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Learn to Expect the Unexpected in Global Retail Expansion

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Taking a proven retail model and exporting it to a new country, often with a new set of competitors, a different language and culture, and unique shopper expectations requires more than just market research before entry.

Global retail expansion has attracted many followers. These include small to medium-sized companies, some new to international expansion, and others in more mature organizations. The success of newer, specialty retailers in the international market, such as Zara (Spain), H&M (Sweden), and Shanghai Tang (Hong Kong) have paved the way for others to follow. Perhaps surprisingly, a number of well-known retailers have failed to succeed in certain global markets due to a variety of reasons. These include regulatory, legal and cultural challenges, competition, and trying to change shopping behavior. The purpose of this article is to analyze the successes and failures of retailers who, seeking future growth, have entered global markets, and to offer lessons learned for future global enterprises to maximize their chances of success.

Even the Biggest Retailers Can Falter

Walmart, considered the world's largest retailer, did not have success in its global expansion into the retail markets of Germany and South Korea.[1][2][3] Walmart entered Germany in 1988 and, after opening 88 stores, left in July 2006 with a $1 billion write-off.[4] There were multiple reasons for leaving including tough competition, loyal country patronage (local customers may have preferred to shop at familiar and German-owned retailers, like Metro), and cultural differences.[5] Shoppers in this country thought smiling and friendly female sales clerks were flirtatious and unacceptable.[6] Sam Walton's morning cheer (W-A-L-M-A-R-T), long store hours, and often resistant labor unions also contributed to their eventual departure.[7][8][9]

Similarly, Walmart entered South Korea in 1988 and left in May 2006 after opening 16 stores. Although competition was tough, Walmart also failed to anticipate problems with applying U.S. standards to stores in South Korea, such as using store shelves that were too high for short South Korean female shoppers, and wrapping fish in clear cellophane, despite the custom in South Korea of always buying fresh fish, alive in fish tanks at retail.[10]

Carrefour, from France, the world's second largest retailer, also had problems and left specific international markets including South Korea.[11][12] It left Thailand in 2010 after opening 31 stores and may leave Malaysia in the near future. In late 2009, Carrefour pulled out of Russia four months after opening two stores. The company justified the closing citing,*"…the absence of sufficient organic growth prospects and acquisition opportunities in the short and medium term that would have allowed Carrefour to attain a position of leadership."* However, the company was also concerned about pending Russian legislation that would limit the share of retailers with annual sales of 1 billion Russian rubles (approximately $32.6 million U.S. dollars).[13]

Carrefour created the hypermarket (from French *hypermarche)* concept in 1962.[14][15][16][17] It represents a gigantic retail store, which combines a full-service supermarket with a department or discount store. The average size of Carrefour's hypermarkets is 215,000 square feet. Some of the original units in France have 95 checkout stations, 2 floors, and oversized shopping carts that interlock onto escalators for consumers traveling between floors. Other global retailers, such as Tesco, also operate hypermarkets. Walmart has utilized this hypermarket concept in creating their Supercenter stores in U.S.[18][19][20]

Carrefour once opened a hypermarket in the United States (Philadelphia, Pennsylvania) in 1976. It used a format straight from France, with no adaption to the U.S. market. Soon after opening, it faced a labor union strike, along with consumer resistance that eventually drove them to leave the market. Carrefour's huge hypermarkets are difficult to keep profitable in markets with increasing competition, where consumer shopping behavior may need to change, and when shoppers are very price-sensitive.

Asia Represents New Challenges

Another recent example of a global expansion that faltered is Best Buy, which closed 11 stores in China during the first quarter of 2011. Electronics such as PCs and laptops are typically sold in major Chinese electronic retail stores where each manufacturer has a counter with an employee working as a sales agent.[21] Stores with names like Gome and Suming are often crowded, dirty, and noisy, but offer low prices. Best Buy tried to bring its U.S.-concept stores to China, offering cleaner stores, wider aisles, and non-commissioned sales people who were knowledgeable across multiple brands. However, Best Buy's China endeavor required Chinese shoppers to change their shopping and buying behavior and expectations when buying electronic goods. Furthermore, Chinese electronic store competition offered lower prices than Best Buy. Though all of the stores carrying their name are gone, Best Buy still maintains a presence in China after acquiring a chain of electronic retail stores called Jiangsu Five Star Appliance, keeping the local store name and format.

