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International Expansion in the Retail Industry: A Multi-Case Study on Strategic Expansionary Variables

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Abstract

Foreign expansionary strategies are a common topic of research, as are studies on the strategies used by specific companies that have entered foreign markets. These studies of strategies often focus on the antecedents that lead to the internationalization process, in regards to a company's expansionary strategy as a whole. Also, the studies on specific companies are just that, specific; they often do not include research on other companies' expansions, which would allow comparative analysis to take place. Lastly these studies primarily analyze failed expansions. This research aims to fill those gaps in the present literature by analyzing specific expansionary strategies of multiple retail firms that have led to either successful or failed expansions in various countries around the world.

This study was accomplished by gathering and analyzing data on three retail companies, domiciled in two separate countries, and expansions into three different countries, in order to compare and contrast various expansions. In order to better analyze the expansions of these companies, an internationalization model has been constructed based on a collection of past literature. Through the application of this new model to the respective cases, the study will provide insight and information on international expansionary strategies and help retailers to learn from past successful or failed attempts through in-depth analysis of specific expansions

Introduction

As the world has become a global marketplace, countless companies have 1attempted to expand their operations into different countries. These large-scale

expansions have become commonplace across all industries and have been especially prevalent within the retail industry. With access to literally billions of new customers, retail companies have been aggressively attempting to grow their brands by establishing international operations. Upon entering foreign markets, expanding companies are often met with a number of various difficulties when trying to establish a foothold in the market, and, in an attempt to mitigate these problems, companies strive to develop expansionary strategies that will lead to successful entry. While some companies have found a recipe for successful expansion, many have failed to do so and oftentimes even the successful strategies can lead to failed expansions if used in a different market. There are numerous expansionary strategies that are used in an attempt to gain a presence in various international markets. These strategies can differ depending on a multitude of reasons, including the companies' country of origin, the country to which it is expanding, the particular industry, managerial practices, cultural differences, and many others. While the levels of success or failure often differ on a case-by-case basis, by examining the particular expansionary strategies, the key variances between successful and failed expansions are often evident.

Through the use of a model that depicts the various factors of the retail internationalization process, this study analyzes selected retail firms' expansionary attempts by applying the factors and variables within the model to the specific companies. These past expansions, which span across the retail industry, as well as various countries and cultures, provide evidence on companies that have either succeeded or failed as a result of recognizing or ignoring the variables that lead to proper expansionary strategies.

Research Question

What strategies do retail companies utilize when expanding internationally and what factors cause those companies to either succeed or fail in foreign markets?

Literature Review

This study has three objectives; identify and provide research on strategic variables that affect the internationalization process, provide analysis on a number various retail companies and their individual cases of expansion, and finally to produce an in-depth look into the retail industry's trend of international expansion. The literature that I have collected can be categorized into two areas of research. The first is comprised of studies on the retail industry as a whole, including a variety of expansionary strategies used by companies, as well as research on the independent variables that affect the outcome of the expansion, such as consumer receptiveness, psychic distance, and entry decisions. The second area of literature contains individual case studies on retail firms that have expanded internationally. These studies give an in-depth account of the various companies' failures or successes. With this literature I will be able to expand on the cases and provide a study on international expansions within the retail industry by applying the collective literature to a model of the retail internationalization process.

For the first area of research, the retail industry and expansionary strategies, the studies that I am focusing on are "Consumer receptiveness to international retail expansion: a cross-cultural study of perceptions of social and economic influence of foreign retailers" by Molly Eckman, Sema Sakarya, Karen Hyllegard, Miguel Angel Gomez Borja, and Alejandro Molla Descals, published in 2015 and "The Relationship

Between Timing Of Entry Into A Foreign Market, Entry Mode Decision And Market Selection" published by M. Angeles Gallego, Encarnación Ramos Hidalgo, Francisco J. Acedo, José C. Casillas and Ana M. Moreno in 2009.

Eckman et al. set out to dig deeply into the variables that affected consumer receptiveness and focus on “socio- cultural and economic development across three countries with diverse cultures and varying degrees of socio-economic development: Spain, Turkey, and the USA (261).” In the past, consumer receptiveness was not a high priority for researchers when studying market selection and expansion, but this study sought to build upon prior research that argued that the measurement of consumer receptiveness was instrumental in analyzing the potential risk factors associated with foreign expansion. By researching expansion practices and how they are received in three different countries, Eckman at al. were able to obtain two levels of observations; the first being practices that are necessary industry wide, such as strategically analyzing the speed and size of the expansion, and the second being the country specific factors of the three countries, such as differing demographics, economic climates, and the general perception of American retailers held by the people of the foreign market.

The study done by M. Angeles Gallego et al., “The Relationship Between Timing Of Entry Into A Foreign Market, Entry Mode Decision And Market Selection,” provides a different angle on the analysis of retail internationalization. While Eckman et al. focused specifically on the consumers’ side of the market entry, Gallego at el. takes a step back and analyzes the importance of the market entry strategy as whole. The study is prefaced by recognizing three basic questions; “Where to internationalize? How to internationalize? and when? (307)” Typically, the ‘timing of entry’ was simply the time

from the founding of a company until the onset of their international ventures. This understanding provided no relation between the timing of entry and the respective mode and market selections. This study suggests that the three factors are in fact heavily related and that there is one factor in particular that links them together: risk.

