Multi-Scalar Localization and Capability Transference: Exploring Embeddedness in the Asian Retail Expansion of Tesco

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Abstract

This paper revisits the "firm in the region" and the "region in the firm" dichotomy through the case of Tesco's retail expansion in Asia. It focuses on the tension between the transference of proven key capabilities to the host economies Tesco has entered, and strategic localization, primarily for customer-facing, corporate culture, regulatory and institutional reasons. We demonstrate how the retailer has pursued a multi-scalar adaptive approach that goes beyond any standardized/localized dichotomy to respond to differences between and within national markets. In the process, we provide evidence of genuine two-way knowledge flow between the home market and subsidiaries, *between* subsidiaries themselves, and of subsidiaries granted autonomy and the ability to flex their strategies.

Keywords: retail TNC, global retail, embeddedness, localization, scale

JEL classifications: **L2** (Firm Objectives, Organization, and Behaviour)
L81 (Retail and Wholesale Trade/Warehousing)
F23 (Multinational Firms/International Business)

INTRODUCTION

How are subsidiary businesses regarded and treated by a seemingly all-powerful parent? To what degree are they granted autonomy and the ability to flex their strategies in order to gain relevance and traction given the particularities of the markets which they enter and expand within? Here we argue that some indication of the nature of those relationships between core and periphery can sometimes be seen within small details. For example, at multinational food retailer, Tesco plc, the format of the email addresses of its retail subsidiaries offers, perhaps inadvertently, insight into the firm's approach to international expansion. Instead of the priority being assigned to the firm (@tesco.china.com), the host market is given prominence (@china.tesco.com). In a small and subtle way then, this shows that the retailer places emphasis on the subsidiary's operating space, forgoing a homogenous approach – something that feeds throughout the business and represents a considered mediation between the realization of central efficiency and "best practice" on the one hand, and adaptation and local embeddedness on the other. As Tesco Chief Executive, Philip Clarke, has argued:

> We will win locally by applying our skills globally. The key word here is 'locally'. Seven years of running our business in Asia and Europe has taught me that all retailing is local (TESCO PLC, 2011, p 4)

Such concerns have strong roots within economic geography, regional studies, international marketing and business studies. The international expansion of firms is well-known to exhibit a tension between control and strategic planning from the centre and the local demands of the subsidiary operation. Traditionally, views concerning the nature of this relationship were unidirectional – the head office was seen as dictating and retaining close control, with the knowledge generated by the subsidiary being of little relevance for the home market or other subsidiaries. As SCHOENBERGER (1999) recalled, the prevailing view was one of the firm being in the region but of the region failing to influence the firm, its knowledge bases or its practices.

Over the past decade, of course, this view has fundamentally changed. Indeed, in his conceptualization of the geography of expanding TNCs, DICKEN (2000; 2003) drew on the distinction between what he termed *'placing firms'* on the one hand – that is to say understanding where firms come from, the DNA which they derive from their home market and the effects that this has for their approach to realising expansion and subsequent operations – and on the other hand, *'firming places'* – understanding the development of the organizational space of the business through intra-, inter- and extra-firm organizational relationships. Likewise, AMIN and COHENDET (2004) demonstrated that the flow of knowledge within internationalizing firms must reflect these distinctions drawn by Schoenberger and Dicken. That is to say, the two-way nature of knowledge flow – or as CURRAH and WRIGLEY (2004) put it, simultaneously "top-down" and "bottom-up" – is critical to understanding the nature and performance of TNCs.

Specifically in the study of transnational retail operations, which WRIGLEY (2000) noted had previously lagged the general trends within economic geography, the dimension of the 'region in the firm' is of particular significance. As has subsequently become recognized, placing the region in the firm and encouraging localization to achieve 'organizational legitimacy' of the business in the host economy is almost always critical to the performance of those firms (BIANCHI and ARNOLD, 2004). Such concerns have been framed within economic geography in terms of ensuring the retailer is 'territorially embedded' within its host environment (HESS, 2004; WRIGLEY *et al.*, 2005) or 'strategically localized' (COE and LEE, 2006; 2013).

In this paper we examine the approaches that Tesco has employed to achieving embedded expansion across its rapidly growing Asian operations. More specifically, the research contributes to wider debates within regional studies and economic geography in assessing how pressures for standardization versus localization play out unevenly by geography and by area of activity. For the transnational retailer, this strategic challenge demands continual (re)assessment of the interplay between centralization and decentralization. In doing so, our analysis explores the need for a multi-scalar approach that looks at regional dynamics (here used to refer to the 'Asian' level); at the scale of the national market; and at sub-national dynamics (i.e. intra-country variations) rather than simply the global versus national market dichotomy usually found in literature. In the process, we start to uncover the manner in which the retailer effectively responds to SCHOENBERGER'S plea for 'the region to enter the life of the firm to a much greater degree' (1999, p 222).

Our focus on Asia is especially important given Tesco's strong store, sourcing and supply chain presence and its performance across the continent, but also the wider region's 'leading edge' status in terms of digital connectivity and commerce. As Tesco Chief Executive, Philip Clarke put it recently, 'our digital innovation is being driven and refined by the demands of our

Asian markets', which itself demands 'tailoring that presence to what our customers need…[a] powerful blend of global strength and local understanding' (TESCO PLC, 2013).

We achieve our objectives through the interrogation of an array of secondary industry data but also vitally through 'close dialogue' (CLARK, 1998) with leading UK based food retail equity analysts who provide detailed analysis of the company and wider market, primarily for institutional clients. These insights are important for our purposes as they are informed by privileged access to the company above and beyond that likely to be available to any independent academic researcher. Equity analyst networks are notoriously difficult to access (WRIGLEY *et al.*, 2003) but have been employed with success in economic geography and management studies to explore global retailing (e.g. WRIGLEY and CURRAH, 2003; CURRAH and WRIGLEY, 2004; PALMER and QUINN, 2007). We have built ongoing relationships with a number of leading analysts over a number of years and used this knowledge to inform our study. Particular analysts were selected for inclusion in the research based on their consistent coverage of the firm over a lengthy period and their profile within the financial market. We are conscious of concerns regarding the accuracy of analyst accounts and their closeness to management which is a benefit as well as a potential limitation (WESTPHAL and CLEMENT, 2008). In addition, of course, 'close dialogue' such as this raises concerns over possible 'seduction' and 'cooption' (CLARK, 1998, p 80) — that is to say, becoming duped by 'stories in the process of formation and competition for dominance', and constructed to 'deliver a particular set of accumulation outcomes' (O'NEILL, 2001, p 194). However, we have considerable experience in employing this method and use extensive triangulation to mitigate these potential problems. We have used 'within-method' triangulation to mitigate these potential problems in terms of contrasting different equity analyst viewpoints over time, but also 'between-method' triangulation in accessing and analysing recordings of management results presentations and associated investor Q&As, reviewing the insights from national and local media sources, and through discussions with retail industry consultants who have first-hand knowledge of Tesco's expansion. Therefore, our insights are both empirical and conceptual and derive from working 'backwards and forwards between theory and the empirical world in a reflexive manner' (CLARK, 2007, p 191).

Our paper is structured as follows: first, we briefly reflect on the multi-disciplinary research within the social sciences concerning the challenges of international retail expansion. Second, we introduce the economic geography of Tesco and its Asian operations. Third, we analyse how the retailer mediates between the "the firm in the region" and "the region in the firm" in its Asian operations across a variety of spatial scales. We conclude with a discussion of the relevance of these findings for research into international business expansion within the social science literature more widely.

THE CHALLENGE OF INTERNATIONAL RETAIL EXPANSION – ECONOMIC GEOGRAPHY AND BUSINESS MANAGEMENT PERSPECTIVES

The international business and marketing literature explores the need for transnational businesses to 'balance local responsiveness and central coordination' (CHINI, 2004, p 37). While many theoretical frameworks from international business studies are inappropriately applied to studies of international retailing (DAWSON, 2007), the retail expansion challenge can be usefully expressed through the Integration–Responsiveness (IR) framework that details four broadly defined strategies that are related to the pressure for global integration and efficiency versus pressure for local responsiveness within host markets (see **Figure 1**). Such a perspective, recently imported into retail studies (e.g. SWOBODA *et al.*, 2012), provides greater nuance to the dichotomy between a highly responsive "multinational" approach and a replication "global" retailer strategy outlined by SALMON and TORDJMAN (1989). Indeed, the mediation between the centre and the periphery is defined partly by the internal resources that the firm commands, but is also affected by the external resources it can access in specific host markets – a view that is consistent with the 'resource bundling' theory of transnational enterprise more generally (RUGMAN *et al.*, 2011; HENNART, 2009). Consequently, retail TNCs are likely to operate a portfolio of differentiated but inter-dependent subsidiaries.

