

The Korea Business Interview Series:

Tom Brown

"Homeplus: Tesco's Success Story on Entering the Korean Market"

Tom Brown is Site Research Director at [Homeplus Korea](#), a wholly owned subsidiary of Tesco of the UK.

Tesco's entry into the Korean market contains valuable lessons for anyone doing or wishing to do business in Korea. While other foreign brands like Wal-Mart and Carrefour have failed, Tesco's Korean brand, Homeplus, is moving from strength to strength as it closes the gap with the market leader, E-mart.

This interview covers many fascinating aspects of the Homeplus story in Korea. From its early partnership with Samsung, to an extraordinary level of office culture localization, as well as matching uniqueness of the Korean consumer market, Tesco and Homeplus have achieved an amazing success.

Tom Brown has been with Tesco in Asia during this time, both in Korea and China, leading the company's efforts to locate new stores. His insider perspective leaves us with many valuable insights about business in Korea (and even a little about business in China!). This interview is a "must-listen" for anyone with an interest in business in Korea.

Transcript of the interview by KBC's Tom Tucker
on *August 9, 2011*.

Tom Tucker: Hello and thank you for joining us today at KoreaBusinessCentral.com. My name is Tom Tucker. I am the host, and I'm excited to bring you today's conversation in our Korea Business Interview Series.

Our guest today is Tom Brown. He is the site research director at Homeplus Korea, a wholly owned subsidiary of Tesco of the United Kingdom – they are the world's third-largest retailer – and previously site research manager at Tesco in China. Tom has spent nearly a decade in Asia supporting the local expansion of Tesco into the Korean and Chinese markets, and has a deep understanding of the Asian retail industry.

Tom, welcome and thanks for joining us. It's a pleasure to have you with us today.

Tom Brown: Thank you for inviting me. I've enjoyed listening to previous KBC interviews, so it's a real pleasure to take part in one.

Tom Tucker: Well, it's great to have you. Let's start by talking a little bit about the Korean market and market entry. The Korean discount retail market really only goes back to the early 1990s with the establishment of E-mart.

Homeplus was a latecomer, opening up its first store in Daegu in 1997, with the first store after the joint venture between Tesco and Samsung being built in KBC creator Steven Bammel's Korean hometown of Ansan in 2001.

Can you give us a brief overview and history of the Korean discount retail market as well as the Homeplus story in Korea?

Tom Brown: Modern retail really started with the department stores in Korea, and for a long time that's all there was in terms of modern retail. As you say, the discount brands, the hypermarkets, as we call them in Tesco, they really just started in the early 1990s.

You have some local operators – E-mart, Lotte Mart, Mega Mart and GS Mart all opened in that period – as well as international operators like Wal-Mart, Carrefour, Costco coming in then. But expansion really has just taken off in the last decade or so.

Now there about 350 hypermarkets in South Korea, and that represents about a 17% share of the Korea retail market. And then in recent years there's been considerable consolidation so that today there are just three large operators, which is E-mart, Lotte Mart, and Homeplus.

The Homeplus story, as you say, started in 1997. It was set up by the retail division within Samsung, but that was just before the tiger economy crisis, the IMF crisis. At that point, really, Samsung decided to focus on their core businesses. Retail was a relatively new area.

1999 they went in a joint venture with Tesco. Tesco took 51%, Samsung 49%. At that point it was just two stores, and it was one of their first international businesses. Since then it's been a very good story with very strong growth. 2008 the business acquired 32 Homeplus stores which were previously Carrefour stores, and today there are 123 of the large hypermarkets and over 280 small supermarkets that we call Express.

Then in recent years we've also expanded into Internet shopping – we've got the largest grocery home-delivery business in Korea – and also started offering financial products as well. Today, really, we're number two in the market, and it's Tesco's most profitable overseas business.

Tom Tucker: What do you identify as the strengths of Homeplus in the Korean market vis-à-vis E-mart and Lotte Mart, and what areas are you playing catch-up? Tell us a bit about also your rivalry with these other two chains that I've mentioned.

Tom Brown: I'm still thinking about some of our strengths. There are some offers that we have that do help us branch out. One thing we've had from the beginning in nearly all of our hypermarkets is what we call an extended education academy.

