centres to do a big shop or they want the convenience of shopping

locally and are prepared to accept an edited choice in order to be able to go round the corner. Here, we are giving them both. ” (News: Sunday time) As in all markets there is considerable overlap between these functions in the eyes of the consumer, and options for easing the transition are provided.

For example cars for shopping purposes are still rather exclusive, so superstores run fleets of buses to bring in, and take home customers with their heavy shopping load. “ I come here every day – it’s easy on the Tesco bus,’ says Chen Shuang, who is in the superstore with her son” (China Daily) Fewer people have fridges, either, so many buy small amounts of food most days, spending an average of around 80 Yuan (? 5. 25). Incomes are rising and more households have two working parents who cannot shop every day. Diets are altering, too.

Some dairy products and snacks are finding a place in the traditional family fare of meat, fish, rice and vegetables. Microwave ready meals are a culture stranger, but Towle (head of Tesco China) thinks that could change. ‘ We might offer chicken, diced and prepared with vegetables, as incomes increase and shoppers want to save time,’ he says. Food quality and safety is another big concern: ‘ We put huge effort into sourcing our products with integrity,’ says Towle. ‘ It’s quite challenging to find suppliers that meet even our basic requirements, such as putting all products through a metal detector. ‘ (Web: <http://news.bbc.co.uk/1/hi/business/3086625.stm>) 4. 7. 1 The Tesco Superstore Experience Ken Towle (head of Tesco China) says: ‘ We have the scale and expertise but not the local experience. That’s why we teamed up with Hymall – and why more than half of our senior managers are

local. ' As in the rest of the world, such as the reported approaches in Japan and the USA reveal, this desire to fit in with local habits, customs and tastes seems to be a very strong tenet of Tesco strategy in China. The layout as well as the contents of the Tesco-owned Hymall superstore in a Shanghai suburb is substantially different to that in the UK. Our brand is very important for generating loyalty, but our customers are Chinese and we need to give them the local products they want, too,' says Ken Towle, He does not bow to international pressure from animal welfare protesters who say the turtles and other live creatures sold at Tesco stores in China are treated cruelly. There are numerous videos on YouTube (http://uk.youtube.com/results?search_query=tesco+china&search_type=&q=f) of snakes, turtles, frogs being stored and killed among others “cruel” practices.

Thus toads and turtles paddle in tanks, among the eel, squid are shelves stacked with rice oil, sesame crackers and coconut egg-roll in Tesco Value packaging. Rice lies loose in giant wooden bins and soya bean oil comes in five liter drums. Rows of foreign branded and local exotic foods, from dried fungi to fresh noodles, sit on the shelves. [pic] Figure 4-3 Ying Bing with turtle purchased at Tesco The tills are arranged for customers who use baskets and pay cash. But habits are changing quickly, making the challenge for Tesco and its rivals particularly tough. Tesco Express Stores http://www.thisismoney.co.uk/investing-and-markets/article.html?in_article_id=420559&in_page_id=3&in_page_id=3 - StartComments “ We think we can create a new type of neighborhood store in China by taking the guarantee of quality and consistency that a big western brand can bring and combining that with convenience and value for money,” Longden, head of Tesco

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Express in China (China revolution: Toads in Tesco Catherine Wheatley, Financial Mail 21 May 2007, 12: 11pm) He is pinning his hopes on Tesco's experience in Asian markets, notably Thailand.

A decade after Tesco entered the Thai market, there are now 300 Express stores, outnumbering Tesco hypermarkets there by three to one. There is a lot at stake. Britain's biggest and most profitable grocer is lagging well behind Wal-Mart and Carrefour in the world's fastest-growing consumer market. Tesco is also seeking to capitalize on growing consumer fears about food safety in China, following scares about pesticide poisoning and contaminated milk and meat. Some 500, 000 Chinese suffer from pesticide poisoning every year.

