Retail Internationalization and the Presence in the Home Market

Norie Yokoi

***Abstract*—Since global retailers have been withdrawing from overseas markets one after another, this study considers the possibility of increasing domestic market presence by investing in the home market instead of the overseas markets that had previously been invested in. It identifies that it is not easy in the short term to regain lost market share or increase market share even if capital has been invested in the home market after withdrawal from an overseas market. It also suggests the possibility that a firm may lose market share in its home market to a competitor while it repeatedly expands into and withdraws from an overseas market.**

***Index Terms*—Retail internationalization, global marketing, retail strategy, global distribution**

I. Introduction

It has been a long time since the retail industry was internationalized. Along with this internationalization of the retail industry, research on the internationalization of the retail industry has also progressed. However, there has also been a series of withdrawals from overseas markets after entering them, particularly since 2010, when several large retailers with the world's top retail sales have withdrawn from overseas markets. It is pointed out that it is difficult to anticipate the effects of expansion into overseas markets on the performance of retailers, and that the performance of the home market has a positive impact on the performance of the companies. It is hypothesized that the presence in the home market could be enhanced by allocating investments in foreign markets to the home market, assuming that this is the case. Hence this study examines this hypothesis through a fact-finding study.

II. Academic Research Reviews

Various retail internationalization studies have been carried out from the 1980s to the 2000s. Alexander and Myers classified retail internationalization studies into three categories: those focused on understanding the actual internationalization activities of retailers until the mid-1980s, those that evolved in the late 1980s and took an analytical perspective, and those that evolved in the 1990s and developed a conceptual framework for internationalization and the internationalization progress [1]. Vida and Fairhurst also found that from the 1960s to the 1980s, research focused on the internationalization activities of retailers, and in the late 1980s, research shifted to external factors in internationalization and conceptualized them [2]. In the latter half of the 1980s, the focus of research turned to external factors in internationalization and conceptualized them. As research on internationalization factors progressed in terms of understanding the actual situation, in the 1980s, as retailers entered a wider range of foreign markets, research also focused on which markets and how much they would invest, the timing of entry, and the method of entry. These studies led to the development of a conceptual framework for internationalization and factors contributing to internationalization in the 1990s.

While research on this conceptual framework has been developed, similar progress has not been made in empirical research efforts to examine the concepts and hypotheses. Vida and Fairhurst note that empirical analysis has been neglected while retail internationalization research has reached the point where its internationalization process has been conceptualized [2]. Gielens and Dekimpe also point out that empirical analysis of these factors has been ignored although the internationalization factors and entry methods of retailers have been discussed [3]. They also point out that although there has been some discussion of retail internationalization factors and entry methods, there is little empirical analysis of these factors [3].

Empirical studies on the determinants of retail internationalization include a path analysis by Williams based on interviews with British retailers expanding into foreign markets, and a study by Vida based on survey responses to a questionnaire survey of U.S. retailers in which the population was divided into two groups: retailers expanding into foreign markets and retailers operating stores only in the U.S. market [4, 5]. These analyses focused only on retailers based in the U.K. and the U.S., respectively, but Tamura clarifies the factors behind internationalization through a logistics regression analysis of the top 100 global retailers in terms of sales. As a result, the study concludes that internationalization is strongly promoted when a company's sales increase and the annual rate of growth of retail sales in the home country becomes low [6]. Based on this analysis, Yokoi includes profitability as an indicator of the internationalization factor, selects the top 104 global sales companies with published operating profit margins, and conducts a logistic regression analysis of the internationalization factor in the same way. The results show that sales in the home market and the listing of the company are positive factors in the decision of internationalization, while the size of the home market is a negative factor [7].

In an empirical study of market entry methods in retail internationalization, Gielens and Dekimpe conduct an empirical analysis of entry methods and sizes based on data from 75 European food retailers entering the Russian market,

Manuscript received February 12, 2023; revised March 17, 2023; accepted April 4, 2023.

Norie Yokoi is with the College of Economics at Nihon University, Tokyo, Japan (e-mail: yokoi.norie@nihon-u.ac.jp).