We're basically running classes at the stores which are aimed for kids and for adults offering a range of activities like music, cooking, artwork. We find that brings people to the store on a regular basis, and it is a very good thing for building up customer loyalty.

Another area where we've probably got an advantage is the shopping malls that we have linked with the hypermarkets. Generally we have larger malls than our competitors, and it's a mixture of some fashion tenants and food – we have a food court and restaurants – and then some convenience facilities like bookshops, pharmacies, that sort of thing. Again, that helps the overall offer.

Imported ranges, we probably have an edge on our competitors there, obviously, and we can link in with our Tesco international business for sourcing there. So that's another strength.

And then I think we make very good use of our loyalty card program, which we call Family Card here. It is well used by customers, and it also helps us with marketing. We can give special offers to customers really based on what their preferences are and also think about the ranging that goes into the store. So I'd say those are some of our advantages.

In terms of where we're playing catch-up, one of the big things for us is really playing catch-up with E-mart, who has been the market leader in terms of market share. We've always had that as an internal target. We had that as a target back in 2002, which was when I was first working in the Homeplus business, and we've had the same target in 2009, which is when I came back here.

But with the Homever acquisition a couple of years ago that's really helped us close the gap here. It does now seem an achievable target, but that's one that keeps us going within Homeplus.

With Lotte Mart, they are the clear third player in the market, but I have definitely seen them improve over time here. I'd say their point of differentiation is now that they've got the Korea franchise on a couple of international businesses, for example Toys "R" Us and Japanese retailer Muji, and they use those as anchor stores within some of their hypermarkets. That's one of the things that helps them stand out.

Tom Tucker: Dick Warmington of Chadwick International School in Songdo recently shared an interview with us here on KBC, and in a previous position at Hewlett-Packard he oversaw the company's entry into the Korean market and a joint venture with Samsung in the early 1990s, which resulted in HP's buyout of Samsung's stake in the company.

Interestingly, Tesco also entered the Korean market in a joint venture with Samsung, as you alluded to, and has since acquired 100% ownership of the Homeplus chain in Korea.

These are striking similarities. What are some of the differences between the market-entry strategies taken by these two companies, and how and why are they different, if they are different?

Tom Brown: I must admit I don't know a great lot of detail about the Hewlett-Packard story apart from Dick's interview. But as you say, there are the similarities with a Samsung JV leading to a buyout. I think both businesses have benefited from the Samsung brand and also the quality of the Samsung employees that we've inherited there.

I think the main difference is that with HP they provided the CEO from the beginning and were actively looking to change the office culture to a more Western style. With Homeplus we've actually kept the Korean CEO and so I think the culture within the business is a lot more of a hybrid. But I'd say it's probably still more Korean.

Tesco have provided staff for a few key positions. We've always had a finance director and chief operating officer provided by Tesco, but the CEO and other director-level positions have been filled by locals and mainly from Samsung employees.

Tom Tucker: With that in mind, what are some of the cultural dynamics arising out of this predominantly Korean staffing and cultural makeup of the staff there in Korea with Homeplus and the Tesco head office? Talk about some of the cultural dynamics that take place between the operation there and the head office.

Tom Brown: As I said, the CEO from the beginning of the whole Homeplus business is the Korean CEO. His name is Lee Seung-han; S.H. Lee, we call him. He has a very strong personality. I'd say he's put his stamp on the business culture there.

One thing he's tried to put together is a business culture that he's called "synbaration," which is really a mix of the East and the West. The word "synbaration" is a combination of "synbaram" and "rational."

Synbaram, it's a Korean word, but it's alluding to Eastern tradition within the workplace: enthusiasm, teamwork, and relationships. And then the rational part is looking at the Western work style, which is more professional, more analytical, probably more structured.

An example of this, for the business here we've taken a Tesco mantra which is applied to every new work process – that everything should be better, simpler, and cheaper – and then it's been changed. In the Korean business it's become better, simpler, cheaper, and faster, and I think that's quite appropriate for Korea where things do get done very quickly.

