

**Grocery Essentials**

**Shanghai, China**

**Team 2: The Opportunists**

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## **Executive Summary**

Since Jack Cohen founded Tesco in 1919, the brand has grown to almost 5,000 locations globally with over 345,000 employees. The company has a tall hierarchy with several managerial levels, all of which have a limited amount of control, creating a long chain of command. The company is extremely successful in the UK where most of its stores are located. However, in the international market, management has struggled to deal with differences in culture and varied customer demands, causing a decline in sales after its expansion into central Europe and Asia (Tesco PLC, n.d.).

Tesco, however, has a well-established brand image of providing quality products at lower prices, and is known for its superior customer service. Though the company has failed in China before, it is believed that it could be highly successful with the right changes. Therefore, the goal of this report is to create a plan to successfully enter the chosen city/country, Shanghai, China. Two target markets will be discussed, as well as the mode of entry that will best support the company in the long-run. A look into competitors, collaborators, financials, branding, and marketing communications will also be discussed. Finally, a specific plan of action will be provided, as well as a contingency plan.

## **Customer Analysis**

Tesco's main selling point is its affordable prices, thus the target market is cost conscious individuals who are interested in bargains, sales, and value variety. With its six different types of stores (Tesco Express, Tesco Extra, Tesco Metro, Tesco Compact, Tesco Homeplus, and Tesco Superstore), the company has a store with products to match everyone's preferences and needs, no matter a person's age, gender, etc. (Shastri, n.d.).

Shanghai, China was chosen as a good location to move into because the culture is very masculine, meaning the society is driven by success. They sacrifice family and leisure priorities to work, so quick and easy grocery shopping is needed to fit the Chinese lifestyle. Additionally, the culture is low in indulgence, so a cost conscious grocery option is perfect for China.

When moving into Shanghai, there are two main markets that Tesco should target, the first being travelers/tourists. According to Pang, the longest metro system in the world spreads beneath the city of Shanghai. The Shanghai metro has 393 stations spread throughout the city connecting major attractions, including the Pudong International Airport to downtown Shanghai (Pang, 2022). This supports the idea that having a Tesco Express at airports and railway stations would make for good business, as people who are traveling would appreciate the quick, convenient, and cheap options of snacks and other grocery essentials being offered.

The second market that Tesco should target in Shanghai is the working class. According to Pak, people in China work twelve hours more than their counterparts in the US, and a six-day work week is normal for Chinese workers. As a result, they eat out a lot, whether that be sitting down for a meal in Shanghai's commercial district or getting a microwave meal from a convenience shop (Pak, 2019). For this reason, a Tesco Metro would excel in the commercial district of Shanghai. Tesco Metros are small enough to accommodate a quick grab-and-go lunch for busy workers but are also large enough to buy a week's worth of groceries if needed. Tesco in Shanghai, if done correctly, has the potential to excel with both travelers/tourists and the working class, whether that be working class families or individuals.

### **Competitors Analysis**

In general, supermarket businesses have been under pressure, and foreign chains now confront fierce domestic competition. Without considering the present market conditions in

Shanghai, Tesco may follow its rivals' methods blindly or mimic its previous sales models (Kermeliotis, 2011). Tesco no longer takes into account the level of consumer pleasure and instead solely considers the potential of consuming power. In Shanghai, Tesco faces a number of formidable rivals, including LianHua supermarket, Hualian hypermarket Carrefour, Wal-Mart, and others. The nearby supermarkets LianHua and Hualian are very knowledgeable about the requirements of Chinese consumers and Chinese culture.

Tesco's refusal to join the Chinese market earlier compared to rival Wal-Mart was another factor in its failure originally. Branded supermarkets, including complete shopping centers, compete against Carrefour and WalMart for market share. Like KFC, Domino's Pizza, and Nestle, many businesses decide to enter the Chinese market through joint ventures or strategic alliances (Kermeliotis, 2011). Tesco was less aware of the influence of culture than other foreign businesses operating in Shanghai, such as IKEA. IKEA provides all loyalty card holders with a complimentary cup of tea or coffee as well as a piece of newspaper or magazine. In the Chinese market, that is what consumers need and want. They don't want to save points since they believe it is pointless and full of tricks. Because they want to see their card value every time they shop at Tesco, Chinese clients typically take a long time to decide what to buy. If not, they might pick a different supermarket.