10.18178/ijtef.2023.14.2.753

including Western, Eastern, and Central European and Baltic countries [8]. In addition, Gielens and Dekimpe conduct an empirical analysis of how the timing and size of entry into foreign markets are affected by the behavior of competing retailers, based on data for 75 European retailers entering 11 markets in Eastern and Central Europe from 1989 to 2001 [3]. Furthermore, Elsner selects 18 of the top 30 food retailers in 2007 and determines the factors that influence the entry form of the 309 markets in which these firms entered between 1960 and 2007 and shows that entry patterns tend to be influenced by entry patterns in markets that the firms have entered in the past [9]. Gripsrud and Benito conduct a regression analysis of the factors influencing the choice of market entry for 86 British retailers in 39 foreign markets in 1996. They find that GNP per capita and urban population were positive factors in the choice of market entry, while cultural distance and physical distance are negative [10].

Thus, studies on retail internationalization have been accumulated. However, retailers exited foreign markets one after another since the 2000s. In the 2000s, Gielens and Dekimpe found that business continuity was positively affected by market entry methods and by entering the market earlier than competitors [8]. As Burt, Dawson and Sparks point out, the purpose or "goal" of internationalization is different for each retailer, and defining success in a study can be controversial [11]. Based on this, Yokoi empirically analyzes the success factor hypotheses of retailers based on the results of previous research and actual conditions [12]. Furthermore, Yokoi conduct an empirical analysis of the success or failure of retail internationalization as the impact of retailers' foreign sales and profits on the firms' ROA. The findings suggest that high market share and operating profit margin in the home market are significantly related to retailers' ROA, while operating profit margin in foreign markets and the ratio of foreign sales among total sales are uncorrelated. Although the number of data is limited, the empirical analysis confirms the difficulty of earning profits in overseas markets, and thus contributing to corporate profits, and furthermore, proves the point that performance in the home market contributes to corporate profits [13].

III. Research Hypothesis and Method

The previous study shows that neither sales nor profits in overseas markets contribute to corporate ROA, but rather market share and operating profit margin in the home market are more significant for it. If "performance in the home market is what contributes to corporate profits," regardless of performance in overseas markets, then it can be hypothesized that withdrawing from overseas markets and allocating the capital invested in those overseas markets to the home market will further increase the presence of the company in the home market. In other words, the capital invested in overseas markets should be invested in the home market, which contributes to corporate ROA as indicated in the results of the previous study.

This study considers and identifies this hypothesis by conducting a fact-finding study using the top retail companies in terms of sales as cases.

A. Method

Presence of the retailers will be examined based on the status of overseas market exits, as well as their grocery market share and sales trends in their home markets.

B. Periods

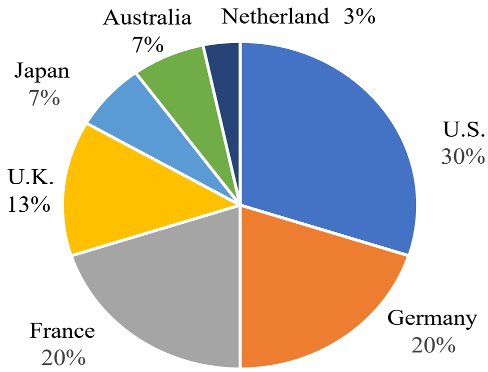
Research period covers the years 2007-2021.

C. Data

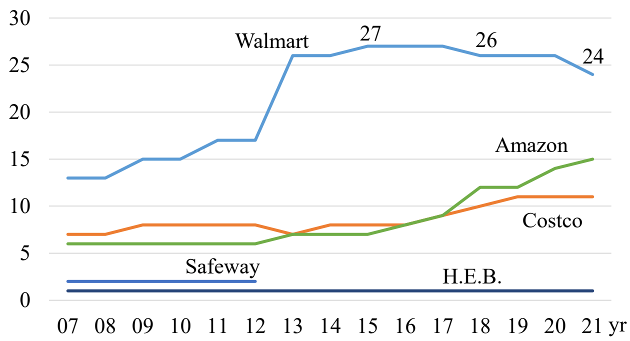
The database is constructed with retail data provided by IGD, a British grocery distribution research institute, and with annual report data from selected retailers. The data cover both in-store and online sales of each retailer's business category that sells grocery products, excluding sales of non-food products. This should allow the size of the grocery market in each market to be calculated.