Thinking about things like promotion, in a Korean style you do have to work a certain number of years in a job before you can be considered for promotion, but then there's more the Western-style way of actually getting a significant promotion, which would be through interview process. It does give the stronger team members an opportunity to move ahead. So again, a bit of a hybrid there.

I would say there is still a very strong hierarchy within the Korean business, and I think it can be difficult for the Korean employees to disagree with their boss. I'd say that side of things is still quite Korean.

One of the things I found quite interesting, actually, is just looking at the different presentation styles from our Korean directors and the U.K. directors here. The U.K. presentation style is very clear, very direct, very factual – it's very easy to follow, but can be a little bit boring, I think – where the Korean directors' presentations tend to be a bit less structured, uses a lot more images, a lot more metaphors. For me, it's not always as easy to grasp quite the point they're trying to make, but I do find it more engaging and often more memorable.

Those are some of the things I've observed in the business here.

Tom Tucker: I realize that Tesco recently removed both the Samsung and the Tesco names from the Homeplus stores signs and is now operating fully under the Homeplus brand. Nevertheless, many ordinary Koreans still think Homeplus is a Samsung subsidiary or at least Samsung has a large stake in the company.

This has surely reduced the resistance to Tesco's market entry into Korea. How did this strategy come about, and why do you think it's been successful for so long?

Tom Brown: I think it's definitely been a benefit for Tesco to have the Samsung brand. It's clearly a very strong brand in Korea, so from the beginning it helped with brand recognition and trust as well.

Also, it has helped with hiring staff. You get very good people who have been applying to Homeplus partly because of being associated with the Samsung name. It definitely helped in the early years in getting the business established.

It was just earlier this year, so after 12 years of trading, that it was agreed to drop the Samsung name as well as the Tesco name. But I think at that point, really, the Homeplus brand itself has

become strong enough in the country so that it can stand on its own two feet so that the timing has worked well and it's been a fairly seamless transition now just to be trading under the Homeplus name.

Tom Tucker: How did that strategy come about? How was it decided that the brand would be strictly Homeplus?

Tom Brown: I think it's been discussed over a number of years, really, with the Samsung part of the JV and Tesco, but partly because now Samsung have no stake in the business anymore. They've been completely bought out, so at that point it becomes a natural thing to drop the Samsung name.

Tom Tucker: It certainly makes sense. Let's talk about some of the characteristics of the Korean market. The Korean market has been a tough one for many foreign retailers like Wal-Mart and Carrefour to crack.

What did they do wrong and what are the key success factors that Homeplus has utilized to survive and thrive in Korea?

Tom Brown: I've had lots of conversations with colleagues and other people around why has Homeplus been successful and Carrefour and Wal-Mart couldn't make it here and have heard lots of different theories there. I think one of the big parts is just the way of entry, so coming in as a joint venture, which is what Tesco did, versus going in organically.

I think that we've seen that in other countries as well. Tesco's best overseas businesses are often ones where we've done JV with a good local company. Korea is a good example. Thailand, we have a good business going that way as well.

I think the advantage of the JV is it does help you adapt quickly to the local culture and the customer needs, which as a retailer is important. I'd say that adapting locally is not the chief strength of Carrefour or Wal-Mart – so the practical things in Korea that made a difference.

One of the things that was noticeable is the store ambience. Typical of Western-style big retail, it's sort of a warehouse setup, so very high ceilings, high racking, big displays of things. But what seems to work much better in Korea is something adapted a bit more from a department store, so generally the shelving is not quite so high. But warmer colors are used and a little bit more intimate feel, even in big stores.

I guess the other bit that's hard to crack when you come in just as a foreign company is working out what's the right ranging that's going to work with the local customers. In Tesco's case, having the local management there who were closer to the customer was an advantage.

Tom Tucker: You've also spent a lot of time in China with Tesco. What are some similarities between the Chinese and Korean retail markets, and what are some of the differences?

Tom Brown: Starting with some of the differences, I guess the chief one really is just the level of development. China's really at least ten years behind Korea in how far the retail market has developed, but it is developing at a great pace at the moment.

How customers use the store is also quite different. In Korea about 70 to 80% of our sales come from customers coming by car. Car ownership is very high in Korea, but in China it's still at an early stage.

