Conceptualising Contemporary Retail Divestment: Tesco's Departure from South Korea

Abstract

In this article, we critically analyse UK retailer, Tesco's September 2015 decision to sell its highly profitable South Korean subsidiary Homeplus to private investors. For over a decade since market entry in 1999, Homeplus had grown steadily to achieve a market-leading position through a process of strategic localization in which Tesco's global business practices were selectively adapted to meet the specific needs of the South Korean market. Against this backdrop, we explain the exit decision through theorising the dynamic intersection of home and host market factors that developed contemporaneously from 2010 onwards. On the one hand, worsening market conditions and financial pressures in a post-crisis UK domestic market drove Tesco to refocus on its home operations and, ultimately, identify saleable assets to offset mounting debts. On the other hand, steadily growing resistance within the South Korean market from competitors, regulators, labour and consumers caused sales growth to stall and then start to decline. Our analysis contributes to the economic geography literature on retail divestment by conceptualising the relational process of divestment decision-making that encompasses the intersection of home and host market pressures as well as conditions across the wider portfolio of subsidiaries. The research is particularly distinctive in its profiling of this coevolution of drivers, and in distilling the different 'domains' of host market contestation. The analysis also has wider significance in the context of the broader literatures on economic globalization that have tended to focus heavily on processes of expansion and market entry and far less on the instances of failure and exit that are an integral and inevitable part of these wider dynamics.

Keywords: retailing, globalization, divestment, resistance, South Korea, Tesco

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Introduction: an unexpected turn of events?

On 7th September 2015, the UK grocery and general merchandise retailer Tesco released a statement on its website relating to its South Korean operations. In the statement, Dave Lewis, the Chief Executive of Tesco since July 2014, stated the following:

“After a highly competitive process, we are announcing today the proposed sale of Homeplus, our business in the Republic of Korea. This sale realises material value for shareholders and allows us to make significant progress on our strategic priority of protecting and strengthening our balance sheet.

I would like to thank all of our Homeplus colleagues for their dedication, professionalism and service to our customers, which has resulted in the creation of a great business. I am confident that the agreement we have reached with MBK Partners presents an exciting opportunity for their continued success.” (Tesco, 2015)

On face value, the sale of Homeplus (Tesco's South Korean subsidiary) to a group of investors led by Asian private equity fund MBK Partners for approximately £4.2bn might make little sense. Indeed one commentator described it as ‘selling the jewel in its crown’ (MoneyWeek, 2015). Since entering the South Korean market in 1999 through a joint venture with Samsung’s then troubled distribution arm, for the large part Homeplus expanded rapidly over the next 15 years in terms of revenues, employees and store numbers – as **Table 1** details – with Tesco also increasing its initial 81 percent stake to secure complete ownership by 2011. By February 2014, Homeplus was Tesco’s largest foreign operation in term of sales, with annual revenues of approximately £5.8bn and operating profits of £500m. It accounted for 55 percent of Tesco’s Asian revenues, 30 percent of international sales and 9 percent of its global total (i.e. including the UK). Homeplus also operated 139 shopping malls adjacent to its hypermarkets, in which over 6,500 tenants leased space, while its modern grocery market share of 12.7 percent was second only to the Shinsegae Group, owner of the E-Mart banner (Morgan Stanley, 2015). While these do not seem like the characteristics of a struggling subsidiary, the above quotation and **Table 1** do contain hints of the underlying processes at work in terms of the mention of ‘protecting and strengthening our balance sheet’, and with respect to the tailing-off of Homeplus’ growth since 2011.

Previous accounts in the literature have characterised Homeplus as a successful example of retail globalization, describing how the firm was able to effectively ‘strategic localize’ its operations to meet the needs of the South Korean market and how, over time, it was able to progressively ‘territorially embed’ itself successfully in the host economy and society (Coe and Lee, 2006; 2013). Key elements of the success were seen to be the use of local management executives – including the mercurial founder S. H. Lee who retired in 2014, the successful management of the joint venture with Samsung which created the perception, initially at least, that Homeplus was a *local* retailer, and the adoption of a hybrid corporate culture that blended knowledge of South Korean consumption practices with Tesco’s efficient business practices (see Wood et al., 2016, on how these traits were reflected in Tesco’s Asia expansion more generally). The attributes, in turn, engendered a deepening territorial embeddedness across three domains: format innovations designed specifically for the South Korean market; developing relationships with the local supply base; and expansion into a wide range of new services (e.g. telecomm and financial services) along with a range of attempts to build a stronger relationship with South Korean consumers in areas such as online shopping and environmental sustainability, even extending to establishing ‘cultural centres’ in its largest stores.

How then, against this backdrop, do we explain the decision of Tesco to exit from the South Korean market in late 2015? Our account is positioned against the broader literature on retail globalization and, more specifically, work that has sought to explain the continued prevalence of market exits even in a period since the late 1990s that overall has seen a strong aggregate trend of retail globalization (Coe and Wrigley, 2017). We use the Homeplus case to make three interlinked conceptual contributions to this literature. First, and as the Chief Executive’s statement alludes, Tesco’s decision was heavily shaped by home market considerations and financial drivers, in the context of a challenging post-2008 competitive climate, and a specific corporate crisis that unfolded in 2014. These factors need to take more analytical prominence in the literature. Second, we outline the emergence of growing resistance to the operations of Homeplus across four key domains – notably re-regulation, local competition, waning consumer confidence and increased labour resistance – which has intersected with other aspects of South Korean retailing such as an ageing population, saturation of large retail formats, and very high levels of online sales and served to slow and start to reverse Homeplus’ hitherto strong growth trends (Morgan Stanley, 2015). These interconnected host market domains demand greater recognition in the literature. Third, and most saliently, we build upon the Homeplus case to argue that retail divestment decisions need to be theorised as

occurring at the dynamic nexus of both home and multiple host country conditions; prioritising just one element of this nexus results in an incomplete picture of events. In the Tesco/South Korea case, this necessitates revealing the other assets that were considered for sale before the final divestment decision was reached.

For this study, we conducted an in-depth case study of Tesco's departure from South Korea, employing both qualitative and quantitative data. In South Korea, we relied on in-depth interviews with a research fellow and two retail academics focused on the broad background of grocery retail divestment and the specifics of the institutional background. In order to uncover the mechanics and decision-making context of the South Korean divestment, we also conducted semi-structured interviews with six leading UK based food retail analysts – four of whom were employed as equity analysts for investment banks. Equity analysts were selected for inclusion in the sample based on their profile within the financial market and their presence at invited analyst/investor meetings with the retailer. Drawing on analyst insights is increasingly employed within economic geography given the privileged access such actors enjoy to senior management within listed firms, which include 'off-the-record' discussions with executives stemming from 'industry-conference "break-out" sessions, site visits, regional tours, dinners with management, and so on' (Wrigley et al., 2003: 385). Given the sensitive nature of the content of these discussions, our respondents were assured of their complete anonymity in any publishing of results. Mindful of the situated nature of analyst knowledge (Wood et al., 2017), our primary data was complemented with – and triangulated by – archival analysis, and content analysis of news articles, for instance on conflicts between Tesco and local small merchants. We also used longitudinal data from both the Korean Chain Store Association and Tesco's annual reports, along with a wide range of other secondary sources. Therefore, our insights are both empirical and conceptual and derive from working 'backwards and forwards between theory and the empirical world in a reflexive manner' (Clark, 2007: 191).

