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1.0 Final project assignment

The aim of the final assignment is to explore both issues we have discussed in class and good HR practises.

From the series of options given below you should choose *one* to work on in your group.

1.1 Options

1.1.1. *Some general principles for the design and management of rewards*

- In this assignment you should consider the general nature of rewards (what are they?; what are some approaches? Etc.).
- You should describe Kohn and others experts views on rewards.
- What are your groups' views on the previous two issues? Why do you hold that view?
- How will this affect your design and management of reward policies now and in the future?

1.1.2. *Motivation and downsizing*

- When downsizing is carried out it has an effect on motivation not just for those who have lost their jobs but also for those left behind.
- *Incident 89* (given below) gives one example. You should look for other examples too.
- You should describe what happens to staff when they are downsized. A part of your explanation should connect with theories of motivation (e.g. Mahesh and others).
- At the end of incident 89 there are a series of questions. Please focus on 1,2 and 4. Your recommendations should focus on general suggestions (i.e. 'What should be done to increase moral and motivation during downsizing) and specific (i.e. What should be done to increase moral and motivation of the clerical staff in Rutledge…) etc.

1.1.3. *Glocalization of service: Carrefour in Asia (max. 2 groups)*

You should read this, now, classic case on Carrefour along with the background material given. The group should also make sure you are familiar with the store and obtain any other useful and current materials.

One challenge for large retailers is *glocalization* of their offer. That is to say, combining the their core competence with the need to fit local conditions. In this case they discuss the main ways in which Carrefour has had to adapt to the local environment. Some issues to consider are:

- A precise clear introduction to the case
- Focus on how they have adapted – ‘localized’ different aspects of their product and service offering. Try to highlight some aspects of their HR policies and practises (some you may observe and see in-operation in the store).
- How successful have they been? You may want to comment on their broad *business strategy*, their *service concept* and *core product offering*.

1.2. Report

- For each of the above options you should write a *management report*. This means use of short sentences, bullet points and a clear hierarchical numbered structure. References are included but as endnotes or footnotes.
- The report should be of an adequate length to describe the issues.
- It should focus on addressing the issues given in the brief. Give thought as to how all the different aspects of your report *combine together* to make *your key points clear*.
- The final report should have a professional finished appearance.

1.3. Presentation

- The presentation should be made using PowerPoint and cover the main issues in the report.
- Each presentation should not last more than **20 minutes** and be made by the group.

Dr. James Stanworth

From:

Applications in Human Resource Management, Nkomo et al, Thomson Publishing,
5th ed.

89. INCIDENT

Motivating and Maintaining Morale During Downsizing

The Rutledge Company is an organization involved in the retail industry, operating more than 100 retail stores. The company's headquarters is going through what is termed "modernization." A new information system is being implemented which will completely alter the way the firm does business. In addition, it will affect the staffing required by the company. The new software began to be rolled out last year, and it is projected that at least another year is required before the rollout will be complete. All personnel within the corporate office, including the large clerical staff, attended a four-day, comprehensive, hands-on computer training program and were told to incorporate the new software into daily use.

Retail
₹100
Modernisation
IT ↓ Δ
2 years \ Jobs
4 day training

The completion of the rollout will primarily affect the clerical staff. It is the company's objective to eliminate the majority of these individuals. The idea behind this is the technology of the new software will enable all management-level personnel to perform their jobs efficiently without the need for clerical support. The Rutledge Company has informed its large clerical staff that most, but not all, of their jobs will disappear once the rollout is complete. The prospect of future unemployment along with the uncertainty regarding when their jobs will be terminated has greatly affected the staff morale. Complacency, lack of initiative, and complaining have accompanied the loss of morale.

Remove staff
Clerical
Managers less support
1 year
Not clear
Problems

The firm has one additional problem, which is that some of the clerical staff are long-term employees who are accustomed to how the company operated 10 years ago. These employees have not adapted to the new software or the other new programs that have been implemented. Thus, these employees do not provide the full clerical support needed by management. Rather, they perform only those aspects of their jobs that existed prior to the introduction of the new software plus other menial jobs sufficient to keep them busy.

Skills issues

Individual managers must determine how to motivate all of the clerical support staff for the remaining time that they will be employed and must also determine how to motivate some employees to use the new software. Someone must also determine which clerical help should be retained once "modernization" is complete. The firm wants to keep all of its clerical staff until then.

Questions

1. What actions should be taken in order to increase the morale and motivation level of the clerical staff?
2. What actions can be taken to motivate those employees who are not using the new technology required of their job?
3. What criteria should be used to determine which clerical employees should be retained?
4. Should the firm attempt to solve its motivational problems by conducting further training?

From:

The Asian marketing case book
Eds., Noel Capon, W. R. Vanhonacker,
Prentice Hall, 1999

Taiwan Overview[1]

Background. Taiwan, comprising 86 islands, has a 35,751 sq. km. land area (24% arable) and a 1,448-kilometer coastline. The population of the Taiwan archipelago is 21.3 million; Taiwanese (70%), mainland Chinese (14%), Hakka (14%), aborigines (2%). Although the official language is Mandarin, Taiwanese (Fukienese dialect) and Hakka dialects are widely used. Most of the population adheres to a mixture of Buddhism, Confucianism and Taoism (93%); relatively few follow Christianity (4.5%) and other religions (2.5%). Cities with populations over one million (1995) are: Taipei (capital, 2.6 million) and Kaohsiung (1.4 million). The climate is tropical in the south, subtropical in the north. Taiwan is dominated by a rainy season during the Southwest Monsoon (June to August) and is frequented by typhoons in summer (May to October) when the weather is hot and humid and the average temperature 28°C. Winters are mild but temperatures can drop below 10°C.

Since 1947, the central government has been based on the Constitution of the Republic of China. The president is the head of state (six-year term), formerly elected by the National Assembly and subject to the Legislative Yuan's approval. The president nominates a prime minister to head the Executive Yuan, the highest body in the government. At present, the Kuomintang (KMT) dominates; it holds 60% of seats in the Legislative Yuan (legislative branch). In 1996, the first direct presidential elections were held amid intimidating military exercises by PRC off the Taiwanese coast; China considers Taiwan a renegade province. The legal system is based on the civil law system; it accepts compulsory International Court of Justice (ICJ) jurisdiction with reservations.