Roughly we get about 20% of sales from people coming by car, 20% on foot, 20% customers coming by bike, 20% by bus, and then the final 20% is shuttle buses, which are buses operated by the hypermarkets themselves.

The Chinese customers tend to use the hypermarkets as big supermarkets, really. They visit three or four times a week, and on average they just buy seven products when they go there, even to these very big stores, whereas with a Korean customer they'll only come once a week or so and they'll fill up their trolleys. I'd say those are still the key differences at the moment.

In terms of similarities, in both these countries fresh food is very important, and it's probably the number-one factor that gets people to go to stores. Eating out is still a big part of the culture in both countries, and so that's meant that the ready meals, so prepared meals, which are drive strong in the West, are still not so popular in Southeast Asia.

Another similarity is just the density of population you get in the big cities. That does mean that land prices are very high, so the stores themselves tend to be quite vertical. They're very different from the U.S. or the U.K., where you'll have a single-level store with a car park outside. In East Asia they tend to be vertical stores with car parking above or below the store.

I think those are probably some of the key similarities I'd pick out.

Tom Tucker: I'd also point out that Tesco has been unsuccessful in Taiwan while Carrefour has done well there. Wal-Mart is going gangbusters in China, as is Tesco.

Does market success in East Asia sometimes just seem like of the draw, or are there market characteristics in specific countries that are better matched to individual retailers? And if that is the case, why?

Tom Brown: It's a good question, not so easy to answer. I think some of the factors about whether you're successful or not is a little bit around when you get into the market and how

you get in there. For hypermarket retailing, it's very difficult to be successful if you are number four or five in the market and your scale is just not big enough.

That was one of the challenges that Tesco found in Taiwan. We came in fairly late, and we were beginning organically. We didn't buy into an existing business. We built up a few stores, but at that point the planning to open new stores became very difficult.

So there was never a great opportunity to become number one or two in the market, and without that scale and buying power, it's very difficult to be competitive there, whereas Carrefour came in early and set up a very good business there.

I think they also did a good job of learning about retailing in a Chinese environment there, and they did a very good job of then transferring what they learned in Taiwan over onto mainland China when they moved over there.

Wal-Mart, as you say, they are expanding very quickly in the China market. I'd say they haven't adapted their offer greatly to the Chinese market, but they're learning all the time. I think there they can see China as another U.S. where they can just build up a very strong network of stores and then through their buying power be able to be very competitive there. It'll be interesting to see how they get on.

Tom Tucker: After Carrefour withdrew from the Korean market they sold their operations to E.Land under the Homever brand. This didn't work out, and Homeplus ended up acquiring the Homever chain and absorbing it into Homeplus.

E.Land is a successful Korean retailer, but still was not able to make the Homever brand a go. What would you identify as the key reason for this?

Tom Brown: I think there are probably two main reasons. Number one was labor issues. The Carrefour business, they had quite strong unions, and when E.Land took over, they went in quite hard on that and they did try to lay off people at quite an early stage. That really backfired on them. There were a lot of staff demonstrations that went on there and hit the business.

I remember at the time I was living in China but came back to Korea on holiday. I went to visit their number-one store at the World Cup Stadium in Seoul, and it was quite difficult to get in. There were a lot of demonstrators at the time and a lot of police hanging around there, so that obviously hit their business as well as their image.

And then I think the other reason they struggled was that although they are a big retailer in Korea, their focus is more on clothing. They have the NewCore department stores and their own fashion brands.

But the synergy with the hypermarkets, with food and general merchandise, wasn't as strong there so they couldn't see the synergies as strongly as another hypermarket operator would see.

Tom Tucker: In your acquisition of Homever you must have faced a lot of challenges from overlapping store territories to cultural issues and even the difficulties of making a success of store sites which had acquired negative stigmas in their respective neighborhoods.

What were the major challenges in the Homever acquisition, and how did you overcome them successfully?

Tom Brown: I think the first thing we did was to learn from the Homever mistakes. I think the top of our list when we took over the business was to sort out the labor dispute, and that was very successful. Within one-and-a-half months we managed to sort out a dispute that had been going on for a year and a half – so very actively engaged with the unions.