Signs in Tesco Express guarantee that pesticide levels are monitored and the store's slogan is: " Fresh food you can trust". This view seems to be supported by local sentiment and worries about food safety and fake products. " We want good quality," said Putau Ying, 60, who used to work in a motorcycle factory. " We like brands from Europe and America. We know it's strong. It is checked by inspectors. " (China daily) There are also typical Tesco consumer-friendly touches.

On the opening day staff gave away a box of tissues " a luxury item " to anyone who signed up for a loyalty card; and staff offered to pump up the tires of customers' bicycles while they shopped. If the new venture pays off, Towle said Tesco Express's expansion would be " almost endless" in a retail market that is growing at 13% a year and is expected to expand from ? 215 billion to ? 300 billion by 2010, according to Euro monitor International, the

market-research company. He predicted the new smaller stores would help Tesco to catch up with, and eventually overtake, Wal-Mart and Carrefour.

Company sources say Tesco is already planning to buy up Carrefour's Dia discount stores " a Chinese equivalent of Aldi " and convert them into Tesco Express outlets. (Web: corporatetwatch, Tesco Review) Tesco, which last year spent ? 180m increasing its stake in its local partner, Tin Cao, to 90%, could spend up to ? 300m a year developing the new stores in China, according to analysts at Shore Capital, an investment bank. However, the Chinese experiment comes at an awkward time.

Analysts say food-price inflation is driving up the cost of Chinese staple goods " notably cooking oil, pork and rice " which will make it hard for Tesco to maintain price advantage. Also in 2008, it admitted that it had " paused" its ambitious ? 250m-a-year American expansion amid speculation that sales at the first stores on the West Coast were below expectations. The firm's strategy there " as in China " is based on neighborhood supermarkets, branded Fresh & Easy. Anecdotal evidence suggests that American consumers are confused by the idea of a halfway house between a giant hypermarket and a 7-11.

Could the same happen in China? Towle concedes that " there will always be points at which you have to take breath and check that what you are doing is right before forging on again. I am sure that what they will be doing in America is what we are doing here " taking stock of what the feedback has been and dealing with how they are going to respond. " What do customers say? (All sourced from [www. telegraph. co. uk/blog, \)](http://www.telegraph.co.uk/blog/) • " The surroundings

are good and I have been peeping at prices and the cooking oil is cheap,” said Renyi Bin, a 24-year-old trainee policeman, who emerged carrying two huge plastic bottles of vegetable oil. Wu Sha, a stylish 25-year-old, said she always bought her shampoo in western stores, like Tesco, “ because I know it is not a fake”. In a local wet market, however, where the delights on sale included live octopus and marinated cow placenta, many shoppers were less sure. • “ I will not buy a dead fish,” said Xu Yu Ling, a 40-year-old metalworker. “ How will I know how he died? Maybe he had illness. I want to see him alive first and kill him myself. ” • Wang Ru, 35, complained that there was no mincer on the meat counter. How do I know whether the meat is fresh if it is ground already? I want to see it ground so I can make sure. And where are the egg tarts? ” (All source from [www. telegraph. co. uk/blog](http://www.telegraph.co.uk/blog),

Chinese market) 4. Other Aspects of Tesco Strategy Localization and customer focus seem to be kingpins of the Tesco China strategy. The Tesco graduate program is a key indicator of this, using this program Tesco recruits (largely Chinese) students who have completed graduate education in the UK for a special training program to prepare for store management in China.

Another surprising move is Tesco’s green emphasis in China with the opening of flagship store boasting very green credentials. Tesco: North China’s 1st energy-saving Store opens in Tianjin (2008-10-9) (Web: [http://www. chinaretail. org/shownews. asp? id= 256](http://www.chinaretail.org/shownews.asp?id=256)) The level of purchasing required for the expansion program in China plus the general potential low cost of china sourcing has led Tesco to open a procurement center in Shanghai. The center will be responsible for transferring and allocating goods

for more than 600 Tesco stores in China, Japan, Thailand, South Korea and Malaysia.

