

# Analytical Framework of Reverse Internationalization in Retailing

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## 1.Introduction

Internationalization in retailing has started just following manufacturer's internationalization and it becomes to be a core strategy of retailers for retail growth. In the past it was thought that retailers can't internationalize judging from their inherent characteristics, but the anticipation was perfectly disappointed. Table 1 gives the top 10 retailers by the retail sales ranking in the world 2012. Although the fifth Kroger and the tenth Target, both American companies, are operating within their home country, that is, they don't internationalize, the other retailers in the world are very active as international companies. As the biggest

Table1 Top 10 retailers worldwide, 2012

	Name of company	Country of origin	Retail revenue (US\$m id)	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
Top10			1257892	16.3	32.3
Top250			4287587	10.0	24.3

Source: Global Power of retailing 2014, Deloitte

retailer in the world, Walmart develops stores in 28 countries and the sales in foreign countries represent 29.1% of its sales. The share of retail revenues from foreign operations of Costco and Home Depot that are ranked as the top ten retailer is 27.6%, 11.2% respectively, therefore the internationalization level of the US companies is not so high. Contrary to this, the level of European retailers exceeds it of US. Tesco, for example, sells 33.5% of total sales outside home country, Carrefour sells 54.0%, and Metro in Germany sells 61.6%. Moreover the share of foreign sales of top 10 companies is 32.3% and it of the top100 companies is 24.3%.

It is obvious that the internationalization of top retailers reaches to the very high level.

Table 2 shows the ratio of single country operations by area coming from the same database as table 1. We can easily find that 36.8% of top 250 companies doesn't internationalize. It is remarkable for the US, that means about half the companies don't internationalize and the level of internationalization is lower than Asia/Pacific<sup>1</sup>.

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: Global Powers of Retailing 2014

From Table 3 we can find how the ration of foreign sales in top 250 companies has changed for five years between 2007 and 2012. Totally only three points has increased for these five years, however internationalization of French companies increased from 35.3% to 44.4% and European companies are the leaders of internationalization with 39.1% sales overseas. Just as mentioned above, internationalization is not a special behavior for retailers, but a normal and indispensable strategy.

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<sup>1</sup>We should notice that over half of Japanese companies are domestic even in Asia/Pacific.

Table 3 The change of 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: Global Powers of Retailing 2009, 2014

Retail internationalization researches have progressed drastically along with such development of retailers. The researches began from understanding the real situation of retail internationalization, and later many researches on how and why the retailers internationalize were accumulated. Thereafter the researches shifted from a static approach to a dynamic approach in order to make clear the internationalization process. After the middle of 2000's the research interest moved to fragmentary phenomena concerning internationalization like international retail franchising or retail divestment, and we can't find there the intention of understanding international phenomena as a whole<sup>2</sup>.

We can notice the common characteristic to the past retail internationalization studies; that is, their research target has been the retailers that belong to advanced countries like Europe, US, and Japan. Table 4 indicates the leading international retailers that were the research targets. The share of stores overseas of these three retailers is over 50% and the share of sales is also over 50% except for

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<sup>2</sup>Swoboda, B., Zentes, J., and Elsner, S. (2009) is a review paper on retail internationalization studies.

Tesco. Therefore the retailers in advanced countries have been representatives of retail internationalization and researchers have focused on their development.

Table 4 Internationalization of leading retailers

	N.ofcountries	Share of stores overseas (%)	Share of sales overseas (%)
Walmart	27	55.5	55.8
Tesco	12	53.8	31.0
Carrefour	34	52.7	55.0

Source: the latest annual report of each firms

Retail internationalization studies have analyzed many aspects of internationalization focusing on international behavior of these leading retailers and accumulating their case studies. Judging from the fact that internationalization in a real world was owed to the leading retailers born in Europe and US, it is natural and indisputable. As a result of that, the output of studies was acquired through analyzing international behavior of leading European and American retailers, and the logic of retail internationalization was intrinsic to them.

