

# The Knowledge Transfer of Tesco UK into Korea, in Terms of Retailer Brand Development and Handling Processes

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## Abstract

With the increasing market share of retailer brands, many authors have paid considerable attention to retailer brands. Before market liberalisation in 1996 in Korea, retailer brand market was led by the supermarket retailing format, although the first retailer brand product was developed by the department store format. In parallel with the entry of foreign multiple retailers, the retailer brand market has experienced rapid growth. Particularly, the expansion of Tesco UK with well-established retailing know-how into Korea has encouraged Tesco Korea to actively get involved in retailer brand program. As a result, Tesco Korea has led retailer brand market in the Korean marketplace. The research starts with the question of why Tesco Korea has achieved such a higher retailer brand share. Accordingly, this study is to explore how Tesco UK has transferred its own retailing knowledge into Tesco Korea, in terms of retailer brand program development.

In order to explore why the retailer brand share of Tesco Korea is higher than that of its counterparts, the author adopted in-depth interview with prepared-questions and store observation as a research methodology. To examine working process as well as information flows within Tesco Korea and from UK to Korea, in-depth interview method is one of the most suitable research methodologies, because of the difficulty of quantifying information or data related to work flows. In addition, to increase the validity of information, the researcher had interviews with Tesco Korea supplier and store personnel. Based on these research techniques, this research explored how Tesco UK has influenced or advised Tesco Korea, particularly, from the point of view of knowledge transfer.

Since the entry of Tesco UK into Korea as a joint-venture, the retailer brand market share of Tesco Korea has continuously increased. It would be expected that Tesco UK has helped Tesco Korea to settle down in the Korean market. During interviews with Tesco and a Tesco supplier, the researcher found that Tesco Korea has obviously taken an advantage of retailing know-how created by Tesco UK. Furthermore, the retailer brand development and handling process of Tesco Korea has been operated with the help of Tesco UK. This might mean that Tesco UK has directly or indirectly an impact on the improvement of Korean retailer brand development skills.

As a mechanism to transfer retailing knowledge developed in the home market into the host market, one of the international retailers,

Tesco UK has adopted many different ways such as annual meeting, trading meeting to import or export own retailer brand products, offering of operation manual developed by Tesco UK and buyer cooperation between Tesco UK and Korea, in order to share information. Through these communication techniques, the knowledge of Tesco UK has been transferred to Tesco Korea.

This research accordingly suggests that retailer brand market share is apparently related to how sophisticated or advanced the knowledge of the retailer brand development and handling process of retailers are. It is also demonstrated by this research that advanced development and handling skills make a considerable contribution to increasing retailer brand share in markets with a lower share or no presence of retailer brands.

Keywords: retailer brand, knowledge transfer, Tesco

## I. Introduction

Retailer brand development has become an important strategy to survive in fierce retailing market in Korea. That is why retailer brand share is going up, regardless of foreign or local Korean retailers. It should be, however, noted that Tesco Korea has led retailer brand market. Thus, this research began with the question: why is the retailer brand market share of Tesco Korea higher than that of local Korean retailers? Of the foreign grocery retailers who have expanded into Korea, Tesco has achieved the most outstanding performance, with the highest retailer brand share in the market. After the withdrawal of Wal-Mart and Carrefour from Korea in 2006, Tesco Korea has been positioned as the successful foreign retailer. Accordingly, how the retail operation of Tesco Korea differs from that of the local Korean retailers attracted the author's interest, specifically in terms of the knowledge transfer processes of the retailer brand development and handling skills accumulated in the UK.

Retailer brand product initially appeared in the fashion sector at the department store Shinsegae in 1965 (Kim, 1993), while the first private label in the grocery sector was distributed in 1982 by Hanhwa supermarket, which was one of the top three supermarkets, and followed by Haitai, the number one retailer in packaged consumer goods sector in 1984 (Cho, 2001). Since market opening in 1996, major local Korean retailers operating discount stores, department stores, supermarkets and the like, have actively introduced retailer brand program across several product categories in the late 1990's

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(Cho, 2001). With respect to the time when authors began to pay attention to retailer brands, the British academic world started to explore topics in the retailing area from 1980's (e.g. McGoldrick, 1984; Simmons and Meredith, 1983; Baden-Fuller, 1984; Davies et al., 1986; de Chernatony, 1985, 1989; Burt, 1992), whereas similar retail research only appeared from 2000 in Korea, because the retail industry was seen as of little interest until then. Although the retailing sector suddenly attracted academic interest from 2000 in Korea (e.g. Cho, 2001; Jin and Suh, 2005), for the retailer brand there are still many untapped research areas.

According to the 2003 ACNielsen report, the share of private label in South Korea accounted for less than 0.5 %, compared to 31 per cent in the UK. Tesco in both the UK and South Korea has actively been carrying retailer brands but the operation, and results are dramatically different in terms of retailer brand market share. In the UK, retailer brands accounted for 55 % of Tesco's total sales volume in 2004 (Coriolis Research Report, 2004), but in the Korean market the retailer brand share was estimated at around 12 %. Nevertheless, Tesco Korea has the highest retailer brand share of 22.8 % in the Korean market in 2008 (Korean Consumer Agency, 2008), compared to 13 % of E-Mart, who is the number one retailer in Korea. Rather than examining the different customer perceptions of the retailer brand products of both Tesco Korea and Tesco UK, the researcher concentrated on identifying the retailer brand program operated by Tesco Korea, that is, how Tesco Korea develops retailer brands, on the premise that the retailer brand market share of Tesco Korea is higher than those of local Korean retailers, thanks to the help of Tesco UK. It is, therefore, interesting to investigate how Tesco Korea has achieved such a retailer brand market share. Without the help of Tesco UK, it would be difficult to achieve such a higher retailer brand share. It is necessary to illustrate the knowledge transfer process delivered by Tesco UK. This perspective helps to explain how Tesco UK has affected the retailer brand program of Tesco Korea. This paper is, therefore, to explore how Tesco UK has transferred its own retailing knowledge into Tesco Korea, in terms of retailer brand program development.