The study states an assumption that "The company decides to internationalize at a point in time (timing of entry) when it considers it can assume such a risk; but from then on, all decisions that it has to take are geared towards the same goal, so it will take the decision that requires the least risk (312)." By framing the study around this belief, the researchers formed an integrative model to display this distinct relationship between timing, mode, and market. This model can be used to analyze past internationalization by firms, as I will be doing in my study, as well as providing future firms a framework for their international expansionary strategies. The researchers also mention that while they believe this model can be used for most firms with normal parameters and variables, they also "believe that this knowledge will help to prove that firms that do not follow this behavior model (born-globals, for example), can do so because one or more indirect variables have had such a strong influence that they minimized risk in general, altering the process and placing the firm at the same level as those that have followed the proposed model (323)." This mention of "born-globals" refers to very young companies that have rapidly expanded (6 years or less) into international markets. These companies are of high interest when looking at time of entry, as they are prone to rushing in and overlooking key risks in their expansionary strategies.

Through the research and analysis on the studies discussed above, as well as a number of supplemental studies regarding the retail industry and various expansionary

strategies, I have obtained a significant amount of resources that will be used for the second area of my research. This research will be a multi-case study, consisting of various retailers from around the world that have expanded internationally. While there has been extensive literature on international expansion, the majority of the studies have limited their scopes to a single domestic country, a single company, or a focus on either successful or failed expansions. To expand on these studies, my research will analyze U.S. retail companies that have expanded internationally, foreign companies that have expanded into the U.S., as well as foreign companies that have expanded to countries other than the U.S. The literature on these individual cases will provide the information needed for the last section of my study, which is completing a multi-case analysis, not only on the various countries of origin and entry, but also on the factors present in the companies' strategies that caused them to either fail or succeed.

This multi-case analysis will be conducted by using the loose structure of a model of the retail internationalization process developed by Irena Vida and Ann Fairhurst in their study entitled "International Expansion of Retail Firms: A Theoretical Approach For Future Investigations." Through the adaptation and use of this model I will be able to identify critical independent variables that are prevalent in the expansionary strategies used and, by doing so, analyze why the various companies failed in their respective international expansion attempts. Overall, it will be the ability to apply this model to the companies' cases that will provide this study with beneficial results, as well as build on past research, and ultimately have the potential to be used in the future to aid in the expansionary strategies adopted by international firms.

Retail Internationalization Model

As noted above, this model was created by Irena Vida and Ann Fairhurst in their study entitled "International Expansion of Retail Firms: A Theoretical Approach For Future Investigations." This study was created in an attempt to serve two purposes, the first being to analyze the existing literature at the time, in regards to a behavioral paradigm, and the second being to create a "descriptive model which could serve as a basis for future empirical investigations of international retail expansion and provide a better understanding of the complexity of the process" (Vida 149). This descriptive model can be seen below.

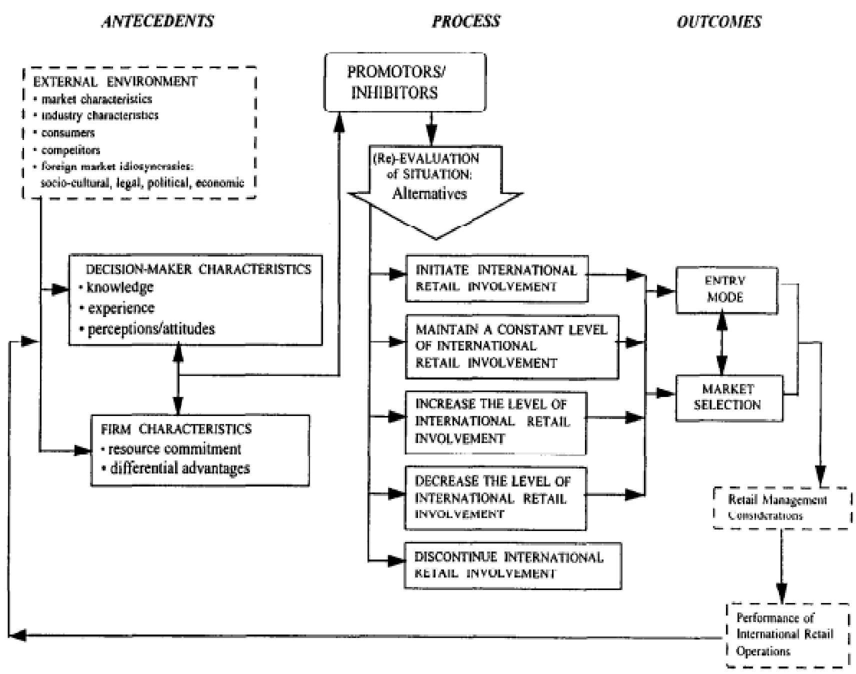

Figure 1 A model of factors influencing the retail internationalization process

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Their research and respective model focus initially on the antecedents of the internationalization process such as the "Decision-Maker" (managerial) characteristics, as

well as firm characteristics as a whole, and also include various external characteristics that may have an effect on a company or executive. These antecedents then act as either promotors or inhibitors to a firm in regards to making the decision of whether or not to expand internationally. Thus far, the components of the model, while insightful into the retail internationalization process, are focused on the factors leading up to the key components of an expansion, entry mode and market selection, which are labeled as outcomes. As a result, in the adaptation of this model, I focus my analysis of the various cases on the actual act of expanding, rather than the individual characteristics that lead to the decision of internationalizing. This will allow me to more appropriately analyze the various cases.