However a different situation is occurring recently. The internationalization not by leading western retailers is increasing. This means retail internationalization is not a peculiar to retailers born in advanced countries. Watsons, for example, operating mainly drugstore in Hong Kong, develops about 10,800 stores in 25 countries (10 countries in Asia). Charles & Keith, specialty store in Singapore dealing bags, shoes and accessories, operates 382 stores in entire Asia with the first entry into Indonesia in 1998, already entered in Africa, and the ratio of foreign stores reaches to 92.4%<sup>3</sup>. Moreover the Central group in Thailand entered into China in 2012 and operates 15 stores abroad<sup>4</sup>, and Dairy Farm in Hong Kong enters into 11 countries including Hong Kong and Macau with multi retail formats (Table 5). These retailers are all

<sup>3</sup><http://www.charleskeith.com/SGStore/CK/SGP/Store-Locator>

<sup>4</sup>Nikkei Newspaper, 5<sup>th</sup> April 2014.

Table 5 Formats and countries operated by Dairy Farm

	Store 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				
	Oliver's	Hong Kong				
	Three Sixty	Hong Kong				
	Rustan's	Philippines				
	SHOPWEE	Philippines				
Lucky	Cambodia					
Hypermarket	Giant	Malaysia	Indonesia	Singapore	Brunei	Vietnam
Convenience stores	Hong Kong	Singapore	China	Macau		
Health&Beauty	Mannings	China				
	Guardian	Malaysia	Indonesia	Singapore	Vietnam	Cambodia
Home furnishings	KEA	Hong Kong	Taiwan	Indonesia		

Source: Annual Report 2013, <http://www.dairyfarmgroup.com/Our-Businesses>

Asian, but this new trend is not limited to Asia. Table 6 shows Cencosud in Chile is operating multi formats in multi countries near home market. The ratio of stores

Table 6 Number of stores by formats in Cencosud,S.A.(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: Annual Report 2013

overseas reaches to 68.7% and this number has already exceeded Walmart, Tesco and Carrefour. Table 7 gives the development of Fabelella in Chile in South

Table7 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	3240	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:Annual report 2013

America, and the both shares reach to almost 50%.Fabelella is also on the same

level of internationalization as Western leading retailers.

Such movement as the diversification of player in retail internationalization is a new phenomenon in international behavior of retailers. This trend means that retail internationalization is not an inherent behavior only in the western retailers. In other words it is explained that retailers born in a country into which western retailers have entered one-sidedly for a long time change the position and try to enter into overseas market. We can find a new movement; the country that has accepted international retailers turns into the country that enters the other markets, and the retailers that lead the movement are increasing. We name this movement "reverse internationalization<sup>5</sup>". Reverse internationalization in retailing challenges the retail internationalization studies that have ever accumulated.

- Can the logic of retail internationalization by western retailers explain reverse internationalization?
- Is the mechanism of reverse internationalization the same as it of the western retailers?
- How did the retailers that have stood on the passive side to be internationalized transform themselves to the active side to internationalize?
  - How did the retailers that have been operated in a backward country, in other words a country being entered, acquire the know how to internationalize?
- What did the reverse internationalizing retailers learn through hard competition with the western retailers entered into their home country?
  - Which competitive advantages does the reverse internationalizing retailers have in order to win the competition with the western retailers at the market

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<sup>5</sup>Reverse knowledge transfer or reverse transfer of innovation in international marketing are closely related with reverse internationalization.

entered?

- What kinds of innovations were created by the reverse internationalizing retailers and how did they create?

These are the new research tasks that have never discussed. Until now the markets of reverse internationalization are restricted to a narrow area neighboring on their home country even though the retailers are Asian or the South American.

However the reverse internationalizing retailers will certainly enter into advanced countries like Europe and US, and the opportunity is coming soon.

