

International Business Plan

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1. Executive Summary of International Business Plan

During the last meeting the company decided that it would be ok for me to carry out research, feasibility study and produce an international business plan for the Tesco to enter the Somali market.

In this document I will consider all the steps that must be taken for Tesco to succeed in the Somali Market. I will explain why Tesco should enter this market and how Tesco could be a market leader in the Somali market within few years. I will also show that this is a very profitable exercises for Tesco.

2. Foreign market entry plan

Tesco is already a very successful player in the retail market. Tesco has no presence if Africa, yet Africa is the fastest growing continent in terms of population (UN.org, 2018). It would also be argued that Africa is most in need of the services provided by Tesco. There is limited competition and Tesco could gain market leader status in few years over most of the continent although there are home grown hypermarkets in some counties such as the Marjane Hyper market in Morocco. There are also multinational hypermarkets such as Carrefour with presence in few countries on the continent.

3. Entry mode – choice of entry mode

The key determinant of the choice of entry mode for Tesco are the following:

- Somalia is a risky place to do business in.
- Tesco needs to enter this market quickly if it is to have first mover advantage. Last year the Turkish Marmara supermarket announced that it was considering building a hyper market in Mogadishu (Albawaba.com, 2018).

4. The Somali macro environment

The macro economic environment in Somalia is such that any investment in Somalia is a high-risk investment. For this reason, Tesco will need to protect itself and adopt risk mitigation strategies. This will impact on the choice of entry mode. The characteristics of the chosen entry mode must be such that it would allow the company to walk away if the investment fails without impact the rest of its global operations. Tesco also needs to shield its brand name from impact of the risks such as being involved in corruption because of its dealing with individuals who may be corrupt. This risk is high because Somalia is rated as the most corrupt country in the world by Transparency international.

5. The micro environment (retailing in Somalia)

Retailing in Somalia is dominated by small independent shops. Most people shop from someone they know who has a shop and they shop there mostly because they know the owner. As Hofstede's dimensions show, loyalty is important in business in Somalia.

Tesco, as a very successful international retailer with efficient operation in most of the inhabited continents of the world except Africa, will have a competitive advantage over almost all startup supermarkets in Somalia and over most of the international supermarkets and retailers. This is because Tesco is a UK company and as UK brands are the most favoured by the Somalis (dollars, 2018), Tesco is likely to be the destination of choice for groceries shopping in Somalia. Furthermore, there are very few companies if any that can rival Tesco in Somalia in any industry.

6. External Factors

The socio-cultural distance between Somalia and Tesco's home country of the UK such that it would not be practical for UK worker to live, work and do business in Somalia. This would mean that Tesco would need to find a local partner to act for Tesco, of this, Tesco can be certain. There are currently no trade barriers and many of the business structures are being developed. There is very low competition in Somalia in this sector leading to the soaring prices. All this means that the market entry strategy should be externalized. Tesco already does this in similarly complex societies such as Pakistan where it has a joint venture with a local company. Tesco could adopt the same model in Somalia or opt for franchising instead. It is my conclusion that Tesco should market entry mode into this market should be a joint venture. I will illustrate the reasons for this later in the plan.

7. Internal factors'

Tesco is a large company with many resources, financial and intellectually. The company has international experience in every inhabited continent except Africa. One of the company's goals this year is to further expand internationally while serving its home costumers "little better every day'.

Product differentiation advantage- Tesco is a trusted brand and just the brand of Tesco although unknow to most Somalis at the moment when it is communicated to the population that it is UK's largest supermarket they will respond positively to this narrative. In Somalia, products that are made overseas, especially ones made in countries with high brand value such as the UK, have an element of prestige attached to them. This will also help Tesco succeed, along with low prices and perceived higher quality of its products.

8. The market entry mode selected

What Tesco needs from the entry mode is that it is contained and that its vast resources are not committed to Somalia. For this reason, Tesco should set aside £10 million and open one store with local partner. Tesco would invest in the fixed assets such the building. The store would be operated by local partner who understand the market and the culture. Tesco should invest build the building because property prices in Mogadishu are soaring and some parts of the city are more expensive then Berlin.

9. The opportunity in Somalia - why now?

There has been a significant increase in the aid and international support that Somalia has received over the past few years. USAID is giving Somalia one of the highest per capita support of any nation in Africa. There is also an active IMF program aimed at rebuilding the financial sector in Somalia. Recently there has been the re-establishment of the Mogadishu stock exchange. There is an opportunity in Somalia now for the following reasons;

- End of the civil war.
- Discovery of oil, drilling to begin in this year.
- International interest in Somalia because of its location.
- Mogadishu potentially offers the highest ROI in the world (AFR.com, 2018)
- There are large price hikes in Somalia due to market inefficiencies that are deeply ingrained in the country. Tesco could take advantage of this.

10. Risks

If Tesco enters this market it would need to deal with the following risks;

- Widespread corruption – Tesco can overcome this because it is large enough and can deal with high level officials directly. According to transparency international, Somalia is the most corrupt county in the world. Tesco as a UK company will be subject to the UK Bribery Act and needs to be careful both for ethical and legal reasons.
- Instability – all though there is no direct fighting g anywhere in Somalia. There is a high threat of terrorism and general instability in the country.
- Political risk is high
- Institutions are weak
 - There is high socio-cultural difference between Tesco's home country of the UK and Somalia.
 - Lack of competition in every sector of the economy, this an opportunity for Tesco.
- Elite capture of the economy. This is something that Tesco can overcome given its global reach but it would not be possible for a Somali importer to overcome.

