Welcome to

Shopping in the delicatessen aisle of Tesco's hypermarket in Warsaw is a strikingly Polish experience. Eight barrels of pickles stand at the end of one row. Dozens of types of salami and sausages are on display behind the glass. It's not the sort of fare you'd find on the outskirts of London, where the multinational retailer is headquartered, or in any shop in the U.K., where Tesco PLC has been serving British consumers since the 1920s. Rather, Tesco in Warsaw is catering to local tastes. "Deli foods are very important to us," says an elderly Polish shopper appreciatively. "This is what we want."

And local flavor is what Tesco aims to deliver, especially in emerging markets from Eastern Europe to Asia. "We know shoppers in Hungary and Thailand want products tailored to the local market," CEO Terry Leahy says. Mr. Leahy, who joined the retailer as a marketing executive 23 years ago, has increased Tesco's sales 50 percent in the four years since he became CEO. He has done so by reviving core domestic sales and by aggressively expanding internationally. At home, Tesco has grown non-food retailing, introduced house brands for value-conscious and more indulgent shoppers, and focused on customer service. The cornerstone of its international strategy is exporting culturally customized versions of its marketing formula for hypermarkets, the popular department store–supermarket combination

How the U.K. retailer won over the world, one market at a time.

by Victoria Griffith

Your Glocal Superstore

Photography by Steve Cohen

that sells massive amounts of food and household goods in a single store.

So far, the strategy has been a winner. In April 2001, the company announced it had broken through the £1 billion ($1.4 billion) mark in annual profits. Only one British retailer, Marks & Spencer PLC, has ever accomplished that, and only for a brief interlude from 1997 to 1998. Last year, when other U.K. retailers treaded water, Tesco's earnings per share rose 11 percent.

On solid ground at home, Mr. Leahy recently set a goal for Tesco to have more physical selling space outside Great Britain than inside by 2003. About 37 percent of the company's physical floor space is located overseas, as the company moves toward that goal. In FY2001, non-U.K. sales reached £3 billion ($4.4 billion).

Tesco is not alone in its mission to conquer the world. Many of the big-name retailers, including the U.S.'s Wal-Mart Stores Inc., France's Carrefour SA, and the Netherlands' Royal Ahold NV, are also expanding into foreign markets worldwide. (See Exhibit 1.) But globalization is uncharted territory for retailers who have built their reputations and market share at home. Although the world has grown accustomed to the omnipresence of global brands like McDonald's, Volkswagen, and Coke, retailers — particularly those that cater to daily household needs — have been slow to

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reach out to consumers outside their own country. "Retailing is still a very local business around the world," says Allan Breese, international account director for Europanel, a firm that provides marketing information services based on consumer panels. "Globalization hasn't really happened, especially in the food side of the business, the way it has in other industries."

Why are retailers moving overseas now? Mostly because domestic growth is limited. It took decades for stores to evolve from the classic mom-and-pop formula to superstore enterprises with a national reach. When there was plenty of room for expansion in the United States, Wal-Mart, for example, saw little reason to go abroad. Even now, its global push is tentative for a company of its size. The group is in only nine foreign countries, and still makes about 85 percent of its profits from American sales.

Yet if retailers restrict themselves to their domestic markets, they resign themselves to operating as mature businesses in mature markets. 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 clamored for."

"Companies usually go abroad when they are running out of opportunities at home," confirms Don Lessard, deputy dean of the Massachusetts Institute of Technology Sloan School of Management. But he also notes the hazards of foreign expansion. "Globalization means complexity and increased overhead. The company has to pay the rent of going global by adding to its stock of best practices. If Tesco is to be successful overseas, it has to be fantastic at using best practices and recruiting talent. Retail, in particular, is ridden with pitfalls."

Going "Glocal"

Local merchandising in foreign markets is logical enough. Yet anyone versed in the history of globalization knows this strategy is daring. In fact, pioneer global branders — McDonald's, Boeing, Coke, Gillette, and others — succeeded overseas by following a one-size-fits-all-cultures strategy. "McDonald's is so successful because it adapts minimally to local markets," says George Yip, a professor at London Business School and an expert on globalization.