Tesco plans to buy 2.2 billion pounds worth of goods in China in 2008. The country will become its most important overseas supplier in addition to being a key retail market. The retail giant now buys 60 percent of its globally sourced goods in China and procures from over 300 vendors in China says Liu Baijia (China Daily) Will Tesco succeed in China as it has in Britain? So far the signs are good. Total sales are around ? 700m and after several years of ploughing back earnings Towle expects the venture to be profitable in the next two years. 4. 8 Procter & Gamble Co

The author worked for P&G for a period at its operations in Shanghai, China. This section explores P&G's International Strategy and the application of it in China. 4. 8. 1 Introduction: Procter & Gamble Co. (P) is a fortune 500, American global corporation based in Cincinnati, Ohio, that manufactures a wide range of consumer goods. Worldwide producer of consumer, household and pharmaceutical goods; in addition P manufacture chemicals as input for its own products as well as for the chemical processing industry. P is well known for creating the “ Soap Opera” as part of its elaborate marketing strategy in order to attract female customers to its brand. As of 2008, P is the 23rd largest US Company by revenue and 14th largest by Profit. It is 10th in fortune's most Admired Companies list as of 2007. P&G credited with many business innovations including brand management, the soap opera, and ‘ connect & develop’ innovation. The Company purpose, value and principles (from its own company website: [www. pg. com](http://www.pg.com)) are: The P&G purpose is to:

“ Provides branded products and service of superior quality and value that improve the lives of the world’s consumers, now and for the future to come.

As a reward, customers will reward P with leadership sales, profit and value, creation, allowing our people, our shareholders and the communities in which we live and work to prosper”. (Web: P&G. com) The P&G Values that will help it achieve its purpose are: “ P is its people and the values by which we live. ” In practice, it attempts to: “ P attracts and recruits the finest people in the world. It builds its organization from within, promoting and rewarding people without regard to any difference unrelated to performance.

It acts on the conviction that the men and women of Procter & Gamble always will be our most important asset”. (Web: P&G. com) The P&G Principles that supports its goals and values are: These are the principles and supporting behaviours that flow from our Purpose and Values. ‘ ‘ We show respect for all individuals. ‘ ‘ The interests of the company and the individual are inseparable. ‘ ‘ We are strategically focused in our work. ‘ ‘ Innovation is the cornerstone of our success. ‘ ‘ We are externally focused. ‘ ‘ We value personal mastery. ‘ ‘ We seek to be the best. ‘ ‘ Mutual interdependency is a way of life

To what extent are these adhered to in China? 4. 9 International Strategies: The company manufactured and marketed nearly 300 brands to consumers in over 160 countries across the globe. It employed about 102, 000 people. P&G had a high market share in several product categories: laundry and cleaning (Tide, Cascade, and Dawn), paper goods (Bounty, Charmin, Pampers), beauty care (Pantene, Olay, Cover Girl), food and beverages

(Folgers, Pringles, Duncan Hines) and health care (Crest, Scope, Metamucil).

(Web: icmrindia.com) 4. 9. 1New Alliance: (resource from <http://www.corporatewatch.org.uk/?id=247>)

One of P&G's new strategies is linking up with other companies to extract as much value from its brand as possible.

One unsuccessful example is in February (2001) Coke and P&G announced a \$4bn [? 2, 77bn] alliance. The alliance would involve the union of some 40

consumer products (including Sunny Delight, Pringles and Minute Maid)

under the umbrella of a Coke-P&G joint venture. P&G was hoping Coke's far-reaching distribution network could give the company a boost. P&G's

renowned R&D capacities were attractive to Coke. Eight months later the

consumer goods behemoths called the wedding off. A spokesman for Coke

said: " After many months of due diligence with Procter & Gamble, we felt

that we could unlock the value of our brands more effectively and profitably

by retaining full control of them. "' (Web: [corporatewatch.org.uk](http://www.corporatewatch.org.uk)) Another is

when P&G successfully tied up with chewing gum giant the Wrigley

Company. The deal will allow P&G to cash in on the global gum, mint, and

breath-freshener market. This is bigger than the toothpaste market and

equal in size to the shampoo or skincare sectors. ' We will soon be able to

sweeten our mouths with Crest gum, Crest mints and Crest breath

freshener', the Guardian reports.