The paper consists of four parts. First, the next part is involved in reviewing the existing literature related to retail internationalization concerned with the retailing knowledge transfer from the home market to the host markets. The second part focuses on research methodology, while the third part analyzed the knowledge flow process of Tesco UK into Tesco Korea. Finally, conclusions and implications are given.

## II. Literature review

Many authors have paid considerable attention to retail internationalisation, as multiple retailers such as Wal-Mart, Carrefour, and Tesco, have expanded their own business to foreign markets. Based on a large volume of retail internationalization literature, research topics are divided into the following categories:

- (1) The retail internationalization process (e.g. Dawson, 1994; Alexander and Myers, 2000; Jackson and Sparks, 2005)

- (2) The motives for retail internationalization (e.g. Williams, 1992)
- (3) Market entry modes (e.g. Kerin and Varaiya, 1985; Treadgold, 1988; Eroglu, 1992; Doherty, 1999; Palmer and Owens, 2006)
- (4) Success or failure factors (e.g. Burt et al., 2002; Burt et al., 2003; Pederzoli, 2006; Davis and Burt, 2007; Etgar and Rachman-Moore, 2007)
- (5) Knowledge transfer (e.g. Kacker, 1988; Hurt and Hurt, 2005).
- (6) International learning (e.g. Wrigley and Currah, 2003; Palmer, 2005)
- (7) Store image transfer (e.g. Burt and Carralero-Encinas, 2000; Burt and Mavrommatis, 2006)

There is, however, little interest in the transfer process of retailing know-how associated with retailer brand programs. The researcher will, nonetheless, explore the relationship between the retailer brand development and handling processes, and the retailing know-how shift processes, on the assumption that a retailer brand program might be transferred as a part of retail internationalization activities. In this respect, Kacker (1988) argued that retail internationalization processes were progressed, irrespective of the various international market entry modes which international retailers adopt, categorising retailing knowledge into two groups. One group consists of managerial dimensions, including (1) retailing concepts and philosophy, (2) policies/strategies, (3) systems, and (4) controls from a managerial perspective. The other consists of technical dimensions, including (1) location site selection, (2) layout and atmospherics, (3) market communication, (4) check-out systems, (5) catalogue production, and (6) credit appraisal. Even though Kacker researched the degree of international retailing know-how transfer to the host market according to different market expansion methods, he concluded that knowledge transfer processes were evident, regardless of an entry mode. Given that Tesco UK adopted a joint venture entry mode to Korea in 1999, it is important to explore the relationship between general market entry models and the international flow of retailing knowledge.

### 1. Market entry modes

As Dawson (1994) pointed out, how well the retailing management skills developed and accumulated in the home market can be shifted to host markets is closely related to the different types of foreign market entry methods.

There are many different market expansion methods to overseas markets, such as internal expansion, mergers or takeovers, franchising, joint-ventures, non-controlling and, purchase at auction of previously state owned stores (Dawson, 1994). The researcher focuses on three options; direct investment, joint-venture, and franchising in this section. These are examined by Kacker (1988), consistent with Treadgold (1988), who categorized entry modes into three groups; high cost/high control (e.g. acquisition), medium cost/medium control (e.g. joint-venture), and low cost/low control (e.g. franchising).

Indeed, multiple retailers adopt different entry modes to expand to foreign markets in their own way, as pointed out by McGoldrick (1995), who stated that each market entry mode depends on the levels of costs and risks that have to be accepted by retailers. Even

though it is important to identify the strengths and weakness of each entry mode, based on existing retailing international literature, the researcher will discuss the relationship between expansion methods and the knowledge transfer processes.

### 1.1. Direct investment

While this market entry mode, through mergers and acquisitions in an overseas market, is a high cost option, it provides higher level of control to retailers; that is, retailers in the home market can transfer their own retailing knowledge to the host market directly (Dawson, 1994). In addition, Kacker (1985) found that retailing know-how exchange between the home market and overseas markets was an unplanned result of adopting this direct investment entry mode. In other words, with higher control, retailers might be easily able to transfer their own accumulated retailing management skills to the host market. It is, however, not without risk. Even though Wal-Mart and Carrefour adopted this mode, unlike Tesco UK, to enter the Korean retailing market, both retailers had to experience poor sales performance. As seen in the withdrawal of both cases, this method is riskier than other modes, in terms of expanding own business to the host country.

As a consequence, this mode is a relatively easier way to directly deliver retailing knowledge and settle down in an overseas market than the other two modes. As pointed out by Kacker (1985), direct investment in foreign markets might result in knowledge transfer to overseas markets. Regardless of the intention of multiple retailers entering the host markets, they are likely to influence the retailing know-how operated or developed by local retailers in many different aspects such as product display, pricing, in-store merchandizing, retailer brand program, and the like (e.g. Dawson, 2003; Coe, 2004).

