The strategic localization of transnational retailers: the case of Samsung-Tesco in South Korea.

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Introduction

There is growing recognition that the internationalization of retailing is a phenomenon that requires urgent attention from economic geographers (Coe, 2004a; Wrigley, 2000). While internationalization processes in this sector are not new – dating back as far as the end of the 19th century (Alexander, 1997) – the events of the last decade-and-a-half have greatly accentuated the need for geographical research in this area. The period since the early 1990s has seen the emergence of a select group of transnational food and general merchandise retailers that have used aggressive merger and acquisition activities, back up by subsequent rapid organic growth, to assume dominant market positions across Latin America, East Asia and Eastern Europe. Concomitantly, these same retailers have dramatically increased both the scale and scope of their international sourcing operations, establishing regional, and in some cases truly global, sourcing operations for their home and foreign store operations alike. With these two inter-linked dimensions of internationalization – stores and sourcing – retailing represents an important component of the broader processes of economic globalization that have so pre-occupied researchers across the social sciences in recent times.

The transnational retailers in question are introduced in Table 1, which profiles the leading fifteen retailers ranked by the value of their foreign sales in 2003. It reveals that no less than fourteen retailers derived over US$10bn in revenue from their international operations in that year, with many having store operations in over fifteen countries. While it is important to note that many of these companies still depend to a great extent on their home market (only five derived over 50 percent of revenues from international markets), a dynamic view would reveal rapid growth in the relative importance of international sales in many of the firms listed. Interestingly, with the exceptions of Wal-Mart (the largest retailer in the world by far) and the fifteenth-ranked Japanese company Ito-Yokado, the remainder of these leading transnational players are Western European. In comparison to retailers from the USA who can achieve a huge size from the domestic market alone, these retailers have a longer tradition of international expansion in their home region of Western Europe. Now, however, these firms have turned their attention to a range of so-called 'emerging' markets.

While geographers are only now recognizing the importance of the activities of these firms, there is a well-established body of work on retail internationalization in the business studies and management studies tradition (for key examples, see McGoldrick and Davies, 1995; Akehurst and Alexander, 1996; Alexander, 1997; Sternquist, 1998; Dawson *et al.*, 2003). This literature has provided a range of important insights into the motives behind international expansion, and the mechanisms and strategies used by retailers to penetrate foreign markets. That being said, there are a number of important limitations to how far this work can help conceptualize the events of the last fifteen years. First, the literature has been largely firm-centric, with less emphasis on the mutual interactions between transnational retailers and the regulatory, institutional and political contexts in which they are operating. Second, there is a tendency to conceptualize the internationalization process of a firm (or group of firms) in general terms (e.g. as 'aggressive' or 'cautious'), rather than as a complex set of processes that are temporally and spatially variable across different activities *within* firms. Third, somewhat understandably, work has thus far been pre-occupied with market entry strategies, and has looked less at what happens after entry, and the wider impacts of those dynamics. The contention of this paper is that research into retail internationalization would benefit from adopting an explicitly economic-geographical approach that places due emphasis on spatial and temporal complexity, the importance of both home and host political and institutional contexts, and the developmental impacts for host economies. More specifically, the adoption of a global production networks approach is advocated (Henderson *et al.*, 2002; Coe *et al.*, 2004).

This approach provides the conceptual framework for the analysis of a particular instance of retail internationalization in this paper, namely the joint venture between the UK's leading food retailer – Tesco – with Samsung in South Korea. Initiated in 1999 in the aftermath of the Asian economic crisis of 1997-1998, the venture had some 28 discount stores accounting for 2.9 million square feet of selling space by early 2004, and was vying for market share in competition with both local retailers (primarily E-Mart and Magnet) and other transnational retailers (most importantly Carrefour and Wal-Mart) as part of a broader restructuring of Korean retailing towards larger formats. More specifically, the aim of the analysis is to explore how Samsung-Tesco has gone about developing its operations in South Korea since its initial entry. While in some areas the company has been integrated into Tesco's broader corporate structures (which will be termed 'network' embeddedness), in general Tesco's strategy in South Korea is best characterized as one of 'strategic localization', with several aspects of the firm's activities being intentionally localized to meet the needs of the political and institutional frameworks, industrial structures, and cultural norms and expectations of the South Korean market (a series of dynamics here termed 'territorial' embeddedness). This is not the same as saying that Tesco will pursue the same kind of strategic localization approach in all its international territories. Instead, it is important to think in terms of differing degrees of both network and territorial embeddedness for different realms of corporate activity in, and between, different country operations.

The remainder of the paper proceeds in five sections. Next, the global production network (GPN) framework is introduced as an antidote to the deficiencies of the prevailing management/business studies approaches to transnational retailing. Two background/context sections then follow. While the first charts the rapid growth of transnational retailing over the last decade and positions Tesco within that terrain, the second profiles the nature and structure of retailing in the Korean context, and introduces Samsung-Tesco. Then, the nature of Samsung-Tesco's strategic localization in South Korea is profiled, including analysis of the three key elements of Samsung-Tesco's localization – namely the localization of product designs, sourcing, and staffing/strategic decision-making. The concluding section considers the wider implications of our case study for future research on transnational retailing. Our study of Samsung-Tesco is based on a mixture of primary and secondary sources. In-depth interviews were conducted with three managers from Samsung-Tesco in May and June 2002. This material is supported by a quantitative analysis of Samsung-Tesco's suppliers, site visits, and the critical examination of longitudinal data from annual reports, company documents and the business press.

Table 1: Leading transnational retailers, by international sales, 2003*

Rank	Name of company	Country of origin	Key format(s)	International sales (US$m)	International sales as % of total	No. of countries of operation
1	Wal-Mart	US	Superstore, discount, warehouse	53,573	20.9	11
2	Ahold	Netherlands	Supermarket, convenience, hypermarket	53,320	84.2	27
3	Carrefour	France	Hypermarket, discount/convenience, supermarket	39,247	49.3	32
4	Metro	Germany	Cash & Carry, department, DIY, hypermarket, specialty, superstore	28,511	47.1	26
5	Delhaize	Belgium	Supermarkets	18,319	79.9	10
6	Pinault	France	Department, mail order, specialty	16,376	54.7	16
7	Aldi	Germany	Discount	15,174	37.0	12
8	Tengelmann	Germany	Supermarkets	14,110	50.9	14
9	Auchun	France	Hypermarkets	13,779	42.5	15
10	Rewe	Germany	Supermarkets	12,656	28.6	12
11	Lidl & Schwarz	Germany	Supermarkets	11,274	33.8	16
12	IKEA	Sweden	Specialty	11,224	92.0	43
13	Intermarche	France	Supermarkets	10,487	27.8	7
14	Tesco	UK	Superstore, hypermarket, supermarket, convenience	10,015	19.9	12
15	Ito Yokado	Japan	Superstores with food	8,002	26.2	18

Source: www.planetretail.net

[* There are difficulties when comparing annual revenues for retailers due to their different financial years. While Ahold and Carrefour complete their accounts at the end of December, Wal-Mart reports at the end of January, and Tesco at the end of February, for example. The figures quoted above, therefore, may not correspond exactly with the calendar year 2003. Such issues are important given the extremely rapid growth of these retailers over the last few years.]

Conceptualizing global production networks in retailing

As noted earlier, since the mid-1980s, a substantial body of work in the management/business studies tradition has explored certain aspects of the internationalization of retailing. Coe (2004a) has critiqued this literature from an economic-geographical perspective. On one level, this body of work can be characterised as rather inward-looking, and seemingly keener to emphasise the particularities of retail internationalization than to engage in broader conceptual and theoretical debates about the nature of economic globalization more generally. On another level, there are a number of substantive gaps in the coverage of this literature, gaps which could usefully be tackled using the broader economic geography literature on processes of transnational production. Coe identifies six such areas in his analysis, all of which will subsequently be elucidated – albeit to differing degrees – in the case study of Samsung-Tesco in South Korea.

First, rather than focusing solely on international store operations, work on transnational retailing needs to adopt a holistic perspective that considers both store and sourcing operations. This is important as while both are increasing in spatial extent, there are important two-way functional connections between the geographies of stores and sourcing (i.e. stores following international sourcing networks, sourcing following international store operations). Second, while the existing literature has tended to be concerned with the point of entry into a foreign market, more studies are required that profile the internationalization of retailing as a temporally and spatially dynamic process. In temporal terms, work is needed that charts the waxing and waning of transnational retail operations post-entry (Bianchi and Arnold, 2004). In spatial terms, research needs to explore the way in which retailers use different strategies for different activities, and how these in turn vary across different territories. Importantly in the context of this article, a single retailer such as Tesco will not have a single, standardized internationalisation strategy, but will strategically vary the nature of its investments and activities – and most centrally the degree of adaptation of the home country model – depending on the host country in question. Third, it is important that research reveals the organisational and technological infrastructures through which transnational retailers facilitate international expansion. In particular, the systems through which retailers capture and transfer different forms of retail knowledge merit further exploration (Currah and Wrigley, 2004). Fourth, work by geographers on corporate and organisational cultures (e.g. Schoenberger, 1997; Shackleton, 1998) could usefully be brought to bear on the activities of retailers, and to consider the success (or not) of international expansion patterns enacted largely through mergers and acquisitions. Fifth, while many analyses of retail internationalisation have been concerned with developing checklists of generic push and pull factors that may drive the processes, the internationalization process is more profitably conceptualised as a set of situated network connections that are shaped by, and constitutive of, the political and institutional contexts that they connect (see, for example, Marsden and Wrigley, 1996). Finally, there is a whole research agenda to be developed on the multifarious developmental impacts of transnational retailing in host countries. Four broad areas of impact can be delimited: competitiveness impacts on domestic retailers, changes to consumption practices in host countries, impacts on regulatory frameworks, and supply chain restructuring impacts (for more detail on these impacts, see Coe, 2004a; 2004b; Dawson, 2003).

