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## Conceptual Framework of Reverse Retail Internationalization: From the Perspective of Retail Innovation and Retail Format\*

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### Abstract

**Purpose** - The purpose of this study is to establish a conceptual framework to explain the mechanism of internationalization behavior being used by recently established retailer in emerging countries.

**Research design, data, and methodology** - The existing research on retail internationalization has focused on global retailers located in advanced countries which have expanded their business to emerging countries. That is, "internationalization from top to bottom". However, recent years have seen a reversal in this trend, resulting in the emergence of "internationalization from bottom to top" by retailers based in emerging economies. In order to explore this reversal, this study attempts to develop a conceptual framework based on the theories of "innovation" and "retail format".

**Results** - This study found a conceptual framework which was adopted both a concept of "formula" derived from the theory of retail format and a concept of "production and process innovation" derived from the theory of innovation as a core concept.

**Conclusions** - The conceptual framework provided an understanding of how retailers in emerging countries have gained a competitive advantage over retail companies based in countries with advanced economies. It suggested that innovation that gave these companies a competitive edge was caused by competitive interaction which allowed them to expand to overseas markets.

**Keywords:** Retail Internationalization, Reversion Innovation, Retail Competition, Retail Innovation, Retail Format.

**JEL Classifications:** D30, L81, F23.

### 1. Introduction

The phenomenon of retail internationalization has been the focus of research since the latter part of 1980s with many studies conducted until now. However, current theoretical research studies have not yet caught up to the pace of vigorous change observed in the retail markets. The latest trend is the internationalization of retailers from emerging economies. Existing research themes on retail internationalization have focused on a set of behaviors of an

advanced, but not yet global retailer initially entering an economically advanced country and then strategically expanding to an emerging economy. Therefore, conventional theories surrounding retail internationalization were based on the behaviors of so-called advanced international retail companies - that is, "internationalization from top to bottom".

However, recent years have seen a reversal - an emergence of "Internationalization from bottom to top". Retailers based in emerging economies, which were once the domain of advanced global retailers, are themselves becoming innovative and more global by entering into target markets of neighboring countries. In some cases, the trend is that these local retailers from emerging economies have been successful in launching their businesses in advanced countries. This phenomenon transpires as a result of the competitive interactions between local retailers in emerging countries and global retailers already advanced in such local markets, resulting in comparable competitive advantage.

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Conventional research studies have yet to address and further pursue this phenomenon.

This article engages with newborn retailers in emerging economies, treating them as being new innovative international entities and aims to establish a conceptual framework to elucidate the behavior mechanism of new entrants in the global arena, which we argue is completely different from that of conventional advanced international retailers.

## 2. Recent trends observed in retail internationalization

Retail internationalization started with the internationalization of a manufacturer's strategy and has become a core growth strategy for retailers. It was generally assumed that it was not possible for retailers to internationalize because of their inherent characteristics.

<Table 1> Top 10 retailers worldwide, 2012

	Name of company	Country of origin	Retail revenue (US \$mil)	Countries of operation	% Retail revenues from foreign operations
1	Wal-Mart	U.S.	469162	28.0	29.1
2	Tesco	U.K.	101269	13.0	33.5
3	Costco	U.S.	99137	9.0	27.6
4	Carrefour	France	98757	31.0	54.0
5	Kroger	U.S.	96751	1.0	0.0
6	Schwartz Unternehmens Treuhand KG	Germany	87236	26.0	57.7
7	Metro	Germany	85832	32.0	61.6
8	Home Depot	U.S.	74754	5.0	11.2
9	Aldi	Germany	73035	17.0	59.2
10	Target	U.S.	71960	1.0	0.0
Top 10			1257892	16.3	32.3
Top 250			4287587	10.0	24.3

Source: Deloitte (2014)

<Table 1> lists the retail sales of the top ten retailers as of the 2012 world ranking. All the companies are very active global players apart from Kroger in fifth place and Target in tenth place, American companies only operating within their home country. As the biggest retailer in the world, Walmart, has stores in 28 countries with sales from foreign countries representing 29.1% of its total sales. The share of retail revenues from the foreign operations of Costco and Home Depot are 27.6%, 11.2% respectively, therefore the overseas operations of US companies is not so high. However, the sales revenues of European retailers exceed the USA. Tesco, for example, has 33.5% of total sales outside its

home country, Carrefour has 54.0%, and Metro in Germany has 61.6%. Moreover, the share of foreign sales of the top ten companies is around 32.3%, and with the top 100 companies having a 24.3% share of foreign sales. It is clear that the internationalization of top retailers is very high.

<Table 2> The ratio of domestic companies

	% single country operations
Top 250	36.8
Africa / Middle East	0.0
Asia / Pacific	45.0
Japan	53.8
Other Asia / Pacific	28.6
Europe	19.5
France	0.0
Germany	11.8
U.K.	21.4
Latin America	33.3
North America	50.0
U.S.	48.2

Source: Deloitte (2014)

<Table 2> shows the ratio of single country operations by area, with the data produced from the same database as <Table 1>. From this, we can ascertain that 36.8% of the top 250 companies are solely domestic players. It is also noteworthy to point out that around half of the companies in the US are not international and the level of internationalization is lower than the Asia/Pacific region.