Political. Japan invaded Taiwan in 1874; in 1895 the island was ceded to the Japanese. After World War II, Taiwan was returned to the Kuomintang and became a province of the Republic of China. In 1949, the Nationalist Government (led by General Chiang Kai-shek) and its supporters fled the mainland for Taiwan; concurrently, the Chinese Communist Party founded the People's Republic of China. The outbreak of the Korean War brought renewed U.S. military support for Chiang and the KMT but in 1978, the U.S., at the urging of the PRC, pulled its troops out of Taiwan allowing the 1954 mutual defense treaty to expire. One year later, in 1979, the U.S. formally recognized the PRC. In 1971, Taiwan lost its seat in the United Nations (UN); Beijing actively blocks any

[1] The Republic of China.

attempts by Taiwan to re-enter. Only a handful of countries forgo relations with the PRC to maintain diplomatic ties with Taiwan but several have mutual defense treaties. Taiwan is a member of the Asian Development Bank (ADB) and the Asia-Pacific Economic Cooperation (APEC) Forum; similarly to the PRC, Taiwan is attempting to enter the World Trade Organization (WTO).

In 1987, the Taiwan government, led by President Chiang Ching-kuo (Chiang Kai-shek's son), relaxed restrictions on travel to mainland China; about three million Taiwan residents have since visited the mainland. In 1990, the National Unification Council, headed by President Lee Teng-hui, was inaugurated to take charge of all issues relating to reunification with mainland China. On May 1, 1991, the "Period of National Mobilization for the Suppression of the Communist Rebellion" was terminated, opening the way to improve relations with the mainland. Semi-official talks are held regularly between the two sides to promote closer cooperation but with interruptions, notably military exercises and missile tests by the PRC. Following the first missile tests in 1996, the Taiwan bourse fell 17% relative to June 1995; the government intervened to prop up the jittery stock market. Although future political clashes with PRC are likely, economic and business interests are expected to move forward.

Social. At the end of 1995, 24% of the population was under 15 years of age; 7% was over 65 years. The government's firm commitment to education is reflected in the relatively high level of spending on education, science and culture (1995/96, 13%). As a result, 12.5% and 88.8% of the population respectively has received higher and secondary education (1995). Taiwan's literacy rate is 94%; life expectancy at birth is 75.

Economy. In the 1990s, Taiwan's economy grew on average over 6% p.a.; per capita GNP is US$13,130. The government has promoted a revised Six-Year National Development Plan (1991–96) comprising 556 projects (total investment NT$5 trillion) comprising industry zones, business parks, power stations (including a fourth nuclear plant), reservoirs, waste disposal centers, housing units, new universities and a high-speed train system between Taipei and Kaohsiung.

Taiwan has no foreign debt problem (foreign exchange reserves are close to US$90 billion), but a serious defense problem fearing an attack from mainland China. At its peak (1954/55), defense accounted for 63.6% of government spending; in the 1989/90 budget, defense, security and police expenditure had dropped to 29.1%.

Because of the buoyant economy and a dwindling youth population, unemployment has remained below 2% since 1987, creating a labor shortage. In 1995, agriculture (including forestry and fishing) was 3.4% of GDP; manufacturing 27.4%, banking and insurance 20%. Manufacturing continues to be the economy's driving force although its share of GNP declined from 40% (1987) to 32% (1992). Major export destinations are (1995): U.S. (23.6%), Hong Kong (23.4%), Japan (11.8%). Major import origins (1995) are: Japan (29.2%), U.S. (20.1%), Korea (4.2%). Three export processing zones (EPZs) in Kaohsiung, Nantze and Taichung promote development of export industries; low-interest loans for factory purchases are available.

In most industries, enterprises may be 100% foreign owned but some restrictions exist in certain financial, leasing and navigation services. In high technology industries, profits and interest payments can be remitted freely. The corporate tax rate is a favorable 25%; companies may not form partnerships.

Taiwanese high average propensity to save (25% [estimated] 1991) enables local firms to invest elsewhere. Recently, Taiwanese firms have switched investment focus from the U.S. to Southeast Asia. Taiwan firms are also major investors in mainland China despite lack of direct communication links (all contact is conducted through a third country, usually Hong Kong).

Both the Ministry of Finance (MOF) and the Central Bank of China (CBC) supervise the banking industry. The MOF implements banking and fiscal policies; the CBC carries out most functions of a typical central bank. Recently, the New Taiwan Dollar (NT$), has been appreciating against the U.S. dollar.

To ensure banking sector stability, applicants for new banking licenses are subject to tight restrictions, including NT$10 billion (US$380 million) capitalization. In September 1993, 41 domestic banks had 1,312 branches; 42 foreign banks had 65 branches and 20 representative offices.

In recent years the Taipei stock market has significantly reduced in value in part due to the government's reimposition of a capital gains tax on share-dealing profits. In February 1990, the Taipei weighted Stock Price Index was 12,495; by September 1994, the index had almost halved to 6,890. At end 1994, market capitalization was over US$247 billion.

Taiwan weathered the 1997 Asian financial crisis well. Relative to its Southeast Asian neighbors, it had no banking or external debt problems. However, to remain competitive (particularly with Singapore and South Korea in the value-added manufacturing sector), the Taiwan dollar devalued 15.5% to the U.S. dollar in late 1997. Although this made exports more competitive, it raised import costs and U.S. dollar denominated debt.

Infrastructure. Taiwan has 20,041 kilometers of roads, 17,095 kilometers (85.3%) paved. In 1995, 14.5 million motor vehicles were registered, 8.5 million motorcycles, 3.9 million automobiles for private use. The state-owned rail network has 2,439 kilometers of track (1993).