The argument of this paper is that the spatial and temporally complex dynamics alluded to above are best tackled using a flexible, geographically-infused 'network' approach to transnational retailing that at the same time accords a full and active role to political and institutional contexts. The global production networks or GPN approach needs to be understood on the context of a broad range of 'chain' and 'network' approaches to economic globalization that have appeared over the past twenty years or so (for a full explication of the antecedents of the GPN approach, see Henderson *et al.*, 2002; Coe *et al.*, 2003). In particular, the GPN approach draws upon, and seeks to extend, two bodies of work: *global commodity chain* (GCC) analysis (e.g. Gereffi and Korzeniewicz, 1994) and *actor-network theory* (ANT) (e.g. Law, 1999). Further insights are derived from approaches that emphasise the particularities of what are variously called 'national business systems' (Whitley, 1999), 'varieties of capitalism' (Boyer and Hollingsworth, 1997) or 'welfare state regimes' (Esping-Anderson 1990). Ultimately, however, it is necessary to steer a delicate path between over-emphasising the transformative effects of transnational corporations in the economies where they invest, and over-stressing the extent to which national conditions shape their operations in particular countries. Instead, the aim should be to explore the (often gradual) *mutual transformation* of both the firms and the places in which they are embedded (Dicken, 2000).

Accordingly, the GPN framework emphasizes the complex intra-, inter- and extra-firm *networks* involved in the delivery of any product or service, and how these are structured both organizationally, and geographically, at a variety of spatial scales. Through the consideration of extra-firm networks, the approach necessarily brings into view the broad range of non-firm organizations – for example, supranational organizations, government agencies, trade unions, employer associations, NGOs, and consumer groups – that will (or may) shape firm activities in the particular locations absorbed into GPNs. Broadly, then, we define global production networks as the globally organized nexus of interconnected functions and operations of firms and non-firm institutions through which goods and services are produced and distributed. The operationalization of the framework depends on the analysis of three interrelated variables. First, processes of *value creation, enhancement and capture* are scrutinized. Second, the distribution and operation of *power* of different forms within GPNs is considered. Third, the *embeddedness* of GPNs – or how they constitute and are re-constituted by the economic, social and political arrangements of the places they inhabit – is investigated.

In the context of this paper it is important to explore the notion of embeddedness in more detail. Following Hess (2004), we identify three specific yet interrelated forms of embeddedness within the GPN framework. The first is *societal* embeddedness. This form connotes the importance for economic action of the cultural, institutional and historical origins of the economic actor in question. As such, it relates most closely to Polanyi's (1944) original conception of embeddedness, and is the one that is most frequently mobilized for explanatory purposes in the varieties of capitalisms literatures introduced earlier (e.g. Whitley, 1999). For example, when a company invests overseas it takes with it some of the social and cultural attributes that it has acquired in the process of its evolution within the context of its home base. These can include attitudes towards labor-management relations, working conditions and welfare benefits, how supplier networks should be organized, and the appropriate role for host country governments in the business environment. The second, *network* embeddedness, refers to the network structure, the degree of functional and social connectivity within a GPN, the stability of its agents' relations and the importance of the network for its participants. In addition to inter-firm relations, network embeddedness also takes account of the broader institutional networks including non-business agents (e.g. government and non-government organizations such as trade unions) that are often involved. It highlights the connections between heterogeneous actors that constitute a GPN (i.e. organizations and individuals), regardless of their location, and is therefore not restricted to one geographic scale. The third form, *territorial* embeddedness, deals with the various GPN firms' 'anchoring' in different places at spatial scales from the nation state to the local level. GPNs do not merely locate in particular places. They may become embedded there in the sense that they absorb, and in some cases become constrained by, the economic activities and social dynamics that already exist in those places. This 'anchoring' will reflect a firm's dependence on the particular resources, labor markets, state policies and so on found in particular places. A key element of territorial embeddedness is the extent and nature of the relationships formed between transnational corporations and local firms.

We can now move on to consider how the GPN approach might profitably be applied to transnational retailing. Any such discussion must start with recognition of the considerable ongoing power shifts between retailers and suppliers in the home markets of Western Europe and the USA. Perhaps the best documented changes have been in the UK grocery market where research has clearly revealed how in the 1980s and early 1990s, concentration and growth in the major food retailers overtook that of manufacturers (e.g. Wrigley, 1993; Doel, 1996; Hughes, 1999). Through both organic growth, and mergers and acquisitions, and facilitated by a permissive regulatory environment, a handful of national supermarket chains – most importantly Tesco, Sainsburys, Safeway and Asda – grew to dominate food retailing in the UK, a trend that has continued to the present day. The increased scale and capitalization of these retailers has created an oligopsonistic environment in which the balance of corporate power has tilted decisively away from suppliers, manufacturers and supply network intermediaries (e.g. wholesalers) in favour of retailers. Whilst a large retailer may account for 10-20 percent of total sales for a manufacturer, that same manufacturer might only account for 1-2 percent of the retailer's sales.

In the context of their supply networks, retailers are able to bring together five different but interrelated types of controls (Munson *et al.*, 1999; Wrigley and Lowe, 2002). First, as huge buyers with extensive access to final consumers, retailers are able to exert *pricing control* on suppliers. In many cases, this extends well beyond bulk discounts, covering a range of non-contracted payments for the 'privilege' of having a product on the shelves of a retailer (Blythman, 2004). Second, increased capitalization has allowed retailers to take control of their own distribution and logistics systems. Retailers can use *inventory controls* to pass the risk and responsibility for unsold stock to suppliers through just-in-time and inventory management systems. Third, *operations control* is revealed in the way that retailers increasingly dictate the specifications of the products they require, and when and how they are produced. For example, retailers have been able to introduce and then rapidly expand the sourcing of own label goods over which they have an extremely high degree of supply network control. Fourth, retailers possess *channel structure control* through which they can deliberately intervene to alter the ownership, length, breadth and geography of supply networks through their purchasing strategies. Fifth, asymmetric *information control* about the supply network as a whole is another source of retailer power vis-à-vis suppliers. Taken together, these retailer-supplier power relations strongly influence the value dynamics in the networks as a whole. While retailers are increasingly looking to suppliers to undertake processes of value creation and enhancement (e.g. packaging and labeling), through the power and control mechanisms described here, retailers are able to dominate in terms of value *capture*.

This general model of power and value dynamics in retail GPNs needs to be complicated in two key respects, however. On the one hand, the nature of the supplier-retailer relationship will play out differently depending on the relative concentration of both the retailing and manufacturing sectors concerned (Ogbonna and Wilkinson, 1998). For example, large competitive manufacturers offering a range of products to a number of retailers with some strong brands may be in a relatively strong position to bargain with large retail chains. Equally, small firms that are producers of unique or high value-added products, or that are dominant in particular geographically localized markets, may also have relatively strong negotiating positions (Foord *et al.*, 1996). In contexts characterized by vertically integrated business groups involved both in manufacturing and retailing (such as South Korea), manufacturers remain in a relatively strong position. There is, then, clearly a need to qualify simple notions of buyer-driven supply networks as there are a great variety of different forms of manufacturer-retailer relationship. On the other hand, when considering the foreign activities of retail transnationals, power and value relations need to be intersected with the variable embeddedness of the operations in host economies. Clearly, the foreign activities of transnational retailers will be shaped to some degree by their *societal* embeddedness in the home market, reflecting nationally-specific buyer-supplier cultures and regulatory influences. Additionally, retailers will develop their own organizational cultures that reflect not just their home country origins, but also the particular management and internationalization strategies of firm in question (see Hughes, 1996; Shackleton, 1996; 1998). Importantly, however, power and value relations will also be heavily inflected by the balance of *network* and *territorial* embeddedness that the transnational retailer uses in host economies.

In general, transnational retailing is highly territorially embedded in comparison to almost every other sector of the global economy. This is due to several important characteristics of the core activity (Wrigley *et al.*, 2005). First, as they require an extended network of stores, retailers are intricately connected to the property markets and planning systems of host countries. Second, as consumption is clearly a socio-cultural process as much as it is an economic interaction, retailers need to be responsive to local cultural tastes, norms and preferences. Third, even where an element of regional or global sourcing exists, food retailers in particular still source the vast majority of their products from within the national territory that they are serving. The retailer is therefore intimately intertwined with the local supply base and logistics infrastructure. As a result, all transnational retailers adapt or 'strategically localize' their operations to some degree in host economies. This is particularly the case where international expansion has taken place through merger and acquisition, or joint venture, activities, in which different organizational cultures are necessarily brought together.