The purpose of this paper is to resolve the research tasks mentioned above and make an analytical framework to study this new phenomenon of retail internationalization, as a result of that, this paper will be the first step to clear this research purpose. We intend to re-examine the validity of retail internationalization studies based on the cases of leading western international retailers and propose definitely the direction of future research.

## **2. The competition of Internationalization in Retailing**

It is important to find out, how did the local retailer start the innovation in the conventional business theory, and also accomplish evolution to the innovative local retailer that can carry out overseas expansion? We discuss this issue from competition. That is, the action of a certain company induces other competitors' action, and changes the original company's action further. Because of the exchanges between two companies could make new information and bring out improvement in cost and quality of the product or service of specific industry. This paper focuses on the new information and the process of innovation, which created by competitive interaction between two economic entities.



In this section, in order to understand the process of competitive interaction of local retailers in advanced countries, we discuss the internationalize behavior of advanced international retailers from previous retail internationalization researches. Mukoyama (2009) reviews the development of internationalization in retailing and provides a new viewpoint of analysis. He points out, that the researches related to internationalization in retailing based on format, should actually focus on Formula. Formula is a specific and concrete concept of company. This concept seems effective for analyzing the process of competitive interaction between advanced international retailer and local retailer in target countries. Based on the Mukoyama (2009) study, we try to clarify the viewpoint of the competition of internationalization in retailing.

### **2.1. The leading-edge trend and subject of advanced international retailer**

In fact, it is hardly an overstatement that format is less consciousness in retail internationalization researches before. The reason is obvious. To begin with, retailing was a domestic industry till then. The internationalization, as a new growth means for retailers, has started by having position overseas. To deal in imported goods is almost the whole relation with oversea markets. However, due to market changes in and outside the country, such as maturation of the domestic market and appearance of overseas promising mega-markets, international expansion was begun. Such questions as "Which country to go?", "When to go?" and "How to go there?" show the interest in internationalization related to strategic decision-making problems in companies. From such a background, the major area of research on retail internationalization was investigated and data collected from company level, such as place selection of market entry, selection of market

entry mode, and strategic decision-making of market entry.

At that time, overseas expansion by multi-format was rare in retail internationalization. The internationalized retailers were developed by single format. Naturally, research of retail internationalization was also expanding the discussion according to the thought of 1 company equal to 1 format. For example, it did not study about internationalization of hypermarket but Carrefour, and it was not aimed at the discount store but Wal-Mart. Thus, since single format was carrying out international expansion, the research of Carrefour and Wal-Mart were implicitly assumed to be format level researches as research of hypermarket and discount store, respectively. Therefore, it can be said that it has made a focus on company, and has lacked strongly conscious of format.

However recently such single format international retail companies as Wal-Mart, Carrefour and Tesco, have started their multi format expansion as well. These retailers are trying to adjust their approach in respond to competitive conditions and differences of geographical regions. In other words, there are more countries, where companies use at least two format approach, than countries where one company is represented with only one format. This fact shows, that the era, when speaking about Carrefour's internationalization meant speaking about hypermarkets is gone. Now it can be hypermarkets, or hard discount stores. In case of Tesco, we can not speak about it's internationalization without telling, what we going to focus on, it's hypermarkets, or it's small scale supermarkets. In other words, instead of researching internationalization on the firm level, now we need to research it on the format level instead. Furthermore to decide what format should the main scope of our research, we need to define the characteristics and differences of those formats first.

## 2.2.The reality of formats

In relation to the new phenomenon in retail internationalization, Mukoyama(2009) points out, that the main topic for the retail internationalization researches is to prove that in case of some retail company undergoing the process of internationalization, it's target country format is affected by the format used in the home country. For example, let us say that some retail company is trying to make it's expansion in the department store format. When it's trying to advance in to Taiwan - it's first target country, will the department stores in the target country be organized in the similar way to the ones in the home country? Why there is a relation between them? An if this company will open some department stores in Japan, will those be similar to the ones in Taiwan? These questions will be the main subject for research papers related to retail internationalization.In other words, to understand the format that really exists in every country, we have to be able to compare those.Retail mix is a combination of such elements as differentiation superiority and responding to customer's needs. And the classification of formats should be made in accordance with the difference in those elements, in other words, in accordance with the differences in the retail mix.