D. Target Markets and Retailers

The target markets and target companies in this study are the grocery retail markets in the U.S., France, Germany, and the U.K., as well as the major retailers in each country.



Source: Retail Analysis, IGD
Fig. 1. Overseas sales ratios of grocery retailers by each country.



Source: Retail Analysis, IGD
Fig. 2. Number of the U.S. retailers operating overseas.

Fig. 1 shows that more than 80% of the top 30 grocery retailers in terms of sales as of 2007 were U.S., German, French, and British companies. Thus, four markets could be the subject of the study. Walmart, the company with the highest sales in the U.S. market, has the highest number of foreign market entries, and has withdrawn from one market in 2018 and two in 2021 as shown in Fig. 2. However, it is too early to examine its presence in its home market after withdrawals. Amazon and Costco have also increased the number of foreign market entries, while other firms have made few foreign market entries. Since it is difficult to examine their presence in their home markets after withdrawing from overseas markets, the U.S. market is excluded from the target market of this study. Therefore, the target markets for this study will be Germany, France, and the United Kingdom.

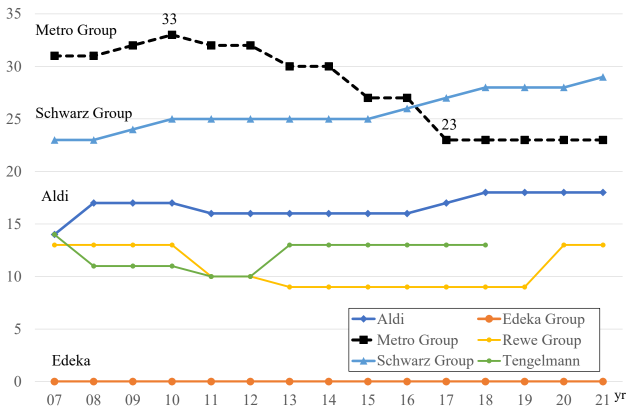
IV. Retailers in the Targeted Markets

This section considers retailers' entry into and exit from foreign markets, as well as their market share in their home markets.

A. Retailers in the German Grocery Retail Market

1) Foreign expansion of major retailers

Fig. 3 shows that Metro Group, which had the largest number of markets in 2007 with 31 markets, gradually dropped from its peak of 33 markets in 2010 to 23 markets in 2017 and beyond. Schwarz, which has one of its main businesses as a discounter, has been aggressively increasing the number of markets it operates and surpassed Metro Group with 28 markets in 2021. Aldi, which also focuses on the discounter format, has also increased the number of markets in which it operates, reaching 18. On the other hand, Edeka Group has not entered any overseas markets since 2007, while Rewe Group operates in 13 markets.



Source: Retail Analysis, IGD

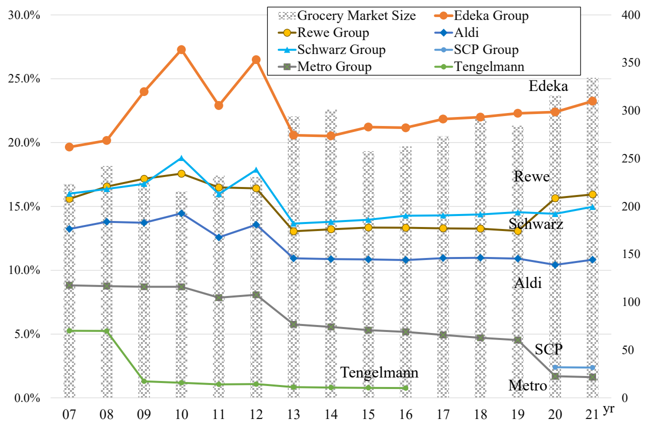
Fig. 3. Number of German retailers operating overseas.

