Revisiting retail internationalisation : Drivers, impediments and business strategy

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Abstract

Purpose – In the light of recent changes in the international environment, the purpose of this paper is to consider whether the drivers of, and impediments to, retail internationalisation and the business strategy adopted have also changed.

Design/methodology/approach – Interviews were conducted with 12 UK and US retailers. These exploratory data were combined with a review of the literature to explore changes in the drivers and impediments of retail internationalisation.

Findings – Findings of this study suggest that, while a variety of factors drive retail internationalisation, profit growth is the most dominant motivator. In terms of impediments to foreign expansion, domestic market conditions were a barrier to the initiation of foreign expansion, whilst the regulatory environment and previous experiences presented obstacles in the process of internationalisation. Interviewees also expressed a desire for increased standardisation, while acknowledging the need for a substantial degree of adaptation in response to cultural differences.

Research limitations/implications – The research findings are limited in terms of their generalisability.

Originality/value – Much of the existing research into retail internationalisation was conducted in the 1990s. Given the substantial changes that have occurred over the past 15 years, the value of this paper lies in the updating of knowledge.

Keyword(s): Retailing; International business; Standardization; Product adaptation.

Introduction

It is evident from extant literature that retailers do not simply internationalise in response to declining sales or market share in the domestic market. A multitude of factors are likely to play a role in driving both this decision and the business strategy adopted in foreign markets. Whilst extensive research has been conducted in this area (Alexander, 1990; Alexander and Myers, 2000; Hutchinson *et al.*, 2006, 2007; Quinn, 1999; Sternquist, 1997; Vida and Fairhurst, 1998; Williams, 1992a, b; Wrigley *et al.*, 2005), the field of international retailing has reached a stage where it is appropriate to re-examine the drivers of, and impediments to, internationalisation and the degree to which retailers standardise or adapt their international business strategy.

Moore *et al.* (2000, p. 923) argue that the value of revisiting the motivators of retail internationalisation:

[…] resides in the fact that it assists in the recognition that the various authors' interpretations of these motivations were, in many instances, bound and influenced by the prevailing trading conditions of the time […]

This argument also holds for the examination of barriers to internationalisation and firms' preferences for standardisation or adaptation. Both issues are inextricably linked to the global business environment, which has altered considerably over the past few years. The maturity of domestic markets and consequent limited growth opportunities, technological advances, geo-political rebalancing resulting in the lowering of trade barriers, the internationalisation of financial markets and a trend towards concentration of ownership in the retail sector have all altered the landscape of international retailing. In view of the fact that the majority of research highlights the importance of external factors in driving international expansion and the potential to adopt a standardised business strategy, it seems timely to examine whether the motivations for and barriers to retail internationalisation and the preference for standardisation or adaptation have changed with the environment.

Conceptual background

Drivers of internationalisation

The motivations or drivers of retail internationalisation have been categorised in various ways including push and pull factors (Alexander, 1997), proactive and reactive motivations (Wrigley *et al.*, 2005) and internal and external drivers (Hutchinson *et al.*, 2007; Vida and Fairhurst, 1998). Push/reactive drivers generally relate to negative aspects of the domestic market, while pull/proactive drivers are linked to attractive aspects of either the retail offer or the foreign market. In general, retail internationalisation drivers have included both internal and external factors including; resources, management interest and expertise, organisational culture, and retail-specific comparative advantage and environmental factors, including size of the foreign market, economic, social, cultural and political conditions in both the domestic and foreign markets, saturation of the domestic market and competitor activities (Alexander, 1997; Alexander and Myers, 2000; Hollander, 1970; Moore *et al.*, 2000; Quinn, 1999; Salmon and Tordjman, 1989; Treadgold, 1988; 1990; Vida and Fairhurst, 1998; Williams, 1992a).

A reactive approach to retail internationalisation was certainly the focus of early research in the field. In commenting on previous research, Alexander (1995, p. 77) notes that “the push factors of the home market were invested with considerable significance and emphasised in the literature”. Based on the traditional assumptions of the Uppsala model of internationalisation it was thought that firms began with a purely domestic focus and then, in response to saturation in the domestic market or unsolicited interest from foreign markets, began to gradually expand (Johanson and Vahlne, 1977; Nordstrom and Vahlne, 1994). This suggests that retailers would only pursue international expansion once they had exhausted all of the opportunities for growth in the domestic market. It is evident; however, that many retail firms, including UK-based firms Debenhams and Tesco, simultaneously pursue both domestic and international growth opportunities. The Uppsala model of internationalisation also suggests that the internationalisation of a firm is an incremental process where firms initially enter markets that are psychically similar and successively expand into more distant foreign markets. This assumption that the psychological proximity of foreign markets to the domestic market dictates expansion decisions has, however, been challenged by the work of Evans *et al.* (2000) and Evans and Mavondo (2002).

While it is acknowledged that domestic market conditions play a role in retail internationalisation, research over the past decade has indicated a growing trend towards the predominance of proactive factors, both internal and external. Alexander (1990) and

Williams (1992a) highlight the importance of such factors as niche opportunities, growth prospects, market size and the uniqueness of the retail offer. Quinn (1999), in a survey of 41 retail firms, found that the size of the overseas market, level of economic prosperity and niche opportunities were the most cited factors driving retail internationalisation. Vida *et al.* (2000) also identify proactive factors in their study of 80 US retail chains. Comparative advantage, in terms of retail concept and logistics, international knowledge, management's international experience, management's attitudes and the retailer's size, were all significant determinants of retail internationalisation. This focus on comparative advantage is consistent with Sternquist's (1997) application of Dunning's eclectic framework to explain retail internationalisation.

