Entering the retail sector in Central Europe

Tesco's expansion into the Czech Republic

International Marketing

2006

Séverine Delaporte
Ilona Juřenová
Lizhu Ren
David Towers

MIB 21a

GRENOBLE ECOLE DE MANAGEMENT Graduate School of Business

1 Contents

2 Abstract

This report examines the role that Central and Eastern European countries play in the increasingly international strategies of retail companies. This report focuses specifically upon the Czech retail environment and how Tesco has successfully entered the market by adapting its market offering for Czech consumers. It is demonstrated that Tesco has been successful within the Czech Republic by adopting a multi-format strategy and by focusing upon consumer needs through offering low-cost and localised products. Subsequently, empirical evidence is analysed which shows that UK consumers perceive Tesco to be too large and too powerful, whereas Tesco is in its Honeymoon period with Czech consumers because since the move away from Communism, retailers are seen as fulfilling the capitalist dream. Finally, the extent to which consumption within Central and Eastern European countries and the extent to which a truly European consumer exists is critically assessed.

3 Introduction to the Central and Eastern European market

The last two decades of the twentieth century saw Europe face the birth of a completely new era. The technological boom broke down barriers to globalisation, and physical accessibility stopped being merely a dream of the more adventurous marketers. Fall of further environmental barriers (for many represented symbolically by the fall of the Berlin Wall), especially those of political and environmental character, deepened the whole process.

Ten new member states represent 450 million consumers

Freshly gained political and economic openness of European countries created a milieu for expansion of the original fifteen-state European Union by eight newly liberated countries of the former Soviet Bloc (Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia and Slovenia, from now on referred to as CEE countries – Central and Eastern European countries), and island states of Cyprus and Malta. The ten new member-states brought in an extensive consumer body in the count of 450 million – 450 million consumers whose awareness and demand were the last things global companies after decades of look-but-don't-touch exposure to Western products needed to create. (ATKerney, 2004) It was not the desire that had to be built, but the affordability of the product:

> *"The West tends to view the fall of the Berlin Wall as a light switch that illuminated Eastern Europe to the prosperity of capitalism. In reality, the transition remains a laborious endeavour filled with trial-and-error and expensive mistakes. Some countries, such as Hungary, Poland, and the Czech Republic, moved quickly to privatise all essential sectors of the economy and are consequently showing more growth than the rest of Eastern Europe." (Salter, 2006)*

Growth of the economy and purchasing power

According to Reardon the new member countries had a long way to go to reach the GDP and buying/spending power of their neighbours in Western Europe (2004). As Keegan suggested as early as in 1995, almost ten years before the actual enlargement, a key provision for the economic growth was the development of infrastructure and a legal and a contractual framework.

It was a concerted push to become part of the European Union (EU), which served as an impetus for reform. The implementation of four basic principles of the EU as stated in the Treaty of Rome, (free movement of goods, services, capital and persons), necessitated acceptance of the sometimes-painful economic and political reforms mandated by the EU (Usunier 2000, Tracy 2004).

The status of associate membership and later on of full membership granted to CEE countries access to financial aid in the form of so-called structural funds to help them bridge the gap of almost forty-per cent difference between their GDP and the average level of the former fifteen member states (DeDee and DeDee, 2006).

> *"Europe offers a number of programs designed to help bridge that wealth gap. These include near-total financing for infrastructure projects like roads and modern water and sewage facilities." (Tracy, 2004)*

Funds were also available for projects as diverse as workforce training and rural development. That too is set to enhance the region's attractiveness to both foreign and domestic investors.

From the consumer's point of view the accession was looked at with both, interest and certain anxiety. It was expected that a number of Western companies would continue filling empty shelves with goods and stimulating consumer tastes as well as their desire for more diverse products, (to transform the post-communist hunger into Western-like consumption patterns). Wider choice and more competition was expected to bring higher quality and safety, as well as counter-balance to increasing price levels. (Lipman, 2003)

4 Trends in the retail industry

Retailing shifts to the supermarket model

Retail comprises of all activities which directly relate to the sale of goods and services to the consumer for personal, non-business use (Retail Glossary, 2005). The retail industry puts a lot of emphasise on profit margin, and as the world-wide competition is growing, prices are being pushed lower and lower, economies of scale offer a promising competitive advantage. This is one of the reasons for trends toward fewer and larger scale retailers*. "Three factors that contribute toward this trend are increased car ownership, increased number of households with refrigerators and freezers, and the growth in the number of working wives."* (Jeannet and Hennessey, 1988). In other words, the increased mobility, growing purchasing power, and time constraints bring costumer from corner stores directly to the pattern of one-time-per week shopping at big retailers.

4.1 Retail in CEE countries

Growth of retail sector

The tendency of having a hectic lifestyle in Central and Eastern Europeans (CE) countries contributes to the high growth experienced by the convenience market. Increasing purchasing power with emergence of a new middle class, second wave development into regional towns and smaller cities, the creation of new-generation shopping/recreational style centres, the expansion of non-food retail outlets are all factors which have contributed to growth in the volume of retail sales in 2006 in the economically strongest CEE countries. The Czech Republic, Hungary and Poland are estimated to have sales of 5.1%, 6.6%, and 3.7% respectively (Deloitte, 2006). Furthemore, according to Datamonitor, the retail sector is "still far from saturated when compared to the UK retail sector" where high competition resulted in lower profit margins on goods sold. In similarity to the rest of the world, the CEE consumers gradually abandon the corner store and accepted the pattern of less frequent, bigger volume shopping. Additionally, removal of legal and fiscal trade barriers propelled by the EU and European legal standards assured by compliance with *'Acquis Communitaires'* provides a better climate for cross-border investment.