2) Market share of each retailer in the domestic market

Fig. 4 shows that the size of the domestic grocery market in Germany expanded significantly from 2012 to 2013, then began to decline in 2015, but has been growing ever since.

In this situation, Edeka continues to hold the top market share position, with more than 20% of the market since 2008 and 23.2% in the most recent year, 2021. In second place is Rewe Group, which increased its sales with the Coronavirus Pandemic starting in 2020, with a 15.9% market share in the same year, followed by Schwarz Group in third place, Aldi in fourth.

Edeka, the leader, maintains an advantageous market share in Germany by concentrating on the domestic market and not opening stores in foreign markets. On the other hand, Metro Group, which ranked fifth in terms of market share in 2007, has gradually lost its share of the German domestic market while expanding into foreign markets; it has continued to withdraw from foreign markets since 2012, but has been unable to regain its presence in its home market and sold its hypermarket stores in Germany in 2019. The company sold its hypermarket business model. As a result, it has further lost market share, leaving a large gap between itself and the top four firms. Schwarz Group and Aldi, the third- and fourth-largest players in terms of market share, have both been active in expanding into overseas markets and have increased their sales and market share in the German domestic market, but have not closed the gap with the leader, Edeka.



Source: Retail Analysis, IGD

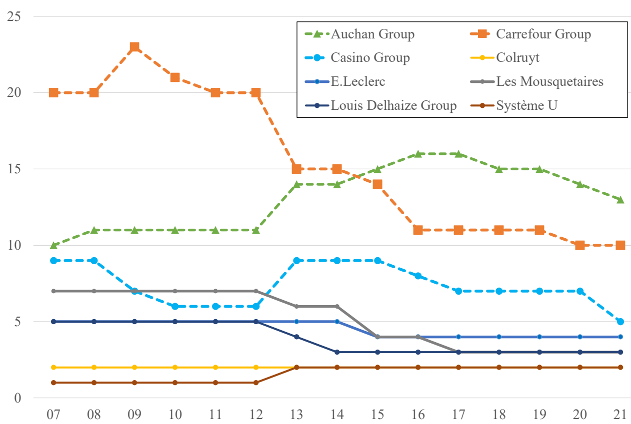
Note: SCP is the company that acquired Metro's hypermarket stores.

Fig. 4. The German grocery market size and retailers' market share ratios.

B. Retailers in the French Grocery Retail Market

1) Foreign expansion of major retailers

Fig. 5 shows that Carrefour Group, which had the largest number of overseas markets in 2007 with 20 markets, gradually declined from its peak of 23 markets in 2009 to 10 markets in 2021, less than half the number of markets in 2007. Auchan Group, the second largest French grocery retailer by number of international markets as of 2007, continued to expand, reaching a maximum of 16 markets in 2016 before slowly exiting the market, operating in 13 markets in 2021. Casino Group, which also ranked the third in terms of the number of foreign markets entered, has repeatedly increased and decreased, reaching its peak in 2015, and as of 2021, it operates in only five markets.

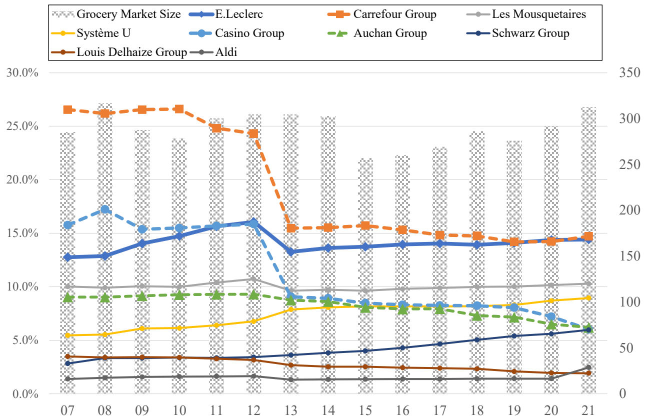


Source: Retail Analysis, IGD

Fig. 5. Number of French retailers operating overseas

E. Leclerc, on the other hand, had entered five markets in

2007, but withdrew from one market in 2015, and has maintained four markets since then; Colruyt maintained two markets from 2007 to 2021, and System U increased by one market in 2013 and has maintained two markets since then. Colruyt has entered foreign markets, but not aggressively, and has only added neighboring countries to markets it had already entered before.