A notice should be made here, about the retail mix, mentioned above.First, retail mix is representing the decision making domain of the retail company. W. Alderson defines the decision making domain as a complex of four elements: geographical location and scale of stores, product range, store image and sales promotion.<sup>67</sup> This means that

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<sup>6</sup>Tamura· Horita· Kojima· Ikeo ( 1 9 8 1 )、 p.2 5 8。

<sup>7</sup>Author would like to note, that there are more of such elements. In addition to elements pointed out by W. Alderson, there such things as price strategy, money back services, delivery services and

retail companies determine retail service elements themselves. The creation of stores begins after the retail company decides on the form of the store (the format). Therefore the format which is being based on the retail mix, actually represents the result of decisions made by that company.

Second, the format is being identified on the store level. Therefore while retail mix is being regulated by retail company itself. Still, to analyze the type of the Format used in some particular store we have to conduct our analysis on the store level, rather than on company level. Therefore to identify the format it is necessary to observe it's characteristics – elements of the retail mix.

### **2.3. The format, as another recognition level: Formula**

While the recognition of the "Format" in retail internationalization research, is pretty common, up to this moment the definition for it was very vague. Such recognitions of format as "department store", "supermarket", and "convenience store" are very general and abstract, to the level where it's difficult to operate with them.

For example, department stores in USA can be described just as a place where are luxury brand stores are concentrated under one roof, however in Taiwan almost every department store has a food court in one of it's underground levels. In Japanese stores basement level is usually being occupied by huge commodity supermarkets, where it's top floors being used as event halls, or even art galleries. Anyone who has an experience of going abroad could easily observe this difference. It is important to not concentrate on the personal images brought by researchers, but instead focus on universal definition. The one that wont be rejected anywhere, or by anyone. Or, people

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facility operation.

from every country, as well as researchers can go to a department store and when they being said, "This is a department store" they can object to "This is not a department store, it's convenience store." Since it is too difficult to trace all the factor recognition levels around the world, it is possible to limit it to the comparison of the formats used in home countries, and the ones used abroad. In other words we will limit the scope to the Tesco in England, Carrefour in France, Tesco in China, Carrefour in China, and the primary factors which caused the differences between them.

To analyze this problem, we will need another type of recognition factor. Not the one that doesn't exist in the real world and therefore cannot be observed carefully, but rather the one that can be observed closely. For example it is the level of recognition when we part hypermarkets opened by Carrefour, which has France as it's "stronghold", from hypermarkets opened by Tesco in it's homeland – England. In other words – there is no such thing as generic hypermarket. The hypermarket we see, is "*the* hypermarket" which exists under some particular circumstances. For example, department stores in France exist in some particular environment, unique to France. Hypermarkets opened in England and the ones opened in France are operating in two different environments. We cannot say that hypermarkets existing in different environments cannot have some similar traits, but it would be logical to say that the possibility for these hypermarkets to be different from each other is quite high.

Furthermore, there is no doubt, that even in the same country, hypermarkets opened by the A retail company, are different from the ones opened by the B retail company. Because, the format of the hypermarket, as follows from retail mix definition given above, is the result of the decision making process, related to the retail mix. And it would be very difficult to assume, that two different retail companies can make utterly same decisions. And therefore we can recognize the hypermarket of A company, as being

different from the one opened by B company.

Mukoyama (2009) refers to this level of recognition of specific formats as "Formula". This "Formula" divides the format on to the one specific to the company's origin country, and the one specific to the expansion target country.