4.2 Reasons to expand retail abroad

Major push to expand abroad

According to Levitt (1960), the directors of businesses often fail to identify growth potential. Forty years on from Levitt's comment the twofold driving motive for focusing on global marketing opportunities remain the same: one is taking advantage of opportunities for growth and expansion and the other is survival. Companies failing to pursue global opportunities will eventually lose their domestic markets because they will be pushed aside by stronger and more competitive global competitors (Usunier, 2000). Limited potential for domestic growth, the saturation of home markets, and increasing intensity of domestic competition can result in a price war and in pressure being put on profit margins. In addition, Kotler (1999) argues that geographic market diversification can reduce country-specific risks which is an important reason why many companies go abroad. Likewise, building a strong international brand may bring benefits to the brand's image in its domestic market. It can also be argued that reaching economies of scale often serves as another substantial incentive to expand abroad though a retailer has to take on board extra expenses connected with it. These expenses largely comprise of additional administration expenses, selling costs, distribution expenses and marketing costs. Following thorough the evaluation of the target market and its development (from demographic and geographic perspectives) companies face number of challenges.

The main strategic marketing decision lying in front of a global retail player is whether to apply standardized marketing campaign across the targeted countries or whether it should be adapted to a particular market. Such a decision has to be backed by substantial understanding in both the economic and cultural characteristics of the market. (1999)

> *"This is especially true for Tesco today, which has reached 25 percent market share — close to market saturation — in U.K. food retailing, according to Mr. Breese. "Tesco went abroad because it had to," he says. "The company moved into other areas, like clothing sales and Internet shopping. But that is unlikely to give it the kind of growth shareholders clamoured for." (Griffith, 2002).*

4.3 CEE countries – retailers' paradise

Low costs, unsaturated markets and economic growth

The slow economic growth seen throughout most of Western Europe in the past is changing as the east is becoming the EUs primary domestic growth engine. Tracy (2004) attributes the economic boost to the spark in consumer spending caused by higher employment and increasing wealth.

During the first decade after the fall of the Iron Curtain, retailers were not only selling products. Western retailers were also bringing dreams to people, dreams which were only previously seen in films (Wagstyl, 1999).

> *"As income levels rise across the region, so too do the opportunities for Western companies keen to tap into the growing demand for international-standard goods and services. The retail industry should be one of the main winners of the EU enlargement. Rising purchasing power in the accession countries and their backlog demand will lead to a distinct increase in demand for consumer goods." (Parsons, 2004)*

A boundary-less Europe unlocks great potential for retailers

However Central and Eastern Europe represents not only an important market but also a low-cost manufacturing opportunity – cheap labour, relatively small taxes, and skilled workforce (Parsons, 2004; Keegan, 1995). EU enlargement has made a fundamental difference; new members offer a range of new potential opportunities for investment and company growth. Tesco is an example of a company which has identified and developed into these countries. Tesco's director for fish, meat and poultry Sean McCurley confirmed that Tesco's *'value'* line is 35 % cheaper today than 10 years ago. A boundary-less Europe unlocks great potential: for example when a retailer such as Tesco can buy crisps in Poland and sell them in Germany (Food Manufacture, 2005).

5 Tesco’s market entry strategy

5.1 Entry modes

Different entry mode possibilities

Because internationalization and globalization are taking place so rapidly, a selection of entry mode possibilities is vital to a business when seeking to expand internationally. Which entry mode to choose to enter a foreign market depends upon the percentage of equity the company owns in the foreign venture, that is to say, there is a choice between equity and non-equity mode. Albaum et al. (2002) argue that Equity modes include wholly owned subsidiaries (such as Greenfield, acquisition) and equity joint ventures (minority or majority holding), whereas non-equity modes include export and contractual agreements. Each entry mode has its own advantages and disadvantages, bringing different benefits and costs, while providing the firm with different degrees of control. However, the choice of entry mode is usually based upon the firm’s capital availability and the international strategy the company is willing to implement.

Tesco’s entry strategy

The entry mode that Tesco has chosen to adopt when entering unsaturated markets is summarized below in table 1 (as cited by Yoruk and Radosevic, 2000).

Country	Name of the retail chain	share of equity capital (2000)	mode of entry*
Hungary	Global TH	99%	majority acquisition (at first 51.3%, then 57%)
Poland	Tesco Polska Sp.z.o.o.	98%	majority acquisition (at first 79%)
Czech Rep.	Tesco C c R a.s.	100%	complete acquisition
Slovakia	Tesco SR a.s.	100%	complete acquisition
Rep. Ireland	Tesco Ireland Limited	100%	complete acquisition
Thailand	Ek-Chai Distribution system Co.Ltd.	93%	majority acquisition (at first 75%)
S.Korea	Samsung Tesco Co.Ltd.	81%	majority acquisition

*These are the first entry modes chosen by Tesco. They are followed by greenfield investments of hypermarkets. Only in Poland, after the first acquisition of Savia chain, two other local chains were acquired.

Source: Tesco Annual Report and financial statements, 2000.

Table 1: Subsidiary undertakings in food retail business

Minimising risk through acquisition

Compared with other large retail companies such as Carrefour and Wal-Mart who tended to focus more on larger markets, Tesco took a more conservative entry mode strategy which composed of two main phases. Initially, Tesco entered the central European market through store-by-store development. Although the benefit Tesco acquired may be relatively smaller, large start-up costs are also limited. As described by Palmer (2005), Tesco acquired “a relatively small chain of convenience stores in Hungary, a supermarket business in Poland and a department store chain in the Czech Republic and Slovakia” (see table 2). By testing the markets with small stores, on one hand, Tesco was able to minimize the human and financial capital; and on the other hand, the cost of closing down these small stores or replacing them by large hypermarkets was also lower.