The paper unfolds over three main sections. First, we explore the limits of the existing literature on retail transnational corporation (TNC) divestment, and outline three productive lines of conceptual development in relation to dynamic home and host country factors. Second, we present a short account of Tesco's recent struggles in its home UK market relating to overlapping competitive and reputational factors that drive an appetite for divestment, before exploring the decision-making process of divestment to explain why attention shifted to the Homeplus operations in preference to alternative candidates across the retailer's global

operations. Third, we profile the growing resistance that Tesco Homeplus operations in South Korea have experienced across the four domains mentioned above. Overall, Tesco's sale of an apparently strong subsidiary ultimately needs to be understood in the context of these evolving and interconnected home and multiple host market environments.

Theorising retailer market exit dynamics

Since the early 2000s, a vibrant multi-disciplinary literature on retail globalization and its multifarious impacts has emerged (see Coe and Wrigley, 2009, for an overview). While agricultural economists, economic sociologists and cultural studies scholars have played their part, at the core has been the work of management scholars and economic geographers keen to understand the increased intensity and geographical extensity of retail globalization processes from the late 1990s onwards. We can use Deloitte's annual *Global Powers of Retailing* surveys to provide an insight into these processes. Whereas in 2005, international sales accounted for only 14.4 percent of the total sales of Deloitte's top 250 retailers, it had increased significantly to 23.4 percent by 2010, with the figure dropping slightly to 22.8 in 2015. Moreover, the average number of countries of operation of these firms increased from 5.9 in 2005, to 8.2 in 2010, and 10.1 in 2015.¹

However, while the general trend has been for a progressive globalization of leading retailers in terms of both revenues and numbers of countries of operation, there is increasing evidence at the individual firm and market level that retail globalization has been far from the inevitable procession that some erroneously predicted in the early 2000s. Instead, and rather than some retailers proving to be 'good' at international expansion and others less so, the reality is a complex mosaic of success and failure as retailers from different home contexts have striven to adapt to widely varying host economy conditions. The study of retailer market exit, or divestment, has accordingly become a growing strand of the retail globalization literature since the early 2000s. This has aligned with the wider imperative of developing longitudinal, dynamic accounts of what happens to retail TNCs in host markets after the initial point of entry, the predominant focus of early management studies of the topic (Coe, 2004). In successful cases, this may simply be a matter of facilitating subsequent growth through further investment and/or reinvesting profits (Dawson, 2003). In other cases, however, retailers may be forced to undertake a relative or absolute withdrawal of investment from foreign markets. In line with a networked

¹ For the very largest retailers, these figures were significantly higher, with Deloitte's top ten firms accruing 28.7 percent of revenues from international sales across an average of 15.7 markets in 2015.

view of the retail TNC (Wrigley et al., 2005), there is thus growing recognition that investments are actively and constantly being switched between national subsidiaries based on decisions about relative returns and profitability.

There are by now three intersecting lines of research into retailer divestment. First, there have been efforts to construct and analyse datasets of investment and divestment patterns, charting considerable levels of divestment activity even during periods of rapidly increasing retail foreign direct investment (e.g. Alexander et al., 2005; Burt et al., 2004). These early, broad-based studies demonstrated that market exit was the predominant form of divestment, that divestment patterns were geographically highly variable, and that the majority of divestments were small scale in terms of store numbers and tended to occur within 5-10 years of entry.

Second, the past fifteen years have seen the emergence of a battery of firm case studies of divestment events and processes, largely focused on the fluctuating fortunes of European and US retailers such as Ahold (Wrigley and Currah, 2003; Palmer and Quinn, 2007), Home Depot (Bianchi and Arnold, 2004), Marks and Spencer (Burt et al., 2002; Jackson et al., 2005; Mellahi et al., 2002), Sainsbury (El-Amir and Burt, 2007), Target (Yoder et al., 2016), Tesco (Palmer, 2004) and Wal-Mart (Christopherson, 2007; Kim, 2008; Gandolfi and Strach, 2009). These studies have provided many important insights of theoretical significance. Wrigley and Currah's (2003) account of Ahold's travails in Latin America in the early 2000s, for instance, depicted retail internationalisation as a highly contested process that poses significant organisational challenges for the retail TNC, while Christopherson (2007) provided a rich institutionalist account of Wal-Mart's struggles to transfer a US model of 'lean retailing' to a German context with very different governance rules, leading to its exit in 2006.

Third, there have been attempts to stand back from these individual cases and theorise the retail divestment process in more general terms (e.g. Alexander and Quinn, 2002). This work has revealed that market divestment can take a wide range of forms, including: closure of a number of stores or channels; financial restructuring in terms of the ownership and/or profit expectations of a subsidiary; organisational restructuring with respect to retail processes or formats; and/or total exit from a particular territory. In another important contribution, Burt et al. (2003) identified four interrelated reasons for divestment, namely market failure, where the host market does not develop according to expectation, competitive failure, wherein domestic competitors are stronger than expected, organizational failure, reflecting the problems of

transferring business processes to the host market, and business failure, in which wider corporate factors make continued investment untenable. While instructive in parsing different dimensions of divestment processes, such conceptualizations have hitherto not done enough to frame the dynamic interplay of home and host market conditions that underlie all divestment events.

Against this backdrop, we seek here to develop three particular lines of argument. First, the home country context – in terms of wider business conditions and relationships with financial markets – needs to be given more prominence in theoretical terms. Indications can be found in existing studies which have suggested that the decision to divest may not necessarily reflect weakness within foreign operations but may be a proactive strategy based on conditions in the home market and/or decisions about how resources may be invested more efficiently elsewhere within the corporation (Wrigley and Currah, 2003; Jackson et al., 2004). In a similar vein, Cairns et al. (2008, 2010) have contrasted ‘corporate crisis’ divestment – reflecting a lack of stability or focus amongst leadership and problems which stimulate a need to refocus on the domestic market – and ‘positive restructuring’ divestment characterised as an ongoing process of reinvention which may lead to new formats or approaches better suited to internationalisation. These elements were brought into sharp relief by a post-2007/8 crisis context in which European retailers in particular have faced increasingly challenging consumer conditions in their home market (and wider European region). In this context, Wood et al. (2017) draw on the financialization literature to highlight the importance of retail TNC managers successfully managing their relationships with home country financial analysts in relation to the nature and extent of foreign operations. Leadership changes, leading to shifting priorities and strategic reappraisals of foreign operations, are often an integral part of these hitherto under-studied dynamics.