More recently, Moore *et al.* (2000) and Wrigley *et al.* (2005) note that for fashion retailers the brand itself can drive international expansion. Moore *et al.* (2000) found that the move from private to public ownership of fashion design houses was related to the funds required to exploit the international potential of their brands. Wrigley *et al.* (2005, p. 540) argue that proactive opportunistic retailers are motivated to internationalise in part by their desire "to complement and enhance the domestic and foreign brand propositions as part of an integrated international marketing strategy". Thus, the uniqueness and desirability of the brand can propel a fashion retailer into new markets. Hutchinson *et al.* (2006, 2007) also identified a strong brand identity as a critical driver of SME retailer internationalisation. The global appeal of the brand motivated senior management to explore the niche opportunities that were present in foreign markets. Other internal motivating factors identified in the Hutchinson *et al.* (2007) study of SME retailer internationalisation relate to the personal characteristics of the founder and changes in ownership. The personality, personal relationships and global vision of the founder of SME retailers were instrumental in the decision to internationalise. Interestingly, a change in ownership facilitated further international expansion for a number of firms. This facilitation was attributed to the acquisition of additional funds and an injection of management knowledge and expertise by the parent company.

It is evident that a growing body of research has identified a wide range of factors as drivers of retail internationalisation. However, in the light of recent changes in the international environment, including geo-political rebalancing in the form of the European Union's expansion to include 25 member states, China's membership of the WTO, a turbulent economic climate following the South East Asian financial crisis, an increase in global terrorism, and significant advances in communication technology; it is important to consider whether the drivers of retail internationalisation have changed. The factors that motivated a retailer's initial expansion decision in the 1980s and 1990s may be different to the factors that motivate a firm to continue expansion through the twenty-first century.

Impediments to internationalisation

The changing nature of the international business environment also calls attention to the impediments to internationalisation. Impediments to international expansion can be categorised into two groups: factors that impede the initiation of foreign expansion and impediments to the internationalisation process. The first group of factors often reside within the firm and relate to a lack of resources, knowledge and foreign market connections in addition to management's attitude to foreign expansion and the perception of risk associated with internationalisation (Salmon and Tordjman, 1989). In the context of SME retailers, Hutchinson *et al.* (2006) identify five barriers to internationalisation: financial commitment, complexity of international markets, market information, brand control and management resources. Many of these factors inhibit SME retailers from seriously considering international expansion as a possible strategic direction.

The process impediments typically refer to more environmental factors. International retail literature has identified such factors as government regulation, economic and political instability, cultural differences, exchange rate fluctuations and distribution difficulties as inhibitors to the rate and/or range of foreign market expansion (Alexander, 1997; Hollander, 1970; Vida and Fairhurst, 1998). The growing body of research in the domain of international retail divestment has also identified a range of factors that impede the process of internationalisation. Building on the work of Benito (1997) and Burt *et al.* (2003) present a framework consisting of four factors that contribute to the failure of international retail operations. Market failure refers to the risk and stability of the foreign market; competitive failure involves the under-performance of the retail operation in comparison to competitors; the inability to transfer operating practices and approaches to the foreign market is termed operational failure and; business failure relates to the domestic market focus that is a result of difficulties in the home market (Burt *et al.*, 2003).

International retail divestment has been particularly linked to difficulties in the domestic market and the consequent focus of management resources. Alexander and Quinn (2002) refer to declining profits in the UK as contributing factors in the divestment decisions of Marks & Spencer and Arcadia in the late 1990s. More recently, Palmer (2004) partially attributes Tesco's divestment experiences to the firm's domestic market focus. Deficiencies in the senior management team, in terms of appropriate levels of experience and a lack of engagement with foreign operations, have also been identified as critical factors in international retail divestment (Alexander and Quinn, 2002; Burt *et al.*, 2002). While the divestment literature primarily concerns itself with retail failure (Burt *et al.*, 2003), the issues that contribute to a divestment decision can also be considered as obstacles to further international expansion. The difficulties experienced in both the foreign market and domestic market may slow down the rate of market penetration and hamper the firm's ability to enter subsequent markets.

It is acknowledged that some factors can both drive and inhibit retail internationalisation. For instance, psychic distance has traditionally been viewed as an inhibiting factor where firms in the early stage of internationalisation are reluctant to enter markets that are different to their domestic market (Nordstrom and Vahlne, 1994). Evans *et al.* (2000) and Evans and Mavondo (2002) suggest, however, that the perception of differences may, in fact, encourage market entry. This is attributed to the desire of retail firms based in competitive and mature markets to seek out opportunities in less developed markets.

Palmer and Quinn (2003) also find that factors can play a dual role. In their study of the role of investment banks in the retailer internationalisation process, Palmer and Quinn (2003) found that financial institutions can constrain the expansion activities of retail firms, but that they may also act as a “catalyst” for internationalisation. This may actually be the case for many factors categorised as either drivers or barriers, yet the extant literature has tended to over-simplify the roles played by both internal and external factors. Moreover, it is expected that the impediments to retail internationalisation will differ in impact and significance over time as the environment changes, organisations grow and managers learn from previous experiences (both good and bad).

