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Between embeddedness and otherness – internationalisation of grocery retailers in emerging markets

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Introduction

Despite the unimpeded success of globalization's benefits in general retailing, the 'big picture' in grocery retailing is – with a few exceptions – somehow different. On the contrary to other industries or general retailing, grocery retailing was and is still often considered to be a prevailing domestic economic activity in most countries. Even in the wake of general trends such as a worldwide liberalization of retail trade, a growing middle class and a higher penetration with personal vehicles or refrigerators in many developing countries, international players often operate within a limited range in (e.g. Walmart in India) or are actually absent from the key retail markets (e.g. Metro in South America). There are manifold examples showing that almost every grocery retailer that had tried to expand to overseas markets has failed as often as it has succeeded (Corstjens and Lal 2012).

In the 1990s and 2000s, however, an increasing internationalisation of grocery retailing resulted in a coexistence of both domestic and international structures (Dawson and Mukoyama 2014). Despite the remarkable persistence of traditional domestic retail formats like small-scale grocers including 'Mom 'n Pop' stores and wet markets, there is a general tendency towards 'supermarketisation' and/or 'hypermarketisation' of both domestic and international grocers especially in emerging markets (Reardon et al. 2004). From our viewpoint, the coexistence of both domestic and international retail structures in emerging markets is a consequence of a considerable competitiveness and persistence of domestic retailers as well as fine-grained approaches towards internationalisation.

Against this background, the chapter takes a closer look at the latter by investigating upon two specific features of grocery retail internationalisation: spatial expansion patterns and foreign market strategies. Given the fact, that business activities abroad generate additional costs for foreign firms in relation to their domestic counterparts, the former have to face certain liabilities. In order to delimit or to overcome these liabilities foreign firms can choose between two opposite ends of a market development continuum: embeddedness or otherness. Although both types of market development embeddedness and otherness aim to confine competitive disadvantages arising from being a 'stranger in a strange land' (Yildiz and Fey 2012) or to put it in technical terms "liability of foreignness" (Zaheer 1995) or "liability of outsidership" (Johanson and Vahlne 2009), the means and approaches are fundamentally different. In our understanding, market development strategies favouring embeddedness are based on spatial and socio-cultural proximity (as motivated by classical Uppsala-Model arguments) or mimic practices of the investors adjusting to the host country's environment, whereas market development strategies in line with otherness are earmarked with flag-planting in remote countries (spatial and socio-cultural distance) and with utilising archetypical practices or domestic capabilities abroad. We apply these market development strategies especially towards developing economies and emerging markets based on a spatial and impact analysis.

Starting with an overview of theoretical approaches towards embeddedness and otherness in the context of internationalisation, we juxtapose both market development approaches with regard to (1) different types of spatial expansion patterns and (2) foreign market strategies where we show selected cases of effects of ambivalent processes on international grocers themselves and their competitors driven by these two phenomena. The analysis was accomplished by retracing the growth history of selected retail grocers and by means of an extended literature review.

Theoretical Approaches Towards Embeddedness and Otherness in the Context of Internationalisation

Internationalisation or doing business abroad is inevitably connected with additional costs arising from spatial, sociocultural or economic distance not faced by local or domestic enterprises (Hymer 1976). At the same time, these additional costs vary with the extent of spatial, sociocultural or economic distance to foreign markets, in other words with different types of spatial expansion patterns (Johanson and Vahlne 1977). In general, inexperience of the environment was initially coined as the “liability of foreignness” (Zaheer 1995); later it was differentiated into three idiosyncratic hazard categories: unfamiliarity hazards (liability of foreignness), relational hazards (liability of outsidership) and discrimination hazards (we call it liability of racism; Eden and Miller 2001; Johanson and Vahlne 2009). By considering spatial expansion patterns alongside foreign market strategies, we also introduce the concept of spatial hazards (liability of remoteness). Because all these liabilities can result in competitive disadvantages for foreign firms, they have the choice to either assimilate/to expand in neighbouring countries (what we stylise as, approximate as and term embeddedness here) or to remain different/to expand in remote countries (what we stylise as, approximate as and term otherness here). Of course, a mixed strategy can also be thought of, which is especially relevant for grocery retailers as we will see later (e.g. Tesco is strongly embedded in remote markets).