Figure 1 about here

SWOBODA *et al.* (2012) find that food retailers have to generate a higher degree of local advantages and responsiveness because they experience greater pressures to adapt assortments to local tastes and to construct supply chains within each host country. In contrast, they suggest that non-food retailers face a higher degree of global competition and lower local advantage as they tend to develop more standardized assortments across countries and integrate supply chain processes more easily. In relating empirical survey results to the I-R framework, SWOBODA *et al.* find that the 'International' strategy was least successful, whereas the 'Transnational' strategy proved most effective. The model provides important insights for our conceptualization of managing retail expansion in its demonstration of differing degrees of knowledge/capability transference and adaptation in international retail expansion. However, the conceptualization has been criticized for underplaying the complexity of different aspects of the value chain that may exhibit different degrees of integration and responsiveness within individual subsidiaries (RUGMAN *et al.*, 2011). In addition, the framework is typically conceptualized in terms of home country to subsidiary country adaptation and tells us less about *intra-country* regional variation and localization – an aspect where this paper particularly contributes to the body of knowledge.

Economic geographers have framed the challenge of international retail expansion in terms of attaining three related forms of embeddedness within a host market[1]. This is extensively discussed elsewhere (e.g. WRIGLEY *et al.*, 2005) and summarized in **Table 1**.

Table 1 about here

Processes of adapting the retail firm to the region involve reflection on the appropriateness of the operator's 'format and formula' for the host market (DAWSON and MUKOYAMA, 2014). This particularly requires close consideration of the suitability of a particular store format, marketing proposition, product offering, store and supply chain operations, and HR management, for example. Adaptation at multiple scales can unsurprisingly take considerable time, and is unlikely to be complete at the point of market entry, despite many retailers undertaking thorough pre-entry research (*cf.* LOWE and WRIGLEY, 2010; WOOD and REYNOLDS, 2012b). Territorially embedding the business is something that involves acclimatisation to (and establishment within) real-estate and land-use planning, knowledge networks, supply networks, and cultures of consumption (WRIGLEY *et al.*, 2005). Indeed, COE and LEE (2006; 2013) highlight the need for the *continued evolution* of territorial embeddedness encompassing format innovation, the deepening and reshaping of supply networks, and the expansion of the product range offered. Similarly, JONSSON and FOSS' (2011) analysis of IKEA's reveals substantial intra-market refinement of the retail proposition both pre- and post- market entry. Such *longitudinal adaptive processes* contrast with a view from international business that advocates more of a mechanical replication of a proven formula following a period of experimentation (WINTER and SZULANSKI, 2001).

The processes of localization – and the extent to which local tailoring is necessary at all – is complicated depending on how unique an array of factors are to the retailer including the institutional context, business customs, supplier and customer base and competition within the region. Influential work conceptualizing the challenges presented by 'particularistic', 'collaborative' and 'arm's length' business environments have partly explained differing modes of international retail expansion (WRIGLEY and CURRAH, 2003; WRIGLEY *et al.*, 2005; OKEAHALAM and WOOD, 2009; WOOD and REYNOLDS, 2012b; *cf.* WHITLEY, 2001).

International retail expansion is a situationally dependent process that represents a complex interplay between importing efficient operational best practice from elsewhere in the retail business and adaptability for continental, national and sub-national regions – what JONSSON and FOSS (2011) refer to as 'flexible replication'. An uncritical direct transfer of managerial practices and competencies is often directly resisted (HURT and HURT, 2005) meaning that any binary conceptualization of the 'firm in the region' or the 'region in the firm' is simplistic and a more nuanced picture of international food retail expansion becomes evident. What emerges – as the business and management literature refers to them – are practices of 'hybridization' (*cf.* GAMBLE, 2010; LOWE and WRIGLEY, 2010) – something recognized as 'the creation of new management practices out of selective adaptation, innovation and change' (MORGAN, 2001, p 114). Some operational capabilities or practices may be successfully directly transferred, but it is more likely such replication will be partial and significantly amended for national or sub-national regional cultures, institutional business contexts and the nature of specific industry sectors (DURAND and WRIGLEY, 2009; GAMBLE, 2010).

Organizationally and operationally this is challenging. As part of expansion and adaptation processes, MEYER *et al.* (2011) identify the need for embeddedness at two levels. On the one hand, there is the need to embed a portfolio of subsidiary firms in numerous heterogeneous contexts which requires the firm to interact with a range of actors who operate in quite different local contexts, and then to formulate appropriate strategies without becoming overwhelmed. On the other hand, the retail subsidiary must interface and balance its local responses with the global integration and efficiencies of the wider retail parent company and its operating procedures (ALMEIDA and PHENE, 2004). Or, as MEYER *et al.* (2011, p 236) put it, be ''externally embedded' within each local context while also being sufficiently 'internally embedded' within the MNE network for the benefits of external embeddedness to be potentially available to the rest of the MNE'. Of course this necessitates a certain degree of devolved decision-making at the level of the subsidiary retail operation, while also maintaining an open dialogue and information flow with its parent (MUDAMBI and NAVARRA, 2004). Consequently, the retail TNC is widely regarded to function as a set of differentiated networks, rather than as a hierarchically run organization with national subsidiaries playing homogenous roles (*cf.* RUGMAN and VERBEKE, 2003).

Characterizing the interface between the retail TNC headquarters and its subsidiaries as two-way emphasizes the ability for knowledge to flow from the region, back to the core of the retail business to allow it to inform strategies and approaches elsewhere. This also provides the opportunity for knowledge to flow between subsidiary operations (WANG, 2009) and demands a high degree of 'absorptive capacity' within the retail organization (COHEN and LEVINTHAL, 1990). For truly "transnational" retailers, knowledge is likely to flow both ways – both from "top-down" and "bottom-up". Hence there is scope for learning and knowledge to flow back from the overseas subsidiary to other international operations and possibly the home market itself, albeit in a slightly amended form – in the phraseology of LOWE *et al.* (2012), a demonstration of *splicing* (the creation of new capabilities through recombination of elements of extant capabilities from multiple locations). Such subsidiary influence on the transnational firm is increasingly recognized within the management literature (ANDERSSON and PAHLBERG, 1997; ANDERSSON *et al.*, 2007). These experiences see the retailer's stock of knowledge increase with 'large-scale grafting of new capabilities' between locations (BIRKINSHAW and HOOD, 1998, p 781).

Our analysis of Tesco's Asian operations provides an interesting and informative case upon which to explore these processes that has significant relevance for economic geography and international business studies more widely. While arguably an 'extreme case' given the retailer's extensive international experience and proven expertise, its selection serves to elucidate the embeddedness challenges characteristic of international retail expansion. While the reviewed research recognizes the tension between any global replication and localization, this is commonly framed in terms of retailer adaptation to variegated national institutional, societal and regulatory environments – our focus seeks to further develop the understanding of this phenomena, but also explore retailer localization within sub-national regions of subsidiary businesses. Our analysis therefore aims to expose more explicitly the extent of these multi-scalar aspects of localization and capability transference in transnational retail expansion.

THE EMERGENCE OF TESCO AS A TRANSNATIONAL RETAILER

Tesco has emerged as a major international retailer in a relatively short period of time, growing rapidly from a domestic UK base since the early 1990s to operate a store portfolio with coverage across Central and Eastern Europe and Asia, in the process becoming the 7th largest retailer rated by international sales (**Table 2**). It is now participating in markets that represent over half of global GDP versus only 8% in 2000 and holds the No. 1 or No. 2 market position in nine of its trading markets (SHORE CAPITAL, 2010a).

Table 2 about here

The international phase of development effectively commenced with the acquisition of French supermarket chain, Catteau in December 1992[2]. While this particular market entry stalled and ultimately led to market exit four years later due to Tesco's apparent inability to compete in a market replete with large stores and a recently tightened land-use planning regime, the retailer learned a considerable amount from the venture – especially the need for a thorough appraisal of new regions and an understanding of the risks associated with entry into already developed retail markets (PALMER, 2004; 2005). The retailer subsequently made a number of acquisitions of (or joint ventures with) food retailers across underdeveloped European retail markets: notably Hungary (1994), the Czech Republic and Slovakia (1996), Ireland (1997) and Poland (2002).