Expansionary Variables

In order to adequately analyze the various cases, it is important to have a solid understanding of the research behind the varying factors that lead to the successful or failed outcomes of the companies expansions. The main factors considered in this study are timing of entry, market selection, entry mode, and consumer receptiveness.

Timing of Entry

In the context of internationalization, timing of entry relates to two different aspects of expansion, the first being the "stage of the life cycle of the particular industry in which it finds itself " (Gallego 316), and the second being the speed of a firms' expansionary process. Although this additional analysis on the timing of entry, as a complement to market selection and entry mode, is not always incorporated into research, George and Jones (2000) argue that it can and should play a much more significant role

because it “directly impacts the what, how, and why” and “must be explicitly included in any theory” (George 658).

Much of the literature surrounding the internationalization process attributes one factor to be at the heart of every decision; the amount of risk associated with the decision. This directly leads into the concept of timing of entry. According to Gallego et al. (2009), the timing of entry is the moment that a firm decides to expand internationally, as a result of believing it can assume the risk of the expansion. Then, as the firm progresses through the internationalization process, the speed at which it expands is related to the minimization of risks associated with international operations. This expansionary speed is most commonly separated into two broad distinctions, fast (earlier) and slow (later) expansions. This general separation of speed provides the basis for a model created by Gallego et al. that expresses the relationship that timing of entry has with both market selection and entry mode. (Appendix 1)

Through the identification of the five variables that most affect the amount of a firm’s internationalization risk, the model can form a framework to provide analysis on individual cases. These five risk-related variables are knowledge, resources, product & process innovation tendency, mimicry, and situational uncertainty. The application of these variables expresses the amount of risk associated with an expansion, which in turn, contributes to the decision of early vs. later expansions. According to Gallego et al., earlier timing of entry tends to result in firms’ market selection and entry mode being more conservative, while later timing of entry allows firms more time to gather more information and thus choose a less conservative markets to enter and modes in which to do so.

Market Selection

When looking at the internationalization of retail firms, the three main elements of market selection as identified by Burt (1993), are cultural proximity, geographical proximity, and retail market development. Years later, Alexander et al. (2007), expanded upon these three elements and were able to identify trends within international expansion. It was found that retailers tend to expand from larger domestic markets to smaller and less developed foreign markets. This is often a result of a saturation of competition within the established markets and inversely, a less competitive foreign market. In addition to market size and development, "cultural proximity" as identified by Burt, is one of the most important determinants of market selection. Cultural differences between the firm's home country and the potential host country can result in major misconceptions and miscommunications related to expansions. This idea of separation between the two markets is known as "psychic distance."

Psychic distance can be defined in many ways, but the central idea remains the same. One definition is, "the sum of factors preventing the flow of information from and to the market" (Johanson 24), and another being "the distance between the (firm's) home market and a foreign market, resulting from the perception of both cultural and business differences" (Azar 584-585). While cultural distance is applied to broad cultures as a whole, this concept of psychic distance is often reserved for the assessments on the views of managers within a specific firm. Key aspects of this distance between cultures are differences in language, business practices and cultural norms. These differences often represent a barrier to the possibility of expansion to a particular country.

In spite of this apparent barrier to expansion across differing cultures, Azar et al. (2014) identify a paradox within the research of psychic distance. It is a general belief that firms will perform better in markets that similar to their own, but in some cases, this "perceived familiarity (with a foreign market) can lead to carelessness and failure" (O'Grady 329). In contrast to this, if a firm is planning on operating in a physically or culturally distant country, the management will go to greater lengths to ensure an appropriate expansionary strategy.

Entry Mode

Upon deciding to expand internationally and selecting a foreign market in which to do so, a firm's management must determine an appropriate entry mode by which they want to structure their foreign operations. The three most common choices are a wholly owned subsidiary (acquisition or greenfield-investment), a joint venture, or a contractual entry mode (licensing or franchising). When analyzing these three strategic entry modes, Hill (1990) and Herrmann (2002) produced two very similar tables, which lay out a number of constructs that are usually associated with each entry mode's level of control. Hill et al.'s table (Appendix 2) and Herrmann and Datta's table (Appendix 3) show that with highly controlled, wholly owned entry modes, companies have a high resource commitment which involves "deployment of assets which cannot be easily redeployed without incurring substantial sunk costs [Hill et al., 1990]. Such assets constitute exit barriers limiting strategic flexibility and thereby increasing venture risks (Herrmann et al., 555). As shown in the tables, other risks involved with highly controlled entry modes include environment, political, and economic risks. In spite of these risks, having a highly

controlled entry mode enables a company to have lower dissemination risks, higher corporate knowledge of local markets, and ultimately higher returns.

One of the strategic variables within the entry mode decision is choosing between a 'multi-domestic' strategy and a 'global' strategy. A multi-domestic strategy is "based upon the belief that national markets differ widely with regard to consumer tastes and preferences, competitive conditions, operating conditions, and political, legal, and social structures" (Hill et al. 20). On the other hand, a global strategy "largely ignores national or regional differences. The global retailer expands to markets that have a segment of consumers that will view their product offering favorably. Global retailers' adaptation to local market conditions is superficial (Park et al. 281). Relating these two strategies back to appendices 2 and 3, Hill et al. make two assumptions, with other things being equal, a multi-domestic strategy will prefer low-control entry modes and a global strategy will prefer high-control entry modes.