Bianchi and Arnold (2004), drawing on institutional theories, describe how localization is critical to achieve 'organizational legitimacy' in host markets in both the socio-cultural (consumption trends, family structures, understandings of corporate responsibility) and economic domains (relations with suppliers, competitors, and consumers). The extent of this localization will vary between firms. Some will endeavor to draw heavily on their network embeddedness in transnational intra-firm relations to offer a standardized operation across different markets – characterized by Wrigley (2002) as the 'aggressively industrial' model. Others will adopt a more decentralized 'intelligently federal' approach that is more heavily territorially embedded. A key argument of this paper is that the balance of territorial and network embeddedness will also vary within a firm, and between the different activities of the firm. We shall argue that in the South Korean context Tesco has followed a relatively more territorially embedded model than in its other foreign markets (e.g. Thailand, Eastern Europe). While Tesco Samsung draws on its network embeddedness in Tesco's global operations (e.g. for certain IT and logistical systems), most aspects of its activities are strategically localized to meet the specific characteristics and needs of the South Korean market and its business, political and consumer cultures.

The emergence of transnational retailers and the internationalization of Tesco

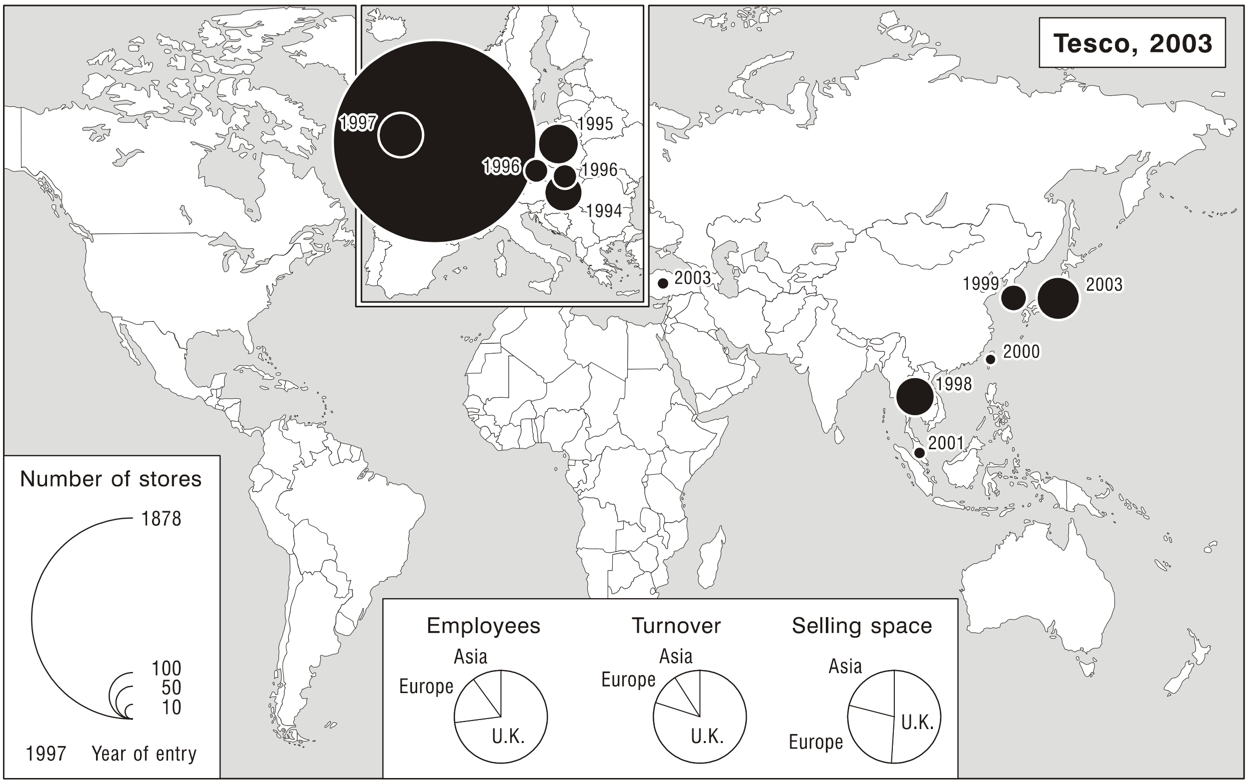
As noted earlier, retail internationalization is not a new phenomenon, and its nature and intensity has varied since its initiation in the late 1800s. Alexander (1997) shows that, as in many sectors, retail internationalization has accelerated significantly since the 1960s, and until the 1990s was largely dominated by investments within and between the leading economies of North America, Western Europe and Japan. For the period from 1989-2000, Alexander identifies a period characterised chiefly by 'regionalized' expansion by American and European retailers, shaped in part by the European Single Market and NAFTA, but also the initial opening up of new markets in Eastern Europe and East Asia. However, it has becomes apparent that Alexander's final period of 'regionalization' has been superseded and overtaken by rapid global expansion from the mid-to-late 1990s onwards. The initial investment tendencies towards Eastern Europe, East Asia and Latin America identified by Alexander in the early-to-mid 1990s have become *the* key geographical dynamic in this new phase.

Within the business/management studies literature on retail internationalization, several different approaches to explaining the phenomenon have been adopted. Several studies have sought to exhaustively detail the broad range of 'push' and 'pull' factors, both company-specific and 'environmental', that may be involved in the decision of retailers to internationalize (see Wrigley and Lowe, 2002, for a critical review). Such lists can only really provide a general background to events, however. Another strand of work has used so-called 'stages' theories to explain gradual processes of overseas expansion into culturally and/or geographically proximate countries in terms of the accumulation of experience and expertise of internationalization (e.g. Vida and Fairhurst, 1998). This approach struggles, however, to account for the rapid recent expansion into non-proximate countries by leading transnational retailers. Other scholars have mobilised Dunning's (1993) well-known eclectic paradigm with its emphasis on ownership, location and internalization advantages (e.g. Sternquist, 1998). Again, such accounts tend towards description rather than contextualised explanation. Overall, none of these approaches can satisfactorily explain the rapid rise of small group of truly transnational food retailers since the mid-1990s.

A more convincing political-economic account has emerged from the work of Wrigley (2000). In his analysis, rapid international expansion since the late 1990s has not simply been a defensive reaction to over-dependence on the home market, but has also been fuelled by a need to sustain earnings growth (and therefore equity valuations) by using free cash flow to secure revenue growth. Pressure from home country financial institutions to secure profits and dividends is thus a significant factor. The emerging markets offer several important opportunities in this respect: potentially rapid economic development and rising levels of affluence, consumer spending and retail sales, in combination with low levels of penetration of Western forms of large store retailing and associated distribution systems. Prior to investment, the majority of retail sales in these markets were usually in the hands of small independent retailers or informal retail channels. After entering through either merger and acquisition or joint venture activity, leading transnational retailers have been able to use their scale, lower costs of capital, and advanced distribution and logistics systems to obtain rapid revenue growth and high capital returns. Rapid organic growth – sometimes combined with subsequent acquisition activity – has proved possible as the costs of site acquisition and store construction are relatively low, and existing retailers are often inefficient in comparison. This kind of account is much more revealing as to why transnational retailers have chosen to invest in particular groups of Eastern European, East Asian and Latin American economies. Within the broad regional trends, however, the particular form and method of international expansion will be highly shaped by particular national factors, as we shall see in the case of South Korea.

Leading these trends are a small group of what Currah and Wrigley (2004) term 'proto-global' retail transnational corporations, most notably Wal-Mart, Ahold, Carrefour and Tesco. This label reflects not only their position in the ranking shown in Table 1, but also their rate of international growth and level of strategic commitment to internationalization. Thus while Tesco ranks only 14th in Table 1, in dynamic terms it is one of the very fastest growing retail transnational corporations in the world. The extent of Tesco's internationalization by the end of 2003 is shown in Figure 1. In the ten year period 1994-2003, Tesco entered eleven foreign markets, comprising Ireland, five countries in Eastern Europe – including most recently Turkey, in 2003, through the acquisition of the Turkish hypermarket chain Kipa, and five in East Asia – including Japan, also in 2003, via the £140 million acquisition of the C Two-Network, a Tokyo convenience store chain. More recently, Tesco has augmented its Japanese operations with the purchase of the ailing Fre'c convenience store chain (The Guardian, 28 April 2004) and has announced its entry into China through a £140m, 50 percent joint venture investment in Hymall, a Ting Hsin subsidiary that runs 25 hypermarkets, mainly concentrated in the relatively affluent cities of China's east coast (The Guardian, 15 July 2004).

Figure 1: The global distribution of Tesco stores, 2003.



Source: company reports.

Overall, in terms of store numbers, employees and turnover, Tesco's profile is still dominated by its vast UK operations. Static snapshots as shown in Figure 1 do not do full justice to the speed with which Tesco's foreign operations are growing, however. Tables 2 and 3 illustrate the rapid growth of Tesco's non-UK activities in both absolute and relative terms. Table 2 shows how the turnover from Tesco's foreign stores increased from £446m in 1995 to £6054m in 2004. Growth in Asian sales was particularly significant, increasing from zero in 1998 to £2669m by 2004. In terms of operating profits, the international contribution grew from £17m in 1995 to £306m by 2004. Again, the Asian element was notable, with profits being returned just two to three years after entry, and reaching £122m by 2004. International expansion has seemingly accelerated since 2000. As Table 3 illustrates, the period 2000-2004 saw Tesco's international operations expand from 10 to 20 percent of group turnover, from 5 to 17 percent of operating profit, and from 30 to 49 percent of total sales area. These are remarkable growth rates for any transnational corporation, and all the indications are that these dynamics are set to continue in the immediate future. Table 4 charts Tesco's growth in East Asia post-1999 in more detail. As of early 2004, the company had almost 180 stores in the region and almost 10 million square feet of selling space. Thailand and South Korea were by far the most important national markets, with Thailand leading the way in terms of both stores number and floor space. South Korea is a considerable operation, however, accounting for almost one third of Tesco's selling space in East Asia.