India, with a population of 1.1 billion people, poses the greatest challenge to large international retailers. The Indian government has refused to allow big retailers to enter their market.[22][23] The rationale is to protect the thousands of small mom-and-pop stores, which dominate the market and currently supply daily foodstuffs and other products to their local populations.[24] These local small stores build personal relationships with customers, often offering home delivery, easy credit, and gifts and discounts to loyal customers.[25] Indian regulations for foreign retailers are complicated. Big-box stores such as Walmart or Carrefour are only allowed to partner with Indian companies in the wholesale sector, rather than selling directly to customers.[26] However, single brand retailers like Levi Strauss that primarily sell one manufacturer's product are allowed to sell directly to consumers, but they must also have a (local) joint-venture partner. Global retailers such as IKEA, Walmart, Carrefour, and others are standing by to see if the government may ease these restrictions and let large retailers enter the market.[27] Walmart has entered India through the back door by forming a joint venture with the largest Indian cell phone operator, Bharti Enterprises. The Walmart store name cannot be seen in India; the joint venture store is called Best Price Modern Wholesale.[28][29]

Another U.S. retailer, Starbucks, has found a way to enter India. Starbucks recently formed a joint venture with India-based Tata Group to help them enter India by sourcing and buying coffee with Tata's Coffee Division, which owns and operates coffee plantations.[30] Coffee has more popularity in Southern India but has gained a broader acceptance across the country in the past decade. New coffee chains appeal to young Indians who have more disposable income than their parents did when they were young. Along with being one of the fastest growing countries, India is also one of the youngest with about one-half of the population under 25 years old. Additionally, The Tata Group is allowing Starbuck's to set up retail stores in their very upscale Taj hotels.

Global Expansion in the U.S. is Neither Fresh nor Easy

Tesco, the U.K. grocery chain and third largest retailer in the world, entered the United States with a healthier convenience store chain called Fresh & Easy. They studied the market for one year, sending more than 50 U.K. executives to live with California families, and then only opened stores in the West coast in California, Nevada, and Arizona. Unfortunately, Tesco opened these stores in 2007, just before the recent financial crisis, and in general, sales have been disappointing.[31][32][33][34] Even with their extensive market research, they may not have obtained all there is to know about the U.S. food retail market. They did not hire a U.S. country manager or partner with an existing U.S. retailer or company that could offer insight into the very competitive U.S. market. Tesco's initial long-term goal was to open 1,000 Fresh & Easy stores in the U.S. However, three years after opening their first store, they still only have 175 stores. The company lost $300 million in their most recent fiscal year ending February 26, 2011. A number of initial judgment errors may also have contributed to Tesco's disappointing debut in the U.S. market including:[35]

1. Offering fresh fruit and vegetables pre-wrapped in plastic, where U.S. shoppers generally prefer to select these items individually.[36]

2. Selecting a number of the store sites that were retrofits, where previous supermarkets or food stores failed.

3. Selecting some store sites that were located on the wrong side of the street, more accessible to inbound rather than outbound commuters who would be more likely to be thinking about what to buy for dinner.

4. Selecting stores located in geographic areas with the highest rates of (real estate) foreclosures in the nation.

5. Initially not accepting manufacturer cents off coupons.[37]

6. Initially designing stores with concrete floors and a "stark" look.

7. Using private-label, Fresh & Easy-branded products for about 50 percent of the products offered, where U.S. shoppers prefer recognizable and better known brand names.[38]

After initial store sales slowed, Tesco executives halted expansion plans, and made adjustments to the merchandise mix, accepted store coupons, and expanded store hours.[39] It seems Tesco's original rollout plan may have been too ambitious.[40] The decision to continue expansion or pull-out of the United States has been postponed until 2013. Tesco has the resources to continue, but whether they will adapt and use innovative approaches necessary to maximize consumer acceptance and meet their financial goals remains to be seen.

