MARCH 2018

INTERNATIONAL MARKETING STRATEGY – PRE-ISSUED CASE STUDY & GUIDELINES

Important notes for candidates regarding the pre-issued case study

The case study is designed to assess knowledge and understanding of the International Marketing Strategy syllabus in the context of the relevant case study. The examiners will be marking candidates' scripts on the basis of the questions set. Candidates are advised to pay particular attention to the mark allocation on the examination paper and to plan their time accordingly.

Candidates should acquaint themselves thoroughly with the case study and be prepared to follow closely the instructions given to them on the examination day. Candidates are advised not to waste valuable time collecting unnecessary data. The cases are based upon real-life situations and all the information about the chosen organisation is contained within the case study.

As the case represents a real-life situation, anomalies may be found in the information you have before you. Therefore, please state any assumptions you make that are reasonable when answering the questions. Remember, you are going to be tested on your overall understanding of the case issues and your ability to answer the questions that are set in the examination.

In order to prepare for the examination, candidates will need to carry out a detailed analysis of the case material ahead of the examination. Candidates will have sufficient time during the examination to answer all the questions, but this means that detailed analysis should have taken place before commencing the examination. The examiners are looking for clear evidence that candidates have a good understanding of the case and can use the relevant course ideas from the syllabus to answer the questions.

The copying of pre-prepared 'group' answers, including those written by other third parties, is strictly forbidden and will be penalised. Thus, questions will demand analysis in the examination itself and individually composed answers are required in order to pass.

Candidates are only allowed to take their analysis into the examination room which should be no more than TWO pages (four sides) of A4. These notes should be attached to the answer script at the end of the examination and returned.

A copy of the pre-issued case study material will be available in the examination. Candidates are NOT permitted to take into the examination the downloaded case study or any other notes. Candidates should not attach any other additional information in any format to their answer script. Any attempt to introduce such additional material will result in the candidate's paper being declared null and void.

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INTERNATIONAL MARKETING STRATEGY
CASE STUDY – TESCO'S WITHDRAWAL FROM JAPAN

After ploughing more than £250m and eight years into trying to crack one of the toughest retail markets in the world, Tesco announced that it was pulling out of Japan.

The retrenchment is a setback for the globetrotting British retailer, which has spent much of the past decade planting its red, white and blue flag in countries ranging from Turkey to Thailand, and follows the promotion of Philip Clarke, the former head of its sprawling international business, to group chief executive. At his maiden results presentation, Clarke set the scene for a major shakeup by promising to improve returns from its overseas investments.

"Having made considerable efforts in Japan, we have concluded we cannot build a sufficiently scaleable business," he said on Wednesday. "We have decided to sell our operations there and focus on our larger businesses in the region." The decision came after a review of the vast retailer's Asian arm, which also takes in Korea, Thailand, Malaysia and China and had £11bn sales last year.

Clarke succeeded Sir Terry Leahy – the veteran chief executive behind the rapid overseas growth that turned the British supermarket into the world's third-largest retailer – and analysts said it meant he would not balk at pulling the plug on its heavily loss-making US start-up Fresh & Easy if its performance did not improve. The Los Angeles-based American business was the biggest gamble taken by Leahy during 14 years in charge.

Shore Capital analyst Darren Shirley said that although the Japanese chain was its smallest overseas chain it was "important from a symbolic and directional sense". He added: "This decision should send a message throughout the group that Clarke is not about flag-pitching and is about creating a sustainable, balanced model for growth. Nowhere greater will this decision resonate than in the US, where we forecast over £700m of accumulated losses by February 2012."

Tesco is not the first foreign retailer to leave Japan with its tail between its legs. Boots the Chemists and France's Carrefour have also admitted defeat there.

The Cheshunt-based supermarket chain arrived in Japan in June 2003 when it acquired Tokyo convenience store chain C Two-Network for £173m. The push was led by David Reid, now Tesco's chairman, who at the time described it as a "neat entry" to a market with higher operating margins than in the UK.

It made a bolt-on acquisition the following year, acquiring bankrupt convenience store chain Fre'c and taking on £16m of its debt. Analysts said it invested some £10m a year in Japan in a bid to turn the business into a major force in the country. However, Tesco appears to have underestimated the difficulties it would encounter in Japan, the world's third-largest grocery market after the US and China, with total sales of $356bn. Gavin Rothwell, research manager at retail analysts IGD, said the country was "notoriously difficult" due to high operating costs and extremely demanding shoppers, with even market leaders Aeon and Ito Yokado battling to increase profits.

"The retail market is fragmented and there are many strong regional players, often family-owned," said Rothwell. "Convenience stores dominate, particularly in the city centres, and a culture of 'immediacy' supports large numbers of vending machines."

Tesco had developed an own-label range and even a fresh kitchen to supply fish and other local products to its stores but last year the business, which trades under the names Tsurakame, Tesco and Tesco Express, made an operating loss of £5m on sales of £476m.

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“Unfortunately, it has proved to be very difficult to shift consumers from stores they use into new ones,” said Clarke. A formal sale process will now begin, but Tesco said the stores would continue to trade as usual. Analysts estimated the sale would raise between £50m and £75m, a drop in the ocean for the retailer, which made profits of £3.8bn on sales of £67.6bn last year. Tesco had already written down the goodwill on its Japanese business and had halted further investment. The shares closed up 13.8p at 378.6p.

Tesco made its first foray overseas in the 1980s when it acquired H Williams in Ireland (although it later sold the business) and has gone on to open 2,750 stores outside the UK. Although 65% of the group’s store space is now overseas, the domestic chain still generates the lion’s share of group profits and Clarke wants to focus on markets where it can be either the market leader or in second place.

In the UK, Tesco has a market share of 30.5%, whereas in Japan it has less than 1%. Building an international empire has not been plain sailing: in 1997, one of Leahy’s first decisions as chief executive was to sell French business Catteau, the same year it also re-entered Ireland. In 2005, the retailer quit Taiwan by handing over the stores to Carrefour in exchange for outlets in the Czech Republic and Slovakia.

Clarke insisted the decision to withdraw from Japan had no bearing on the future of Fresh & Easy, but he has already made it clear that the next two years will be critical for the business headed by deputy chief executive Tim Mason. The 176-store chain made a loss of £186m on sales of £502m last year and Clarke wants to see a significant reduction in the current financial year and for it to reach break-even towards the end of 2012. The stores are being refurbished after shoppers complained they were too clinical, with the introduction of wooden flooring and flower stands at the entrances, while new products such as takeaway coffee and pastries, key draws for US consumers, have been introduced. F&E will also trial an “Express” format this year which, at 3,000sq ft, will be less than a third of the size of the stores it has opened to date.