<Table 3> The change in the foreign sales ratio by operating area

	% retail revenue from foreign operations	
	2007	2012
Top 250	21.3	24.3
Africa / Middle East	12.5	23.2
Asia / Pacific	12.3	12.6
Japan	10.0	7.7
Other Asia / Pacific	-	19.4
Europe	35.1	39.1
France	35.3	44.4
Germany	41.8	44.9
U.K.	19.0	22.4
Latin America	9.9	23.1
North America	11.8	16.1
U.S.	11.7	15.6

Source: Deloitte (2009); Deloitte (2014)

From <Table 3> we can understand how the ratio of foreign sales of the top 250 companies has changed over the five years between 2007 and 2012. There has been

around a 3% increase over these five years with the exception being France, where the internationalization has increased from 35.3% to 44.4%, whilst European companies as a whole have been the leaders with 39.1% sales overseas. As mentioned previously, internationalization is not a typical behavior for retailers, but is a normal and indispensable growth strategy.

Research studies of retail internationalization have progressed in line with the dramatic development of retailers. Studies initially focused on comprehending the actual status of retail internationalization, and later, the research topic moved to analyzing how and why retailers internationalized. Thereafter, the research shifted from a static to a more dynamic approach in order to make clear the internationalization process. During the mid 2000's, the research focus shifted to the fragmentary phenomenon surrounding internationalization such as international retail franchising or retail divestment, but such studies have failed to comprehend the international phenomena as a whole (Swoboda, Zentes, & Elsner, 2009).

<Table 4> Internationalization of leading retailers

	N. of countries	Share of stores overseas (%)	Share of sales overseas (%)
Wal-Mart	27	55.5	55.8
Tesco	12	53.8	31.0
Carrefour	34	52.7	55.0

Source: Carrefour (2013); Tesco (2013); Walmart (2013)

We can, however, ascertain a common factor linking past retail internationalization studies, which is, that the research focus has been on retailers operating in advanced countries like Europe, USA, and Japan. <Table 4> lists the leading international retailers that were the focus of these research

studies. The share in overseas stores of these three retailers is over 50% and the share of sales is also over 50%, except for Tesco. Therefore, retailers in advanced countries have been representatives of retail internationalization and researchers have focused on their development.

Studies in retail internationalization have analyzed many aspects of internationalization, in particular case studies looking at the behavior of these retailers in global markets. Such research stems from the fact that internationalization occurs because leading retailers have their origins in Europe and USA. Therefore, the output from such studies originated from analyzing the international behavior of leading European and American retailers since the logic of retail internationalization was intrinsic to them.

However, the situation is now changing. Internationalization is not being led by increasing numbers of western retailers. In other words, retail internationalization is not solely peculiar to retailers originating from advanced countries. Watsons for example, a drugstore operating mainly in Hong Kong, has around 10,800 stores in 25 countries(10 countries in Asia). Charles & Keith a specialty store in Singapore, dealing with bags, shoes and accessories operates with 382 stores in entire Asia having only entered into Indonesia in 1998, it has already entered Africa and the ratio of foreign stores has now reached 92.4%.

Other companies include, the Central group in Thailand, who entered China in 2012, operating with 15 stores abroad, and Dairy Farm based in Hong Kong, entered 11 countries including Hong Kong and Macau with multi retail formats (see <Table 5>). These retailers are all Asian, but this new trend is not limited to Asia.

<Table 5> Formats and Countries Operated by Dairy Farm

	Store Name	Country name					
Supermarket	Wellcome	Hong Kong	Taiwan	Philippines			
	Cold Storage	Singapore	Malaysia				
	Giant	Malaysia	Indonesia	Singapore	Brunei		
	Hero	Indonesia					
	Market Place	Hong Kong	Taiwan	Malaysia	Singapore		
	Mercato	Malaysia					
	Olivcer's	Hong Kong					
	Three Sixtry	Hong Kong					
	Rus Tan's	Philippines					
	SHOPWISE	Philippines					
Hypermarket	Lucky	Cambodia					
	Giant	Malaysia	Indonesia	Singapore	Brunei	Vietnam	
	Convenience stores	Hong Kong	Singapore	China	Macau		
	Health % Beauty	Mannings	China				
	Home furnishings	Guardian	Malaysia	Indonesia	Singapore	Vietnam	Cambodia
		IKEA	Hong Kong	Taiwan	Indonesia		

Source: Dairy Farm (2013)

<Table 6> shows Cencosud in Chile, is operating multi formats in multi countries near its home market. The ratio of stores overseas has increased to around 68.7%, and this number has already exceeded Walmart, Tesco and Carrefour.

<Table 6> Number of stores by formats in Cencosud SA (Chile)

	Chile	Argentina	Peru	Brazil	Colombia	Share of stores overseas (%)
Supermarket	187	269	73	221	100	71.2
Hypermarket	37	21	14	-	-	48.6
Home improvement	32	48	-	-	9	64
Department store	77	-	6	-	-	7.2
Shopping center	25	18	3	-	2	47.9
Total	358	356	96	221	111	68.7
Year of entry	1960	1982	2007	2010	2007	

Source: Cencosud SA (2013)

<Table 7> shows the development of Falabella in Chile in South America.