Table 2: Tesco's international expansion, 1995-2004.

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Turnover (excl. VAT)										
UK	9,655	11,560	13,118	14,971	15,835	16,808	18,203	19,821	21,309	24,760
Rest of Europe	446	534	769	1,481	1,167	1,355	1,737	2,181	2,664	3,385
Asia	0	0	0	0	156	464	860	1,398	2,031	2,669
Total	10,101	12,094	13,887	16,452	17,158	18,627	20,800	23,400	26,004	30,814
Operating Profit										
UK	600	713	760	875	919	993	1,100	1,213	1,297	1,526
Rest of Europe	17	11	14	37	48	51	70	90	141	184
Asia	0	0	0	0	-2	-1	4	29	71	122
Total	617	724	774	912	965	1,043	1,174	1,332	1,509	1,832

Source: Annual Reports.
Note: Tesco's financial year finishes at the end of February.

Table 3: The increased importance of Tesco's international operations, 2000-2004.

Percentage contributions	2000	2001	2002	2003	2004
Turnover (excl. VAT)					
UK	90	88	85	82	80
Rest of Europe	7	8	9	10	11
Asia	3	4	6	8	9
Operating Profit					
UK	95	94	91	86	83
Rest of Europe	5	6	7	9	10
Asia	0	0	2	5	7
Total sales area					
UK	70	63	58	54	51
Rest of Europe	20	24	25	27	28
Asia	10	13	17	19	21

Source: Annual Reports
Note: Tesco's financial year finishes at the end of February.

Table 4: Tesco's expansion in East Asia, 1999-2004.

	1999	2000	2001	2002	2003	2004
Number of stores						
Thailand	14	17	24	35	52	64
South Korea	0	2	7	14	21	28
Taiwan	0	0	1	3	3	4
Malaysia	0	0	0	0	3	5
Japan	0	0	0	0	0	78
Total	**14**	**19**	**32**	**52**	**79**	**179**
Sales area (m sq. ft.)						
Thailand	1.8	2.1	2.8	3.8	4.8	5.4
South Korea	0	0.2	0.7	1.4	2.1	2.9
Taiwan	0	0	0.1	0.3	0.3	0.4
Malaysia	0	0	0	0	0.3	0.5
Japan	0	0	0	0	0	0.3
Total	**1.8**	**2.3**	**3.6**	**5.5**	**7.5**	**9.5**

Source: Annual Reports
Note: Tesco's financial year finishes at the end of February.

The changing South Korean retail environment and the emergence of Samsung-Tesco
Since the mid 1990s, the high demand for modern shopping environments in South Korea has been growing due to the rapid economic growth and rising levels of affluence. Prior to 1996, the South Korean retail market was essentially closed to foreign retailers due to very strong protectionist policies. There were no foreign retail shops at all in South Korea until 1995, and the distribution industry had remained relatively undeveloped. The share of small, traditional shops – so called 'mom-and-pop' stores – which had fewer than four employees, still commanded about 80 percent of Korea's retail market until the mid-1990s (Korea Times 12/10/2004). The South Korean government changed its policy from a protectionist orientation toward liberalization because of the increasing internal and external pressure for deregulation from the 1980s onwards. In this deregulation process, a significant number of previously restricted service sectors were opened by early 1995, and the South Korean distribution market was deregulated on 1st January 1996 by the abolishment of regulations on floor space and number of shops (Choi, S.C. 2003). Despite the deregulation in the South Korean retail sector in 1996, however, the South Korean retail market was still an extremely difficult environment for foreign retailers to conduct business.

One of the biggest barriers to foreign retailers' entry into the South Korean market was the extremely high price of real estate assets and the rental system, which required retailers to pay upfront approximately 70 percent of a property's value as rent – typically for a one year lease (Korea Herald 27/12/2001). However, the Asian financial crisis offered opportunities for foreign retailers to acquire retail and real estate assets at relatively cheap prices due to the devaluation of the South Korean currency. The crisis also made the South Korean customers – especially the middle classes who had become used to 'conspicuous' consumption in department stores in the 1990s – have a greater price consciousness toward low-priced items, and this shift accelerated the expansion of discount stores, which provide low cost, high service, and a comprehensive range of goods. These discount stores, which are called *Harin* in Korean, include discount stores, super-centers, hypermarkets, wholesale clubs and outlet malls and are run by both foreign retailers and Korean local retailers (Choi, S.C. 2003). According to the Distribution Industry Development Law, these *Harin* stores generally have a floor space of over 3,000m^2 (909 pyung) (Yun and Koh, 2003).

During the crisis, the South Korean government also actively contributed to the expansion of foreign retailers into the Korean market. The government opened the South Korean market to foreign companies by attracting FDI as alternative engines of growth.[1] As a result of this government policy to attract FDI, the volume of inward FDI began to increase rapidly and outnumber the volume of outward FDI from 1998. To attract more FDI, the government opened up the mergers and acquisition (M&A) market to foreign firms by abolishing previous regulations on foreigner shareholdings in domestic companies.[2] Furthermore, the South Korean government put pressure on the *chaebols* to reduce the number of their businesses, which were considered to be excessively diversified.[3] Consequently, some *chaebols* sold their distribution sector activities to foreign retailers or sought mergers with them, and thus, the leading retail transnational expanded their operations in South Korea from 1997 onwards.

Due to the South Korean government's deregulation policy and the financial crisis, foreign retailers had opportunities to acquire retail and real estate assets cheaply. Carrefour obtained authorization of investment (60 million dollars) from the South Korean government in 1993 and opened its first store in South Korea in 1996. In 1998, Wal-Mart, the world's largest retailer, acquired four stores of Korean Makro, which had entered into the South Korean retail market in 1996 and had suffered from business depression. Tesco also entered the South Korean retail market through the merger with Samsung Corporation's distribution unit and opened its Homeplus chain in 1999. While transnational retailers rushed to South Korea in the mid 1990s, local retailers – owned by the *chaebols* – opened discount stores and competed with transnational retailers for market share. *Shinshegae* opened its discount store, E-Mart, in 1993, and another local retailer, *Lotte Shopping* launched its store, Lotte Magnet (Lotte Mart since 2002) in 1998 (Kim, W.K. 2002).

The entry of the leading transnational retailers into South Korea and the emergence of large local retailers have triggered drastic changes in the South Korean retail market. Small scale distribution companies have increasingly been absorbed into large retailers, and conventional retail markets have declined since the mid-1990s (Table 5 and Table 6). According to the *Korean Herald*, the discount store market is dominated by five discount stores – E-mart, Lotte Mart, Homeplus, Carrefour, and Wal-Mart – whose combined market share accounts is about 72 percent of the national total (Korea Herald, 01/07/2003). These 'big five' are engaging in fierce competition, opening many new stores in order to take advantage of the high rates of growth in this segment of the retail market (Table 7). Foreign distributors in particular have quickened their pace of expansion as they seek to take a substantial share of South Korean distribution market.

Table 5: Percentage of retail sales by store type, South Korea, 1998-2002

Unit: Trillion Won

	1998	1999	2000	2001	2002
Department stores	11.3 (11.4)	13.3 (12.0)	15.0 (12.3)	16.4 (12.5)	17.9 (12.7)
Discount stores	4.9 (5.0)	7.5 (6.8)	10.6 (8.6)	13.9 (10.6)	17.4 (12.3)
Supermarkets	4.4 (4.5)	4.3 (3.9)	4.4 (3.6)	4.5 (3.4)	4.7 (3.3)
Convenience stores	0.9 (1.0)	1.0 (0.9)	1.2 (1.0)	1.8 (1.4)	2.7 (1.9)
Home shopping	1.2 (1.2)	2.0 (1.9)	3.4 (2.8)	5.5 (4.2)	10.4 (7.3)
Conventional markets	77.2 (77.0)	82.6 (74.5)	88.0 (71.6)	89.3 (68.0)	88.8 (62.6)

Source: Hanna Economics Institute, 2003

( ) = percentage

Table 7: Number of Top 6 Discount Stores, South Korea, 1993-2004

	E-Mart	Lotte Mart	Carrefour	Homeplus	Wal-Mart	New Core Kims Club
1993	1					
1994	2					
1995	4					7
1996	6		3		2	8
1997	9		3	1	4	12
1998	13	3	6	1	4	14
1999	19	8	11	2	5	15
2000	27	17	20	7	6	16
2001	41	24	22	14	9	13
2002	49	32	25	21	15	11
2003*	59	33	27	28	15	11
1st Half 2004*	62	34	27	30	15	

Source: Discount Merchandiser, December 2003, P. 31

* 2003 and 2004 data from Discount Merchandiser, July 2004, p. 42

Table 6: Number of discount stores by company, South Korea, 1993-2001.

