

CHANGE THE GAME: A NEW MANTRA FOR FUTURE SUCCESS IN RETAIL INDUSTRY? A CASE STUDY OF TESCO'S SUCCESS IN KOREAN RETAIL INDUSTRY

Dipanjay Bhalerao

Assistant Professor, Indira Institute of Management, Pune
Email: dipanjay.bhalerao@indiraiimp.edu.in

INTRODUCTION

Today's exponentially growing retail market of around USD 15 trillion (2011) is worth watching as lots of new practices and strategies are being adopted by the retailers around the world.

Today there is an increasing need for every giant company to look for the emerging economies for growth. But in that growth pursuit are they slipping from the home grounds or the established markets!

Also when the retail company enters into new established markets for expansion, they need to do something innovative which also suits those markets.

So what should the retailers do to balance the growth of the established & emerging economies for the expansion!

What provokes this thought is Tesco's rare success in the Korean market.

Why to call it rare! As Korea is the retail market where the Retail Giants like Carrefour had bowed to the knees in the battle of retail with the Korean retailer E- Mart, Lotte, the Market Retailer of Korea.

Knowing such a market back ground Tesco did something, which stormed the market & brought Tesco into the big league of Korea.

Before going into what Tesco did, let's learn about Tesco and the Korean retail battle ground in light of the global retail scenario.

Tesco History

Tesco was founded in 1919 by Jack Cohen from a market stall in London's East End. Over the years the business grew around the world in 14 countries with a team of over 500,000 people serving millions of customers every week round the clock. Today Tesco is known for one the best shopping experience destination worldwide.

The Values were developed in 1997 from discussions with thousands of staff on what they thought Tesco stood for, and what they wanted the business to be. Ten years later, the staff refreshed the Values to reflect the business today and how they wanted to work in the future. These were re-launched across the Group in 2009.

Tesco's success depends on people: the people who work with Tesco and the people who shop with the company. Whether in Ireland or India, Turkey or Thailand, Tesco Values let the people know what kind of business they are working for and let the customers know what they can expect from company.

Tesco is an environment based on trust and respect. Tesco have learnt over the years that if customers like what we offer, they are more likely to come back and shop again. If the Tesco team finds what we do rewarding, they are more likely to go that extra mile to help their customers.

By living the values they created a good place to work and one where great service is delivered. (Source: Tesco plc.com)

Tesco Values

Source: Tesco plc.com

The Tesco Values sit at the heart of our business and help us deliver our core purpose – to create value for customers to earn their lifetime loyalty.

No One Tries Harder For Customers

- Understanding Customers
- Being the first to solve customer problems
- Community responsibility

Treat People How We Like To Be Treated

- Team work spirit
- Mutual respect
- Mutual trust

Tesco Business Spread

Tesco business is majorly spread in countries like UK, US, China, Japan, Korea, Poland, Slovakia etc.

Tesco is the world's third largest retail company.

Every day around the world Tesco customers choose where they shop. It is because customers can switch so easily that company has to constantly work hard to earn their loyalty. Wherever it operates, Tesco competes on price, quality, range and innovation.

In Turkey, at the end of 2010, price inflation of Tesco Kipa products were on average 5% below national consumer price inflation. These benefits are valuable to all customers, particularly to those on low incomes.

In China, customers want reassurance on food quality. They want to know it is safe and hygienic. Tesco China has established its own food safety team, made up of quality control technicians and operational managers. This has helped Tesco lead the way in improving food safety standards in the country.

This year in Central Europe Company has launched the Extra store format. The new format has introduced to the stores a range of innovations, from self-service checkouts to retail services, such as pharmacies, opticians, and financial services. Many of these innovations are firsts for the country. Tesco Mobile was launched in 2010 in Slovakia and is now the biggest alternative Telecoms provider after Orange, T-com and O2.

Their customers on the West Coast of America like their commitment in business, Fresh & Easy, has made to offering quality wholesome food at a good price. They like Tesco's assurance that own-brand products have no artificial colours or flavours, no high-fructose corn syrup, no added trans fats and only use preservatives when absolutely necessary.

Tesco Clubcard helps compete around the world by rewarding loyalty. Clubcard is now in twelve Tesco markets: UK, Ireland, Poland, Hungary, Czech Republic, Slovakia, Korea, China, Thailand, Malaysia, India and Turkey.

Strong, fair, mutually-beneficial and long-term partnerships with suppliers underpins how Tesco competes. The result is a sustainable and efficient supply chain. This means guaranteed supply for Tesco customers every day; supplier certainty and so confidence to invest in new products and innovation; and an export market for domestic suppliers in international markets.