In order to retrace firms’ choices during internationalisation (spatial expansion patterns and foreign market strategies), we understand embeddedness and otherness in a twofold way. First, with regard to spatial expansion, we apprehend and portray embeddedness in the Polanyian sense (see Krippner and Alvarez 2007) as a state of being located or secured within a larger entity, context, environment, region or nation often driven by non-economic institutions (and the opposite for otherness). We link it to the internationalization of multinational enterprise in general and their spatial expansion pattern in particular, assuming that spatial expansion patterns of grocery retailers can be illustrated by the well documented “experimental learning perspective” discussed in the so-called original Uppsala model (Johanson and Vahlne 1977). The rationale of this approach tells us that firms undergo a learning process during their steps of international expansion. In the beginning, when international experience is still limited, expansion abroad is oriented towards countries in spatial (e.g. neighbouring countries) and sociocultural proximity (e.g. former colonies, same language, trading blocs). Spatial proximity reduces transportation costs and sociocultural proximity transaction costs. A sociocultural fit between home and host market simplifies market entry for a variety of reasons; for example it is easier for management to estimate the market volume; to offer adequate and demanded items, prices, quantities and formats; and to handle institutional conditions. Both conditions (spatial and sociocultural proximity), however, are far from being a guarantee that protects firms from market failures and divestment. In contrast, “flag planting” in remote countries in the infancy stage of internationalisation, with the purpose of diminishing risks of greater spatial and cultural–institutional distance and keeping sunk costs low, would contradict the Uppsala view. The internationalisation of grocery retailers motivated by classic Uppsala Model arguments (spatial and sociocultural proximity; Johanson and Vahlne 1977) thus aligns with the embeddedness issue, whereas flag planting in remote countries (sociocultural and organizational distance) exemplifies the otherness issue.

Second, with regard to foreign market strategies, we understand embeddedness as predominantly mimetic practices and otherness as archetypical practices of the investors—and not of the operating mode (e.g. supermarkets), a liability which could also apply to a domestic grocer—to obtain legitimacy and to pursue credibility and reliability by firms on foreign markets. These strategies have been extensively discussed by scholars from different theoretical backgrounds (institutional theory scholars, social network theorists, or supporters of the resource-based view) who favour adaptation towards the local environment either by using similar practices, thus becoming isomorphic over time (DiMaggio and Powell 1983; Rosenzweig and Nohria 1994) or by differentiating themselves from local counterparts through firm-specific managerial, organisational and technological capabilities (Buckley and Casson 1976; Dunning 1977). These findings have been reinforced by manifold newer studies with regard to both isomorphic practices (Eden and Miller 2001) and imported/transferred home-grown capabilities (Zaheer 1995). While both strategies undoubtedly have their place in current debates, our arguments reach beyond this wisdom by integrating also emerging markets as host countries for MNEs' operations and their idiosyncratic reasons for internationalisation in these countries, especially with regard to otherness. To that end, internationalisation of grocery retailers motivated by isomorphic practices abroad (DiMaggio and Powell 1983) supports the embeddedness issue, whereas original practices in foreign markets demonstrate the otherness issue (Zaheer 1995).