Company	Name of Store	1993	1994	1995	1996	1997	1998	1999	2000	2001	Sum
Shinsegae	E-Mart	1	1	2	2	3	4	6	8	14	41
Lotte Shopping	Lotte Mart						3	5	9	8 (-1)	24
Carrefour	Carrefour				3		3	5	9	2	22
Samsung-Tesco	Homeplus					1		1	5	7	14
New Core	Kim's Club			6	1	5	2	2		(-4)	12
Wal-Mart	Wal-Mart				2	2		1	1	3	9
Aram Mart	Aram Mart				1	1	1	2	2	1 (-2)	6
Nongshimga	Mega Mart			1			1	2	1		5
Suhwon Distribution	Top Mart					1	1		2	1	5
LG Supercenter	LG Mart				1	1	1	1	1		5
Costco Korea	Costco		1			1	1		1	1	5
2001 Outlet	2001 Outlet			2		3					5
Grand Departmentstore	Grand Mart			2			1	1	1	(-1)	4
Daehan Tongwoon	Daehan Tonwoon Mart				1	1			1		3
Big Mart	Big Mart			1		1		1			3
Nonghyup	Hanaro Club			1		1	2		1	2	7
Dongbang Life Industry	Dongbang Mart					1		1			2
Hanhwa	Hanhaw Mart					1	1	1		(-1)	2
Haetae	Haetae Mart				2		1			(-1)	2
Hwasung Industry	Delta Mart				1				1		2
Yaidi	Guppyong Mart					1			1		2
Nasan Cleff	Cleff					1					1
Sigaejolsilup	Cleff				1						1
Kapyel Development	Hall Mart					1					1
Bisuhbol	Good Mart					1					1
Nondurung	365 Mart								1		1
Midopa	Midopa Mart							1			1
Songwon	Songwon Mart					1					1
Shinsung Tongsang	Rich Mart					1					1
Saehwa Mart	Saehwa Mart						1				1
Working People	Save Zone						1			1	2
Dongsung Distribution	Dongsung Top's Outlet		1								1
Salaf	Salaf							1		(-1)	0
Lasung	Lasung Mart							1		(-1)	0
Sum											192

Source: Korea Chain Store Association (2002), Internal Data; cited from Yun and Koh (2003), p.89.

Samsung-Tesco was established in May 1999 through the merger between Tesco and Samsung Corporation's distribution unit. Tesco agreed to invest initially US$220 million and to take over the managerial rights to Samsung Corporation's distribution unit. Tesco secured a 51 percent stake in the firm initially and further increased the proportion up to 81 percent with a subsequent investment of US$170 million (Korea Times, 24/03/1999). Tesco also agreed to employ all Samsung Corporation's employees after the takeover. The Chief Executive Officers of Samsung-Tesco came from Samsung Corporation's distribution unit. The chief operation of Tesco and Samsung's joint firm was the running of 'super centers', a type of discount store with a particular emphasis on food sales.

From Tesco's point of view, with a brand and company name that was largely unknown in South Korea, it needed to have a partner who was able to create synergy for its Asian regional network after successful entry into the Thai retail market. From Samsung Corporation's viewpoint, Tesco's investment provided desperately sought after funds to counter ongoing liquidity problems. These problems derived from the fact that Samsung Corporation[4] opened its first three retail stores (Homeplus Taegu, Samsung Plaza Bundang, and Samsung Plaza Seoul) in 1997 just as the financial crisis was breaking out leading to high costs of financing. As the South Korean government also put pressure on the Samsung Group to reduce the number of their businesses, the Samsung group decided to sell off Samsung Corporation's distribution unit as a non-core sector.[5] Through the merger and the initial investment of US$220 million from Tesco, Samsung's distribution unit benefited because it was able to clear all debts and rehire all of 1,137 workers who were laid off during 1998. For Tesco, taking over Samsung Corporation's distribution unit provided an invaluable local partner in a market where other transnational retailers such as Wal-Mart and Carrefour were struggling in the face of the South Korean customers' strong nationalistic outlook, and intense competition from leading South Korean rivals, E-Mart and Lotte-Mart (Table 8).

Table 8: Top 5 Discount Stores' Sales and Market Share, South Korea, 2000-2003.

	2000 (%)	2001 (%)	2002 (%)	2003* (%)
E-Mart	2,359 (22.2)	3,430 (24.5)	5,600 (31.9)	6,350 (32)
Homeplus	536 (5.3)	1,256 (9.0)	2,400 (13.7)	3,300 (17)
Lotte Mart	1,012 (9.5)	1,274 (9.1)	2,300 (13.1)	2,400 (12)
Carrefour	1,039 (9.8)	1,149 (8.2)	2,000 (11.4)	1,700 (8)
Wal-Mart	403 (3.8)	569 (4.1)	1,000 (5.7)	850 (4)
Top 5 Total	5,376 (50.5)	7,678 (54.9)	13,330 (75.8)	14,600 (74)
Total	10, 637 (100)	13,989 (100)	17,582 (100)	19,700 (100)

Source: The Yearbook of Distribution Industry, 2003, p. 55
* 2003 data from Discount Merchandiser, January 2004, p. 73.

Samsung-Tesco's strategic localization

Samsung-Tesco has successfully secured rapid revenue growth and become the second largest discount store chain within five years in South Korea (Table 8). Due to its outstanding business performance, the company has been awarded various prizes including the Best Corporate Culture Award, Best Customer Satisfaction Award, Best Foreign Investment Award and the Korea Retailer Award (Korea Times, 08/01/2001). To emphasize the importance of the 'local', Samsung-Tesco made Homeplus the new name of its retail stores, instead of 'Samsung-Tesco.'[6] The company operates Homeplus as a 'value store', combining the attributes of both discount outlets and department stores to offer a unique combination of both price and quality. Homeplus has an ambitious plan to take a substantial share of the domestic market by setting up 55 stores with investment totaling 4 trillion won by 2005 (Korea Times, 08/01/2001). As of November 2004, Samsung-Tesco had 31 value stores in South Korea (Homeplus Homepage, November 2004). This fast growth in the South Korean market is arguably mainly due to Samsung-Tesco's strategic localization, which enables the company to be highly responsive to local consumers' tastes, and makes it more competitive than other western rivals such as Carrefour and Wal-Mart.[7] In the beginning, Carrefour and Wal-Mart adopted the 'aggressively industrial' model by drawing heavily on their own intra-firm network – or network embeddedness – to offer a standardized operation across different markets. However, this strategy of 'mass supply at low prices' was not sufficient to attract Korean customers. Hence, they suffered from slow growth and were overtaken by Samsung-Tesco, a latecomer in the Korean market. These firms have, however, been taking steps to boost their degree of localization since late 2003 (Korea Times 02/12/2003; Yonhapnews 09/09/2004).

Unlike Wal-Mart and Carrefour, Samsung-Tesco has followed a relatively more territorially embedded model and been more effective at localizing its service from the outset. Tesco's joint venture with its local partner, Samsung, has been central to the delivery of this strategy. As Lee Seung-Han – a Samsung executive appointed as CEO of Samsung-Tesco – describes: 'Korean customers want the human touch and the customer-friendliness. We have combined the best of Tesco and the western way and the best of Samsung and the eastern way. Tesco has brought us professionalism and logistical strength but we have kept our Korean qualities' (Financial Times 11/1/2002: 28). Wrigley and Currah (2004) list the following core competencies transferred by Tesco to the South Korean subsidiary: customer focus skills; site research and property acquisition skills; planning and financial discipline skills; supply chain management skills (including distribution and logistics); category management expertise; private label development expertise; store layout skills; fresh food retail skills; labour scheduling skills; and core company values. As the following comments from a manager at Samsung-Tesco, suggest however, these competences combine with local attributes to produce an approach appropriate for local circumstances:

> "The strength of the company is a nice balance between global standards from Tesco and localization from Samsung. Tesco's retail business experience and know-how are very useful in establishing global standards, and Samsung has the advantages of manpower and localization. These two elements are different, so the combination of these two different elements may sometimes cause conflict, but we try to minimize conflict by highlighting "glocalization". Within this environment, Samsung-Tesco makes strategic decisions, and Tesco then confirms them. This is because local practices are more important than global standards in the retail business. The reason for this is that both customers and workers in the retail business are local people.

Tesco is also very supportive of Samsung-Tesco's localization strategy" (Interview with a manager in the Strategic Planning Department at Samsung-Tesco, May 29, 2002).

The nature of Samsung-Tesco's strategic localization reflects the power relations between the multiple actors such as local customers, local retailers, local manufacturers and suppliers, and foreign retailers, involved in the development of the retail sector. In particular, South Korean customers and local retailers played crucial roles in boosting localization in the South Korean retail market. South Korean customers' strong nationalistic outlook and sentiments against foreign capital provide a strong incentive for foreign retailers to seek localization. In particular, foreign retailers such as Wal-Mart and Carrefour are perceived to be poor at responding to local consumers' tastes. Negative attitudes toward foreign discount chain stores are especially prevalent outside the city where many customers believe that foreign firms are not only driving out small-sized local stores, but are also transferring the wealth derived from the local economy to their overseas headquarters (Korea Times 02/12/2003). The image of foreign retailers was also affected when Carrefour was found to be smuggling out currency by the South Korean police (Choi, J.Y. 2003). Reflecting this public sentiment, local governments have become more conservative when approving the entry of foreign discount chains into their region (Korea Times 02/12/2003).