After the initial period of testing through these acquisitions, Tesco continued to expand through Greenfield investments. For example Tesco constructed new hypermarkets in suburbs as a result of local government policies followed in zoning in the cities (Beckmann 1999).

This was a very ambitious move for Tesco since this format was totally new, which had even not been tested in UK market. As Palmer (2005) explains, this approach allowed the company to experiment and radically depart from their existing domestic supermarket format and extend the non-food merchandise content of their international retail store operations.

Tesco enter the Czech market

In March 1996, Tesco entered the market of Czech Republic and Slovakia through the acquisition of K-mart for £77 million, acquiring 13 department stores with an average selling space of 72,000 squared feet. Furthermore, in 1997, through acquiring an additional six large department stores and four hypermarkets Tesco became the largest foreign retailer in the Czech Republic and Slovakia, with some $150m in sales. The stores in the Czech Republic and Slovakia also had synergies with and benefited from other operations in Poland and Hungary (Merchandiser 1996, as cited by Yoruk and Radosevic, 2000).

Country	Acquisition	Date	Price (GB£ million)	No. of stores	Sq. footage (million)
Hungary	Global	June 1994	13.4	43	0.1
Poland	Savia	November 1995	8.0	36	0.2
Czech Republic and Slovakia	K-Mart	March 1996	77.0	13	1.0
Thailand	Lotus	March 1999	200.0	13	1.6
South Korea	Homeplus	April 1999	80.0	2	0.2
Poland	HIT	July 2002	386	15	NK

Source: Not disclosed

Table 2: International acquisitions by Tesco in emerging markets (Palmer, 2005)

5.2 Tesco's marketing strategy in the Czech Republic

When analysing Tesco's positioning within the Czech Republic it is useful to see what marketing strategies Tesco implemented when entering the country. Additionally, it is interesting to consider how these strategies were similar to the strategies used in the home market or to their usual international marketing strategies. Essentially, this analysis will review whether Tesco choose to adapt or simply exported its home model.

Tesco's *'glocalisation'* strategy

Tesco's success in the Czech Republic is an interesting area of study because it is very different from the UK and also because Tesco had a failed attempt at entering the French market in 1993 (Yoruk and Radosevic, 2000). The French retail market seems to be much more similar to the UK home market than the Czech Republic retail market. The success of Tesco in the Czech Republic compared to the failure of Carrefour for instance is because of its strong willingness to adapt to the local market without loosing its core identity. This is linked to a concept introduced by the sociologist Roland Robertson (1995) called "glocalization" (page 95). This notion combines global tendencies and local realities. This is the core strategy of Tesco which pertains to the idea of Tesco approaching each market differently, understanding and responding to local needs, which include the needs of final and intermediate customers, competitors and the macro environment.

5.2.1 Focusing on customers needs and wants without losing identity

Extensive customer surveys

To know the market they are willing to approach, Tesco conducts extensive customer surveys in Central Europe. Moreover the business follows a strategically different policy on cumulative learning from its experience in every one of its stores, which results in applying customer feedback from its most recently opened store as the starting point for its newest stores (Mohorovice, 2000). Tesco does this in order to get closer to what customers want. One of the main objectives of Tesco when internationalizing is to maintain and developed its core identity based on low prices, high product quality and services. The challenge faced is to transmit the Western standards of shopping in Central Europe and the Czech Republic in particular.

5.2.2 A multi-format strategy: an adapted distribution policy

Tesco has four retail formats

The store format is a key issue for adaptation in Tesco's strategy. The way a store is designed should suit the shopping patterns of customers. In UK, Tesco operates a range of four main retails formats. Tesco *Extra* are hypermarkets with an average sales area of 7500 squared meters. They focus on a strong one-stop shop offer including their maximum food and non-food range with a purpose of destination shopping. Tesco *Superstores*: (3600 squared meters average sales area) are more representative of a one stop weekly shop. Tesco *Metros* are of intermediate size between the *Superstores* and Tesco *Express*. They offer a limited range of products and are located in urban areas. Finally Tesco *Express* are convenience stores with very limited sales area space.

Modern shoppers and traditional shoppers

In the Czech Republic, according to a report issued by Price Waterhouse Coopers (2004) two types of profile of shoppers can be identified: modern shoppers (47% of the population) and the traditional shoppers (53%). Even though a specific shopping behaviour does not correspond strictly to a store format, since each format targets different consumers segments, it can be given dominant features of an overall shopping behaviour. Thus in the Czech Republic, based on the Price Waterhouse Coopers study, it appears that modern consumers tend to primarily shop in hypermarkets and cash and carry formats, while traditional consumers shop more often in convenience stores (mainly located in small towns or in the centre of large cities).

Tesco's Czech entry strategy

At previously discussed, Tesco, has developed its hypermarket formats (with a total floor space more than 7000 squared meters) in the Czech Republic by taking over K-Mart department stores in the largest towns in the most lucrative regions starting in 1996. The idea was to use an entry model that could allow the chain to quickly establish its brand image taking advantage of the high growth in the retail sector. This is linked to the concept of the first-mover advantage (Johnson, 2001). Later Tesco bought 27 German supermarkets owned by Edeka to set up Tesco Superstore formats. In 1998, Tesco opened the country largest hypermarket (10,000 squared meters) in Prague. Despite the success of the hypermarket format, shopping habits change and as in Western Europe, purchases are planned less and less and the need for convenience is increasing. To respond to that change, Tesco wants to increase its presence on the convenience stores format. Thus Tesco plans to start the construction of several dozens of small shops Tesco Express (1,000 squared meters) in 2007.