Consumer Receptiveness

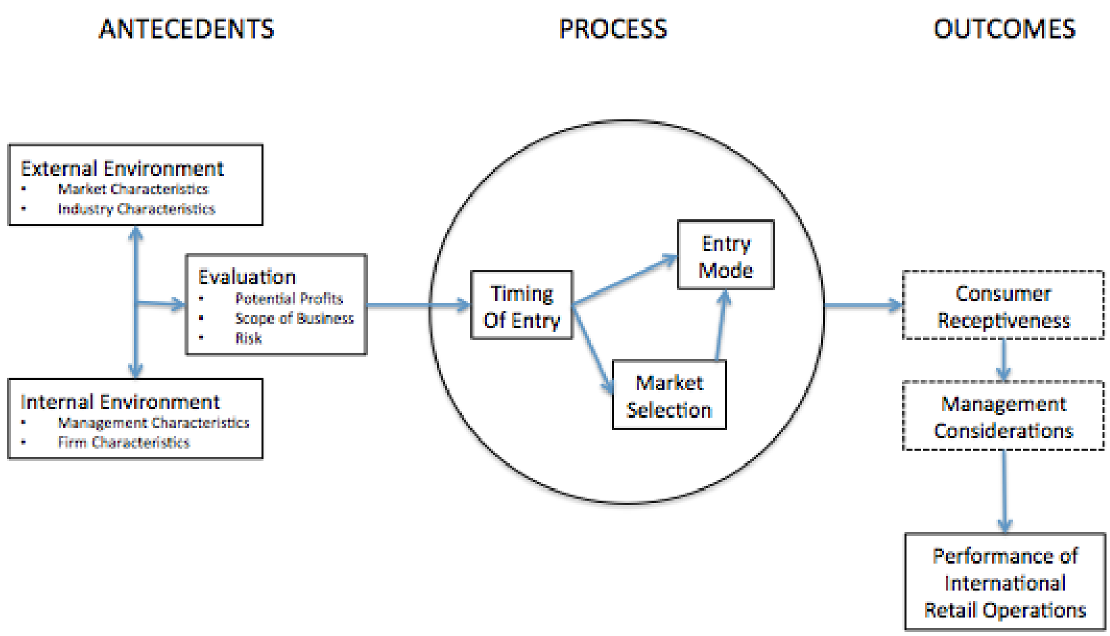
In the past, the majority of research has been completed on the actions and decisions involved in the internationalization process, such as those discussed above, timing of entry, market selection, and entry mode. While the majority of research has focused mainly on the first three factors, consumer receptiveness has become an increasingly common topic of research. In a study by Alexander et al. (2010), consumer receptiveness is identified as "the willingness of the individual or group to accept retailers based in other markets operating in the individual or group's domestic market." The reception of a firm stems from the characteristics of the firm itself, including the type of products that it offers, as well as the characteristics of the host country, including

social or economic factors. In the book “Belief, Attitude, Intention and Behavior: An Introduction to Theory and Research”, by Fishbein and Ajzen, a model was developed that broke down consumer receptiveness into four parts: beliefs, attitudes, knowledge, and behavior. It is the positive or negative levels of these four factors that often lead to the success or failure of a company’s expansion. As a result, it is the challenge of expanding firms to attempt to ensure positive levels of consumer receptiveness in potential markets, meanwhile attempting to mitigate the risk of the expansion. Ultimately, it is how consumers receive a foreign company, either initially and/or over time that leads to the success or failure of the venture. In order to develop a successful expansionary strategy, a firm must determine an appropriate timing of entry, market selection, and entry mode that will lead to the highest possible levels of consumer receptiveness.

Model Adaptation

As stated above, in order to better analyze the various cases, the model constructed by Vida and Fairhurst will be adapted. To provide this additional analysis to the cases in my study, the factors of “Timing of Entry” and “Consumer Receptiveness” will be added as key variables in the internationalization framework. While in the existing model, ‘market selection’ and ‘entry mode’ are within the “outcome” section of the expansion process, in the formation of this study, ‘Timing of Entry’ will be added in direct relationship to market selection and entry mode within the “process” section of the model; and consumer receptiveness will be included under “outcome.”

Also, while these four factors will comprise the focus of the case analyses, the beginning and end of the model will remain the relatively the same; beginning with the external and internal environment affecting the expansion evaluation for a firm and ultimately ending with the performance of the international operations.



As expressed above, the environment in which a company finds itself, both internally and externally, affects the amount of risk a company is willing to take in order to increase the profits and scope of their business. It is this evaluation of risk, and assumed acceptance of the risk, which leads to the actual expansion. Once in the process of expanding, the three main variables have explicit effects on each other, as was explained in detail earlier. The success or failure of these strategic variables determines the level of consumer receptiveness, which in this model is not the ultimate outcome but

is in fact a prelude to the overall performance of the operation. This variable of consumer receptiveness can be viewed both as an independent and dependent variable, which is why it lies between the process and the final outcome. While it is often dependent on the success of the entry process variables, the host consumers occasionally do accept a retailer if initial problems are fixed through changes to the operations, which is present in the model in "Management Considerations." Finally, at the end of the model is "Performance of International Retail Operations;" upon determining the overall performance, the executives then decide whether to remain in the market, often at varying degrees of growth or decline of operations, or to withdraw altogether.

