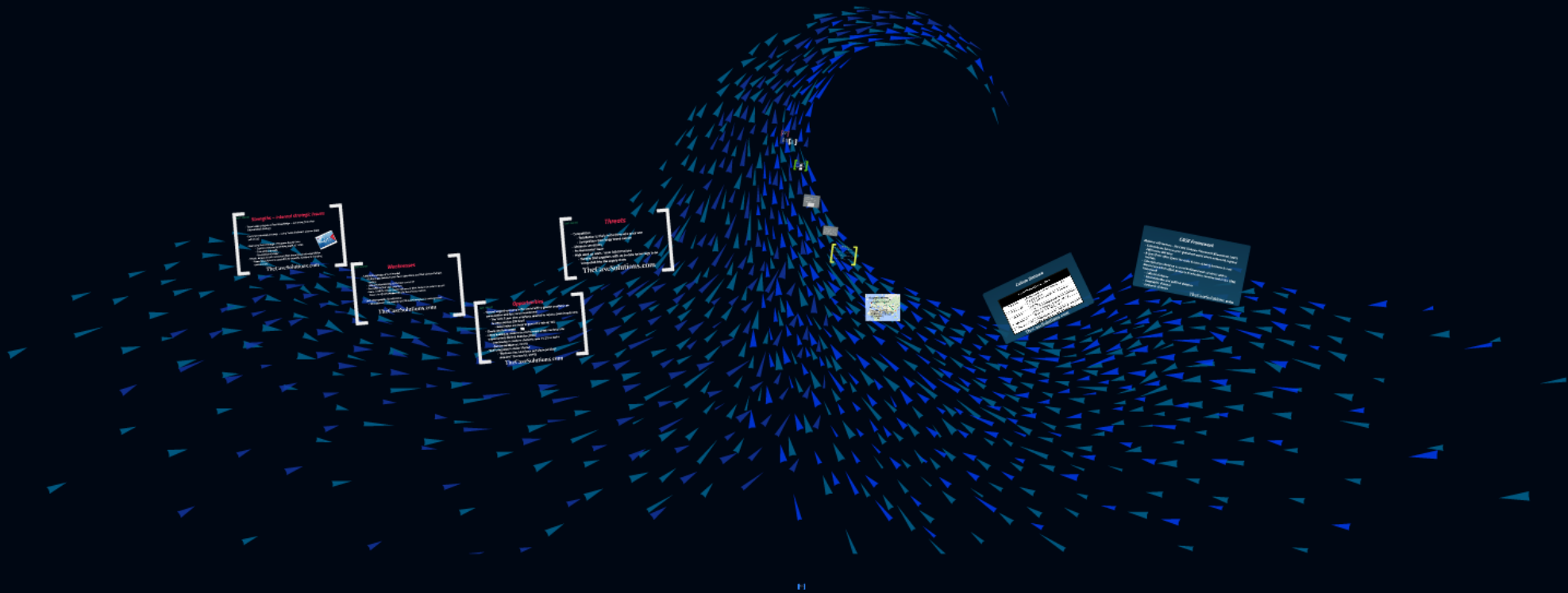


Value Partners and the Evergrande Situation

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Value Partners and the Evergrande Situation

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Why would TESCO look to operate in china

- For TESCO, China is a highly attractive market to operate in
- China's rise has boosted international business in conjunction with an improved legal system
- Foreign companies see China as an attractive proposition for 3 reasons
 - Size of the market
 - The very low cost of labour
 - China's growth potential together

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SWOT ANALYSIS

Strengths – internal strategic issues

- Tesco holds a degree of Tacit Knowledge – stemming from their international strategy
- Customer retention strategy – using 'Tesco Clubcard' scheme (Data collection)
- Analysing Tesco through a Resource Based View
 - Capital resources (operating profit of 1.4bn)
 - Economies of scale
 - Economies of scope
- Tesco's access to such resources gives them threshold capabilities
 - Tesco has a dynamic capability to meet the needs of a changing environment



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Weaknesses

- **Lack of knowledge of local market**
 - **Cultural gap between past Tesco operations and that of their Chinese venture**
 - **lack of understanding of Chinese consumer**
 - **Essential to find local suppliers**
 - **Here, it will be key to find an alliance or Joint Venture in order to assist Tesco's in effectively operating in the chinese market**
- **Lack of geographic diversification**
 - **Management – the volume of CEO most foreigners in management**

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SWOT ANALYSIS

Opportunities

- **Second largest economy in the world with a greater emphasis on consumption and less so on investment**
 - **The 13th 5 year plan emphasis wanted to refocus from investment to consumption (UK Govt)**
 - **Retail sales continue to grow at a rate of 10%**
- **Cheap and low wages** 
- **China looking to modernise and convert street markets into supermarkets (Gale & Reardon, 2004)**
 - **purchasing in modern channels rose 14.5% in 2014 (kantarworldpanel, 2014)**
- **Well integrated in Asian Market**
 - **"Business ties have been put above political disputes" (Economist, 2015)**

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Threats

- **Competition**
 - Retaliation is likely in the form of a price war
 - Competition from large brand names
- **Distance sensitivity**
- **Environmental issue**
- **High start up costs / poor infrastructure**
 - Hard to find suppliers with up to date technology to be integrated into the supply chain

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CAGE Framework

Distance still matters - The CAGE Distance Framework (Ghemawat, 2001)

- **Contends we live in a semi-globalised world where national & regional differences still exist**
- **Argues firms often ignore the costs & risks of doing business in new markets**
- **Conceptualizes distance as a multi-dimensional construct with 4 dimensions which affect products & industries: Summarised in the CAGE Framework**
 - **Cultural distance**
 - **Administrative and political distance**
 - **Geographic distance**
 - **Economic distance**

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Culture Distance

Current Shopping Trends in China

1. How to buy?	Always in person, no online shopping or other methods available.
2. Where to buy?	At the closest store possible - no transportation available.
3. What to buy?	Many of the everyday products Chinese consume are an issue for Western animal rights activists. ¹
4. When to buy?	Almost daily to buy fresh produce. ²
5. How much to buy?	Average expenditure per customer is 80 RMB (£7.61) & Chinese only buy as much as they can carry. ³

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