Crucially these small acquisitions committed minimal sunk costs yet offered Tesco footholds within national markets from which it could learn from a successfully embedded (and often domestic) retailer. These markets (with the exception of Ireland) also offered the potential to roll out a hypermarket format (DAWSON *et al.*, 2006). As the European business was being developed, a similar strategic approach was adopted in Asia with market entry – commonly through a joint venture or modestly-sized acquisition partner – pursued across an array of locations including South Korea, Thailand, Japan, Malaysia, China and Taiwan (see **Table 3).**

International expansion was framed partly as a transfer of knowledge from the home to the local market but with some tailoring for local preferences:

> Our formula is to develop a world-class hypermarket format with a common layout, common operations and common systems, overlaid with local marketing, local services, local staff and local management (Tesco PLC, 2000, p 3).

But also, there was awareness that expansion would involve learning and that such knowledge would flow back from the international subsidiaries: ‘we are developing new skills and experience from these businesses which we can put into practice in the UK and around the world’ (TESCO PLC, 1999, p 14). These multi-directional knowledge flows occur before, during, and after the point of market entry – something we investigate in greater depth in terms of the Asian operations later in the paper.

The focus of this paper is explicitly on exploring strategic growth within the Asian business of Tesco. By the 2011 year-end, it was estimated that Tesco had invested a total of £6.9bn of capital in the continent. During 2011/12, Tesco Asian retail sales equated to £11.2bn (see **Table 4** for splits between Asian countries). It is particularly notable that there remained substantial potential for market share growth within each of these Asian markets (*cf.* in the UK, Tesco has a circa. 30% market share).

Tables 3 & 4 about here

Given the challenging nature of international food retail expansion, it is unsurprising that there have been failures by Tesco within Asia. Entry into Taiwan never proceeded beyond 5 hypermarkets, having entered the country in 2000 somewhat late as the market was no longer underdeveloped, but instead offered considerable western competition given the presence of several strong retail TNCs including Carrefour, Casino (Geant) and Auchan (RT Mart). The retailer eventually divested its stores through an agreement with Carrefour in 2005. Tesco has also recently acknowledged defeat in Japan – a fragmented grocery market. The retailer departed from its ‘hypermarket-first’ approach to market entry and failed to achieve market scale – a problem exacerbated with its failure to subsequently make any significantly sized acquisitions. In August 2011, the retailer announced the decision to divest, and in June 2012 confirmed an agreement with Aeon, Japan’s largest retail group, to exit the market in two stages.

Critically, both of these failed business ventures departed from the expansion mode that had typified successful growth elsewhere in Tesco’s international business. In both instances Tesco failed to work with a sizeable partner to provide initial critical mass, meaning that the retailer was unlikely to ever achieve a leading position in the market. In addition, Japan particularly was already a developed retail market – something that the Tesco had generally avoided between the disastrous expansion into France in 1992 and the recently acknowledged failed entry into the USA in 2007. These two Asian divestments contrast with the performance and growth in Thailand, South Korea and, to a lesser extent, Malaysia.

Tesco has approached international expansion through a staged strategy of constructing a store network and developing the associated support functions; building the brand by importing private label ranges and relationship marketing tools; and then extending that brand through aligned services such as mobile telephony and financial services (see **Table 5**).

Table 5 about here

Over the remainder of the paper, we explore how Tesco has addressed the multi-scalar aspects of localization and capability transference across its Asian operations. We present this analysis through the following thematic structure for illustrative purposes – in reality, of course, most activities are to some degree combinations of global and more localized practices:

(1) *The firm in the region* – *establishing elements of transferable best practice* in international retail operations, formats and principles of operation, and then:

(2) *The region in the firm* – via (a) *Strategic localization* – essentially placing the region within the firm and overseeing considerable adaptation to realise territorial embeddedness within the region; (b) *Intelligently transferring these practices and knowledge from regional operations* (where appropriate) *to the wider firm and its other international operations.*

THE FIRM IN THE REGION (TRANSFERING CAPABILITIES TO ASIA)

Given the desire for economies of scale and scope, standardization is attractive as it realises the benefits of the wider Tesco business. Referred to by LOWE *et al.* (2012, p 14) as 'transference', this represents 'the deployment of inter-dependent tasks and capabilities in multiple environments without local modification'. Such capabilities particularly attuned to transference are often back-office rather than customer-facing aspects of retail development and therefore less important to localize for local, national or regional cultures of consumption.

Store construction, design and merchandising

Given that the Asian market has been more receptive to the classic "big box" hypermarket format than some parts of Central Europe, where the Germanic discounter approach has often flourished, Tesco initially developed the hypermarket format across many of its Asian businesses. The transference from the home market is considerable with significant leveraging of Tesco's competencies in store design between countries. These "blueprints" represent a systematization of both store and distribution centre design that economises on the sourcing of materials and in construction but also leads to subsequent operational efficiency given standardized space and merchandising capacities:

> The blueprints codify guidelines for the sales area, design standards, operating procedures, people plans and financial insight. They also allow us to build for less as we standardise building specifications and fixtures and fittings for Group scale buying (TESCO PLC, 2011, p 47)

However, transference extends beyond the blueprint for a store or distribution centre to encompass the operating model of the retailer. This entails exporting a range of capabilities across the international business, such as labour scheduling, order and supply chain processes, and transport and planning systems. The Tesco Operating Model evolved from the so-called "Tesco-in-a-Box" initiative that is a well-defined process from planning and building a store, to the processes underpinning its operation (ZAINO, 2009). Its standardized applications and systems include the technologies that support the stores, such as the highly responsive demand-pull lean supply chain that allows the tracking of quantities of products sold in each store and communicates accurate reorder estimates with partners. As such, merchandise planning has seen substantial investment within Tesco's Asian markets – for example, planograms have been fully implemented in the Korean business[3]. This allows the retailer to be far more discriminating about the returns it receives in relation to the spatial allocation of product lines, allowing profitable timely amendments to merchandising across its store portfolio – a characteristic uncommon at many other international retailers. The transferable Tesco operating model has understandably been described as 'the mortar or glue that both holds the bricks of the business together and the oil that keeps the engine running' (SHORE CAPITAL, 2011, p 21).

Sourcing and distribution networks

The transference of efficiencies are deepened through the use of global sourcing networks – something that is often discussed in economic geography research in relation to clothing (ABERNATHY *et al.*, 2006; TOKATLI, 2008) – but is also critical in wider general merchandise. Indeed, much non-food (both clothing and hard lines, such as electricals, homewares, toys) that is centrally sourced flows through the Tesco international sourcing office based in Hong Kong which was responsible, in 2009, for buying 100,000 non-food products for the group. 2009 also saw the start of this sourcing hub being used to support the Asian operations, alongside additional sourcing hubs in China, India, Sri Lanka, Bangladesh and Turkey, with smaller offices in Thailand, Czech Republic and Italy (TESCO PLC, 2009). In addition, Tesco's South Korean food sourcing benefits from the Shanghai Asia Commercial Team that was established in the Spring of 2007 (MURPHY, 2008) and in its first year of operation shipped 1,231 non-food and four fruit lines to Samsung-Tesco (COE and LEE, 2013). By benefitting from agglomeration economies with numerous suppliers situated in strategic sourcing locations and exploiting the efficiencies of associated shipping volumes, cost prices are substantially reduced.

The centralization of sourcing carries with it a risk of losing sensitivity to local consumer demands, though these dangers can be reduced by local retail teams involved in the process. Importantly, when such efficient sourcing networks are established and unlocked, they potentially provide a sustainable source of competitive advantage given that they 'cannot readily be copied by other operators' (BOAML, 2011, p 7). Of course, a related threat that is readily discussed within the research literature is the manner in which retail TNCs can be regarded as a highly efficient 'trojan horse' for imported goods that become understandably feared by host governments (REARDON *et al.*, 2007) – something notably evident in Walmart's entry into Mexico (DURAND, 2007). In contrast, COE and HESS (2005) examine Tesco's operations in Central/Eastern Europe and identify a declining share of imports by retail TNCs over time as local supply capacity increases due to the upgrading of supply networks within the host region. Given both the perishability and culturally sensitive characteristics of food, global sourcing is less viable, especially for fresh food. This means that regional sourcing networks have to be established within Tesco's international operations – an aspect where the retailer's European operations were initially quicker to develop than in Asia (DAWSON *et al.*, 2006).