P&G has recently announced it will sell the Jif and Crisco brands in a bid to

get rid of under-performing brands. P&G and J. M. Smucker Co. , which

makes a wide variety of jams, jellies and other foods, is acquiring the Jif

peanut butter and Crisco cooking oil brands from P&G for \$1 billion in stock

(News: The Guardian Reports) In the sector that P&G operates innovation is a

key differentiator, its innovation strategy is key to its prosperity. 4. 9. 2

Innovation Strategy: “ Innovation in the Box/Our innovation strategy is an approach we call Connect + Develop through which P is seeking to build a global innovation network.

While we invent most of our products in our own labs, we want half of the new ideas to come from outside” (Web: scienceinthebox) The consumer market is global in reach, but still remains driven by the cultural preferences and demands of communities from Latin America to Africa to Southeast Asia and beyond. Through Connect + Develop relationships, P&G continually search for products, packaging, technologies and commercial opportunities that can be reapplied to its brands and rapidly introduced to better meet consumers’ diverse needs.

It tends to accelerate these internal research and development efforts by seeking to leverage the ideas, talents and innovation assets of individuals, institutes and companies around the world. (Web: scienceinthebox) Its Research & Development efforts cover 150 areas of science. Because the wealth of knowledge in these areas is not limited to its own Research & Development resources, Connect + Develop is its way to encourage more open innovation. It is a way of leveraging internally and externally developed innovation assets.

P&G are developing mutually beneficial relationships with the talents and technologies of today’s most inspired minds and capabilities. (Web: scienceinthebox) This strategy mainly focuses on products, packaging, technologies, processes and commercial connections that will result in game-

changing innovation to address unmet consumer needs. The following areas are addressed: ‘ ‘ Product formulation / colloid chemistry ‘ ‘ Specialty polymers ‘ ‘ Bleaching ‘ ‘ Cleaning ‘ ‘ Metal ion control ‘ ‘ Oral care and diseases ‘ ‘ Packaging ‘ ‘ Feminine hygiene and protection ‘ Absorbent and capillary fiber structures ‘ ‘ Flavors and fragrances ‘ ‘ Fats and oils processing and formulation

4. 9. 3 Examples of Innovation strategy:

1. Ready-to-go Technologies Procter & Gamble introduced Bounce, the world’s first dryer added softener, after acquiring the product technology from the independent inventor who developed the innovative fabric-care solution.
2. Ready-to-go Products In this instance, the deal was struck when Procter & Gamble acquired Dr. John’s Spin tooth brush business and added the Crest brand name to the innovation.
3. Ready-to-go Packaging

Several of the Olay Skin Care products now utilize new consumer-preferred pump dispensers originally developed by a European packaging products company.

4. Commercial Partnerships Procter & Gamble found the perfect complement to the swifter brand in a hand-held duster developed by a Japanese competitor. Most of P&G’s best innovations had come from connecting ideas across internal businesses. But after studying the performance of a small number of products acquired beyond their own labs, external connections could produce highly profitable innovations, too.

