



CASE

Tesco PLC: Leveraging Global Knowledge

—Mary Yoko Brannen and Terence Mughan

David Potts stared out the window of the 747 as it taxied for take-off.¹⁰⁶ His first visit to China as CEO of Tesco Asia had been exciting but had posed a number of big questions. The United Kingdom-based retailing giant had been in Asia for a little over a decade and sales and profits were already comfortably outstripping the UK and other Tesco areas, including Central Europe and the United States. Yet it was also clear that every Asian market was unique. Thailand, Malaysia, and South Korea had been great successes (the adjacent photo shows a Tesco store in Malaysia), Japan and Taiwan less so. The sheer size of China and India put them in a category of their own. How, then, was this venture going to develop across such a huge continent? And how could he capture and direct the energy and growth of Tesco Asia so as to continue to strengthen its core operations in the UK? Maybe Tesco could find an innovative answer to this challenge. It had done so supremely in other circumstances since its great transformation in the mid-1980s.

Company Background

Jack Cohen, who died in 1979, founded Tesco in the aftermath of World War I by purchasing surplus military supplies and selling them to a working-class population. Headquartered since 1973 outside London, his company became a readily identifiable feature of the UK retail scene. Known as a “Pile it high, sell it cheap” retailer with outlets in almost every town and city, Tesco knew its place in the class-based pecking order of the UK market, in which chains such as Sainsburys and Marks & Spencer met the needs of consumers with more disposable income and more refined tastes.

In the midst of the recession of the mid-1980s, Managing Director Ian McLaurin became chairman and ushered in a new management team that changed Tesco and its market



The photo shows a Tesco hypermarket in Ampang, Malaysia.

Source: © Beaconstox / Alamy

position radically. Relying on a cohort of young, talented executives with a Tesco background and an innate understanding of the UK consumer market (Potts and the current and past CEOs Phillip Clarke and Terry Leahy), McLaurin made Tesco into a store to meet all shoppers' needs. In fact, Tesco crushed the competition, including the Walmart-backed Asda, in the UK market.

Tesco's approach to the challenge of becoming market leader was to improve in every aspect of its operations, including distribution, marketing, land acquisition, and product innovation. The key driver of this approach was a change in corporate culture to emphasize attention to people. The new management prized loyalty and commitment from staff and was determined to make Tesco the employer of choice in the retailing sector. Such an attitude manifested itself in a company language that was simple and clear: "Treat people how we like to be treated" for customers, "Listen, support and say thank you" among employees.

David Potts took this belief in language a step further by compiling a "Jargonbuster"—a corporate dictionary that banished obscure terms and acronyms and laid down exactly how simple words make for clear communication. Such simple, clear language was increasingly important in Tesco's UK home base as immigrants and people with multicultural backgrounds permeated both the workforce and customer demographics. In the course of the 1990s this desire for clear communication extended further to the customer interface as the company increased the size range of stores: the *Super* stores, the smaller *Express* stores in urban centers, and the large *Extra* stores carrying the widest range of merchandise. Tesco bolstered its own branded food product range by adding the "Value" line at the lower end and the "Finest" line at the top end. With the help of an aggressive marketing campaign dubbed "The Tesco Way," which was led by the "Every Little Helps" slogan and the Clubcard incentive scheme, Tesco gained invaluable customer data and overtook its local competition. During a six-year period with Terry Leahy at the helm, its sales and profits grew by over 300 percent, making it the largest internet retailer and private sector employer in the UK. Thus, it began actively looking to international markets for the next phase of expansion.

Internationalization

In 1995 Tesco entered the Hungarian market by acquiring the S-Market chain. In 1998 it ventured further to find a local partner in Thailand and established Tesco-Lotus. An innovative partnership in 1999 with Samsung in South Korea formed HomePlus, thereby creating the bedrock for a sustained Asian presence—despite a disastrous £11 billion failure in Taiwan when Tesco sought to sell all of its Taiwan sites but had to settle on swapping them for stores owned by Carrefour (a major competitor from France) in the Czech Republic and Slovakia.