Such pressures have led Tesco's Asian operations to partially replicate the UK model of local suppliers delivering directly to retailer-owned regional distribution centres – a process that underpins highly efficient food retail logistics (GUSTAFSSON *et al.*, 2009) – but which also provides a platform for further format diversification, innovation and experimentation:

> Once the distribution network is in place there is a kick up in cash returns through more effective buying, lower store operating and distribution costs (with fewer direct deliveries), and working capital progress – central distribution also allows for format diversity (SHORE CAPITAL, 2010b, p 45).

As DAWSON *et al.* (2006, p 194) suggest, with a relatively limited store base of 20-25 hypermarkets, 'centralized logistics becomes economical'. For example, in South Korea, Tesco opened a start-of-the-art fresh goods distribution centre in 2005 to accompany the dry goods distribution centre which had opened previously in 2002, while in 2008 the company announced a US$100 million investment in a 120,000 square metre logistics service centre in Ansung, Gyeonggi Province, later completed in 2010 (COE and LEE, 2013). The centrally held knowledge and expertise in sourcing, logistics and supply chain allows Tesco to construct regional sourcing networks with established standards of food safety and ethics. For example, in South Korea only 10% of products are sourced from abroad, as many of the large fast-moving consumer good (FMCG) firms themselves have operations within the country itself. Over the period 1999 to 2008, the company increased its number of suppliers from 1,023 to 3,718 with the majority of vendors among the top 20 being local companies (COE and LEE, 2013).

A similar approach to developing local in-country sourcing is evident in Tesco's Malaysian operations. NOMURA CAPITAL (2009) report some 95% of its overall product lines are sourced in-country with some moves to make the country an 'export gateway' to Tesco stores in the British market. Localized sourcing makes business sense but is also astute given the case studies of resistance against retail TNCs that have not been so sensitive in their realisation of territorial and network embeddedness (*cf.* FRANZ, 2010; 2012).

The retail brand, loyalty and culture

Tesco's global sourcing competencies and the scale of a growing international footprint permit sub-brand or private label development in non-food which can be leveraged across the Asian businesses. Private label apparel, "F&F" branded ranges are increasing their penetration in the sales mix, as is the tiered range architecture of "good, better, best" that has been a feature of the UK operation for nearly twenty years. However, there remains substantial opportunity to further develop these ranges given that own-label penetration stands at 8-10% for food and a lot lower in non-food across many of the international operations (NOMURA CAPITAL, 2009). Unsurprisingly, there have been recent moves to significantly increase the prominence of own label ranges in the sales mix. In the Korean Samsung-Tesco business, for example, own brand participation has increased to around 30% which is partly the result of greater Tesco involvement in product design and a major category-by-category redesign of packaging led by a seconded UK executive[4]. These changes progressed alongside greater formalisation of logistical processes in the form of increased "store ready" merchandising which is helping to reduce the labour cost of replenishment (SHORE CAPITAL, 2010a).

Complementing the own label ranges that are transferred from the wider Tesco business, the Asian operations also benefit from brand extensions into new product areas that have proved successful elsewhere. With research suggesting that Tesco customers who use its retailing services spend four times as much in store than those who do not (RBS, 2009), it makes sense to develop additional services and capitalise on this loyal tranche of consumers. The more developed Asian operations such as the South Korean business have mirrored the UK with entry into Telecom services through mobile phone sales and financial services since 2003. This approach has also been seen more widely across the Asian business, as has the approach to online sales fulfilment, initially via stores rather than dedicated warehouses, given that costs broadly move in line with revenues.

The successful Clubcard loyalty scheme is increasingly leveraged across 12 of Tesco's international operations, with South Korea attaining the highest Clubcard sales penetration throughout the global business. While this relationship marketing tool cost £10m to initially develop in the UK, the cost of implementing it internationally is just £500,000 per country (SHORE CAPITAL, 2011). Important in providing customer rewards for continued behavioural loyalty, the scheme is also significant in delivering information relating to customer behaviour (HUMBY *et al.*, 2008). Such understanding of customers is further reinforced by leveraging the expertise of Tesco's 100% owned subsidiary, DunnHumby, a customer insight firm, that supports international operations from market entry through in-country expansion.

Softer competencies such as the Tesco "Values" of "Every Little Helps" and the corporate steering wheel – a strategic management tool based on KAPLAN and NORTON's (1996) balanced scorecard – are also extended beyond the home market. Unsurprisingly, LOWE *et al.* (2012, p 17) argues that the transference of the Tesco Operating Model moves beyond issues of efficiency and cost saving and becomes central to developing the organizational culture of Tesco across national borders 'by providing greater shared meaning in how and what gets done'. There are consequently an array of competencies that have been transferred from the firm to the region – as seen most successfully in South Korea which is seen as the blueprint of transference (see **Figure 2**)

Figure 2 about here

THE REGION IN THE FIRM (LOCALIZATION AT THE NATIONAL AND SUB-NATIONAL SCALES WITHIN ASIA, AND SUBSEQUENT KNOWLEDGE TRANSFERS)

In this section we assess the degree to which the region infiltrates the practices of the retail firm within and across Asia and how these newly learned regional capabilities may then be leveraged elsewhere across the international business. This is important as strategically and operationally the centre ceases to be the "command and control" focus, with different forms of knowledge originating from (and passed between) international retail subsidiaries. While centralization and standardization imperatives, particularly of back office and non-customer facing operational functions, are critical, it is necessary for Tesco to strategically localize to the environments within which it locates as 'each market is different and it cannot simply import tried and tested formats elsewhere into a very distinctive arena' (SHORE CAPITAL, 2007, p 54).

Store formats and regulatory adaptation

Localization is seen across a range of customer-facing competencies, partly as a function of the different cultures of consumption within which the organization finds itself (*cf.* JACKSON, 2004). Most obviously this has been seen in retaining the Homeplus nameplate on operations in South Korea and the Tesco Lotus fascia in Thailand rather than running exclusively with a "foreign" Tesco identity. More meaningfully, the store proposition is carefully tailored to the individual market, which is something important given consumer resistance to "developed" formats in some parts of Asia and elsewhere (e.g. GOLDMAN *et al.*, 2002; RODRÍGUEZ *et* *al.*, 2002). For example, in Thailand, where customers are used to using local wet markets rather than hypermarkets, there has been substantial modification to store design including fresh food sold in loose or small quantities so that customers can feel closer to the produce, given consumer hesitation to purchase fresh produce in "developed" retail formats (*cf.* HUMPHREY, 2007). In addition, the number of shopfloor staff has been slightly increased in order to mimic – to some degree – the interaction customers are used to in their traditional daily shopping experiences. Wholly new store formats have been developed such as the 10,000 sq ft "Talad" format in Thailand in 2006. The store interior is split into two spaces: the "store area" offers 4,500 product lines with 80% of the merchandise made up of consumer products and fresh foods, with the remainder clothing, hardware and a few electrical appliances; and a "mall area" comprising of small shops, such as bookstores, drugstores and opticians. By 2012, this format had expanded to 105 stores, yet its design has evolved over time, informed by customer feedback and knowledge relating to operations, merchandising and competition.

Localization through format diversity is also important in mitigating against the effects of regulatory challenge. As COE and HESS (2005, pp. 460) note, retail market entry may result in a 'changing regulatory stance of the governments in those countries', due to lobbying by domestic firms that have detrimental effects on new market entrants (COE and WRIGLEY, 2007). This may take the form of changing retail planning regulations, restrictions on further inward investment or tighter competition policy which requires further adaptation by the internationalizing retailer (MUTEBI, 2007). Conversely, retail TNCs are likely to have themselves been active agents in lobbying for favourable regulations, though these interactions and their effects are particularly difficult to identify given their essentially secretive nature (SPARKS, 2008). In these complex ways then, 'transnational retailers are not simply institution takers; rather, they contribute actively to influencing institutional change in the host economies they enter' (DURAND and WRIGLEY, 2009, p. 1551-2). In Asia, between the economic crisis of 1997/8 and the early 2000s, large format retailers competed in fairly unregulated markets. This permitted the development of strong hypermarket portfolios across many Asian countries, though the late 1990s and early 2000s saw a series of regulatory interventions in response to concerns over the effects of large format retailers on indigenous operators and the desirability of TNC driven retail change. Regulations tightened across Asia, affecting FDI, competition and fair trade and land use zoning policies though there were differences between countries. For example, in Thailand, Tesco faced an array of tightened regulations, notably:

- Trade Competition Act (1999) – tightened regulation against anti-competitive business activities and market dominance.

- Foreign Business Act (effective 2000) which replaced the older Alien Business Law – restricted foreign participants in certain types of business (including retail) – but these restrictions were lifted if minimum capital requirements were met.