Second, we argue that there is a concomitant need for a greater focus on the developing host market conditions or what Coe and Wrigley (2017) term the ‘domains of resistance’ (see also Kim and Hallsworth, 2016) to retail TNC market expansion, which may develop to such a degree that they trigger, or significantly influence, divestment decisions. As Durand and Wrigley (2009: 1551) note, ‘transnational retailers are not simply institution takers; rather, they contribute actively to influencing institutional change in the host economies they enter’. Four such domains of resistance are apparent from the existing literature. The first concerns processes of deregulation and re-regulation. Retail globalization processes were in part driven in the late 1990s by deregulation of retail foreign direct investment across a range of emerging markets, allowing

for significantly increased investment and ownership by foreign capital in the retail sector (Wrigley, 2000). In the period since, however, it has become clear that the initial removal of trade barriers has been superseded by new sets of regulatory barriers specifically designed to protect domestic retailers. Nguyen et al. (2014: 378) use the term ‘re-regulation’ to denote these subsequent developments, and highlight the ways in which they ‘differentially impact on the operational costs of the multinational retailers and therefore become restrictive in terms of trade and investment’. Re-regulation is usually driven by controversy over the desirability of retail TNC-driven change, the perceived impacts on local small retailers, and retailer-supplier tensions as supply systems are radically and quickly transformed by inward investors.²

The second domain relates to resistance to TNC expansion from two distinct segments of the pre-existing retail structure. On the one hand, in the formalised sector, indigenous retailers have been able to rapidly and successfully imitate the organizational innovations and best practices of retail TNCs, whilst at the same time mobilising local institutional knowledge and social/political networks to erode their competitive advantage.³ On the other hand, informal retail channels such as fresh/wet markets have proved remarkably resilient in cultural contexts where ‘freshness’ is prized, along with the accessibility, low cost and personalized shopping experience that such markets provide for low income consumers (Humphrey, 2007). The third important domain of resistance concerns consumer preferences; rather than shop with retail TNCs, consumers may show loyalty to local stores/brands, or may prefer to continue shopping in traditional markets and small stores. More generally, it is well evidenced that consumer preferences and practices vary considerably across, and indeed within, different national contexts. This can be seen both in the varying levels of success of different formal retail formats – e.g. convenience stores, supermarkets and hypermarkets – across markets, and the similarly variable uptake of retail private label or own brand products (Shannon, 2014).

The fourth dimension encompasses the resistance of local supply systems to changes initiated by retail TNCs. The seminal body of work on this topic by Reardon and co-authors (e.g. Reardon et al., 2007) has revealed the core processes at work, namely: the establishment of distribution centres and centralized procurement, the use of advanced logistics techniques, the shortening of supply networks and use of new forms of intermediaries, and the enforcement of

² Such measures have encompassed equity thresholds, capital requirements, environmental and community/business impact study requirements, zoning restrictions, building and outlet-size codes, and store opening restrictions.

³ In some instances, these competitive strengths were established before the entry of retail TNCs (e.g. see Bianchi and Ostale, 2006, on Chile).

private quality and safety standards. In reality, these changes play out highly unevenly across different product groups and, moreover, pre-existing supply structures may be more durable than expected, even when supplying to the modern retail sector (Endo, 2013). In terms of the case analysed in this paper, however, supply system resistance is not an overly important factor, partly due to the strength of the South Korean supply base before the entry of retail TNCs, which has offset the subsequent bargaining power of large retailers (Coe and Lee, 2006).

Understanding Tesco's exit from South Korea does, however, require us to add a fifth domain of resistance, namely that of labour. With certain exceptions, labour issues have largely been notable by their absence from the literature on retail globalization. The few existing studies (e.g. Gamble, 2006; Hurt and Hurt, 2005; Tilly and Galván, 2006) do not constitute a coherent approach and the agency of labour and its impact on retail TNCs has rarely been a research focus. The existing study of most direct relevance in that context is Jackson et al.'s (2004) work on the 2001 departure of Marks and Spencer from France, in which they detail how the exit process was heavily affected by labour resistance and the nature of French employment legislation. We can also take inspiration from Durand and Wrigley's (2009) analysis that shows, for the cases of Wal-Mart and Carrefour, how successful management of host economy labour relations (in terms of collective organization, employment duration, regulation enforcement and wage bargaining) is an important component of market performance. In what follows, we shall see that the eventual unionization of Homeplus in 2013 ushered in a period of labour instability that was an integral element in the intersecting host market factors that underpinned the exit decision.

There are, then, at least five potential sets of host markets factors – or domains of resistance – that may contribute to divestment decisions by retail TNCs. Importantly, these factors are market specific and dynamic – e.g. competition from domestic retailers or suppliers may build up over time. Moreover, the five factors may not all be due to increasing resistance to retail TNCs over time; conditions may be ameliorating in some areas, and getting tougher in others, depending on the specific national context.

Our third distinctive argument is that we need to bring together both these aspects – home country conditions and the changing landscape of host market resistance – into a dynamic, relational theory of market divestment. Importantly, however, divestment decisions are more nuanced than simply being determined by a singular home-host market dyadic relationship. We

need to develop co-evolutionary accounts of market exit that recognise how both home and *multiple* host market elements develop over time and in relation to one another. The market conditions in a specific host economy are rarely judged in isolation, but rather on a comparative basis against other potentially saleable assets at a given point in time. The case study of divestment in this paper cannot be explained solely through developments in the UK home market, or in the South Korean host market, or through a combination of the two. Such accounts would miss the other subsidiaries whose performance and potentially saleability was actively considered as part of the decision-making processes. Divestment decisions are therefore the result of an avowedly *relational* process in which corporate managers intersect information on market performance across the home and a range of host market contexts. In turn, each of those contexts is not static but rather evolving dynamically in relation to local competitive and institutional conditions (i.e. the extent to which the different domains of resistance are ‘in play’) and it is the intersection of those trajectories that is integral to the corporate decision to divest (or not).

As we shall in what follows, in the case of Tesco’s exit from South Korea, the initial impetus derived from Tesco’s stuttering home market performance, which required further capital investment and management attention, and a troublesome company balance sheet that demanded debt levels to be quickly and significantly reduced. This, then, was in essence a ‘corporate crisis’ type divestment (Cairns et al., 2008; 2010), in contrast to the more considered earlier exit from Japan (2012) and subsidiary restructuring (2013) in China which were much more heavily influenced by host market under-performance. Once a portfolio review was initiated, however, the decision to divest Homeplus specifically reflected the simultaneous pressures of few viable acquisition candidates amongst Tesco’s subsidiary businesses, and a progressively more challenging South Korean host market context.

Tesco on the retreat in the UK – the anatomy of the ‘push’ towards divestment

In its February 2015 results, Tesco announced the biggest annual loss ever made by a UK retailer – £6.4bn. The deficit reflected £7bn worth of one-off costs, key elements of which were a £4.7bn loss from revaluation of its properties in the context of lower trading volumes and profits, and £416m in redundancy costs for over 10,000 employees. Sales were down 3 percent on the preceding year, and group trading profits were down 58 percent at £1.4bn. 43 store closures were announced. The results capped a terrible period for Tesco, the nadir of which was the discovery, in October 2014, of a £263m overstatement of profits to the City of London in

August 2014. The overstatement related to how Tesco recognised income from vendors, and led to subsequent legal charges being levelled at three senior managers, who appeared at Westminster Magistrate's Court in September 2016 to face one count of fraud and one count of false accounting over the period February to September 2014 (they pleaded not guilty). The scandal caused Tesco to rapidly lose £2bn in market value, with share values falling below 200p from a relatively stable 400p over the period 2010-2013.