Table 3:	Czech Republic Food Retail Market Segmentation I: % Share, by Value, 2004
Category	**% Share**
Hypermarkets	37.00%
Discounts	19.00%
Supermarkets	19.00%
Grocery	18.00%
Convenience	5.00%
Other	2.00%
Total	**100.0%**
Source: Datamonitor	DATAMONITOR

Table 3: Czech Republic food retail market segmentation

When taking over the stores, Tesco had to make sure that it is line with Tesco core brand identity. To comply with this requirement, one of the first implementation was the design and layout of the stores to give a similar look to stores in the UK. The visual merchandising and the display policy were a priority. Tesco invested in £1.1m to set up those operations with the collaboration of a Czech team. A British marketing director had been appointed to set up his Czech marketing team.

5.2.3 Local products that fit customers' tastes

Czech ethnocentric tendencies

Despite Czech interests on shopping in western style hypermarkets, it is crucial for the retailers to be able to offer Czech products considering the high level of national identity that exists in the Czech Republic (Balabanis, Diamantopoulos, Mueller and Melewar, 2001). Considering this matter, Tesco had chosen to enter in long term relationship with local producers. Tesco started also to work with local food processors and farmers to produce cheaper costs for developing its own-label products. Through own brands and quality products, Tesco can develop its brand image and earn very high margins. In UK, the percentage of the representation of own-brand products is 40% while in Central Europe it counts for 20% on average (Yoruk and Radosevic, 2000). Local sourcing allows Tesco to offer a wide range of domestic products that fits the local demand and at the same time, leads to cost cutting and thus lower prices for Tesco's shoppers.

5.2.4 Aggressive pricing strategy

In similarity to the UK, the core strategy of Tesco is offering low prices. Tesco have been able to provide low prices for a population where the purchasing power is much lower than in the UK. Their strategy consists of localising the supply chain in order to work. It results than 90% of the products are sourced in the Czech Republic.

5.2.5 Adapted communication

Stock promotion based upon country holidays

Tesco maintain a strong brand image in similarity to the UK. Additionally, Tesco records customers' information in order to help understand shopping patterns. For instance in July 2002, while the promotion in the UK stores was focusing on Harry Potter book, in the Czech Republic the windows of Tesco were highlighting swimming suits since the buyers were preparing their summer holidays. Tesco managers plan promotion based on stock and country holidays and customs.

While the loyalty card has been a powerful tool in Tesco strategy in the UK, it is still not introduced in the Czech Republic 10 years after the launching. Nevertheless the discount coupon is a very common strategy in the Czech Republic. Available directly in the stores or in newspapers, they offer instant promotions.

5.2.6 Adding value through service

As in the UK, Tesco attempts to maintain its strong customer-oriented policy that differentiates itself from its competitors. For instance, Tesco hypermarkets and superstores are equipped with large parking spaces. The level of car ownership is about the same to that in the UK which has result in a growth of the out-of-town retailing (Court, 2000).

Added value limited by technology take-up

Tesco developed its umbrella of services in the UK but is struggling to make it the same in the Czech Republic. For instance, tesco.com which is an online shopping has not been introduced yet considering the low use of Internet within Central Europe and the Czech Republic in particular. Similarly the B2B marketing through Intranet with suppliers which is very efficient in the UK has not been introduced yet in the Czech Republic.

5.2.7 Adapting to changes in the macro-environment

Rogers et al. (2005) developed a model for the internationalization of Western businesses to emerging markets. The core idea of this model is that the performance will depend on a market orientation combined with matching micro and macro factors (environmental factors such as competition, government, and economics).

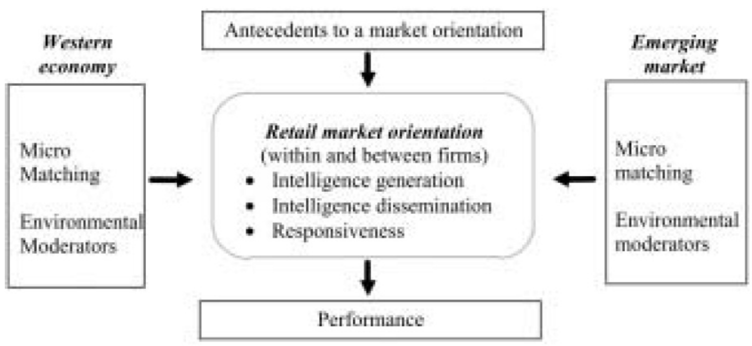

Figure 1: Micro level matching, network and market orientation in the internationalization of retailing firms. Rogers et al. page 22.

Thus to be successful, Tesco needs to be adapted to local needs as seen earlier, but also to be flexible regarding to the macro-environmental changes. For instance, government officials in the Czech Republic are talking about strict regulations to protect the domestic suppliers in their trade with chain retailers. This will directly affect the power Tesco has over its suppliers.

Changing lifestyles and trends in consumption

Also, lifestyles are changing very rapidly and tend to follow a similar evolution than Western Europe. Purchases less frequently planned and the need of convenience is increasing which forces Tesco to adapt in creating its model of convenience stores.

In 1996, Tesco benefited from its first-mover advantage and from a very fragmented market. But ten years on, competition is on the rise and food retail is close to saturation as in Western Europe. Thus it is crucial to maintain a differentiation strategy and a strong brand image to cope with the competition. The structure of the market is changing and the emergence of discount stores (such as discount) makes the price factor even more determinant.

5.3 Evaluation of Tesco's success within the Czech Republic

Tesco has learnt from previous mistakes

Tesco's globalisation strategy has been very successful particularly within Europe, proven by the fact that Tesco are now the leading hypermarket retailer in central Europe. However, Tesco's international expansion strategy has at times proved problematic. In 1993, Tesco attempted to enter the French market through a joint venture, but the joint venture failed and the only remnant from this venture that remains today is a wine store in Calais. Unlike some retailers Tesco has learnt from its failure, consequently when developing abroad, Tesco now tends to favour a strategy of supermarket acquisition as opposed to joint ventures. As can be seen from the discussion within this report, what has determined the success of Tesco is the extent to which they have chosen the most appropriate entry mode identified which retail format is most suitable, created an effective distribution network and localised products.