Implications for business strategy

Finally, the factors that drive and inhibit retail internationalisation are also likely to influence the business strategy adopted in foreign markets. Given the organisation's resources and capabilities in relation to the dynamic business environment, a firm must decide to what extent its strategy, particularly marketing and operating strategies, will be standardised or adapted. In an international retailing context the degree of standardisation or adaptation refers to elements of the retail offer. Salmon and Tordjman (1989) characterise a standardised or “global” strategy as the duplication of a single store concept across markets. While this may involve some minor forms of adaptation, product, store design, promotion, price and service are consistent around the world. An adapted strategy is also likely to have a consistent concept across markets. However, variations in product, pricing and promotion are more substantial and are tailored to suit the specific conditions of each foreign market (Salmon and Tordjman, 1989). McGoldrick (1998) argues that most retail formats require at least some adaptation of their offer to suit the specific conditions of the foreign market. McGoldrick (1998) is more prescriptive in regard to the elements of the retail offer that can be standardised or adapted to establish a successful position in a foreign market. These elements include merchandise quality, range and fashion, level of services, facilities, layout, atmosphere, location, quality of display, advertising, general reputation, reliability, price and image in general (McGoldrick, 1998; McGoldrick and Blair, 1995; McGoldrick and Ho, 1992).

Research has investigated whether it is more appropriate to pursue a predominantly standardised or adapted strategy (Cavusgil and Zou, 1994; Clarke and Rimmer, 1997; Dupuis and Prime, 1996; Evans and Bridson, 2005; Shoham, 1996). Advocates of a standardised approach argue that the homogenisation of world markets, combined with the advantages obtained through economies of scale and greater operating efficiencies, increase the likelihood that firms will perform better with a standardised strategy. In contrast, supporters of an adaptation approach assert that firms will perform better when they adopt marketing and retailing strategies that accommodate the differences in markets and respond to changes in the business environment (Calantone *et al.*, 2006; Theodosiou and Leonidou, 2003).

A number of studies have examined the factors that affect strategy standardisation and adaptation. Extant literature suggests that the primary factors impeding standardisation are differences in government regulations, consumer tastes and habits, nationalistic sentiments, competition, language and product usage conditions (Boddewyn and Grosse, 1995; Chhabra, 1996). Ozsomer *et al.* (1991) found comparable results in the sense that similar competitive environments, retail structures, target segments and marketing legislation facilitated greater standardisation. More recently, Evans and Bridson (2005) investigated the effect of psychic distance on retail offer standardisation and adaptation. The study reveals that perceived differences in market structure, business practices and language prompted retailers to adapt their offer in foreign markets. Calantone *et al.* (2006) in a three-country study also found that market similarity was associated with lower levels of product adaptation.

While previous research has made substantial contributions to the standardisation/adaptation debate in a quantitative sense, the positivist approach of much of the research has failed to produce consistent findings. For instance, Theodosiou and Leonidou (2003) in a review of extant literature found that only 18 out of a total 43 reported associations between environmental differences and international marketing strategy where significant. Moreover, previous research does not distinguish between the firm's current strategy and its preferred strategy. It can be expected that, as firms acquire more international experience, their strategy preference may also change. There may, however, be a lag effect in the actual strategy change due to infrastructure, production and other resource constraints.

In light of the conceptual background described above, the following research questions are proposed:

R1. What are the primary drivers of retail internationalisation and how have they changed over time?

R2. What are the primary impediments to retail internationalisation and how have they changed over time?

R3. What influences the standardisation and adaptation of a retailer's business strategy and what strategy do international retailers prefer?

Methodology

In order to address the above research questions, an exploratory qualitative study was deemed appropriate. This involved interviewing executives responsible for international business development and international retail operations within selected UK and US retail organisations. The use of qualitative research methods such as interviewing has become established in the retail internationalisation literature, complementing earlier studies which relied on the use of more quantitative methods (Doherty and Alexander, 2006). In this journal, for example, Alexander and de Lira e Silva (2002) used interviewing in their study of retail internationalisation in the Brazilian context. More recently, Palmer and Quinn (2007) have used the same method in their investigation of the divestment activities of Royal Ahold.

In the present study, the two origin countries of the UK and the USA were chosen as they represent two of the major nations involved in retail internationalisation activity. In total, 12 interviews were conducted: seven with UK firms and five with US retailers. The original aim was to interview executives with knowledge or responsibility of international operations in around five-ten US and UK firms. It was felt this would be an adequate sample for obtaining a relatively broad and balanced perspective on the UK-US retail internationalisation scene.