International air services operate from Kaohsiung Airport in the south and Chiang Kai-shek International Airport outside Taipei. The latter's annual capacity is scheduled to reach 20 million passengers and 1 million tons of freight by 2000. China Airlines (CAL) enjoyed a monopoly as Taiwan's only international airline until privately owned EVA Air emerged in 1991. CAL has begun to create distance from its semi-official status as Taiwan's national carrier. In 1995, as part of a corporate image make-over designed in part to keep open the possibility of flying to mainland China, it dropped the Republic of China flag.

In 1993, Taiwan's five major ports (i.e., Kaohsiung, Keelung, Hualien, Taichung, Suao) handled 384 million tons of freight. Kaohsiung (63.5%) is the world's third largest container port; Taiwan has the largest cargo container fleet in the world.

Taiwan has Asia's best developed telecommunications system outside Japan (one telephone per 2.4 persons [1994]), 1.2 million radio-paging subscribers and 424,000 mobile phone subscribers [1993]. Telecommunications is considered a key technology in the Six-Year National Development Plan. There is international direct dialing (IDD) and direct dialing to the Chinese mainland.

In 1993, Taiwan's electricity generation was 101.8 billion kWh; 38% nuclear.

Statistics*	June 1991	June 1995
Per capita GNP	US$7,990	US$13,130
GDP growth	5.2%	6.6%
Savings (GNP)	n/a	25%
Inflation (CPI)	4.1%	0.8%
Foreign debt (US$ billion)	0	0
Pop. (million)	20.6	21.7
Urban pop.	n/a	58%

Statistics*	June 1991	June 1995
Pop. growth	1.2%	1.0%
Infant mortality/1,000	5	5
Life expectancy (yrs)	n/a	75
Literacy rate	91.2%	94%
People per tel.	3	2.3
People per doctor	1,010	903
People per TV	n/a	3.1
Calorie intake (cals)	n/a	3,036

*Secured from *Asiaweek*.

Case 53

Carrefour in Asia (A) Taiwan: A Bridgehead to Asia[1]

Pierre Courbon, Philippe Lasserre
INSEAD, Fontainebleau, France

In June 1993, leaving Taiwan for Hong Kong, Gerard Clerc, Carrefour's new CEO for Asia, considered Carrefour's first Asian operations. He had started from scratch in Taiwan; five stores were open, two larger stores would open by December. Results of his formula were satisfactory but competition was fierce. Reflecting on six years' experience, Clerc wondered if

[1] This case was prepared by Pierre Courbon, MBA participant, under the supervision of Philippe Lasserre, Professor of Strategy and Management at INSEAD. It is intended to be used as a basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation. Reprinted with the permission of INSEAD. Copyright 1994 INSEAD-EAC, Fontainebleau, France.

Carrefour could continue its success in the face of increasing competition from well-established mass retailers like Makro and newcomers from the U.S., Europe and locally. Should he have done things differently and would his Taiwan experience be applicable elsewhere in Asia?

First Steps

A Carrefour Missionary

In summer 1986, Gerard Clerc was sent to prospect the Taiwan market. Largely unknown to the French public, Jacques Fournier (Carrefour's founder, chairman) and partners, Denis and Jacques Defforey, thought this island had great potential.

Business graduate Clerc was formerly an auditor with L'Express, a French news magazine. Since joining Carrefour in 1971, his experience was: store manager (six years), some headquarters responsibility for five- to ten-year development plans, then regional manager (five years) in Paris and Bordeaux.

The Feasibility Study

Clerc, accompanied by two department heads, conducted a 1.5 month feasibility study in Taiwan. He analyzed local conditions against Carrefour's criteria for assessing new markets. In favor of entry were the embryonic nature of retailing, openness to foreign investment, political stability and low inflation; against were a less than satisfactory legal environment and the language barrier.

Clerc gathered facts and figures about population, GNP per capita growth, road network, motorization rate and so on, although data were often unreliable. He believed the 20 million population could support development of many stores; food consumption sophistication was low but GNP per capita (US$4,000) implied high growth potential. The key criterion of motorization rate was low but motorcycles and scooters abounded. Clerc checked real estate prices; he evaluated expected price differentials with local competitors and payment terms to develop income and cash flow projections.

At first glance, other countries offered favorable conditions; however, Hong Kong and Singapore were too small and urbanized for Carrefour's ambitions; Korea's GNP per capita was lower; Japan seemed largely closed to foreign retailers and much too difficult a country to initiate an Asian strategy.

In spite of uncertainty inherent in any overseas investment, Clerc had a good feeling about Taiwan. He presented his study to the Executive Board in October 1986; one month later, Clerc was appointed head of Carrefour's development in Taiwan.

PresiCarre Corporation, a Partnership

Clerc settled in Taipei in February, 1987; his first task was to find a local partner. Carrefour management believed entering a country like Taiwan, far from home and so culturally different, required a partnership. Clerc met with President Enterprises, Taiwan's largest foodstuff manufacturer; President had a foothold in retailing and was interested in securing preferential outlets via vertical integration.[2]

PresiCarre Corp. was formed in August 1986; FF120 million (US$20 million) invested capital, 40% President Enterprises, 60% Carrefour; Clerc was appointed president. President was a sleeping partner; Clerc avoided requests of President so as not to develop obligations. Still, President's visibility and Chairman Kao's stature as head of the local union of industrialists assisted Carrefour's integration in local networks.

Carrefour

Carrefour Supermarches S.A. was a hypermarket pioneer in France. Hypermarkets were self-service mass retail stores but on a much larger scale than supermarkets. Typical supermarkets had sales areas 400 to 2,500 sq. m. and carried 5,000 to 10,000 items. Hypermarket sales areas were over 2,500 sq. m.; they carried 40,000 to 50,000 items. Large Carrefour stores in France had over 20,000 sq. m. sales areas offering such diverse products as fresh vegetables, PCs and mountain bikes; often, sales assistants on roller skates assisted customers (Exhibit 1)!

Carrefour's first store opened in 1963 in a Paris suburb; currently it was France's largest retail organization with 114 stores, averaging 9,400 sq. m., in total over one million sq. m. Consolidated worldwide sales were FF123 billion (US$20 billion). Carrefour's original principles continued to underpin the company: one-stop shopping, self service, discount, quality products and free car park.