First we will go on with origin country format. For example, hypermarkets opened by Tesco, and the ones opened by Carrefour are not the same. Both companies rely on different management resources with different management skills, so there is no doubt that hypermarkets opened by them are different. Next is the second - target country format. Very important decision for any retail company undergoing the process of internationalization is about what to take to the target country. As it was said earlier companies try to choose optimal parts of their "Formula" in home country, and then take those to the target country. However the market conditions in the target country are usually different. And that means that "Formula" which will be used in the target country can not be completely same to the original one. It is very likely that some differences do exist. In other words, the "Formula" of the target country is actually a transformation of the "Formula" used in the country of origin.

#### **2.4. Competition on the "Formula" level**

Thinking in this way, it is possible to grasp the changing Formula process. Therefore one of the most important elements of retail internationalization needed to understand the process, is the competitive interaction between expanding companies and local firms.

The best way to separate one store from the other is to evaluate it by the number of attributes. Those attributes are similar to the people's appearance in some way. The evaluation of the appearance is tied to the opinion of evaluating person. The attributes of a store can be changed in the same way. So, while appearance is one of the

attributes to evaluate a person, the attributes of the store can be used to evaluate the whole company. And the appearance is heavily tied to the processes, running "behind" the store. The combined system of those processes can be called supporting system, and store attributes are depending on the effectiveness of this system.

However in case when the subject of evaluation is a person, in addition to the appearance the other supporting attributes are being taken into consideration as well (personality etc.). In case of store evaluation the supporting system behind the business processes will hardly be taken into account, because people cannot see this system, despite it being the one which is contributing into the "appearance" of the store heavily. And people cannot evaluate what they don't see. As it was told before, the "Format" or the "Formula" is being defined by the retail mix, and the retail mix is being defined by the decisions made by the company. In other words retail company decides on it's "Formula" after retail mix and supporting system are fixed. And, this Formula is to be evaluated by customers in every market. Therefore retail competition can be explained as "competition in attributes evaluation by customers". And by applying this framework it can be explained why some companies have succeed, and others have failed despite the fact that all of them were using the same "Format".

It is difficult to understand to the processes behind such diversity, directly. For example, if Japanese department store will expand in to Taiwan, and will be evaluated as "Japanese department store in Taiwan", there definitely will be some differences between this store, and some local Taiwanese department stores. But it will be difficult to give a clear definition to the nature of diversification between those stores.

By using the concept of the "Formula" as the complex of attributes (Retail mix), we can say that we see "a local hypermarket opened by Carrefour" or "a local hypermarket opened by Tesco". And we can confirm that local hypermarkets, while still being

hypermarket have different "Formula". And every local hypermarket, is revising its "Formula" in the process of competition with international "Formulas".

Based on the above discussion, in order to be acceptable to local consumers, the competition in retail internationalization is being homogenization and differentiation between the specific formula that developed by advanced international retailer and the formula of local retailers. This paper discusses about the process of competition and the original Formula that transform by the competition.

### **3. Innovations in retail companies.**

#### **3.1. Innovations in production companies.**

Innovations in companies are important from theoretical, and practical point of view. That is because innovations can cause a change in competition on the market. It is no rare that, a groundbreaking innovation in product development, services, or production process causes a complete turnover on the market. The innovating company can outperform its competitors in one good stroke. This also can be applied to retail companies.

Research papers devoted to innovations in manufacturing companies pay a lot of attention to the product innovation and process innovation. Innovations occurring in manufacturing companies are being categorized as technology innovations. And those can be further divided on to product technologies, and manufacturing technologies. Process innovations are related to manufacturing technologies, and product innovations are related to product technologies. According to Utterback & Abernathy, manufacturing process is a composition of equipment used for product or services manufacturing, labor force, professional duties plan and a flow of work and information. During this process the innovations are being implemented. In other words,



with greater capitalization, labor force specialization and standardization are improving, work flow is being rationalized, product design is being standardized, and the production scale is growing larger. As a result, the productivity improving and the manufacturing process undergoing changes itself. Process innovations usually happen “on the spot”, in the form of incremental innovations. Incremental innovations are cumulative. One innovation leads to another.

