PAN AFRICA CHRISTIAN UNIVERSITY

MASTER OF BUSINESS ADMINISTRATION

END OF TRIMESTER EXAMINATION

DEPARTMENT: BUSINESS
COURSE CODE: STM601-CORPORATE STRATEGY

EXAM DATE:

TIME: 3hrs

INSTRUCTIONS

- **Read the Case below and answer the questions that follow**
- Read all questions carefully before attempting.
- Answer **any four questions only**

TESCO EXITS THE U.S. MARKET

In November 2007, British retailer Tesco entered the U.S. grocery market business with a new brand, Fresh & Easy. Five years later, it was preparing its exit and sale amid continued losses and a failed attempt to draw broad market appeal. Founded in 1919, Tesco was quite successful in the United Kingdom. The company offered both products (i.e., food, general merchandise, electronics, clothing, and gas) and services (i.e., online sales, telecommunication services, and financial services) at its stores. In 2003, it ranked eighth among the top 10 retailers in the world by sales.

The United States was not Tesco's first attempt at international expansion. In 2012, they had over 3,200 stores in 12 countries outside the United Kingdom. The company was successful in Thailand, South Korea, Hungary, Malaysia, and Slovakia but struggled in other international markets such as Poland, Turkey, the Czech Republic, and Japan. As with any proper market entry strategy, Tesco began by conducting market research. The combined U.S. grocery market is approximately $1.1 trillion in annual revenue compared to just $278 billion in the United Kingdom. Tesco executives felt that the significant size of the U.S. market meant that there was room for additional competitors.

All of this research led to a decision to open its first stores in the state of California. California was comparable to the U.K. market in terms of size and it was less competitive. Its consumers, executives felt, were also more likely to be receptive to Tesco's "green" approach to being environmentally friendly. In addition, increased rates of obesity and rising health-care costs played in their favor with its focus on fresh product offerings, which they felt would be a particular draw on the West Coast. In entering the California market, Tesco departed from past international market entry strategies by eschewing the joint venture or acquisition approach. Some have argued that they were doomed to fail from the beginning for this very reason. First, the company chose to remodel existing retail locations that were less accessible rather than build brand new stores. Second, Tesco lacked local operating knowledge. While they were able to avoid integration problems often found with joint ventures and acquisitions, the company's costs of operations still were negatively impacted. For instance, the costs of central functions amounted to 5 percent of sales in the United States as opposed to 1.5 percent in the United Kingdom.

Tesco did understand that international expansion required catering to local preferences. Their stores in Malaysia included prayer rooms and it sold fresh frogs in China. In entering the U.S. market, they attempted to understand the living, eating, and shopping habits of U.S. consumers, by hiring people to live in the homes of U.S. consumers. Despite this, Tesco "underestimated how Americans shop," as Natalie Berg of Planet Retail noted. This is evident in the following:

• The company only offered "assisted service" at self-checkout machines that went against U.S. consumer expectations for customer service.

• U.S. consumers are also fond of examining fresh produce prior to purchasing, which Tesco limited because they wrapped their produce in cellophane.

• The company also carried a majority of private label brands that, combined with a new store, contributed to atmosphere of uncertainty and a lack of trust.

• Their ready-to-eat meals, a key part of their U.S. expansion strategy, were also smaller in portion size and garnered little interest at first.

This, in addition to the fact that Tesco's decision to have the same product mix at each location and have stores in both poor and affluent neighborhoods, led Berg to note that, "they didn't have a very clear proposition. Are they a convenience store? Are they a discount store?" Finally, Tesco's U.S. success was also hurt by bad timing, entering during the worst U.S. recession since the Great Depression, particularly in hardest hit areas of California, Nevada, and Arizona. By 2011, Fresh & Easy had 164 stores but the stores at a whole were still not profitable. Tesco had tried to alter their existing strategy and even closed a few stores but nothing showed the strong promise of continuing with their plan to have 400 stores in 5 years. So in 2013, they announced their decision to exit the U.S. market and sell the brand to local California supermarket holding company, Yuciapa.

As one retail analyst noted, Tesco's Fresh & Easy stores were "not very fresh and not very easy." In exiting the U.S. market, at a cost of nearly $2 billion, perhaps Tesco's biggest mistake was being in the wrong place at the wrong time. While situations like this are unfortunate and sometimes unavoidable, the company might have avoided a less costly exit by focusing on other U.S. locations after the effects of the recession were underway and by sticking with the JV or acquisition market entry strategy that had generally worked well in previous international expansion efforts.

Required;

QUESTION ONE

a) In reference to the case above, propose a mission statement for the TESCO company (2marks)
b) With relevant examples from the case, identify and qualify any four objectives that TESCO could be pursuing as it develops its strategies (8marks)

QUESTION TWO

Discuss the relevant environmental variables that TESCO could have analyzed before its expansion strategies to USA under the following headings;

i. Political factors (2.5marks)
ii. Economic factors (2.5marks)
iii. Social factors (2.5marks)
iv. Technological factors (2.5marks)

QUESTION THREE

Using the SWOT model, analyse the internal environment of the TESCO Stores that could have informed its expansion decision (10marks)

QUESTION FOUR

Citing relevant examples from the case, explain the appropriateness of the following strategies to TESCO Stores;

i. Related diversification (5marks)
ii. Retrenchment strategies (5marks)

QUESTION FIVE

Strategy implementations requires the evaluations and understanding of key variables. Citing examples from the case, discuss this statement under the following subheadings;

i. Organizational Culture (3marks)
ii. Existing strategies (3marks)
iii. Organizational Structure (4marks)

QUESTION SIX

Describe five steps involved in the strategy implementation process (10marks)