The puzzling spatial expansion patterns of international grocery retailers

Grocery retailing represents a low-margin business and is, therefore, forced to step into global markets to satisfy shareholders for a number of push-factors (e.g., limited possibilities for market expansion, strong competition, already realised operational optimization, and high cost pressure in saturated home markets) and pull-factors like internalisation (i.e., exploitation of economies of scale and scope), ownership (e.g., diversification of risks) or locational advantages (e.g., preventing trade or market entry barriers, new markets) (Dunning 1977). Generally, internationalisation attempts and foreign ventures usually start with a careful and balanced consideration of the targeted market(s). Extant literature with regard to grocery retail internationalisation in emerging markets has brought important factors and drivers from the demand (Goldman et al. 1999; Reardon et al. 2004), supply (Dawson 1994, 2003, Coe and Wrigley 2007), and policy side (Wrigley and Love 2010; Kulke and Suwala 2015) to the fore. All these factors and drivers enable manifold global business opportunities but also challenges for investors when dealing with idiosyncrasies of emerging markets. Now the question arises which types of spatial expansions patterns and foreign market strategies – the embedded or otherness ones – have been pursued in grocery retail internationalisation. Let us start with spatial expansion patterns first.

Reviewing the list of the 250 largest retailers (food-retailing and non-food-retailing in 2011), we observed a total of 88 originating from Europe, 86 are based in North America, and 58 are located in Asia. Only eleven companies descended from South America and seven from Africa (Deloitte 2002-2014). At the same time, nine of the ten biggest global retailers (as measured by retail revenue in millions of US dollars) indicated having their major business area in food retailing (see Table 1). The top 15 in grocery retailing were headquartered in core economies such as the USA, Germany, United Kingdom, France, and Japan – all of them early industrialised countries (Deloitte 2002-2014) (see Table 1). However, none of them was able to set up a business in all key markets at the same time.

Name/Year	1996	2000	2001	2003	2005	2007	2009	2011
Walmart (US)	1	1	10(1)	10(1)	11(1)	14(1)	16(1)	28(1)
Carrefour (F)	8	2	23(2)	31(2)	31(2)	33(2)	36(2)	33(2)
Tesco (UK)	18	13	12(13)	12(6)	13(5)	13(3)	13(4)	13(3)
Metro (GER)	4	5	28(6)	28(4)	30(4)	32(4)	33(3)	33(4)
Kroger (US)	13	3	1(5)	1(5)	1(6)	1(6)	1(6)	1(5)
Costco (US)	23	14	8(12)	8(9)	8(8)	8(9)	9(7)	9(6)
Schwarz (GER)	33	29	x	x	21(10)	24(7)	25(5)	26(7)
Aldi (GER)	x	x	12(15)	12(10)	14(11)	15(10)	18(8)	17(8)
Target (US)	x	x	1(7)	1(7)	1(7)	1(8)	1(10)	1(11)
Auchan (F)	x	x	x	x	11(15)	11(14)	14(15)	12(12)
Aeon (J)	x	x	x	x	10(20)	10(21)	9(18)	9(13)
Edeka (GER)	x	x	x	x	5(17)	3(19)	1(14)	1 (15)
SevenEleven (J)	x	x	x	x	4(24)	4(16)	18(16)	18(16)
Rewe (GER)	x	x	x	13(11)	14(12)	14(12)	13(12)	19(11)
Casino (F)	x	x	x	x	28(32)	11(28)	25(26)	22(26)

Table 1. Number of countries in operation and worldwide rank (in brackets) by the Top 15 Grocery Retailers (2011) among the Top 250 general global retailers between 1996-2011 (own calculations based on Deloitte 2002-2013) Abbreviations: J=Japan, GER= Germany, F=France, US= United States of America, UK= United Kingdom

*due to minor interest of this study, the two biggest Australian Grocery Retailers have been omitted (Woolwoths & Westfarms, 2011, rank 19th & 20th excluded) as well as Dutch Ahold ranked 3rd in 2001, 26th in 2011 (balance account scandal) and Albertsons ranked 8th in 2001, 239th in 2011 (merger& acquisition and split)

Although animated by similar push- and pull factors for internationalisation as general retailers, the geographic distribution of foreign ventures and spatial expansion patterns of grocery retailers are far from being comprehensive. Four universal trends, however, hold true for most spatial expansion patterns.