Product innovations are meant for fulfilling the needs of consumers in old and new markets. Such innovations mostly come from company's research department, rather than from manufacturing line itself. In this manner, new technologies born out of company's research and development activity can sometimes heavily influence the market conditions. This type of innovation is called “Radical innovations”. Product born out of radical innovations, then will be supported by incremental innovation system. According to Sakakibara (2005) during the earlier periods of manufacture development product innovations are very many. During later periods the best products will be chosen as “dominant design”, and to improve the production efficiency of such products process innovations will be used. In other words, in manufacturing companies radical product innovations occur first, to be supported by incremental process innovations later.

### **3.2. Innovations in retail companies.**

Speaking about innovations in manufacturing companies we divided those in to two types: product and process innovations. First type is related to product technologies, second one – to manufacturing technologies. In theory, we can apply the same method to the retail companies as well. However it is necessary to pay some attention to some differences. From here we will try to examine the innovations in retail

companies through the prism of "Formula" framework.

In retail companies product innovation is represented as a compilation of retail service elements – the "Formula" which is being evaluated by the customers. When new "Formula" appeared on the market is successfully attracting a lot of customers, this "Formula" can be called an innovation. In this way product innovation in retail companies affects the reception of the company by its customers. Since there are no business format developing departments, and product R&D departments from manufacturing companies can not be used in the business format development, the whole process usually falls on the shoulders of company management. And again, in case of retail company, the result of decisions made by its management – the "Formula" defines the reception the company get from its customers, and represents the product innovation.

Retail companies can be roughly divided into two components: the stores, and the supporting system behind those stores (Mukoyama, 2009). From now on we will call the actual stores, the "Front store", and the supporting system will be called "Back store". As well as processes occurring in those will be called "Front store processes" and "Back store processes" respectively. "Front store" innovations are tied to such things as location of the store, its scale, product range, customer service, sales promotion, store image etc. These innovations are a necessary condition for product innovations. For example such process innovation as fast responding sales personal, improving client's experience, will become a requirement for turning that process innovation into product innovation.

"Back store" on the other hand, is a group of processes which are running in the background, and are not visible to the customers. Such processes can include such things as interactions in the company's headquarters, stocking processes, etc. In some cases "Back store" processes can become a requirement for product innovations. For

example, process innovation in supplier system, can allow the store to use more fresh goods, or increase its product range, which means a change in store's attributes. And that attribute is already a product innovation, which can be evaluated by customers. In this manner, process innovations in retail companies lead to product innovations. In other words, innovations occurring in "Front store" and "Back store" influence company's retail mix, and cause changes in the "Formula" through the product innovations.

#### **4. Reverse innovation cycle model in retail internationalization**

And for the last, let us draw a scheme of reverse innovation. The main perspective of this paper is the reverse innovation, which occurs in the process of competitive interactions between local retail companies, and world scale retail companies. So far, business format recognition in retail internationalization was analyzed from a broad, and abstract point of view. Company's decision making process, was not reflected in this concept. Therefore this concept provided only limited opportunities to analyze the competition between local and international companies.