Tesco is the largest single customer for Hungarian suppliers. It works with 1200 suppliers, of who almost 1000 are Hungarian and export more than £100m of products from Hungary to the UK (including TVs, lightbulbs, wine and sweetcorn).

Over 1500 of their UK suppliers have been with Tesco for over 5 years.(Source: Tesco plc.com)

Tesco Strategy

1. To grow the UK Core business
2. To be an outstanding company in store and online
3. To be as strong in all Tesco sells, as they are in food.
4. To grow retail services in all retail markets.
5. To put services to the community, as Tesco puts the services at its heart.
6. To create high value brands.
7. Team building for creating more value.

Tesco India

Tesco operates in India in the form of knowledge centre known as Tesco Hindustan Service Centre (Tesco HSC). The main agenda of this HSC is to work as a powerhouse of continuous improvement in the business intelligence, innovative ideas & solutions to global retail problems of Tesco.

The centre is in Bangalore.

HSC has come out with success

1. In solving problems like waiting lines at the billing counters by developing algorithms for flexible no of billing counters.
2. Only retailer in the world which replenishes the retail store shelves 3 times a day.

Global Retail Scenario

The As per IMAP retail report 2009, the global online retail sector grew by 14.5% in 2009 to reach a value of \$348.6 billion. In 2014, the global online retail sector is forecast to have a value of \$778.6 billion, an increase of 123.3% since 2009. Electronics is the largest segment of the global online retail sector, accounting for 22.6% of the sector's total value. USA accounts for 45.7% of the global online retail sector value. The Global retail & online retail industry trend is as follows:

Year	2006	2007	2008	2009
Online retail Growth	22.7	22.1	12.45	14.5
Traditional retail Growth	7.2	10.9	9.4	-3.7

Source: IMAP global retail report 2011

Indian Retail Scenario (For Understanding the Case Discussion in Indian Perspective)

The Rs 18,673 billion (US\$ 401 billion) Indian retail market entails only 6 per cent of itself as organized retail segment as of 2010, according to Booz and Co (India) Pvt Ltd. Hence, there is a great potential to be explored by domestic and international players.

The Business Monitor International (BMI) India Retail Report for the fourth-quarter of 2011 forecasts that the total retail sales will grow from US\$ 411.28 billion in 2011 to US\$ 804.06 billion by 2015. The report has underlined factors like economic growth, population expansion, increasing wealth of individuals and rapid construction of organized retail infrastructure as major drivers for the optimistic forecast figures. Indian retail sector accounts for 22 per cent of the country's gross domestic product (GDP)(source: IBEF2011)

Tesco Strategy in South Korea

Let us view the strategy of Tesco for South Korean market in light of the current Retail industry trends (EIU Global report: Industry in -2013)

Showrooming Will Be an Industry Gamechanger: EIU Report Says

As e-commerce continues to rise the last few years have seen the emergence of "showrooming" – the practice of testing a product in-store but buying on a mobile device – as a rapidly growing challenge to the traditional retail format. The growth in smart phone penetration and the accompanying ability to buy anywhere that there is a mobile signal has revolutionised point-of-sale decisions allowing people to search for items by barcodes, quick response (QR) codes or even photographs they take.

Research firm Forrester estimates that mobile retail in Western Europe will grow eleven fold between 2012 and 2017. This could prove conservative and 2013 will be a year where smart phone engagement becomes a core part of retail multichannel strategies. Having already tried to offset the practice by using non-transferable barcodes, US retailer Best Buy has undergone

a strategic u-turn by announcing plans to “embrace” showrooming in 2013. It is far from alone and retailers will ramp up their own app based offerings to counter losing out on price, whether this is through app-based loyalty or discount schemes or attempts to differentiate their retail brands from a product or service perspective. One thing is certain – m-commerce and showrooming are here to stay.(EIU Report: Industries In 2013)

Tesco study of Features of South Korean Retail Consumers

1. World’s Second most hardworking people.
2. Time availability for retail shopping is great difficulty
3. Extremely high usage of smart phones by Korean people.
4. High income levels

Korean Retail Market

(Overview Source: YONHAP NEWS AGENCY, dated 15.12.2010)

South Korean retail is one of the most competitive markets of Asia after China and few emerging markets like India & Indonesia etc.

South Korean retail has another feature of great impact of online retailing, mobile applications & emerging technologies.

In light of these lines it is also necessary to get to know the business environment of the industry.