The firms interviewed were principally store-based and operated in a variety of sectors, including grocery, footwear, music, clothing, department stores and toys and games. The firms were chosen to ensure diversity or, within the sample, “maximum variation” (Carson *et al.*, 2001, p. 103). Activity in international markets varied considerably: two US retailers studied were only present in a single foreign market, whilst one UK retailer had experience in over 50 countries. The mode of market entry varied: some retailers had entered via a process of the acquisition of existing retailers; some had developed a network of concessions in other overseas stores; others relied on a process of organic expansion, often through a joint venture process; whilst some had solely a franchising arrangement in operation. It is also important to note that many of the retail organisations studied used a variety of operating mechanisms in the markets in which they were present, combining the strategies mentioned above. However, in such cases, just one of these strategies typically remained the dominant mode of entry. The diversity in the sample, in terms of international activity and strategy, is representative of the wide range of strategies employed by international retailers around the world. There is certainly no dominant scale of operation or mode of entry present in the international retail sector. The key characteristics of firms involved in the study and their representative interviewees are highlighted in Table I, although it should be noted that details within this table have been kept at a “broad brush” level in order to preserve anonymity.

The interviews that were carried out were in-depth and semi-structured in nature and all were tape-recorded. On average, interviews lasted for 45 minutes. The in-depth nature of the interviews has the benefit of “[using] open, direct, verbal questions that elicit stories and case-oriented narratives” (Miller and Crabtree, 1999, p. 93). A semi-structured approach to interviewing was considered to be the most appropriate one, as it allows a “tighter” more closely focused discussion to take place (Robson, 1993). Following Bryman (1989) and Keats (2000) a schedule of pertinent themes was drawn up but it was recognised that departures from this were probable. This type of interviewing is beneficial as it “(encourages) respondents to express experience, attitudes, needs and ideas” (Wright, 1996, p. 59).

Indicative themes included a review of the history of the firm's international activities; reasons for both entering and not entering foreign markets; problems that had been encountered; entry mode experiences; strategy standardisation and adaptation decisions and performance in foreign markets.

Analysis of the data were carried out using content analysis techniques, which involved the identification of key themes and the illustration of these through selected excerpts and quotations. The exact sources of these quotations are attributed via case letters (refer to Table I for characteristics of the case) while preserving anonymity. Data were "revisited" on occasions subsequent to the initial analysis, in order to gain further in-depth picture of the themes and topics (Robson and Hedges, 1993). No distinct patterns or themes emerged that could be linked to the country-of-origin of the firm.

Findings

Drivers of international expansion

The drivers behind the decision to expand into foreign markets are not simply down to a desire to increase profits, although as shown below, this is in itself one important motivator for many companies. For a number of retailers studied, the reasons for international expansion are indeed multi-factorial and have changed over time. Profit growth, domestic market saturation, exploitation of core competencies and unsolicited foreign orders emerge as the most dominant drivers. However, corporate vision, pursuit of global efficiencies and competitive response are also identified as critical drivers of internationalisation.

Many retailers interviewed characterised their initial decision to internationalise as quite opportunistic and *ad hoc.* One interviewee, who worked for a department store retailer, described how the internationalisation process in one foreign market was in part set in motion by an unsolicited approach by a leading foreign retailer:

I would love to tell you that it was a strategic move, but it wasn't. It was a phone call from a leading retailer in the Middle East. He made a call to us and we thought, "hmm, why not, let's try it" […] so it wasn't strategic at all (Case E).

Another retailer, with a presence in over 50 countries, described how the initial trigger for internationalisation was simply the fact that the company's owners "were overwhelmed by the number of people who wanted to carry their product in other countries (Case D)". All of the firms that identified this opportunistic approach to internationalisation also discussed how this had evolved into a much more strategic decision. This is typified by the comments of one US-based interviewee:

So it was basically just why not? That was when this company was not […] it didn't have a strategic plan. It was very *ad hoc.* So, in the years to follow there's been more of a strategy towards international expansion but really […] that whole Asian thing was you know unplanned, unthought-of. It was one of those things that entrepreneurial companies did (Case K).

As part of this more recent strategic approach to internationalisation, many retailers interviewed looked to their core competencies to drive their expansion decisions. One UK retailer explained how important its core competency was in the decision to further expand internationally: "what you have to understand is what is your core competency? Our core competency, we believe, is to have a global brand (Case B)". Other retailers were motivated to continue their expansion by the successful transferability of their core competencies:

You've got a vehicle that can transfer because it's got those USPs if you like, it's got its own brands, and it's got healthy margins […] Well if you look at our core competency, this is my personal view, our core competency is department store retailing, managing big space. So why go into small space or acquire something? So the other option is you go internationally (Case C).

What has been described above might be characterised as positive pull factors in the internationalisation process, which entice a retailer to grow the business away from its home market. The most commonly cited driver of international expansion, profit growth, cannot, however, be neatly classified as a push or pull factor. For some retailers this was quite a proactive driver with one US-based specialty retailer stating that:

You have to have growth. You have to keep growing every single year to get penetration […] If you've got positive build in stores on a sales basis every year, you're naturally going to take and bring in market share (Case J).

Another US specialty retailer that operates a franchise model demonstrates what a pull factor growth can be:

When you have a franchise business, typically 40 cents to every $1 of royalties goes down to the bottom line […] It supports our growth here. It helps fund our core operations. It has to be a profitable venture and it is. We kill two birds with one stone. We have international expansion and we have money (Case K).