Carrefour's international expansion started in the late 1960s in Europe. Its most successful foreign operations were in Spain (its Pryca chain was Spain's second largest retailer) and Brazil (Table 1).

Table 1: Carrefour in the World

Country	Number of stores	Net turnover (MF)	Net turnover (%)
France	114	81,991	66.5
Spain	43	21,226	17.2
Brazil	29	10,191	8.3
Argentina	7	5,545	4.5
Taiwan	7	1,752	1.4
Portugal	2	1,657	1.3
Italy/Turkey	2	–	0.7

Source: Carrefour 1993 annual report.

Carrefour had withdrawn from the U.K., Belgium and Switzerland (lack of expansion space) and from the U.S. where results were poor. It was relatively unsuccessful in mature markets, compared to entry in markets with potential for dramatic changes in consumer buying habits (e.g., 1960s France), high GNP per capita growth,

[2] Introduced to Clerc by the Credit Lyonnais branch in Taiwan; President assisted Clerc with his feasibility study.

suburbanization, increased labor force participation by women and large increases in car and refrigerator ownership.

President Enterprise Corporation

Founded in 1967, President initially produced flour and animal feed. By mid-1980s, it was Taiwan's largest agribusiness firm, tenth largest firm in total and fifth largest employer (Exhibit 2). In 1992, the President group had consolidated NT$49.7 billion[3] (over US$1.7 billion) gross revenues. President's strengths were food and beverage products and its distribution network. In addition to bakeries and automatic vending machines, President cooperated with Southland Inc. to manage 824 7-Eleven convenience stores, Taiwan's largest chain store.

Much of President's power stemmed from a sustained strategy of partnership with foreign groups; as Taiwanese agent-importer (e.g., Budweiser beer, Anheuser Busch; Lu biscuits, BSN, Welsh fruit juice, National Grape-Coop), as shareholder in local joint ventures (e.g., PepsiCo, Frito Lay, Kentucky Fried Chicken, Kikkoman) or abroad with major Filipino agribusiness firm, San Miguel, to which President was transferring technology.

President had ambitions to become a world leader by 2010; it had numerous investments in mainland China. Its latest annual report noted that President Enterprises pursued a long-term goal of establishing a Food Kingdom, thus achieving once again a new miracle in the history of the President Enterprises operations.

A Slow Start

Initial plans to build 10,000 sq. m. stores with over 1,000 car park spaces were quickly scaled down. In February 1987, a large plot of land offered by government tender was sold for double the expected price. Clerc had underestimated land price increases in Taiwan; in the next two years, prices increased five to ten times. Carrefour was negotiating land purchases but prices increased 20% to 30% every two to three months. Because most negotiations were lengthy, prices were becoming too high; revaluation of the New Taiwan dollar made prices in French francs even higher. Clerc decided to rent rather than buy land, an action without precedent for Carrefour. Annual rents were 1% to 2% of land prices; this was affordable and minimized financial risk. After 19 months, Clerc finally found a good location in Kaohsiung, southern Taiwan. He negotiated a ten-year contract, later increased to twenty years. Carrefour could only build on 3,500 of 7,000 sq. m. available; car parking took the rest.

Clerc's assistant Monique Thirion, two expatriate section heads, plus three Taiwanese staff hired in France a year earlier arrived in Kaohsiung to assist Clerc in opening the store. Unlike France, the store's 3,500 sq. m. sales area was on two floors, partly in a basement, quite different from large French stores. Some French managers, committed to single floor rectangular Carrefour stores with car park on proprietary

[3] NT$ stands for New Taiwan dollar.

land, were reluctant to accept the Taiwan model. Clerc argued the essence of Carrefour's concept worldwide was discount, freshness, car park; nothing else.

The first store opened in December 1989 (Table 2); it was immediately successful (first year break-even). A second Kaohsiung store (same landlord) opened a year later concurrent with Taipei's first store. The initial phase was difficult, with general distrust from suppliers, real estate promoters and local government authorities. Said Clerc of the local retail industry, "It was as if the Huns had arrived in Taiwan."

Table 2: Carrefour Stores in Taiwan

Opening date	Location	Type	Sales area	Parking
December 1989	Ta-Shun (Kaohsiung)	Store	4,500m^2	220 car spaces
January 1991	Nan-Kang (Taipei)	Store	5,600m^2	240 car spaces
February 1991	Shih-Chuan (Kaohsiung)	Store	5,400m^2	370 car spaces
October 1991	Tien-Mou (Taipei)	Store	4,300m^2	350 car spaces
July 1992	Pan-Chiao (Taipei)	Store	5,200m^2	300 car spaces
November 1993 (planned)	Chung-Hua (Tainan)	Store	7,500m^2	390 car spaces
November 1993 (planned)	San-Chung (Taipei)	Warehouse	9,600m^2	720 car spaces
March 1994 (planned)	Tao-Yuan (Taipei)	Warehouse	12,400m^2	720 car spaces
Extension 84	To other		6,000m^2	400 car spaces

	Net revenues (MF)	Net income (MF)	Investments (MF)
1990	100	(–9)	38
1991	600	(–14)	50
1992	1150	26	40
1993	1750	39	110

Source: PresiCarre Corp.

The Carrefour Adaptation in Taiwan

Clerc wanted to avoid simply transferring to Taiwan a successful French concept proven in other countries; he wanted to adapt the Carrefour concept, accounting for the local environment.

Adapting the Store

A critical, difficult, early problem was store location. Because of complicated regulations regarding land use, and distinctions between industrial use and commercial use land, Carrefour could not build in the suburbs. It had to operate in urban areas, on rented land; new stores were not located on flat open land, but in buildings, basements or ground floors in high population density areas.

In most Taiwanese stores, investment in decoration and layout was limited. In contrast to France, shelves were standard, none was product-specific. Floors were usually plain painted cement, white tiles in the most luxurious stores. Carrefour managers tried to create a familiar atmosphere for Taiwanese. For example, lamps above food stalls in fresh products sections were the same as those found in traditional "wet markets." On their first visit to Taiwan, Carrefour's founding fathers said the stores were similar to the first basic stores built in France 30 years earlier.