### 1.2. Joint venture

As this market entry mode requires the retailers to search for, and join with, an appropriate business partner in foreign markets, the degree of control of the internationalising retailer is considerably reduced. Nevertheless, according to Burt et al. (2004), this mode was used as a popular entry method for European retailers. As an example, the entry mode of Tesco UK into Korea is this method. It is, therefore, necessary to identify why this method is preferred by retailers and further, how that reasoning is linked with the knowledge transfer process.

With regard to why a joint venture method is popular, there are many reasons. Through the business agreement with a partner in an overseas market, retailers can gain an opportunity to learn entrepreneurial techniques, to acquire existing retail units, and to increase opportunities for site acquisition, sharing entry costs with a partner (Dawson and Henley, 1999). In addition, this is a way to establish a retail brand and store image in host markets (Burt and Sparks, 2002). Furthermore, this market expansion mode facilitates the sharing of retailing management information, as demonstrated by Kacker (1988).

Although forming a joint venture results in weaker control of the foreign market, it has become apparent that, like the direct investment

mode, this entry mode can completely deliver retailing knowledge outside the home market. This is, however, not always the case, because the degree of knowledge shift can differ depending on the management contracts between both parties.

### 1.3 Franchising

The entry method of franchising can be the best way to rapidly expand the business area with financial flexibility (Dawson, 1994). This is consistent with Eroglu (1992), who highlighted that the franchising method involves less risk than the above two entry modes in financial terms. The franchisee in an overseas market can take advantage of retailing ideas and skills developed by the franchisor, under a mutual contract.

Unlike the direct investment method, the degree of retailing know-how transferred to the host market is similar to that in a joint venture mode. In terms of host market control, this model might be weak, as pointed out by Treadgold (1988). In spite of the relationship between market expansion methods and the knowledge transfer process, there is no direct discussion of retailer brand programs in existing literature. It should, however, be noted that entry modes can directly influence the knowledge transfer process (Sternquist, 1998; Clarke-Hill et al., 1998). This means that the retailer brand programs found in the host market are comparatively affected by different entry methods.

On the other hand, it is essential to turn attention to identifying the relationship between the expansion of foreign retailers and the changes of host markets. It would be expected that local retailers were affected by the foreign retailers, directly or indirectly, in terms of knowledge accumulation.

## 2. Changes of host markets by retail internationalization

Irrespective of market entry type, it should be noted that foreign retailers have influenced the retailing environment of host markets. For example, a degree of competition between the foreign and local retailers has appeared. Without the entry of the foreign retailers, this situation would not have occurred in the host country. As demonstrated by Cho (2001), the Korean retailing market has rapidly become intensified since market opening in 1996 from a competitive perspective, because many international retailers like Wal-Mart, Carrefour and Makro, landed in the late 1990's, although all of them left Korea. In addition, the leadership in modern Korean retailing sector has shifted from conventional markets and supermarket format to discount store/hypermarket retailing format investing by giant retailers with big capital.

Associated with the influence of foreign retailers on the host market, Dawson (2003) stated that there were six potential impacts on host markets: (1) demand chains, (2) sectoral competitiveness, (3) socio-cultural values, (4) public policy reactions, (5) increased consumer literacy, and (6) performance of the firm. It is particularly necessary to pay attention to the final type of impacts. The delivery of new managerial retailing knowledge of the foreign retailers to overseas markets has an impact on the performance of local retailers. This is

consistent with Palmer and Quinn (2005), who proposed that local retailers learn retailing know-how by monitoring their foreign competitors internationalising within the host market. This monitoring leads to the “copying” or adoption of similar approaches to retailing, which forms part of the second type of impact - sectoral competitiveness.

In the same vein, Coe (2004) found that, in terms of the developmental impacts of transnational retailing, foreign retailers had influenced on the following aspects of retailing in host markets: (1) competitive structure between domestic and foreign retailers, (2) competitive structure between foreign retailers, (3) local supply chains in terms of buying skills, (4) domestic suppliers in terms of global sourcing of foreign retailers, (5) sociocultural changes, (6) regulatory frameworks, and (7) internationalisation process, and strategy and investment decision of foreign retailers, from a variety of perspectives (domestic and foreign retailers, consumers, and suppliers). First of all, foreign retailers are likely to impact on the purchasing behaviour of domestic retailers.

Consequently, through retail internationalization processes, the host market is influenced and further, the retail knowledge of foreign retailers is transferred to the host market as it is monitored and imitated by local retailers.

### 3. Knowledge transfer mechanisms

In order to illuminate the knowledge transfer process of Tesco UK to Korea, the kinds of transfer methods used by foreign retailers should also be examined. How to convey knowledge to the host countries is one of the most important issues in knowledge shift process.

Concerned about the forms of international transfer, Coe (2004) proposed a distinction between the formalized modes and less formal modes. The former includes trade associations and the latter the movement of individual entrepreneurs and managers. Management consultants and service providers are suggested as a third transfer method. On the other hand, categorising knowledge into both explicit knowledge and tacit knowledge, Lahti and Beyerlein (2000) stated that the former can be transferred through materials such as system manuals, archives, database and groupware technology, whilst the latter can be transferred through personnel movement and the collaboration of individuals. Given the characteristics of tacit knowledge, Doherty (1999) emphasized that it is most likely transferred by people. As evidence, Tesco employed personnel to transfer their international experience to the UK (Palmer, 2005). Regular company communication, meetings, personal contacts, job training models, operational manuals, expert-system software and job rotation are regarded as examples to convey knowledge from company to company (Lahti and Beyerlein, 2000). Similarly, Coe (2004) stated that international knowledge transfer processes are accelerated by both the introduction of information technology networks and social interaction via training courses, the formation of “best-practice team”, and management transfers, while Kacker (1988) mentioned that the international retailing know-how might flow into host markets through informal methods via personal observation and discussions during over-

seas visits or participation in a variety type of programs, like meeting, seminars or training programs.

