

Tesco in China Market Expansion Failure Analysis Study

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Abstract. Tesco was one of the first foreign companies to enter China after the country opened up to the outside world, and it had a tortuous journey in China that ended in failure. This paper uses Porter's Five Forces methodology to analyse the pain points faced by Tesco during its development in China and the reasons for its failure. The final recommendations for Tesco's future development in overseas markets are based on the example of Tesco's development in China.

Keywords: Tesco; market expansion; case study.

1. Introduction

Tesco is the largest retail company in the UK which was founded in 1932. The group's rapid growth in the UK led to its international expansion and its presence in international markets. Although Tesco did not seem to have much competition at the time because of its early start, other retail groups such as Sainsbury's had already started to grow and it took a lot for Tesco to become one of the top three retail groups in the world. The turning point in Tesco's development was the price parity movement. After this move its market share and sales increased significantly. However, on its way to explore China market share, such sales strategy has encountered unprecedented obstacle. Previous studies have focused on one aspect of Tesco's development, and there is no systematic analysis or summary of China-oriented development. These studies did not include a comprehensive analysis of Tesco's failures in China and recommendations on how Tesco could expand overseas. Faced with this situation, this paper fills this research gap. This paper analyses the background of the retail industry in China and uses the Porter's Five Forces approach to analyse the situation and pain points faced by Tesco as it enters the Chinese market. Followed by the development and trends of Tesco in China and a detailed description of the problems it encounters in the Chinese market. Finally, recommendations are made on how Tesco can expand overseas, using China as an example.

2. Description of Tesco and its business model in China

2.1 Tesco's business model in China

The entry of foreign retailers into the Chinese market began with China's accession to the WTO in 2004 [1]. China is in the midst of a period of reform and opening up, opening up its retail market and creating conditions and opportunities for foreign companies such as Tesco. The Chinese government's expansion of rules has made China seem to be the best choice for foreign companies to develop the global market [2]. With this opportunity, a series of retailers such as Metro and Wal-Mart were introduced to China in large quantities, with Tesco, as a late entrant to the Chinese market, having lost part of its head start. When Tesco entered the Chinese market, it had to face not only local Chinese retailers, but also foreign companies of the same type. Therefore, it should come as no surprise that it was very difficult for the late arrival of Tesco to find the right channel of suppliers [3]. The most important reason for Tesco's success in so many countries around the world, especially in developed countries, is that Tesco has built a set of procurement and manufacturing systems with highly intensive characteristics. In terms of procurement, Tesco's supply chain is well connected, allowing it to build its own cost advantage at very cheap prices, coupled with a large number of own goods production, in the UK. In the UK, 40% of the goods sold by Tesco are its own products. However, when Tesco faced the Chinese market, the wide range of product adjustments in different regions and

cultures in China made it impossible for Tesco to sell its own products. The high bargaining power of Chinese suppliers also makes it difficult for Tesco when its own goods cannot be the main supply for Tesco in China. Supply and demand in the retail sector is already balanced due to the complex environmental factors and the large population in China. When Tesco cannot meet the conditions desired by the supply side, there are other buyers on the supply side. This explains Tesco's immature supply chain in China, which puts it in a dilemma and keeps making losses. What is worse for Tesco is the high bargaining power not only on the supply side but also on the consumer side [4]. Chinese consumers already have a wide range of purchasing channels, and the presence of Tesco would not have attracted a large base of customers if it had not been accompanied by significant discounts. Such conditions are certainly making it more difficult for Tesco to stand out in the Chinese retail market.

2.2 Tesco's development in China

Tesco set very ambitious targets when it first entered the Chinese market. At one time they were set to make their entry into the Chinese market by acquiring a stake in the Ting Hsin International Group. However, after entering the Chinese market, Tesco was faced with a number of tough situations. In such conditions, it still insisted on developing the Chinese market to try to save its disadvantage. However, the reality is that Tesco has been losing money in the Chinese market and things are not going as expected. Its development in China has been in a state of small market share and little prospect of growth. It was losing its confidence step by step, and it was not long before the firm decided the situation was irreversible. Tesco's foray into China came to a haphazard end when it sold 80% of its shares to China Resources in 2022.

