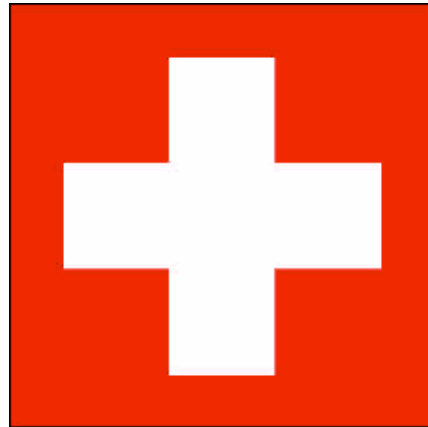


**TESCO**

**IN SWITZERLAND**



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## **Executive Summary**

Expanding a business into other countries to make it a well known brand across the world is a key objective of any major company. The supermarkets are no exception, in the UK the four main chains hold majority of the market share of the food retail market. Once they have secured a well known branding in their home country they will want to branch out into other near by countries to gain a share of foreign markets. The four main supermarket chains are Tesco, Sainsbury's, Asda and Morrisons. Tesco has started to gain market share in Eastern Europe by opening stores in Hungary, Czech Republic, Poland and Slovakia whilst the other companies are looking into ventures abroad in the future, Sainsbury's has just one store abroad in Calais selling only Wine and Beer this is mainly for the British consumer.

## **Deciding on a market environment**

If a new venture is going to work abroad Tesco will have to look into a number of different factors to see which marketing strategy would work in relation to Switzerland. If they do not get this right and go ahead with the expansion it could cost millions if they had to pull out. Many factors of the market environment have to be taken into account in considering which way to approach the task. There are economic, social-cultural, political, legal and institutional all these factors have to be taken in to consideration when deciding on where to go ahead with the venture.

Also how is Tesco's going to enter the market are they going to start fresh and build their own stores and start a new brand or are they going to move in by 'take over' where they will have the stores, staff and more importantly the suppliers. Take over would be a lot easier for Tesco because the infrastructure is already there.

Tesco will have to find out if the local market environment is different from the UK, they will have to research what people's buying habits in Switzerland are, if they do one weekly shop or if they buy products as they go along also whether supermarkets are popular in Switzerland like the UK. In France for example more people will choose to shop at a number of localised specialist stores instead on one 'out of town' supermarket like the British.

Advertising is another factor, will Tesco advertise in Switzerland and who is their target market. Switzerland has laws that don't apply in the UK such as you are not allowed to advertise to children under the age of 13.

Is Tesco going to bring in new products or keep the existing Swiss brands or have a mixture of both? Tesco has to work out if the Swiss are brand loyalty or will they move to another brand if it's cheaper and just as good. All these factors will have to be taken into account before they decide on a move in to Switzerland.

## **About Tesco**

Tesco PLC is the UK's most successful supermarket, with a market share in the UK (according to the analysts ACNielsen) of 22.8% (2003). Tesco is fast becoming one of the world's biggest supermarket chains and is ranked a firm number 8 in the world's top 10 grocery retailers (M+M Planet Retail, 2003), with sales of £26.33 billion last year (eurostockcity.com, 2004).

Tesco in keeping with most supermarkets sells a variety of goods, ranging from groceries and fresh food to clothes and compact disks. However, Tesco has been more successful in the UK than any other supermarket. This success has been built upon a number of key areas largely; price, customer service, distribution, e-commerce, loyalty cards and own label products.

According to the deputy chairman of Tesco, David Reid, Tesco spends a lot of time trying to understand the customers' needs and translates it into detailed plans to add value for the customer (2003). The extent to which Tesco pursues adding value for the customer and a competitive strategy can be seen by substantial price drops planned for 2004 representing more than an 11% drop in price in real terms (Tesco.com, 2004).

Owing to the success of Tesco within the UK and a very strong cash flow, Tesco has begun to pursue a very swift international strategy. It has been suggested that Tesco is the fastest growing international retailer, as 70% of overseas stores are under 3 years old (David Reid, 2003). Tesco now has operations in ten countries outside of the UK: Ireland, Hungary, Poland, Thailand, Czech Republic, Slovakia, South Korea, Taiwan, Japan, and Hong Kong. From these ten operations, it is already the market leader in six of them. The development into each of these countries has been different; however some general strategies can be ascertained and it is certainly true that Tesco has taken the skills and techniques that it has learnt from the UK market and used them to build success abroad.