For other retailers, growth was closely related to the more traditional push factor, namely saturation of the domestic market. An interesting point to note about this driver is that saturation of the domestic market was in some cases real, but in others it was more a perception or expectation. For instance, one UK-based specialty retailer argued:

If you're in a business where you've been around a certain time, if you're in a market that has reached its full potential, you've got just about as many stores in the country as is economically viable, it's a no-brainer to then look past your coastal shores and think well where else could we put ourselves? (Case G).

Another UK retailer explained how their desire for growth through international expansion was based on the perception of market maturity, rather than the reality of continuous domestic market opportunities:

We kept saying, “we're mature and can't grow anymore in the UK” though every year we do grow, but despite that the impression left is that if we can't grow anymore in the UK, let's try and grow overseas (Case C).

While profit growth, domestic market saturation, core competencies and unsolicited foreign orders were the most dominant drivers to emerge from the research, other factors were identified as important drivers for some retail sectors. For instance, one US specialty retailer was motivated by the company's vision: “We do want to be a worldwide brand and one way of doing that is by store presence in a number of different countries, obviously (Case K)”. For another US specialty retailer, the product's life-cycle stage was highlighted:

The maturity of the business itself on a world wide basis has allowed us to take advantage of that and grow internationally. It would probably be much harder if it was a very mature business and you had to go in and break down the barriers of how it was commonly being sold in those markets (Case I).

One UK-based retailer was motivated by the efficiencies that international expansion afforded:

It is extending our reach at a very low cost which over time will become something much bigger, whilst at the same time creating a platform for our supply chain where we can exploit the benefit of the international business and the UK business (Case D).

Finally, there was a strong sense that, for some retailers, international expansion was a response to competitor activities. One interviewee stated that:

I think actually at the time a lot of companies domestically were going international […] starting to get their international business up and running so we were kind of following that (Case H).

Thus, it is evident that while the motive of profit growth is still a dominant driver of retailer internationalisation, the issue is not as simple as previous research suggests. Profit growth is somewhat of an all-encompassing term, but the findings of this exploratory study indicate that future research may need to disaggregate this factor. This is also the case for domestic market saturation.

Impediments to international expansion

In any discussion of retail internationalisation, it is perhaps as important to query why companies do not embark on foreign ventures or what slows their expansion, as it is to question why they do. The nature of this study, in that it focuses solely on retailers that had an international presence, makes this a more difficult question to answer. Nevertheless, various interviewees provided insights as to what has impeded their international expansion. The regulatory environment, domestic market conditions, past experiences, resource commitment, core competencies and issues pertaining to cost and competitiveness were all identified as impediments to international expansion.

While there was no one dominant factor identified in the analysis of the interviews, two issues dominated the interviews. The first factor centred on the issue of market attractiveness. For a number of interviewees, the regulatory environment and, in particular, the lack of intellectual property protection was a critical barrier to market entry. As one US-based specialty retailer noted:

We also tend to follow where the protection of international property laws are well established. That was a bit of a challenge we had in Korea and there's certainly many other markets in the world that aren't ready for our particular business yet (Case I).

Another US retailer discusses how the regulatory environment does not necessarily deter them from entering a foreign market, but does slow the process of internationalisation:

The biggest impediment that we have to our growth is the product registration area. You have to have an array of products that really service that self-help care need […] and to that end it takes a while to register all those products so that you can then have, you know, a whole store. And that's the reason it takes us so long sometimes in establishing this business […] (Case J).

The second issue to be identified as a significant impediment to further international expansion was the conditions in the domestic market. Just as saturation and market maturity can push a firm into foreign market, untapped opportunities and further growth potential can dominate a retailer's strategic focus. A US retailer with a foreign presence solely in Canada, for example, cited the need to concentrate on building awareness of the brand firstly in North America: “We don't have an international expansion plan at this point in time. We are a rapid growth company and we have tremendous opportunity in the US.” Another US-based retailer highlighted the scale of their domestic operations as an impediment to foreign expansion: “The thing is, when you have 600 stores here domestically, on the North American continent, you know, this is where the majority of your focus is (Case H).” For a UK specialty retailer, the domestic market demanded most of the firm's attention because of the challenging competitive landscape:

So it's a very price competitive market which doesn't suit us, I mean obviously, when you are trying to make your profit out of a business that major retailers use as a loss leader, it is very difficult to make a lot of money […] So, I wouldn't say for my business at the moment that international expansion is a top priority. In fact, I would say that it was not a top priority (Case F).

It must be noted that this issue was more prevalent in the US interviews. This may be due to the relatively large size of the US market, which suggests that it may take longer to reach maturity and saturate the US market in comparison to the UK.

While the regulatory environment and the conditions of the domestic market were the most commonly cited impediments to foreign expansion, a number of other important factors were cited. As stated by one UK specialty retailer, “I don't have a blank piece of paper. I've got 20 years of baggage (Case B).” A firm's previous decisions and experiences are clearly seen as an impediment to future expansion, which is reinforced by the comments of one US interviewee:

It's always a hard argument to make, especially when you see the big losses that we've had in the UK and Ireland in the last five years (Case H).

Much of this history or “baggage” is linked to the entry strategy choices that were made. One US retailer noted that the firm's historical model of expansion via franchising was impeding future international growth: “Finding the right partner is really what we grapple with all the time” (Case K); whilst a UK retailer's further penetration of foreign markets that were entered over the past 20 years was hampered by existing contracts:

It grew very much on an entrepreneurial basis, so the franchise contracts are not as, I'll say it, “tight” or consistent from market to market […] And I think it is the detail of what each other will and will not do that has caused us some challenges (Case B).