Source: Retail Analysis, IGD

Fig. 6. The French grocery market size and retailers' market share ratios.

2) Market share of each retailer in the domestic market

Fig. 6 shows that the grocery market in France has been growing since 2015, although the size of the market has risen and fallen from year to year.

Carrefour Group had held the largest share of this market in France, with a dominant 26.6% market share in 2007. However, its market share dropped after 2012, and has been flat or declining since then. The Casino Group, which had the second largest market share in 2007, also lost market share in 2012 and has been declining since then. E. Leclerc, the third largest retailer in the market in 2007, overtook the Casino Group in 2012, and has gradually increased its market share since then, finally reaching the number one position in 2020, overtaking the Carrefour Group.

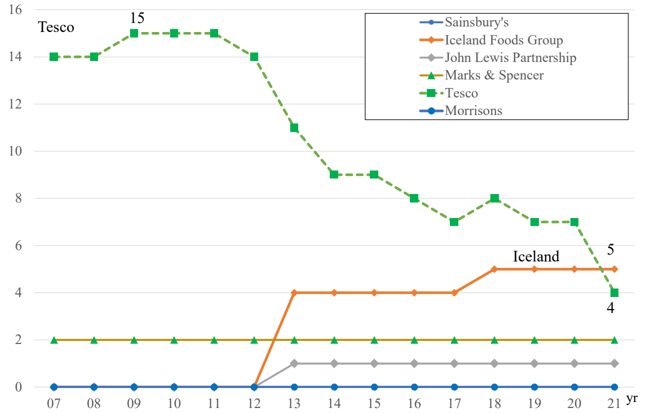
Among France's major grocery retailers, Carrefour Group, Casino Group, and Auchan Group all lost significant market share between 2007 and 2021, all of which have aggressively expanded into foreign markets during the same period. Carrefour Group has been withdrawing from foreign markets and increasing its sales in its home market of France since 2015. E. Leclerc is growing at the same rate as Carrefour Group is growing, thus causing Carrefour Group to lose market share.

C. Retailers in the British Grocery Retail Market

1) Foreign expansion of major retailers

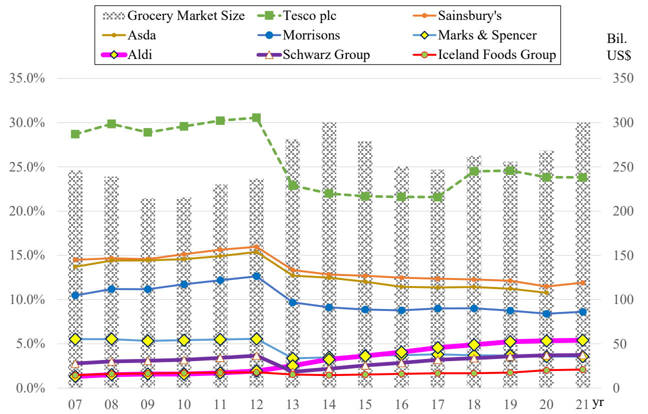
Fig. 7 shows that Tesco had entered 14 markets by 2007, and after reaching its 15th market in 2009, it rapidly closed out markets from 2012 onward, leaving it with only 4 markets by 2021. Consequently, Iceland Group, which focused on frozen foods as a differentiated product, overtook Tesco in terms of the number of operating overseas markets in 2021.

Sainsbury's and Morrisons have not entered overseas markets since 2007. Marks & Spencer, on the other hand, has expanded into various countries as a department store format, and has spread its business through franchising, but as a grocery format, it has only expanded into France and Ireland.