Two broader trends presaged this crisis point for Tesco. First, its dominant position as the UK's leading grocery retailer was already starting to wane in a challenging post-crisis economic context and in the face of aggressive competition from the German discount retailers Aldi and Lidl. These negative conditions within the retailer's domestic market were regarded as having been exacerbated by related structural pressures, characterised by a drift by customers away from large, hypermarket 'big box' stores (which made up 45 percent of Tesco's UK selling space) towards more frequent visits to smaller, local stores alongside increased online shopping (Wood and McCarthy, 2013). From the late 1990s to that time, Tesco's expansion had seemed unstoppable with turnover rising from £16.5bn in 1998 to £67.5bn by 2011, while profits grew from £760m to £3.5bn over the same period. Its UK grocery market share in the period 2006-2014 was consistently in the 30-32 percent range, well ahead of any competitor. In January 2012, however, Tesco issued its first ever profit warning, and the period from 2011-2014 saw turnover and profits level off before the calamitous results of 2015. By 2016, its UK grocery market share had fallen to 28.5 percent. There were many analyses of what underpinned this slowdown – in turn exacerbated by the reputational damage of the profit overstatement – with most pointing to a lack of focus on the core UK operation, manifested in under-investment and lack of engagement with customer needs in a time of austerity.

Second, while Tesco was the undoubtedly a darling of the UK stock market in the 2000s, and its international expansion plan was widely lauded for its cautious approach and 'capital discipline', in the early 2010s this relationship had started to sour, necessitating a 're-setting' of the firm's relationship with the UK financial market (Wood et al., 2017). This process of re-evaluating Tesco's international operations was initiated by Dave Lewis' predecessor Philip Clarke in 2013 and 2014 in response to 2012/2013 results which saw trading profits decline by 10.3 percent in its Asian operations and 37.8 percent in Europe. These losses were followed in April 2013 by Tesco admitting defeat in its bid to penetrate the highly competitive North American market. Tesco had entered the western US market in 2007 via an especially designed

‘Fresh and Easy’ supermarket format (for more, see Lowe and Wrigley, 2010). The business was beset with problems from the outset, however, and the decision to pull out and sell off its assets incurred a loss of £2bn and a further £150m in exit costs. In addition to withdrawing from the US, another strategic move was the 2013 restructuring of Tesco’s wholly owned loss-making China operation via a joint venture with leading local retailer CRE, which significantly reduced its exposure in that market (Tesco retained just 20 percent ownership). Recent years, then, have seen Tesco returning to the more frugal mode of international investment that characterised its expansion in the late 1990s and early 2000s. Interestingly, however, in 2013 South Korea was still viewed as a market of ‘highest international priority’ for Tesco in which it should continue to invest (Wood et al., 2017), suggesting that it was the events of 2014 that really cast Homeplus in new light from a UK management perspective.

Uncovering the process of divestment

Our interviews with the analyst community offered insights into the seemingly questionable decision to sell such a prized international subsidiary as Homeplus. After all, as **Table 2** demonstrates, Tesco had a vast portfolio of international operations that it could potentially have divested in preference to its South Korean operations, including an extensive presence in Eastern Europe, successful businesses in Thailand and Malaysia, as well as the renowned retail marketing insights agency, DunnHumby. While not public knowledge, our discussions with analysts revealed the extent to which Tesco was active in exploring alternative divestment options to raise capital. As one respondent commented, there were efforts to market some of Tesco’s subsidiary businesses to interested parties:

You wouldn’t see it – it would happen behind closed-doors, but they would mandate an investment bank, who will run a formal process [which] would flush out any interest and any potential, price-tags that potential buyers would be willing to pay (C1)

In particular, Tesco’s Eastern European business was understood to be ‘in play’ and open to bids from interested parties. This sizeable operation – across four countries and accounting for £6.9bn in sales in 2015/6 – had experienced poor performance in recent years emanating from structural pressures also present in the UK market as well as from regulatory interventions from European governments, specifically targeted at large format international retailers (e.g. Polish sales taxes [see *Financial Times*, 2016] and additional rules in Hungary [see Reuters, 2014]). Perhaps unsurprisingly Tesco failed to find a buyer largely because ‘*the industry dynamics are very challenged there*’ (C1).

Another early candidate for divestment was the wholly owned marketing insights firm, DunnHumby, that had assisted Tesco in the development of its Clubcard loyalty tool. Initial press reports suggested the retailer could raise in the region of £2bn from its sale but it soon became clear that such valuations were unrealistic in the current investment climate and any potential transaction soon unravelled:

They decided to keep hold of Dunnhumby rather than sell it for less than they think it's worth because they kind of went "it's not a fire-sale, we're not desperate for the money" (F1)

A more conventional divestment could have been either (or both) of the Thai or Malaysian businesses. These operations were well respected and profitable, with a prevailing view that they could have been successfully sold. Our respondents argued there were three reasons for retaining them. First, there was significant growth potential, especially in the Thai market, with fewer demands on the balance sheet:

The Thai business is a longer-term growth asset. They believe they've got a very strong market position there, and it's not that capital-intensive a business (D1)

Second, the ownership structure of the Thai business was complicated with much of its property owned by a third party real estate investment trust, of which Tesco retains a significant proportion (Tesco Lotus Retail Growth Freehold and Leasehold Property Fund) meaning any divestment would have been complex. Finally, the geography of Thailand and Malaysia led to a complementary and synergistic relationship between the two subsidiaries that further reinforced the argument for retaining them together:

I think the reason why they went for Korea and not Thailand is Korea was more discrete, more self-standing (F1)

The temporal aspects of the divestment negotiations and decision-making process are also important to understand alongside any issues of geographical and strategic fit. The quasi-public nature of Tesco's financial predicament and its likely divestment of one or more of its key assets led to significant uncertainty within the investment community but equally within the separate international subsidiaries themselves. Such conditions, though understandable, required a swift resolution. Failure to do so would have been potentially destabilising, as one respondent reflected:

Everybody within these assets is updating their resume and trying to find a better job, just feeling really demoralised, so actually, any retail performance you have quickly gets worse because people have other

priorities – protecting their own lives. On top of that, the people that leave first are the best ones. So, [you] can't be in a state of that limbo-land [for long] (A1)

This ensured that any sale process was concluded within tight timelines and a resolution reached.

The role of strategic leadership was equally critical to the divestment decision. Many observers felt that the change in CEO was critical; the internal successor to Terry Leahy, Philip Clarke, had been involved in building up Tesco's international operations, including in South Korea, so arguably carried substantial emotional attachment to the Asian businesses. In contrast, Dave Lewis, as an external appointment from Unilever, carried no such baggage and was able to offer a fresh and radical perspective on Tesco's overall portfolio given *'there was no emotional connection between him and the previous regime, and his sense of "family silver" is probably a lot weaker than anyone else's'* (E1)

Against this backdrop, the rationale behind the decision to sell Tesco Homeplus in late 2015 starts to become clearer. At that point Tesco shares were trading at a level not seen since the 1990s, namely 140p. Selling the jewel in the crown – an attractive going concern to international investors – generated significant cash at relatively short notice that could immediately be put against corporate debt on the balance sheet. A widely held contention was that the sheer size of the Homeplus business underpinned the transaction:

The only thing that it had that it could sell that would be big enough to fix its balance sheet, or at least shore it up to the extent that people would be happy, was Korea (B1)

As Tesco's (2015) divestment statement suggested, it would allow a 'significant reduction of £4,225 million in Tesco group's total indebtedness from net cash proceeds and associated reduction in capitalised lease and other commitments'. The capital raised from the sale allowed Tesco to present a more positive financial outlook; in February 2017, with the financial year returning an overall profit of £1.28bn and group debt being reduced from £8.5bn two years earlier to £3.7bn (excluding Tesco Bank). At this time, the retailer's shares had slowly recovered to around 200p, still well below the levels of the late 2000s and early 2010s. Home country financial considerations, then, were evidently a clear driver behind the rationale to sell Homeplus.⁴ However, our analysis has found that an array of host market factors were also instrumental in cementing the divestment – something that requires consideration of the

⁴ Tesco has not been alone among leading global retailers in facing these challenges. For more analysis of this home financial market influenced phase of retail divestment, see Burt et al. (2017).

changing conditions within the South Korean retail market, and the increasingly challenging environment being faced by Homeplus. It is to these we now turn.

