



## **Supply chains: the supermarket**

*Shaping Tesco overseas*

### **Commentary:**

Retailers have long sourced the products they sell from around the world. Tesco also provides an example of how leading retailers are increasingly operating in diverse markets as international retailers.

### **Christine Cross, Non-food Sourcing Director, Tesco:**

Tesco's been very successful in building its brand identity in the UK, in building its market share in the UK. Market forces are such in this country that we can't expand any further in terms of our share, and the UK market as such is one where we've got a high penetration in terms of grocery product but there are lots of other people who are dominant in the other areas. To expand outside of the UK in terms of global reach means that you can start to build economies of scale, and some of the places that you would have to import product into the UK anyway you can then get some of those cheaper products to those other countries. So logically to start that expansion process would be the next step. You've got to make the decision: am I a domestic retailer or am I an international player? If I'm international is it literally global reach or is it restricted to some parts of the globe, and that's all part of the strategic decision.

### **Commentary:**

At present Tesco's overseas operations are concentrated in Eastern Europe and in South East Asia. We'll look at both. In Hungary one examined the impact on existing retailers. In Thailand we'll see what infrastructure Tesco need to support a developing supply chain. But we'll start in Korea. The Korean economy developed rapidly in the latter part of the 20<sup>th</sup> century and has been widely admired as a model for industrialisation, and as an advanced technological society. In modern Seoul there are few physical vestiges of the Korean past. But if the buildings and infrastructure have transported communication into the 21<sup>st</sup> century, distinct Korean cultural traditions and preferences remain strong. They shape the way Tesco operates innovation in retailing. Traditional greetings aside, how is this overseas Tesco structured? In Korea they operate a joint venture with the Korean company Samsung. Their stores operate under the trade name Home plus.

### **Do, Sung-Hwan, Chief Operating Officer, Samsung Tesco:**

When Samsung started the retail business in 1996 many Samsung people travelled the foreign country, the western countries particularly, so they tried to know what retail would be for the future. They thought it's hypermarket so they built one store in Daegu, for the largest city, was very successful. They began, they built another store in Busan, second largest city, it was also very successful. So they the other retailers and the northern retailers had confidence in this store for that and Walmart and Carrefour came to Korea to open their stores. Samsung also had difficulty in operation. Samsung didn't have the experience in retail so as the number of stores increased that they noticed that they needed more know how and knowledge on retail. And also Samsung had difficulty in finance at the time.

### **Commentary:**

The financial difficulties experienced in most South East Asian economies in the late 1990s affected Korea and these conditions led Samsung to seek a partner. They settled on Tesco.

### **Do, Sung-Hwan, Chief Operating Officer, Samsung Tesco:**

Tesco tried to expand their retail business abroad so already they had, Tesco had an office in Korea to research the possibility out there. And also Samsung tried to look for a good pattern for retailer at the same time. So we met and got together. We started 51-49% participation but Samsung sold their shares of 30% to Tesco.

**Commentary:**

There's already a variety of existing retail outlets in Korea. Nam Dae Mun Market in Seoul continues to thrive as a functional market, dealing not only with retail but also wholesale. There are several chains of street corner convenience stores offering basic goods. Some make a gesture to globalisation with names that are accomplished puns in foreign languages. There's also a number of department stores in the European style. And Techno Mart, a short subway ride from the centre of Seoul, is an impressive array of electronic goods, repeated over eight storeys. This is the environment that Samsung Tesco operate within.