South Korea's retail sales will likely grow 5.7 percent on-year to 211 trillion won (US\$184 billion) in 2011, surpassing the 200-trillion won mark for the first time, a report said Wednesday.

However, next year's growth rate expected to be much lower than the 8.4 percent expansion estimated for this year, according to the report by a think tank affiliated with Shinsegae Co., the country's second-largest retailer. The expected slowdown will result from a domestic economic slump, weak consumer sentiment and interest rate hikes, the report said. Sales at department stores are expected to rise by 9.5 percent on-year to 26.5 trillion won next year, while those at discount stores will likely grow 6.1 percent to 36 trillion won, helped by their low-price and high-quality policies, the report said. Sales of supermarket chains are forecast to rise 3.8 percent in 2011 from this year due to the passage of a bill to protect small-sized retailers, it added.

In early November, the South Korean parliament passed the "retail market development bill" that calls for restricting large retail chains from opening super supermarkets in areas within a 500-meter range from traditional markets for at least three years.

Sales at online shopping and convenience stores, meanwhile, are expected to maintain their steep growth next year, the report said.

As per the think tank of Lotte Department Store, the country's largest department store chain, predicted late last month that the country's retail sales will increase 6.2 percent on-year to 209.2 trillion won next year

Analysis of the Situation & Tesco's Response to the Market

In this situation where the retail operation was a challenge, at the same time because of the hardworking lifestyle of the Korean population retail traffic was not able to generate the profitable ROI.

Hence Tesco decided to storm the market with something which can be called as GAME CHANGER plan.

Tesco decided to expand the market without increasing the no of stores in the market, but still the store should go to the customers.

So the whole game changing strategy was based on these two themes:

1. Store will go to the customers; customers will not come to the stores as they do not have time.
2. But at the same time for market penetration no. of stores will not be increased.

This full of paradox strategy had a hidden tool: Smart Mobile Technology.

Plan of Action for the Strategy

1. Store locations where the Koreans can be spending maximum time: With extensive study of the Korean people's lifestyle it was found that Koreans spend large time in travel between home & Office. Subways were found the place where they are present apart from the work & home.



2. Format of the retail store: as per the report mentioning above about the coming trend of showrooming & online retailing, these two trends were captured as most viable ways ahead. Stores were made just in form of banners on the side walls of the subways, showing the shelf like images on them. All the products on them had a unique feature of QR codes (Quick Response Codes). These Stores were known as virtual subway stores.



3. Buying technique: The customers while traveling from home to office and reverse, shopped through their smart phones (strategic tie up with SAMSUNG Mobile), as the people were well conversant with the smart phones usage. The order was placed through selecting QR codes and placing order on the online retail website of Tesco.com



4. Logistics Management: Tesco ensured that the time took by the customers reaching home should be their delivery time of the bought out items.
5. Identity change: Tesco even went to the extent of changing the name to HOMEPLUS in the country.



6. Outcome: Tesco became close no 1 in traditional retail industry in South Korea & clear No1 in the online retailing industry in the country.

CONCLUSION

Can we say with this situation that it has opened a big question to the retailers about traditional methods of retail expansion whether it may be in established or emerging markets?

Yes , Tesco has not only proved that the Game changing strategy has gained laurels to the company in Korea, but also created a new situation of retail expansion strategy .Here the question is to well thought ,like Tesco did in Korea, about the changing retail customer lifestyle and how the retail growth can be brought.

After the Indian government's clearance to the multi-brand retail industry FDI, this question becomes more relevant to all the new entrant retail giants, in Indian perspective.

So for a new entrant retail company in India, what should be the way forward?

Traditional or game changer?

Discussion Questions

- What is the retail location strategy of Tesco in Korea ?
- Discuss the new trend in the retail store formats being used by Tesco.
- Can we have some new formats for the Indian retail industry after FDI.
- Figure out the high potential geographies in India where the retail operation can lead growth & profits.
- Read the global top ten retail companies operations to prepare for the case study (Suggested reading for the students)

REFERENCES

1. GRDI (Global Retail Development Index) 2012, A.T. Kearney(Globally reputed consulting firm)
2. <http://english.yonhapnews.co.kr/business/2010/12/15/11/0501000000AEN20101215004700320F.HTML>, accessed on 21.12.2012
3. EIU report: Industry in 2013(for trends of retail industry)
4. IMAP global retail industry report 2011
5. www.Tescopl.com, accessed on 21.12.2012
6. www.tesco.com, accessed on 21.12.2012
7. www.tescohsc.com, accessed on 21.12.2012
8. ASSOCHAM retail report, 2011
9. IBEF Indian retail sector,2012