5.3.1 The Czech success

Tesco carefully assess customers' needs

As has been demonstrated through the case of Tesco in the Czech Republic, Tesco's take-over strategy has proven to be extremely effective. Entering the Czech Republic through acquiring K-Mart meant that local management, employees and distribution channels were already in place for Tesco to use. It is through this strategy that Tesco was able to begin its rapid expansion within the Czech Republic. Tesco was able to utilise its core competencies developed in the UK for example in store formats and supply chain to facilitate growth within the Czech Republic. Currently, within the Czech Republic, Tesco has adopted a multi-format approach which has enabled to Tesco to keep growing despite saturation and consolidation within the retailing sector. Because Tesco only use Czech store managers, Tesco has been able to fully adapt to the Czech market. Tesco's approach to the Czech market has been to thoroughly research the market, and carefully assess customers' needs. Levitt (2004) argues that carefully assessing the needs of the customer is one of the key determinants of sustained growth. According to The Grocer (2006), Tesco has not just been able to grow substantially, but it has been able to show off about it too with promises of further penetration of the Czech market through the development of Tesco Express stores to complement the hypermarkets that already exist.

Economies of scale

As Tesco continues to grow across central Europe and indeed internationally, Tesco's economies of scale continue to increase. As Clarke (CEO for Tesco in the Czech Republic and Slovakia) argues: *"buying across central Europe has allowed us to be profitable, leveraging our scale and applying Tesco's point of value, driving prices down."* Inevitably Tesco's buying power will contribute to increase in a similar way to how Wal-Mart's buying power has continued to increase as it has expanded globally.

5.3.2 Problems within the Czech market

Growth reliant upon macro economic trends?

Whilst Tesco has undoubtedly met with considerable success within Eastern Europe and more specifically the Czech Republic, part of this success can be attributed to the macro economic factors associated with these countries. As has been demonstrated at the beginning of this report, the Eastern European countries are developing at a considerable rate, particularly those countries which have recently entered the EU. This is demonstrated by the fact that Mintel (2006) predicts food sales in the Czech Republic and Hungary will drive European economic growth over the first decade of the 21st century. According to Awbi (2006), research shows that there will be an expected 74 per cent rise in food retail sales from €783bn in 2000 to an estimated €1,063bn by 2010.

Increased competition within the retail sector

Although it is very positive that Tesco was one of the first retailers to move into the Czech market, because of the extent of the economic growth within the country, many retailers have moved into the country to reap the benefits of a growing economy. This has led to the retailing environment within the Czech Republic becoming saturated with Tesco, Kaufland, Ahold, Metro, Globus, Penny, Delhaize and Lidl all having operations within the country, with Leader Price expected to enter in 2007 (Awbi, 2006). This market saturation poses a threat for Tesco, particularly as price is the main means of competition within the retailing sector in the Czech Republic. Trends within the retailing sector show that Tesco is currently competing with discounters such as Lidl. As this competition continues to increases, Tesco may struggle to develop at the rate it hoped to. Increasing competition within the retailing sector has already led to consolidation within the market (Price Waterhouse Coopers, 2003), and further consolidation is likely.

5.3.3 The future within the Czech Republic

As the retailing sector continues to become more aggressive in terms of competition, Tesco will need to have strategies to compete within the market place. Tesco has already begun to do this through changing its focus upon the development of smaller convenience outlets (Tesco Express). Furthermore, as Tesco continues to expand, it is possible that it will be able to utilise some of the technologies that it utilises successfully in other countries. As previously discussed part of Tesco's success within the UK can be attributed to its loyalty cards (Club card) and successful ecommerce strategy. Currently Tesco is not using either of these technologies within the Czech market, however as internet take-up increases within the Czech Republic, Tesco will be able to utilise its skills in this field to facilitate growth. Furthermore, as launching a club card scheme would enable data mining of information which would help Tesco better understand consumer purchasing within the Czech Republic.

5.4 Consumer perceptions of Tesco from the UK and the Czech Republic

In order to gain a fresh and up-to-date perspective on how Tesco is perceived in the UK and the Czech Republic, some empirical research was carried out to strengthen this report. As this research is a small part of the report only a small sample of respondents was gathered from the UK and the Czech Republic and the data gathered (included in the appendix) will be analysed as qualitative data.

A pessimistic perception from the UK

Analysing the empirical research that was carried for this report analysing consumer options about Tesco within the Czech Republic and within the UK, a number of trends can be deduced. Most obviously perhaps both consumers within the UK and the Czech Republic equate Tesco with its large size. However, it can be seen that the respondents within UK have a much more cynical view of Tesco, suggesting its size is a reason for concern. A number of the respondents from the UK made comments that Tesco is greedy and too powerful. These comments coming from UK consumers suggest that some actually view Tesco's dominance within the retail sector as threatening, with one respondent actually avoiding shopping there because of this factor.

In contrast to those surveyed in the UK, respondents from the Czech Republic were considerably less cynical about Tesco. From the research it can be seen that consumers' opinions are generally much more positive about Tesco; highlighting the variety of choice, good prices and quality of products they can find at Tesco. Interestingly, one respondent mentioned how he could return goods without any specific reason. This represents a new value added service that Tesco has introduced in Czech Republic which is appreciated by the Czech consumers.