#### 3.1. Knowledge accumulation of local Korean retailers

For domestic Korean retailers the operational know-how of retailer brands is accumulated internally or through benchmarking other countries’ programs through strategic alliances with foreign retailers (see Table 1). As seen in the table below, major local retailers were influenced primarily by Japanese or American retailers who mainly operated department stores or supermarkets, and which show a low retailer brand share, compared to European retailers.

<Table 1> Korean retailers’ strategic alliances with foreign retailers

Retailer	Foreign Retailer	Country	Year of Agreement	Retailing formats
Lotte (Lotte Mart)	Daiei Takashimaya Seibu	Japan	1988	Department, Supermarket Convenience store Hypermarket
		Japan	1988	
		Japan	1988	
Shinsegae (E-Mart)	Mitsukoshi Price Costco Seibu	Japan	1982-86	Department Hypermarket Supermarket
		USA	1994	
		Japan	1989-92	
New Core (E-Land)	Sams Club	USA	1996	Department, Hypermarket Supermarket
Hanwha	Seiyu	Japan	1988	Department, Supermarket
LG (GS)	Matsuya	Japan	1995	Department, Supermarket Convenience store
Haitai	Heiwhatou	Japan	1989	Department, Supermarket

Source: Adapted from Lee and Kim (1996)

Given that retailer brand market is led by discount store/ hypermarket retailer such as Tesco Korea, Lotte Mart, and E-Mart, the above alliances agreed two decades ago might not make a contribution to the Korean retailer brand market growth. Most of strategic alliances are currently terminated. Although modern supermarket retailers led the Korean retailing market before market liberalization, and further retailer brand market, it was only the tip of the iceberg, compared to current retailer brand market size. Accordingly, it would be expected that the degree of the retailer brand development and handling know-how of local retailers was not sophisticated in that time.

### III. Research methodology

Cepeda and Martin (2005) argued that in order to capture the knowledge of practitioners and to develop theories in the real world, the case study can be a suitable choice in research strategy. There have been many authors who have adopted case study research within the retailing literature, such as Palmer (2005), Jackson and Sparks (2005). The single case study has been an increasingly popular meth-

odology within the retail internationalization literature, and this method has enabled various authors to provide some very important insight into this research area (Sparks, 1995; Shackleton, 1996a, 1996b; Clarke and Rimmer, 1997; Wrigley, 2000). Furthermore, field research that involves investigating the views and opinions of those directly and indirectly involved in decision-making processes is receiving increasing support within the literature (Shackleton, 1996a, 1996b; Sparks, 1996; Palmer, 2002a, 2002b; Palmer and Quinn, 2003). Based on these methods combining in-depth interviews with observation and documentation, the research aim will be pursued. Despite the continued debate on the pros and cons of the case study technique, the reasons why the researcher uses this method in the present paper are as follows:

- (1) The subject surveyed is a particular retailer with world-wide reputation;
- (2) Rather than testing and generating a theory, the technique is used to discover the natural business processes of retailers with regard to retailer brand development and practice within its organization;
- (3) The technique should understand the nature and complexity of work processes, which can not be explained by statistics data;
- (4) The research focus is on exploring knowledge transfer processes.

As pointed by many authors (e.g. Yin, 1994; Tellis, 1997), this method is not panacea to research, that is, this technique might be able to lead the researcher in wrong directions. In order to prevent information distortion through in-depth interview, thus, the researcher observed retail outlets and used a documentation method.

### 1. Value of a case

In the UK, Tesco is the number one retailer with over 31 per cent of supermarket share in 2007, followed by Asda with around 16 per cent (TNS worldpanel, 2007). It is worthy of note that its share of sales of retailer brands has gradually increased to 55 % of total sales in 2004 from 21 per cent in 1980 (Coriolis Research Report, 2004). It can be said that in the retailer brand market, Tesco is one of the strongest supporters of the retailer brand strategy. From its position as the UK's leading retailer and through its strong retailer brand market share, it is unsurprising that Tesco attracts researchers' attention.

After the acquisition of Home Ever in 2008, the number of Tesco Korea stores increased to 111 in 2008 from 61 in 2007. The reason why the researcher describes the number of Tesco stores is to explain its scale relative to the other top retailers like E-Mart with 119 large discount stores and Lotte Mart with 63 stores. In the discount/hypermarket sector, Tesco Korea recorded a market share of 13.84 % in 2005, overtaking the second largest local retailer, Lotte Mart with 12.08 % market share, and the gap between Tesco and E-Mart was dramatically reduced to 13 per cent in 2005 from 18 % in 2001 (Coriolis Research Report, 2007).

As mentioned earlier, as seen in Table 2, Tesco Korea has led retailer brand market in Korea. Compared to that of E-Mart in 2007, the share of Tesco Korea was 7.8% higher and the highest figure in Korea. What is important is that Tesco Korea has allocated consid-

erable marketing resources to increase the retailer brand market share. As evidence, Tesco Korea increased to 22.8% in the first half of 2008. The gap, 2.8%, between 2007 and the first half of 2008 is higher than that of GS market. It is, thus, expected that this performance might be thanks to the help of Tesco UK with higher retailer brand share in the UK, that is, Tesco Korea might have accumulated the retailer brand development and handling skills through the knowledge transfer process. Furthermore, the retailer brand share gap between Tesco Korea and local Korean retailers might be explained by this knowledge transfer. It is, therefore, enough to attract the author's interest.