- Zoning Laws – which were progressively tightened – initially in 1999/2000 to control development in Bangkok, and then in 2003 to control development in secondary 'up country' cities and towns.

- Store Opening Hours regulation – effective from 2004 to limit stores over 300 sq metres to 11 trading hours per day.

In the short term, Tesco pursued rapid pre-emptive development site acquisition in Bangkok in the face of prospective zoning tightening. Over the longer term, regulatory tightening demanded agile adaptation from the standardized hypermarket model and a shift from the unidirectional transference of knowledge and competencies from the home market. In part this adaptation owed a great deal to initiatives in the UK circumventing land-use planning regulation through the development of small format skills with the introduction of a small convenience format, Tesco Express (*cf.* WOOD *et al.*, 2010). While this knowledge was transferred to Thailand, it was then further refined within the region, and considerable operational knowledge flowed back to the UK home market and elsewhere. Tesco Lotus began infilling the hypermarket network in Bangkok with the small Tesco Lotus Express convenience stores (c. 3,200 sq. ft.) at a considerable pace. At the end of 2002, there were only 9 such stores. By the end of 2004, this had growth to 47. This trend has since continued with the number of smaller stores standing at 1,284 *cf.* 149 hypermarkets at the end of 2012/13.

Localizing organizational culture

The symbiotic relationship between the region and the firm is evident in the evolution and management of the organizational culture of the retail subsidiary. As SCHOENBERGER (1999) testifies, units and divisions within the wider global firm develop their own identities and ways of thinking and working given their situational specificities and cultural embeddedness. To address this potentially divisive and destabilising issue, there have been conscious efforts to foster a hybrid philosophy at Samsung-Tesco in South Korea, for example. **Figure 3** presents what has been labelled a "synbaration" culture within the retail subsidiary that attempts to offer a fusion of the *synbaram* culture ('excitement' in Korean) (the East) with an apparent *rationalism* of the West – something LEE (2011, p 34) suggests aims 'to provide a pleasant working environment for employees to become a professional in their major areas, and to create a phenomenon for them to balance their work and family life'. Consequently, there is a focus on a CSP culture (customer-focused, synbaram and professional) that blends the "Western rational processes", such as "talent spotting" for employee development (imported from elsewhere in the firm) and an analytical, knowledge-based approach in store operations with the Eastern values of relationships, group working and team spirit, with the retailer operating, for example, 250 staff hobby clubs. This cultural blend has been regarded as highly successful and is repeatedly referred to whenever Samsung-Tesco President Seong Han Lee comments on the foundations of success in the business.

Figure 3 about here

Organizational structures underpinning knowledge & capability flows

The association between the firm and the region clearly represents a dialectical relationship with individual country businesses operating as quasi-independent subsidiaries – something characterized as 'locally focused but internationally supported' (NOMURA CAPITAL, 2009, p 37). It is notable that the level of Tesco expatriate presence in-country is limited, with only 9 executives from the UK business present in the Samsung-Tesco (South Korean) business that has over 23,000 employees (TESCO PLC, 2011). However, a degree of arm's length control is maintained, with each country incentivised across a broad range of hard financial targets and customer satisfaction metrics. Major capital expenditure requires home market approval: for example, new store development is considered at a monthly meeting of the UK-based Property Acquisition Committee (PAC) through video-conferencing, where proposals are scrutinised by a selection of senior board directors who frequently visit the international businesses and gain knowledge of the markets.

Similar top-down monitoring is executed through the Tesco International Support Office, a function that has emerged over the past decade, consisting of highly mobile teams of 'knowledge activists' or organizational translators (*cf.* GERTLER, 2003) transferring best practice into four critical areas of retail marketing and management: Retail Skills; Commercial Sourcing & Capabilities; Marketing & Consumer Focus Team and the Human Resources Team. There is also a separate top-down co-ordination of finance and supply chain functions centred around the International Finance Director and International Supply Chain Director (see **Figure 4**).

Figure 4 about here

While the influence of the firm in the region is critical to successful and efficient retail execution, we have recognized the flow of capabilities that have originated at (and streamed from) the Asian businesses. Clearly, capturing these ‘bottom-up’ sources of knowledge is challenging. Because large, dispersed, but locally embedded store networks in different parts of a retail TNC inevitably develop different organizational capabilities and interpretive frameworks, it is vital that knowledge generated from these communities of practice is captured, then transferred and translated within intra-firm networks (*cf.* CURRAH and WRIGLEY, 2004; WOOD and REYNOLDS, 2012a). As both PALMER and QUINN (2005) and JONSSON (2008) note, it is essential that there is both a ‘degree of learning’ evident in the ability to adopt and adhere to the acquired learning and also a ‘locus of learning diffusion’, which relates to how the knowledge is coordinated and diffused within the organization. Similarly AMBOS *et al.* (2006, p 308) recognise a concern that valuable knowledge generated within international business subsidiaries could be ignored because it slips ‘through headquarters’ filters’. There is significant evidence in Tesco of attempts to capture this local expertise via shared learning groups at all levels of organization, right though to the Asian Leaders shared learning group (including country CEOs) and to the higher level group involving the Chairman, Central Europe region CEO, Director of International Sourcing, CEO of Thailand (and Regional Asia CEO) and CEO of South Korea. Perhaps understandably, these mechanisms appear to be less formalized than the processes in place for ensuring standardization of execution (such as the Tesco Operating Model).

A key transferable competency that Tesco has leveraged in all of its host markets has been its industry-leading expertise in site research and property appraisal (TACCONELLI and WRIGLEY, 2009) – something critical in international retail expansion and the realisation of territorial embeddedness (WOOD and REYNOLDS, 2012b). Initially sending expatriates, the retailer has quickly developed local, fully trained analyst teams – a ‘decolonization’ trend known to be important in successful localization (FRYXELL *et al.*, 2004). For example, in China Tesco, a 30-strong team of site researchers follow a systematic procedure for network planning that prioritises cities for development, identifies districts within those cities, and then specific sites (see **Table 6**). Tesco has been able to resource these property functions with executives that have a background in interpreting data-poor and particularistic markets, which provides significant insight compared to many other international retailers.

Table 6 about here

Spatially variegated format and expansion strategies

Not only does Tesco's Asian expansion provide evidence of partial localization for individual countries, it also exhibits a capability to fundamentally redesign expansion strategies according to specific host market circumstances and – when necessary – an ability to shape its management and formats for particular sub-national regional variations. For example, in Thailand, Tesco Lotus has also been innovative in adopting sub-national localization to circumvent tightening development control in low-income 'up-country' towns by developing a low-build cost (£3 million per store) "Value" format offering 21,500 product lines. The small-scale (35,000 sq ft) core is surrounded by a local fresh food vendor market (leased space) and farming supplies/demonstration areas. There is also a heavy emphasis on the local sourcing of products. The format has expanded modestly from 11 units at the end of 2004, to 36 in 2012.

A more wide-ranging departure from Tesco's established expansion strategy came in response to specific host market conditions in China. Aware that many of the strategic retail locations within prime, so-called Tier 1 cities have already been taken by competitors, there has been a conscious shift in focus to Tier 2 and 3 cities where Tesco aims to secure strategic key locations within growing major city catchments (TOWLE, 2010). The strategy evolved to specifically focus on hypermarket development situated within shopping malls that exhibit high degrees of retail gravity and robust levels of customer footfall. However, the retailer found that leasehold sites for such hypermarkets were often situated in poor quality malls, while in many Tier 2 and 3 cities suitable malls for leasehold hypermarkets did not yet exist (WALLER, 2010). Therefore, while there remains a focus on developing *leasehold hypermarkets within third party mall developments* where high quality space is available, the retailer has found that in order to ensure that it became the prime "anchor" store, it has often been necessary that Tesco itself leads these overall projects to *develop the freehold malls that are anchored by a Tesco hypermarket*. This has the potential to also generate real estate earnings from mall income and management fees and also to deliver returns from asset appreciation. Nevertheless, such significant undertakings do not come without significant risk.

First, given that these developments are outside of the Tier 1 cities, consumption habits are less established and income per capita is lower, especially within the Tier 3 cities – more positively however, land prices are lower and many still have populations in excess of 1 million 'so it's not like going to frontier territory' (BOAML, 2010, p 24). Second, there are considerable cost implications of moving from becoming a "hypermarket operator" to a "major mall developer with hypermarket operations". As a retailer that has historically been lauded for its capital discipline, this represents a considerable challenge – something BOAML neatly summarized in 2010:

> Going down the mall route may give Tesco access to the prime site in each city … but it comes at a high capital cost. With each mall costing c£50-60m to build… its ambition to open 80 malls in the next 5 years would cost £4-5bn…. Given Tesco, in total, only spends £1.5bn pa in international markets, it cannot afford to spend £1bn+ pa in China, alone, even before the logistical and administrative considerations are taken into account.