Tesco's 'honeymoon period' in the Czech Republic

It can be seen from the research carried out, that some consumers within the UK are unhappy about Tesco's dominance and size. In contrast, consumers in the Czech Republic generally seemed to have a much more favourable opinion of Tesco, seeing it as offering something that the Czech Republic had not previously seen. In this respect therefore, it can be suggested that Tesco is currently in its Honeymoon period within the Czech Republic. Whilst consumers in the Czech Republic are not overly critical of Tesco, in contrast, those surveyed from the UK seem to have grown tired of what Tesco has to offer, with a number of people consciously avoiding shopping at Tesco because of its powerful position.

In light of the fact that consumers are increasingly becoming critical of Tesco, Tesco will surely face a similar challenge when expanding within the Czech Republic. This will likely be an issue that Tesco will need to address and be careful of when pursuing growth, particularly as they seek to expand their market share by moving into small grocery shops.

6 Conclusion

Are Romania and Bulgaria the Czech Republic of tomorrow?

Tesco's entry to the Czech Republic ten years ago can be compared to its efforts of expansion in an emerging market such as Romania today. As the market in the Czech Republic and Central Europe has become saturated, it is crucial that western retailers are able adapt to these macro-environmental changes. Additionally, retailers are now looking at attractive markets of the potential new European Union entrants, namely Bulgaria and Romania, which are scheduled to join the EU in 2007. These two countries are likely to become the new focus of western retailers who seek opportunities to gain the competitive advantage of economies of scale by exploiting those markets, and likewise grow their brand image. The evaluation of the effectiveness of their strategies applied in CEE countries will be critical to the development of their business in the potential new entrants, and the challenge will only intensify with further potential EU enlargement into Turkey, a country with huge market potential yet a cultural tradition different to the European post-Christian model.

A single market but no single European consumer

The ongoing enlargement of the EU and the efforts employed in reducing the physical, technical, and fiscal barriers have lead to tremendous changes in the European market structure and in international marketing strategies. However, that does not necessarily mean that European countries will also become homogenous. Indeed historical, cultural, institutional, and socio-economic differences remain. Naturally there are some cultural values that are perceived similarly across Europe, yet researches repeatedly show that there are more "European cultures" than one "European culture".

The most important point in the theory of European customer was suggested as early as in 1991 by Wolfe: *"There will eventually be a Euro-market, and there may be one day a Euro-retailer, but there will be no European-consumers in the foreseeable future."* Nevertheless, it is important for a retailer to realize that convergence and divergence are two sides of the same coin, and that Western Europe and CEE countries are following similar trends, yet with a gap of several generations. The evolution of e-commerce can serve as an example – in Tesco's UK revenues electronic retailing generates a substantial share, whilst in the Czech Republic the concept of online shopping is still fairly new, but in the future it is likely to reach the UK's level (Usunier, 2000).

Challenges in the future and recommended areas of study

Whilst the Central European market is attractive, the challenges that were faced by retailers in Western European countries in the past will be faced by the same retailers in Central markets in the future. Challenges will be around market consolidation, price competition and added value. These issues will remain a focus for retailers globally, and will continue to be an area for marketers in the future.

7 Appendix

7.1 Czech Republic Questionnaires

Characteristics of respondents - UK		Gender
1	a student living in Prague, working part time	f
2	a vet assistant from Breclav	f
3	student from a little town, 30 km from Prague (Nymburk)	f
4	student - full time employee of a bank in Prague	m
5	finance director in BV	f
6	entrepreneur, BV	m
7	young woman on her maternity leave, BV	f
8	entrepreneur BV	m
9	young professional, Prague	m
10	fresh graduate, employed, Brno	m
11	retired lady	f
12	young professional, Brno	m
13	young professional	m
14	me (student, Prague, part time)	f

Do you shop at Tesco? How often? Why, why not?	
1	2-3 times a week, big selection, availability of other goods, not just groceries (stationary, drug store…)
2	1-2 times a week, depending on when I go to Brno
3	No, it is not anywhere around my place
4	1 in 2 weeks, convenient location (downtown)
5	Exceptionally - twice a year, too far from my place (transport costs and time)
6	Rarely, not anywhere around, prefer small stores
7	Occasionally - 1or 2 times a month
8	Yes, rarely
9	Yes, once a month, have a large selection of goods
10	Exceptionally
11	Whenever I go to Brno, goods seem to be better than at Lidl or Penny. In Brno I appreciate division into floors (groceries only sell groceries, nothing else)
12	Occasionally, when I need to eat - Tesco offer groceries at prices comparable to its competition
13	1 or 2 a week, convenient location
14	1 a week, convenient locations, large selection (e.g. the wide choice of toothbrushes ever ;-) "all in one house" (convenient during my 1st year in Prague)

Please describe the kind of shopping you do at Tesco?	
1	Mostly groceries (namely vegetables, fruits, cheese), sometimes toiletries, cosmetics, detergents
2	Groceries, but have bought cds and books as well
3	Nothing
4	Food
5	Most of the times just groceries
6	Everything, food, clothes for kids, cds, dvds, petrol
7	Food, disposable nappies
8	Groceries, but have bought cds and books as well
9	Groceries, occasionally cosmetics
10	It depends on what I just need (i.e. misc goods)
11	Cheese, salads, goods on sale (often discounts on sugar, vegetables, sweets)
12	Groceries
13	Clothes, empty dvds, plate, cosmetics and other useless stuff
14	Groceries, household appliances, toiletries, other tiny necessities (treads, stockings, towels…), nice underwear!