The fact that there are risks in Somalia makes it arguable more ideal to invest in. An article in the Economics Intelligence Unit argued that Somalia is unlikely to become the destination for foreign investment anytime soon. but this argument ignores the important relationship between risk and reward and that those who are able to enter this market will potentially reap large rewards in the near future. This argument is also contradicted by articles written by those who live in the region and are familiar with it such as African law and business journal.

11. International Marketing Plan

One of the biggest business risks in Somalia is, according to (pri.org, 2018) “the difficulty of navigating Somalia’s trust-based clan system, a network that can be a trap to the uninitiated.” For this reason, Tesco should emphasize its brand and how trustworthy it is. Trust is an important commodity in business in Somalia, contracts are secondary. There are many companies that trade based on trust without written contracts. Tesco should build a large store. The building should be impressive enough to act as destination and a marketing tool for the Mogadishians. There should be something about the building’s design. Even if the building looks like any out of town Tesco it would be unique enough in Mogadishu to become a landscape. Prices of groceries in Somalia have been unreasonably high in recent years. Tesco could also differentiate itself on price. High quality low price is where Tesco needs to position itself in Mogadishu.

Tesco will need to adapt some products to meet local tastes, customs and laws but this is mainly to with the Islamic law and Tesco already operates in Muslim majority countries such as Pakistan, so it could use the same plan for Somalia.

12. How the business addresses key current issues in the international operating environment.

Tesco being a successful business already, the company has developed solutions and ways of dealing with these concerns. Tesco’s main problem is opportunity identification. The identification of unserved markets. Mogadishu is such a market. Tesco being a British brand it will automatically become a high-quality vendor even if it only sells its value range in Mogadishu. In terms of Porters 5 forces, the power of the customer has generally been very low in Mogadishu because of lack of competition and elite capture of the sources of income. The threat of new entrants has and remains to be very low in to the retail market for the same reason.

13. Financials feasibility and cash flow forecast.

There are 3 million inhabitants in Mogadishu, divided in 500,000 households, spending an average of \$50 of their weekly shopping. If Tesco is able to capture 50% of the market share in the first year, which it can easily do, Tesco would have a revenue of \$600,000,000 in the first year as shown below. If Tesco makes a net profit of 10% which it can easily factor into item prices because of the high prices in Mogadishu, Tesco stands to make a net profit of \$60 million. For this reason, Tesco should invest \$60 million in Mogadishu. It would recoup its investment in the first year in net profit. The pay back period for this investments is less than 2 months.

market size	500000
50% market share	250000
each spending \$50 a week	\$ 12,500,000.00
Tesco's weekly revenue	\$ 12,500,000.00
Tesco's Monthly revenue	\$ 50,000,000.00
Tesco's yearly revue	\$ 600,000,000.00
profit at 10%	\$ 60,000,000.00

14. Conclusion and recommendations

There are few certainties in Somalia, the country is missing from many, if not most, country statistics provided by UN agencies and Think tanks. Few know much about Somalia and even fewer have been to the country, in the case where there is data, the data is likely to be inaccurate, out of date or both. Somali is one of the few countries not included in the Hofstede's cultural dimensions, but one can use the data from surrounding counties at the counties are similar enough.

Tesco should enter this market without hesitations and immediately. Tesco would operate as it does elsewhere in the world and some of its products would require localization and adaptation to suite local tastes and mores. Tesco could also decide to sell items that do not require any adaptation such as sugar and cereals. This could be priced so cheap that Tesco would become the destination for locals. Price is the overriding factor for most of the Somali consumers. This is a price sensitive demographic.

Tesco's competitive advantage lies in its brand. Somali consumers would trust Tesco. The consumers in Mogadishu are used to being disempowered and dealing with monopolies, the could welcome disruption to this market (Davies et al, 2018).

Corruption is an epidemic in Somalia. Tesco can avoid this because of its size. In general, the higher up in the chain one goes the less corrupt the officials are. This is because most officials in the Somalia governments at the higher level are business people who have spent most of their working lives out of the country and thus are less affected by the local culture.

Tesco should open a hyper market next to the port of Mogadishu. This will mean that Tesco does not rely on the poor infrastructure of the country. Its goods can travel few miles from the port, on the relatively good road of Mogadishu, to the hypermarket to be sold to consumers. Tesco should leave a local partner to run the day to day operations of the hypermarket. Tesco should also seek advice from its local partner about what to stock. The agreement and the revenue sharing agreements should be detailed enough to cover most if not all eventualities.

Proposed investment

Cost of land for the hyper market	\$	2,000,000.00
Cost of building the hypermarket	\$	4,000,000.00
Cost of goods to be imported year	\$	14,000,000.00
Marketing cost	\$	4,000,000.00
labour cost	\$	6,000,000.00
legal and admin cost	\$	10,000,000.00
Design, consultation and Misc	\$	20,000,000.00
Total to invest	\$	60,000,000.00

If Tesco invests the above sums it will see its investments return in less than a year and Company will be able to expand into the rest of sub Saharan Africa from that base.

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