

Case 12-1 Continued (refer to page 364)

Tesco Expands in the United States: The Assignment

In its home market, Tesco operates more than 2,300 stores in four formats: supercenters (large stores with a limited range of nonfood items), regular supermarkets, and Tesco Express convenience stores. While the U.S. market entry will be limited to small neighborhood markets, Tesco has raised eyebrows with an ambitious plan to establish its own distribution network as well. Management expects prepared foods such as salads and chicken-based dishes to be big sellers. To execute, Tesco is bringing two suppliers across the Atlantic: Natures Way Foods, which specializes in salads, and 2 Sisters Food Group, a leading UK poultry purveyor.

Will Tesco succeed with its strategy for entering the U.S. market? Management is confident it has identified an opportunity. The small-store format makes it unlikely that Tesco will encounter the type of backlash that has been directed at Walmart in some communities. Speaking about the U.S. retail environment, Tim Mason, director of marketing and property at Tesco, notes, "Generally, shopping either means the big-box model, where you get in your car once a week and drive out of town to do your shopping, or the convenience store at the end of the street. We found that the [U.S.] market for convenience stores at the end of your street is not very well served. There is more consumer opportunity and more retail opportunity."

The company does have an impressive track record outside the United Kingdom; Tesco has even penetrated markets that have proven to be difficult for Walmart and Carrefour. For example, Tesco entered South Korea in 1999; today it is the number two retailer behind E-Mart, a local chain. Samsung Tesco, an 89-11 joint venture, operates Homeplus "value store" hypermarkets. Homeplus is known for more than just shopping: The stores also feature coffee shops and restaurants. As one analyst noted, the joint venture approach has served Tesco well. "Thanks to its local partner, Tesco has tailored its service well to local tastes, while Walmart and Carrefour have struggled to win over consumers with their focus on prices," the analyst said.

Tesco has also been successful in Japan, although on a limited scale. Before entering the market, a team was dispatched to live

with Japanese consumers, accompany them on shopping trips, and observe their food preparation customs. As David Reid, chairman and head of Tesco's international operations, explained, "In America you have big cars, you can drive several miles in five minutes, you can buy in bulk and store it in your double garage. Chalk and cheese compared to Japan."⁴¹ In Japan we learned that some housewives shop on bikes and shop daily. They visit six or seven shops looking for deals." Armed with these insights, Tesco acquired C-Two, a small discount convenience store chain with stores in Tokyo.

Case 12-1 Discussion Questions

1. What are the keys to Tesco's success in the competitive retailing industry?
2. In view of the tough retailing environment, what changes do you think Tesco might be forced to make to the "Fresh & Easy" concept?
3. Which of the market entry strategies identified in the chapter is Tesco using in the United States? Do you think this is the appropriate strategy?

Sources: Cecilie Rohwedder, "Tesco Tries to Hit a U.S. Curveball," *The Wall Street Journal* (March 2, 2009), p. B1; Cecilie Rohwedder, "Stores of Knowledge: No. 1 Retailer in Britain Uses 'Clubcard' to Thwart Walmart," *The Wall Street Journal* (June 6, 2006), pp. A1, A16; Jonathan Birchall, "Tesco Will Launch in LA and Phoenix," *Financial Times* (May 18, 2006), p. 17; Elizabeth Rigby, "Tesco Seeks to Gain Weight Abroad," *Financial Times* (May 2, 2006), p. 17; Song Jung-a, "One-Stop Model Gives Tesco Edge in Korea," *Financial Times* (March 22, 2006), p. 17; Sophy Buckley and Jonathan Birchall, "Tesco Plans to Build Brand in US," *Financial Times* (February 10, 2006), p. 19; Cecilie Rohwedder, "Tesco Jumps the Pond," *The Wall Street Journal* (February 10, 2006), p. B2; Susanna Voyle, "Tesco's Tough Act: With Record Profits, Britain's Biggest Retailer Prepares for Further Challenges at Home and Abroad," *Financial Times* (April 20, 2004), p. 13; Alastair Ray, "Own-brand Broadcaster Tunes In," *Financial Times* (March 16, 2004), p. 10; Bayan Rahman, "Tesco's Japanese Shopping without the Hype," *Financial Times* (January 16, 2004), p. 20.

⁴¹The British English expression "as [different as] chalk and cheese" is the equivalent of the American English expression "as different as night and day."