Source: Retail Analysis, IGD

Fig. 7. Number of British retailers operating overseas.



Source: Retail Analysis, IGD

Fig. 8. The British grocery market size and retailers' market share ratios.

2) Market share of each retailer in the domestic market

Fig. 8 shows that the size of the grocery market has fluctuated from year to year, but has been on an increasing trend since 2016.

Tesco has held the number one share of this market in the United Kingdom since 2007 until 2021. Tesco had a market share of nearly 30%, which would be considered a violation of antitrust law if it grew any larger. However, it has been losing that market share since 2012. The company's sales declined from 2014 to 2017, coinciding with its withdrawal from several foreign markets after 2012. Although Iceland and German entrants Schwarz and Aldi do not have large market shares themselves, they have doubled their market share in the last decade and pose a threat to Tesco, which is far from its former market share size.

V. Impact of Overseas Market Entry on Domestic Market Share

Based on situation in three markets in this study, we created a matrix diagram of sales growth potential and market share growth potential in the home market as presence in the home market, and classified the target retailers into this matrix. We then examined the relationship between presence in the home market and the possibility of entering or exiting overseas markets.

From this classification in Fig. 9, the hypothesis "withdrawing from overseas markets and investing in home markets will further increase their presence in those markets" is examined. It is clear that both sales growth and market share growth in the home market are met by retailers that are still actively expanding into foreign markets, and by retailers that have made few entries into foreign markets with no tendency to withdraw, or by retailers that have made no entries into foreign markets. It is also clear that retailers that withdrew from several foreign markets and invested capital in their home market did not meet this criterion of increasing presences in their home markets.

Retailers that withdraw from multiple foreign markets and invest in their home market either have declined in sales and market share in this study, or have recovered in sales but failed to increase market share sufficiently.

Then the internationalization behavior of retailers and its outcomes are illustrated in Fig. 10. As has been noted in previous studies, there are two types of retailers: those that expand into foreign markets due to domestic market saturation and opportunities, and those that do not. Among those that have entered foreign markets, there are two types of retailers: those that are less aggressive, entering only a few markets around their home market, and those that are more aggressive. As this study indicates, some of these active foreign market entrants have continued to expand aggressively, while others have withdrawn from several markets. These actions can be divided into four main categories: "non-internationalization or non-aggressive overseas market entry," "driving internationalization and obtaining growth in home market," "rebuilding share in home market," and "failure of internationalization and loss of market share in home market".

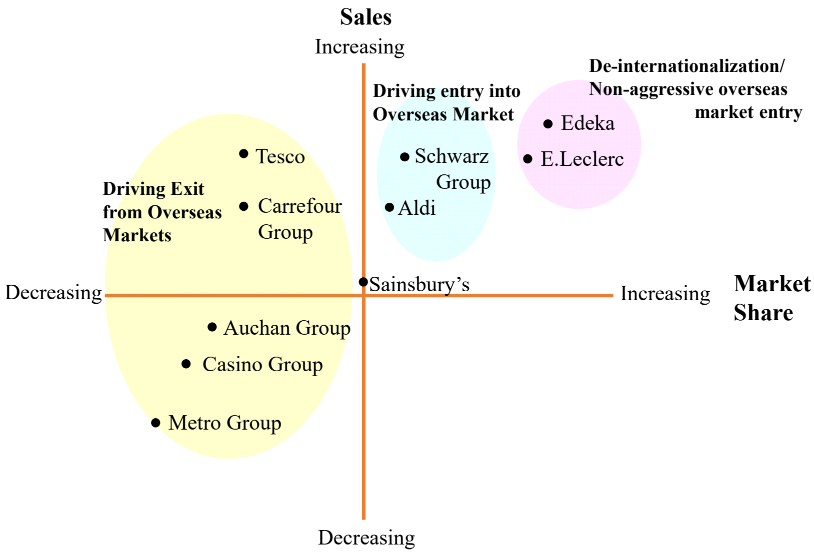


Fig. 9. Matrix diagram of retailers by sales and market share growths.