Four domains of growing host market resistance in South Korea

Growing host market resistance in four domains also drove Tesco's exit from South Korea. The resistance from small and medium-sized local retailers, the loss of consumer trust, the conflict with the labour union, and the state's re-regulation all strongly influenced Tesco's decision to withdraw⁵. We now consider each of these in turn.

i. Intensifying competition, and increased activism, from local retailers

Due to the state's policy to relax regulation of the retail market after the Asian financial crisis, global retailers such as Walmart, Carrefour, and Tesco were able to enter the South Korean market (see **Table 3**) and grew explosively alongside the Korean large chain retailers (Coe and Lee, 2006; 2013). Their competition has intensified in the Korean market over time, while, in contrast, small and medium sized local merchants and traditional markets have seen a fast declining market share (Kim and Yoon, 2011; see **Table 4**).

Large chain retailers turned to super-supermarkets (SSMs) – which are larger than convenience stores and smaller than hypermarkets (usually in the range 1600-2600m²) – as revenue growth and store openings in the discount store (hypermarket) segment started to slow after the mid-2000s (Joongang Daily, 2010). As a result, all the leading retailers have established an SSM brand – Lotte with Lotte Supermarket, Tesco with Homeplus Express, GS Retail with GS Supermarkets, and E-Mart with E-Mart Everyday. Most of them have aggressively pursued rapid expansion in SSMs over the past decade. Among them, the 'big three' SSMs were Lotte Supermarkets, Homeplus Express, and GS Supermarkets, while E-Mart did not expand its SSMs as rapidly (see **Table 4**). As of 2010, the number of E-mart Everyday was 23, while the number of Lotte Supermarkets, Homeplus Express and GS Supermarkets were 287, 244, and 209 respectively (Coe and Lee, 2013). While the number of SSMs tripled from 234 in 2003 to 677 in 2009, the number of small independent supermarkets – also known as mom-and-pop stores – radically decreased from 104,417 to 79,200 over the same period. The number of the SSMs topped 1,475 throughout the nation by 2015, pushing many more mom-and-pop businesses to

⁵ While we present these developments in this paper as barriers to expansion from the Tesco perspective, we in no way mean to suggest in a more normative sense that these are regressive developments. From a South Korean perspective, the protection of local retailers and increasing unionisation levels, for instance, can be read in progressive terms.

the brink of bankruptcy (**Table 4**). Overall, small business owners and traditional markets have lost market share while large discount stores and SSMs gained (Kim and Hallsworth, 2016).

With severe local competition among large retailers, strong resistance to the expansion of SSMs mounted (Kim and Yoon, 2011). As the SSMs operated by large retailers encroached upon locally-owned neighbourhood markets, small merchants organized themselves politically by coupling with civic organizations and the opposition party in 2005. They formed an emergency planning committee, which consisted of the Korea Federation of Supermarkets Cooperative, the Korea Chain Business Cooperative, and the National Small Business Guide Association in May 2005 (Hangure, 2005). More than 40 Small Merchant groups – such as the Korea Merchant Association, the Association of Korea Clothes Sales, the Korean Optometric Association, and the Korean Stationery Wholesale Cooperative – also launched the Emergency Planning Committee for Deterring the Rapid Growth of Discount Stores and SSMs in January 2007 (Hangure, 2007). They sought to call the government’s attention to the regulation of oligopolistic behavior (Korean Chain Store Association, 2008) and, from our respondents’ perspective, the regulatory responses that followed were inherently political: *every once in a while, a party thinks we’ll restrict big companies, and we’ll garner the favour of this part of the electorate in the process* (C1). We shall return to the regulatory outcomes of this organised resistance shortly.

ii. Waning consumer loyalty

Recent consumer criticism of Homeplus’ perceived misbehaviour has also contributed to Tesco’s departure. Homeplus was accused of collecting and selling customer information including names, phone numbers, birthdays and details of family members and of having bad relations with suppliers. As this public criticism was growing severely against Homeplus during 2014, the National Assembly’s Trade, Industry and Energy Committee called for Homeplus to attend its audit. In the October 2014 audit, Homeplus had to explain why Homeplus intentionally sold off its customers’ private information to third parties and why it earned a low grade in terms of value sharing with its suppliers (Korea Herald, 2014). Through this audit, lawmakers of the main opposition New Politics Alliance for Democracy (NPAD) party disclosed that Homeplus had sold private data of over 5 million customers who had signed up for free giveaway events on Homeplus’ grocery store and corporate websites, to third parties. The NPAD revealed that Homeplus earned more than 10 billion won (£7.4 million) by attracting consumers to participate in its events to win pricey gifts such as BMW and Mercedes-Benz luxury cars between October 2010 and July 2014 (Korea Herald, 2014). After the audit, ten

consumer organizations within the Korea National Council of Consumer Organization organized a boycott of Homeplus in February 2015. The National Federation of a Nationwide Housewife Classroom, the Korean Women's Union Consumers, the Young Women's Christian Association (YWCA) of Korea, the Consumers Union of Korea, the Federation of Korean YMCA, the Korea Institute of Consumer Education, the Consumer Civic Group, the Korea Institute of Consumer Life, the Green Consumer Network in Korea, and the Grand Lodge of the Korean Wife participated in the boycott (Asia Economy, 2015).

In response to this public backlash and criticism, Homeplus CEO Do Sung-hwan publicly apologized over a series of malpractices the company was involved in from the alleged sale of customer information to unfair treatment of suppliers. During his first press conference held since his inauguration in 2013, he stated, *"We're reflecting on ourselves over what has happened in the past year. We'll strive to win back customers' trust and meet their expectations [...] 2015 will serve as an opportunity for us to transform into a customer-only retailer"* (Korea Herald, 2015).