It is this adaptation of the model and general analysis approach, that will structure the study in a way to provide insight on the various cases as well as clarity on the presence of the particular expansionary variables within the retail internationalization process.

Application of Model to Cases

As described above, the application of this model to these particular cases begins not at the "Antecedents" of external environment, internal environment, or evaluation, but with the process portion of the model. As these are cases of past expansions, the firms' management evaluated the risk of expanding internationally and chose to do so.

(A complete list of the companies, cases, and results can be seen in Appendix 4.)

Wal-Mart: Germany

In the mid-1990's, Wal-Mart had grown to be, by far, the largest retailer in the U.S., in addition to having locations within Canada and Mexico, as well as in South America. This clear and dominant hold on the retail industry within the U.S. led to their timing of entry into these foreign markets, and in this particular case, Germany in 1997. Wal-Mart had established itself within the market, and as such, to satisfy the first definition of timing of entry, decided upon a moment to expand internationally, resulting from the belief that it could assume the risk of the expansion (Gallego). Upon making the decision to expand into Europe, the German market was a clear choice for two reasons. The first being that Germany was "the third largest retail market in the world (after the USA and Japan) and accounted for fully 15% of Europe's approximately $2 trillion-a-year retail market" (Christopherson 459). The second reason for selecting the German market was that it opened up opportunities for Wal-Mart to expand to Eastern European Markets.

When looking at the second facet of 'Timing of Entry', which is the speed of a firm's expansion process, in relation to 'Market Selection', it is clear that these two factors played pivotal roles in Wal-Mart's expansion. Realizing that they entered Germany at a time when the retail market was especially saturated, management decided to incorporate a fast (or early) strategy of entry. This fast strategy was an attempt to quickly incorporate the company's "Every Day Low Prices" model in order to "change German consumers' preferences in favor of the one stop shop concept, and thus act as a 'market spoiler'" (Pioch 209). The use of this rapid strategy into a saturated German market displayed a certain level of arrogance among the Wal-Mart executives, who held a

belief that the company could use similar strategic decisions in Germany as it had done successfully in the U.S. This arrogance was further displayed in the resulting choice of 'Entry Mode'.

Wal-Mart entered the German market in 1997 through the acquisition of wholly owned subsidiaries, specifically with the purchase of 21 existing Wertkauf stores, as well as 74 Interspar hypermarkets in 1998. While this entry mode has proven to be a preferred method within Wal-Mart's expansionary strategy, in this particular case, the selection of the German market resulted in few options of existing stores to take over. "Because the leading food chains in Germany are privately held, there were no opportunities for hostile takeovers as there would be in the Anglo-American markets. In order to enter the market Wal-Mart was forced to purchase the two relatively weak chains, Interspar and Wertkauf" (Christopherson 459). While the acquisition of these two chains gave Wal-Mart an entry into the market, it represented only a 3% share of the German retail market sector, placing them 11th in overall retail sales. However, according to Christopherson (2007) the German grocery sector of the retail market is concentrated within the top 5 companies, which account for almost 80% of all sales. Ultimately, providing Wal-Mart with a rather weak position to begin their operations within Germany.

Compounding on the issue of having a very small foothold in the German market, Wal-Mart was poorly received by the German retail consumer base almost immediately, for a number of reasons. For instance, many of the locations that had been purchased were outside of the popular city centers. This caused two problems, the first being that German retailers are typically within neighborhood locations and in small stores, and the second issue being that many Germans use public transportation and it was inconvenient

for them to have to drive to the new, remote Wal-Mart locations. In order to fight these problems, Wal-Mart aimed to use its primary competitive strategy, undercutting prices, in an attempt to overcome its “lack of and embedded network or neighborhood retail establishments and to weaken competitors so the could be acquired” (Christopherson 460). Unfortunately for Wal-Mart, they failed to recognize the price competitive retail market that was already in place in Germany. The typical German retail customers, especially grocery shoppers, were accustomed to having the ability to compare prices across multiple stores. As a result, the idea of traveling outside of their neighborhoods to do all of their shopping at Wal-Mart, which didn’t even guarantee them the lowest possible price, was very unappealing to the German consumer. Again, this shows the apparent ignorance that Wal-Mart’s management showed upon entering the market.

Another area in which Wal-Mart failed to obtain a true understanding on the German market was in the handling of their customers and employees. While in the U.S. it is very common for customers to be greeted in a store by a smile or a wave from a waiting employee or at the checkout counter, this is not the normal practice in German retailers. In spite of this, Wal-Mart expected this same demeanor in its German stores. They did not consider that in Germany, many people felt very uncomfortable being greeted by someone that they did not know.

Also, Wal-Mart is used to a high level of firm autonomy, and as a result failed to realize the importance of correctly approaching collective bargaining agreements among their employees. While the workers were paid 3% above the collectively bargained scale, the company refused to adopt German collective agreements (Gewerkschaft 2000). This refusal to follow the normal customs led to dissention within the employees, and by

association, dissention within the consumers. The dispute rose to such high levels that in July of 2000, workers picketed the stores to force the company to join the employers' association and abide by collective agreements (Christopherson 2007). This separation of business practices and the backlash from the employees and consumers, led to the creation of the unfavorable image of Wal-Mart in Germany, as well as the "erosion of the potential German middle class customer base" (461).