The shopping habits of South Korean customers have also spurred foreign retailers into engaging in practices of localization. South Korean customers tend to shop more frequently and buy less each trip than in other countries due to the desire for fresh food such as meats and vegetables of a very high standard. To meet these freshness standards, it is crucial for foreign retailers to supply food products directly from local manufacturers and suppliers. Hence, closer contact with local manufacturers and suppliers is inevitable for successful discount chain businesses (Korea Times, 08/01/2001). In this context, local manufacturers and suppliers tend to be in a relatively strong position to bargain with large foreign retail chains, and foreign retail chains tend to engage more in localization by using local supply networks in host country.

The presence of South Korean local retailers such as E-Mart and Lotte Mart have also influenced Samsung-Tesco's decisions on localization, and prompted Carrefour's shift away from its hard-line global approach to a more localized strategy. A pleasant shopping environment and friendly service are crucial to satisfy the tastes of South Korean customers, who have long been accustomed to department stores. E-Mart,[8] a local firm with 51 stores controlling 31.8 percent of the market, chooses to display products in an "easy-to-spot manner" rather than piling them on shelves because Koreans feel more comfortable when buying goods displayed within their range of view rather than picking things out of massive stockpiles (Korea Herald, 10/06/2003). Following E-Mart, Lotte Mart and Samsung-Tesco also display a variety of fresh fruits and vegetables around the entrance to their stores and allow customers to touch fresh food products as South Koreans prefer to do before choosing and buying. To meet the needs of Korean customers, they have continued to invest in upgrading their store layouts, benchmarking against the spacious, light and clean styles of the department stores (Korea Times, 02/12/2003). As a result, their stores offer a 'one-stop-shop' encompassing various facilities like beauty salons, educational institutes, restaurants, coffee shops, play areas and art galleries.

In contrast, Wal-Mart and Carrefour have done less to adapt to customer needs. They have accorded top priority to lowering prices and have retained their warehouse-style store layouts. Wal-Mart has not run a fresh food section. Initially, Carrefour offered only a limited variety of fish, prepackaged meat and packaged *kimchi* (Korean-style cabbage pickles) products. However, their 'aggressively industrial' model designed to offer standardized products with cheap prices has not been not sufficient to lure Korean customers.[9] More recently, and partly in response to the continued market dominance of the local E-Mart chain, foreign retailers have adopted strategies more carefully designed to suit Korean tastes (Korea Herald, 10/06/2003).[10] For example, Carrefour stepped up remodeling its outdated stores, unveiling its mid-term investment plan for the next five years in 2003. The president of Carrefour Korea, Philippe Broianigo, also announced that the company would invest an average 250 billion won annually from 2004 until 2007 to boost localization and achieve stable growth (Korea Times, 02/12/2003). The President of Wal-Mart Korea also added that 'the company will continue to increase sales, branch networks as well as boost customer service' (Korea Times, 02/12/2003). For this, Wal-Mart bought a 57,000 pyong (1 pyong equals 3.3 square meters) piece of land for a logistics center in Yoju, South Korea in 2003 (Korea Times, 02/12/2003). We now move on to look in more detail at three key elements of the localization strategies pursed by Samsung-Tesco since its 1999 market entry.

Localization of product designs

The localization model involves production of distinct products for each market, while the globalization model is represented by the "world product" concept, in which the same product is produced for sale in all world markets (Mair, 1997). Samsung-Tesco has clearly sought to pursue the localization of distinct products for the South Korean market. The following news article clearly shows this localization of product designs:

> 'Tesco's new store in Youngdeungpo, south-west Seoul, bares little resemblance to any of the UK company's domestic supermarkets. Shoppers at a Tesco in the UK would not, to choose just

a few examples, be able to buy a pet iguana, pick an octopus from a tank of live seafood, visit the dentist or take ballet lessons. Visitors to Tesco's first store in Seoul, opened last month, can do all of the above and more. The seven-storey hypermarket makes its UK counterparts look as drab and limited as corner shops in comparison' (The Financial Times, 11/1/2002).

To fit with customer tastes, Samsung-Tesco sells not only a variety of fresh food but also clothes, home appliances, household goods, toys, books, and even golf items. Since the success of localization depends on understanding local markets and customers, the company has chosen certain strategic items[11] for the South Korean market. According to a team leader in the commercial management department, Samsung-Tesco has unexpectedly chosen garments, sports/leisure items, and hard line items such as home improvement, houseware, and home decoration goods as strategic items in order to reflect South Korean market trends. The following comments of the team leader elaborate the reasons for the choices of strategic items:

"… Since discount stores with a low price image sell low priced goods, these garments, sports/leisure and hard line items are not main consideration in discount stores. However, we need to improve on quality and grade, and broaden our range of product items. Outdoor items for the home, leisure, and sports have gradually increased since Korea's income level has risen and the Engel index has dropped. Recently, as people recognize the importance of quality of life, their consumption level has adjusted to the level of quality of life, so the prospects for outdoor items are promising. Since the garment business has high margin rates, we can achieve profit improvement in this section. In hypermarkets, garments are not a key category, so people understand that only sportswear items (among garment items) are sold in hypermarkets. We can expect increased market expansion and higher margins and profits for garment items. Accordingly, we make every effort to secure more space for garment items, broaden their range through new development, and improve their quality. Thus, we strategically promote the growth of the garment business" (Interview with a team leader in the commercial management department at Samsung-Tesco, June 2002).

In addition, Samsung-Tesco has actively adopted the localization of distinct products for the Korean market through the development of private brands (PB). Although PB accounted for only 1 percent of total sales in 2001, Samsung-Tesco intends to focus more on the development of private brands (PB), expanding exports of those products and working to improve distribution systems. According to the team leader, PB will be estimated at 6 per cent this year (in 2002) [12]. In a 2001 interview with the Korea Herald, Lee Seung-Han described how Samsung-Tesco aimed to increase its PB from about 500 to 13,000 products by 2005. If that goal were to be met, 23 percent of sales would come from the Samsung-Tesco brand products (Korea Herald 06/07/2001). Most PB items are currently expendable supplies bought in large volumes such as edible oil, toilet paper, detergent, and frying pans. However, Samsung-Tesco has actively attempted to extend the range of PB. 'Spring Cooler', a new brand of Samsung-Tesco's garment items is reflective of these effort to extend the range of PB.

Localization of sourcing

Through supply chain management, Samsung-Tesco aims to provide high-quality products covering foods and non-foods to Korean customers. As of 2002, Samsung-Tesco was transacting with more than 1,000 suppliers and vendors. Through Tesco's global networks, certain standardized products such as blue jeans, toothpaste, toothbrushes, and cola are sourced globally, but the majority of products are supplied through direct procurement channels with local producers and local manufacturers in South Korea. Samsung-Tesco, as a joint-venture company, actively seeks to localize sourcing to take advantage of Samsung's local networks. This localization of sourcing is confirmed by the interview with a manager at Samsung-Tesco:

> 'Our category managers select vendors directly, and Tesco UK does not request anything concerning vendor selection, and our category managers at Samsung-Tesco select vendors directly. It is only when Samsung-Tesco makes a contract with Coca-Cola or Pepsi-Cola at the global scale, that Tesco supports us. All decisions made regarding commercial management is done by Samsung-Tesco. My boss … who is a commercial director in ST, makes the final decision and confirms vendor selection. But increasingly, buyers (category managers) in commercial divisions within ST's merchandise department decide on supplier chains. … Within Samsung-Tesco, there are now 35 buyers' (Interview with a team leader in the commercial management department at Samsung-Tesco, June 5, 2002).

Global sourcing is rather limited in Samsung-Tesco as of yet. Although much fresh foods is imported from China, the percentage of total goods sourced from abroad is about 30 to 40 percent out of total sales. In this case, these goods are not sourced directly by Samsung-Tesco but imported through the medium of Korean suppliers in overseas countries. The percentage of direct sourcing by Samsung-Tesco from abroad is just one percent out of total sales as of June 2002. Except for fresh foods from China, one percent of goods such as garment items and toys are globally sourced, mainly from Hong Kong and China.[13] Out of top 50 vendors (in terms of purchasing prices), only six companies are foreign companies (Table 9), while the others are all local vendors and suppliers. In addition, these six foreign vendors already have subsidiaries in South Korea, and it is the subsidiaries that transact with Samsung-Tesco. In addition to these six foreign companies, Samsung-Tesco also transacts with other major foreign vendors such as Nongshim-Kellogg, MasterFoods Korea (Mars), General Mills Korea, Heinz Korea, Veeta International, Kodak Korea, Fuji Film

Korea, Osram Korea, Lego Korea, and Samsonite Korea. However, their sales to Samsung-Tesco are not substantial in the context of Samsung-Tesco's overall purchasing profile (compare Tables 9 and 10).