Other perceived impediments related to the firm's commitment. For one US retailer international expansion was inhibited by a lack of resource commitment:

At one point in the company back in 1997/98, when they started there was a huge team here of about 20-30 people focused just in international. And now we have very little resources dedicated. It's kind of a side job for a lot of people. And so internally we just haven't dedicated resources to that business (Case H).

For another UK retailer the lack of commitment was more of a management issue:

Working for an entrepreneur you tend to find that he's very excited about one thing at one time and then he moves on to something else, so the old thing gets left behind and I think that sometimes some of our retail businesses might have suffered because there was a lack of attention, because there was another priority (Case F).

This issue of commitment is closely tied to a perceived lack of necessary competencies for international expansion. For one US retailer, the firm did not believe that they had the necessary systems in place to internationalise with ease: “while our products are new and innovative and creative, our infrastructure is somewhat antiquated (Case L)”. Another US interviewee cited the lack of internationally experienced managers in their firm as a reason why further foreign expansion was not prioritised:

I'm fortunate because I have now had a couple of years and now know the UK market a bit better. But other than me in this company there's really not anybody else here […] and as a result people feel safer going after US business (Case H).

The research also identified the cost of internationalisation as a major barrier. For some retailers the extra costs inherent in the internationalisation process were perceived to outweigh any potential benefits, with the following quote indicative of the general viewpoint:

Once you go international, there's a whole host of costs that aren't in the UK model. So you've got shipping, insurance, extra warehousing. You've got another party to pay […] and the danger is your cost prices can start going up. The moment that your cost prices are not in line with the local market, you're heading down a very tricky road (Case C).

This quote typifies the concerns that a number of retailers had regarding their competitiveness in the foreign market. Because of the resource commitment required, retailers had to be convinced that they would be positioned competitively in foreign markets. One UK grocery retailer stated: “So, you've got to make sure that with that core skill set internally we can make it work, add value and be competitive wherever we are (Case C).” The concerns about cost and competitiveness were heightened by an increase in the perception of market instability and risk, as illustrated by the following quote:

The changing nature of the world post-September 11th. It's a riskier environment now. That certainly impacts on things […] I think that you're likely to see less new market entry and greater expansion within existing markets. Because you know the risks in the markets that you're in and often you've got formed networks and a very good track record. By entering a new country those risks are much much higher (Case C).

Business strategy

All of the respondents experienced a degree of both standardisation and adaptation of their business strategy. Factors encouraging standardisation related to economies of scale, management's global orientation and the desire for a consistent global brand image. In contrast, adaptation was influenced by the perception of cultural differences. Inextricably linked to the standardisation/adaptation decision are the structure of decision-making in the firm and the extent of management's international experience. In general, retailers expressed a strong desire to increasingly standardise their business strategy. The comments from one UK-based interviewee exemplify this widely held view: “We need to be more consistent around the world. Our price variation, our brand variation […] we think it varies more than it should (Case B).” This focus on standardisation is driven by a perception that standardisation is desirable “because of all the economies of scale and the syncopation of the message (Case D)”. Moreover, standardisation is, in part, facilitated by the management's global orientation. Does the senior management team view the world from an ethnocentric orientation, as in the case of the following interviewee?:

At the end of the day, customers are very similar around the world. They have their little nuances, but there's a lot in common and I think it's about focusing on what's in common and where they are, what they do have in common (Case G).

In contrast, management may have a more polycentric or regiocentric view and recognise the need to be culturally sensitive when imposing a business strategy across all markets:

There's a danger for all businesses to assume that the world is becoming internationalised and you get this “people like us” mentality; the world's the same wherever you go. Because when you travel, you travel in a Western envelope, that the Holiday Inn in Tokyo is the same as the Holiday Inn in St Petersburg […] The people are very different, particularly in Japan, where people operate on two levels. There's the Western veneer and then there's the real Japan underneath (Case D).

In general, at the heart of each firm's desire to standardise their business strategy was a strong focus on creating a clearly positioned global brand. One UK specialty retailer stated:

We're moving to kind of trying to establish a much more clear and consistent global brand positioning image and that's driving an awful lot of our decision-making (Case A).

With this in mind, a number of retailers expressed a view that they needed to focus on standardising those aspects of the business that were central to the brand's identity:

But there's a core and we're not negotiable on this. In terms that they have to offer the core beverage and the core food items, things like that. They're not negotiable. So we look at our brand and we say what is core and what is not. We insist on the core and the periphery they can culturally change (Case K).

It is clear from the interviews that the standardisation/adaptation decision is not as simple as identifying what you can standardise and adapting only what you are obliged or legally required to. The need to adapt aspects of the firm's business strategy was, in fact, driven more by a perception of cultural differences than any regulatory imposition. Many interviewees were able to recount highly detailed and rich examples of their cultural adaptation. For example, one interviewee explained how “three for the price of two” deals had been unsuccessful in Japan, because of a premium on household space. Accordingly, they had adopted a promotion there of “bring in your old lipstick and we shall give you a new one free (Case D)”. As the interviewee explained:

Because the Japanese understand recycling better than most, it was something they really latched on to. We've not repeated it anywhere else, because culturally it wouldn't work anywhere else (Case D).