While there were significant managerial considerations in attempts to fix the continuously growing problem of trying to capture the German consumer base, these were outweighed by the pressure applied by the Wal-Mart shareholders who began to lose patience that this expansion would turn a profit. They were also discouraged by the continuous aggressive stance displayed by the consumers and competitors. The shareholders believed that the company should look for other areas of Europe to invest its resources, such as the U.K. Ultimately, these factors led to Wal-Mart's final withdrawal from the German market in 2006, after amassing over $1 billion in losses, they sold all 85 German stores to the German retailer Metro AG (Yoder 2016).

This analysis proposes that main cause of Wal-Mart's failure in Germany was two-fold: the failure to obtain advantageous locations within the German market, which prevented Wal-Mart from competing in the comparison shopping atmosphere that was present in the country, as well as the company's inability to develop a sufficient business model that is correctly modified in order to best suit the German retail consumers.

Wal-Mart: Canada

Prior to Wal-Mart's failed expansion into Germany, it opened operations in Canada. Leading up to this northern expansion, Wal-Mart had established itself as the United States' top retailer and had also entered into the Mexican retail market through a joint venture with the country's largest retailer, Cifra (Govindajaran 2002). With the company being at the top of the U.S. market and looking to expand upon its international operations, Wal-Mart used a fast timing of entry to enter the Canadian market in 1994. While the company began operations in Canada in '94, the foundation for this fast timing of entry, as well as the company's strategy for market selection and entry mode began to form in 1982.

In 1982, the American-based retailer Woolco closed down its 336 U.S. stores, selling a majority of them to Wal-Mart (Press-Courier 1982). Twelve years later, Wal-Mart again acquired Woolco stores, this time being 122 stores in Canada (Heller 2015). This selection of the Canadian market was perfect for Wal-Mart's desires to continue its expansionary plans. In addition to the similarities in income and cultural between the United State and Canada, Wal-Mart was also the first big-box retailer to expand into the country. Also, in contrast to the company's joint venture in Mexico, the entry mode of wholly owned discount retailers through acquisition was the logical decision. Canada is a mature market, so the entry through greenfield investment would only increase the level of competition. Also, with the company's familiarity of the Canadian market, a joint venture was unnecessary.

Throughout the entirety of Wal-Mart's operations in Canada, they have achieved tremendously positive consumer receptiveness. The business model of "everyday low

prices" attracted and retained customers, and the convenient locations of the stores allowed easy marketability of the Wal-Mart brand. This success has allowed the company to have tremendous growth within the country. In 2006, they successfully launched their supercenter store format. As of February 2016 Wal-Mart has 404 total stores, including 316 supercenters and 88 discount stores, and is Canada's fastest growing retailer (Wal-Mart/Canada).

Target: Canada

In 2011, after experiencing years of tremendous success in the United States, Target announced its first international expansion into Canada. The expansionary strategies utilized by the company were quite similar to Wal-Mart's expansion into Germany, and as a result ended with a similar, although much more swift, failure of operations. Targets timing of entry was at a point in their lifecycle where they had grown to be the second-largest discount retailer in the United States, following only Wal-Mart. This success in the U.S. led them to assume to risk of opening their first international operation. It also led them to believe they could quickly enter the market, adopting an early timing of entry.

While there are some minor differences between the U.S. and Canadian markets, American retailers, as well as companies in other industries, often select Canada as one of their first international locations because of the many similarities between the consumer bases. Companies such as Wal-Mart and Costco had experienced success in the Canadian market, and Target believed that it could do the same. Unfortunately for Target, the formation of their troubles seemed to start before they even opened their first store.

“Timing of entry” as mentioned before, consists of both the timing of a company’s decision to enter a market as well as the speed by which they do so. Typically, if a company is planning on adapting an early, or fast, approach of timing of entry, there is little time differential between the announcement of internationalization and the actual opening of operations. For Target Canada, this was not the case. Target announced its plan for expansion into Canada in 2011, but did not open its stores until 2013. This lead-time of two years gave the pre-existing retailers an opportunity to improve their businesses or expand to better fend against the introduction of Target into the market. As a result, “retail competition in Canada was fierce when Target opened in the spring of 2013, much tougher than Target executives had initially expected it to be, they later admitted” (Shaw 2015).

Additionally, the speed (or timing) of Target’s entry mode led to major problems in their supply-chain operations. Target entered the market through the mode of wholly owned subsidiaries, by the acquisition of 133 pre-existing stores from the Canadian department store chain, Zellers (Yoder 2016). In 2013, they opened an unprecedented 124 of the 133 stores, as well as 3 distribution centers within the first 10 months. This extremely accelerated expansion proved too much for the company to handle in its first international experience, and it led to disastrous supply chain issues (Megits 2015). After consumers eagerly awaited the opening of the new U.S. based store, they soon found many of the locations to be completely under stocked after the initial demand present, or even on the opening day of operations. This lack of available products would continue to haunt Target through the entirety of its Canadian operations. At various locations, shelves were cleared so quickly that the employees attempted to place action figures or dolls

throughout multiple racks to make the aisles look fuller. In one store the inventory levels, and subsequent display of products got so bad that one manager instructed employees to fill half of an entire aisle with Tide detergent in order to fill the empty space (Banjo 2014).