<Table 2> Retailer brand share of major retailers

Retailer	Share in 2007	Shares in 2008 (first half)
Tesco Korea	20.0 %	22.8 %
Lotte-Mart	13.0 %	-
E-Mart	12.2 %	13.0 %
Hanaro-Club	8.5 %	7.6 %
GS Mart	6.1 %	8.2 %

Source: Korean Consumer Agency (2008)

As the second largest retailer in the Korean retailing market and the most successful foreign hypermarket retailer, Tesco Korea is one of the most influential retailers, although showing a lower share of the retailer brand than in the home market. Nevertheless, amongst major retailers in Korea, the reasons why Tesco Korea has led the Korean retailer brand market should be explored.

### 2. Interview population and analysis

Depending on the decision-making authority and responsibility of respondents, it is likely that the researcher will collect information of different quality. This in its turn will influence research quality, as Eisenhardt (1989) pointed out. In order to increase credibility and trustworthy, the researcher interviewed a few managers at Tesco Korea's headquarters, store personnel and a supplier, as seen in Table 3. Even though the researcher reduced the options of potential interviewees - from the entire Tesco Korea organization to those in the buying department directly involved in the retailer brand program - there are still a large number of buyers and managers forming the population. When it comes to the population selection (see Table 3), the researcher considered the importance of the following factors: (1) the degree of authority and responsibility, and (2) development or selling experience.

With an interview guide, the researcher interviewed a supplier in Korea with audio-recording, with the aim of accumulating interview skills, and then Tesco Korea. With the agreement of respondents, the researcher recorded the interviews. Interviews were conducted from September to October 2008 at the headquarters of Tesco Korea and suppliers or Tesco branch offices. Depending on the interviewees, each took from 1 hour to 3 hours. In-depth interviews with local Korean retailers were carried out during February 2009. In addition, the researcher observed Tesco stores to confirm interview contents.

Through mixed research techniques, the researcher analyzed data gathered.

<Table 3> Interview populations

Category	No.	Class	Characteristics
Tesco Korea	Headquarters	3 1	Manager Area Manager
	Store	1 2	Assistant Manager Senior Associate
Tesco Brand Producer Import Agency	Lotte Wellga	2	Director
Total		9	Supply over 3,000 SKUs (excluding clothing)

### 3. Interview guide

Due to the limited time given by interviewees, it is necessary to design questions to effectively gain relevant information. Before the field work, the researcher pre-tested designed questions and amended. Depending on interviewees, the researcher prepared three types of questions: Tesco manger, store personnel and Tesco brand producer.

During the interviews with Tesco mangers, main questions concerned with knowledge transfer process are as the followings: (1) general retailer brand strategy including retailer brand development and handling process, (2) the relationship between Tesco Korea and UK, (3) influence degree of Tesco UK, (4) ways to co-operate with Tesco UK, (5) information flow from UK into Korea, (6) the process of importing the retailer brand products of Tesco UK, (7) communication methods between Korea and UK, (8) kinds of retailing know-how from UK, and so on. On the other hand, in order to confirm a variety of information gathered through Tesco managers, that is, to avoid information distortion, the researcher asked store personnel retailer brand handling process being operated in stores, based on the manager's interview questions.

As the only supplier of Tesco UK brands to Tesco Korea, Lotte Wellga is closely involved in the retailer brand program of Tesco Korea. In spite of the secondary information source, the researcher asked the import process of Tesco UK brands as well as the influence degree of Tesco UK, on the premise that Tesco UK has an effect on Tesco Korea's retailer brand operation.

## IV. Findings

Compared to local Korean retailers who relied on foreign retailers in advanced countries to gain sophisticated retailing skills, it is worth noting how Tesco UK has transferred its own retailing know-how to Tesco Korea.

Through field work, the researcher found that Tesco Korea has been influenced by the UK parent in the organisation and implementation of the retailer brand program. This influence can be explained by the degree to which Tesco UK has affected the development processes of both domestic and overseas Tesco brand products. However, Tesco's UK knowledge might occasionally be unfit for the

Korean market because it has been accumulated in a different business environment with different trading terms, conditions and trading practices.

The extent to which the UK-based Tesco plays the role of "mentor" in Tesco Korea's retailer brand product development is the core aim of this research. If Tesco UK had helped Tesco Korea to enhance its retailer brand program but this had resulted in a lower retailer brand market share, it could be said that the home market's know-how does not work well in Korea, or that the knowledge transfer process has not been implemented well. Alternatively, one might also argue that the Korean retail market has inherent characteristics which are different from the UK.

### 1. Global Sourcing Team

The Global Sourcing Team, which was established with the initial aim of importing Tesco UK brands a few years ago, operates as a bridge between Tesco UK and Tesco Korea. This team signals a reinforcement of the UK influence.

It is demonstrated throughout the in-depth interview with Tesco managers that this team was used as a catalyst to internationalise the retailer brand development processes and management processes from the UK Tesco perspective. In other words, the UK know-how associated with Tesco retailer brands gradually prevails throughout Tesco Korea, primarily through the use of this department as an information sharing vehicle.