The reason the first global companies built their brand empires through standardization is that it is by far the most cost-effective way to export a successful domestic product to multiple countries and deliver consistent quality at an affordable price. The less adapting that multinational corporations do, the more they can spread overhead costs. By appealing to local consumers' appetite for Western goods, moreover, a multinational corporation can distinguish its products and avoid competing directly with local groups that know the market better — Marlboro cigarettes sell better in China when they are shown in the hands of an American cowboy.

Mass retailers like Tesco, however, have sensed they need a different approach to globalization. By seeking to blend into the local scene, Tesco acknowledges that the experience of shopping at a hypermarket can't be too exotic. To be accepted, shopping at Tesco needs to be part of people's routines. Non-Americans who don't think twice about eating at Burger King once a week or drinking a Coke once a day will probably balk if they

Exhibit 1: **Mass Retailers Going Global**

Company	Home Country	Store Locations	Annual Sales	Foreign Percent of Annual Sales
Carrefour SA	France	Argentina, Belgium, Brazil, Chile, China, Colombia, Czech Republic, France, Germany, Greece, Indonesia, Italy, Japan, Malaysia, Mexico, Netherlands, Poland, Portugal, Singapore, Slovakia, South Korea, Spain, Taiwan, Thailand, Turkey	$55 billion	48%
Royal Ahold NV	Netherlands	Argentina, Belgium, Brazil, Chile, Czech Republic, Denmark, El Salvador, Estonia, Guatemala, Honduras, Indonesia, Latvia, Lithuania, Malaysia, Netherlands, Norway, Paraguay, Peru, Poland, Portugal, Spain, Sweden, Thailand, U.S.	$46 billion	69%*
Tesco PLC	United Kingdom	Czech Republic, Hungary, Ireland, Poland, Slovakia, South Korea, Taiwan, Thailand, U.K.	$33 billion	13%
Wal-Mart Stores Inc.	United States	Argentina, Brazil, Canada, China, Germany, Mexico, Puerto Rico, South Korea, U.K., U.S.	$191 billion	17%

* Portion of profits from non-European stores
Source: Carrefour and Royal Ahold 2000 annual reports; Tesco and Wal-Mart Stores 2001 annual reports

can't find culturally familiar staple goods, whether they are food, clothes, or other items. "At McDonald's, foreigners are willing to be Americans for 15 minutes while they eat a hamburger and french fries," Professor Yip says. "But if they buy a shirt, they're going to be wearing it the rest of the season. That's a tougher proposition."

Recognizing this, Tesco is taking the "think global, act local" strategy to a new level. Its approach — call it "glocalization" — hinges on deep understanding of and responsiveness to the cultural vagaries and habits of foreign consumers. Wal-Mart has made modest concessions to European customers, for instance, by accepting smaller parking lots in Europe than it would in the U.S. But no one tries harder to adapt to local conditions than Tesco does.

Last July, a paperback version of the latest "Harry Potter" book was displayed prominently at the entrance to English Tesco stores, as British fans anticipated the release of the film version of the best-selling children's book. But you wouldn't have found Harry Potter in the windows of Tescos in Central Europe last summer. There, swimsuits were highlighted as residents prepared for holidays at the beach. Tesco plans carefully around all national holidays. Indeed, throughout the year, in the company's non-U.K. hypermarkets, Tesco managers work hard to plan promotions and select stock based on country-specific holidays and customs. In Poland, consumers can expect to find a large supply of candles on hand for November's All Saints' Day. In Korea, October's Alphabet Day shoppers will be greeted by a selection of materials with literacy themes.

Pile High, Sell Cheap

The principle "The more a single company sells of a certain product, the fatter its profits are" is a key to successful globalization not lost on Tesco's management. In fact, managing to achieve scale efficiencies is a tradition at Tesco. After World War II, Tesco's founder, Sir Jack Cohen, expanded his business based on a slogan that later became famous: "Pile It High, Sell It Cheap." He understood that the greater the volume of goods, the bigger the discount he could offer.