<Table 7> Share of overseas activities of Falabella (Chile)

	Department store		Home improvement		Supermarket	
	stores	sales (m \$)	stores	sales (m \$)	stores	sales (m \$)
Chile	44	2246	83	33240	49	1036
Peru	24	944	25	576	43	962
Colombia	15	623	33	1346	-	-
Argentina	11	606	7	227	-	-
Brazil	-	-	57	354	-	-
total	94	4419	205	5743	92	1998
Share of overseas %	53.2	49.2	59.5	43.6	46.7	48.1

Source: Falabella (2013)

This type of phenomenon, i.e. the diversified trends, observed in retail internationalization leaders is relatively new in the internationalization behavior of retailers. This suggests that retail internationalization is no longer the sole growth strategy of European and US retailers. This trend also suggests that local retailers in home countries are now transforming their market position and entering the overseas market, which were once the domain of European and US retailers that entered aggressively. This signifies a transformation of local retailers in emerging countries who are now targeting the overseas markets. We refer to such a trend as, "Reverse retail internationalization". This

phenomenon challenges the current mindset surrounding retail internationalization studies accumulated up to now.

### 3. Retail internationalization studies

#### 3.1. Retail internationalization phenomenon

This article aims to clarify current studies by briefly investigating existing research work dedicated to retail internationalization up until now. European and US retailers progressively entered the overseas market during the latter part of 1980s. Initially, companies entered only neighboring countries and expanded gradually to countries far from the home country, and different both from a cultural and geographical point of view. Here, it is well known that several emerging countries in Asia became the target of such retailers because of their promising market growth potential. Research investigations on retail internationalization have thus been undertaken in a pursuit of this phenomenon.

Entry into the overseas market by retailers impacted remarkably on retail researchers at that time. The reasoning behind this was that it was believed retailers were vegetative in nature whilst manufacturers had animal-like instincts (Mukoyama, 1996). The management of retailers with stores at the end of distribution channels is deep-rooted in certain locations.

Some cases suggest a good deal of vegetative management, only served by continuous support from local customers over several hundreds years or over several generations. Therefore, none of the retail research studies can doubt the fact that retailers are environmentally friendly industries. Business expansion of retailers into an overseas market was a phenomenon that betrayed this fact.

Greater and more dynamic research has since been undertaken in the pursuit of gaining a better understanding of the internationalization phenomenon of retailers, which have now emerged as new international entities instead of manufacturers that were once assumed to be international entities. The focus of initial-stage research interests included, first, why retailers entered the overseas market, and second, where and what was the entry method (Entry mode). Also, the studies mainly focused on the motivation and entry determinants during the market entry phase (Treadgold & Davies, 1988; Alexander, 1990; Laulajainen, 1991; Williams, 1992; Burt, 1993; Dawson, 1993). For the initial-stage research studies, empirical analysis such as "when, who, where and how much progress was made in an overseas market" have significant meanings. However, such analysis does not fully enable us to reflect and understand the specific international behavior of post-entry retailers such as, what the retailers actually transfer and what the retailers do in the target overseas markets they entered.

Based on the findings of these empirical analyses,

Mukoyama (1996) undertook a challenging research study to clarify the specific international behavior of retailers in their entry market countries. The analysis was two-dimensional: commodity procurement and monitoring the performance of a new store opening, thereby allowing a better comprehension of the specific strategic behavior of such retailers. The study proposed a hypothesis regarding retail internationalization, employing the concepts of "main product lines" and "peripheral product lines," on the subjects of the standardization/adaptation issues that have arisen for many years in the international marketing of manufacturers.

The research of Mukoyama (1996) has led to a debate within the research community followed by active research studies on retail internationalization undertaken in Japan. Kawabata (1999) studied the retailers expanding market beyond the boundaries of a country. He argues that such retailers need to pass through a so-called, "Filter structure" termed the distinct market characteristic, which occurs when the homegrown business model is directly introduced to the entry market. However, the analysis of Kawabata (1999) does not fully explain the adaptation strategy set by market entry entities. In order to address this issue, Yahagi (2007) derived four localization strategic patterns of retailers as international entities based on any differences or common characteristics of the filter structure between home and overseas markets targeted.

He included, "Complete standardization" well recognized in luxury brand flag stores; "Partial adaptation within standardization" in hypermarkets; "Creative sequential adaptation" seen in convenient stores; and "New business development" formed in overseas market countries. Thus, as previously stated, research studies in Japan have focused mainly on the internationalization process itself and retail internationalization strategies adopted.