These connections are the key to future growth; Lafley made it a goal to acquire 50 percent of innovations from outside the company. The strategy wasn’t to replace the capabilities of the 7, 500 researchers and support staff, but to better leverage them. “ Half of our new products, Lafley said, would

come from our own labs, and half would come through them”. (Web: science inbox) Thus in support of this strategy it is essential really for P&G to have a presence in the Chinese market (aside from the lure of 1.3 billion customers). Scale is important to P&G. We’re the global leader in all of our four core businesses: laundry, baby care, hair care and feminine protection. With leadership comes scale economics. The company is building even more scale advantage with P&G’s global organisation design, and is starting to see the full benefits of this unique structure. “(Web: P. com) As it has already seen, sensitivity to culture and a desire to change culture may be crucial to success in the Chinese market. As part of its Organisation 2005 change program, P made a conscious effort to change its culture from large, slow bureaucracy to a dynamic, flexible, risk taking culture.

Success in China would certainly be a test of this. (Web: corporate watch) 4.

9.4 Culture change Having reached a saturation point in terms of revenue growth in developed economies, P began focusing aggressively on developing countries such as China, India, Russia and Brazil. The company customized product packaging, product formulas and advertising campaigns to cater to the Chinese market. P’s success in China is due to its localization strategies. (Web: china-ready. com) 4.10 P & G in China The joint venture company, P&G Hutchison Ltd. , was created in 1988 as P&G began its presence in China.

When it started, Procter & Gamble held a 69% stake and Hutchison had 31%. In 1997, a restructuring took place with P&G increasing its position to 80%, and adding an option to buy out the remaining Hutchison stake between

2007 and 2017. P&G's decision to exercise its option ahead of the original agreement means that it would be cheaper for the company to complete full ownership now than later. It also means that the Chinese FMCG market is growing quickly, and demand for the company's products, which include Crest toothpaste and other leading brands, continues to grow.

As evidence of its intentions in November 2005, Procter & Gamble (P&G) outbid other major companies for prime-time advertising slots on the China Central Television³ (CCTV), investing 394 million yuan⁴ for advertisement space in 2006. This sharp step-up reflected the increased importance P&G attached to advertising its products in the fast growing Chinese economy. The logic behind the fastest consumer growth in China has come in the leading cities of Beijing, Shanghai and Guangzhou. Consumer demand is also building in the second and third tier cities such as Wuhan, Chongqing, Jinan, Tianjin and Nanjing.

Most consumer product buying decisions are made by the women in the household, and they get their information from TV commercials. Having reached a saturation point in terms of revenue growth in developed economies, P&G began focusing aggressively on developing countries such as China, India, Russia and Brazil. The company customized product packaging, product formulas and advertising campaigns to cater to the Chinese market. (Web: china-ready. com) “ The potential is enormous for us in China. One out of five people in the world lives there, and we have the kinds of products people use day in and day out. 2 – John Pepper, President-Worldwide, Procter & Gamble, in 1996 P&G's success in China is due to its

localization strategies. “ China is a focus market on two grounds: it is a developing market and it is big. Our aspiration is market share leadership in all P&G core A category in China and this is a challenge because of the diversity and scale of the country. The diversity is in the consumers – affluent versus modest, as well as in geography – east versus west China and in the trade channels – global retailers, modern Chinese retailers, traditional trade such as mom-and-pop groceries and kiosks. 1 – Laurent Philippe, Former President, Procter & Gamble China, in 2004 P&G introduced variations in products such as toothpastes and cosmetics to suit the needs and preferences of Chinese consumers. However, Head & Shoulders, Pantene, Whisper and Pringles were products that were same across the world, including China. The Chinese FMCG market was expected to grow by 5-6% in 2006. As of May 2005, sales of P&G in mainland China, Hong Kong and Taiwan totalled US\$ 2 billion, with a cumulative average annual growth rate of 25 percent between 2002 and 2005. In 2005, P&G China’s contribution to the global revenues of P&G was 3. %. China was also the sixth largest market for the company. In China, P&G had moved away from its ‘ premium’ image to a company that catered to all segments of the population. According to Gilbert Cloyd, the Chief Technology Officer of P&G, “ We’ve changed our standard of innovation so we can serve more of the world’s consumers. So it’s now a better brand experience for the target consumer and a lower product cost structure than the competition can deliver. “ 6 (Web: icmrnda. org) 4. 11 P&G Strategies Web: (http://www.gccrm.com/eng/content_details.jsp?contentid=1171&jectid=102) 1.