Adapting the Offer

Carrefour's Taiwan policy was to leverage its decision to limit product assortment (more than in Makro's [major competitor] larger stores) and buy greater volumes; more competitive prices could thus be secured from suppliers. Carrefour mineral water and wines were imported from France; wines were sold only in one store near expatriate apartments. Since securing regular quality supply from local manufacturers was difficult, Carrefour did not sell locally produced labels for fear of damaging its reputation. However, generics were launched (1991); these were very successful, especially rice (top selling item), and diapers (NT$159 per pack versus Pampers, NT$459).

Carrefour promotions (announced with flyers or print advertising) were held regularly at individual stores or nationwide. In contrast to France, few promotions were launched by local manufacturers, even large companies (e.g., Weichuan, I-Mei Foods, Foremost, President) unless Carrefour requested. Large multinationals (e.g., Procter and Gamble, Unilever) promoted products heavily. L'Oreal recently introduced some products at Carrefour.

Tracking Rapidly Changing Shopping Habits and Educating Customers

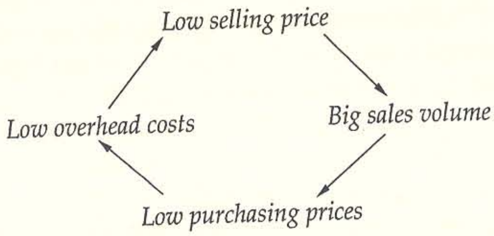
Taiwan's population density, heavy street traffic and Carrefour's urban store locations meant that customers came from a three-kilometer radius, rather than from larger distances as in France. Carrefour studies showed that store visits averaged twice a week in Taiwan versus 1.2 times monthly in France. The average client basket value was NT$680,700 (FF150) versus FF500 in France.[4] Most Taiwanese customers made frequent, smaller value proximity purchases in line with traditional buying patterns.

The Taiwanese market changed rapidly. In 1991, favorite flavors in food products were peanut and lemon; in 1994, top selling flavors were vanilla, chocolate and strawberry, practically unsaleable a few years earlier. Retailers exercised an important role in educating consumers about service and products. Some degree of westernization of local tastes was occurring. Whereas previously purchasing was for necessities, impulse buying was increasing. For many families, visits to the "French" hypermarket were like a Sunday "day trip"; buying for pleasure was normal. All Carrefour stores had pilot departments continually introducing new product ranges. Successful local

[4] FF 1 = NT$ 4.6, May 1994.

introductions were taken national at all Carrefour stores. This cross learning spread know-how; managers learned about the market, and followed its evolution.

Keeping close to the client, Carrefour's new product promotions contributed increasingly to total revenues. In France, sales increases from year-to-year were purely incremental. By contrast, in Taiwan, big sales increases came from introducing new product categories. Carrefour recently promoted such articles as barbecue equipment, home decoration, cars, gear for swimming, camping and all kinds of outdoor sports, hi-fi equipment, microwave ovens and large screen TVs. By following the market very closely, Carrefour identified under-exploited products; top selling products changed at least every six months. French patterns had to be forgotten and the market learned from scratch. Nonetheless, Carrefour's Virtuous Circle was unchanged:



Management Adaptation

Carrefour had to adapt traditional French store management.

Human resource management. Store management was highly decentralized in Taiwan. Department heads were much more autonomous; they were entirely responsible for handling supplier relationships, selecting products and negotiating prices; they fixed retail prices, recruited employees, negotiated salaries (a human resource function in France), presented paychecks, determined promotion possibilities for staff and had input into bonus decisions. They faced significant sales and profit pressure. Initially, all store managers were French expatriates; by mid-1993, three of eight were Taiwanese; two were women.

Carrefour had a reputation for good pay: department heads earned 20% more than at other supermarkets; section heads 25% to 40% more. Monthly salaries for local store managers ranged from NT$120,000 to NT$200,000 (FF26,000 to FF43,500; US$4,400 to US$7,400), similar to U.S.-educated financial managers in large firms. Cashiers were paid NT$17,000 monthly (FF3,600, US$625) per 48-hour week versus FF7,000 (NT$32,500, US$1,200) per 39-hour week in France. In France, employees made additional earnings from a participation scheme; bonuses were linked to individual store results. In Taiwan, a maximum of three months' salary was available for all employees at Chinese New Year; payouts were based on store, section and department results. Carrefour's Taiwanese growth provided significant potential for internal promotions.

In Taiwan, human resource management was a serious problem for all firms. Unemployment was low (1993: 1.15%) and young unskilled people preferred to work in clean services (karaoke bars, coffee shops, restaurants). Carrefour's average staff turnover was 65% per annum; 40% of staff was under 18 years old, mostly part-timers.

The sense of belonging to the organization was limited and training efforts, technical and personal development, were central to store management policy.

Managing the relationship with suppliers. Managing relations with suppliers was different from French standard practice; Carrefour's experience was that Taiwanese suppliers lacked rigor, organization, equipment and aggressiveness, but flexibility was much higher. Typically, suppliers lacked such basic data as sales (volume or value), inventory levels and simple accounting or invoicing information. List prices were not based on cost but on an ideal selling price; some suppliers lost money. Frequently, selling conditions were different from one retailer to another. When Procter and Gamble acquired its former agent (1992), it discovered 123 different conditions were being offered. Suppliers neither sought productivity gains nor had development strategies; the only clear preoccupation was retail price. Suppliers wanted stability and consistency in all retail outlets in competitive chain stores. A few foreign-owned firms were starting to segment their customer bases, offering different package sizes to different retailers.

Equipment was a problem; only 10% of suppliers delivered goods on pallets and pallet sizes were not standardized. Although Taiwan was a world-leading plastics producer, blister-pack was hard to find locally. Manufacturers were starting to realize local market potential as firms like Carrefour approached them. Salespeople visiting Carrefour with samples typically had no catalogs, no product reference numbers and sometimes no order forms.

In contrast to Taiwanese exporters (and western practice), local suppliers were not aggressive. Retailers often had to solicit products; innovation was limited but could be initiated by Carrefour. Many local manufacturers focused solely on exporting and ignored the local market; it offered lower margins, required smaller and more frequent deliveries and obligated acceptance of unsold products.