### **Collaborator Analysis**

One of the main reasons Tesco failed in China and Asia in the early 2000's was its inability to understand the Chinese consumers, which is why it is imperative for the company to collaborate with global or local suppliers and/or partners. Since Tesco should enter the Chinese market through a joint venture (see specific information on the joint venture in the [entry mode section](#)), Tesco must create a mutually beneficial relationship with its partner. Ting Hsin

International Group is the choice of partner for Tesco and they specialize in the manufacturing and distribution of food products. In addition, Ting Hsin is also involved in investing in the food and restaurant industry. This relationship with the partner can help Tesco keep shelves filled with its distribution process and can help in the opening of restaurants in the Tesco stores that can aid the target consumers in the busy Shanghai district. It would be beneficial to have interpreters as they are collaborating with Ting Hsin because it can help alleviate the language and cultural barrier in the early stages of their relationship.

Another form of collaboration Tesco should partake in is a partnership with Incorp China. Incorp China is a business that provides all of the required services to help the entry and business process because of the complexity of the Chinese business world. This collaborative relationship with this company would benefit Tesco from the numerous services they offer. Some of the services Incorp China has includes daily contact with government officials, banking help, finding space, Chinese business expertise to get Tesco set up for success as they enter the Chinese market to stay this time (Incorp China, 2022).

### **PEST Analysis**

When it comes to entering China, it is imperative for Tesco to do a PEST analysis before doing so. The PEST analysis stands for political, economical, social, and technological. First, China is a communist country, meaning the government has control over everything that goes on in the country. As a result, the government can make changes and policies any time that could affect the way Tesco would be doing business. Advertisements, messages, etc. need to be constructed carefully to appease the Chinese government and align with their values. Specific messages can be found in the [marketing and communication section](#).

Next, the Chinese economy is performing extremely well with a constantly increasing GDP. Currently, China has a GDP of 14.72 trillion USD with an average growth rate of 9% (Farooq, 2019). In addition, foreign companies, like Tesco, can benefit from China's lower labor costs as well as selling to one of the best markets in the world. However, China has a two year increase in their consumer price index at 2.7% from 2021 to 2022 (Cheng, 2022).

In terms of social factors, Chinese cultural values play a significant role in their social trends. Factors like population growth and family size are determinants of how the market operates. Also, China has a literacy rate over 90% and a current wave of urbanization is affecting social behavior and trending towards more internet based buying in the future.

Lastly, the biggest technological factor that affects China is their internet usage. China has over 450 million internet users in their country. However, as e-commerce is expected to increase, credit card usage is not stable. China lacks stable online payment methods which is why many Chinese consumers still enjoy physically shopping. (Farooq, 2019).

### **Strategic Windows of Opportunity**

Shanghai is a wonderful starting point for Tesco in the Chinese grocery market. Although the British have left after its colonization of the city, their cultural influences have stayed. The city differs from the rest of China, as their business culture has adapted to include Eastern and Western practices. Although it is a part of China, it is very much a capitalist city and was the first port city in China to be opened to western imports. All things considered, Tesco, a British grocery company, should have easy access to the market from a supply chain perspective, and its target customers can be easily persuaded.

To understand Tesco's windows of opportunity, it is important to understand its challenges in Shanghai. First, COVID-19 restrictions are being lifted, but according to

Bloomberg News, the market in the city isn't recovering as well compared to Singapore and Hong Kong. They also state that food and daily necessities are driving their economic recovery. Prior to the lockdown restrictions, consumers directed a larger percent of their disposable income towards cosmetics and apparel. People in Shanghai are starting to get out and be more social, as restrictions are lowered. However, the market for these products is expected to see a much slower recovery than everyday necessities. This has contributed to the increase in real estate vacancies throughout the city, primarily in shopping malls (Bloomberg News, 2022).