In your opinion, what are the main differences between Tesco and other supermarkets?	
1	Large selection of goods, relatively fresh goods, fresh fish
2	Large selection, 24/7 opening hours, which is great for customers
3	No clue
4	Strong brand name (cheap)
5	Tesco in England is a "middle-positioned" supermarket, not too expensive, not the cheapest. I think that Tesco reps wouldn't agree, because they try to target costumers from all classes: those not disposing of much financial resources with "Tesco Value" and the richer w/"Tesco Finest". But I think it does not work and it remains a supermarket for the middle class. + it offers wide range of goods, and is opened 24/7
6	More choice, friendlier staff, better shopping conditions, opening hours
7	Bigger promotion, TV commercial (really??? have to check it!!!)
8	None
9	Can return goods w/out giving a reason
10	Cannot see any, they are all the same crap to me
11	Pleasant shopping experience, fast check out, NB question 1
12	Basically none, just low choice of meat products. Have loads of shop-assistants (temps) who are good looking and nice to talk to. Amazing amount of useless stuff at exaggerated price
13	All the same to me - perhaps not that aggressively cheap like Penny etc.
14	Specialty food - good choice, often the first to regularly offer exotic ingredients, "all in one house", extremely convenient locations, long opening hours

List five words that you associate with Tesco in your country:	
1	"Tesco Tesco, buy a fish" (slogan??? have to check it…;-) or huge store, queues, vacant cash registers
2	A trip to Brno (a holiday trip), overnight shopping, if I don't get it here than nowhere, big spendings, employees on inline skates
3	Supermarket, huge city, crowds, large selection of goods
4	England, cheap, Tesco product line, big, ugly design (of store and own products)
5	Enjoyable, clean, cheap, too busy at times, easily accessible
6	Convenience, choice, quality, friendly and affordable
7	Flyers, advertisement, discounts, sales
8	Logotype, queues, bakeries, dog food (granulated), advertisement
9	Multinational, chain, supermarket, groceries, large selection
10	Supermarket, queue at the cash register, that's about it
11	Money spent, bigger and often unnecessary shopping, food. Good quality of fish, cheese, salads.
12	Environment of the train station that stinks of urine…
13	Nothing, does not get any particular kick out of it
14	Crowded - ALWAYS!, queues, wide choice of underwear in the Brno shopping centre (shelter if its raining or I need to pass time waiting for a train), Mexican ingredients in Brno hypermarket, image of being "a bit cheap" (i.e. do not want to go shopping there for xmas gifts, just for convenience goods, will not boast about buying things other than groceries from TESCO)

7.2 UK Questionnaires

Characteristics of respondents - UK		Gender
1	fresh graduate	f
2	accountant	m
3	a mother of 4 children	f
4	primary school teacher	f
5	school student	f
6	no clue	m
7	computer technician	m
8	fresh graduate	f
9	undergraduate	m

Do you shop at Tesco? How often? Why, why not?	
1	Very very rarely - unethical
2	Occasionally, about once per 3 weeks. Not more often as it is too big, and car park very badly arranged: it’s too big and time-consuming, mainly because of the lack of manned tills (“fast lane” does not do what it says on the tin); the staff are unhelpful – the customer service at ASDA (closest supermarket) is much better and the staff are very polite.
3	Yes, occasionally. Prefer other supermarkets - especially Sainsbury's.
4	Very rarely – there is another supermarket closer to home
5	Occasionally. I don't get food etc from there because my parents do that, but I go sometimes if I need a last minute birthday present or fancy a look at their clothes - so I go for convenience and because it is relatively cheap for most things.
6	Yes we do, at least 3 times a week, there aren't any other decent shops in Walkden
7	Yes, probably about once a month. I prefer not to as the shopping experience at ASDA is more enjoyable but Tesco is the nearest supermarket and so I sometimes go there instead.
8	1-2 times a week, the closest supermarket with the largest selection of goods
9	Yes, regularly

Please describe the kind of shopping you do at Tesco?	
1	Food
2	Things I can't get elsewhere, or when I happen to be passing at the time.
3	Small amounts only plus some bakery items.
4	Specific bakery items that are only sold there; occasionally I look at the clothes; if I need something small and am going past on the way out.
5	I shop for clothes or birthday cards/ presents.
6	Everything, food, clothes for kids, cds, dvds, petrol
7	Mainly food/household weekly shop from time to time
8	Most of the times just groceries
9	Food, clothes, stationary

In your opinion, what are the main differences between Tesco and other supermarkets?	
1	BIG
2	Feels Bigger, or seems to be, and less personal.
3	Size – extremely competitive to the point of aggression.
4	Main difference I have noticed is poor customer service and rude staff. Tesco seem to be trend-setters (club cards, internet shopping, itemised emails) and I think they are much bigger than other supermarkets.
5	Tesco seems to be less helpful and bigger. But I do not know of any major differences.
6	More choice, friendlier staff, better shopping conditions, opening hours
7	Tesco seems less welcoming, it seems rather like a warehouse rather than somewhere it is nice to walk round. It also seems to have badly designed car parks!
8	Tesco in England is a "middle-positioned" supermarket, not too expensive, not the cheapest. I think that Tesco reps wouldn't agree, because they try to target costumers from all classes: those not disposing of much financial resources with "Tesco Value" and the richer w/"Tesco Finest". But I think it does not work and it remains a supermarket for the middle class. + it offers wide range of goods, and is opened 24/7
9	Largest choice of products, not too expensive, always open!

List five words that you associate with Tesco in your country:	
1	Unethical, big, monopoly, unfair, cheap
2	Big. Powerful. Greedy. Impersonal. Bad car parks.
3	Huge, greedy, unhelpful (locally), aggressive, self-promoting.
4	Massive, Greedy, Taking over - scary, Impolite staff, Successful
5	Big, successful, townies (haha!), cheroke (the clothes label), un-helpful.
6	Convenience, choice, quality, friendly and affordable
7	Big, powerful, reasonable(price), aggressive, dominant
8	Enjoyable, clean, cheap, too busy at times, easily accessible
9	Big, large selection, good offers, cheap, student friendly

8 Bibliography

Albaum, G., Strandskov, J. and Duerr, E. (2002*) International Marketing and Export Management*,4th edition, Prentice Hall

ATKearney. (2006) *Building the Optimal Global Footprint.* [Internet] Available from <http://www.atkearney.com/shared_res/pdf/GSLI-2006_S.pdf> [Accessed on 23 November 2006]

ATKerney. (2004) Des pays de l'Est attractifs. *Le Journal du Management* July 2004.

