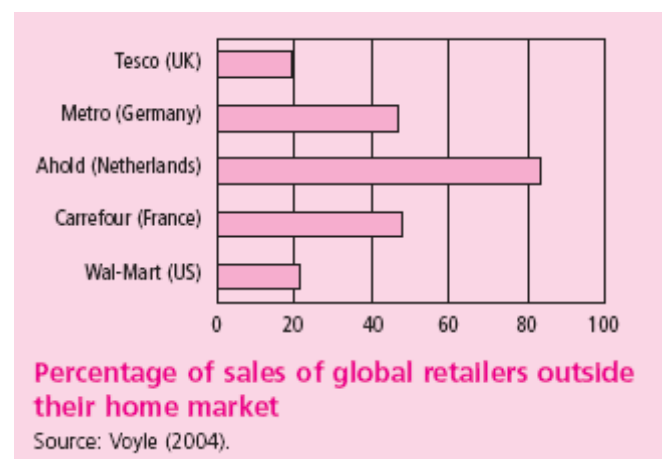


Finding the right strategy for setting up shop in Japan

Case taken from The International Business Environment, second edition (Palgrave, 2006), by Janet Morrison

The world's largest grocery retailers have varied in their taste for international expansion and in their strategies. As the two figures show, Wal-Mart is by far the largest, but, mainly because of its vast domestic market in the US, has been tentative in looking to expand abroad, generating only just over 20 per cent of its sales outside its home market. Carrefour, by contrast, has been active in Asia, and Tesco, the UK's largest grocery retailer, has branched out, mainly in Eastern Europe and Asia. All these global retailers inevitably eye Japan, the world's second largest consumer market. However, Japan has proved to be a difficult market for outside retailers to penetrate. Its consumers are traditionally more concerned with the quality and presentation of products on offer than with low prices. Its complex distribution networks make it difficult for retailers to streamline the distribution chain. With their focus on discounting and bypassing intermediaries to keep prices low, Western retailers find that the Japanese market requires adjustments to the strategies that have been successful in their home markets.



Carrefour, the French hypermarket retailer, entered Japan in 2000, rolling out hypermarkets modelled on its French operation. It opened three stores in the first three months, but since then, expansion has stalled, as the company encountered pricing and branding problems. The Japanese found the low prices at Carrefour did not fit their image of a French brand as exclusive and expensive – French luxury brands such as Chanel have been highly successful in Japan. They expected French goods, but found Japanese groceries on offer. Carrefour's efforts to bypass the multilayered distribution systems were only partially successful: it managed to buy only about half its goods direct from the manufacturers.

Wal-Mart, having seen Carrefour's difficulties, adopted a more cautious approach, seeking a Japanese partner with knowledge of local consumer tastes. Following six months of negotiations, it bought a 6 per cent stake in Seiyu, Japan's fourth largest supermarket group, in 2002. This partnership seemed to work smoothly, and it raised its stake to 34 percent of Seiyu six months later. Wal-Mart allowed the Japanese management to continue running the business and retained the Seiyu name on the stores. This strategy is similar to its market entry strategy in the UK, where it acquired Asda supermarkets.


Tesco, the largest UK retailer but with less international presence than Carrefour or Wal-Mart, also felt that expansion in Japan was imperative, but its choice of entry mode differed markedly from the other two. Although Tesco had entered other countries through its hypermarket model, it entered Japan by purchasing an entire chain of convenience stores in 2003. The chain, C Two, which has about 80 stores in the Tokyo area, had built its business on a combination of low prices and astute product procurement, features which Tesco found attractive. Called the 'third way' by some analysts, this mode of entry was seen as a lower risk and lower cost strategy than that of its larger rivals.

Carrefour, Wal-Mart and Tesco all felt the need to enter the Japanese market, but their strategies differ markedly. Of the three, Tesco's is perhaps the most cautious, reflecting a wariness of the retailing environment in Japan. One analyst has summed up the attractions and dangers of Japan in a simple comparison: supermarket retailers see a market, which, given its large population of affluent consumers, looks guaranteed to be profitable, but 'they are all moths to the flame' (Voyle and Sanchanta, 2003).

Sources: Voyle, S. and Sanchanta, M., 'Tesco finds convenient way to enter Japan', Financial Times, 11 June 2003; Rahman, B., 'Retailers set sights on Japan', Financial Times, 13 December 2002; Nakamoto, M, and Sanchanta, M., 'Wal-Mart set for Japan challenge', Financial Times, 18 March 2002; Voyle, S. 'Tesco's tough act: with record profits, Britain's biggest retailer prepares for further challenges at home and abroad', Financial Times, 20 April 2004.

Case questions

Assess which of the three market entry strategies has the greatest likelihood of success in Japan

 The websites of the companies mentioned in this case can be found at www.carrefour.com; www.walmart.com and www.tesco.com