Tesco has become extremely internationally motivated, whilst not neglecting its home market. Tesco remains the dominant supermarket in the UK, whilst its international operations account for 50% of the group's total floor space, 20% of the sales, and 15% of operating profits (Financial Times, 2004). Tesco's international stores are mainly concentrated in East Asia and Central Europe. In central Europe the stores Tesco has developed have been different to UK supermarkets, as the stores have developed into hypermarkets. Although hypermarkets were a new concept for Tesco, they have proved very successful, Tesco are now the leading hypermarket retailer in central Europe, and EU sales were up 31% on last year (Tesco.com, 2004). Although Tesco now favours central Europe and Asia, there was one attempt to enter the market in France. In 1996, Tesco attempted to enter the market through a joint venture, but it was a failure, and now only one wine store remains in Calais. Following the unsuccessful joint venture, when developing abroad Tesco now tends to favour a strategy of supermarket acquisition. This take-over strategy has been proven to be extremely effective, and simply involves buying a supermarket chain, ripping out

everything from the stores but keeping the local management and employees and maintaining and tweaking distribution channels.

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It is evident that Tesco has strengths but weaknesses are also present. One way of analysing a company's competitive position, is to use the SWOT analysis. A SWOT analysis consists of highlighting the internal strengths and weaknesses measured against the competition's, and key external opportunities and threats (Baker, 1995). The results of the analysis will lead to a better understanding of how to leverage the strengths to take advantage of perceived opportunities or to respond to threats and how to compensate for known weakness (Brassington and Pettit, 2000). The internal strengths and weaknesses can be defined as follows:

### **Strengths**

**Strong Cash Flow** – Tesco has a *very strong cash flow* from the UK business. This financial strength has enabled Tesco to move quickly internationally.

**Customer service** – Tesco has gained a *good reputation* for customer service and value, particularly within the UK.

**Distribution** – Tesco first established its distribution channels in the UK through importing many products from Spain and storing the products in warehouses, using a standard JIT system. With the onset of international expansion, distribution channels to Central Europe and Central Asia have been established and proven to be successful. Within these countries *85-95% of foodstuffs are purchased locally*, only textiles and durable products are purchased on a global scale. Because Tesco is becoming a key international player its bargaining power internationally with suppliers is increasing.

**E-commerce** – Tesco.com is the *largest grocery e-tailor* in the world, and achieved profits of £12 million in 2003 (Tesco.com, 2004). Internet shopping accounts for 5-12% of turnover in some stores. This part of Tesco has become part of the tool kit which has been taken abroad, and it has been launched in Ireland and in South Korea. It has been so successful that Tesco has teamed up with US supermarket firm Safeway Inc to provide its online shopping services, giving Tesco a footstep in the US marketplace.

**Loyalty cards** – Tesco has been using loyalty cards for many years. The use of loyalty cards has been *'fine tuned'* (David Reid, 2003), and the use of the data has become a way in which management is able to identify new trends and understand the customers buying behaviour. The approach has become so successful that the system is going to be taken to South Korea.

**Locally focused abroad** – When developing abroad, Tesco uses *relatively few expatriates*; expatriates are seen as just the 'steering wheel' (David Reid, 2003). Tesco typically has 6 expatriates per country in comparison to some international retailers that have 40-50. Tesco when developing abroad uses local managers who know and understand the local market and local habits and thus are in a better position to win business.

**Stores** – Tesco has a wide range of stores including; ‘*Tesco Locals*’ (small convenience stores), *supermarkets* and *hypermarkets*. Within the UK the vast majority of stores are supermarkets selling mainly food. Non-food items in the UK excluding gasoline account for only 13-15% of turnover. Abroad Tesco has developed hypermarket stores that sell products ranging from ‘wooden sledges in Slovakia to Ski equipment in Poland’ (Tesco.com, 2004).

**Products** – Within the UK Tesco offers a wide range of *own-brand products*: ‘value’, ‘finest’ and ‘Tesco’. ‘Value’ is the entry point range of products whereas ‘Finest’ is the premium brand in the Tesco range. All three of the Tesco own-brands account for 50% of Tesco’s sales (Tesco.com 2004). Tesco has taken their own-brand products abroad, for example in Poland, where 1200 own-brand products account for over 14% of total sales (Tesco.com 2004).

### **Weaknesses**

**Orienting people to work internationally** – Tesco has some *resistance within the UK workforce* to help setup operations abroad. Although only a small number of expatriates is required, these tend to be the best people within Tesco, therefore there is a danger of withdrawing the best managers from the UK market, as this could in turn result in Tesco’s dominant position within the UK being reduced.

**Failed attempt in France** – Although in more recent years Tesco has been successful abroad in central Europe and East Asia, failure within France between 1996-1997 may *lessen their chances of development in Western Europe* in the future.