At the same time as persistent rumours about Tesco's attempt to offload Homeplus were being fuelled by the CEO's statement, 13 local consumer groups including the Consumer Justice Center within the Citizens' Coalition for Economic Justice (CCEJ), the People's Solidarity for Participatory Democracy, and the Green Consumer Network in Korea severely criticized Homeplus for malpractices. Through these consumer groups, 2,200 customers of Homeplus filed a class action suit against Tesco for damages, claiming that it illegally sold information it collected through giveaway events and membership registrations (Women News, 2015). These actions against Homeplus and the associated loss of trust prompted consumers to switch to online shopping as part of a wider trend of strong online penetration (see **Table 5**), and was another contributory factor in Tesco's decision to withdraw from the South Korean market.

iii. Collective labour pushes back

While Homeplus was renowned for a highly territorially embedded business model which enabled the company to be highly responsive to local consumers' tastes, in terms of labour relations it for a long time pursued an avowedly no union rule. The former CEO Lee Seng-Han's Shinbaram strategy to secure local employee loyalty was quite successful (Coe and Lee, 2006), but he did not want labour recognition. Only one labour union existed, resulting from the incorporation of E-Land's Homever discount stores in 2008, and its influence was partial, with only 33 Homeplus discount stores out of 133 belonging to the union as of early 2013. Hence,

there was no labour union covering all the stores of Homeplus until 27 March 2013, when a company-wide labour union was finally organized in Homeplus.⁶

Up until then, due to the absence of a labour union, workers in Homeplus were predominantly on non-standard contracts, providing both flexibility in staffing levels and efficiencies that could translate into net margins from the company perspective. In so doing, Homeplus was not out of line with developments in the economy more generally, but its sheer size and foreign ownership made its labour relations a sensitive topic. According to Homeplus' labour deputy chief, 15,000 Homeplus workers out of the total of approximately 20,000 are non-standard workers,⁷ who are those with temporary, short-term or part-time contracts and dispatch (agency) workers (Joongang Daily, 2014). These non-standard jobs pay low wages, provide few social insurance benefits and do not have implicit guarantees of long-term employment. Above all, the poor working conditions were the focus of controversy. Homeplus' notorious employment system was a '0.5 hour contract system', whose basic unit was not 1 hour but 0.5 hour or 0.2 hour.⁸ Most non-standard workers were contracted to work 7.5 hours per day, including some unpaid 'getting ready' and 'finishing time' and had just a 30 minute lunch break (compared to one hour for workers on the regular eight hour day). They also worked substantial overtime for which they did not receive pay because it only brought them up to the statutory 40-hour South Korean working week. According to a union official, *'this unfair contract system was actually introduced by the former CEO Lee from the beginning, although the company officially says that it was introduced from 2004 [...] Based on this 0.5 hour contract system, the company annually saved huge labour costs of about 11.3 billion won'* (News Way, 2013). After organizing the labour union in 2013, the union persistently raised the critical question of the unfair employment system and called a general strike, demanding the shift from 7.5 hours work per day to 8 hours work per day. Homeplus' 0.5 hour contract system was dramatically abolished at the end of severe conflicts between the management and the union in January 2014, and the negotiations of employment contracts and living wages between labour and management were finally concluded in October 2014 (Choi, 2015).

iv. The challenges of re-regulation

⁶ Interview with a scholar, who wrote a paper on Tesco's conflicts with small local merchants and the labour union, 10 October 2016.

⁷ After the Asian financial crisis of 1997, the non-standard employment became popular as a result of neoliberal labour reforms in South Korea. According to the Korean Contingent Workers' Center, there were more than 8.5 million non-standard workers in 2009, accounting for approximately 52 per cent of all wage-earners. While non-standard workers earned 53.5 per cent of the average monthly wage of regular workers in August 2000, they earned just 46.8 per cent in March 2010 (Korean Contingent Workers' Center, 2010; Lee, 2011).

⁸ Interview with a research fellow in the Korea Labour Institute on 16th December 2016.

The state's reaction to small and medium scale retailers' demands on regulation was not prompt; it delayed decision-making on the regulation of large discount stores and SSMs due to the strong opposition to the regulation from Trade Minister Kim Jong-hoon, and the ambassadors of the European Union (EU) and the United Kingdom (UK) (Kim and Yoon, 2011).⁹ Trade Minister Kim and the foreign actors strongly alleged that if the state's plan to regulate SSMs run by transnational retail firms and chaebols as part of efforts to protect small merchants was implemented, it would undermine fair competition and could trigger a trade dispute with the EU. They urged the state to drop the plan. Trade Minister Kim Jong-hoon argued that the bills, if approved, could violate the country's free trade agreement with the EU, which was at that time awaiting parliamentary approval (The Korea Times, 2010b). These pressures influenced the state's delay in making its decision on the regulation of SSMs.

In response to these delays, the small merchants scaled up their networks by banding together with more progressive political groups such as the MINBYUN-Lawyers for a Democratic Society, the People's Solidarity for Participatory Democracy, the Citizens' Coalition for Economic Justice, and the Korea Alliance for Progressive Movement. They launched a Pan-National Network for Saving Small Merchants in May 2009. Through this network, they began a countrywide signature-seeking campaign for small merchants, demanding from the government and the National Assembly (1) regulations on large discount stores and SSMs; (2) the reduction of credit card store commissions; and (3) a safety net for bankrupt small merchants. Through the solidarity with other civil groups and the national campaign, the small merchants successfully aroused public opinion on re-regulation and thus strengthened their political influence based on this wider support.

In turn, the state's Small and Medium Business Administration (SMBA) delegated its authority on the business mediation system between large and small and medium enterprises to municipal governments in August 2009. After this delegation, a growing number of small merchants filed petitions in order to prevent the major large discount stores from entering into their traditional market areas (Daily Economy, 2009). According to the Korea Federation of Small and Medium Business, in the first two days after the delegation, a total of 13 petitions were filed in an attempt to hamper retail giants' entry into the small merchant neighbour niche markets; six cases against Homeplus Express, three against E-Mart Everyday, one each for GS

⁹ At the time, the South Korea state was scheduled to sign the Korea-EU Free Trade Agreement (FTA). The state officially began to negotiate with the EU on the Korea-EU FTA in May 2007 and reached an agreement on its negotiations with the EU in October 2009. Korea and the EU duly signed the agreement in June 2010 (Kim and Yoon, 2011).

Super and Lotte Super, and two for Busan-based Top-Mart (Daily Economy, 2009). Some of local governments accepted the small merchants' requests for temporary suspension or business reconsideration of SSMs and regulated opening days/hours and sale items to protect small merchants in locally owned neighbourhood markets (Korea Herald, 2009).

Homeplus actively sought to challenge these SSM regulations, while the other discount stores such as E-mart and Lotte-Mart, at least publicly, accepted them (Kim and Hallsworth, 2016). Homeplus persistently opposed government policies and continued to expand its stores by changing the ownership structure towards franchising, which was not subject to these regulations, while E-Mart Everyday and Lotte Supermarket generally reflected public opinion and adhered to government policies (Korea Times, 2010a). Homeplus' expansion of its Express format was notably strong from 2011 onwards (**Table 1**). By publicly expressing its discontent with government policies, Homeplus Express made itself the obvious target for protest. For example, local civic groups and small and mid-sized business owners rallied to oppose the opening of Homeplus Express stores in Jinju, Cheongju, and Wae-dong, Gimhae City in 2009 (Kim and Hallsworth, 2016).