Tesco initially entered most of its foreign markets with an ethnocentric approach that sought to replicate its home success and culture in foreign locations. In the smaller and less distant cultures of central Europe this had worked well: then came France. The fact that the first international setback happened across the Channel was no great surprise; UK competitors such as Marks & Spencer had also found the British-French cultural gap too wide to cross, even though France was Britain's nearest neighbor. In fact, making English Tesco's operating language was harder in France than in any other country in which it operated.

Another problem occurred when Tesco launched Taiwanese operations by parading its Britishness—complete with Union flags and Beefeaters—in front of the store, and hence learned a strong lesson about foreign market entry strategy. Determined to banish any signs of imperialism and restore the qualities of hard work, humility, and customer dedication in future ventures, the company resolved to move toward a more locally responsive stance in foreign markets.

This desire to grow internationally in a bottom-up, locally inclusive fashion characterizes Tesco PLC. Of the young executives who came through the ranks in the 1990s, almost all were "lifers": people who started on the bottom rung of the corporate ladder, stayed with the company, and worked their way up. None, however, was more of a lifer than David Potts, who left

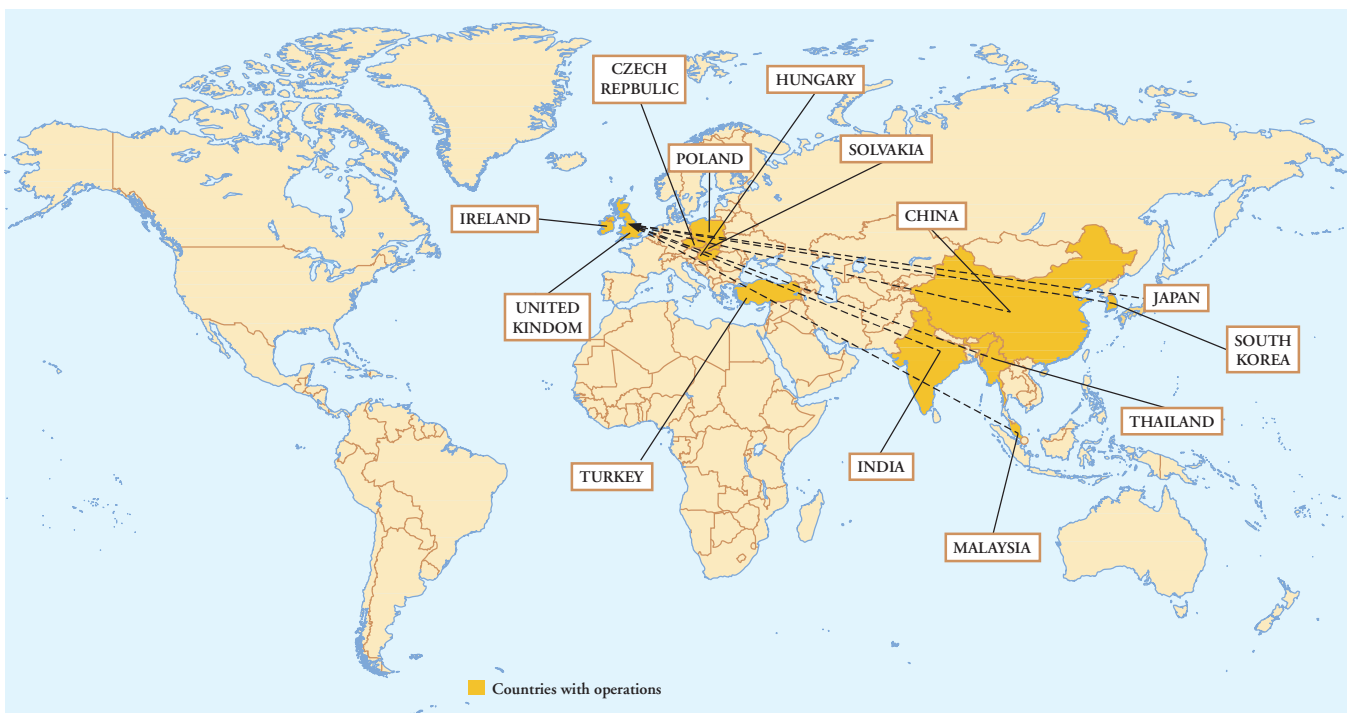
school at the age of sixteen to work in his local Tesco supermarket. Gaining experience by stacking shelves on the shop floor and gradually moving into management gave him a deep understanding of the store, its customers, and the challenges involved in meeting their daily needs. Tesco even institutionalized this philosophy in the practice of TWIST—Tesco Week In Stores—whereby all management level employees must work one week a year in a Tesco store so as to always stay close to the customer and the stores' basic operations. All other activities of the company, whether supplier management, executive meetings, or government relations, are built around this key process. Extending this philosophy to include a policy of growing local talent from the bottom up in its international subsidiaries was a natural next step. Now, as CEO Asia, Potts was facing the challenges of operating in 14 countries across Asia, Europe, and North America. (Map 2.4 shows the countries with Tesco operations as of 2013.)