In Thailand, this same retailer had identified Thais that, “do not like empty stores because they do not like silence (Case D)”. Accordingly, they adapted the in-store environment by deciding to develop in their Thai stores only a system of suspended television screens which played pop videos.

In some cases, however, the cultural, religious and regulatory environment are inextricably linked, as one UK retailer operating in the Middle East noted:

You cannot have photographics used. A lot of our business is based on photographics, so you'll see lingerie shots of a very attractive Penny Lancaster in a beautiful two-piece; you can't use those because its body forms. You can't show photographs of any human form over the age of puberty in Riyadh, Saudi Arabia. You can't have dressing rooms, so how do you try things on? You've got lots of clothes going out of the store and coming back in again (Case E).

Finally, the business strategy decision appeared to be influenced by two key organisational factors: the decision-making structure and management's international experience. Firms with a decentralised decision-making structure, where the foreign subsidiaries operated under a degree of autonomy, demonstrated a stronger preference for local adaptation:

Other than at board level, operational control is all within the countries […] less than 1 in 1000 of our overseas staff are expats […] And their role is again not so much about operationally managing the business, the day-to-day business, it's coaching, it's developing it's sharing and developing those learnings. So, we're relatively decentralized. We would argue that's critical (Case C).

In contrast, a common approach was to centralise strategy decision, but allow the foreign subsidiaries to “tweak” the execution:

If we take a look at marketing, what we would say is, we would like the creative part of marketing to be done in the centre, as it reflects the brand, then we would like it to be executed and tweaked by region, as it should be, to reflect the consumers around the world. I am not looking for the brand to be creatively interpreted in four different regions (Case B).

The second key factor is the experience and, somewhat, the personal characteristics of the senior management team. One interviewee from a US specialty retailer commented on the profile and experience of their management team:

We were franchisees and we were all based out of Singapore and a whole bunch of us came here to work, so we really are sympathetic to the fact that local circumstances just plainly and simply are different […] we have to be very sympathetic to local cultures, local languages and local circumstances. If we don't do that we'd never be able to be successful (Case K).

It is clear from this case that the personal experiences of the management team were shaping their international business strategy. It is possible to suggest, therefore, that an internationally experienced manager will recognise the unique needs of the foreign market and will adapt the retail offer accordingly.

Conclusions

The findings of this study enrich the literature on retail internationalisation in several ways. First, the study confirms the findings of previous research in the sense that no one factor drove the decision to internationalise. All of the interviewees mentioned at least two factors when explaining what motivated the firm to internationalise. Second, and perhaps more importantly, the findings reveal a concerted move away from internationalising in response to unsolicited foreign interest. Many of the interviewees recognised the *ad hoc* nature of their initial foreign expansion decisions and that they were now driven by a strong focus on the transferability of their core competencies. The early experiences of the interviewees are consistent with the traditional view of international expansion expressed in the Uppsala model (Johanson and Vahlne, 1977; Nordstrom and Vahlne, 1994). In contrast, the new strategic focus is similar to Wrigley *et al.*'s (2005) characterisation of proactive opportunists. Moreover, the evolution of the firm's approach to retail internationalisation supports Palmer and Quinn's (2005, p. 27) assertion that “from these experiences, important insights and lessons have been learned to develop and subsequently avoid previous mistakes and undertake a successful route to internationalization”.

Despite this new strategic focus, the primary driver of retail internationalisation identified in this study was profit growth. While growth has been acknowledged in previous research

(Alexander, 1990; Williams, 1992a) as a significant pull factor, the findings of this study reveal two important underlying factors to this somewhat all-encompassing driver. For some firms, growth through international expansion was prioritised in response to saturation of the domestic market. However, other interviewees viewed international growth as a part of their proactive business philosophy of continuously seeking out new opportunities for increased sales and scale efficiencies. This finding relates to the classification of international fashion retailers by Wrigley *et al.* (2005). The first part is indicative of the short-term profit fixation of a reactive opportunist, while the second part reflects the long-term planning approach of a proactive opportunist. Thus, profit growth can be both a proactive and reactive driver of retail internationalisation.

In terms of the impediments to retail internationalisation, the findings confirm that barriers to the initiation of internationalisation often reside within the firm. A lack of management and resource commitment, combined with limited international managerial experience and insufficient infrastructure, prevented some firms from expanding into more than one or two foreign markets. Moreover, this research adds new insights into initiation barriers with domestic market conditions emerging as the most dominant initiation impediment. Both unexploited opportunities and competitive challenges dominated the strategic focus of some firms to the extent that they could not pursue foreign market opportunities.

Internationalisation process barriers were also identified in the internal and external environment. Regarding the external environment, it was surprising that the relative economic and political instability of many international markets was not identified as a major barrier to foreign expansion. Rather, the regulatory environment emerged as a critical factor in the sense that it both deterred entry into certain markets and impeded the process of establishing foreign market operations. Thus, for some retailers, particularly those offering goods susceptible to counterfeiting and piracy, the lack of transparent and readily enforced intellectual property legislation was the primary barrier to internationalisation. This finding supports Evans and Mavondo's (2002) assertion that the appealing summary nature of psychic distance as a construct underestimates the contributions of the various dimensions. The findings from this exploratory study do suggest that some environmental factors have a stronger impact on internationalisation than do others.