However, suppliers were very flexible on delivery terms (next day was never a problem) and payment terms. Establishing good relationships with suppliers (and all stakeholders including foreign-owned firms) was important; the best business deals were seldom made in offices, but in karaoke bars with some XO Cognac or local liquor.

Taiwan specific management problems. For French expatriate managers, communication was the most serious problem. For Carrefour, Taiwan was the only country where the working and local languages were not the same, and where all documents were written in two languages (i.e., Chinese and English); minutes of all meetings, performance reports, all other documents (including company policy) were bilingual. Foreign managers could not learn Chinese as fast as Portuguese, Spanish or English; most did not even try since it was very difficult and working hours were long.

Communication problems between foreign managers and local employees had important consequences; competent department heads who could not communicate in basic English with expatriate store managers had difficulty being promoted to section head. This problem might ease as Taiwanese earned more store manager positions, but promotion from section head to store manager was possible only for English speaking staff. It was also difficult to communicate company policy and corporate culture. Mass retailing was a new concept in Taiwan and the language barrier made it difficult to communicate goals, strategy and the reasons for Carrefour's way of doing things. It was extremely difficult for foreign managers to communicate the central message that the smaller the assortment, the higher the turnover, and that fewer products implied more sales per product, better buying prices, lower selling prices, more sales and less chance of being out of stock.

A second problem was the cultural gap. Philippe Ravelli, a local French store manager, said the key difference between French and Chinese cultures was priority given to three basic elements of daily life. Chinese priority order was emotion (qing), reason (li), law (fa); for the French, law was first (implying Carrefour policy was the golden rule), then reason and emotion. This inverse order was a source of misunderstanding in managing local operations. In the French distribution sector, staff training was a managerial duty; in Taiwan, managers were more concerned to retain information than share knowledge. They received much more autonomy than Carrefour practice but delegated little power to subordinates.

A third problem was relationships with new stakeholders, neighbors (since most of Carrefour stores were in urban areas) and local triads.[5] "Protection" had to be negotiated and strict client circulation and delivery scheduling organized for each store in cooperation with suppliers. Taiwanese suppliers, unused to such constraints in normal operations with less demanding clients, had to be educated. Clerc remarked: "What Carrefour has done in Taiwan is learning how to walk by walking."

Carrefour has been Successful in Taiwan but is not Alone

Key Success Factors in Taiwan

In addition to its successful financial performance, Carrefour and other retailers were shaping Taiwanese consumer habits. Executives had differing views on the reasons for Carrefour's success. Philippe Ravelli said Carrefour's real competitive advantage in Taiwan was its basic concept – free parking, one-stop shopping, competitive prices. Jean-Luc Chereau, Clerc's replacement (1993) in Taiwan, believed three different key factors were important and that implementation was critical: entry when the consumer market was developing, fast increasing disposable income and the country opening up to the outside world; choice of people to constitute the backbone of the operation, including the French-Chinese mix in local management; and adaptation of a successful concept to a local environment very different from France.

Customer Satisfaction

Based on repurchasing behavior, Carrefour believed customers were satisfied. But executives thought these data were insufficient to measure actual satisfaction. In

[5] Triads were secret societies that became powerful in central and southern China in the 18th century; currently they exercised wide influence among Chinese communities worldwide. They were sworn brotherhood groups, sharing a common tradition, initiation rites, secret signs and languages. Activities ranged from mutual aid organizations to gang-related businesses.

March 1993, Carrefour conducted a nationwide survey to understand better consumer perceptions. To the question: "What is your main reason for shopping at Carrefour?" price was the unprompted first answer (51%), followed by freshness (25%) and one-stop shopping (24%). Carrefour surveyed a 1,000 customer panel twice a year.

After the first survey, Carrefour designed a Customer Suggestion Form, available at each store's information desk. Department heads had to address any suggestion or complaint within 48 hours. Complaints and inquiries were filed regularly; Carrefour believed this system provided excellent, continuous customer feedback.

Competition is Tough

Carrefour was not alone in Taiwan; the growth of western-style supermarkets was dramatic. In 1989, Taiwan had 199 supermarkets, 600 were projected by 1995. Although only six years old, Taiwan's mass retailing industry was dominated by foreign companies but local firms were showing an increasingly strong interest:[6]

- The supermarket league was very active in Taiwan.
- *Wellcome* opened its first Taiwan store in 1987; in 1993 it had 72 stores. An independent study found that 95% of Taiwanese recognized the Wellcome name; it was Taiwan's best known supermarket chain.
- *Park 'N Shop* was the second largest player. Its first store opened in 1989; it had plans to open 12 new stores per year for the next four to five years.
- Hypermarkets were capturing increasing market share among Taiwan supermarkets. Two major players emerged, Carrefour and Makro.
- *Makro* was Taiwan's largest retailing operation.

Makro's five outlets were all much larger than Carrefour's downtown stores; turnover per store was higher than Carrefour; sales were greater than all other mass retailers. Makro recently had to close its Kaohsiung and Wuku stores; according to local regulations, these were illegally located in an industrial area unsuited for commercial activities. Makro's five remaining stores, warehouses that clients could access only with membership cards, were similarly located. Anticipated zoning changes (July 1994) were expected to solve this problem and open up more largely industrial areas for all competitors. Carrefour was building two warehouse stores ("green stores").

Continent (French) had a joint venture with the Far Eastern Group; its first Taiwan store should open at end 1994.

Carrefour managers said they welcomed competitors. Since the market was far from saturated, competitors would contribute to educating consumers to shopping in hypermarkets rather than traditional wet markets or small stores.

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[6] See Retailing in Taiwan.

Increasing the Pace

In 1993, Gerard Clerc was promoted to CEO for Asia and nominated to the Carrefour Board in France. He moved to Hong Kong to oversee Carrefour's Asian activities. Jean-Luc Chereau took Clerc's position in Taipei.