The main challenge for Tesco lay both in identifying the global advantages of its foreign subsidiaries as part of the Tesco group and learning from them in ways that would reinvigorate its home country competitive advantage. As a member of the Board for several years, Potts had accumulated a vast working knowledge of international business as Tesco rapidly became the world's third largest food retailer. How could he go about managing flourishing growth in Asia while maintaining and even enhancing the competitive position of Tesco's UK home market? Was there a way to transfer Tesco's leading-edge data, purchasing, and distribution resources across its global operations while also learning from the best practices evolving from operations in its foreign subsidiaries? And would it be possible to do all this and still maintain a globally integrated corporate culture? Was this a job for a consulting company? Could outsiders help solve this puzzle?

As he pondered over his challenge, Potts's thoughts kept coming back to the fact that in 2010, for the first time in over two decades, Tesco was losing its competitiveness in its home market: UK sales figures were down .5% for the year. Still, worldwide profits had risen by 12.9%, a growth led by the performance in Tesco's Asian regional markets. Clearly there was a lot that Tesco might learn from its Asian subsidiaries. But how?

MAP 2.4 Tesco Locations and Its Cross-Cultural Project

The orange-colored countries on the map show Tesco's operations by country as of 2013. The arrows indicate the countries sending personnel to the United Kingdom to participate in the project. Note that Japan participated, but Tesco has since closed operations there.



The Essence of the Tesco Project

Potts finally came up with a novel solution that was more consistent with Tesco's philosophy of building on its internal resources. Aware that declining growth at home is often a signal of complacency that can go unnoticed by people close to the situation, he decided to bring together a team of Asian managers who would visit Tesco in the UK to examine the home operations. As Tesco insiders they would be familiar with the company's mission, values, processes, and procedures and thus would be able to feel at home in the store context; as outsiders in the UK, they would be able to see things differently from the British managers, thereby bringing valuable insights from their home country perspective and sharing best practices that had evolved in their local markets. Potts called the project "The Essence of Tesco" and gave it a two-pronged strategic purpose: (1) to conduct a health-check of Tesco UK's current corporate state and determine what was and wasn't working; and (2) to compare and contrast that state with the processes and practices that had evolved in Tesco's Asian subsidiaries so as to learn from and leverage them globally for Tesco.

Nine managers were chosen from Tesco's six Asian subsidiaries: two each from Thailand, South Korea, and China—its largest Asian markets—and one each from Malaysia, Japan, and India. This Asian project team was then brought to the UK, trained in skills needed to observe and make sense of organizational behavior, values, and assumptions (a kind of corporate ethnography), and deployed for a three-month period to observe and work in 52 stores across the UK and Ireland. The task of helping Tesco reinvigorate home operations was not easy; nor had it been easy to find nine managers who could leave their job for an extended three-month period. In the end, the main criteria stipulated that team members had to have worked for Tesco for at least three years, had a working knowledge of English, and were store-level employees rather than country-level managers. The team was also assessed on various cultural adaptability skills needed to get by in a foreign environment, such as flexibility and openness, emotional resilience, and personal autonomy.

Three of the project team members were completely bilingual, having lived extensively in English-speaking environments; in fact, one had actually studied in England and thus had a deep cultural knowledge of the UK. These three proved very helpful to the team, especially with such practical things as opening bank accounts, navigating the public transportation system, setting up mobile phone contacts, shopping, and the like. The others had varying degrees of cross-cultural exposure and competencies in the English language. All were from group-oriented, high-context cultures, a fact that allowed teamwork to emerge quite naturally and ensured that the team would pay attention to unarticulated details—factors that proved invaluable for being able to see things in the stores that others from low-context countries might not notice. Team members' natural perceptual ability helped ensure that they would be able to act as organizational bridges between their home subsidiaries and Tesco UK.