In the decades following the war, Sir Jack and fellow executives built Tesco into one of the largest supermarket chains in the U.K. Yet by the late 1980s, the company was floundering. In the status-obsessed yuppie culture bred by a stock market boom, Tesco seemed hopelessly out of touch. The company provided neither the quality of goods upscale customers wanted nor the deep discounts that price-conscious buyers demanded. J Sainsbury PLC became the grocer of choice for the U.K.'s monied class. At the low end, Tesco was consistently beaten on price by supermarket discounters such as Germany's Lidl & Schwarz Stiftung & Co. and the U.K.'s Asda Group Ltd., which is now owned by Wal-Mart and is the third-largest U.K. food retailer, after Tesco and Sainsbury.

As the marketplace changed, retail watchers won-

Exporting a High-Tech Business Model

In the back room of a Tesco store near Heathrow airport, a woman inspects bags of items for an online order to be delivered later that afternoon. "We need a box of peaches," she tells a young man next to her. He fetches one from the shop floor. The operation is conspicuously low-key — no fancy conveyer belts, no big warehouses, no cutting-edge computer systems.

Yet Tesco's dot-com delivery service, launched in 1996, has achieved what so many others have not: It has survived five years and is profitable. In 2001, the online revenues reached $450 million, and although the Tesco.com unit lost $13 million in 2000 because of expansion into new business lines like CDs and videos, its grocery business was profitable.

What made Tesco's model work when others didn't? Quite simply, patience and cost control. Tesco executives, watching the American online delivery services from afar, were bewildered by the amount of money companies were throwing around in order to create state-of-the-art operations. In the mind of Tesco's management, there was no point in spending a lot of money on a service that did not yet have many customers.

The U.K. chain decided to move slowly and cheaply, adding a handful of personnel to service orders in the back rooms of existing supermarkets. The company was also tight-fisted on marketing, preferring to piggyback Tesco's existing reputation rather than create a separate campaign.

Tesco invested just £56 million ($82 million) to build its online business. Webvan Group Inc. had spent $1.2 billion by the time it folded. And whereas Webvan raced to enter 24 markets in three years, Tesco, over a five-year period, gradually rolled out its service to about one-third of its 692 stores in the U.K. "You have to sweat your existing assets," says David Reid, Tesco's deputy chairman and head of international expansion. "That's the key to profit on the Internet, or in any other area."

With most of its online competition overseas wiped out, Tesco plans to expand its Internet services abroad. In June 2001, the company announced an Internet delivery joint venture with the number-three U.S. supermarket group, Safeway Inc. Tesco will provide the know-how for running the service; Safeway will fulfill the orders through GroceryWorks, an unprofitable startup that is now a Safeway subsidiary and its exclusive online grocery distribution channel.

As it did with its online initiative in the U.K., Tesco is taking it slow. It already has closed three GroceryWorks warehouses to reduce costs, and it will introduce the Tesco.com system to only a few stores in 2002.

But Tesco also is taking calculated risks. For example, in South Korea, where it currently has seven successful supermarkets and plans to open more, Tesco will launch an online shopping service in 2002. What is South Korea's attraction? A strong base of upwardly mobile consumers and the highest residential penetration of broadband Internet connections in the world.

— V.G.

dered if the middle-market retailer's time had passed. "They said Tesco was the meat in the sandwich, and that we'd get killed in the middle," says David Reid, the company's deputy chairman and head of international expansion. When investors accused Tesco of losing touch with its changing customer tastes, management didn't retreat. Instead, it took the unusual step of conducting a massive marketing survey of its current and potential customers.

Ignoring doubters, Tesco management stuck with its belief that the company could reach both bargain hunters and premium shoppers. "We said, 'It's great to be in the middle, because that's where the mass market is.' We knew if we did a good job in the middle, we'd win," Mr. Reid says. In 1989, Tesco began gathering data from shoppers on what they wanted from a retailer. The most common responses were lower prices, better service, more selection, and more non-food products.

Tesco carefully studied its market research and listened to what its customers said. In the early 1990s, the company began to accelerate its construction of superstores, bigger than its traditional supermarkets, to allow for greater selection at lower prices. To satisfy upper-end shoppers, it introduced organic food products. The group also launched a wide range of house-brand goods differentiated by price or quality, first under the Value brand, and later under the Finest gourmet label.