Table 9: Samsung-Tesco's Top 50 Suppliers

Unit: 1 million won

Rank	Company	Sales	Major Items	Location
1	Local	5,944	grain (cereals)	Seoul, Sucho
2	Local	4,833	TV, refrigerator, washing machines, aircon	Seoul, Gangsu
3	Local	4,653	TV, refrigerator, vacuum clearner, Aircon	Seoul, Gangnam
4	Local	1,622	Imported fruits	Busan, GijangGun
5	Local	1,484	Maxim coffee	Incheon, Buppyeong
6	Local	1,380	Slim Aircon, Kimchi refrigerator	Daegu, Supyungli
7	Local	1,366	Slim Aircon, Kimchi refrigerator	Buchun,
8	Local	1,105	powder milk	Seoul, Junggu
9	Local	1,098	Vegetable and fruit	Sungnam, Bundang
10	Local	1,066	Domestic vegetable and fruit	Gyeongbuk, Sunju
11	Local	1,031	marinated meat	Gyeonggi, Pyungtak
12	Foreign	1,025	toilet paper, tissue, diaper, pads	Incheon, Namdonggu
13	Local	942	edible oil	Seoul, Junggu
14	Local	918	Domestic watermelon	Daegu, Bukgu
15	Local	886	ketchup and mayonnaise	Gyeonggi, Anyang
16	Local	860	Domestic beef	Seoul, Sungdonggu
17	Local	825	Anam TV	Busan, Jingu
18	Local	811	Lotte gum	Seoul, Yeungdengpo
19	Local	799	Sambo computer	Gyeonggi, Ansan
20	Local	795	kitchen stuff	Gyeonggi, Yongin
21	Foreign	794	toilet paper, tissue, diaper, pads	Gyeongnam, Yangsangu
22	Local	727	Domestic fruit (tomato, musk)	Gyeongbuk, Yeesung
23	Local	693	LG IBM Computer	Gyeonggi, Asan
24	Local	683	Pork from Jeju	Seoul, Songpa
25	Local	679	Detergent, insecticide, deodorant	Seoul, Gangnam
26	Local	672	Disc	Daegu, Buk Sangyeok
27	Local	649	Chilsung cider, Pepsi cola	Seoul, Sucho
28	Local	640	Choco Pie, Chitos	Seoul, Yongsan
29	Local	639	toilet paper, tissue, diaper, pads	Chungbuk, Cheongwongun
30	Local	622	Samsung Camera, Camcorder	Daegu, Susunggu
31	Local	619	Vegetable and fruit	Gyeongbuk, Gunwigun
32	Local	612	Domestic beef	Gyeonggi, Hwasung
33	Foreign	603	Choice Coffee, Nesquick	Chungbuk, Chongju
34	Local	588	ketchup, mayonnaise, pepper paste	Seoul, Dongdaemoongu
35	Local	578	gas range, gas oven range, toaster	Seoul, Junggu
36	Local	575	Cosmetics	Chungbuk, Chongdoo
37	Local	574	US meat	Seoul, Songpa
38	Local	571	liquor (Jinro, Hite, OB)	Daegu, Bukgu

39	Local	566	liquor (Jinro, Hite, OB)	Busan, Sasanggu
40	Local	565	fresh fish	Gyeongnam, Masan
41	Local	555	Toy	Daegu, Susunggu
42	Local	547	instant noodle, snack	Seoul, Dongjak
43	Foreign	540	Sony Camcorder, TV	Seoul, Yongsan
44	Foreign	535	insecticide, kitchen stuff	Gyeonggi, Asan
45	Foreign	533	shampoo, conditioner, soap	Seoul, Gangnam
46	Local	530	underwear, lingerie	Seoul, Yeungdengpo
47	Local	509	Mando aircon, kimchi refrigerator	Gyeonggi, Yongin
48	Local	505	shampoo, soap, toothbrushes, toothpaste	Seoul, Dongjak
49	Local	498	crown corn chips	Gyeonggi, Anyang
50	Local	479	toilet paper, tissue	Seoul, Yeungdengpo

Source: Samsung-Tesco, Internal data, as of Feb 2002

Table 10: Samsung-Tesco's Global Suppliers

Unit: 1 million won

Rank	Company	Sales	Major Item	Location
1	Yuhan-Kimberly	1,025	toilet paper, tissue, diaper, pads	Incheon, Namdonggu
2	Yuhan-Kimberly Busan Center	794	toilet paper, tissue, diaper, pads	Gyeongnam, Yangsangu
3	Nestle Korea	603	Choice Coffee, Nesquick	Chungbuk, Chongju
4	Sony Korea	540	Sony Camcorder, TV	Seoul, Yongsan
5	Clorox Korea	535	insecticide, kitchen stuff	Gyeonggi, Asan
6	P&G Korea	533	shampoo, conditioner, soap	Seoul, Gangnam
7	Fuji Film Korea	241	film, disposable cameras, photoprint	Seoul, Geumchungu
8	Nongshim-Kellogg	162	cornfrost, honeychecks	Gyeonggi, Ansung
9	Kodak Korea	114	film, disposable cameras	Gyeonggi, Bucheon
10	Samsonite Korea	68	Bags	Seoul, Gangdonggu
11	Lego Korea	67	Toys	Gyeonggi, Yichongun
12	Osram Korea	46	Light bulbs	Gyeonggi, Ansan
13	Master Foods Korea	45	MM chocolate, Snackers	Seoul, Gangnam
14	General Mills Korea	25	sweetcorn, jumbopop	Seoul, Gangnam
15	Veeta International	20	cheese	Seoul, Dobonggu
16	Heinz Korea	17	Heinz pickle, Heinz ketchup	Incheon, Junggu

Source: Samsung-Tesco, Internal Data, as of Feb 2002

Hence, rather than prioritizing global sourcing, Samsung-Tesco focuses more on setting up direct procurement channels with local producers and local manufacturers in South Korea. This reflects the unique retail environment in South Korea, in which manufacturers are still very dominant over retailers. This is because large competitive manufacturers dominated by *chaebols* with some strong brands offer a range of products to a number of retailers. In South Korea, the top five large discount stores do not have 75% of market share, and even E-Mart, with the largest market share accounts for just 32 percent (Table 8). Thus, there is no single large discount store that has enough market power to force the manufacturers to lower the supply price in South Korea. Rather, a number of discount stores are competing against one another in the market. Accordingly, manufacturers' market power is quite strong, and they are the single vendors in most cases. The following statement of a manager at Samsung-Tesco clearly illustrates manufacturers' predominance over retailers in South Korea:

> 'In Korea, distribution (retail) is still attached to manufacturing. We can buy Nongshim Ramyum (instant noodle) only in Nongshim (food company) and Coca Cola only in Coca Cola. Because Korean manufacturers are our suppliers, which have monopolistic and oligopolistic power, they wield absolute power in price and supply of goods. Recently, the power shift from manufacturing to distribution is gradually emerging, but manufacturers are still predominant in the market. … Nongshim, LG, Dongshu Food, Jinro Soju (a Korean alcoholic beverage manufacturer),and Cheiljedang (CJ) do not give open prices and thoroughly control both supply amounts and prices' (Interview with a team leader in the commercial management department at Samsung-Tesco, June 2002).

Due to manufacturers' market power, the large discount stores have run into trouble not only with the large manufacturing companies but also the small and medium companies. For example, Carrefour has experienced conflict with well-known domestic food companies such as CJ and Pulmuone (Korea Times 04/08/2004). CJ has recently withdrawn all of its products from Carrefour after the two companies failed to reach a compromise on prices and trading conditions. Carrefour wanted to keep the product prices low, while CJ asked for an increase in prices for products they provide. In early 2004, Carrefour was also involved in the dispute with Pulmuone. To show its market power, Pulmuone withdrew and then returned after two months of negotiations having more favorable terms (Korea Times, 22/06/2004). Conflicts between the large discount stores and the suppliers are frequently reported in the South Korean press (Korea Times, 04/08/2004).

To overcome theses difficult situations, Samsung-Tesco has adopted two different strategies. On the one hand, Samsung-Tesco has attempted to increase its PB percentage in order to hold manufacturers in check and increase its market power.[14] On the other hand, the company has made concerted efforts to build cooperative relations with local manufacturers, vendors, and suppliers (Kim, K.C. 2002). For this, it has adopted "triple win strategy" – which seeks to secure benefits for Samsung-Tesco itself, customers, and suppliers – in the area of purchasing. In order to share its vision with vendors and suppliers, Samsung-Tesco attempts to assess suppliers' situations and problems through frequent small group meetings led by category managers. It also conducts a blank survey, questioning vendors' opinion as to what they think about Samsung-Tesco once a year and awards a prize to the best vendor. The company also runs a 'cyber consultation room' for suppliers in an effort to engender better relations.[15]

Localization of employees and strategic decision making

Samsung-Tesco has also pursued the localization of its employee base in order to create an image of a locally-based discount store. In the process of merger and acquisition, Samsung-Tesco took over all employees from Samsung Corporation. More importantly, Samsung-Tesco's CEO is Lee Seung-Han, a local employee from Samsung Corporation. This is a unique case among Tesco's overseas subsidiaries. In addition, according to the localization model, almost all employees are hired locally, including workers and managers.

As of late April 2002, ST's total employees stood at 4,990. Of these, 560 were head office employees, 4,300 were in stores, and 145 were in distribution centers. By a different categorization, full-time employees stood at 1,800, part-time employees at 1,730[16] and temporary student workers (*Arbeit*) at 1,350.[17] Out of 4,990, only four people were sent from Tesco's home country. A vice-president, a financial director, a commercial management director, and a site acquisitions team leader were the four expatriate employees. While these four expatriates are employed directly by Samsung-Tesco, other employees are seconded from Tesco in addition, the number is limited. For example, when Samsung-Tesco opened E-commerce operations in South Korea in March 2002, two employees were seconded from Tesco.com to assist with the opening.