The current economic conditions because of COVID-19 restrictions have created an opportunity for supermarket chains to expand the grocery market within Shanghai. In fact, Xinhua reported that as of May 2022, the market has seen an increase of supermarket openings across the city (Xinhua, 2022). While a small increase in vacancies may be a concern for local real estate investors in shopping malls, this could be a significant entry point for Tesco to maximize exposure in malls that still see large amounts of traffic. Using Tesco's store customization strategy, implementing Tesco Express locations would be a perfect fit for on the go consumers and tourists within the shopping malls of China's most popular international destinations.

This strategy appeals to Tesco's target market as they will be targeting tourists and the working class. In addition, some of Shanghai's busiest shopping malls are within their most commercialized areas making it a great location to reach the working class. This strategy acts as a great compliment for providing Tesco Express locations near public transit stations. Combined, the two strategies are perfect for reaching the company's target market, but the window of opportunity is now. The longer Tesco waits, the more of these ideal retail locations will be filled



up and the supermarket industry continues to become more saturated as they continue to seize the current opportunity based on market conditions.

### **Mode of Market Entry**

Tesco would benefit from using the joint venture method of entry into new foreign markets. Joint venture would allow Tesco to benefit from the resources and knowledge of an established firm in the target market. Tesco has previously used a joint venture to enter China in 2004. Tesco found success in its joint venture method with the Chinese company, Ting Hsin. Although Tesco was forced to exit the market in 2020 due to the lack of research and understanding of Chinese culture, Tesco's mode of entry worked. The reasons Tesco decided to participate in a joint venture are the locations established, brand recognition, and knowledge Ting Hsin had already established in the market. Tesco is able to use its supply chain knowledge to help its joint venture partner. Tesco benefitted from the location advantages of its joint venture as well. "The chain of twenty-five hypermarkets offers a great base of stores from which Tesco can expand" states The Writing Zone (The Writing Zone, 2020).

It is important to understand where Tesco failed its first attempt at entering the Chinese market. Tesco's market research failures and poor timing caused its exit in 2020. Tesco found success using joint ventures and will again for the following reasons. Joint ventures capitalize on the expertise of a local, established brand. Using an already established brand to enter China will create comfortability for its customers. Tesco can pursue a lower cost when it comes to expansion through a joint venture. Joint ventures are flexible, allowing for the limitation of each business responsibilities. This flexibility will allow Tesco to maintain its other global expansions while pursuing the Chinese market (Ni Business, 2022). Tesco will need to be weary of the limited profits, communication, and research of its venture partner. It is pertinent that Tesco

pursues a partner with a similar target market and ideal locations for its product. Aligning these key aspects can determine the failure or success of the mode of entry.

### **Channels to the Target Customers**

As discussed in the customer analysis, the two types of customers that Tesco should target in Shanghai are travelers/tourists and the working class. With the Shanghai Metro having 393 stations spread throughout the city, it's important to open up Tesco Expresses at all the major stops. For example, Line 2 has a terminus at Pudong International Airport and Line 3 has one at Disney Resort (Travel China Guide, 2022). Over 80 million passengers transit through Pudong International Airport each year (Asia Markets, 2022). These statistics support the idea that these would be great places to reach the largest number of travelers. After spending a large amount of money on plane tickets and other travel expenses, having a cheaper option like Tesco is perfect for travelers who want a quick, on-the-go snack.

In order to reach the working class, it's important to set up Tesco Metros in the commercial district in Shanghai. The New Shanghai Commercial Center is located in the Pudong district, Lujiazui financial and trade zone. The area of fourteen hectares is composed of many high buildings and pedestrian streets, and it is jointly invested by the Shanghai Construction Group with a total investment of eight billion yuan. New Shanghai has a large number of retail outlets, including many international brands (Top China Travel, n.d.). As New Shanghai is already home to a number of international brands, Tesco would make a great addition to this. Moreso, as the New Shanghai Commercial Center is located in the Pudong district, this would help Tesco reach both intended audiences, travelers/tourists and the working class. With many retail outlets and pedestrian streets, there are a large number of workers in the area, but it is also

a major tourist destination. This means Tesco would be able to kill two birds with one stone by setting up Tesco Metros in the commercial center.