First, next to a traditional north-north expansion that set the pace early on within grocery internationalisation (but is not the focus here), a north-south expansion process of international retail chains has dominated internationalisation figures over the last two decades. Interestingly, this north-south expansion was accompanied by four waves (first wave: Latin America, Central Europe, and South Africa starting in the early 1990s; second wave: Southeast Asia (outside transition countries like Vietnam), Central America, and Mexico during mid- to late 1990s; third wave: China, Vietnam, India, and Russia in the late 1990s and 2000s; forth wave: outside of South Africa, and mainly in eastern/southern Africa, the supermarket revolution is just taking off) of transformation that also led to a 'super-/hypermarketisation' of emerging markets (Reardon et al. 2012). It must be admitted that particular markets like China or India have moreover idiosyncratic spatial expansion patterns not always consistent with the model. These waves can be differentiated by the diverging shares of 'modern' retail market with the highest penetration in pioneering countries (Reardon et al. 2012, Deloitte 2002-2014). Especially, the second and third wave was dominated

by 'new-born' retail MNCs with aggressive 'gold rush' and merger and acquisition strategies when entering emerging markets (the otherness issue) (Wrigley and Lowe 2010). Motives, drivers and the sequence for this north-south internationalisation can be partly explained by the well documented 'experimental learning perspective' as discussed in the original Uppsala-model (Johanson and Vahlne 1977). This is especially relevant for modern food-retailers because these stakeholders have to develop, organise and establish entire procurement systems for the on-going delivery of items to the stores. In other words, when grocery retailers enter a new market – a systemic market development and a far-flung network needs to be set up. Fresh food supply chains are, in particular, a logistical challenge; either efficient cross-border international delivery systems or laborious contacts to local producers or wholesalers have to be established inevitably leading towards an intense degree of embeddedness on the one hand. However, in certain stages of expansion often more risky ventures had to be undertaken rather characterised by 'flag-planting' in remote countries pointing more towards an otherness strategy on the other hand.

Second, there is a new trend by grocery retailers originating from emerging markets with a developing middle class that clearly indicates a growing south-south internationalisation (Kulke and Suwala 2016). Decades of imitation and learning associated with distinct innovations, venture capital and long-termed visions of enthusiastic entrepreneurs in certain emerging countries proofed sustainable on home markets and even entered neighbouring countries (e.g., Spar from South-Africa; Cencosud from Chile). Moreover, there are delicate signs and attempts of first entries of food retailers from developing economies to developed economies (e.g. South African Pick n' Pay in Australia, the Mexican Chedraui in the US). These developments are, however, neither a general trend nor substantial ventures to compete with national retail chains, but rather experiment to exert modest influence in niche markets (e.g. Chedraui's idea to service the Mexican community on the West Coast of the US). In all cases, the embeddedness issue is at stake as spatial expansion is directed predominantly towards neighbouring and often well-known customer profiles while otherness plays no role so far.

Third, there are no regularities in single company expansion trajectories. Although, a gradual expansion process from proximate to distant countries in the sense of spatial and cultural-institutional proximity is documented in the international expansion of several grocery-retailing enterprises (the Uppsala argument), country-based expansion itself reminds more of trail-and error process (the otherness issue); the German Metro Group, for example, started their international expansion in the 1970s in Central and Western Europe, continued to Northern Africa in the beginning of the 1990s, entered Eastern Europe and China in the mid 1990s and is now expanding in South and Southeast Asia (Franz 2011). The US Wal-Mart group was present solely in North and South America (e.g. Mexico, Argentina, Brasilia, Puerto Rico) until the mid 1990s, expanded in the mid 2000s to Western Europe (Germany, UK), Central America and East Asia (Japan, South Korea) and took over numerous subsidiaries in Southern African countries in 2011 (Kulke and Suwala 2016).