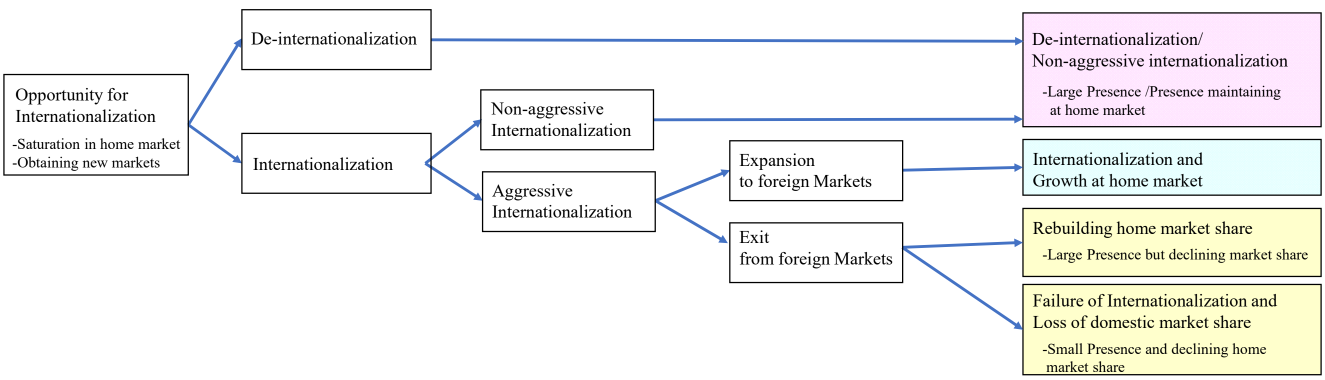


Fig. 10. Retail internationalization behaviors and outcomes.

Then this is further organized in a matrix chart based on market share and growth potential in the market, as shown in Fig. 11. Retailers with high market shares and high growth potential in their markets fall into the "non-internationalization or non-aggressive internationalization" category. Retailers with high market share but low market growth potential belong to the "rebuilding market share in their home market" category, such as Tesco in the U.K. and Carrefour Group in France. Retailers with lower market shares but higher market growth potential are those in the "internationalization and home market growth" category, such as the Schwarz Group and Aldi in Germany. Although their market shares in their home markets are not as high as the top firms, they have growth potential and are therefore more willing to expand into foreign markets. Finally, retailers with low market shares and low growth potential in their home markets are considered to have "failed to internationalize and lost market share in their home markets". These include the Auchan Group and Casino Group in France and the Metro Group in Germany.

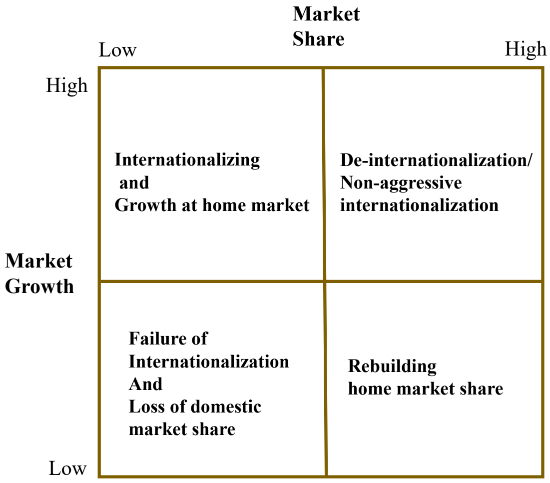


Fig. 11. Matrix chart by market share and its growth in home market.

The findings of the grocery markets in Germany, France, and the U.K. for the period 2007 to 2021 has provided insight into the relationship between retail internationalization and presence in the home market.

When growth potential in the home market is promising, the promotion of internationalization can be compatible with the promotion of internationalization. However, when competitors that focus exclusively on the home market increase their market share, companies may begin to see a shadow over their own growth potential and consider withdrawing from overseas markets. However, it becomes clarified that even if the investment in the overseas market is diverted to the home market, the presence in the home market will not be restored immediately.