Tesco paid close attention to service, as well. "If you ask an employee where something is, they will not only tell you; they'll take you to the spot," says Tesco

Corporate Communications Manager Ian Hutchins. A test of this claim at the company's store in Leytonstone, a London suburb, proved Mr. Hutchins mostly correct. One worker couldn't actually find any beach umbrellas, but he put in a good effort searching for them. Tesco also adheres to a strict rule at the checkout. If customers find more than one person in front of them in line, the company promises to open another register.

Also in the 1990s, Tesco began to experiment with new products and channels. It moved into gasoline retail, placing convenience stores by the pumps. Through a joint venture with the Bank of Scotland, Tesco also started offering a wide range of financial products, including car and pet insurance. In 1996, it launched a dot-com delivery service. Unlike the fabulously funded, now departed grocery-delivery dot-coms — Webvan, Streamline, and HomeGrocer — Tesco.com has not only endured, but become profitable. Tesco is now exporting its Web experience to the U.S., where it has formed a joint venture with Safeway Inc. to offer online grocery ordering. (See "Exporting a High-Tech Business Model," opposite page.)

Under Mr. Leahy's marketing leadership, Tesco overtook Sainsbury six years ago to become the biggest food retailer in the U.K. With its 25 percent market share — compared to 14 percent in 1997 — Tesco has put considerable distance between it and archrival Sainsbury's 17 percent share (and Asda's 14 percent share).

With clever service enhancements and its mix of practical goods and value-priced specialty items, it's little wonder that Tesco has become the darling of U.K. retail. "The company has the unique ability to be all things to all people," says Andrew Kasoulis, an analyst with Credit Suisse First Boston. "It's possible to go into a Tesco and budget shop or prepare for an upscale dinner party."

Economies of Localization

As Tesco exhausts growth possibilities at home, it is redoubling its foreign expansion. The group plans to open 140 stores overseas within the next few years, one of the biggest commitments to globalization in the industry. Yet Tesco knows all too well that acquiring or opening new stores abroad is risky. In fact, the company's first foray onto foreign soil was an unqualified disaster.

In 1993, the company purchased the French chain Catteau. But the acquisition failed because the combined company didn't have the critical mass to beat the highly competitive French giants, like Promodès and Carrefour, on their own turf. Unable to make the acquisition work, Tesco sold the Catteau operation to Promodès four years later. (Promodès itself was later purchased by Carrefour.)

When Tesco was asked by the government of Hungary, in 1994, to purchase a piece of Global, a troubled Hungarian grocery retailer, Tesco executives agreed to send U.K. staff to scout the situation. In Hungary, managers saw a very different retail picture than existed in France. And, in the region generally, they saw the kind of growth prospects Tesco was seeking. Central Europe had a newly affluent population that was clearly open to fresh shopping experiences. And unlike France, the region had few large domestic retailers, leaving the field wide open to foreign competitors. "If you get in early enough, you have the luxury of building your business in a market with little competition and where consumers are open to new ideas and new ways of doing things," Professor Yip says.

In 1994, Tesco purchased a 51 percent stake in Global. The next year, the retailer moved into Hungary in full force, then followed quickly with Tesco stores in Poland, the Czech Republic, and Slovakia. Three years later, it expanded into emerging markets in Asia.

Tesco was not the first retailer to see opportunity in economically advancing countries. In the 1990s, Carrefour had begun to establish itself in Central Europe, too. Indeed, the French retailer had more experience in globalization than Tesco did, and many of its foreign operations were turning a profit. However, Carrefour's strategy was to spread out. With a presence in 25 nations, the company has no more than a 3 percent market share in any one country outside France, according to Mr. Breese. In essence, its strategy is to gain a strong foothold before the competition gets too strong, so it can more easily build its business later on.

Tesco, on the other hand, is opting for depth —

dominating in contiguous countries — rather than the global breadth Carrefour has sought. By forming clusters of shared costs, Tesco hopes to build regional economies of scale. Geographic proximity maximizes efficiency by enabling stores to share resources, even if they don't operate in the same country. Tesco stores in Slovakia and the Czech Republic, for instance, import up to one-third of their products from each other. The company has also calculated that it needs 15 stores in any single country to be profitable. "That spreads around head-office cost and other expenses," Mr. Reid says.