Fourth, typical spatial diffusion patterns can be observed at a national level in emerging markets as well (Reardon 2005). Pioneering activities of mainstream modern retailing formats (super-/hypermarkets) usually start their operation in upper- and middle-class areas of capital cities for the following reason: expectation of sufficient demand due to above-average income and modern shopping behaviour of the residents (the otherness issue). In this stance, super-/hypermarkets are location wise often attached to and addressed as luxury shopping types serving a market niche for the local elite. The auxiliary expansion process, however, diffuses hierarchically towards other parts of capital cities and later second-tier cities, to intermediate towns and finally even to towns in rural areas. Finally, they enter urban areas' informal settlements with lower income (e.g. in Kenya/ Nairobi or Bolivia/ El Alto). This spatial expansion is driven by the ongoing competition in the higher-income market segment – because of other chains entering the market – and by internal

cost reduction possibilities based on the development of commodity chains by the companies. Hereby, often silent strategies are utilised by foreign grocers where local store names or brands remain unchanged (the embeddedness issue) after taking-over in order not to fall into the risk of local unrest (Reardon 2005, Kulke and Suwala 2015).

Foreign market strategies of internationalisation grocers

Our idea to reveal the embeddedness and otherness issues within foreign market strategies and the resulting business opportunities of grocery retail internationalisation in emerging markets is based on an impact analysis, which focuses on the various actor groups associated with or affected by foreign retailers. Although, our in-depth analysis (Kulke and Suwala 2015) provided an exclusive consideration of the entire commodity chain behind grocery retail starting with the agricultural product from the farm through collection and transportation to retailing and, finally, to the end consumer, we emphasise only selective effects relevant to the embeddedness and otherness issue here and restrict our analysis to aspects of market entry, business environment, and competition. Let us turn the spotlight on market entry. Setting subunits abroad requires elaborate strategies that target the very market and the retail system including domestic firms. In order to overcome the mentioned 'liabilities of not being a domestic firm', foreign units have often to embed by investing a considerable amount of capital into the set-up of modern technologies with the goal to increase operational efficiency (due to manual inventory, ordering and in some instances a non-existent consumer data base), education of personnel since division of labour and task specialisation are steadily rising in retail system of developing countries and calling for a wide range of qualifications. The same holds true, however to a lesser extent, for the establishment, organisation and maintenance of a store network, appropriate locational decision-making and operation of a smooth supply chain necessitates highly qualified personnel, either from chain stores in advanced economies or with experience of having worked there (Dawson 2003). Here, foreign ventures have the freedom to perform their versant practices due to the absence of 'common, good or accepted' practices in emerging markets (the otherness issue). However, a segmented training approach is required. This can be delivered, sponsored or accelerated by international suppliers, government or non-government organizations and associations, and FDI through trade fair visits and overseas training (Hagen 2002). At the same time, internationalisation has also shown the ambiguous impact of profitability on foreign firms. Situational factors such as time, type and intensity of market entry, existing competitors and regulatory policies are some of the aspects that influence financial performance (the embeddedness issue). While Ahold's expansion in the early 2000s, for example, showed high returns on investment in Central America, their experience in China in the same period turned out far below expectations (Kulke and Suwala 2015).

With reference to the strategies of foreign ventures on competitors (traditional markets, local/national chain stores, other modern international retailers), it can be said that modern international retail market entries, either as first or second movers or late-comers with major investments, have radically changed the rules of the game in developing markets (Dawson 1994, 2003; Coe and Wrigley 2007; Sunanto 2013). While early market entry attempts in the 1990s consisted of not little more than portfolio investments, 'flag planting' or other short-term engagements, this infancy stage sometimes was typically accompanied by substantial follow-up investments, but sometimes also by divestment and even withdrawals (Wrigley and Lowe 2010). Significant market shares – sometimes merely market leadership – promised international grocery retailers sufficient returns on investment by means of economies of scale and scope. Hence many emerging countries witnessed a competitive 'shake out'. This consolidation began when numerous international competitors initially made their entry into specific markets (e.g., Poland, Thailand), followed by selective/strategic reinvestment or even divestment, market exits and asset trade-offs among these stakeholders (Burt et al. 2003). As a result, a number of international grocery retailers concentrated

their activities in certain markets to divide the pie (Kulke and Suwala 2016). For social welfare reasons, however, anti-trust agencies in some countries prevented this tendency to monopolise the market (e.g., Slovakia, Coe and Wrigley 2007). These facts rather point to market logics independent of the regional contexts and therefore to the otherness issue.

