PGDM-IB (2012-14)
INTERNATIONAL RETAILING
Subject Code: IB 434
Trimester IV End Term examination, September 2013

Total Marks = 50 **Time: 2 hours 30 minutes**

Roll No.

Section A

Attempt any three. **Word limit: 150 words** **M M = 5 * 3 = 15**

1. Describe and discuss HOLLANDER'S CLASSIFICATION THEORY (1970).Is this theory still relevant for the present day International retail?
2. What are Dark Stores? Explain how divestment is a strategic method of investment.
3. What are the different formats of non-store based retailing carried out by international retailers?
4. 'Terrorism is considered a new form of political risk'. Comment on this statement. How many types of terrorism are presently identified?
5. What are the drivers and impediments of retail internationalization? Explain in detail.

Section B

Attempt any two. **Word limit: 300 words** **M M= 10* 2 =20**

1. What are the different methods of dealing with political risk, in the context of investing in foreign operations? Why is the POLCON Index important when identifying countries for investment?
2. In GRDI 2013, countries like Turkey, Mongloia and Georgia and other smaller markets are attracting the attention of the international retailers as compared to the earlier propensity for bigger markets. Comment on this statement.
3. "Round-tripping", and trans-shipping of capital flows in some economies may account for a significant portion of FDI. Explain this statement.

Section C

Case Study is compulsory and is for 15 marks.

COMPANY FOCUS III.1

TESCO

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History

Tesco, one of the leading food retailers in Great Britain, was started in 1919 on the east side of London, when John Edward Cohen opened of his first grocery store. Who could have known that something so small would grow into a chain with over 545 stores in England, Scotland, and Wales? Today, the company is the largest U.K. food retailer.

After Cohen became a successful market trader, he officially founded Tesco in 1931. He derived the company's name by combining his own initials with those of a particular tea that he carried in the store. Cohen visited the United States, where he became a student of the American food retailing system. This trip gave Cohen the concept of the supermarket and provided the basis for his first self-service store. During this time, Tesco made shares available to the public, which allowed for increased expansion over the next two decades.

The growth that followed was almost solely provided by the acquisition of smaller grocery chains: Burnard's in 1955, Williamsons Ltd. in 1959, Charles Phillips & Company in 1964, and the Adsega chain in 1965.[1] In the midst of these acquisitions, the first Tesco supermarket was introduced in 1956. This introduction was followed by the development a higher margin, non-food merchandise department located in the bigger stores. The next step was the establishment of the first "superstore," taking up 49,000 square feet (4,550 square meters).[2]

During the 1970s, Cohen used the knowledge gained from his stay in the United States to make Tesco known for its "pile it high, sell it cheap" image. However, this approach quickly backfired in a decade when quality reigned over quantity and market changes were abundant. Inflation and recession also prevailed throughout this decade. Tesco's slump was exacerbated by an insufficient variety of merchandise, and a lack of customer service. In these circumstances, an unfortunate price war was started with the company's leading competitor, Sainsbury. To turn Tesco around, drastic measures were necessary, and a large-scale modernization program was undertaken. This process included closing unprofitable stores, implementing a computerized distribution system, offering higher quality goods, and pursuing the supermarket concept more strongly. Tesco also developed its own line of private label products to help beat the slump.[3]

Although the recessionary slump continued into the early 1980s, Tesco managed to establish a chain of discount stores known as Victor Value, which were later sold to H. Williams Company. By 1985, Tesco (now Tesco PLC) had opened its 100th superstore after a zoning controversy at the location in Brent Park, Neaspen. Once Tesco won the battle to build there, it became London's largest food retailer.[4] In 1985, the company also expanded its stores and warehouses, and completed the takeover of the 40-store chain, Hillards PLC. Tesco was successful with this strategy and overtook Sainsbury as the U.K. supermarket leader in 1996.

Strategy

Tesco's basic strategy has continued to benefit the company by doing one thing, *putting the customers' needs first.* This is accomplished by developing the product, price, and promotion around the customer. Tesco represents *value,* and it creates *loyalty* for those who shop there. For example, the Clubcard used by the company to earn greater sales and provide customer value has become quite successful. Through the Clubcard, Tesco can gather information about who purchases what and how much they spend. This provides the company with enough information to indulge consumers in savings on their favorite brands as well as maintaining a personal relationship with them. During the Clubcard introduction, competitors such as Sainsbury stated: "We estimate that an electronic Green Shield stamp promotion would cost at least £10 million [U.S. $16.3 million] just to administer. That's wasted money which brings no benefits at all to the customers. We have no plans to go that route. We will continue to focus our efforts on delivering good food for less."[5] This response proved to be shortsighted.

Within months, the Clubcard had built up a membership of over 5 million users and created a 17% spontaneous awareness rating along with 15% usage. The company's advertisements summed it up: "Tesco's Clubcard: The most popular loyalty scheme in the UK. . . ."[6]

In addition to strong efforts such as the Clubcard, Tesco also formed a joint venture with Virgin Cola in 1994. This gave Tesco the exclusive right to carry the cola for a certain period of time in order to keep up with the competition and increase sales.[7]

Advertising plays a key role in the company's strategy. By using a "no quibble moneyback guarantee," Tesco has gained some popularity. The strong new character developed for the company's television ads delivers humor and creates a consumer liking. "In its new ads Tesco promotes the theme that the customer comes first."[8] By caring about the customers' wants and needs, Tesco has developed a most important concept: value for the consumer as well as a profit for itself. The company conducted a survey of its customers' preferences and then designed prototype stores based on these concepts. In 1997, some of these new prototype stores opened. The aisles are two or three times the width of those in regular supermarkets. Fresh produce is offered at the front of the store, and the stores do not have any doors. Panels are retracted when the store is open and a specially designed air system keeps temperature-controlled air in the store.