### 3.2. Expansion of research areas

From 2000 onwards, a number of cases involving retailers who have withdrawn from the overseas market emerged and the research focus shifted towards understanding the background and the factors that led the withdrawal. Burt, Mellahi, Jackson, and Sparks (2002) and Palmer (2004) led the preface of the research, investigating empirical studies as well as individual case studies of retailers withdrawing from the overseas markets. Following this, Alexander and Quinn (2002), and Burt, Dawson, and Sparks (2003) proposed conceptual models of company withdrawal. It is quite interesting to note that Choi (2006) attributes excess adaptation as unsuccessful entry factor of Carrefour in Japan. These research studies looked at external factors of the company to elucidate unsuccessful market adaptation and competitiveness for failure or withdrawal. However, Etger and Rachman-Moor (2007) and Cairns, Quinn, Alexnader and Doherty (2010), focused their studies on other factors associated with withdrawal such as company's internal

decision-making. They highlighted that research in this area should consider other factors when determining the withdrawal of a retailer from a particular market and not form conclusions from a single case study, since the entire global strategy has to be taken into consideration. This incorporates not only external factors but also the company's internal redefinition of global strategy as well as relocation of resources.

Over this period, research studies have intensified, focusing particularly on emerging countries where retailers have shifted their major target markets from advanced to emerging countries. For example, these include Auchan's entry to Russia (Roberts, 2005), Ahold to Latin America (Wrigley & Currah, 2003), Home Depot to Chili, Samsung-Tesco to Korea (Coe & Lee, 2006), Walmart to India (Halepete, Lyer, & Park, 2008), and Walmart/Carrefour to China (Chuang, Donegan, Ganon & Wei, 2011). Individual case studies have been undertaken to understand the success factors, issues and environmental influences of advanced international retailers entering emerging countries.

Other research focusing on the markets of emerging economies involves understanding the degree of influence affecting local markets from advanced international retailers. For example, the studies by Rocha and Dib (2002) relate to Walmart's entry into Brazil and how it contributed to the modernization of local retailers in Brazil; Coe and Hess (2005) on the influences of commodity procurement networks established locally by international retailers have on local supply chains in East Asia and East Europe; and a study by Kaliappan, Alavi, Abdullah, and Zakaullah (2009) on the impact of foreign retailers entry to Malaysia had on local suppliers.

### 3.3. Diversification of international entities

Internationalization in retailing has until now been sequential internationalization of "specific format". This means the processes incorporate only one specific business model that is applied to the overseas entry market and is progressively adopted by other markets of entry, withdrawing from those that prove unsuccessful after a certain time period (Mukoyama & Choi, 2009). This framework explains internationalization from a company's single store format point of view. It was implicit that Carrefour's globalization strategy has been dedicated towards the internationalization of its hypermarkets whilst Walmart's globalization strategy has focused on discounting stores.

However, recent years has seen the globalization of "combinations of multi-formats" employed by advanced retailers. The trends are now towards "multi-formats", which are simultaneously and intensively accommodated by every host country and further advance globalization from the network balance point of view on a global scale (Mukoyama & Choi, 2009). Dawson and Mukoyama (2013) have observed this phenomenon before others. They developed a

framework of a Global portfolio strategy (GPS) to study the dynamism of the global scale operational network strategy performed by advanced global retailers.

As mentioned above, the term "Internationalization" as the research themes employed in conventional research investigations were in fact studies of a series of behaviors that advanced, but not yet internationalized retailers first entered other advanced countries, and who later shifted into emerging markets. The research studies have focused on why internationalization was such an important issue.

More developed theories on these issues have led to analyses of the entry to emerging countries. Previous understanding as to why advanced international retailers enter emerging countries was thought to be due to advanced retailers already having a competitive advantage over local retailers in emerging countries, who were thought to be relatively inferior in retailing development.

However, as confirmed from the data provided in the previous section, recent years have seen the emergence of "Internationalization from bottom to top". This means that it is now the retailers in emerging economies are now becoming innovative retailers and developing in overseas markets, after being somehow influenced by advanced global retailers operating in their home markets. This article emphasizes competitiveness as a factor that has somehow been the trigger of this phenomenon. Retailers in emerging countries have built competitive interactions with advanced global retailers and have acquired comparable competitive advantage in line with those advanced retailers. This has transformed innovative local retailers who have entered the target markets of neighboring countries. This article focuses attention to the development of these innovative local retailers in emerging countries who are now entering into the target markets of advanced countries.

## 4. Competition in retail internationalization

### 4.1. Two competitive assessments

Many would agree that competition is socially favorable, as it is widely understood that intense competition improves product quality and keeps cost low. However, there are a number of arguments regarding how such competition results in being in favor of society. It is believed that competition can be largely divided into two concepts as pointed out by Numagami, Asaba, Shintaku, and Hisanaga (1992) - "Selection fit" or "Discovery procedure".

If competition is fierce, each firm develops business operations exploiting mainly their own capabilities in order to avoid being culled through selection. For either culling non-efficient firms or securing to maximize the existing capabilities of the firms, quality and cost standards can be improved in the entire industry via a competitive rather than

in a non-competitive environment. This is termed "Selection fit". An environment without competition does not bring about desirable outcomes for the society as a whole. Competition therefore benefits society when firms compete. For example, as far as the entry barriers indicators incorporating the numbers of firms, the degree of concentrations and the frequency of market entries and exits are favorable, there is no need to pay attention to the industry itself. The competition categorized as "Selection fit" serves as an effective implementation of so-called "monitoring mechanism". Further to "Discovery procedure", the information-creating mechanism involving the competition is highlighted here as a component behind why an intensified competition leading to an improvement of quality standards and cost standards in entire industry. A typical case involves the Austrian school led by Hyaek (1945). An individual economic entity has specific knowledge that differs from others. Essentially, this means that the competitive market is utilizing eccentrically located information in an effective manner to generate new information. Alternatively, competition is deemed to be in a discovery mode seeking for new business opportunities that have yet to be identified or access to knowledge that nobody yet has. Competition is also deemed an advantageous component leading to the creation of new information and such new information can be of benefit to the society as a whole. The competition based on discovery procedure serves the role of an "information-creating mechanism".