At best, however, this is at best only half the truth. Despite market leadership by international grocery retailers in some emerging markets (Corstjens and Lal 2012), still both traditional and/or national retailers show remarkable persistence and outlast as strongholds in certain regions (Coe and Wrigley 2007). This persistence led to struggles of modern retailers due to customer loyalty strategies, the supply of traditional or religiously constrained products (e.g. halal foods) or just a lower critical mass for break-evens of domestic competitors in dispersed area to indicate only a few reasons (Kulke and Suwala 2015). Again, depending on the foreign market, elements of an embedded strategy are necessary in order to deal with the sheer number of street vendors, the consolidation and learning effects of local/national chains, the popularity of traditional bazaars, wet markets and street markets, custom of negotiating and the inability of international firms to set up reliable supply networks at comparable prices and quality. Moreover, fierce defence strategies are pursued by both traditional formats and national retail chains (for Chile, see Bianchi and Ostale 2006), frequently with government support by means of low-cost capital (for China, see Reardon 2005), lobbyism and/or protective regulations.

Recent studies have observed new mixed strategies (embeddedness and otherness), such as the 'supermarket-cum-wet market' (referring to supermarkets with a fresh food section as a wet market look-alike), that put further pressure on traditional retailers (e.g., for Hongkong, see Ho 2005) and have confirmed that modern retailers can outperform wet markets and street vendors in some categories (e.g., for Indonesia see Sunanto 2013). Other mixed strategies favour cooperation agreements (e.g., joint ventures, partnerships with national grocers) as a vibrant mechanism for location adaption with regard to consumers' needs and embeddedness (e.g. smooth and integrated sales appearances along cultural behavioural patterns or public point of views), while pursuing own practices in the background (Schlunze et al. 2013). Such strategies can be either opportunistic and short-term (e.g., Tesco and their relationships with CP Group in Thailand, with Sime Darby in Malaysia or with Ting Hsin in China where potential rents or learning effects are only skimmed before leaving the market, Coe and Wrigley 2007) or consistent and long-term (e.g., Casino and their relationships with GDA in Brazil; with Exito in Colombia with real lasting interest of providing markets, Deloitte 2002-2014).

Conclusion

As has been documented and analysed, doing business abroad leads to additional costs also in grocery retailing. In order to overcome these costs that can be expressed as liabilities, we have introduced a continuum of embeddedness and otherness as possible market development approaches towards spatial extension and foreign market strategies. Both the puzzling geographical patterns of the largest international grocers and the complexities of market penetration connected to different strategies during various value chain stages showed that only a balanced and fine-grained approach towards internationalisation taking both embeddedness and otherness into account can lead to successful strategies abroad. The latter is more than ever true in grocery retailing not only because of the multi-faceted, highly contextual and environment-based mosaic of grocery retail internationalisation, but also due to the all-embracing approach integrating agricultural systems, procurement channels and consumers' preferences when entering a foreign market. Despite the few generalisations that are possible at this level of analysis, there are roughly two chronologically distinct spatial expansion and foreign market strategies with regard to embeddedness and otherness. We conclude that the early years of grocery internationalisation

(stage one) were predominantly accompanied by an expansion in spatial and/or socio-cultural proximate countries (the embeddedness issue), while openly trying to assert significant structural transformation and archetypical business practices (systems, brands, workers etc.) (the otherness issue). In the current stage two, we observe a reverse strategy: more spatially and socio-culturally markets are targeted (the otherness issue), while preserving local store brands, parts of the network structure, and certain suppliers in order to maintain legitimacy, trust, and credibility among consumers (the embeddedness issue).

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