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## **The Swiss Marketing Environment**

Switzerland is a small, highly developed, multilingual country situated in the heart of Europe and is considered to be one of the world's most attractive markets because of its economical, political and financial stability, productive and quality-conscious economy and low taxes. Today most business activities are global in scope as finance, technology, capital and investment, production facilities, purchasing and marketing and distribution network all have global dimensions. Numerous international organisations have a strong representation in Switzerland to reap the rewards of its successful economy and superior life style and this is the intention of Tesco's.

A key feature of Switzerland is its cultural diversity and one main reason for this is its location in central Europe. Germany, Austria, Liechtenstein, Italy and France all border Switzerland and as a result of this there are four official languages spoken: German (74%), French (20%), Italian (4%) and Romansch (1%) with the remaining 1% speaking alternative languages. ([www.about.ch](http://www.about.ch))

Switzerland's diversity is packed into the small area of 41,285 square kilometres where the Jura, the Plateau and the Alps form the three main geographic regions of the country. Zurich, Basle, Geneva, Berne (the capital) and Lausanne are 5 of Switzerland's largest cities and despite the small size of Switzerland, its 26 cantons and 4 languages make it one of the most complex countries. ([www.sibald.com/ch/ch.html](http://www.sibald.com/ch/ch.html))

Switzerland has a high population density, with a population of 7.3 million people, 20% of which are non-Swiss. Switzerland offers some the best living conditions; however for tourists this means costs are higher than anywhere else in Europe. Residents of Switzerland have the highest income per capital and the highest insurance coverage per person. It has been noted that Swiss people are reserved, reliable, tolerant, known for their high work ethic and tend to be broadminded, hospitable and understanding. Since Switzerland has no natural resources, education and knowledge have become very important resources and because of this Switzerland claims to have one of the best education systems in the world. The cantons are responsible for educational services (kindergarten, schools and universities) and therefore education may vary significantly between cantons. ([www.about.ch](http://www.about.ch))

The distribution of the population varies greatly, with only 10 per cent of the total population living in the Alpine region. The diverse climate and terrain of Switzerland make most of the country unsuitable for both living in and growing crops, for example 2/3 of the area of Switzerland is covered with forests, lakes and mountains. Farming is also important in Switzerland, but the production of the farming industry does not cover the needs of the population so Switzerland must rely heavily on imported goods from other countries. There are three main sectors of the Swiss economy: agriculture, industry and services. 10% of the population are employed in the agricultural sector and this area is considered as the "primary sector" and supported by the Government. 40% of the population are employed in industry, trade and handicraft, however many goods are exported and as a result the economy suffers because of the expensive Swiss franc and Switzerland's absence from the EU. Services are the most significant part of the Swiss economy, notably tourism,

banking, engineering and insurance, with 50% of the population employed in these sectors.

### **Swiss Economy**

In recent years the economic practices of the Swiss have increasingly tended to conform to the system of the EU in order to enhance their international competitiveness. Switzerland therefore remains ideal for investors, because it has maintained a degree of bank secrecy and has kept up the franc's long-term external value. Between 1991 and 1997 the Swiss economy experienced its strongest growth of Gross Domestic Product (GDP), however in 2001 there were a lot of scandals which slowed the growth of the economy to 0.5%. Unemployment has risen from 2.8% to 3.6% in 2003 but these statistics still remain lower than the EU average, as Switzerland has a highly skilled labour force and in the 3<sup>rd</sup> quarter of 2003 Switzerland pulled out of a double dip recession. (The Economist, 14/02/04)

Inflation in Switzerland is minimal and in addition the Swiss franc is one of the strongest and most stable currencies in the world with the franc recently reaching a 7 year high against the dollar, despite the launch of the Euro in January 2001. Switzerland's decision not to join the Euro has not greatly altered the economic conditions and has benefited the country in several ways. Firstly even though the Swiss and European monetary policies are similar, specific economic conditions in Switzerland may prompt the Swiss National Bank to deviate from the course pursued by the European Banks. Strong demand for the Swiss francs by foreign investors mean the Swiss interest rates are low and this conveys a competitive advantage to the domestic industry and provides benefits to domestic consumers. The Swiss are reluctant to give up the benefits of low interest rates by joining the Euro.

### **Switzerland's Political History**

Swiss politics are some of the closest to a direct democracy in the whole world. Their federal republic approach gives voters the confidence in their government. The current President of the confederation is Pascal Couchepin; the Swiss Federal Assembly decides this every four years. Their government is known to be one of the most stable governments there is. From 1959 to 2003 the Federal Council was composed of a coalition of all major parties in the same ratio (2 Radical Free Party, 2 Social Democratic, 2 Christian Democratic and 1 Swiss People's Party). Someone from the same party and preferably the same sex and language group would fill the position when a cabinet member left their job.