The case of Carrefour's reiterates how important the localization of employees can be in the retail business. In contrast to Samsung-Tesco's localization of employees, Carrefour has carried out a more global practice of management, assigning most managers and directors from the home operations. However, this employment policy amplified the negative attitudes of customers towards Carrefour as a foreign retailer. Moreover, French managers and directors at Carrefour stores has proved to be less capable of understanding and adopting South Korean labour practices. Due to this lack of understandings of local practices, Carrefour has experienced problems with human resource management and has been afflicted by severe labour disputes (Park, 2003). For example, about 100 union members from four branches of Carrefour staged a strike on June 27, 2003, demanding a 9.1 percent wage increase and better working conditions including more transportation and free meal support. Rather than holding negotiations with the union, Carrefour implemented a labor lockout on July 1, 2003 to prevent the spread of strikes to other branches. Labor strife was, however, deepened by the company's lockout (Korea Times, 09/07/2003). Finally, the Seoul District Court stated that Carrefour neglected its duty to respect the union as an equal partner despite the fact that the union had been established for five years (Korea Times, 15/09/2003). This statement hurt Carrefour's brand image and reinforced negative sentiments towards Carrefour. To recover its reputation, Carrefour has altered its hiring practices and has sought to employ more local managers and directors (The Weekly Economist 12/03/2002; Yonhapnews 09/09/2004).

With regards to strategic decision making, Samsung-Tesco again follows a localized strategy. Tesco has given considerable autonomy to the CEO Lee-Seung Han. Under his leadership, Samsung-Tesco is allowed to determine its own strategic development in terms of product ranges, market niches, investment policies, employment policies and site decisions. In particular, the CEO has chosen to highlight the importance of local human resource management practices since both customers and workers in retail business are local people. In order to secure local employee loyalty to the company, Lee-Seung Han has sought to create a new organizational culture, which combines the 'Shinbaram (excitement)' culture of Korea with a more 'rational' British business culture (Korea Times, 08/01/2001). In the area of site selection, local input is very crucial because of the criticality of such decisions to overall business success. Unlike other foreign discount stores, which have tended to chose suburban sites because of cheaper land costs, Samsung-Tesco has selected inner city areas as its optimum locations. Although land prices are high, these sites are much more accessible by mass transit. This is just one example of how strategic decision making is driven by the management of Samsung-Tesco.[18]

Conclusion

This paper has sought to contribute to debates about the recent step-change in retail internationalization levels by elucidating the strategic localization of the activities of retail transnationals in both conceptual and empirical terms. There are four inter-related elements to our central argument. First, due the extensive nature of both store and sourcing operations, transnational retailing as an activity is highly territorially embedded in relation to all other sectors of the global economy. This embeddedness in property markets, consumer cultures and supplier systems necessitates some degree of 'strategic localization' to meet local requirements and specificities on the part of all transnational retailers. Second, within this general context, transnational retailers vary in the extent to which they seek to localize their operations. Carrefour and Wal-Mart, for example, are renowned for implementing relatively 'global' strategies, while retailers such as Ahold operate through networks of relatively autonomous and self-contained national subsidiaries. In general terms, Tesco is positioned between the two extremes on this spectrum. Third, an individual transnational retailer may vary in the extent to which its various national operations are territorially embedded. Tesco, for example, has used its partnership with Samsung in South Korea to engender a degree of strategic localization that is in advance of its other international markets. Fourth, the precise nature of the localization practices adopted in a particular market will reflect locally-specific factors. In South Korea, as we have argued, localization has been shaped on the one hand by a consumer culture characterized by a suspicion of foreign companies and a preference for certain products groups and modes of retailing, and on the other hand, by a relatively powerful supplier base that can negotiate strongly with retailers. Our case study has revealed the different key elements of Tesco's strategic localization in that context: the development of locally-specific product mixes and store formats, extensive local sourcing operations, and a local management cadre with substantial decision-making powers and freedom.

In concluding, we would like to make two further points about the processes of strategic localization. First, processes of strategic localization clearly need to be conceptualized in dynamic terms. Part of Samsung-Tesco's success has arguably been that the firm's operations were effectively localized from the outset through relations with the local partner, Samsung. By contrast, retailers such as Carrefour and Wal-Mart, who actually entered the South Korean market before Tesco, were initially seen to make slower progress through adopting a standardized approach, and have subsequently sought to increase the territorial embeddedness of their operations over time (e.g. by hiring local managers). Clearly, the extent of localization can both increase or decrease over time, and more studies are needed to examine these dynamics. It will be interesting to monitor, for example, whether the localization of Tesco's South Korean operations will weaken over time as its East Asian operations in Thailand, Japan and China expand, thereby offering potential for consolidation and regionalization of certain functions. Second, localization needs to be read as a potentially two-way process that is not simply about the transnational retailer adapting to meet specific market conditions. Certain retail formats and technologies developed in particular contexts may then be diffused to other country operations, including the home market. Samsung-Tesco, for example, has developed an IT system that has subsequently been rolled-out across the company, and is currently home to a 'global' team working on e-commerce technologies. More generally, we would argue, economic geographers need to foreground retail transnationals in their studies of globalization dynamics. The sector offers clear potential for those who wish to challenge simplistic models of globally-integrated firms, and instead want to explore how nationally-specific regulatory conditions, consumer cultures and business systems create highly complex and variegated modes of international expansion in service sector activities.

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Notes:

[1] As a result of the financial liberalization in the 1990s, both the inflow and outflow of FDI increased. However, the volume of inward FDI began to increase rapidly and outnumber the volume of outward FDI due to even more drastic changes in government policy toward inward FDI

[2] The Korean government actually removed the acquirer's obligatory tender offer of shares up to 51 percent of total shares outstanding and abolished restrictions on the total amount of shareholdings a company can have in other companies, which used to prevent hostile takeovers by foreigners (Shin and Chang, 2003, p.99).

[3] The average number of businesses run by the five largest chaebols was reduced from 30.0 in 1997 to 23.3 in April 2001 (Shin and Chang, 2003, p.91).

[4] Samsung Corporation is an affiliate of the second largest conglomerate (*chaebol*), Samsung Group. Samsung Corporation entered into retail business by setting up a distribution unit in March 1994. Before the financial crisis, it used to have four sectors – trading, construction, garments (SS fashion), and distribution. Since the Korean financial crisis and 1998, only the trading and construction sectors have remained in Samsung Corporation. The garment sector was merged with the Cheil Industries Inc., and the distribution sector was merged with Tesco.

[5] Samsung seems to have retreated from the discount retail sector. Samsung now has a 19 percent stake in Samsung-Tesco. Samsung currently operates Samsung Plaza, a department store in Bundang, Kyonggi Province, and a fashion retail store in Myongdong, downtown Seoul. (Korea Herald, 07/30/1999).

[6] Interview with a manager in the strategic planning department at Samsung-Tesco, May 29, 2002.

[7] Interview with managers in the strategic planning department at Samsung-Tesco, May 29, 2002.

[8] Local retailer, Shinsegae launched its discount store, E-Mart to seek the first-mover advantage in the Korean retail market in 1993. E-Mart gained considerable business know-how through tie-ups with Shinsegae department store and Costco. Thus, it has learned distribution know-how from global retailer, Costco and developed a localized form through its tie with Shinsegae (Choi, J.Y. 2003).

[9] Interview with a manager at Samsung-Tesco in the strategic planning department at Samsung-Tesco, May 29, 2002.

[10] E-Mart remained dominant, with 3.3 trillion won in sales, 246.1 billion won in operating profits and 172.6 billion won in ordinary profit, while Wal-Mart posted only 5,698 billion and lost 3.1 billion won in operating profits in 2001. Samsung-Tesco achieved 1.25 trillion won, pushing Carrefour to the third rank with 1.15 trillion won in sales in 2001 (Korea Times 04/29/2002). When E-Mart had 51 stores, controlling 31.8 percent of the market, Carrefour ran 25 outlets, taking 9.7 percent. Wal-Mart with 15 stores had a 5.1 percent market share, while Samsung-Tesco secured 13.6 percent market share (Korea Herald 06/10/2003).

[11] The team leader says that "the total number of items we deal with is 34,000 stock keeping unit (sku), so it's difficult to say which items are our main items. However, we have strategic item, which we want to increase in future" (Interview with a team leader in the commercial management department at Samsung-Tesco, June 5, 2002).

[12] Interview with a team leader in the commercial management department at Samsung-Tesco, June 5, 2002

[13] Interview with a team leader in the commercial management department at Samsung-Tesco, June 5, 2002.

[14] Interview with a team leader in the commercial management department at Samsung-Tesco, June 5, 2002.

[15] Interview with a team leader in the commercial management department at Samsung-Tesco, June 5, 2002.

[16] This number is estimated based on an eight hour full-time criterion, so the real number of part-time employees are much more than this number.

[17] Interview with a general manager in the strategic planning department at Samsung-Tesco, May 29, 2002.

[18] Interview with a general manager in the strategic planning department at Samsung-Tesco, May 29, 2002.