

Tesco in China: How Could Things Go So Wrong?

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Abstract. The case concerns the experience of Tesco, a major U.K. international retailer in China. Despite favorable macro-environmental conditions, Tesco's immersion strategy into the Chinese market failed. The case concerns the changing landscape of the retail sector in China and the challenges faced by Tesco and others in this rapidly changing market. Instructors in international business, marketing, and strategy may use this case to highlight the challenges of conducting business in emerging markets, especially in China, where competition for market share, from both global and local competitors, is intense.

Keywords: Tesco, China, retail, market competition, market entry, market exit.

1. Introduction

As Mr. Wang strolled through the aisles to complete the inventory reporting required before the retailer ended its nine-year-old leading venture into the huge Chinese market and allowed its 131 stores to be taken over by China Resources Enterprise (CRE), he could not help but wonder whether things could have been different. It was a sad ending to what was once perceived as a match made in heaven. Tesco had a superior brand name, a cutting-edge supply chain, and a history of successes outside its United Kingdom (UK) home base. Further, China, with a population of over one billion, has one of the largest middle classes in the world. As Mr. Wang chatted with his employees, many of whom had been

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working at his store since its opening over seven years ago, he could not help but wonder: How could things go so wrong? How could the firm be so blind to the monumental changes in the Chinese retail sector? Most importantly, what lies ahead for a leading international grocer and general merchandiser such as Tesco in China and in other fast-growing, emerging markets?

2. Tesco PLC

Headquartered in Welwyn Garden City, Hertfordshire, England, Tesco is a multinational retailer that specializes in groceries and general merchandise (Tesco 2016). As of the turn of the millennium, the firm was considered one of the five largest retailers in the world, with stores in 12 countries across Europe and Asia (Potter 2011). With an approximate 28 percent market share, Tesco is the leader in the UK in the general merchandise market (Denton 2016). Jack Cohen, the son of Jewish migrants from Poland, founded the company in 1919 as a collection of market stalls. The Tesco brand did not appear until 1924; the name is a combination of the first letters of T. E. Stockwell Tea and the first two letters of Jack Cohen's surname. Tesco opened its first branded store in 1931. The business took off soon after, and, by 1939, Tesco had over 100 stores across the UK. Even though it started as a grocery retailer, Tesco diversified its business in the early 1990s to include an extensive selection of product lines, including clothing, electronics, books, furniture, toys, petrol, and even software (Exhibit 1). In early 1990, The retailer decided to reposition from a high-volume, low-cost retailer that serves only certain demographic groups to one that attracts and serves a wide array of demographic groups. This successful repositioning helped the chain to reach 2,500 stores by 2005, a 500-percent increase over 15 years (Exhibit 2).