Awbi, A. (2006) Tesco and Wal-Mart push further into Eastern Europe, Foodanddrinkeurope.com <http://www.foodanddrinkeurope.com/news/ng.asp?n=65827-wal-mart-tesco-edeka-auchan> [Accessed on 24 November 2006]

Awbi, A. (2006) Tesco falls foul of Slovak government, Meatprocess.com <http://www.meatprocess.com/news/ng.asp?id=67411-tesco-cee-slovakia> [Accessed on 24 November 2006]

Balabanis, G. Diamantopoulos, A. Melewar, T.C. and Mueller, R. (2001) The Impact Of Nationalism On Consumer Ethnocentric Tendencies. *Journal of International Business Studies* 32 (1), 157-175.

Court, Y. (2000) Out Of Town Retailing In Central Europe, European Retail Digest (26) 45.

Datamonitor. (2005) *Food Retail in the Czech Republic*. [Internet] Available from <http://www.datamonitor.com> [Accessed on 25 November 2006]

DeDee, J. K., and DeDee, L. S. (2006) The Czech Republic: Is it a Global Player? *The Journal of American Academy of Business* 9(2)

Deloitte. (2006) *Retail in Central Europe. Available* from <http://deloitte.net/dtt/cda/doc/content/cz_retail_in_ce_030206.pdf> [Accessed on 25 November 2006]

Desmeules, R. (2002) The Impact of Variety on Costumer Happiness: Marketing and the Tyrany of Freedom. *Academy of Marketing Science Review* 12. [Internet] Available from <http://www.amsreview.org/articles/desmeules12-2002.pdf> [Accessed on 25 November 2006]

Food Manufacture. (2005) Tesco happy to claim the moral low ground. April 2005.

Griffith, V. (2002) Welcome to Tesco, Your Glocal Store. [Internet] Available from <http://www.strategy-business.com/press/16635507/11670> [Accessed on 25 November 2006]

Jeannet, J., and Hennessey, H. D. (1988) *International Marketing Management.* Boston: Houghton Mifflin Company.

Johnson, G. and Scholes, K. 2001. Exploring Corporate Strategy: Texts and Cases. FT Prentice Hall.

Keegan, W. J. (1995) *Global Marketing Management.* New Jersey: Prentice Hall.

Kersnar, J. (2005) View From Europe. *CFO* 21(17)

Kotler, P., et al. (1999) *Principles of Marketing.* Europe: Prentice Hall.

Levitt, T. (1960) Marketing Myopia. *Harvard Business Review* July - August

Lipman, M. What does EU enlargement bring to consumers? [Co ceka spotrebitele v rozsirene EU?] Transl. Pechlat, J. [Internet] Available at <http://72.14.221.104/search?q=cache:EdjYxyw5X-sJ:www.spotrebitele.info/clanek.shtml%3Fx%3D199051+rozsireni+eu+marketing&hl=en&ct=clnk&cd=2> [Accessed on 22 November 2006]

Mohorovice, D. (2000). Minding the store Tesco Commercial Director Paul House on customer service, supplier relations, and what milk and home mortgages have in common. Budapest Business Journal, 9.

Palmer, M. (2005) Retail multinational learning: a case study of Tesco, International Journal of Retail & Distribution Management 33, 23-48.

Parsons, N. (2004) Investment is flowing to newest EU members. *Institutional Investor*-International edition 29(12)

PricewaterhouseCoopers. (2003/2004) *Retail & Consumer: Winning Strategies in Russia and Central & Eastern Europe.* [Internet] Available from <http://www.pwc.com> [Accessed on 25 November 2006]

Reardon, C. M. (2004) What does EU growth really mean? *Paper, Film and Foil Converter* 78(12)

Retail Glossary. (2005) Retail. [Internet] Available from <http://www.uncoverthenet.com/> [Accessed on 2 December 2006]

Robertson, R. (1995) Globalization, in Featherstone Mike, Lash Scott, Roberston Roland, Global modernity. Sage.

Rogers, H. Ghauri, P. George, K. (2005) The Impact of Market Orientation on the Internationalization of Retailing Firms: Tesco in Eastern Europe, International Review of Retail, Distribution & Consumer Research, 15 (1), 53-74.

Salter, J. (2006) From Karl Marx to Trademarks. [Internet] *Brandchannel.com* Available from <http://www.brandchannel.com/brand_speak.asp?bs_id=140> [Accessed on 23 November 2006]

Thorne, S. (1998) European Retailers Head Eastward. [Internet] *International Council for Shopping Centers.* Available from <https://www.icsc.org/srch/sct/current/sct9808/18.php> [Accessed on 23 November 2006]

Tordjman, A. (1995) European retailing: convergence, differences and perspectives in McGoldrick and Davies (eds) International Retailing: Trends and Strategies. Pitman Publishing.

Tracy, P. (2004) Five Ways to Profit from Exploding Growth in Eastern Europe. [Internet] Street Authority.com. Available from <http://www.streetauthority.com/cmnts/pt/2004/07-26.asp> [Accessed on 23 November 2006]

Usunier, J. C. (2000) *Marketing Across Cultures.* 3rd edition. Prentice Hall.

Wagstyl, S. (1999) Eastern Europe takes a shine to hypermarket shopping. *Financial Times.* London (UK): Jan 20, 1999.

Yoruk, D., and Radosevic, S. (2000) *International Expansion and Buyer-Driven Commodity Chain: the Case of Tesco.* University College London. [n.p.]