Tesco's head office in the UK directly conveyed its concerns on the enactment of the Korean SSM restriction law to the Korean Ministry of Foreign Affairs and Trade. Tesco also placed diplomatic pressure on the Korean government through the UK government and the EU. For example, the British Ambassador to Seoul, Martin Uden, addressed the issue on the SSM regulations during his meeting with Chung Mong-joon, chairman of the governing Grand National Party on 13th January 2010. Uden expressed his hope that a speedy resolution could be found, saying that some 50 new Homeplus stores in South Korea were unable to open. The EU also conveyed its concern about the regulations, alleging that if implemented, the regulation would damage fair competition and could cause a trade dispute (Korea Times, 2010a). Tesco's resistance and diplomatic pressure inspired further resistance from small to mid-sized business owners, tarnished its corporate image, and made some customers turn their back on Homeplus (Choi and Hong, 2011).¹⁰ According to Kim and Hallsworth's (2016) survey of 1,092 consumers in 22 cities, South Korean consumers supported the re-regulatory moves.

The Distribution Industry Development Act was eventually passed in the National Assembly on 10 November 2010, and the Act on the Promotion of Collaborative Cooperation

¹⁰ Regional wide boycott campaigns against Homeplus and signature seeking campaigns on regulation of the openings of Homeplus express were spread widely (Choi and Hong, 2011).

between Large Enterprises and Small-Medium Enterprises was passed on 25 November 2010.¹¹ After several months of dispute¹², revisions to the Distribution Industry Development Act were passed in the National Assembly on 23 June 2011 and came into effect on 30 June 2011 (Asia Today, 2011; Ebnews, 2011). The changes stipulated that local government officials could delimit ‘traditional commerce conservations districts’ at a 1km radius around traditional markets or shopping districts, and both hypermarket and SSMs opening could be prohibited or have conditions imposed within that zone (Kim and Hallsworth, 2013). In December 2011, the law was adjusted to prohibit discount stores from trading between 12am and 9am (or between 11pm and 8am) in a bid to protect local retailers. The 2012 Sunday Trading Law, in turn, applied Sunday trading restrictions to conglomerate-owned retail stores, mandating that stores should close on the second and fourth Sundays of every month. It is estimated that the Sunday trading regulation alone hit Homeplus’ profits by 2, 4 and 5 percent in the financial years 2012, 2013 and 2014 respectively (Morgan Stanley, 2015). While these may seem like small declines, it is important to remember that retailing is essentially a high volume/small net margin business and so such drops represent significant sums and may alter how a market is perceived, from a distance, by managers.¹³ As one respondent commented, such (re)regulation undoubtedly helped pave the path to divestment:

[The regulations] weren’t limited by any means exclusively to Tesco [...] Foreign retailers were kind of victimised, in a way [...] Those types of obstacles being put in your way makes you a bit less heartbroken if you decide to sell what was a very successful business (E1)

Moreover, at the time of divestment, we also understand that many of the Homeplus stores had their leases up for renewal meaning that it represented a critical decision point for appraising the future of the firm. Overall, these distribution industry regulatory policies – when coupled with a structural shift away from larger stores evident elsewhere – undoubtedly helped to expedite Tesco’s departure from South Korea, as neatly summarised by one of our respondents:

[Homeplus] was not a double-digit growth business for the next 10 years [...] slow and steady as you go is the best you’re going to get [...] and] at worst a negative headwind in terms of sales and profitability and regulation, and so, [...] I think they actually did quite well, and the new owners have had a few, [...] not entirely happy experiences since they took over (F1)

¹¹ Interview with a professor who wrote an article on the regulation of the SSM, 9 December 2016.

¹² Through the disputes and revisions, the regulation was weakened due to the Korean conglomerates’ lobbying (Kim and Yoon, 2011).

¹³ We thank Steve Burt for this important observation.

Conclusions

At first glance, Tesco's decision to sell its multi-billion pound South Korean subsidiary in late 2015 might appear a strange decision. Built up over a fifteen year period and with a significant market share and impressive track record, Homeplus was – by nearly every measure – Tesco's best performing subsidiary. Since 2010, however, conditions had changed in important ways for Tesco in the UK, wider international and specifically the South Korean markets. The central argument of this paper has been that the interplay of these sets of factors underpinned the divestment decision. In the post-recessionary home market context, Tesco was losing market share and was under increased pressure from competitors, notably the German discounters Aldi and Lidl, even before it became embroiled in an accounting scandal in 2014. This led to unsustainable debt levels on its balance sheet that required attention. In South Korea, concerted lobbying efforts from small local retailers and other stakeholders over a period of years led to significant re-regulatory interventions in 2011-12, and Homeplus subsequently faced additional challenges in its relations with organised labour and consumers. And while alternative international subsidiaries might have been preferred candidates for divestment by the retailer, it is clear that efforts to raise capital through their disposal were thwarted due to a shortage of potential acquirers.

Beyond the specifics, we have sought to use the Homeplus case to make three interlinked contributions to the literature on retail divestment. First, and most straightforwardly, our study is a reminder of the extent to which market exit decisions can be influenced by home country factors, and in particular underlying financial considerations and the need to appease the financial markets. Second, we have provided a framework for profiling the different host markets 'domains of resistance' that may come into play. Re-regulatory responses and competition from domestic retailers have received some attention hitherto in the literature, and in some contexts supplier pressure may be important; in the Homeplus case resistance from consumers and workers were also shown to be contributory factors. These five domains of resistance – government re-regulation, domestic retailer competition, supplier pressure, consumer movements and worker collective actions – may or may not be relevant in particular contexts, and may be moving in different directions in terms of resistance to TNC activity. In South Korea, the four domains we profiled all developed post-2010 in ways that made things increasingly difficult for Homeplus. Third, and most importantly, we conceptualised the exit decision as being framed by the dynamic interplay of these home and host market factors. We need to construct co-evolutionary accounts of market exit that recognise how both home and

multiple host market elements develop over time and in relation to one another (see **Figure 1**). In the Homeplus case, it was critical that both the UK situation and that in South Korea were worsening simultaneously, from a Tesco perspective, in the period since 2010. If Tesco's home market situation had remained strong, it is unthinkable that its broadly healthy Homeplus subsidiary would have been offered for sale. Equally, if alternative assets such as its Eastern European retail operation or its retail marketing insights firm, DunnHumby had attracted the attention of acquirers it is likely they would have been divested in preference to Homeplus. Finally, if growth had not stagnated in South Korea and resistance started to build across a range of domains, Tesco may have fought to hold onto the 'jewel in its crown' even when facing home market difficulties.

In terms of its globalization dynamics, and despite a notable upturn in aggregate activity since the late 1990s, retailing has proven to be a particularly fickle sector, with a complex mosaic of success and failures as transnational retailers have sought to gain a foothold in a wide range of emerging markets. Some previous accounts have undoubtedly underestimated the degree of resistance from the domains detailed in this paper, but also the extent to which they may strengthen over time as opposed to diminishing in the face of the power and resources of the retail TNCs. At the same time, the arguments in this paper also have wider resonance. In general terms, the economic geography literature on TNCs and global production networks tends to focus primarily – and understandably perhaps – on expansion and market entry, with much less research on markets exits and divestments, which may be equally if not more revealing analytically about globalization processes and the challenges and resistances that are inherent to them. There are thus important connections to be made to recent work that has focused on 'ruptures' and 'disarticulations' in global economic formations (Coe and Hess, 2011; Bair and Werner, 2011).

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Table 1: Tesco's expansion in South Korea, 1999-2014.