### 2. International exchange between UK and Korea

When looking at knowledge transfer, it is necessary to identify what kind of process the UK operation goes through to transfer its own know-how to Korea. Rather than simply confirming that retailing skills move from one nation to another nation, how this communication between Tesco in the home market and Tesco Korea occurs should be given attention, because the communication system between both parties might explain the transfer process. When there is a poor communication system, it is less likely that the UK knowledge will be passed effectively into Korea. As revealed by the interviews with Tesco Korea, up to a few years ago, the UK was not involved in the Tesco Korea brand development.

*"Since Tesco UK merged the previous company called "Samsung Plaza", Tesco headquarters has gradually expanded its own influence into Korea over the whole work area. Indeed, in the initial acquisition stage, the headquarters was not involved in any retailer brand development process. The development activity was implemented under our autonomy. Over the last few years, recently, chances to have access to Tesco UK-related information associated with Tesco own brand development have increased through keeping in touch with Tesco UK directly or indirectly. The Global Sourcing Team internally plays as a good bridge between two nations."* (Tesco Manager)

It was found that the major change agent in developing Tesco brands was the establishment of the Global Sourcing Team. Tesco

staff within the Global Sourcing Team provide not only Tesco UK own brands, but also development-related information. Through internal meetings between this team and developers of Tesco Korea, UK know-how has flowed into Korea.

While the above interaction is observed at the practitioner level, the researcher should additionally examine links between Korea and the UK in the senior management level. Tesco Korea's CEO regularly attends international meetings attended by Tesco's different national CEOs. This meeting is used as a way to share a range of administrative information, as well as to hear about corporate strategy and policy. Retailer brand issues, like brand strategy and performance, are included in these meetings. Information or policy changes acquired through regular or irregular meetings of senior management becomes the administration policy of Tesco Korea, and this then flows down from top management to lower levels such as developers and store personnel.

While the latter case is related to macro-level news on the direction of the overall retailer brand program, the former is more closely related to how Tesco brand products are developed in practice. Unlike in the initial stages of the acquisition, Tesco UK has recently gradually increased its influence in the brand development activity of Tesco Korea through various communication channels.

### 2.1. Information sharing

As the number of UK brand products increases within Tesco Korea, it is natural that Tesco Korea needs more help from the import department (the Global Sourcing Team staff) to obtain product information, because local buyers take complete responsibility for selling from the headquarters perspective, although selling is ultimately managed by the stores. In a sense, the buyers must keep in touch with stores to provide proper product information to store managers and store personnel. Above all things, the import staff are those most frequently exposed to communications with the Tesco UK buying policy, which means that they have indirect experience of overseas retailing know-how, as well as knowledge concerning the retailer brand development and handling process. The only way that local buyers can gain overseas market or product information requires their cooperation. This co-operative relationship between the two parties is, therefore, well-established even though there are sometimes departmental conflicts, like whether to stop importing some products because of a poor sales performance, or how to clear out failed products:

*"Honestly, all I know about Tesco UK brand products is that its market share is considerably higher than Korea. I'm not sure it might be over 50 per cent. I have never participated in any training course that Tesco UK aims at transferring the development know-how to Korea. Furthermore, there is no training course like that. Whenever we need more information, we should meet, or call to, the Global Sourcing staff. That's all. So, departmental co-operation is very important. Sometimes, we have a little conflict between the buying department and the Global Sourcing Team staff."* (Tesco Korea Manager)

As indicated in the above quote, Tesco Korea buyers can gather useful information from the Global Sourcing Team. What is apparent is that the Global Sourcing Team within Tesco Korea has been used as a bridge to convey retail know-how from the UK to Korea. The Global Sourcing Team does not simply import UK products developed by Tesco UK, but also propagates UK retailing skills within Tesco Korea. The researcher found, through interviews, that this trend has become stronger in recent years, considering the increasing sales volume of Tesco UK brand.

### 2.2. Information classification

*"We have gained a variety of information related to not only Tesco UK brand products but also generally the retailing sector of the UK. During the meeting with the Global Sourcing Team, they told us lots of information from trivial to high-quality information affecting directly the development process. In selecting and managing producers, the guidelines developed by Tesco UK experience are highly evaluated. It is very useful."* (Tesco Korea Manager)

Based on the interview results, the researcher will classify the information received into groups, according to the development process of the retailer brand, including very general miscellaneous information that is not directly related to the development activity.

Firstly, the Global Sourcing Team proposes potential items for import from the overseas market to buyers. They commonly provide the following information: (1) popular items in foreign markets, (2) new product introduction, (3) consumption trends, (4) sales trends, and so on. As the buyers gain diverse information, not all of this can be utilized in practice. There was, however, no mention by the interviewees of a know-how transfer in relation to the item decision know-how activity. At this stage, what Tesco UK has done is simply to provide information.

*"Even though we can collect whatever we want, using all information is very limited, in fact, because there is a difference between two markets."* (Tesco Korea Manager)

However, in respect of retailer brand production, Tesco UK is more directly involved in the retailer brand program of Tesco Korea, directly transferring a part of the development skills. With regard to production information, the UK has provided Korea with as the following advantages: (1) overseas producer lists; (2) commodity prices, or raw material prices; (3) factory inspection guidelines; (4) promotion skills; (5) packaging design development co-operation etc. One illustration that Tesco UK transferred a part of its retailing know-how to Korea is that producer selection criteria are available over the world. Likewise, if Tesco Korea wants to make a contract with a producer trading with any Tesco international operation throughout the globe, the producer selection activity should be omitted, because the producers have already passed through Tesco's internal inspection guidelines provided by the UK headquarters.