Returning to Target's entry mode, while the purchase of stores in a foreign market is a typical cost-saving strategy used by international companies, it turned out that the Zellers stores "required extensive expansion and refurbishing, which turned out to be more costly them Target originally anticipated" (Yoder 2016). The locations of these stores are also responsible for some of the problems within the supply chain. According to Megits (2015), multiple stores were over 1,600 km's away from a distribution center, which in comparison would be equivalent to supplying a store in Seattle from a distribution center located in Minneapolis.

Lastly, a major problem that Target faced was the failure of their pricing strategy in Canada compared to their American locations. As Tony Fisher, the president of Target Canada, said, "We built our business model to be incredibly competitive with the lowest-priced leaders in Canada. We're not building our business model as compared to the U.S." (Target Canada 2013). This pricing strategy caused confusion within the consumer base, which had grown familiar with Target's low pricing model by shopping in the various locations across the border in the United States. The customers realized that, as a result of this price disparity, they could simply go to other big chain retailers to get a better value on everyday products. In the end, Target's management, even when looking at best-case scenarios, couldn't predict making a profit in Canada until 2021. As a result, they decided to completely pull out of Canada in January 2015. After only two years of

operations, the company amassed losses of over $2 billion, with a $5.4 billion write-down in total (Peterson 2015).

While Target's selection of the decently saturated Canadian market presented the company with some problems, its failure was due mainly to the issues created by the speed of their entry into the market as well as their inability to attract a loyal consumer base. The insurmountable difficulties within their supply chain, compounded by the complete misunderstanding of consumers expectations caused Target Canada to become one of the fastest and most significant examples of a retailers' failure to expand internationally.

Tesco: U.S.A.

Prior to the British grocery retailer's expansion into the U.S., Tesco had experienced tremendous success, both at home and in international markets. The company has dominated the U.K. market and as of 2015 held an industry leading market share of 29.4%, compared to the next best being only 17.1% (Butler 2015). It also has over 7,500 stores worldwide in 12 countries (Yoder 2016). To expand on this well-established multinational success, the company announced in 2007 that it would be expanding into the U.S. market through 'Fresh and Easy' stores.

The company's timing of entry came at a time when they had built a strong home base as well as possessed significant knowledge of expanding internationally. With this background to build off of, they chose expand quickly by opening 199 stores throughout 2007 (Pfeifer 2013). These stores were located on the west coast of the U.S., which presented the company with a number of problems. In contrast to the U.S.'s east coast's

tendency to have high population density (similar to U.K. cities), the west coast tends to be more spread out in regards to population. This causes consumers to drive to grocery stores, and as a result gives consumers more simplicity to bigger retailers to buy large quantities. Tesco's style built around frequent shopping may have been more effective within big cities in the east, where more pedestrian traffic leads to easier everyday shopping. Another problem that arose from their market selection was the decision to set up many locations near newly developed housing developments as well as lower-income neighborhoods. Unfortunately for Tesco, their expansion into the U.S. market in '07 was followed by financial disaster in 2008 when the subprime mortgage crisis and subsequent recession hit the U.S. economy. These effects of the recession caused the devastation of the neighborhoods surrounding many Tesco locations (Sonne & Evans 2012).

In addition to the problems caused by the timing and locations of Tesco's entry, their entry mode had negative effects as well. The company chose to expand into the U.S. by wholly owned subsidiaries through greenfield investments. They quickly built the 199 stores as well as multiple distribution centers from the ground up. In doing so, they were making an "unprecedented bid to establish both a store network and a proprietary distribution system at the same time" (Birchall 2006). This decision would prove to be troublesome as the size and styles of the stores were often unfamiliar and unpleasant to the U.S. consumers. In hindsight, initial entry by joint ventures may have allowed them to benefit from the knowledge of local retailers and could have potentially prevented a number of the problems they experienced in reaching consumers.

While Tesco was trying to introduce a more novel grocery store than the typical U.S. grocer, they failed to identify a number of small but key characteristics of their new

consumer base. Among these mistakes was the lack of coupons, which consumers in the U.S. use constantly in order to get the best deal, whereas in Britain, "money-off coupons are often seen as signs of desperation" (Bateson 2012). Similar to the lack of coupons, the new Tesco stores did not incorporate "loyalty cards" until the last year of operations. These cards are another way U.S. retailers create value and loyalty within their consumer bases, and Tesco failed to identify this. In addition to the lack of these value-creating devices, Tesco also incorporate the U.K. style of self-service checkouts. The American shoppers typically prefer face-to-face interaction, as this provides them with the value of better sense of customer service, instead of the simplicity of self-checkout (Yoder 2016). Lastly, Tesco chose to stock its stores with mainly Fresh and Easy products, ignoring the fact that U.S. grocery shoppers are very brand-conscious and would instead travel to stores where they were provided with more options.

Ultimately after 6 years of poor financial performance, the company announced in 2013 that it would be withdrawing from the U.S. with an overall loss of £1.2 billion, or $1.6 billion (Morris 2013). In retrospect, an operation that should have been another successful international expansion for Tesco turned into one of the company's largest failures.