I think we were also helped by the fact that our basic pay structure was slightly more generous than with E.Land. We were able to offer out an olive branch there, and that really helped on labor relations.

Then I think the other part that made it successful was just the scale of the business and the synergies. We were able to really put in the Homeplus offer into the stores we'd acquire quite quickly, and it also helped us with our own ability to purchase goods because we had bigger buying power.

I think those are the things that really helped us get through what was a massive project. We're very impressed with what my colleagues did there. Integrating a business like that is not an easy job, and it was done remarkably well.

Tom Tucker: It certainly sounds like it. Let's talk about some of the current issues and strategy. There are many complaints in Korea that the chain discount stores are putting independent businesspeople out of business, such as neighborhood grocery stores, bookstores, restaurants, things like that.

Do you believe these criticisms are justified, and why? And what is Homeplus doing to alleviate some of these social concerns on these issues?

Tom Brown: You're right that the situation for the small business owners is very high on the political agenda at the moment in South Korea, and within retail it has led to some legislation which is restricting expansion of the chain operators in order to protect some of the small independent business owners.

I think in any area new competition will always affect the existing operators. On the other side of the argument, not heard much in the debate within Korea, which is looking from a customer's perspective, if you serve the customer well and give them what they want, then you'll do well.

My observation is that within the small traders there's just a big variety. Just thinking of supermarkets, there are some small supermarkets which are really quite poor, not well run, quite expensive, and not great on hygiene or food safety, and I think those stores are going to struggle whatever the environment.

But on the other hand, there are a lot of very good local operators, and I've got a lot of respect for them. They've got some great fresh offer. They have very good local vegetables, meat, and fish, and then they're very good on price as well, so very competitive.

These days they're not afraid to open up their new stores which are very close to some of the chain-store supermarkets. I think the operators who know what they're doing don't need to be that afraid of the big operators.

But what Homeplus is trying to do to deal with the social concerns, there is a policy around with our new stores recruiting locally, also sourcing products locally, so from local farmers. And then the staff themselves in all the stores are encouraged to engage with the local community and help out there, so engage with fundraising events for the local community, doing voluntary work as well.

And then another area where we're moving into is franchise business. This is really with our small store openings, but we're opening more of those now as franchises. It'll be a local trader who would take over as the ownership and the management of the stores.

That's another area which we're trying to work through the current political tensions in the country and find a way that's going to work for everyone.

Tom Tucker: In a span of a decade and a half Korea has gone from having no discount market presence at all to having big-box stores in every town and neighborhood. Has it reached a saturation point, and if so, what's the next step in the evolution of the market?

Tom Brown: That discussion about saturation point, that was very similar in the U.K. when I joined Tesco about 14 years ago, but in that period every year the top retailers are still expanding. So I think saturation point keeps receding.

Certainly for the hypermarkets there are plenty more locations where we would like to open the stores in Korea, but in the country planning is quite well controlled so it's not easy to open

new stores. Realistically, I think you can expect the top three operators to be opening each about eight to ten stores a year, no more than that.

I guess the trend will be going more to format development and diversification. As I say, I'd expect more stores to be opening as franchise going forward. And then the other area where I think we'll see a lot of growth will be with the online retailing, so moving away from the physical stores to online shopping.

Tom Tucker: We're at the point now where we're going to begin to wrap up the conversation a little bit. Tesco presents us with a fascinating case study into market entry in Korea by a foreign company, and it seems like the company has just gone from strength to strength.

I also understand, shifting a little bit more personally to your situation here now, that you are preparing for a big career change. Can you tell us about that and what you're going to be doing?

Tom Brown: I made a big decision recently to move away Tesco after 14 very enjoyable years. I'm going to go back to China and I'll be joining the Adidas business there to be based in Shanghai, and I'll be heading up their store-expansion program for mainland China.

Tom Tucker: That sounds really interesting. Adidas, obviously a terrific worldwide brand. I think that would be a very interesting and fun product to be involved with, the apparel industry, especially in an exciting growing market like China.

As you head there as the retail development director with Adidas, what are some of the challenges that you're expecting to face in the new position, and how will these be different then if you were going to manage retail development with Adidas let's say in Korea, for example?