VI. Conclusion

Large retailers, once partly due to domestic market oversaturation, entered overseas markets and established new networks in foreign markets in order to expand the size of their enterprises. However, a number of these top retailers withdrew from overseas markets. This study reveals that it is not easy to regain lost market share in the short term or even increase it further, even if the retailer invests its capital in its home market after withdrawing from the overseas market. The market share may be lost to competitors who continue to focus on the home market while the company enters or withdraws from overseas markets, and this may affect the home market network that the company has built up. In addition, the fact that the retailer has not enhanced its presence in its home market despite its efforts to expand into overseas markets suggests that it will not be easy to achieve both continued success in overseas markets and increased presence in the domestic market.

Online sales have been expanding their market size in various countries since the 2000s, when "brick-and-mortar" retailers began to withdraw from overseas markets. In addition to the "know-how" such as location and store operation that retailers have been required to have in the past, they are now required to build "technology" and "networks" for online sales. In this study, targeted at grocery retailers, it examines the results of capital investment in the home market in terms of grocery market share, which includes sales via online. Since sales via online are growing, it can be assumed that the companies have also invested in technology for online sales, as well as in building their networks.

However, sales via online are small relative to the size of existing store sales, and therefore, such investments may not be reflected in the results of this study. Based on the results of this study, further research on the details of investments made by individual firms after their withdrawal from overseas markets would be conducted.

Conflict of Interest

The author declares no conflict of interest.

Author Contributions

Norie Yokoi conducted the research, wrote the paper, and approved the final version of the manuscript.

Funding

This work was supported in part by the Research Institute of Economic Science, College of Economics, Nihon University.

References

[1] N. Alexander and H. Myers, "The retail internationalization process," *International Marketing Review*, vol. 17, no. 4/5, pp. 334-353, 2000.
[2] I. Vida and A. Fairhurst, "International expansion of retail firms: A theoretical approach for future investigations," *Journal of Retailing and Consumer Services*, vol. 5, no. 3, pp. 143-151, 1998.
[3] K. Gielens and M .G. Dekimpe, "How to seize a window of opportunity: The entry strategy of retail firms into transition economies," Discussion Paper 146/2004, Licos Centre for Transition Economics, Katholieke Universiteit Leuven, 2004.
[4] D. E., Williams, "Retailer internationalization: an empirical inquiry," *European Journal of Marketing*, vol. 26, no. 8/9, pp. 8-24, 1992.
[5] I. Vida, "An empirical inquiry into international expansion of US retailers," *International Marketing Reviews*, vol. 17, no. 4/5, 2000.
[6] M. Tamura, *Retail Internationalization in the National Market*, Monograph of Distribution Innovation Center, Osaka Sangyo University, no. 058, 2004.
[7] N. Yokoi, "Empirical analysis of retail internationalization," *Journal of Food System Research*, vol. 16, no. 3, pp. 90-93, 2009.
[8] K. Gielens and M. G. Dekimpe, "Do international entry decisions of retail chains matter in the long run?" *International Journal of Research in Marketing*, vol. 18, pp. 235-259, 2001.
[9] S. Elsner, *Retail Internationalization –Analysis of Market Entry Modes, Format Transfer and Coordination of Retail Activities*, Springer Gabler Research, 2013.
[10] G. Grisprud and G. R. G. Benito, "Internationalization in retailing: modeling the pattern of foreign market entry," *Journal of Business Research*, vol. 58, pp. 1672-1680, 2005.
[11] S. L. Burt, J. Dawson, and L. Sparks, "Failure in international retailing: Research propositions," *International Review of Retail, Distribution and Consumer Research*, vol. 13, no. 4, pp. 355-373, 2003.
[12] N. Yokoi, *Retail Internationalization*, 1st ed., Ryutsu Keizai University Press, 2017.
[13] N. Yokoi, "Retail internationalization strategy and the firms' business performances," *Journal of Food System Research*, vol. 26, no. 4, pp. 349-354, 2020.