With the company's expansion into the U.S. coming the year before the financial recession, it is possible that they could have found success if they had simply entered the market 5 years prior. In spite of this extremely unfortunate timing, the inadequate understanding of the American consumers' expectations was a critical error.

Conclusion

With the potential to add billions of new consumers as well as billions of dollars in additional revenue, internationalization can provide a company with a chance to drastically expand the scope of its business. While there is plenty of potential upside when companies expand internationally, it comes with major risks of failure as well. In order to mitigate the risks involved, it is critical that companies incorporate well-formed expansionary strategies that are appropriate for a particular market. If an expanding company failed to so do, the results could be extremely negative effects on a company's financials as well as their overall operations, as witnessed by the failures of Wal-Mart, Target, and Tesco. These companies, in spite of having extremely successful operations elsewhere, displayed that even the most powerful firms can fail to expand internationally if they approach the process with an arrogance in their operations or a failure to properly research the foreign market when attempting to devise a successful strategy. In contrast, as witnessed by Wal-Mart's expansion into Canada, a company can excel in their expansionary strategy in one country while later failing in another, for a multitude of reasons. Also, similar companies can utilize similar strategies into a certain country, but any number of things can go overlooked within the strategies, and ultimately cause the failure of one and success of the other. One thing is clear, there are many ways to develop successful strategies of expanding internationally, but in order to do so, companies must accurately access the risks associated with expanding and truly understand the foreign market in which they are investing.

Future Research

Upon the conclusion that the proposed model in this study does in fact produce meaningful analysis of international expansions, further research on this paper can be accomplished in two areas. The first would be to use the existing model on other cases of internationalization. After seeing the results gathered in this study, the application of the model to additional past cases can provide insight and analysis on failed or successful internationalization attempts. The second area of further research would be the continued development and adaptation of the internationalization model. This could be accomplished either through the addition or subtraction of expansionary variables or through the creation of a new model based on the current one. If beneficial adjustments are made, more valuable research can be done on future cases.

Appendices

Appendix 1. Gallego et al.: Timing of Entry Framework

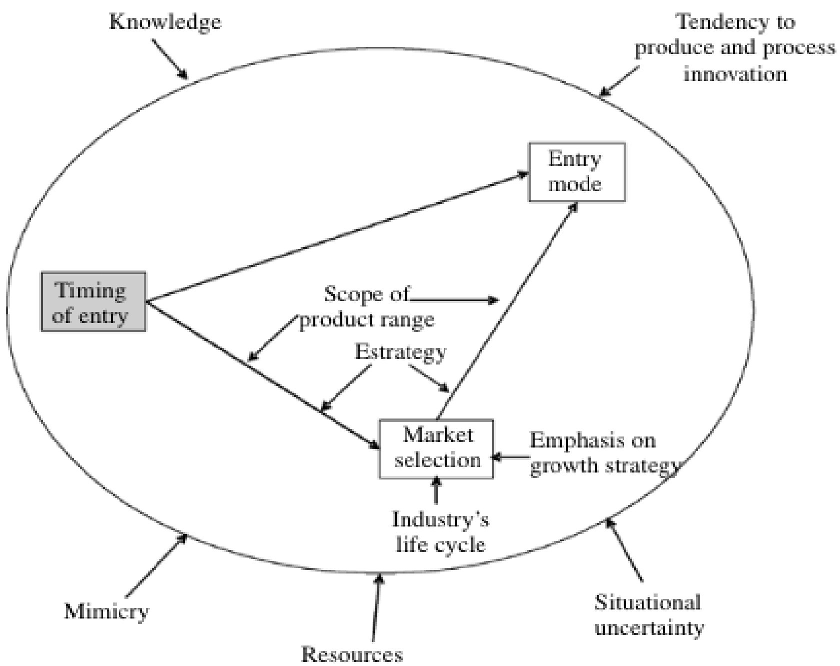


FIGURE 1
Relationship between timing of entry, entry mode and international market selection

Appendix 2. Hill et al.

Table 1. The characteristics of different entry modes

Entry mode	Constructs: Control	Resource commitment	Dissemination risk
Licensing	Low	Low	High
Joint venturing	Medium	Medium	Medium
Wholly owned subsidiary	High	High	Low

Appendix 3. Herrmann and Datta

TABLE 1
CHARACTERISTICS OF FULL-CONTROL AND SHARED-CONTROL ENTRY MODES

Characteristics/Determinants	Shared-Control Entry (Joint Ventures, Contractual Agreements)	Full-Control Entry (Greenfield Investments, Acquisitions)
Extent of risk exposure (Influenced by resource and asset commitment; risk sharing by partners)	Low-Moderate	High
Returns (Directly related to ownership and control)	Low-Moderate	High
Resource commitment (Associated with entering foreign market and maintaining operations, increases with increasing ownership and control)	Low-Moderate	High
Knowledge of local markets (Enhanced with local partners. Exchanges with partners facilitate access to knowledge needed to understand environment)	Low-Moderate (Given access to partner knowledge base)	High (Must develop knowledge base independently)
Control (Directly related to ownership)	Moderate	High

Appendix 4.

Company	Domicile	Expansion	Result
Wal-Mart	**U.S.**	**Germany**	**Failure**
		Canada	**Success**
Target	**U.S.**	**Canada**	**Failure**
Tesco	**U.K.**	**U.S.**	**Failure**

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