3. Problems encountered by Tesco in the Chinese market

3.1 Culture conflict

Tesco's development in the Chinese market has revealed many pain points. The first point is that its corporate culture does not fit perfectly with the local Chinese culture. The problem mainly occurred in three aspects, marketing policy, site selection and management model. Tesco's customer attraction and management strategy has always been based on a loyalty point system. It has been able to gain a large customer base in Europe and the US by using this system, which is described as a way of earning points on the price of products purchased as a member of Tesco and accumulating them in a customer account. In China, however, such tactics and strategies do not work [2]. China is a densely populated, large developing country with a different buying culture to that of Europe and America. The Chinese are not sensitive to the benefits of a membership points system. On the contrary, direct discounts, free trials and other seemingly more straightforward activities are more likely to stimulate the Chinese people's desire to buy. Against this backdrop, although a membership points system may provide greater benefits to customers in the long run, the fact remains that Tesco has made a thankless sale. Such a culturally inappropriate marketing strategy has resulted in Tesco investing a lot of money but not gaining the loyal customers it had anticipated. Moreover, Tesco has also had major problems with site selection. Because it entered the Chinese market ten years later than groups such as Metro and Wal-Mart, Tesco initially lost the opportunity to capture market share in first-tier cities. It also lost sight of the social base in China when it retreated to second-tier cities to create shops. Car shopping culture is not prevalent in China. The low level of car ownership in China made it impractical to locate shops in remote suburban areas with large car parks. The occasional shopping trip is more in line with Chinese shopping habits than driving to the suburbs to buy goods in bulk. Wal-Mart also had problems with location, as did Tesco, which changed its strategy in 2005 to open shops on pedestrianised streets [1]. Considering the problem with Tesco's management model, the firm has transferred its British model to the Chinese market without changing its organisational structure and management methods [5]. The fact that Tesco does not trust the local management team and that its own team is made up of British people who do not understand the realities of China has

led the corporation to make a series of marketing mistakes that do not fit the Chinese market environment. For example, the Chinese love big promotions and are very willing to participate in them, but Tesco does not host them to attract customers. The prices of Tesco products have not fluctuated significantly for a long time and the Chinese are not willing to pay for them. In addition, because China follows the socialist market economy system, the market that Tesco faces in China is significantly different from the European and American markets that it is familiar with. Tesco's transfer of the traditional British management model to China does not fit well with the Chinese market and is extremely out of place. As a result, Tesco's management model does not fit well with the government or other companies it needs to work with, which seriously affects Tesco's development in China.

3.2 Accounting misstatements lead to crisis of confidence in 2014

The second problem that Tesco encountered in the Chinese market was the accounting misstatement that led to the victimisation of its reputation. In the lukewarm development situation of Tesco in China, an explosive news story in 2014 directly moved to erupt a crisis of confidence in Tesco. This incident had a huge impact on the entire group, and for the poorly developed China segment it was a disaster. Tesco's accounting misstatement was the trigger that made Tesco in China irreparable and some of the customer base it had struggled to gain in China lost trust in it. The crisis, which involved a £263 million accounting fraud, had a bad impact on the entire group and people began to question whether Tesco had the most basic qualities of integrity for a business [6]. Investors in Tesco also pulled out of their investments, leaving Tesco in its biggest crisis ever. Immediately after the announcement, Tesco's shares fell by 6.5% to their lowest level in 11 years. Its market capitalisation is shrinking worldwide, not to mention the poorly developed China segment. As a result of this extremely damaging incident, Tesco replaced its CEO, Dave Lewis, who advocated a change in Tesco's corporate culture to focus more on openness, fairness and honesty [7]. This has done little to help Tesco in the Chinese market, either sincerely or to appease the public. Tesco has lost most of its already small customer base in China and has been badly hurt by the incident.

3.3 Tesco in China Development Strategy Issues

There are also major problems with Tesco's development strategy in the Chinese market, which is divided into two main parts, strategic issues when entering the Chinese market and failure to capture the e-commerce wave. Tesco made a mistake in its development strategy by adopting a sole proprietorship rather than a joint venture [8]. As foreign investment was introduced into China before Chinese retailers had already grabbed market share. However, Tesco chose to acquire Tesco to go it alone in the Chinese market from zero instead of entering into a joint venture with a Chinese retailer, resulting in a lost opportunity to capture the first tier market. Secondly, as China is a socialist country rather than a capitalist one, it would have been beneficial for the company to have a certain level of management power in a foreign-owned company as the local team would have been better able to understand Chinese policies. Therefore, it is because of the lack of advice and management from the local team due to the lack of joint ventures with Chinese retailers that Tesco's journey in China has not been a long one and has ended in failure. Another problem of Tesco's growth strategy was Tesco's failure to capitalise on the rise of e-commerce in China. 2010 saw the rapid growth of e-commerce in China due to technological advances. The online purchase of goods by courier to home is a very convenient way to buy and therefore, Chinese people have developed the habit of buying and selling without leaving home. But Tesco is too conservative and still sticks to the traditional offline transaction, resulting in not seizing the business opportunity and not participating in it. In addition, one of the advantages of e-commerce is the cost savings in rent and labour. Compared to Tesco, its counterpart Wal-Mart and local company RT-Mart have adopted the online trading model, so their sales have risen sharply. However, Tesco's competing companies have grown increasingly well to the detriment of Tesco, squeezing out Tesco's share of the market. Therefore, the emergence of e-commerce has accelerated Tesco's failure in China.