The handling stage (selling) is less related to knowledge transfer. Nonetheless, the clearance program introduced for failed products is an example of influence from the UK. In the selling stage, it is eas-

ier to find differences between the two nations, like frequent prices reductions, active end cap displays, and promoter staff, rather than similarities.

Finally, separate from the practical retailing know-how transfer, Tesco Korea also gains more general information, which is less directly related to the retailer brand development and handling process, from Tesco UK. As a result of attending the international meeting, as mentioned earlier, Tesco Korea gains a variety of future-orientated information like brand strategy, store image unification policy, and so on.

Through such information sharing, it is evident that Tesco Korea has improved the Tesco retailer brand development and handling process by establishing the Global Sourcing Team within the organization. In the same vein, the team role has become more and more important than ever before.

*“Through the Global Sourcing Team, we will continuously increase the sales volume of the UK brands. This is the company policy from the top management. And then, the team’s roles will be enhanced internally because of the UK Tesco’s influence expansion.” (Tesco Korea Manager)*

### 3. Different influence level by brand forms

Despite the fact that Tesco UK has transferred its own retailing skills into Korea, it was found through the field work that the three Tesco brand forms have been influenced differently. According to the degree to which the Global Sourcing Team has something to do with the retailer brand development process, it should be noted how much each brand form is differently related to the knowledge shift.

*“By brand types, well, the degree of the UK intervention should be evaluated, because when we develop our own products in Korea, the UK entrusts the product development decision process to buyers, providing some guidelines to be followed. On the other hand, regarding the Tesco UK brands, all we can do are only to sell them after import.” (Tesco Korea Manager)*

#### 3.1. Domestic (Korean produced) Tesco brand

Briefly speaking, with regard to the level of influence of the UK, this brand form has the least retailing know-how transfer. The retailer brands of the past, before the UK started to intervene in the development process, resulted from the local Tesco Korea know-how, accumulated in the domestic market. There has recently been, however, a strengthening co-operative relationship between the two countries. In other words, as Tesco UK has attempted to transfer its knowledge or products into Korea, the number of examples of knowledge transfer from Tesco UK has steadily increased in many different elements of the development process. As representative evidence, there is the common use of the package design logo developed by the UK and the factory inspection check list. Throughout the store observations, the researcher found that Tesco buyers have used the symbol or mark of Tesco UK for the domestic own brand. As an example, the brand image of the Tesco Value brand in the UK is transferred directly as the mark of the Tesco Alittle brand of Tesco Korea. Similarly, the Quality Management Team has adopted the producer assessment

standards developed by Tesco UK, when selecting producers of Tesco Korea brands.

Given that this kind of symptom increases, it is unwise to say that the domestic produced retailer brand will be less influenced by the UK in the future. Consequently, although this brand form is under less pressure from Tesco UK than the other forms, the development process of the Tesco Korea domestic brand has become more and more similar to the UK, through the transmission of retailing skills.

#### 3.2. Overseas produced Tesco brand

It is necessary to look at the relationship between the import agency, the Tesco Korea buyers, and the Global Sourcing Team. In principle, the role of the import company is to supply overseas Tesco brand products. The difference between the domestic retailer brand and the overseas retailer brand forms is whether a producer is based overseas. The latter is produced in the overseas market and imported by the agency, while the former is produced in Korea. The overseas products are developed by both the Tesco Korea buyers and the import agency, with little help from the Global Sourcing Team. In terms of import, however, this is very similar to Tesco UK brands.

During the item decision process, the import agency suggests potential items to Tesco Korea and provides diverse information for buyers. Before explaining the role of the agency, one should remember that this company also deals with the Tesco UK brand imports, which means that Tesco Korea is outsourcing the import work. This company has, thus, lots of Tesco UK-related information and furthermore has kept a good relationship with both the Global Sourcing Team and the Korea buyers, as indicated in the next quote:

*“We have supplied a huge number of products. Probably, we have provided more than 3,000 SKUs. Of course, Tesco is one of the important clients for us. Think about our relationship. This company have traded with Tesco since the introduction of the retailer brand program. While doing business with Tesco Korea, we have experienced a lot of things concerned with Tesco brands and met a large number of buyers. We are actively sharing information for the mutual interest.” (Lotte Wellga)*

This agency is treated as one of the company’s most important suppliers. Also, Lotte Wellga functions as an intermediary between Tesco Korea and overseas producers, and organizes business activity as a buyer for the overseas producers. In contrast, Tesco buyers are involved in developing domestic Tesco brands. It is very difficult for the buyers to directly contact overseas producers due to linguistic problems or invest their working time as a result of high workloads. At this stage, the import company provides potential items, producer lists, sales trends for each item, and data on future marketability and so on, in order for the buyers to make the right decision related to the overseas Tesco brand development. In this case, the buyers might over-rely on the import agency because of limited information sources.

With regard to the production stage, there are many aspects that the import agent should do with overseas producers just as buyers do with domestic producers (like producer contact, product cost negotiation, factory inspection, packaging design etc.). What is important at



this stage is that this company co-operates fully with the Global Sourcing Team to select the right producer, which must follow the producer selection standards under Tesco Korea’s supervision of the Quality Management Team.

*“If any overseas producer has already done with business with any international Tesco branch over the world, the producer selection process can be omitted. In this case, the development process can dramatically be reduced, because the producer has already passed through Tesco standards.” (Lotte Wellga)*

After the agent imports overseas produced Tesco brand products and supplies them to Tesco distribution centres, these products are moved to the selling stage, like other Tesco brands. It is obvious that producer information is shared internationally.