For example, regarding the economic-based theory of competitive strategy Porter (1980) proposed that competition, which could otherwise be favorable to society as a whole, should be avoided by individual firms since such competition will suppress their profitability, based upon the selection fit concept. Porter (1980) discussed the idea that the best competitive strategy is to decide "not to compete".

However, after Porter (1981), other research reported that more aggressive competitive behaviors between firms could bring about greater profit performance. For example, Ferrier (2001) studied 16 industries and 224 firms in USA and verified that greater market share was won by firms operating in an intense competitive environment where there were new product launches, model changes, price drops and promotional activities. In Japan, Numagami et al. (1992) based their research on the concepts of competition as discovery procedure as pointed out by the Austrian school, confirming what was discovered through a competition process and what aspects of products were eventually improved by this process, employing detailed case studies of Casio and Sharp in Japan's calculator industry.

The competition process was that of observing each other's product lines, imitating each other and exploiting these shared experiences into their own firms' strategic development. The competition between both the firms was a learning process, a discovery procedure to generate a variety of new industry information. Numagami et al. (1992)

termed such a competition as “conversational exchanges”.

Commercial business researchers in Japan have since succeeded the concepts of discovery procedure. Ishihara (2000), Yamashita (2001), Choi (2006) and Yokoyama (2010) have proposed that competition of firms within commercial districts can also act as a conduit for active behavior, able to generate new characteristics due to the number of players and the variety of competition.

This article argues that the competition between an advanced global retailer and a retailer in emerging country is solely based on conversational exchanges as highlighted by Numagami et al. (1992).

#### 4.2. Conceptual and less flexible business model

It is a fact that the business models adopted by a firm have hardly been addressed by any of the research studies dealing with retail internationalization. This has partially been due to the lack of retailers adopting alternative business models when initially entering an overseas target market. As mentioned earlier, a global retailer enters an overseas market by exploiting a single business model. A company having a single business model was the basis of prior research studies on internationalization.

More specifically, the research focus was not the internationalization of hypermarkets or the internationalization of discounting stores, but instead focused on the strategies of Carrefour and Walmart. Since the single business models adopted by Carrefour and Walmart were successful when entering overseas markets, the research studies implicitly assumed that the business models adopted were specifically designed for hypermarkets and discounting stores, respectively. This led to a greater focus on the company itself, without much thought towards the business model itself. However, a summary analysis of “business model = company” is not sufficient in understanding the competition between advanced global retailers and local retailers. Here, the limitations are evident in the conventional business model concepts.

Typical research studies arguing retail format models were based on theories of retail development, so-called “wheel of retailing” proposed by McNair. Here, retail development can be understood as a process where new format models outperform older ones. Retail models of department stores, supermarkets and discounting stores are analyzed in chronological order to understand how they were mutually associated and distinguished.

Since theories of retail model development have been proposed, recent years has seen an array of Japanese retail researchers pursuing such retail formats. Those include an understanding of retail models from an innovation theory viewpoint (Takashima, 2007), clarifying how retail formats are formed in the contexts of commercial economic theory (Ishihara, 2000), understanding the development process of retail technology innovation that generated by a single

specified retail model itself (Ishii, 2009), and including the research of this author, which aims to elucidate the “happening moment” of retail formats from a firm’s business model. The author terms these series of research studies as retail model theories.

However, there is a common issue underlying such conventional retail development and retail model theories. The retail models that have been employed for conventional retailing development together with the business models are well recognized as being common, but at the same time are very vague. These are recognized as, “department store” format, “supermarket” format and a “convenience store” format. This is very nonspecific, conceptual and less flexible concept. In other words, if we explain, “this is a department store” at the department store, we do not generally expect an opposite response, “this is not a department store but a convenience store”. The model in reality is obviously recognized as a department store and not a convenience store (Mukoyama, 2009).

Employing this retail model concept has limitations to fulfill the detailed case studies involving competitive interactions between advanced international retailers and local retailers i.e. observing and imitating rival companies will eventually result in own unique innovations. For example, department stores operated by advanced international retailers and local retailers are of the same format in the eyes of conventional concepts of retail models. However, there must be differences between both departments when detailed observations are made. When the countries of origin differ, such differences in the retail models could be significant. For example, whilst a “department store” in the USA comprises of luxury brand stores, the majority of “department stores” in Taiwan have food courts, which prove very popular. In Japan, a large grocery corner is situated at an underground location of a “department store” and an exhibition hall at the top floor.