When it comes to marketing, signage would be the easiest way to reach the intended audiences. Having advertisements/signs at the metro stations and in the airport will grab the attention of travelers and the working class. Utilizing social media like WeChat, which is extremely popular in China with nearly 1.2 billion users, would also be beneficial in reaching locals in the working class (Roberg, 2022).

### **Pricing and Value Capture**

Tesco operates through a cost leadership approach to pricing. Tesco has a competitive advantage when it comes to pricing and its loyalty club. Offering lower prices than local competitors attracts more customers. The continued low cost and loyalty perks turn these customers into lifetime buyers. Creating the value of its grocery store products in this way allows for Tesco to capture the value they create. Value capture occurs when a company can ensure the return of customers and limit the switching between Tesco and its competitors. Club cards have another advantage, they track and store information about the consumers purchases, including the items purchased, what they shop, and the amount they spend. Doing this allows Tesco to send promotional offers to the customer, that are individualized based on its determined needs and budget (Uk Essays, 2018). Tesco is able to control the pricing to help ensure returning customers through this method.

Tesco's low-cost approach will be effective in the Chinese market because Chinese consumers are price sensitive. Tesco will be able to create value through its costing methods, but low-cost is not all what Chinese consumers base their purchases decisions on. "At the same time, the Chinese are very brand conscious" (Zhu, 2014). How can Tesco capture the low-cost

advantage while maintaining brand consciousness. The answer is Tesco's private label brand.

Tesco is able to mimic the styles and looks of luxury brands, this allows the company to appeal to those consumers who may be more price sensitive than they are brand conscious, but still want to give off the appearance of owning luxury items.

### **Positioning and Branding**

Due to the fact that Tesco has entered and left China before because of its lack of understanding the Chinese consumer, Tesco should focus on localizing its brand when they enter China this time, meaning the company should align its products to suit the Chinese consumers preferences with Chinese consumer brands. Being the largest retailer in the UK and having experience in Asia, odds are Chinese consumers have heard of the brand. The branding approach that would suit Tesco the best in China is extension branding, which means to start with one product, or in Tesco's case, one kind of store, and then stretch its brand to add the other categories of stores. This would allow Tesco to slowly grow its brand in China instead of putting all its eggs in one basket with its variety of stores like Tesco did the first time and failed.

When it comes to how Tesco should position itself in the Chinese market, Tesco needs to resonate with the chosen target markets, which can be found in the [customer analysis section](#). According to Hofstede Insights, China has a collectivist culture, meaning they belong to groups in exchange for loyalty (Hofstede Insights, 2022). Positioning itself to align with the target market's values will build a strong, early customer base that will be loyal to Tesco. In addition, in the busy Shanghai district, positioning itself as a quick and efficient retailer can create an image in the consumer's mind that they are accommodating to the consumers that have just finished working and need products before they go home. This is imperative to do for Tesco, but this was a huge factor on why Tesco failed in the Chinese markets the first time they entered.

## **Marketing Communication and Promotion**

For Tesco to succeed in Shanghai, marketing communication and promotions need to be well thought out in order to meet the demands of the target markets. For the Chinese working class specifically, quality and price are extremely important factors across all age groups. See Appendix A for a detailed graph on different factors that affect buying behavior (McKinsey & Company, 2018). Messages which highlight Tesco's low prices are crucial. Additionally, messages which communicate Tesco's high quality are essential, especially in fresh produce. Highlighting the collaboration with Global Gap and Red Tractor to perform Nurture programme audits at grower farms and focusing on the responsible use of pesticides will help gain attraction in China (Tesco, 2021). Promotions and labels that point out imported and/or organic products, and perhaps even telling stories about the products' origins and sources is important to emphasize (Kang, Kuijpers, Sawaya, & Wang, 2019).