To partly overcome these cost implications, Tesco established a joint venture property organization specifically focused on mall development that is itself regionally focused, and so mirrors the structure of the wider Chinese retail business (see next section). Tesco China Property Company (TCPCo) is a £170m venture, funded by £30m of equity from Tesco, £30m from a consortium of Asian investors and debt provided by banks including Standard Chartered and the Commercial Bank of China (FINANCIAL TIMES, 2011). The use of such joint venture partners provides scope to respond quickly to secure prime development sites and to build the retail and mall brand across the regions. However, it does not simply represent a strategy of mitigating capital exposure on these costly projects but is itself an attempt to deepen the localization and embeddedness process. Investors bring with them endorsement of the business plan and can provide advice and contacts in the locality both in commerce but also all-important political officials – something known to be especially important within such a 'particularistic' market (WOOD and REYNOLDS, 2012b). The use of a property joint venture organization also supports cost and quality control of the development schemes, and allows the development of a tailored mall format that Tesco believes will be attractive in the regions and particularly benefit the hypermarket anchor. The mid-market "Lifespace" mall format is a circa. 500k sq ft development, anchored by a circa. 100k sq ft Tesco hypermarket positioned in a prominent location at the heart of the mall on two levels (McLLWEE, 2010).

Stores developed within these malls are localized with a food range that includes reptiles and amphibians and attuned to local customer demands. While there were elements of modernisation in that carcasses are located behind the counters rather than the aisles, butchery still takes place in front of the customers. In addition, dumplings and pancakes and other local lines provide elements of retail theatre. Nevertheless, the conventional Tesco model is in evidence with the familiar "power aisle" running through the store, meat is organized on a 'good, better, best' pricing structure and sub-brands such as F&F apparel lines are a prominent feature (SHORE CAPITAL, 2010a). Elements of the transferable Tesco model are also seen with Clubcard introduced to the Chinese market and experiencing a 70% sales participation which provides representative real-time data on customer behaviour, with Tesco subsidiary, dunnhumby involved in the analysis. Other imported non-customer-facing capabilities include business appraisal processes, namely the Tesco Brand Review & Customer Plan and the leveraging of some central capability to manage brand, concepts and marketing plans, though these are executed by local marketing teams (WALLER, 2010).

Sub-national regional management in China

Tesco's evolving strategy in China has specifically demanded a degree of sub-national *regional sensitivity* rarely required in more modestly sized host countries. While the retailer's entry into China was facilitated through a partnership with an existing operator that exhibited many aspects of the classic transference approach discussed earlier[5], a uniform national strategy for the country proved inappropriate with sub-national variation in organization and execution required. Particularly relevant to consider in expansion within China is the sheer scale of the market, with local and regional contexts that may be quite distinct from any national conditions (*cf.* MEYER *et al.*, 2011; CHANEY and GAMBLE, 2008).

Tesco found that co-ordinating its activities centrally was inappropriate – similarly many of its leading suppliers such as Coca Cola are themselves regionally managed. As HUTZSCHENREUTER *et al.* (2011) discuss in the context of MNC expansion, some of the resource constraints that the firm can experience are managerial. Tesco has addressed this concern by focusing management and concentrating store development focus on specific sub-national regions. The degree of in-country localization was made clear recently:

> Even within a single region temperatures, tastes and preferred brands can all vary, so our operation is 'local' in many ways. For example, our buying teams are based in different regions and even in specific provinces and cities to be close to our customers and suppliers.

> We have appointed more local Directors this year to strengthen our China Board and have ongoing plans to recruit and develop local talent (Tesco Annual Report, 2012)

Of course, such intra-country variation in the product offer is taken for granted in home market settings, where local or regional merchandise is typically offered (RICKETTS HEIN *et al.,* 2006). This sensitivity to regional differences within a host country emphasizes the desire to achieve true multi-scalar embeddedness. Departing from what was previously described as ‘a scatter gun approach’ to development (BOAML, 2010, p 23), Tesco China moved to focus on three regions (the North, around Beijing; East, around Shanghai; South, around Guangzhou) with three fully accountable regional managing directors (see **Table 7**). In each of these regions, the retailer has established a management structure (complete with buying teams) and built three regional food distribution centres to consolidate supply and logistics ‘to improve the speed to store, store goods-receipt labour efficiency and product freshness (reduced shrink and better quality impression)’ (BOAML, 2010, p 23).

Table 7 about here

The reasons for a focus on these three particular sub-national regions are clear: first, they are relatively populous (750m) and affluent, with GDP per capita of 2-3 times the national average. Indeed, Tesco suggest that the coastal region in Eastern China constitutes about 15% of its territory, yet contributes 60% of the country’s economy (CHINA CHAIN STORE & FRANCHISE ASSOCIATION, 2011). Second, the top five food retailers currently account for just £20bn sales in these regions, which offer significant potential to capitalise on income growth and the transition to “modern” forms of food retailing (BOAML, 2010). While the initial expansion plans of Tesco in China have recently been scaled back following a business review[6], the case underlines the requirement for a sub-national regional focus to respond to a constantly evolving balance between the firm’s transferable competencies and the localization demanded across its uneven geography. This is summarized in **Table 8**.

Table 8 about here

CONCLUSION

This paper has examined the Asian expansion of UK food retailer, Tesco, in order to explore the multi-scalar aspects of capability transference and localization that have relevance for debates within economic geography and international business and marketing management.

By utilising privileged access to a knowledge network of equity analysts who conduct ongoing longitudinal analysis of the retailer and wider sector, we have explored how Tesco balances the localization demands of subsidiaries embedded within their own national and sub-national regional contexts, with the efficient and proven transference of capabilities from the centre.

We have examined how the retailer is able to formulate (but not insist on the application of) a range of "off the shelf" transferable competencies and capabilities such as "blueprint" principles, the Tesco Operating Model ("Tesco in a Box"), distribution centre and supply chain approaches, tiered sub-brand/private labels, aligned financial services and relationship marketing tools (Clubcard loyalty scheme) that can be leveraged, at least to some degree, within most institutional contexts, given their limited sensitivity to different customer cultures and their back office efficiency generation. In the process, we have demonstrated how the degree of knowledge transfer successfully applied from the centre to the subsidiary is, in part, governed by the conditions inherent within the host market (e.g. competition, consumer cultures, regulatory frameworks, sophistication of supply networks).

While the research literature acknowledges that a binary distinction between the two forces of localization and centralization could result in inertia and inefficiency (in the event of wholesale devolvement to local decision making) or an insensitivity to local circumstances (in the case of tight, centralized control) (FIGUEIREDO, 2011), our paper has provided evidence of the importance of 'hybridization' in action. In numerous instances, the transfer of the "Tesco model" was partial within national subsidiaries and there was subsequent localization of store formats, product ranges, services and organizational culture. In some markets, wholly new strategies were required and significantly departed from the accepted Tesco approach, due to a wide variety of cultural, institutional or regulatory driving factors. Such localization offers the potential for learning and subsequent knowledge flow from the subsidiary to the centre as well as the more accepted route from the centre to the subsidiary. Such conditions were especially evident in Tesco's South Korean and Thai businesses, which have taken expertise from the established Tesco international operating model, amended those strategies in the host market, and channelled some of that expertise back to influence operations in the core UK and wider international business.

But moreover, the paper has provided evidence that *the hybridization process not only varies between national subsidiaries*, but also that *there may be sub-national regional variation* in terms of the mediation between transference and strategic localization. Such multi-scalar adaptation has most clearly been seen in the early development of Tesco's operations within China, where sub-national regional organizational structures are required to manage sourcing, supply chain and store operations given the substantial differences in climate, income and culture within a single country. Importantly, such a locally sensitive approach does not necessarily represent excessive localization, as the subsidiary continues to benefit in large part from the operating model of the wider retail organization. Instead, it represents efforts to apply appropriate strategies and capabilities where they are perceived as necessary. Of course, this careful approach by no means guarantees success. Continued adaptation is likely to be necessary as expansion into developing retail environments continues to exhibit high risk opportunities; yet responding to the nuances of national and sub-national regions surely increases the likelihood of realizing appropriately territorially embedded retail operations.