For the last 50 years the amount of votes for each Party has roughly remained the same only varying around one or two percent. The Swiss are more likely to stay with a Party that their family has an affiliation with. This is how the parties remain stable because the children of the families follow the voting of their parents.

Switzerland has a diverse society; most of the country's voters support the government on issues concerning defence and foreign policies. There are no major problems with the domestic politics however some of the key issues of the changing international environment have been re-examined. Issues like defence, neutrality and immigration are all to be reassessed to determine if the policies need updating.

Over the recent years the voting power has changed in Switzerland. The rightist Swiss People's Party (SVP), has become an up and coming party by doubling its voters in only 3 elections. They have increased their percentage of votes from 11.0% to 22.5%. They believe that in the next election they should be able to increase this majority. This is a new development in Switzerland, in the past most voters were loyal to their party but over the past decade this has changed and voters are a lot less loyal.

As Switzerland is moving closer to Europe they can't maintain the non-engagement with EU policies and economic factors. The problem is that the Swiss people are not keen to integrate with the EU, as this will lose some of the great economic success they have had since 1849.

Passing laws in Switzerland is done directly through the people, once the government wants to introduce a law they will have to call a referendum where the residents of Switzerland have to vote on whether to accept or decline the bill. In particular, the Swiss are unwilling to sacrifice the direct democracy system that has existed since the founding of the modern Swiss confederation.

In 1990 the Swiss imposed strict laws on immigration to their country, they restricted the moving of people who were not Swiss, 'the only way you are able to obtain Swiss citizenship is by popular vote of the local community' (Harvard International Review, 1999). Under EU and EEA law they would have to give up this right to restrict people. Residents of any EU country could enter and live in Switzerland unrestricted, the Swiss believe if they relax their immigration law they will lose 'their strict neutrality and independence from the world arena' (Harvard International Review, 1999).

However in 1999 elections, the Swiss changed the normal voting pattern by a drastic shift in votes to the party that will keep their outdated traditional views and policies. The people of Switzerland showed they are willing to change party to keep the current status of Switzerland and not joining the EU. During the 1999 election, Blocher stated that "we are for an open Switzerland, but not for attachment to any international organisation" (Harvard International Review, 1999).

### **Swiss International Relations**

Switzerland is not a member of the European Union but on September 10<sup>th</sup> 2002 they became a full member of the United Nations (UN). Prior to this Switzerland had participated in many UN activities such as the UN conference for trade and development. Before they joined the UN they had observed at the UN meetings since 1948. Switzerland is not just a member of the UN they are also a member of a whole number of international organisations; The World Trade Organisation, Organisation for Economic Co-operation and Development, European Free Trade Association, Bank for International Settlements, Council of Europe, Organisation for security and Co-operation in Europe. Many of these organisations are based or held in Switzerland because of Switzerland being neutral.

The Swiss Constitution declares the preservation of Switzerland's independence and welfare as the supreme objective of Swiss foreign policy. Other long term goals held by the constitution are as follows:

'...further the peaceful coexistence of nations; promote respect for human rights, democracy, and the rule of the law; promote Swiss economic interests abroad, alleviate need and poverty in the world; and the preservation of natural resources' (International relations of Switzerland, 2004).

Looking back at Switzerland's international relations with other countries you will notice that there are no great ties to any country, Switzerland in the past has kept away from making agreements with countries on military or political issues. The Swiss do this so they can be completely neutral in scenarios such as War. Today Switzerland is changing; back in 1986 Switzerland had a referendum on whether to join the UN. The motion failed by a majority of 3 to 1, in March 2002 the motion was carried to join the UN. Although it was very close in sixteen years a large majority of Swiss moved for a closer relationship with other countries but this still doesn't compromise their neutrality and will broaden the scope of activities. 'Switzerland maintains diplomatic relations with almost all countries and historically has served as a neutral intermediary and host to major international treaty conferences' (International relations of Switzerland, 2004).

The Swiss feel they have an obligation to undertake social, economic, and humanitarian activities that contribute to world peace and prosperity. Switzerland is the host to the organisation of Human Rights (Geneva Convention) and The Red Cross is also based in Geneva, their logo being an inversion of the Swiss National flag. The Swiss feel an obligation to help other countries, especially developing countries such as parts of Africa to get aid to the areas of the world that have most problems.

As Switzerland is a neutral country they haven't had any major disputes with any other countries and have abstained from most international conflicts (International relations of Switzerland, 2004). Although countries in the European Union surround them, they are not currently a member themselves.

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As the SWOT analysis is a useful tool for grasping a company's competitive position, it will now be completed as a means of analysing the external opportunities and threats of Tesco going into Switzerland:

### **Opportunities**

**Own Brands** – Within Switzerland there is already a *large acceptance of own-brand products*; penetration of own-brand products is higher in Switzerland than in any country in Europe (Mintel, 2000). Tesco has already successfully developed own-brand products, and this expertise can be monopolised upon in the Swiss market where supermarket own-brand products are readily accepted and account for nearly 30 per cent of the Swiss sales (Cateora and Ghauri, 1999).