Signage and advertisements to announce Tesco's entrance into Shanghai is necessary to gain attention. This should include where different locations are, and again, highlight the low prices and high quality, especially in produce and meats. A specific example with image and wording can be found in Appendix B. Having signage at metro stations and near the Pudong International Airport is a great way to reach as many people within the two target markets as possible. Additionally, advertisements on popular social media like WeChat would be helpful in gaining even more attention with the local working class.

## **Financial Forecasting**

Tesco's first journey into the Chinese market required a \$165 million investment (Felsted & Anderlini, 2009). It can be assumed with the 36% decrease in the dollar value since its first entrance that Tesco would require a greater investment to re-enter China. The investment would

have to be around \$259 million to account for the 1.57% increase (Webster, 2022). See Appendix C for graph.

Tesco would need to record \$87 million in profit annually to have a positive net present value at the \$259 million investment over 3 years. Doing this would result in a 0.772201% return on investment. Assuming Tesco could continue this pace over 5 years instead of 3, Tesco would have just under 68% return on investment and a net present value just under \$120 million.

Tesco's first entry into China resulted in a corresponding profit of \$2.25 million annually (FreshFruitPortal, 2013). Tesco would have to operate in China for 115 years to match its initial investment. This is not a realistic option for the company. However, pursuing profits of \$87 million annually can be difficult as well, especially initially. Using the moving average method of financial forecasting for a 5-year period Tesco can achieve the same results by generating more profit in later years. If Tesco initially recorded \$50 million, \$70 million, \$90 million, \$100 million, and \$120 million for 5 years, the results would be similar to \$86 million average. Doing this allows Tesco to ease into the Chinese market and slowly grow through 5 years.

### **Action Plan**

Joint ventures (JVs) are a popular choice among businesses when they enter a new market. Tesco Lotus, a joint venture between Tesco PLC and the CP Group of Thailand, has historically been the most successful Tesco venture in Asia, but starting a business without a JV with a Chinese partner was exceedingly foolish (Kermeliotis, 2011). The relationship between suppliers, customers, and the government is crucial for a shop to succeed in the Chinese market. Tesco has little chance of success without the assistance of the expertise and understanding of a neighborhood business.

Tesco can share secondary data to analyze the worth of each region in Shanghai based on the study that other retailers have already conducted. These geographically adjacent areas have comparable cultures and societal problems. Retailers will be able to grow in a single nation's huge markets with its assistance. Physical and business distance were also found to be related to cultural distance (Kermeliotis, 2011). According to Tesco's expansion strategy, cultural perception and comprehension, as well as practical disparities, are to blame for the gap between the domestic market and the Chinese market. Shanghai was no longer the only market there (Kermeliotis, 2011). Tesco alters the tactic in this regard. The leadership structure and creative concepts may be crucial components of a successful retail development plan.

Market research, mass promotion, segmentation, and targeting are just a few examples of cultural concerns that have a significant impact on the company's communication efforts. When Tesco originally entered China, it spent less on internal communications to develop strong public relations. The 2008 Beijing Olympics and the earthquake in Sichuan presented a platform where communication techniques took unanticipated turns after Tesco had entered (Kermeliotis, 2011). Tesco missed the chance to enhance corporate social responsibility, though. This time, Tesco should contribute more as a well-known national retailer to improve its reputation. The corporation's reputation in the Chinese market is constantly upheld by its commitment to corporate social responsibility.

Localization strategy includes many aspects such as products, human resource management, and quality inspection. It is helpful to get in touch with the zone committee and administration and improve local government affairs. From research, most consumers considered that Tesco's products do not satisfy their needs (Kermeliotis, 2011). To some extent, culture becomes the barrier of cross-country business. Likewise, it also can be the target of business.

Tesco should focus on changing elements of the marketing mix to make the products and service better suited to customers' needs and wants in the Chinese market. Specifically, price matching the major competitors will help Tesco gain loyalty, and promoting fresh produce and meats will help cater to local preferences.