Similar to profit growth, international experience is often highlighted in extant literature, but is discussed in a general manner (Alexander and Myers, 2000; Vida and Fairhurst, 1998). The most dominant internal process impediment related to two specific aspects of the retailer's international experience. The first was referred to as “baggage” in the sense that the current management had inherited problematic contracts and markets that made further penetration of existing foreign markets and movement into markets within the same region difficult. The second aspect of the firm's international experience related to the performance of operations in existing foreign markets. Managers found it difficult to gain commitment from the Board to fund further international expansion when some foreign markets had performed poorly or taken a substantial amount of time to demonstrate an acceptable return on investment. This finding reinforces Burt *et al.*'s (2003) argument that incorporating aspects of failure in international retailing is critical to any discussion of retail internationalisation.

This study also contributes to the standardisation-adaptation debate. Standardisation and adaptation are viewed as two extremes on a continuum, with most companies adopting a strategy somewhere between the two polars (Whitelock and Pimblett, 1997). The findings of this study are consistent with this conceptualisation of standardisation. None of the retailers interviewed adopted an entirely standardised strategy across all markets or a purely adapted business strategy. While advocates of standardisation often highlight the economies of scale advantages, the interviewees focused on the consistency of brand image and global positioning that were afforded by a standardised business strategy.

Adaptation was also a strong feature of the globally standardised branding strategies pursued by many retailers. For some retailers the focus was on controlling the elements of the retail offer and marketing strategy that were core to the brand's image, but allowing foreign subsidiaries to adapt minor aspects of the strategy. Other interviewees emphasised standardisation of the brand's message, whilst allowing foreign subsidiaries to determine the most appropriate execution strategy for their market. This is consistent with research by Ozsomer and Simonin (2004) who found support for a strong association between centralization of marketing decisions and standardization of marketing strategy. Where retailers did adapt elements of their business strategy, this was often done so in reaction to strategies that had failed. A number of retailers had implemented standardised marketing strategies that were found to be incompatible with the culture in the foreign market. Through such experiences, managers became more culturally aware and recognised the importance of researching cultural norms, customs and lifestyle factors in each foreign market. This challenges the findings of Evans and Bridson (2005), who did not find a significant relationship between cultural distance and retail offer adaptation. It may be that the true nature of this relationship is revealed only through the sharing of specific experiences.

In terms of managerial implications, the study provides a number of lessons particularly relevant to newly internationalizing firms. First, many interviewees characterised their initial decisions to internationalise as quite *ad hoc.* However, it was such decisions that also created strong obstacles to further internationalisation. Problematic contracts and markets often impeded further expansion attempts both within existing markets and into new markets. The key issue today for many retailers is a more strategic focus on the transferability of the firm's core competencies. Second, as part of this strategic focus transferability of a consistent brand image is at the heart of the standardisation-adaptation issue. In the past retailers tended to concentrate on what aspects of their strategy they should standardise or adapt in response to specific conditions in each foreign market. Insights from our interviewees suggest that it is more beneficial to identify what aspects of the retail and marketing strategy are core to the brand's identity and what aspects foreign subsidiaries can tailor to the local market.

While our research has provided additional insight into retail internationalisation, the research is limited by the number and composition of participants. Further research could extend the study to a wider sample of international retail firms across a range of countries. In addition, the study relied on the key informant method. The perceptions of one senior executive from each firm were assumed to be representative of the organization as a whole. While this approach has also been adopted in previous studies, we recognize that there may be some variation in the perception of drivers and barriers to internationalisation within the firm. Thus, future research could attempt to survey multiple executives within an organization to ascertain a more holistic view. Finally, this research reveals a number of underlying factors to some all-encompassing terms. Future research can utilize these exploratory research findings as a basis for measurement development in a more generalisable empirical study.

Case letter	Origin country of study firm	Core retail sector of study firm	No. of countries in which present[a]	No. of outlets worldwide (range)	Main mode of entry[b]	Position of interviewee
A	UK	Footwear	23	501-1000	Organic growth	Marketing director
B	UK	Cosmetics	50	1,001-2,000	Store franchising	Chief executive
C	UK	Grocery	14	2,001-3,000	Acquisition	Senior executive
D	UK	Cosmetics	16	2,001-3,000	Concessions	Senior executive
E	UK	Department stores	16	1-500	Territorial franchising	Senior executive
F	UK	Music	10	1-500	Territorial franchising	Finance director
G	UK	Toys and games	15	1-500	Territorial franchising	Senior executive
H	USA	Clothing	2	1-500	Organic growth	Senior executive
I	USA	Toys and games	15	4,001-5,000	Organic growth	Chief financial officer
J	USA	Pharmaceuticals and nutrition	40	5,001-6,000	Store franchising	Senior executive
K	USA	Coffee shops	15	1-500	Territorial franchising	Senior Executive
L	USA	Homewares	2	501-1,000	Organic growth	Senior Executive

Notes: [a]This figure includes the home country of the retailer in question; [b]in some cases this is not the only mode of entry

Table I. Key characteristics of study firms and representative interviewees

Table I*Key characteristics of study firms and representative interviewees*

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