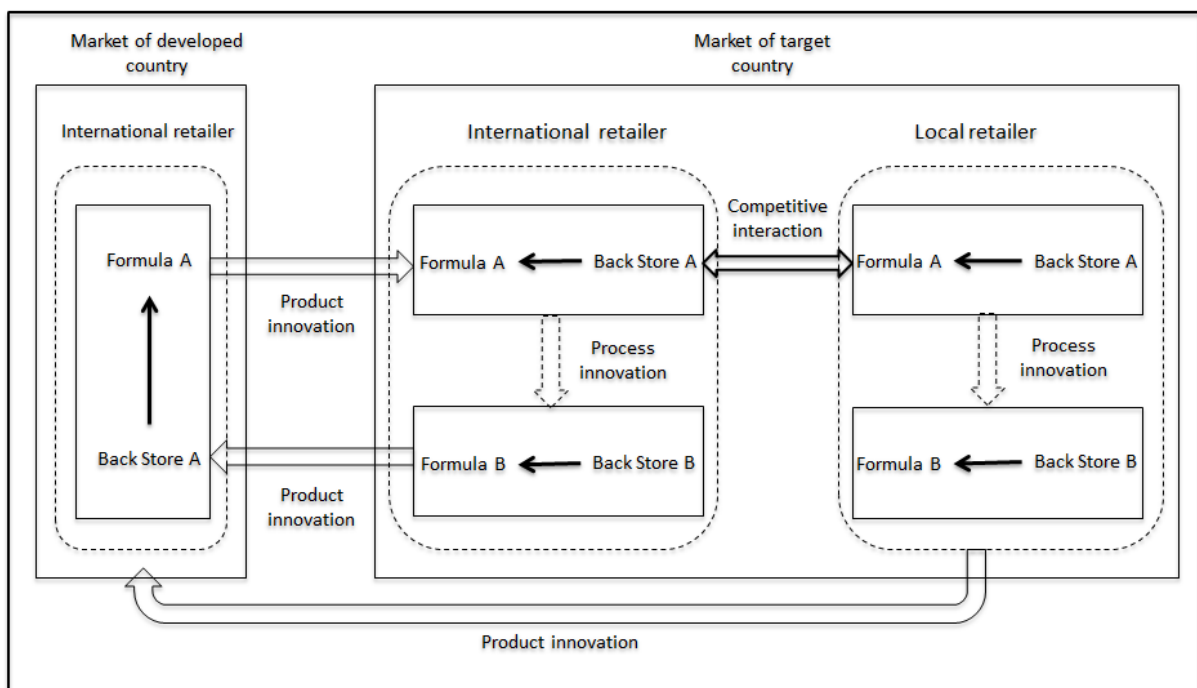
The concept of "Formula" on the other hand, allows us to analyze features of every company, related to market conditions, competitive conditions. Since retail mix showing the attributes of stores, detailed observation becomes possible. Furthermore, since the retail mix is the result of company's decision making process, it shows the specificity of each company, individually.

By using "Formula" framework, we can say that the process of retail internationalization is actually the process of changing the "Formula", attempted by retail companies. In other words, retail companies take their "Homemade Formula" to the target country, and then change it, during competitive interaction process with local retailers. And

local retailers learning from “Formulas” of international companies they competing with, trying to build their own one. This process allows both, international companies, and local companies to improve their “Formula”.

However it should be said, that it is no just the process of observing the opponent's “Formula” and copying it. Because when local companies trying to change their formula by product innovations, they also have to change their “Back store” system as well, since, as we said before, the supportive system is very important. Innovations occurred in “Front store” will make the system unbalanced, and that in turn will call for “Back store” innovations, to restore the balance.

Figure1. Reverse innovation cycle model in retail internationalization



Such companies as SCM build their “Front” a “Back” stores based on organization culture. In other words, “Back Store” is not only a know-how, but an instrument to measure company's ability to learn and adapt. As a result, the main piece of information obtained by local and international companies during competitive interaction is the opponent's “Back Store” system. And that is no just a process copying

of opponent's system, but rather attempts to improve their own system, using the knowledge acquired from an opponent. And, since "Back Store" system is hidden from opponents eyes, it can be considered as a valuable resource of the company. Another important point of this paper is an attempt to imply, that product innovation, occurring under "Back Store" system, actually allows local companies to start their internationalization attempts. This mechanism is being explained in Figure 1

Up to now, most researchers were concentrating on companies from America and other developed countries and their cross border expansion. But it may be possible to say that a new page in modern retail internationalization theory can be written from the opposite perspective.

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