**E-commerce** – The Swiss are *already accustomed to e-retailing*, and currently Switzerland is one of the most successful examples of a country embracing internet shopping. The two largest supermarkets in Switzerland; Co-op and Migros, both offer successful and popular online shopping systems. As Tesco is the largest and most experienced grocery e-tailer in the world, it will be able to compete very effectively, and bring its expertise in this area to capture market share from its competitors.

**Wealthy Market** – The Swiss market is one of the most attractive markets in the world owing to its wealthy inhabitants, and stable economy. If Tesco can successfully compete in Switzerland and establish itself, then it could develop into a *solid means of cash flow for future international expansion*.

**Price Sensitive Market** – The *majority of marketing for Migros and Co-op is done on price*. Although a wealthy country, the Swiss appear to be price sensitive. Tesco is very successful at cutting costs, and providing a high quality service. Thus Tesco's product offering of quality and low prices seems well matched for the Swiss market.

**Broad minded** – The Swiss tend to be broadminded, so are *not as likely to be as opposed to a British retailer* entering the market as much as other countries in Western Europe such as France or Italy are likely to be. The fact that Tesco employs mainly locals should reinforce the fact that Tesco's country of origin will not be a hindrance to expansion within Switzerland.

**Starting point for Western Europe** – Switzerland is an *ideal country to develop into where future growth can emerge from*. Switzerland is located in the centre of Europe, and borders Austria, Germany, France and Italy, all of which could be attractive countries to move into in the future. If Tesco can develop a successful brand name in Switzerland and establish distribution channels, these could be used to aid plans to develop into France again, or to go for the first time to Austria, Germany or Italy.

### Threats

**Cultural Diversity and Language Limitations** – Switzerland although only a small country has *4 separate languages and effectively 4 people groups*. According to Cateora and Ghauri 'language translation encounters innumerable barriers that impede effective, idiomatic translation and thereby hamper communication' (International Marketing, 1999, p378). This complication with 4 languages will have numerous implications for Tesco including implications for marketing in terms of advertising and packaging.

**Swiss Market unique** – Because of the differences in people within Switzerland, *tastes and perceptions differ* also. This makes the Swiss market completely unique within Europe. As a result much market research will be needed, and competitor's strategy investigated as to what products will be needed to be offered within the Tesco stores. The closest market Tesco has dealt with which can be compared to Switzerland is France, and Tesco's development into this country was a failure.

**E-commerce** – Although it is encouraging that the Swiss are accustomed to e-tailing, much of Tesco's e-commerce success within the UK was born out of Tesco offering a more effective system of internet shopping than competitors. However Migros and Co-op both already offer attractive and successful 'home shopping' services. This

could prove a disadvantage to Tesco because it will be entering a country where internet shopping is already popular and used, thus implying Tesco will need to offer an online service above and beyond what Migros and Co-op currently offer.

**Local competition (Migros and Co-op)** – Migros and Co-op are the largest supermarkets in Switzerland, and collectively *account for 70% of the market share* (Bell, 1999). This is a massive proportion of the market, and as a result there are numerous implications for Tesco. Migros has a market share of 37%, and Co-op 32%, practically this means that both of these supermarkets have huge buying power over their suppliers. It is clear that Tesco when entering Switzerland will not have anywhere near the buying power that Migros or Co-op has. This means initially in order to compete on price with Migros and Co-op, profit margins will be small, and so the return on the investment of moving to Switzerland may well take many years, until Tesco reaches a reasonable size and thus has leverage with suppliers. Migros and Co-op are both long established names in Switzerland, and accepted as a ‘part of every-day life’ (Bell, Food Retailing in Germany, Austria and Switzerland, 1999, p17), something that Tesco will not be able to compete with for a long time.

**Carrefour** – Carrefour is a French supermarket, but recently has been *pursuing ambitious plans for international development*. Carrefour merged with Pro-mode in 1999, and is the world’s second largest retailer, and is easily the largest retailer in Europe (M+M Planet Retail, 2003). Carrefour has recently developed into Switzerland, and has a small number of stores established (www.swissinfo.org, 2004). Practically for Tesco this means that Carrefour has beaten Tesco in moving into Switzerland. Carrefour has the potential to grow into a large retailer in Switzerland as it has distribution channels in France. Thus Tesco must be aware that it is not the only supermarket which is looking at Switzerland as an attractive market to enter.