The Marketing Strategies Though P&G usually carried out extensive market research activities, there were some occasions when it used the gut instincts of its marketers to formulate its marketing strategies. For instance, most Chinese experts warned the company that ‘ nobody in China could afford to purchase Head & Shoulders... ’ However, P&G rejected such advice and entered the market with a sound strategy. The company’s market research revealed that though there were several shampoo marketers in China, there was no shampoo that could remove dandruff from the scalp.

Dandruff was a common hair problem among the Chinese consumers. P hence launched Head & Shoulders, a brand that was known for its anti-dandruff properties. Within three years of its launch, Head & Shoulders became China’s bestselling shampoo, even though it was priced three times higher than the local brands. P&G aspired for market share leadership in all its core categories including personal and beauty care products, laundry products, pet nutrition products and baby products... The company had made significant changes in the way it handled market research to help its strategy.

Instead of finding out what products consumers used, P&G had initiated an exercise to learn how consumers used them. In China, P&G invested significantly in consumer research. Jim Stengel, P&G’s Global Marketing Officer and his team of 3, 500 marketing executives visited places where consumers lived and worked, in order to observe their behaviours. 2. Brand Stretching Brand stretching was another strategy adopted by P in China. This

strategy had a considerable risk element. If the strategy failed, it could potentially damage the brand name and sales of the original brand.

To avoid cannibalization while stretching a brand, P conducted extensive studies to understand the preferences of different groups of consumers so as to develop a distinctive product that could also be differentiated at the point of sale. After careful deliberations, eight years after the Chinese launch of P's Crest toothpaste, it launched 'New Crest' toothpaste in 2004, with a price 30 percent lower than that of its premium product and on par with its competitor – Colgate's middle-market toothpaste.

At the time of the launch of this product, Crest was a premium brand in China and by 2000, Crest held about 55% market share of the up-market segment. About 70% of the total toothpaste market consisted of middle and lower-end segments. There formulae to show the differentiated ways to increase costumers is as below: Product price * Number of customer = Total income Product price ** Number of customers = Total income Figure 4-4
Total calculation

Therefore, the second of most successful strategies in P is to reduce the price of product, make everyone affordable, get the brand into general people's family, extend the number of customers. 3. The HR Strategy P&G's HR strategy focused on superior recruiting and retention of its employees. In its initial years in China, P brought in experienced Americans to manage the country's operations. The company also hired Chinese at that time but gave them a set plan to follow. It trained these locals to think the American way.

With time, the locals gained experience and were absorbed into senior positions.

P&G believed in promoting from within the organization and so the company recruited people who were starting their career or had little work experience. P&G was among the first multinationals to conduct campus recruitment in high repute Chinese universities and gained strong awareness among university students. It provided world-class training programs to build general business skills as well as core functional skills. Achievers were also given overseas assignments. In May 2005, P&G employed 4, 000 people in China, out of which only about 50 were not Chinese.

Every large organization usually has similar problem, how to manage employee to work efficiently and effectively, usually resulting in lots of rules and policies to guide (control?) people's in proper organization behaviour. Unfortunately responsibility without authority leads to stress. In China P have instilled an organizational structure that allocates responsibility, but Chinese working culture is against taking sole responsibility in general, this leads to high levels of stress. It is major potential risk for the company's future development.

In the long term people working under this pressure cannot sustain high performance, they will be pushed to move out the companies and their advanced technologies, skills, expertise and valuable experience, commercial knowledge is lost. 4. 12 P&G Comments Facing severe market competition, enterprises not only need to maintain product quality and availability, but also need to understand well consumer preferences. This is

especially important in the consumer product market because consumer satisfaction levels will directly affect product sales. Thus, how to best serve every consumer becomes the focal point of every consumer enterprise.