For the time being, Tesco has limited its regional expansion to Central Europe and Asia, where it now has more than 139 stores. International sales were up 46 percent to £1.7 billion ($2.5 billion) in the first half of 2001, according to Tesco's interim statement of results.

Thailand became Tesco's first Asian base in 1998, and was followed by South Korea and Taiwan. In 2003, the company plans to open 18 new stores in Asia, including one in Malaysia. Management is also seriously eyeing China.

The Hungarian operation, which is now profitable, recently inaugurated a 160,000-square-foot hypermarket. Tesco's largest store so far, it's about four times the size of the average U.K. supermarket. Management has predicted Thailand, Poland, Slovakia, and the Czech Republic would all be in the black in 2001.

Not Marks & Spencer

Tesco executives, mindful of globalization's many challenges, are also looking at other retailers' experiences to find the best route into foreign markets. Some of the most important lessons come from the British retail clothing chain Marks & Spencer.

In the late 1980s, the High Street retailer was the most admired company in Britain. Books were written about Marks & Spencer's management acumen — for instance, its ability to anticipate customers' needs (it was among the first to foresee the popularity of prepared gourmet meals) and its skill at delivering good products at reasonable prices. As founder Simon Marks used to say, "Good goods will sell arse upwards."

Yet at the same time, Marks & Spencer was beginning to feel the constraints of the limited British market. When the chain opened 63 stores in continental Europe, analysts hailed its overseas expansion as the right move for boosting sales. Globalization, however, quickly began to go wrong for the retailer. One problem was the group's product mix. Marks & Spencer stumbled as it tried to bring its British aesthetic to foreign customers. English women were so enamored of the company's practical, moderately priced underwear (marketed under the St. Michael brand) that the company was called the "patron saint" of knickers. The French and Spanish, however, were bewildered by the garments.

Top management's insistence that all stores use a high level of British content crippled the group's ability to compete on price in Europe. As shoppers discovered they could buy cheaper, more fashionable goods elsewhere, they drifted away. Marks & Spencer's profits began to plunge and are now just half what they were a few years ago.

"Marks & Spencer was a broad-range supplier to the British middle class, and they understood what that consumer group wanted," Professor Yip says. "That proved completely untransferable to another country because when global companies depend on understanding local peculiarities, it's easy to make mistakes." Mass-market groups, in particular, pose a special challenge. More rooted in tradition than other demographic groups, the middle class can often be the most difficult segment for foreign retailers to reach.

In mid-2001, Marks & Spencer announced its intention to withdraw from continental Europe, and later agreed to sell its 18 stores in France to French retailer Galeries Lafayette. In the U.S., the Brooks Brothers clothing chain it had acquired in 1988 found a buyer in November — Italian entrepreneur Claudio Del Vecchio. Acknowledging its failure to globalize, today Marks & Spencer is concentrating on its own brand and its flagship stores in the U.K. That focus appears to be paying off — the company reported that net income in the six months to the end of September 2001 rose 20 percent, to £144.2 million ($210 million), versus £120 million ($168 million) in the comparable period last year.

The Marks & Spencer example infused the retail industry, particularly in the U.K., with caution. Tesco understood that part of the clothing chain's problem was being too British, and it vowed not to make the same mistake. What was needed, Tesco decided, was to combine operational efficiencies with product and service customization for each foreign market. Yet this is not a simple proposition. Not only is tailoring product selection to local tastes difficult to execute; it undermines the economies of scale that allowed other globalizing companies to succeed. The cost of candles purchased for All Saints' Day in Poland, for instance, cannot be spread to stores in the U.K. or Thailand. Moreover, relationships

Tesco is charting a bold course using local suppliers. In Slovakia, 60 percent of non-food items are locally produced. In Poland, the number is 95 percent.

with local suppliers, from farmers to shirtmakers, have limited benefits for stores outside the region.

A Bold Course

All global companies need to customize their products to a certain extent. The McDonald's Corporation has sold beer in Germany, wine in France, mutton pies in Australia, and McSpaghetti in the Philippines. Even Coca-Cola Company, where standardization was once a point of pride, has begun to adopt a "glocal" strategy of its own. Over the last few years, Coca-Cola has formed alliances to expand its offerings to fruit juices and other beverages in the hope of better tailoring products to local tastes.