Tom Brown: This position, it's a newly created position at this level. Adidas have already got a very big business there. They've got over 5,500 outlets just in China. To put that in context, that's more stores than Tesco has worldwide.

The key challenges, though, will be really to bring a bit of strategy and process to the expansion work. Over the last 10, 15 years they've expanded very quickly via franchise network, but now the market's becoming more competitive and so there's a need for some rationalization of the network and real planning around the store network.

I think some of the key questions I'll need to answer are things like what's the optimum number of stores to have in a city and which of the smaller towns should Adidas be targeting next.

Just thinking about how would that challenge be different from, say, working for Adidas in Korea, I'd say that the biggest difference is just scale. I will be expecting to spend a lot of time on aeroplanes in China. I'll have teams based in a number of different parts of the country.

Unfortunately, my experience of the onboard food with Chinese airlines is not great. I don't they're as good as Asiana or Korea Air. I think I will probably end up like a good Korean traveler, so I'll be taking my tube of gochujang, which is a red pepper paste. I will take that with me everywhere and add it to most of the dishes for flavors.

Tom Tucker: That's funny. I just have to ask you finally here, you've been in Asia a long time. What's so great about being in Asia, and was this part of your career strategy right from the beginning? I'm going to guess the answer to that is no, it was not part of your strategy from the beginning.

Tom Brown: You have guessed correctly. To be honest, I didn't have a burning interest in East Asia, and I think, like many expats, I've ended up here really due to a business opportunity.

But having said that, Asia has definitely grown on me. I do find the culture here very interesting. It is very different from the Western culture, but it is also accessible. I can't say I'll ever fully understand Eastern thinking, but what I like about Asia is that you can make genuine friendships here and with local people explore the difference in culture and difference in thinking.

I'd say the other thing is East Asia is just a very dynamic place, and people really like to get things done here. And then all the large cities I've lived in are remarkably safe places to live. That's another plus point about East Asia. My wife's Korean, so that could be another reason that I like this part of the world.

Tom Tucker: For sure. I can certainly understand that, and I can appreciate your comments with regard to the safety of Asian cities. I had the chance to live in Tokyo for a couple of years, and while I was there I did visit Seoul for a few days and did some other travels throughout Asia as well.

I can certainly appreciate a lot of the things that you're talking about with regard to security, with regard to the interesting elements within the various cultures and having the opportunity to appreciate some of those differences, and certainly to agree with you with regard to the dynamics with regard to Asian economies, Asian marketplaces today. Certainly lots of opportunities, lots of neat things going on, without a doubt.

Tom Brown: Never dull over here.

Tom Tucker: For sure. Tom, anything else you'd like to share with our listeners about business in Korea before we finish up today?

Tom Brown: If I may, I'd like to do a shameless plug for Homeplus stores for the listeners based in Korea. I'd say one thing that's improved a lot in the last few years is the imported lines that we sell in the stores, and I'd particularly recommend the wine selection we have and some very good cereals we import.

So if you're living in Seoul, some stores which are easy to get to: One of our best-performing stores is the one at the World Cup Stadium in the northwest of Seoul. That's a bit of a landmark. There's a store in Dongdaemun which is quite close to the downtown area.

And if you're living south of the river and you're near the French Village in Seorae Maeul we've got a nice little Express store there which is just a few doors down the road from the French School. So check those out. There are some good products there. I think that's how I'd like to finish up here.

Tom Tucker: Well, good for you. I don't blame you. Your responsibilities I imagine have that marketing element to them, and by all means take advantage of the captive audience when you have it. I don't blame you at all.

Thanks again, Tom Brown. It's been a pleasure having you with us today. Tom Brown is the site research director at Homeplus, and it was a pleasure and a treat to have you with us today, Tom.

Tom Brown: Thank you very much, Tom.

Tom Tucker: This has been the latest in our ongoing Korea Business Interview Series. I'm your host, Tom Tucker, inviting you to improve your business results in Korea by joining KoreaBusinessCentral.com today. Thanks for listening and have a great day, and we'll look forward to visiting with you next time.