It is examples such as this where there are variations in existing department stores even though they are categorized as having the same retail format. There is limitation in making a clear picture of reality by categorizing “a retail format”, which the retailers develop in overseas market, simply as “one retail format” (Mukoyama, 2009). It is therefore difficult to determine a recognizable store format to specify a department store in reality. However, it is possible to assess current department stores if categorized as the department stores of Firm A and B or the department store of Firm A in Country A and the department store of Firm B in Country B. Analysis for realistic and detailed competitive behaviors between retailers therefore requires employing not only conventional retail concepts but also other existing retail concepts.

### 4.3. Formula of existing retail formats

Understanding competition as a conversation exchange between retailers requires an understanding of the retail formats consisting of element blocks that can be mutually compared. This approach is not novel but rather orthodox. It is nothing but “retail mix”, which has been commonly recognized as a way to distinguish between retail formats (Mukoyama, 2009). A retail mix is referred as, “an element of retail services providing consumers with retail services in order to acquire discriminatory superior services that better respond to consumer demand, e.g. the combinations of store locations and scale, products assortments, price, store image, sales promotion etc” (Mukoyama, 2009).

The determinant governing the value of this retail service factor is nothing else but the retailer itself. The retail formats as determined by the retail mix expresses the proactive intention of the retailers. The formats governing this retail mix value do not emerge in the company but are visible in store. In other words, the characteristics of the retail formats are phenotypically realized as the store attributes. Therefore, the specific retail characteristic formats are expressed in the store or in the value of retail mix, and have to be considered together in order to identify the retail format (Mukoyama, 2009). Mukoyama (2009) terms such a recognizable retail format as a “Formula”.

Mukoyama (2009) discussed that the Formula concepts are specific to one company or country. For example, both Tesco and Carrefour depend upon management resources and management skills, and develop overseas hypermarkets under the same environmental conditions as in their home countries. It is realistic to assume that with the same hypermarket format, individual hypermarket formats having own specific characteristics are also being developed. It is understood that advanced international retailers expand into the overseas market by selectively employing an appropriate ‘Formula A’ from a variety of Formulas, developed in their home country. It is true to state that the characteristics of an overseas market will not be the same as their home market, and, therefore, ‘Formula A’ will need to be adjusted and transformed into ‘Formula B’. An example is Tesco, whose hypermarkets are expanding in UK, and are being transformed to hypermarkets suitable for the Taiwanese market. This leads to differences between both hypermarkets. Retail internationalization is the process of transformation of a specific Formula.

Based on this notion, advanced international retailers bring a company-specific and home country-specific ‘Formula A’ into the entry market, tweaking it to form ‘Formula B’, being exclusive to the company and target country. Particular influential factors during this tweaking process are the competitive interactions with local retailers. In response, local firms who have developed ‘Formula I’ in their home country will tweak this into ‘Formula II’. This ‘Formula II’ will receive support from local consumers, thus becoming the

innovation-led development for retailers in emerging countries. Furthermore, this new and innovative ‘Formula II’ is then introduced into a neighboring country and later into target advanced countries, the formula in the home country is again tweaked into newer and better ‘Formula III’ and ‘Formula IV’. This process is termed “Reverse internationalization in retailing”, and is the subject highlighted in this article.

## 5. Innovation in retailers

### 5.1. Competition leading to innovation

Corporate innovation is important from both a theoretical and practical perspective since it strongly influences the ability to win or lose the competitive position of the firm. When a company develops a novel innovative technology whether it be products, services or manufacturing methods, the advantage of rival incumbent companies will be lost. However, it is not rare for a company with a new technology to dominate. The same can be said for retailers.

Needless to say, corporate innovation means that a company formulates an innovative technology, products or business model. Schumpeter (1934) who formulated an original approach to innovation theory explains, “To produce other things, or the same things by different methods, means to combine these materials and forces differently... Development in our sense is then defined by carrying out of new combinations”. Humans cannot generate new ideas from a zero intellectual knowledge base. It is from the combinations of already existing and other knowledge that leads to the creation of new knowledge. For example, when an existing business model exploited for Service A is applied to another business model exploited for Service B, a brand new business idea can often arise from the combination and its application. Like this, it is considered that the combination of knowledge is one essential ingredient for innovation.

Many companies have been pursuing new knowledge to realize this. The major research theme in innovation here was how to broaden such knowledge. The core of “Open innovation” strategies, which have been the focus of research in recent years, is based on nothing else but broadening knowledge (Chesrough, 2003). Having a diverse fundamental knowledge basically leads to innovation. However, this may affect the efficiency of the organization if such diverse knowledge exceeds the capabilities of the firm (Katila & Gautam, 2002; Sampson, 2007). March (1991) argues that the exploration of new knowledge in an organization in order to broaden existing knowledge is “Exploration” whilst the utilization of current knowledge, which is persistently modified, is “Exploitation”.

March (1991) clarifies the concept of “Exploration” and



“Exploitation” and points out their importance in balancing these concepts necessary for corporate innovation. Conversational competition as argued in this article is “Exploration” and “Exploitation,” as utilized by retailers in order to trigger innovation.