The most crucial element in the retail sector has been regarded as market site selection. Retailers should think about political, economic, social, and cultural factors in addition to geography and each region's purchasing power, as well as the business style employed. Foreign retailers assert that a local partner can provide advice. The location's ease of access offers great potential for success in the future. As a result, each strategy has a strong connection to the others for chain reactions in business. Urbanization has led to the rise of retailing recently, and this trend will continue with government backing. Specifically, starting off with a few Tesco Express locations (which are the smallest style of store offered) in places like the Pudong International Airport and the New Shanghai Commercial Center would be the safest option financially. Then, once those have proven to be successful, additional stores, including Tesco Metros and Tesco Extras, may be added.

For any merchant, especially in Shanghai, the price strategy appears to be the most challenging issue. Retailers should be allocated prices offering variations in distinct places, according to Grewal's examination of the diverse consuming power and price sensitive rate. One benefit of low prices is that one can quickly increase sales. A complicated profit-maintenance mechanism is hidden under a modest price. Market reference price, reward, and promotion activities are a few important variables that affect the pricing process. Tesco offers inexpensive goods, and needs to highlight its devotion to quality.



## **Contingency Plan**

Since the Chinese are very brand conscious in their buying behavior, they may not respond well to Tesco's brands if this outweighs their preference of low-cost products. If this were to happen, the company would need to adjust for these cultural differences by adjusting and localizing its line of brands. If this situation were to escalate with a very low response from consumers, then it would, for the second time, force Tesco out of China.

In order to avoid this situation, Tesco would need to rely on its gradual implementation strategy. By slowly entering the market, this will enable the company to change strategies without the risk of losing a large investment. For example, since the Chinese consumers in this hypothetical are proving to be more brand aware than price sensitive, this may indicate a need to change the target market to a lower income class, which would be more willing to purchase Tesco's lower priced brands. This may require entering through a separate entry mode, and providing a different type of store that fits the needs of these new consumers, while offering the same products as before. Financially speaking, the slow progression of entering the market with Tesco Express stores gives the company financial flexibility to change course if they need to. This will give Tesco an opportunity to maintain its presence in China despite its initial plan not working.

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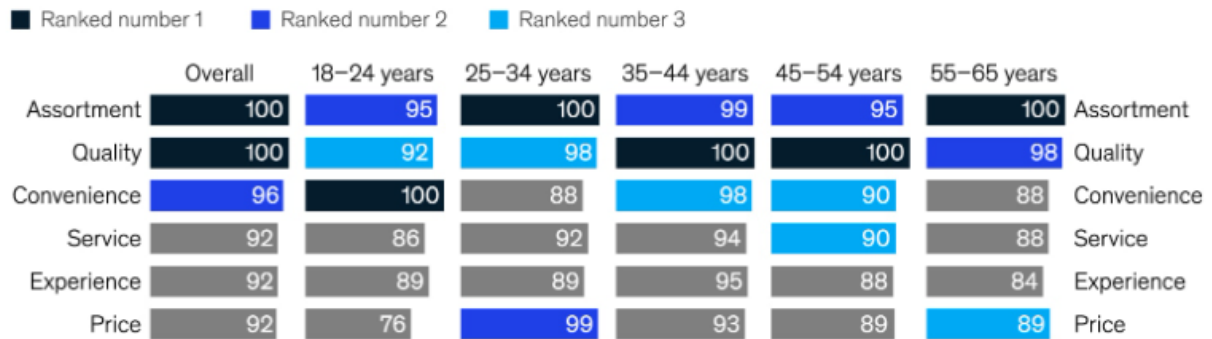
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## Appendices

**Appendix A:** Graph to demonstrate the different factors that affect buying behavior in China (McKinsey & Company, 2018).

**The key buying factors vary by life stage, but assortment and quality are in the top three across all age groups in China.**

**Importance of customer-satisfaction score for whole store, by age group, indexed**



Source: McKinsey China Fresh Market Survey, 2018 (n = 4,993)

**Appendix B:** Mock-up advertisement that highlights Tesco’s responsibly sourced produce and meats



**Appendix C:** Graph to demonstrate the adjustment for inflation (Webster, 2022).