Stores and Location

The format of Tesco stores has changed steadily over the years. The company still has superstores containing grocery items, and 15% of non-food items, including such goods as clothing, toys, garden tools, and car repair accessories. At present, Tesco also has 80 superstores, which now include home entertainment departments. A planned increase to 110 stores is in progress. Clothing has also been a successful addition, and an increase from the 116 stores already carrying apparel to 147 stores is also being implemented.

Along with the superstores, Tesco has three new store formats: Metro, Express, and Compact. The Compact store is similar to a superstore, but on a smaller scale. It is easier to find sites for these smaller stores and they are less expensive. Their locations include such spots as markets and towns, the edges of high street, and also around already operating superstores. Compact stores provide convenience to the consumer with quality goods at a nearby location. Fourteen stores were scheduled to open in 1995, and the company planned to open more if they continued to be successful.

Tesco currently has 15 Metros, five of which are old and have been converted. Plans for Metro include either converting or opening 75 more stores over the next few years. This will contribute a significant profit to the company because of less warehouse space and more retail space due to internal extension in eight of the stores. Metro stores are located in city centers where their target market consists of workers, as well as local residents. The stores are the size of convenience stores but they carry nearly a full range of products including high quality fresh produce.

The last of Tesco's new store formats is the Express. This is a petroleum station as well as a convenience store. Because the petroleum is bought and sold by Tesco directly, it cuts down a great deal on cost. The convenience store mixes Tesco's own private label products in with the other products it carries. In 1995, three sites were open with 10 more planned over the course of that year. Plans called for increasing the speed by opening over 100 stores in the near future, including 15 to 20 opening in 1995–1996.

Compact, Metro, and Express are strong additions to Tesco's company profile, generating 8.6% of Tesco's 12.9% total sales increase. With the expansion of all three of these stores, Tesco stands to become even more successful and profitable.

Logistics System

Tesco's distribution system has moved through several phases over the past three decades. Initially, distribution centered on the delivery of products directly from the manufacturer: an approach known as Operation Checkout. Although 80% of all supplies came from the manufacturers, resources were becoming scarce. Soon, Tesco faced problems in handling the increased volume, and in peak weeks, the stockrooms would be stored with excess goods. Another problem faced by the company was irregular delivery times. Delays would often last up to six hours, causing customers to wait while empty shelves were refilled.

Due to the unpredictability of Tesco's distribution system in the 1970s, a move toward centralization was unavoidable. Under this strategy, Tesco gained control of the system as well as reducing lead time. Instead of not knowing exactly when a shipment would be delivered, centralization provided a maximum 48-hour lead time. Tesco has identified seven key benefits to this strategy:[9]

1. A change to fixed distribution facilities.
2. Improved lead times.

3. Common handling systems used at distribution centers and stores.
4. Adoption of multishift working.
5. Computer software modeled company decisions.
6. Dedicated distributors met high levels of performance.
7. Technology to control inventory.

Tesco now has a network of distribution centers that are linked by computer to all if its stores.

After studying its logistics system, Tesco developed composite distribution. This allows the company to both store and deliver a wide variety of products that require special attention, such as those that must be kept within a certain temperature range. Both warehouses and vehicles have temperature-controlled departments that enable any combination of goods to be transported to stores. Frozen foods can be kept frozen, fresh foods kept cool, and hot foods kept hot. These goods are stored in one of eight distribution centers located throughout the United Kingdom. Of these eight, only two are actually operated by Tesco. The remaining six are operated by contracted distribution centers, third-party distribution providers. Supermarket chains in the United Kingdom are leaders in the use of this system. Each auto center is responsible for its appointed 50 stores located in various regions of the country. Composite distribution has reduced stock levels held at stores, improved product quality, and reduced waste. The centralization of this distribution system also played a key role in the modernization of *Tesco as a whole.*

Competition

Tesco faces many small forms of competition, but its main competition comes from Sainsbury, Safeway, and ASDA. These four powerhouses control over one-third of the United Kingdom's grocery market.[10] Originally, Tesco's quality did not compare to that of its competition. Although both Sainsbury and Safeway led the way with their innovations, Tesco improved the innovations. As a result, Tesco now holds the top spot in retail food.[11]

The changes employed by Tesco include "Tesco Value," quality goods for a low price, and better advertising. Tesco also beat out the competition with the innovation of the Clubcard, which both Sainsbury and Safeway now incorporate into their strategy.

The fierce competition between these companies (especially Sainsbury and Tesco) makes attaining and holding the number one market position difficult. Sainsbury has had to severely cut down on the prices of its private label products in retaliation to Tesco's efforts.[12] Although this may be a wise move on the part of Sainsbury, Tesco is sure to retaliate, not only to keep its sales, but to prevent a price gap from developing.

On another level, Sainsbury and Tesco also fought head to head for the acquisition of Wm. Low, a grocery store that operated 57 stores in Scotland and northern England. Sainsbury started a bidding war after learning of Tesco's interest. However, Tesco counteracted with a higher bid and obtained the company. This acquisition posed a large problem for Sainsbury, as both companies had no stronghold on the Scotland market before Tesco's takeover.[13]

Conclusion

Since Tesco overtook Sainsbury as market leader among the U.K. food retailers, it has been a constant struggle to stay on top. Tesco must continue to implement new ideas and innovations if it wants to retain the top spot.

DISCUSSION QUESTIONS

1. What kinds of strategies could Tesco implement to produce a more efficient distribution system without using centralization?
2. Tesco operates in an oligopoly situation. The four major food multiples in the United Kingdom control over 60% of the market share. What effect does price cutting have in a market like this? What are some other methods of competing?
3. A major part of Tesco's sales are private label/private brand merchandise. What particular benefits does this have in an oligopoly market?