This journey of nine Asian Tesco managers across the United Kingdom took place at a time when many British cities were shaken by riots and store looting. Still, the team compiled many pages of observances to use in creating their analysis of Tesco operations. Their exposure to British culture was intense on many levels. Two of them were actually locked in a Liverpool store during a riot and, though frightened, were impressed by the calm manner in which store managers handled the situation. The day-to-day experiences, though less exciting, were also very informative and gave rise to many comparisons and contrasts in implementing such core company values as customer focus in the UK and the home countries.

Brief anecdotes the team exchanged at the end of each working day can provide some insight into their findings. For instance, while watching a Tesco UK produce handler throw a bunch of bananas onto a display, Thai managers felt that UK standards were below what they were accustomed to. A Japanese project team member was shocked to learn that a UK fishmonger had only a couple of days' training before taking on the new role of learning to cut and prepare fresh fish, which was almost an art form in Japan and required several months of intensive training. Was Tesco still a place where everybody could develop a career? It certainly didn't seem so when the team exchanged stories of how one shop floor worker had never been enrolled in the career advancement program, or how another had been working

at the same job-grade level for quite a few years. What were the reasons for this? By engaging with store staff, the project team found out that, although there was a clearly developed “Opportunity to Get On” program, an employee had to be willing to move geographically and/or take up a new job role in order to benefit from the program. The team uncovered many discrepancies between Tesco’s espoused corporate culture and its everyday practices in the UK. Noting these discrepancies and asking follow-up questions, the project team members brought new perspectives to the company culture and were able to offer solutions from their own home practices.

In noting that Tesco UK does not take every opportunity to make the customer’s experience as good as it can be, the Asian team offered suggestions about product promotions, family and community engagement, and customer service that would make UK stores more competitive. They provided great insights into taking advantage of the stock of market knowledge stemming from innovations that arose from the diverse partnerships forged in Asia. For example, by leveraging Samsung’s technological strengths at Tesco Home-Plus Korea, Tesco-UK was able to come up with a smart phone app that could read bar codes off a panel shopping screen in the subway station and allow customers to easily shop online while waiting for their train. These and many other observations were absorbed by senior management in the form of a project report and in ongoing face-to-face meetings with the Asian team.

After almost two years, Tesco UK showed definite signs of reinvigoration at home. It employed 8000 new store personnel. It provided customer training to 250,000 staff members. Overall UK sales rose 1.8 percent. It has refreshed more than 300 of the UK stores, improved the bakeries in 850 stores, and increased online grocery sales by 12.8%. It has launched a club card and a T.V. channel, and the Tesco bank has 6.6 million account holders.

Tesco also continues to make great progress in Asia, which delivers twice the trading profits of continental Europe from only 33 percent more stores. The international strategy of the company has clearly moved beyond its ethnocentric past to become not only locally responsive but also capable of learning from its global operations. This is illustrated by the following statement on Tesco’s web site:

We will **win locally by applying our skills globally**. The key word here is “locally”—all retailing is local. But increasingly we are utilising the skill and scale of the Group to benefit the performance and competitiveness of each of our businesses around the world.

QUESTIONS

- ★2-3. The United States and France are more culturally similar to the UK than are Thailand and South Korea, yet Tesco failed in the former two and has been highly successful in the latter two. How might you explain the difference?
- 2-4. In the context of global retailing, describe what you think is meant by “utilising the skill and scale of the Group.”
- ★2-5. What is the role of global teams in sharing best practices across a firm’s global operations? What advice would you give to make the teams more effective?
- 2-6. What cultural skill sets are needed for individuals from multiple cultures to share best practices across the global group?
- 2-7. What are some things an MNE can do to facilitate knowledge sharing and global integration across its global businesses?
- 2-8. Look at the Tesco website. What exactly are its businesses and what do you think this tells us about its internationalization trajectory?
- 2-9. How would this business model translate into policies of recruitment, training and development, and career management across the Group?