By pushing localization further than companies in other industries or even its own competitors, Tesco is charting a bold, but inevitable, course. In the food area, a large amount of local content is to be expected. Yet even for non-food items, the company prefers to use domestic suppliers. In Slovakia, 60 percent of non-food products are locally manufactured. In Poland, where the company has relationships with 1,300 local businesses, the number is close to 95 percent. Furthermore, 95 percent of employees in Tesco's foreign stores are local nationals. Tesco boasts that all of Warsaw's directors are Polish, and this pattern is repeated in other countries, including South Korea, Thailand, Malaysia, Hungary, and the Czech Republic.

The strategy has clear benefits. Local nationals like to see bosses from their own country: It gives them the sense that they, too, can advance. Employees say they also feel more comfortable reporting to individuals from the same culture. "I had a lot of French bosses before I moved to Tesco," reflects Mich Aguieszka, who worked at French-based Géant Casino before becoming produce manager at Tesco's Warsaw store two years ago. "Here it's mostly Poles. It's much better."

Yet having a high number of foreign managers presents complexity for headquarters. Local hires are not as well versed in the Tesco corporate culture. And if top management does not wholeheartedly accept the company's values, workers at the bottom may have a harder time swallowing certain corporate practices. For example, Tesco mottoes such as "Ask more than tell," "Trust and respect each other," and "Enjoy work, celebrate success" seem overly touchy-feely for the typical Polish worker, who tends to be plainspoken and direct. "In Poland, there's a lot of skepticism about some of the Tesco training programs," says Mara Chojnacka, a Tesco communications manager in Poland.

The language barrier can be a challenge, too. Mr. Reid, working from his office outside London, spends many mornings listening to broken English from foreign Tesco executives. And he is not always certain his own comments are comprehended. "Sometimes you think they understand, but you're not sure," Mr. Reid says. "In some cultures it's a loss of face for them to say they don't understand. You have to be persistent, coach them, support them. But the difficulties are outweighed by the benefits. They know their customers; we give them the authority to act," he says.

The conviction that local is better seems to have permeated all levels of Tesco's work force. Tesco's attention to local culture sounds like a matter of corporate pride when Mr. Hutchins scoffs at Carrefour's selection at its Warsaw store. "They seem to have a lot of French brands there," he remarks. At Warsaw's Carrefour, a number of French products can, indeed, be spotted on

Tesco is standardizing and scaling management methodologies to offset the costs of localization and achieve global economies of scale.

the shelves: *petits pains grillés*, *biscottes*, and other foods, as well as a large selection of French cheese.

Trading Best Practices

Still, Tesco's customization raises an important question: If the company is adapting so well to local markets, why go global at all? And if it's truly global, What good does a U.K. headquarters do?

The answer is, as the saying goes, there is no point in reinventing the wheel. It would be prohibitively expensive for Tesco to force foreign managers to come up with entirely new ways of running their stores. To offset the costs of localization, Tesco management has focused on standardizing management methodology to achieve gobal economies of scale.

The stores have a similar look, both in the U.K. and abroad. They are located mostly on the fringes of cities, to lower costs. They offer large parking lots for customers' convenience. Tesco also pushes its wide selection and distinctive service at every store. Shelves are stocked with dozens of brands, far more than at most hypermarkets. Baby-friendly shopping carts are available worldwide. At all its locations, Tesco stresses the same principles of good service, backing them up with training sessions that are dictated from the head office in London.

Tesco's export of its online business model is also a good example of smart application of best practices. With its clear success in the U.K., the company is applying the same patient and practical approach and implementation principles to its rollouts of online service in the U.S. and Asia.

In a break with the traditional multinational model, Tesco has found that headquarters can be an importer, as well as an exporter, of best practices. In the U.K., the company is following a marketing formula it perfected overseas. Tesco is also applying more specific lessons of customization — learned mostly abroad — to its domestic market. Modern Britain is a European melting pot, with varying concentrations of immigrants in different areas. At the company's Leytonstone store outside London, store manager Nick Tatum has taken care to stock items that appeal to a large immigrant customer base. For its Indian consumers, the company stocks Masala curry paste; for Muslims, it offers Halal meats, which meet the dietary requirements of Islamic law. Afro-Caribbean shoppers are happy to find Rubicon exotic juice, a brand they recognize from home.