	No. of employees	Sales (including tenants, billion Won)	No. of Stores	
			Homeplus	Express
1999	500	272	2	
2000	1500	619	7	
2001	3000	1399	14	
2002	5000	2381	21	
2003	8300	3252	28	
2004	8800	3879	31	7
2005	11500	4789	42	21
2006	12200	5327	52	39
2007	12900	6016	66	71
2008	21500	7480	110	131
2009	22933	9800	114	165
2010	25051	10800	121	213
2011	27814	10365	124	257
2012	26748	10301	134	297
2013	25496	9894	139	388
2014	25972	9470	139	536

Source: Annual reports

Note: 'Homeplus' refers to large-format hypermarkets, while 'Express' refers to small supermarkets/convenience stores.

Table 2: Tesco plc international operations, sales and estimated margin, 2013

Country (Year of Entry)	Sales £m	Market Share %	Sales Growth Y-o-Y %	L-f-L Sales Growth ³ Y-o-Y %	EBIT margin ¹ %	Store Numbers	Total Space '000 sq ft
UK	43,579	30.1	3.2	(0.3)	5.2²	3,146	40,495
Europe	9,312		(5.6)	(2.3)	3.5²	1,507	34,077
Hungary (1994)	1,606	14.9	(9.5)	(0.7)	1.2	216	7,329
Poland (1995)	2,176	7.0	(4.9)	(3.0)	5.1	446	9,426
Slovak Rep. (1996)	1,114	22.8	(1.2)	0.6	4.2	136	3,822
Czech Rep. (1996)	1,356	10.9	(11.8)	(7.0)	3.0	376	6,092
Rep of Ireland (1997 – re- entry)	2,315	20.0	(5.3)	(0.3)	5.9	142	3,455
Turkey (2003 – divested 2016)	745	1.3	7.5	(5.4)	(3.4)	191	3,953
Asia	11,422		6.0	(1.8)	5.4²	2,131	41,664
Thailand (1998)	3,742	13.0	15.7	3.1	7.9	1,433	14,320
South Korea (1999)	5,311	8.6	(0.5)	(5.3)	6.9	520	13,230
Malaysia (2001)	937	4.8	5.2	0.5	4.9	47	3,918
China (2004)	1,432	0.2	9.2	(1.1)	(5.6)	131	10,196
Dunn Humby	191.5	n/a	15.9	n/a		n/a	n/a

Continuing operations only

¹ EBIT Margin is the ratio of Earnings before Interest and Taxes to net revenue - earned. It is a measure of a company's profitability on sales over a specific time period.

² Trading Profit Margin is listed to allow a clear comparison between the main Tesco businesses (i.e. UK, Europe, Asia)

³ Like-for-Like sales provide a comparable measure from stores open the previous year to provide an underlying measure of performance that strips out the effects of new stores, extensions and closures.

Sources: Tesco Analyst Packs; IGD, 2013; Shore Capital, 2013, Companies House Annual Accounts

Table 3: Numbers of discount stores in South Korea, 1999-2016.

	E-mart	Lotte-mart	Homeplus	Carrefour	Homever	Costco
1999	23	12	2	15		3
2000	35	18	7	21		5
2001	47	27	17	22		5
2002	57	29	26	27		5
2003	65	33	29	27		5
2004	75	39	36	27		5
2005	83	43	40	31		5
2006	86	45	43	32		5
2007	106	52	54	Withdrew	33	5
2008	114	57	64		35	5
2009	122	73	111		36	7
2010	127	84	116			7
2011	134	92	123			7
2012	135	95	129			7
2013	146	104	136			9
2014	148	109	139			11
2015	146	114	140			11
2016	150	115	141			12

Source: Korea Chain Store Association, 2000-2016.

Table 4: The growth of Super-Supermarkets (SSMs).

	Number of SSMs*	Number of 'big three' SSMs	Number of independent 'mom-and-pop' stores (below 150 ^{m²})	Number of discount stores	Number of convenience stores (chain owned)
1999	208	59			
2000	196	56			2,826
2001	202	67			3,780
2002	231	97		235	5,680
2003	234	104	104,417	261	7,200
2004	253	143		278	8,247
2005	267	147	99,500	306	9,085
2006	292	166		337	9,928
2007	370	217	88,659	363	11,056
2008	485	323		394	12,485
2009	677	489	79,200	409	14,130
2010	928	606		437	16,937
2011	1050	694	n/a	446	21,221
2012	1280	942		470	24,559
2013	1300	1038	n/a	483	24,859
2014	1369	1185		508	26,020
2015	1475	1388	n/a		

Source: Korea Chain Store Association, 2000-2016.

* The SSM data are based on those of the eight main SSMs: Lotte Supermarket, GS Retail, Homeplus Express, E-Mart Everyday, SM, Seo Won Distribution, CS Distribution and Suhyup Distribution.

Table 5: Retail sales by store type, 2000-2015 (trillion won).

	2000	2005	2010	2015
Discount stores	10.6	23.7	34.1	39.6
TV/Internet shopping	3.2	15.3	29.2	45.6
Department stores	15.0	17.0	24.8	29.1
Convenience stores	1.4	4.6	7.8	18.0
Super-Supermarkets*	-	2.2	5.0	7.4

Source: Korea Chain Store Association, 2000-2016.

* The SSM data are based on those of the eight main SSMs: Lotte Supermarket, GS Retail, Homeplus Express, E-Mart Everyday, SM, Seo Won Distribution, CS Distribution and Suhyup Distribution.

Figure 1: Relational Drivers for Homeplus Divestment across Tesco plc

South Korean Host Market Drivers and Facilitators	
Government re-regulation of retail FDI in South Korea – <i>reduced growth prospects</i>	
Changing consumer cultures away from ‘big box’ stores – <i>reduced growth prospects</i>	
Intensifying competition, and increased activism, from local retailers – <i>reduced growth prospects</i>	
Collective labour pushes back – <i>reduced growth prospects</i>	
Lease expiry across a number of retail properties – <i>an opportune time to divest</i>	
UK (Home Market) Drivers and Facilitators	
Balance sheet shortfall requires immediate attention – <i>need to sell assets</i>	
Home market performance issues which requires stabilisation and reinvigoration: <ul style="list-style-type: none"> - <i>Shift in capital expenditure from international operations to home market</i> - <i>Signal home market prioritisation to the capital markets</i> - <i>Shift in management time and attention to home market</i> 	
Change in leadership – <i>new CEO had no emotional sunk cost with Asian businesses</i>	
Other Tesco Subsidiary Drivers and Facilitators	
Eastern Europe	No interest from acquirers for Eastern European retail operation amid stuttering performance – <i>Eastern European divestment not viable</i>
Global	Multinational subsidiary, DunnHumby lacks interest from acquirers at the price initially anticipated by Tesco – <i>DunnHumby divestment not viable</i>
Thailand and Malaysia	Thai business includes a Real Estate Investment Trust so ownership structure is complicated – <i>additional pressure to retain the Thai business</i>
	Spatial proximity and synergy of Thailand and Malaysian businesses – <i>logical to retain the two subsidiaries together</i>
	Long term growth prospects positive in Thailand and Malaysian businesses – <i>logical to retain the two subsidiaries together</i>