**Wal-Mart** – Wal-Mart is by far the *largest retailer in the world and is rapidly growing* and is seeing massive success. Wal-Mart has operations in England and in Germany. In Germany Wal-Mart pursued incredibly swift plans, whereby they established a base of 95 stores in a matter of months. Wal-Marts move into Germany demonstrates its determination to venture into the European market and in 1999 Wal-Mart had a markets share in Germany of 13% (M+M Planet Retail, 2003). For Tesco the implications of Wal-Marts movement into Europe is large, particularly as Wal-Mart is prevalent in south-western Germany along the boarder of France and Switzerland. It can be expected that it is only a matter of time until Wal-Mart expands into Switzerland. For Tesco this may mean it should seek to move quickly into Switzerland before Wal-Mart, the retailing giant, makes a move.

**Carrefour and Wal-Mart merger** – Only very recently in the news there has been talk that Wal-Mart has been enquiring of acquisitioning Carrefour (<http://www.union-network.org>, 2004). Evidently this will have implications for Tesco, because if it takes place, *Wal-Mart will have a base in Switzerland to build upon*. Also a combination of Wal-Mart and Carrefour will have distribution channels throughout Europe which are established and efficient. Obviously if Tesco is to pursue an international policy in Switzerland, it should be done considering the implications that the rumoured mega-merger could have.

**Distribution** – Distribution in Switzerland is *difficult because of the country's geographical setting as a mountainous country*. As a result the location of distribution centres would be very restricted. Although distribution within Switzerland would not at all be easy, if Tesco were to pursue a takeover strategy it would make the issue easier as distribution centres would be already set up and suppliers established. For Tesco to go into Switzerland with no distribution channels set up, it would be very difficult, however by adopting a strategy of acquisition distribution networks could be built upon and Tesco's expertise used.

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## **An Analysis of Alternative Marketing Strategies Tesco could pursue in entering the Swiss market**

### **Market Entry**

When a company such as Tesco makes the commitment to market internationally, it must choose marketing strategies in order to ensure a greater chance of success. One of the most important decisions is to select a method of marketing entry and this decision should reflect an analysis of market potential, company capabilities and the degree of marketing involvement and commitment management is prepared to make (Cateora & Ghauri 1999).

A joint venture is one of the most important types of collaborative relationships and has become an increasingly popular method of entry during the past twenty years. “A joint venture is set up when two organisations come together to create a jointly owned company. The two parents share the ownership, control and profits, as well as the risks” (Brassington & Pettitt 2000). However following the failure of a joint venture in 1996, when Tesco attempted to enter the French market, Tesco is now in favour of adopting the strategy of supermarket acquisition. This take-over strategy has been proven to be extremely effective, for example when Tesco entered the market in Ireland they took over the popular supermarket chain, Quinns. A take-over involves buying a supermarket chain, changing the physical aspects of the stores, notably products and signs, but keeping the local management and employees and maintaining and tweaking distribution channels.

### **Retailing Strategies**

Tesco must also take in account the retail-marketing environment in Switzerland, in order to determine the retail strategy they will adopt when entering the Swiss market. At present Migros and Coop Schweiz, who accounted for 30% of total retail sales in 2001, dominate Swiss grocery retailing. Compared with the UK, there is a large amount of small and medium sized stores in Switzerland, as it has emerged that grocery stores are increasingly more successful than large hypermarkets as the trend in Swiss shopping habits is towards convenience. There are a higher number of food stores per thousand people than in many other countries in northern Europe and the alpine geography of Switzerland provides an explanation for this. The pattern of retailing in Switzerland is constrained by the many mountains, lakes and forests, there are many small villages and travel times between the few large towns are lengthy (Bell, 1999).

Following this assessment of the Swiss market, it is likely that Tesco will aim to set up small convenience stores, somewhat like the successful *Tesco Express* stores in the UK, instead of larger supermarkets or hypermarkets which are not as popular in Switzerland. Bell (1999) states that the supermarket chain, Migros, in Switzerland is regarded by the consumer in the same way as Marks and Spencer in the UK, as these retailers are accepted in their different ways as part of everyday life. Through setting up convenience stores like Migros, in petrol stations for example, Tesco should aim for this type of recognition in Switzerland in order to be successful. Another Swiss firm, Denner, attempted to differentiate itself from its major competitors by becoming a discount operator and consequently lost market share.

When looking to recruit staff for the stores in Switzerland, Tesco can adopt several strategies. Cateora & Ghauri (1999) affirm that the number of personnel from the home country assigned to foreign countries varies according to the size of the operation and the availability of qualified locals. Personnel can be located from three sources: expatriates, local nationals and third-country nationals. When developing abroad, Tesco uses relatively few expatriates, preferring to use local managers who are more knowledgeable about the business structure of their country. Local managers will have a better understanding of the local market and culture and are therefore in a better position to win business, as well as being more aware of the legal barriers Tesco may face. It is well documented that the Swiss have a very high work ethic and in recent times there has been a shift from full-time employment to more part-time, which could suit employers such as Tesco. In regards to wages, the total cost of keeping local nationals is well below the costs that are associated with expatriates, for example expatriates may require special cost-of-living benefits and moving expenses, in addition to a higher tax.