Maintaining customer relationship is not merely about good attitude.

Learning from customers and letting consumers feel that the enterprise cares about them is crucial for good implementation of customer relationship management. P&G's CRM software application is a typical CRM implementation case in the consumer product industry. It is different from other general software projects including direct sales model or service model. It focuses on the online sales aspect though this is actually decided by the unique sales channels for consumer products.

In the consumer product sector, consumers numbers can be very large, and thus, normal SFA software for individual sales is not necessary. Since each customer is a Small Customer, sales method is different from that of the SFA sales model targeting unit big customers. Enterprises in the consumer product industry do not have large sales teams to carry out individual sales. However, they can utilise the advantage of the Internet to carry out distributed sales, using technology to automatically solve the problem of lack of human resources. (Web: http://www.gccrm.com/eng/content_details.sp?contentid=1171=102)

4. 13 The Challenges Though P's Chinese operations were highly successful, the company faced challenges in the form of fierce competition from local Chinese manufacturers and the presence of fake products. P&G faced stiff competition from local companies such as the Nice group (that manufactured detergents) and C-Bons (a national shampoo and

skin care products company). To avoid direct competition from global FMCG companies such as P&G, these local companies had concentrated on lower segment consumers and had emerged as leaders in this segment.

The area that P&G down pricing strategy is now attempting to address.

(Web: <http://www.icmrindia.org>) An international manufacturing network of factories, distribution centres, offices, and so on can be organized in many ways. The best organization is the one that satisfies customer needs and achieves the company's strategic goals. (Dubois, F. Toyne, B, 1993.) In the mid- 1990s, Procter & Gamble set a goal to double sales over the next ten years. The company reorganized to help achieve its goal. Its old organization structure was based on geographic regions; the new structure was based on global products.

There were seven global business units, each focused on a product group: baby care products, beauty care products, home care products, and so on. Aside from helping the company achieve its growth goal, the new structure was designed to meet the needs of Procter & Gamble's important international chain-store customers such as Wal-Mart (United States), Carrefour (France). These customers had three key needs: high quality products, recognizable brand names, and global supply. The old structure could not satisfy the last need. Global supply meant consistent global prices and standardized worldwide distribution.

Under P&G's old structure, customers negotiated prices and distribution on a country or regional basis. An international chain store paid different prices for products in the United States, Europe, and Latin America, but this was no

longer acceptable. International chain-store customers needed consistent global price and distribution. (Hodgetts, R. and Luthans, F, 2003.) (Shi, Y. and Gregory, 1998.) In the fast moving consumer goods (FMCG) sector. Procter & Gamble (P) is widely been regarded as one of the most successful foreign companies in China.

Its hair care and cosmetics products, among others, are leaders in these respective spaces. According to the Economist, P's China. revenue exceeded \$2 billion at the end of 2005 and profit has been increasing at the end of 140 percent per year. Today, China is the sixth largest market for P&G in revenue terms and it is forecast to become the second largest after the U. S. in a few years. When P&G entered China over a decade ago, Wella, another MNC hair care marketer, also set up in the country. Wella was never able to make its business model work in China and eventually sold its business to P&G. . 14

Summary China: No longer a question of whether to enter, but of how, and how to succeed over the long term. The emergence of China in the global economy is arguably the most significant economic event in recent history. Headlines in newspapers around the world proclaim the advent of the China century. With economic growth averaging between 8 and 9 percent per annum for the past decade, coupled with a truly massive domestic population, most global companies have long since recognized that China is simply too large a market for them to ignore.

For Procter & Gamble, the reasons for pursuing China are: the potential opportunities for new growth and profit; China is a defensive play. Essentially an opportunity to access low labour costs or to build and sustain an

advantageous business model before a competitor can do the same and exporting this new model back into the developed countries. In the recent years, following Chinese markets growing hugely and rapidly, P&G