



MANAGEMENT FOCUS

Tesco's International Growth Strategy

Tesco, founded in 1919 by Jack Cohen, is a British multinational grocery and merchandise retailer. It is the largest grocery retailer in the United Kingdom, with a 28 percent share of the local market, and the second-largest retailer in the world after Walmart measured by revenue. Last year, Tesco had sales of more than \$70 billion, employed more than 480,000 workers, and operated 6,553 stores in 13 countries.

In its home market of the United Kingdom (with a headquarters in Chestnut, Hertfordshire, England), the company's strengths are reputed to come from strong competencies in marketing and store site selection, logistics and inventory management, and its own label product offerings. By the early 1990s, these competencies had already given the company a leading position in the United Kingdom. Tesco was generating strong free cash flows, and senior managers had to decide how to use that cash. One strategy they settled on was overseas expansion.

As managers looked at international markets, they soon concluded the best opportunities were not in established markets, such as those in North America and western Europe, where strong local competitors already existed, but in the emerging markets of eastern Europe and Asia, where there were few capable competitors but strong underlying growth trends. Tesco's first international foray was into Hungary in 1995, when it acquired an initial 51 percent stake in Global, a 43-store, state-owned grocery chain. By 2017, Tesco was the market leader in Hungary, with more than 200 stores and additional openings planned, accounting for 1 percent of the whole economy of Hungary!



Checkout section of a large Tesco supermarket in Malaysia.

Rob Walls/Alamy Stock Photo

A year after the Hungary expansion, Tesco acquired 31 stores in Poland from Stavia. The following year, in 1996, Tesco added 13 stores that the company purchased from Kmart in the Czech Republic and Slovakia; and the following year it entered the Republic of Ireland. Tesco now has more than 450 stores in Poland, some 80 stores in the Czech Republic, more than 120 stores in Slovakia, and more than 100 stores in Ireland.

Tesco's Asian expansion began in 1998 in Thailand when it purchased 75 percent of Lotus, a local food retailer with 13 stores. Building on that base, Tesco had more than 380 stores in Thailand by 2017. In 1999, the company entered South Korea when it partnered with Samsung to develop a chain of hypermarkets. This was followed by entry into Taiwan in 2000, Malaysia in 2002, Japan in 2003, and China in 2004. The move into China came after three years of careful research and discussions with potential partners. Like many other Western companies, Tesco was attracted to the Chinese market by its large size and rapid growth. In the end, Tesco settled on a 50–50 joint venture with Hymall, a hypermarket chain that is controlled by Ting Hsin, a Taiwanese group, which had been operating in China for six years. In 2014, Tesco combined its 131 stores in China in a joint venture with the state-run China Resources Enterprise (CRE) and its nearly 3,000 stores. Tesco owns 20 percent of the joint venture.

As a result of these moves, last year Tesco generated sales of about \$21 billion outside the United Kingdom (its UK annual revenues were roughly \$41 billion). The addition of international stores has helped make Tesco the second-largest company in the global grocery market behind only Walmart (Tesco is also behind Carrefour of France if profits are used). Of the three, however, Tesco may be the most successful internationally. All its foreign ventures are making money.

In explaining the company's success, Tesco's managers have detailed a number of important factors. First, the company devotes considerable attention to transferring its core capabilities in retailing to its new ventures. At the same time, it does not send in an army of expatriate managers to run local operations, preferring to hire local managers and support them with a few operational experts from the United Kingdom. Second, the company believes that its partnering strategy in Asia has been a great asset. Tesco has teamed up with good companies that have a deep understanding of the markets in which they are participating but that lack Tesco's financial strength and retailing capabilities. Consequently, both Tesco and its partners have brought useful assets to the venture, increasing the probability of success. As the venture becomes established, Tesco has typically increased its ownership stake in its partner. For example, Tesco owns 100 percent of Homeplus, its South Korean hypermarket chain, but when the venture was established Tesco owned 51 percent. Third, the company has focused on markets with good growth potential but that lack strong indigenous competitors, which provides Tesco with ripe ground for expansion.

Sources: Angela Monaghan, "Tesco Boss's Bonus Cut Despite First Sales Growth in Seven Years," *The Guardian*, May 12, 2017; P. N. Child, "Taking Tesco Global," *The McKenzie Quarterly* 3 (2002); H. Keers, "Global Tesco Sets Out Its Stall in China," *The Daily Telegraph*, July 15, 2004, p. 31; K. Burgess, "Tesco Spends Pounds £140m on Chinese Partnership," *Financial Times*, July 15, 2004, p. 22; J. McTaggart, "Industry Awaits Tesco Invasion," *Progressive Grocer*, March 1, 2006, pp. 8–10; Tesco's annual reports, archived at www.tesco.com; "Tesco Set to Push Ahead in the United States," *The Wall Street Journal*, October 6, 2010, p. 19.