"Tesco has created a virtuous circle by exporting their U.K. format overseas, and fine-tuning it to local markets," says Richard Hyman, chairman of U.K.-based research firm Verdict Research Ltd. "Then, they take the relevant strands of that learning and reapply them to the U.K. Hypermarkets in the U.K. have a very different feel based on what Tesco has learned abroad."

For instance, Mr. Hyman points out that prior to globalization, Tesco relied on impulse buys for sales of its non-food items. "Non-foods were just there for the ride," he says. "You'd be there to buy food, realize you could use a corkscrew, and pick one up. Now, you can imagine someone going to Tesco specifically to stock up on items for a newly acquired flat."

So far, Tesco's foreign foray looks successful. In the first half of 2001, its worldwide sales rose 14 percent to £11.5 billion ($16.8 billion) before taxes, on the back of a 46 percent increase in non-U.K. revenues. Profits grew 14 percent to £481 million ($701 million).

But much could still go wrong, and not all industry analysts are cheering Tesco's international strategy. Last

April, Mark Wasilewski, an analyst at ABN Amro Holding NV, annoyed the company's management by expressing doubts about the future profitability of the non-U.K. stores. Mr. Wasilewski cited the risks of international expansion and disappointing sales in Poland, which, in 2000, fell into an economic recession. He pointed out that despite Tesco's investing £1.7 billion ($2.5 billion) in developing countries, its earnings from emerging-market stores were still slim — just £3.5 million ($5 million) before taxes in 2000.

In part, Mr. Wasilewski and other retail industry watchers are increasingly concerned with rising retail competition in emerging countries. In Poland, for instance, a market that just a decade ago was wide open to new chains, there are now 95 hypermarkets, 730 supermarkets, and 936 discount retail outlets.

And the record for global retailers is mixed at best. France's Carrefour, the granddaddy of international discount stores, is losing market share in Spain and France, and has been hit by economic troubles in Brazil and Argentina. Netherlands-based Royal Ahold, which has made major acquisitions in the U.S., is now cautious about further international growth; management has said it will not enter any new countries in the foreseeable future.

The U.S.'s Wal-Mart, almost invincible in its home market, has not been able to register a profit or gain significant market share in Germany. Since Wal-Mart's acquisition of Asda in 1999, its U.K. sales have sputtered. Only 15 percent of the company's revenues come from outside the U.S.

As Tesco's global expansion progresses, the company may be tempted again to try moving into more mature markets. Although management is well aware of the risks of facing formidable competitors in well-developed retail markets, successful companies also like a challenge. Tesco is seriously considering establishing a presence in Japan, and clearly hopes its joint venture with Safeway supermarkets to provide a Web-based delivery service in the U.S. will give the company a foothold from which to grow in America.

Tesco faces another challenge: Will it be able to manage its growth abroad without neglecting its home market? One of the greatest dangers of global expansion is becoming distracted from domestic affairs. Some of the best multinationals — Coca-Cola and Gillette, for instance — have been foiled on the home front as they expanded abroad. Growth in developing countries often masks problems at home during boom times. However, when a synchronous recession affecting all countries occurs, as now seems to be the case, those weaknesses in the home market are usually exposed.

At a press conference in November announcing interim results for 2001, Tesco CEO Terry Leahy acknowledged that, with the world economy in recession and with Tesco in the middle of a rabid price war in the U.K., total company sales growth will probably be under 5 percent in the second half of 2001.

With greater political and economic tensions around the globe, international expansion in retailing will likely slow, and reverse globalization may actually occur as companies retreat from abroad. As Marks & Spencer pulls out of continental Europe and the U.S., for example, it is clearly banking on marketing initiatives at home to spur a revival of its business. In the current climate, stockholders may favor companies with pure or predominantly domestic operations.

In an uncertain business environment, globalization may seem a risky growth strategy. On the other hand, perfecting marketing that is sensitive to local culture and operations that are efficient on a local and global scale may prove to be the only globalization strategy that works. +

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