ENDNOTES

[1] The use of the term embeddedness within economic geography is not without its critics. Andrew JONES (2008) recently argued that the expression's usefulness is limited due to its under-emphasis of the relational nature of power and agency, resulting in a limited conceptualization of the spatial development of economic activity.

[2] Tesco had previously acquired a food retail business in Ireland (The Three Guys chain) in 1979.

[3] 'The planogram is a blueprint of the store display case and considers shelf management and presentation of each product. Specifically, the planogram design takes into account shelf space allocation and location of each product to maximize store sales and profits' (CHUNG *et al.*, 2007, p 585).

[4] Many thanks to an anonymous referee for clarifying these issues.

[5] In common with its accepted expansion mode, in 2004 Tesco entered China through a partnership with Ting Hsin owned local operator, Hymall, acquiring 50% of 25 hypermarkets for £148m, followed with the purchase of a further 40% for £181m in December 2006. In some respects the approach to expansion has been along the lines of the established Tesco approach within Asia. The retailer acquired a share in a small hypermarket retailer and then increased that stake, having learned a great deal about the market. Elements of the Operating Model were introduced and, in March 2007, a new fresh food distribution centre was opened in Shanghai to supply 30 stores in Shanghai, Jiangsu province and Zhejiang province. Operationally this was important to gain control of the distribution network and therefore ensure food quality. Having traded initially as "Happy Shopper" through the Hymall joint venture, a period when those original stores were refitted, there was a focus on mediating between

the tendencies of transference and localization in store design, a greater focus afforded to the Tesco fascia and the gradual introduction of the pillar Tesco sub-brands across the product offer.

[6] In 2010, development plans for the Chinese business were ambitious with 600 ‘ideal’ locations identified across 90 cities and expectations by 2014/15 of 50 malls trading (each with a hypermarket); 30 malls in development and over 150 leasehold hypermarkets (WALLER, 2010). Despite these ambitious plans, Tesco’s strategy for China has been significantly scaled back since the writing of this paper. By 2013, the retailer’s Chinese business was estimated to be losing in the region of £50m per annum (SHORE CAPITAL, 2013) and analysts widely doubted its continued viability. In August 2013, the retailer unsurprisingly signalled a new ‘capital light’ strategy for China, consisting of a joint venture with China Resources Enterprise (CRE), a state controlled retailer, ranked 2nd largest in China with coverage in 24 of its 34 provinces. Tesco argued this offered a route to growth that prevented it from over-extending its capital commitments, with a 20/80 ownership split in favour of CRE. In addition, the joint venture would create a market leading grocery retailer with sales in excess of current market leader, RT Mart/Auchan.

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FIGURES AND TABLES

Table 1. Embeddedness in Retail TNC Expansion

Territorial embeddedness	How the retail TNC is *anchored* in different places. Requires the acceptance across markets and cultures of consumption, planning and property systems, and logistical and supply chain operations.
Societal embeddedness	Underlines how the cultural, institutional and historical *origins* of the retail TNC affect how it operates in new markets. This may relate to supplier relations, labour-management relations etc.
Network embeddedness	Refers to the *composition and structure of network relations* of the retail TNC within and beyond the firm – e.g. with (joint venture) partners, suppliers, competitors, special interest groups and customers

Sources: HESS (2004); WRIGLEY *et al.* (2005); WOOD and REYNOLDS (2012b)

Figure 1. The Integration-Responsiveness Framework

Pressures for global integration

High	**Global** *achieves cost efficiency by globally implementing economies of scale by standardising offerings and geographically concentrating their most important activities, assets, resources and responsibilities. Information & benefits flow mainly from the headquarters to foreign subsidiaries. Their most important task is to implement the strategy dictated by the headquarters.*	**Transnational** *aims to adapt to their host countries and achieve efficiency at the same time. These firms' resources, responsibilities and knowledge are allocated across all foreign subsidiaries on a specialized basis through reciprocal interdependencies between the headquarters and the subsidiaries. Knowledge can evolve in several countries and be transmitted to other countries.*
Low	**International** *(home market oriented) adapts little to their host countries and do not integrate their foreign units, which resemble an extended branch of the parent companies. International firms use the skills and knowledge generated in their home markets by the worldwide diffusion of offerings. Foreign operations are conducted as a safeguard for the home market, and the foreign units are also highly dependent on the home market.*	**Multinational** *characterized by their sensitivity to host country administrations and local customer needs, by the differentiation of their goods and services, by their autonomous subsidiaries and by their geographically scattered activities. Goods and services are adapted to meet local needs adequately. Foreign subsidiaries are relatively independent of one another and of the headquarters.*
	Low	High

Pressures for local responsiveness

Source: adapted from SWOBODA *et al.* (2012) drawing on BARTLETT and GHOSHAL (1989); PRAHALAD and DOZ (1987)

Table 2. Leading Transnational Retailers, Ranked by Sales Outside Home Market, 2010.

Rank	Name of company	Country of origin	International sales (US$m)	No. of countries o f operation (2010)	International sales (% of total, 1999)	International sales (% of total, 2010)	International sales (Change in %, 1999-2010)
1	Walmart	US	109,539	16	14	26	+12
2	Carrefour	France	79,248	23	38	59	+19
3	Metro	Germany	55,112	34	40	61	+21
4	Lidl & Schwarz	Germany	40,132	26	20	52	+32
5	Auchan	France	38,064	12	19	59	+40
6	Aldi	Germany	33,576	18	33	53	+30
7	Tesco	UK	31,085	14	10	32	+22
8	IKEA	Sweden	29,097	38	92	94	+2
9	Ahold	Netherlands	25,605	10	76	65	-9
10	Rewe	Germany	24,303	13	20	34	+14
11	Delhaize	Belgium	21,721	6	83	78	-5
12	Costco	US	19,581	9	19	25	+6
13	Seven & I	Japan	17,803	18	30	31	+1
14	H&M	Sweden	16,430	36	84	94	+10
15	Amazon	US	15,497	7	22	45	+23

Source: derived from IGD's *Retail Analysis* (igd.com), Deloitte/Stores *2011 Global Powers of Retailing* and Annual Reports. Revenue figures for the financial year that corresponds most closely to calendar year 2010. Exchange rates used are for 31st December 2010 and are taken from www.xe.com. Key rates: $1=£0.64=€0.75.

Note: Safeway and Sears discounted from list as sales operations confined to North America only.

Table 3. Tesco Asia Acquisitions

Country	Date	Company acquired	Price (£m)	Mix of consideration	No. stores	Sales on acquisition (£m)	Notes
China	Jul-04	50% of Hymall	148		25HMs	330	PAT of £5.5m
	Dec-06	Further 40%	181	180 cash, 1 asoc costs			
Malaysia	Nov-01	70:30 JV with Sime Darby	0	na	na	na	
	Dec-06	Makro from SHV	73	72 cash, 1 of associated costs	8		c800,000 sq ft space
South Korea	May-99	51% of Samsung Tesco	85				
	Jun-99	Further 30% of Samsung Tesco	57				
	Feb-02	Further 8% of Samsung Tesco					
	Jul-07	Further 5% of Samsung Tesco	40-60				
	Jul-11	Further 5% of Samsung Tesco					
	Mar-05	Store acquisition from Aram Mart	49	49 cash	3 CHMs, 9 SMs	£111m in 05/06	c200,000 sq ft space
	Apr-08	Homever stores from E-Land	958		36 HMs	c£800m	3m sq ft of retail space, c1.3m of mall space. 21 freeholds. 50% paid on acquisition and 50% after sales uplifts achieved
Thailand	May-98	Lotus	206	117 cash : 89m assumed debt	13 HM	c£276m	
		ASIA TOTAL	**1,757**				
Divested Markets							
Japan	Jul-03	C Two Network (convenience stores)	176	Cash	78	286	In August 2011, Tesco announced its intention to sell its Japanese business via a phased divestment process with Aeon.
	Apr-04	Frec	16	assumed debt	27	146	
Taiwan	Oct-00	Acquired 1 former Makro store at Tai Mall (Taoyuan)	n.d.	Cash	1	n.d.	In 2005 – Tesco divested the 6 stores and 2 sites in asset swap with Carrefour and receive 11 stores in Czech Republic and 4 outlets in Slovakia

SM – supermarket; HM – hypermarket
Source: Barclays Capital and JP Morgan personal communication with modifications