4. Suggestions for Tesco's future expansion into overseas markets

4.1 Ways to expand into overseas markets

In view of the reasons for Tesco's failure in China, this article offers suggestions for Tesco's future expansion into overseas markets. First of all Tesco should analyse the market conditions of the entered countries, and choose the most suitable way of entry. It would be better for Tesco if it could choose to use a different management style in other countries that would be applicable and work reasonably well in those countries. For instance, Tesco needs to enter the Chinese market with a Chinese joint venture [10]. China is a country with a strong cultural history and is unique and Tesco cannot cater to the Chinese market well on its own and needs to use a joint venture with a local management team to manage it properly.

4.2 Enterprise development and local cultural integration

Furthermore, Tesco must first understand the local culture and social environment [1]. It is crucial for Tesco to realize importance of finding the buying habits of the local people. The ability to adapt the corporate culture to the local culture is one of the decisive factors in Tesco's ability to survive and thrive in the region. If Tesco still wants to have a fighting chance in the Chinese market in the current partnership with China Resources, it is recommended to make its products be bought in bulk, especially vegetables and fruit. Hence, Chinese clients can follow their habits to choose their products carefully and buy them on demand instead of in packages. Not only that, but Tesco in China should try to break its proud customer self-service buying process by adding shopping guides. This would better meet the needs of the majority of Chinese people who ask questions during the buying process. Nevertheless, as a foreign company, it is difficult to understand the culture and habits of the local people at once, and there definitely will be areas where Tesco cannot reach. This is why Tesco can work with and trust the local management team. The advantage of this is that the local management team has a better understanding of the market and its customs and can help Tesco to make more appropriate decisions. As for the social environment in China, the gap between the rich and the poor in China is actually very large, and the low-income group accounts for a large proportion of the population. In this regard, it is suggested that Tesco should open different shops for high-income and low-income people. In addition, Chinese buyers have strong bargaining power and like to spend at discounted prices, for example during the "Double 11" shopping season, when Chinese consumers can generate amazing sales. If Tesco could have more trust in its Chinese management team, it would not have missed so many opportunities that could have grown Tesco in China.

4.3 Treating the competitions

Even if Tesco does not trust the management team it works with, making it problematic in terms of marketing techniques and development policies, it can still learn from the strategies of its competitors to find a breakthrough [4]. Having entered the Chinese market later than Wal-Mart and Metro, Tesco has had ample scope to draw solutions from the problems encountered by its competitors. As Tesco expands into other overseas markets in the future, it will also need to be able to turn the lessons learned from its competitors into valuable assets for itself, in order to avoid taking the wrong path. For case in point, Walmart had already suffered from site selection problems when it first entered China, but Tesco did not learn its lesson and continued to build shops in remote suburbs in accordance with its chosen site selection habits. The losses from such strategic mistakes could have been avoided, but Tesco did not have the ability to learn from its competitors. Lessons should be learned from previous experiences and effective strategic decisions should be absorbed and learnt, but on top of this Tesco needs to be able to analyse independently and understand that learning is not the same as blindly following [2]. Tesco tends to blindly copy sales models rather than learn from the core decision-making essence of its competitors. Such extreme behaviour is also highly discouraged.

4.4 Risk assessment and strategy integration

Last but not least, the process of developing overseas is inevitably not a smooth one and Tesco needs to weigh up the tolerable costs of trial and error and assess the risks of each decision [11]. Combined with its strategy, overseas development is carried out on the basis of ensuring that the Group's main interests are not compromised. When development is thwarted, the pros and cons are weighed to make the next decision, rather than having grand blueprints when the reality is that it has been losing money, as was the case with development in the Chinese market, to the extent that at one point it affected the Tesco Group's market capitalisation. The ability to stop losses in time is also essential for Tesco's expansion into overseas markets. It is necessary for Tesco to weigh up the relationship between risk and reward to prevent the strategic mistakes.

5. Conclusion

This article introduces Tesco's development process in the Chinese market against the backdrop of the wider Chinese retail industry, focusing on the reasons why Tesco has failed to thrive in China and summarising its recommendations for expanding into overseas markets. The reasons for the failure to develop in the Chinese market highlighted from the article are:

1. Culture conflict
2. Accounting misstatements lead to crisis of confidence in 2014
3. Tesco in China Development Strategy Issues

Suggestions in the article for Tesco's future expansion into overseas markets include:

4. Ways to expand into overseas markets
5. Enterprise development and local cultural integration
6. Treating the competitions
7. Risk assessment and strategy integration

Tesco's development in China has caused a degree of irreparable damage to the Tesco Group, departing from the original intention of expanding overseas. In a globalised world, it is inevitable that Tesco needs to develop its cross-border business. This article takes the failure in China as an example so that Tesco can learn from it and better plan its future development.

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