### **Product adaptation and development**

Before extending their product into Switzerland it would be necessary for Tesco to re-evaluate the components of their international product offering. Kotler (1992) suggests three essential areas for consideration by marketers wanting to meet the needs and demands of their future customer base. Kotler firstly identifies **product benefits**, relating to the elements which customers feel meet their needs and the satisfaction perceived from image and performance. Here Tesco would need to look closely at the shopping habits of the Swiss and examine the successes of existing Swiss supermarket retailers in terms of the image they present and the ethics which they stand for. Kotler identifies the second point as **product attributes**, the features, specifications and styling of the product. Tesco would obviously need to provide some differentiation between themselves and other Swiss retailers whether that be on the range of products offered or an entirely different packaging and branding style. However it is vital to not misjudge the market by not conforming to conventional styles of Swiss retailing and thus be of little appeal to those reluctant to try a new genre of supermarket. Lastly Kotler suggests that the **marketing support services** should be considered. We have seen that Tesco has particular strengths in providing an excellent e-tailing service, yet additional elements such as providing satisfaction, good delivery, after-sales service and guarantees are also all vital in ensuring the success of the Tesco product in Switzerland.

Tesco need to establish where they want to position their product in the Swiss market and what benefits they are expecting their target segment to gain from shopping at Tesco. In their previous international expansion, Tesco have adapted their product offering to some degree, developing hypermarket style stores and selling products relevant to the country situation (taking our previous example of wooden sledges in Slovakia). As with many global organisations the most logical approach for Tesco to take is partial standardisation and following the idea of glocalisation. Whilst it is possible to offer a globally standardised branding strategy it is vital for Tesco to consider modifying their product for particular customer segments taking into consideration differences in the actual products in terms of tastes yet also considering their marketing approach. One issue that Tesco would have to constantly deal with in

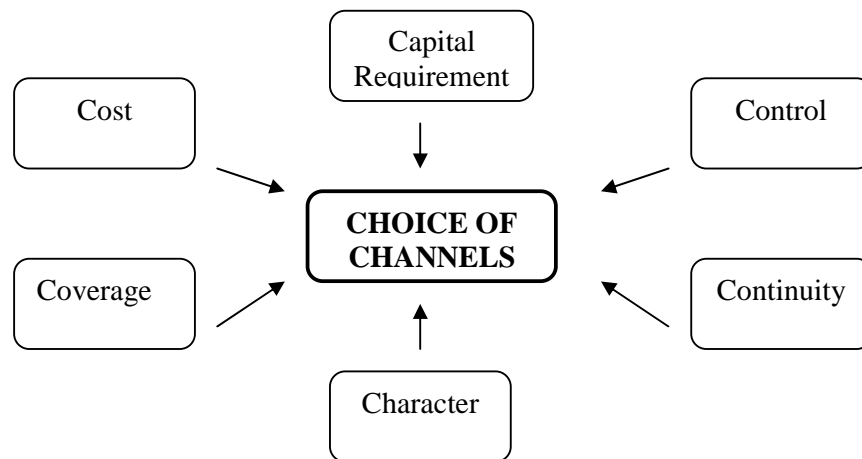
Switzerland would be the multiple language barriers, product packaging would most definitely have to be localised to include all languages spoken in each canton.

Due to the strength of Tesco's e-tailing strategy in the UK it may be useful to consider encouraging the use of Tesco's clicks and mortar approach in Switzerland, particularly in the cantons where only small retail stores exist and therefore the variety of choice is limited. However the physical stores themselves must also explain the benefits of shopping at Tesco and create competitive advantage that is obvious to the Swiss consumer. Porter's **generic strategy model** (1990) suggests that in order to create competitive advantage on market entry firms can either **focus** on a narrow segment and build in-depth knowledge where a low market share is held, or in a high market share situation firms can concentrate on **differentiation** or **cost leadership**. As we have seen Tesco is largely concerned with keeping costs at a low level and in order to do so sells a lot of its own brand products. Cateora and Ghauri (1999) estimate that "...own-brand products have captured nearly 30 per cent of the British and Swiss markets..." so perhaps cost leadership is one way forward for Tesco in the Swiss market as there seems to be a demand for own brand products within the retail market. However this is risky ground as we have seen that Denner tried the cost leadership approach and failed, therefore a policy of ensuring the Swiss that price was not compromising quality would have to be taken.