Table 4. Tesco Asia: Country Summaries, 2011/12

Country	Population (m)	Grocery Spend ($ bn)	Year entered	Sales 2011/12 (£m)	Tesco Market Share (2012)	Invested Capital 2010/11 (£m Cumulative Est.)	Trading EBITDA Return (Est.) (2011)	Total Space (000 sq ft) (2011/12)	Store numbers (Hypermarkets/Other Stores) (2011/12)	Clubcard	Online Offer
China	1,341.41	971	2004	1,311	2.9%	801	3.9%	9,622	110/14	Yes	Yes
Japan	127.47	497	2003	436	0.1%	463	0.6%	505	0/140	No	No
Malaysia	28.23	31	2002	891	10.2%	635	7.7%	3,778	45/0	Yes	Yes
South Korea	48.91	96	1999	5,339	5.7%	3,600	13.7%	12,551	127/286 (+45 franchised)	Yes	Yes
Thailand	67.65	56	1998	3,235	13.0%	1,375	19.6%	12,831	136/956	Yes	Yes

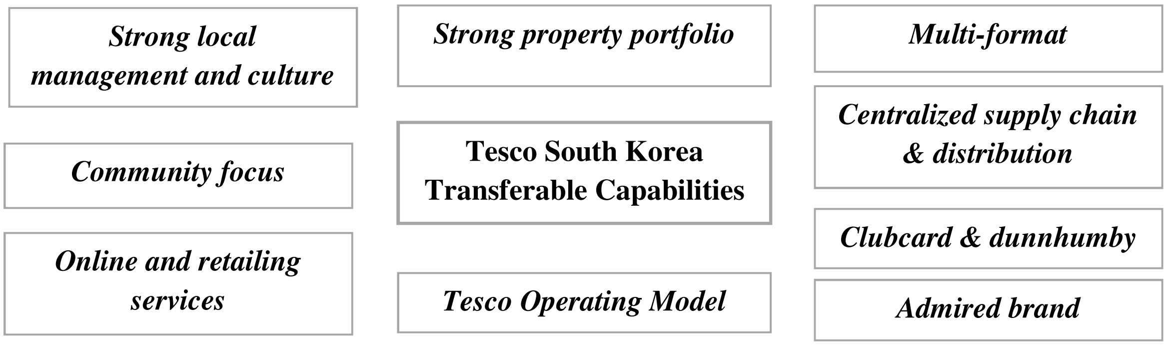
Source: BOAML (2010); BARCLAYS CAPITAL (2012a); JP MORGAN CAZENOVE (2011); SHORE CAPITAL (2010a; 2010b); TESCO ANALYST PACKS

Table 5. The Tesco Approach to International Retail Expansion

Build the Network	Build the Brand	Extend the Brand
• Construct scalable store network • Develop store support operations such as distribution centres and sourcing networks	• Evolve a collection of stores into a retail brand • Begin to introduce pillar brands in food and product brands in general merchandise • Introduce Clubcard	• Create new platforms for brand development: internet, financial services etc.

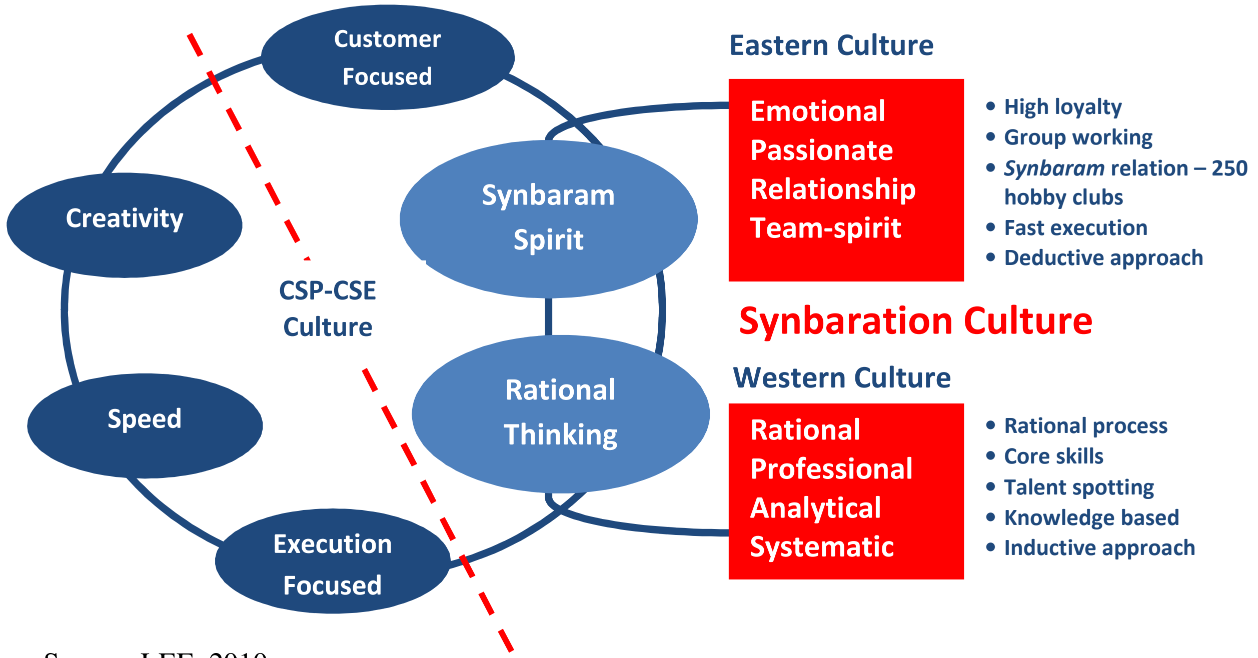
Source: adapted from information in Tesco analyst presentations

Figure 2. Elements of the Tesco Homeplus (South Korea) "Blueprint" of Capabilities Appropriate For Transference



Source: adapted from McLLWEE, 2010

Figure 3. Synbaration Culture at Samsung-Tesco: "The best of the West with the best of the East"



Source: LEE, 2010

Figure 4. The Structure of Tesco International Support Operations in the early 2000s

Source: WRIGLEY, 2005

Table 6. Tesco China Site Research Approach to Analysing Development Opportunities

Step 1: Ranking of target cities

- City Quality Matrix (CQM) ranking developed, based on economic and modern retail indicators, all extensively mapped and then scored
- Key competition measures (e.g. population per mall)

Step 2: Identifying the right districts within cities

- Government meetings to understand future development plans
- Team driving every road, visiting every competitor

Step 3: Identifying best locations within district

- Analysis of catchment spending power (hypermarket + mall)
- Analysis of competition
- Understanding micro-location factors (roads, access, public transport)

Source: adapted from information in Tesco analyst presentations

Table 7. Regional Focus at Tesco China and Strategic Priorities

Region	Provinces	Size (km sq)	Population	Average age	% migrant	% Employed in State Owned Enterprises	Strategic Priorities & Approach
North Region	Hebei; Beijing; Tianjin; Liaoning; Shandong	522k	236m (includes 34 of the top 100 cities)	41	17	27	Focus on Fresh Food Further improving the local part of the offer, particularly on the Deli Being No. 1 in every city Developing the structure and capability of the team Opening Blueprint Distribution Centre
East Region	Anhui; Jiangsu; Shanghai; Zhejiang	361k	208m (includes 14 of 20 most affluent cities)	38	34	15	Market leading growth, building on existing strong positions. Leveraging the supply chain and Operating Model.
South Region	Guangdong; Fujian	304k	131m (includes 22 of the top 100 cities)	32	62	10	Increasing new store programme including LifeSpaceMalls Building on strong growth Earning trust in the Tesco brand Ensuring quality of Fresh Food in every store Developing the supply chain Building the capability of the team

Source: adapted from information in Tesco analyst presentations

Table 8. Emerging Central and Regional Structure at Tesco China

In the Centre	**In the Regions**
Policies, Systems, Processes, Service Centres, Leveraging Scale, First Among Equals	*Tailoring our offer for local customers*
As much as can be the same:	**As different as it needs to be:**
Financial control and reporting	*Commercial: local suppliers and regional divisions of FMCGs*
Commercial: Hardlines, Electronics, Clothing and national FMCGs	*Marketing: local Trade Plan*
Marketing: Insight, Membercard, Trade Planning and Customer Communications	*Operating stores to deliver a consistent Shopping Trip*
Development/deployment of Operating Model	*Finding and developing the people to enable growth*
Ordering, IT, Distribution and Supply Chain	
Property Services and Management	
Leasehold Mall Management	
Human Resources	

Source: adapted from information in Tesco analyst presentations