### 3.3. Tesco UK produced brand

In terms of product imports from a foreign market, the Tesco UK brand looks like an overseas Tesco brand. Regarding the degree to which Tesco UK is involved in the retailer brand program of Tesco Korea, however, the Tesco UK brand products should be treated as an export form by the UK. Except for the selling stage, the previous two stages are managed by Tesco UK.

Briefly, development is carried out by the UK and selling by Korea. This is confirmed by store observations as a part of the field work. From the interviews, the researcher found that the UK has a very strong desire to increase the market share of Tesco UK brands in Korea. In accordance with this aim, the interviewees argued that Tesco Korea has dramatically increased the number of Tesco UK brands, and frequently sent the Global Sourcing Team staff to the UK to pick out import items.

*“We have paid much attention to increase the number of Tesco UK brand products by the company policy. The Global Sourcing Team staff is very as busy as buyer. This brand sales volume can absolutely not be decreased. Continuously, sales performance will go up.” (Tesco Manager)*

From the UK Tesco’s perspective, this can be seen as the internationalization of its own retailer brand. The Global Sourcing Team hands over the imported products to general buyers. At this point, except for the selling management process, there is nothing Tesco buyers do to import the UK brands. Similarly, through the import process, the retailer brand development is finished. At this stage, it should be noted that this product needs to be named in Korean, owing to government regulation, and passes through customs. After the Global Sourcing Team discusses what items are suitable for Korean customers with buyers, the Global Sourcing Team staff orders Lotte Wellga to import the items agreed with the buyers. The import agent completely covers the import-related work, attaches Korean labels to the products, and supplies the products to Tesco Korea distribution centres. Consequently, the difference between overseas produced brands and Tesco UK produced brands is explained as the following:

*“In importing different two brands, there is no big difference. However, the import of the UK brands is considerably simpler than overseas products, because all we have to do is just to attach new*

*Korean labels reflecting regulation.” (Lotte Wellga)*

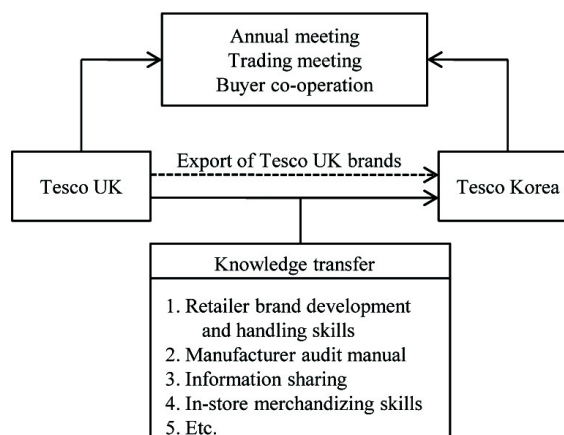
Surprisingly, there were also cases where Tesco Korea exports domestically produced brands to other countries, although the frequency was very rare. Currently, Tesco Korea does not get involved in such export activity.

Through the process of buyers discussing Tesco UK brand products with the Global Sourcing staff, UK retailing knowledge is transferred to Korea.

## V. Conclusions

Although there is much literature on retail internationalization, the relationship between the retail internalization process, knowledge transfer, and the different retailer brand shares has not been examined. When retailers with a higher retailer brand share expand into markets with no or lower retailer brand share, how these retailers influence other nations’ retailer brand markets has been given less attention. On the other hand, as a result of the active overseas expansion of retailers, there are a large number of retail internationalization papers. Similarly, the international knowledge transfer process of retailing from one nation to another, by retail internationalization activity, has attracted authors’ interest. As an example, Kacker (1988) pointed out that mass-merchandizing knowledge moved gradually to other countries through joint-ventures, an entry mode for expansion into international markets.

In the same vein, the researcher confirmed that the retailing know-how associated with developing retailer brands, generated and accumulated by Tesco UK has, in part, been transferred to Korea. This research also identified how Tesco UK has moved its own knowledge, associated with the retailer brand program, to Korea, as seen in Figure 1, although some authors (e.g. Coe and Lee, 2006; Suh and Howard, 2009) argued that Tesco Korea has been localised in the Korean market, unlike Wal-Mart and Carrefour, who allocated marketing resources to develop their own brands and adopted a globalization strategy before withdrawal from Korea. When it comes to the evidence of knowledge transfer of international retailers, the research supports Kacker’s (1988) view.



<Figure 1> Knowledge transfer process

The examination of the relationships between knowledge transfer processes and practical work flows through the case of Tesco Korea can be seen as a good example to explain a part of the retail international processes. Furthermore, this research supports Dawson (2004) and Palmer and Quinn (2005), who noted that changes in retail markets where foreign retailers expand their own business, are controlled by the degree of retailing knowledge transfer. In this respect, this study suggests a new research point, that is, when expanding into foreign markets with a lower retailer brand share, international retailers with sophisticated retailer brand development and handling skills tend to achieve higher retailer brand market share in host markets.

However, whether international retailers with a higher retailer brand share in the home market significantly influence the retailer brand programs of local retailers or stimulate the local retailers to actively develop their own brand products has not been examined from the point of view of knowledge transfer. In addition, even though the retailer brand share of Tesco Korea is higher than those of local Korean retailers, the assumption that the retailer brand development and handling processes of Tesco Korea is superior to those of its counterparts in the Korean market may not always be true.

Accordingly, the degree to which the entry of international retailers with an enhanced retailer brand program influences the retailing know-how of local retailers in the host marketplaces from the point of view of knowledge transfer should be investigated in the future.

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