## 5.2. Innovation in manufacturers

Innovation can be categorized into several types. Amongst these, Utterback and Abernathy (1975) argues that categorizing both “Product innovation” and “Process innovation” is promising from a technological viewpoint. Technology can be largely divided into product technology and manufacturing technology. Whilst process innovation is associated with manufacturing technology, product innovation is on the whole associated with product technology. Manufacturing processes comprise of machines, labor, job scales, material input and the flow of work and information, all of which are exploited for producing products and services. Over time, such innovation often develops certain innovative traits, i.e. greater capital-intensive processes lead to segregation and standardization of work labors; a rearrangement of workflow and a standardization of product design eventually realizing a scale-up in the production process. This significantly enhances output productivity and also transforms the production process itself.

The transformation of production processes and enhancements in productivity typically involve a series of complex factors some of which are outside the organization, for example, market changes and the internal change factors within an organization. Process innovation is often generated from within the manufacturing site, mainly leading to a form of incremental innovation where some sort of improvement makes a step towards the next improvement.

Product innovation is the outcome of combining new technologies, elaborately adopted commercially to meet the needs of a new market and the demands of consumers. The majority of product innovation does not occur at the manufacturing site, but is developed at research laboratories and product development divisions of the company. Therefore, some cases of new technology emanating from the R&D division of the company may suddenly have a significant impact on a market. Also, some innovations bring about a fundamental revolution in existing technologies. Such an innovation often forms a radical innovation. All new products proceed in this manner, going to the next incremental innovative phase of productivity efficiencies targeted at the factory.

Sakakibara (2005) states that it is during the initial phase of production development that there is frequent product innovation. With an effective product concept winning as the dominant design, the process innovation phase shifts towards being able to realize greater productivity efficiencies. Regarding manufacturer innovation, radical product innovation

occurs at first, proceeding to an advanced incremental process innovation later.

## 5.3. Innovation in retailers

Aspects of product and process innovation of manufacturers have been studied from a technological viewpoint. The former is associated with product technology and the latter is associated with manufacturing technology. Principally, this notion is considered equally applicable to retailers, but with a note of caution since the terminology pertaining to retail innovation differs from that of manufacturing innovation.

It is postulated that the business models of retailers can be sub-divided into “Formula,” as expressed by the retail mix in the store, and into “Formula support system,” referred to a background system to support the Formula. Consumers can directly observe and evaluate this Formula, being the outcome decision associated with the retail mix based on the retailers own management resources and strategies. A particular Formula adopted by a retailer is an indicator method by which to distinguish their own Formula from their competitors, and also a value proposition for consumers as a way to evaluate such retailers. Therefore, a Formula can be considered a product of retailers.

A newly developed Formula brings about a value to consumers, eventually gaining popularity in the market if consumers accept it. The author terms this as the retail product innovation as “Formula Innovation”. Since competition between retailers is essentially a consumer critique of a Formula, therefore, the superiority of Formula innovation is determined by market demand. For manufacturers, product innovation is realized by product technology developed by manufacturers and engineers. Such ‘developers’ and ‘engineers’ do not exist in retail channels in order to develop Formulas. Thus, many retail innovation cases are led mainly by decision-making of executive management.

It is therefore concluded that the process in retailers can be sub-divided: one is the Formula and the other is the support system. The Formula is a process to provide consumers with a characteristic retail services. Here, the innovation is termed “Formula process innovation”. The support system operates in the background and is the process to support the Formula value for consumers. Here, the innovation is termed “Formula support system innovation”.

Firstly, the Formula process innovation occurs in a progressive form with improvements in retail service factors such as location, assortments, customer services, sales promotion, store image etc. The improvement in each factor is therefore suggested to be a condition that triggers innovation. For example, process innovation can occur with the sales peoples who support customer services, prompt response to customers, which can transform the conventional Formula. It is only when this creates consumer value does

such innovation become a condition that directly fosters Formula innovation.

Next, Formula support system innovation occurs via a working process undertaken in the background office of the stores, the retailer's head office and suppliers, being invisible to consumers. There are some cases where the "Formula support system innovation" becomes a condition of the "Formula innovation". For example, "Formula innovation" will be transformed via the process innovation of supplier logistics, which may involve a frequent update of fresh product line ups or an update of the assortments of goods on display. This will eventually bring about a transformation of the value proposition specific to a store along with consumer critiques regarding their innovation.

It is therefore considered that retail innovation differs from that of typical manufacturers. Here, process innovation occurs first followed by product innovation. The effectiveness of process innovation undertaken in the "Formula support system" operating in the stores and in the background leads to a fresh retail service foundation and brings about a new Formula as a product innovation. However, in case of competition between retailers, a series of processes involving observing competitors' store characteristics, imitating and winning their own competitive advantages.

Here, Formula process innovation occurs first, being later transformed into a newly developed Formula. Next, the Formula support system is examined and whether this supports the freshly developed Formula. This will ascertain if innovation of the support system occurs in due course.

## 6. Conclusion

Finally, by considering the afore-mentioned studies, a framework of reverse internationalization pertaining to local retailers can be highlighted. A framework of reverse retail internationalization is contrary to "internationalization from top to bottom", internationalization of retailers originating in advanced countries. Newly emerged innovative local retailers, which previously were the domains of advanced global retailers aggressively who entered such local markets, are now expanding their business opportunities to neighboring countries and, moreover expanding to advanced countries. This is an emergence of "internationalization from bottom to top". Research studies on retail internationalization now focus on a reverse retail internationalization framework in

order to comprehend the internationalization process of new global retailers originating from emerging economies from an innovative and competitive perspective (see <Figure 1>).