Success Stories

McDonald's and YUM! Brands' stores can claim major success stories in far away places. McDonald's does their homework before entering a market. For example, India is the only country in the world where they do not serve beef hamburgers.[41] They determined over 80 percent of the Indian population is Hindu, who believe the cow is sacred and would be offended if offered as an eating choice. Hindus respect and honor cows because they are the main animal that provides for their family. They can make many different foods (from a live cow) such as milk and yogurt and can use the milk for other Indian foods. Cows can also be used for transportation and farming. Therefore, the McDonald's menu in India consists of many vegetarian dishes with names such as: McVeggie Sandwich, McAloo Tikki, Paneer Salsa Wrap, and Pizza McPuff. They also offer some traditional items found in the U.S. such as Filet-O-Fish, but a variety of country-specific chicken dishes such as: McChicken on a bun, Chicken McGrill and McCurry Pan.[42]

YUM! Brands, which owns KFC, Pizza Hut, and Taco Bell, has been a phenomenal success in China.[43][44][45] The country alone accounted for 54 percent of YUM!'s overall $264 million profit during the first quarter of 2011.[46] KFC had a first-mover advantage, entering China in 1987, followed by Pizza Hut in 1990.[47] Their international restaurants are different from their stores in the U.S. For example, Pizza Hut offers an expanded Italian menu. is closer to a family/fine-dining restaurant, and caters to Chinese eating tastes with seafood and shrimp pizzas. In both India and China, patrons can order beer or wine with their meals.[48] KFC has adapted offerings to appeal to the tastes of the Chinese family including a breakfast menu. It features Chinese staples such as youtiado (a donut on a stick) and bowls of Chinese congee.[49] In 2010, KFC China introduced rice to the menu for the first time.[50] They even added hamburgers and french fries, which are not offered in the United States.

YUM! now has approximately 3,665 restaurants in China, and is growing.[51] The company has intentionally not launched Taco Bell in China, knowing Mexican-type food may be a challenge in China. According to their 2010 annual report, YUM! has created their own quick-service restaurant chain in China called East Dawning, which is tailored to the local favorite cooking styles. They also own 27 percent of Little Sheep, the leading brand in the "hot pot" category, which has about 500 units and is the largest casual dining category in China.[52]

Zara also exemplifies a global retailer success story. A division of Spanish parent Inditex SA, Zara operates more than 1,500 stores in 81 countries. Zara generated annual sales revenue of 7.1 billion Euros in 2009 (approximately $9.6 billion U.S. dollars). Zara offers high-quality fashions at reasonable prices. Zara's management resisted an industry trend of manufacturing in low-cost countries. Instead, most of its manufacturing is completed in Europe. They never use advertising to promote their stores. Their unique ability to dispatch designs twice a week to their stores has won a loyal following. Zara has been described by Louis Vuitton Fashion Director Daniel Piette as "possibly the most innovative and devastating retailer in the world."[53]

Zara's success has been innovation, vertical integration, and consumer centricity.[54] Their Spanish headquarters responds quickly to local tastes and trends and depends on their store staff as lookouts for trends that enable Zara to quickly design, produce, and deliver fashion items in limited quantities to markets that want them. An item seen one week may not be in that store the next week whether sold or not. Their in-store design and range of fashionable and affordable merchandise has been a hit around the world.

Lessons Learned

Based on the various retail companies discussed, and their global expansion efforts of varying effectiveness, below are some key takeaway points:

1. Do your homework carefully before entering a new international market.

2. Study the buying behaviors in the market. This includes shopping and buyer behavior, consumer attitudes, expectations, and price sensitivity.

3. Recruit someone familiar with the local culture, not a transplant from a successful store chain thousands of miles away. Tesco's Fresh & Easy initially hired British expatriates instead of hiring locally.[55]

4. Get the merchandise mix correct, or at least identify what not to offer. Walmart offered golf clubs in Brazil where that sport was not popular. They also initially sold ice skates in Mexico where there are no ice skating rinks.[56]

5. Adapt and be willing to make changes to local market preferences. Pizza Hut in China offers a full Italian-based menu.

6. Atmospherics may be more important in some developed countries than in others.

7. Identify growing trends in targeted countries and appeal to those trends.

8. Consider a paradigm change on how to enter the market, such as Starbucks in India.[57]

9. Be willing to adopt a different retail brand name if needed to attract customers. Walmart learned this lesson as they expanded globally by not always using or needing the Walmart brand name. Walmart operates in the U.K. under the ASDA and George brand names.[58]

10. Non-traditional merchandising may be needed to accommodate and attract international shoppers to gain their loyalty. Coupons may not work in parts of Asia but selling live seafood does.

Conclusion

Taking a proven retail model and exporting it to a new country, often with a new set of competitors, a different language and culture, and unique shopper expectations, requires more than just market research before entry. International expansion is a common next step for large retailers having achieved success at home. Retailers that seek future international growth need to avoid repeating prior mistakes from others who came before them. Even the most successful and largest global retailers have encountered unanticipated problems in global markets that could have been identified and prevented prior to their launch.

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