Whichever approach Tesco decided to focus on in Switzerland they would need to appreciate the complexity of the culture (as they have successfully done in previous international ventures) and understand how "cultural influences are interwoven with the perceived value and importance a market places on a product" (Cateora and Ghauri, 1999).

### **Channels of distribution**

More and more companies across Europe are now working with centralised warehouses and distribution centres using JIT production and purchasing policies. As the methods of distribution become easier the concentration of production is increasing (Cateora and Ghauri, 1999). Tesco would need to consider the best channel of distribution to pursue taking into consideration the nature of both their product and the Swiss environment into which they would be entering.



**Cateora and Ghauri, 1999, Figure 15.5 Factors Influencing Choice of Channels**

The above model demonstrates the six C's of channel strategy, despite the overall marketing strategy of the firm needing to embody the company's profit goals the channel strategy itself has specific goals. Cateora and Ghauri urge that the six C's need to be considered to develop economical and effective distribution.

**Cost:** This covers both the capital or investment cost of developing the channel and the continuing cost of maintaining it. Maintenance costs would include Tesco's selling force and also the costs of various middlemen who handle the goods (including transporting and storing goods, providing credit, costs of local advertising and sales representation).

**Capital Requirement:** The amount of capital required will depend on the type of middleman that is used. In establishing their own sales force Tesco would encounter the highest investment whilst using distributors or dealers may incur less costs. In a take-over acquisition Tesco could elaborate on the systems already in place from the previous supermarket and use the expertise of the in-country management to advise on keeping costs to a minimum.

**Control:** As a channel of distribution increases in length the amount of control that can be exerted decreases in terms of price, promotion or types of outlet used. By establishing their own sales force Tesco would of course have the most control yet this is pricey so many would prefer to carefully select middlemen who they believe it is possible to exert control over.

**Coverage:** Coverage of the desired market can either be decided upon according to geographic or market segments. In sparse markets it is difficult to develop coverage due to inadequate channels whilst in the busier segments the competition is intense. The solution therefore is not full-market penetration but to enter the market in specifically populated areas such as the city centres. This would perhaps be useful for Tesco in terms of their smaller outlets to establish themselves and build a good reputation.

**Character:** The channel of distribution must fit the character of the product and company. For Tesco perishable fresh goods would be a huge consideration here. Previously Tesco have used JIT delivery effectively to ensure customer satisfaction at the level of freshness received.

**Continuity:** Many middlemen are part of small institutions that are not particularly loyal to their vendors. If one individual is to step out of the chain Tesco could lose all distribution in that area. Distributors and dealers are seen to be the most loyal but manufacturers must work on building loyalty throughout the channel to ensure that business will continue effectively in the long-term. If pursuing a takeover acquisition Tesco would need to re-evaluate the middlemen previously used and rapidly build up their confidence in the abilities and stability of Tesco as a vendor.

### **Managerial Recommendations**

Following our analysis of the Swiss retail market and Tesco's international strategy, it is evident that the arguments in favour of market entry are greater than the arguments against.

Switzerland is a prosperous country with a stable economy and a high disposable income; making it ideal for investment. In addition, Switzerland will prove a perfect gateway to other central European markets, notably Italy, Germany and Austria, continuing Tesco's ambitious international policy. Tesco's current image of high quality goods at a reasonable price will be well suited to the Swiss market drawing on research of present supermarket offerings within the country, for example Migros and Coop.

Tesco's policy on recruiting local managers is appropriate in the Swiss market as a high work ethic and a recent shift in trends from full-time to part-time employment will ensure a smooth transition into the market. Following close analysis of shopping trends in Switzerland favouring smaller convenience stores, Tesco will have to utilise their knowledge in this area.

One factor, which could deter Tesco from a venture into Switzerland, is that it will be a long-term investment, hence shareholder wealth will not be maximised in the short-term. Tesco need to make this decision, taking into account their available cash flow and current market situation abroad.

Another major disadvantage of market entry for Tesco is the potential threat of other multinational market entrants. Wal-Mart and Carrefour, two significant potential entrants, are both looking to broaden their international presence, which could hinder Tesco's advancement. With this in mind Tesco need to pursue swift action if they are to successfully enter the Swiss market ahead of imminent competition.

It is clear that the most preferable strategy for market entry will be a takeover strategy, a policy that Tesco is already familiar with in the majority of other international markets, notably in Ireland and Eastern Europe. A takeover strategy has previously proved successful for Tesco, in contrast to the failure of their joint venture in France.

Following the recommendation to go ahead with the proposed venture in Switzerland, Tesco must now investigate appropriate grocery retailers to acquire in order to progress effectively.

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