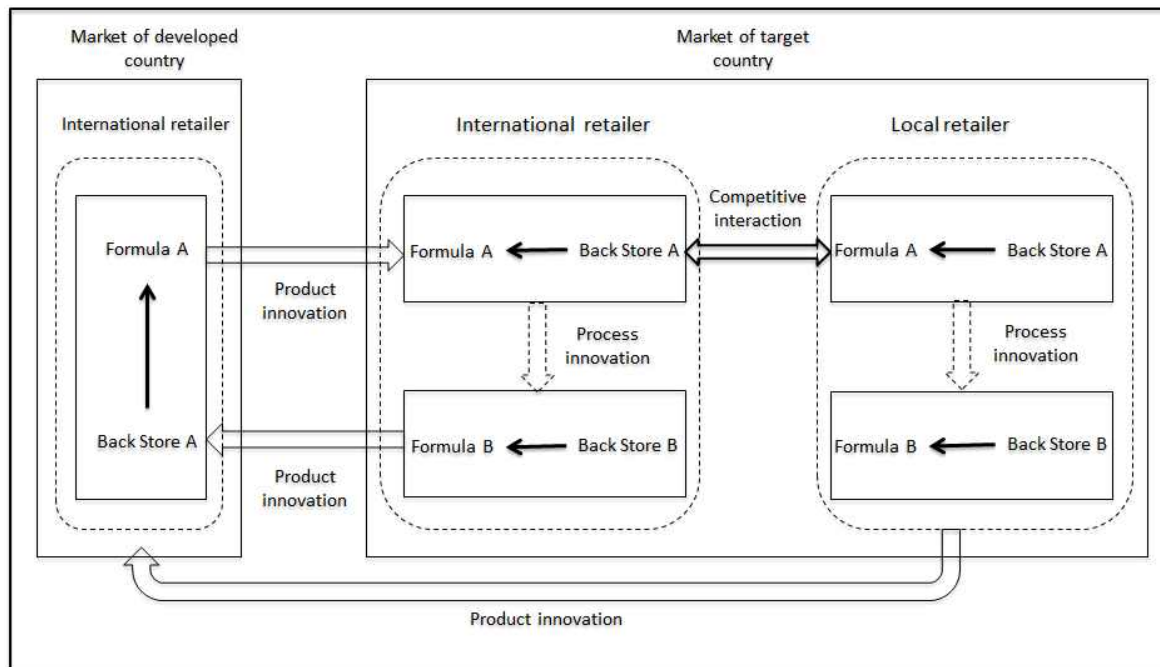
This article focuses on competition between retailers, which it is postulated, leads to innovation for those retailers based in emerging economies. It is suggested that competition is considered a "discovery procedure", where a variety of knowledge gained via competitive interactions leads to corporate innovation. Formula concepts are introduced here to understand competition between the retailers since conventional store format concepts do not actually exist as they are very vague, conceptual and less flexible in recognition.

On the other hand, Formula store format concepts pertaining to the characteristics of an individual store are because of a result of the retailers' decision making in specific value of retail mix. 'Formula' is a specific concept applied to individual companies and countries, and is actually observable. This Formula is not universal, but mutates over time. It is therefore possible to perform realistic and detailed case studies of the competitive interface process between retailers.

The introduction of Formula concepts makes understanding the retail internationalization as a process whereby the retailers transform their Formula over time. It is also postulated that advanced global retailers start with 'Formula A' in their home market and then migrate this formula to their strategically chosen foreign market where it is transformed to 'Formula B' according to the environmental conditions of the foreign market such as particular consumer needs and competition.

On the contrary, local retailers in emerging countries observe 'Formula A' of advanced global retailers and how it operates in a local market, imitating the concept and successfully transforming this 'Formula I' to a newly innovated 'Formula II', accepted by the local consumers.

The transformation of 'Formula I' to 'Formula II' is Formula innovation or a newborn retail innovation in emerging economies. The decisions made by senior managements significantly influence Formula innovation. However, conditions required to trigger innovation include Formula process innovation, which entails a process of retail service provided at the stores, in addition to Formula support system innovation, which operates in the back office of the stores.



<Figure 1 > Conceptual framework of reverse retail internationalization

Iterations of Formula innovation lead to an appearance of novel Formulas. An improvement of the Formula supporting system is necessary to support the newly developed Formula. This will ascertain if innovation of the support system occurs in due course. Whilst local retailers steadily improve every element of their retail services via competitive interactions with advanced global retailers, they still produce Formula innovation first of all. To support this process, improvement of Formula supporting system is required, eventually leading to a Formula supporting system

innovation.

With innovation occurring in every division of a company because of the competitive interface between local retailers in emerging countries and advanced global retailers, the firms gain the knowledge and capability to adapt this new formulation as their advantages, which allows them to be more competitive when operating in their neighboring countries and further advanced countries. These processes provide the framework <Figure 1> to understand reverse retail internationalization.

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