Coordination of the Existing Operations

In April 1993, Taiwan operations were divided into two regions (North, South), each headed by a French regional director. Regional managers coordinated store activities; human resource management, including training, was a central activity, followed by more centralized merchandising. Carrefour's goal was to limit the number of wholesalers, concentrate same product purchases with one or a few suppliers, reduce buying prices and pass savings to consumers. However, as total sales increased, some suppliers could no longer supply the quantities Carrefour demanded. Diversification of sourcing, possibly via imports, was the only way Carrefour could cope with these problems; it was instituting more centralized buying to improve purchase terms and compensate for large staff turnover that often disrupted operations. Drawing up expansion plans was a regional director responsibility; it accounted for 50% of their time.

Development: "Green Stores"

Since inception, Carrefour operated smaller urban stores in commercial (and legal) areas, compared to Makro's real hypermarkets in industrial suburban areas. Carrefour's response, "to clients, not Makro," said a Carrefour executive, was the soon-to-be opened Warehouse, with a new distinctive red and green logo, in San-Chung, sales area 9,600 sq. m. A second Warehouse would open in 1994, sales area 12,400 sq. m. Both outlets were in industrial areas where local zoning regulations prohibited retailers from opening stores. Although Carrefour had business and factory licenses, membership cards were required to enter these outlets (similar to Makro) and the fiction of a Carrefour Warehouse Club instead of a standard hypermarket was maintained. The San-Chung store distributed over 200,000 cards. Carrefour's trend in Taiwan was large hypermarkets, its real area of expertise, rather than large supermarkets currently being operated. Further large stores were planned for Tamshui, Taichung and Tainan but smaller urban stores would be opened at good locations.

Nonetheless, despite good results, in 1993 Taiwan operations were only 1.4% of Carrefour revenues, similar to Portugal. The limited size of Taiwan stores led to low sales per store, but sales were expected to surge ahead as new stores opened.

Questions for Gerard Clerc

As he settled into his new position as Asia CEO, Clerc posed himself two questions. First, what should he expect from Jean-Luc Chereau in Taiwan? Second, learning from Taiwan could help develop Carrefour business in other Asian countries. He had faced many difficulties, especially at the beginning, a combination of legal, relational, cultural, communication and other problems. Mistakes had been made, but many things had been learned. How could he put that learning to good use?

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Source: LSA, Ap

Exhibit 1: The Hypermarket Concept

The difference between a supermarket and a hypermarket is not always clear. The term "hypermarket" was introduced in 1969 by Jacques Pictet, founder of Libre Service Actualites (LSA), a self-service retail trade publication, to describe large supermarkets with a sales area of more than 2,500 sq. m., or the exact surface of Carrefour's store in Sainte Geneviève at that time.

A hypermarket was supposed to have the following characteristics:

- sales area of at least 2,500 sq. m. – large variety of food and general merchandise
- large free car park (minimum 1,000 cars) – self-service and payment at central checkouts

The term hypermarket imposed itself very rapidly but for 25 years its definition did not change while large chain retailers like Carrefour were building larger stores with a sales area of over 10,000 sq. m. or even 15,000 sq. m. According to René Brillet, CEO for Carrefour in North Europe (including France), a hypermarket should supply 80% of consumers' needs. Below 5,000 sq. m., this would be impossible: under these conditions, a store could only offer a few home appliances and a limited textile assortment. Only dry and fresh foodstuffs would be handled reasonably well. To take into account the changes in the trade, in 1993 LSA decided to change the definition and to retain as hypermarkets in its figures only the stores with sales areas of more than 5,000 sq. m. Stores with an area of 2,500 to 5,000 sq. m. were considered as "large supermarkets."

Following is a paper written in 1969 by Marcel Fournier, founder and President of Carrefour, explaining his money-making discounting strategy.

"In front of those clients who want to get the best prices to increase their living standard, what do we find? Old fashioned shopkeepers with medieval thinking who want to sell as high as possible and are so happy when they can take very high margins. It was maybe the best way to build a fortune when goods were scarce, but it is not the case anymore when modern industries can supply so many different articles and so much of them on the market. But there is a barrier between the flow of merchandises and the clients. It is the barrier of brains ridiculously blurred by the absurd and antiquated concept of gross profit margin. U.S. retailers accomplished a great step the day discounters replaced this traditional concept by the modern idea of return on invested capital. When we understood the importance of the change, we got rid of the formula:

$$\frac{\textit{gross profit}}{\textit{sales turnover}}$$

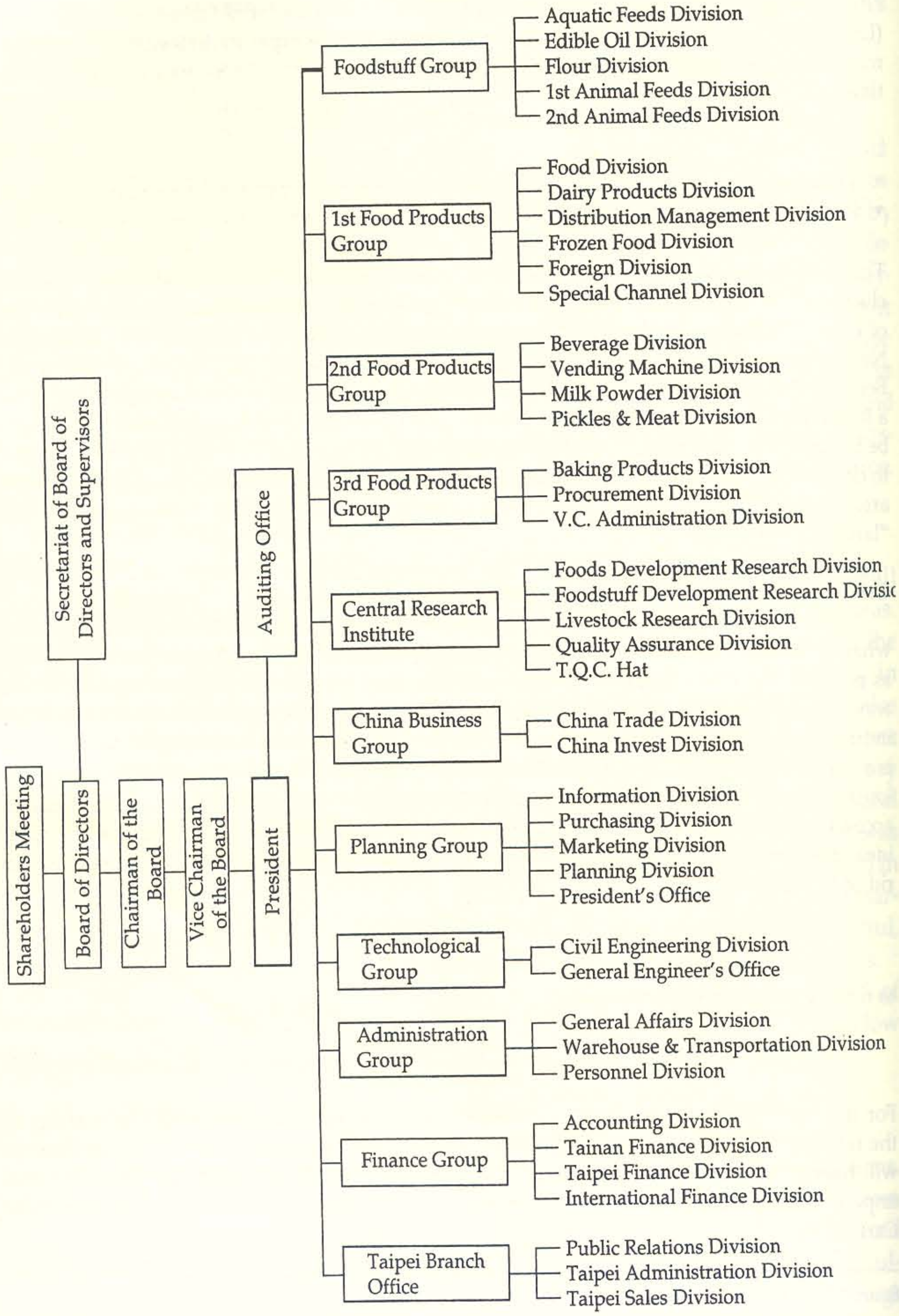
to replace it with the new formula

$$\frac{\textit{net profit}}{\textit{invested capital}}$$

For the operation to be profitable, this ratio has to be as high as possible. Both terms of the ratio have to be acted upon: net profit will have to be maximized, while invested capital will have to be minimized. To obtain a high net profit while selling at discount rates, it is imperative to sell a lot and to limit overheads. Selling huge volumes, that is our first law at Carrefour ... "

Source: LSA, April 29, 1993.

Exhibit 2: President Enterprises Organization Chart



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INSEAD, Fontain

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Case 54

Retailing in Taiwan[1]

Pierre Courbon, Philippe Lasserre
INSEAD, Fontainebleau, France

As Taiwan became a high consumption country, its retail network evolved rapidly. The 1980s saw explosive growth in the retail industry; new outlet types slowly continued to replace traditional bazaar style family stores.

How the Economic Environment Influences the Retail Market: Demand Factors

Rapid increase in per capita income. In 1989, per capita income reached US$6,048, up 18-fold from 1960; the "Gini" coefficient decreased to 0.303, indicating a more equal income distribution. Standards of living increased; consumption was more sophisticated (Exhibit 1). Along with rapid industrialization, supermarkets provided the population with convenience and cleanliness; convenience stores offered accessible hours, locations and product ranges. Department stores served as cultural and purchasing centers.

Upgrading education. In 1988, about 9.5% of Taiwan residents above age six were college students or graduates; 15% were senior high school students or graduates. Education level improved upward mobility and created demand for better living standards.

[1] This case was prepared by Pierre Courbon, MBA participant, under the supervision of Philippe Lasserre, Professor of Strategy and Management at INSEAD. It is intended to be used as a basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation. Reprinted with the permission of INSEAD.

Diminishing traditional family and growth of working women. The traditional extended family was gradually replaced by the nuclear family; average family membership dropped to 4.14 (1988). Most, especially urban families were two-income. Housewives had less time to manage household work; they sought more convenient stores and patronized new retailer types for cleanliness and convenience, even though prices were higher.

High percentage of appliance owners, but a low percentage of car owners. Most families had full home appliance sets. In 1988, 98% owned refrigerators; by contrast, only 20% owned cars. This low ratio made it preferable to shop at convenience stores rather than supermarkets.

How the Economic Environment Influences the Retail Market: Supply Factors

Infrastructure improvement. During the 1980s, traffic and communication infrastructure improved throughout the island. As a result, new retailer types had much lower costs. Furthermore, package standardization and classification of major commodities were conducive to greater retailer efficiency.

Decrease in the relative cost of facilities. Costs of vehicles and electrical / mechanical facilities reduced because of declining tariffs and Taiwan's industrialization. Research indicated that facility costs for more convenient retailers decreased significantly, strengthening their competitive advantage.

Refining of management knowledge. At the end of the1970s, more educated people entered retail marketing; updated management concepts spread widely. Moreover, implementation of management information systems enabled managerial decision making to be more rapid and precise. Chain store management became feasible in Taiwan.

The Retail Market Considerably Changed in Taiwan

Historically, the Taiwan retail market was characterized by many small operators. However, because no real statistics existed, not only was gauging market shares accurately impossible, but the fast pace of change made tracking developments even more difficult. Regardless, the underlying trend was towards larger sales areas, driven mostly by development of department stores and, more recently, supermarket and hypermarket chains (Exhibit 2). Supermarkets, hypermarkets and convenience stores accounted for 30% of food expenditures in Taiwan.

Wet markets. Although 80% of Taiwanese still used traditional wet markets for fresh produce, latest research showed a discernible trend away from wet markets to supermarkets. For most Taipei residents, two jobs was the norm, making it impossible to shop at the local wet market, usually open only in the morning.

Mom-and-pop shops. In 1989, Taiwan had over 330,000 retail outlets, mostly small traditional family-owned firms. These stores handled the largest share of food sales, even though the first large food store opened in 1965. Since 1987, entry of large foreign-invested chain stores and local followers made competition very fierce.

Modern retailing. The biggest battle fought by large retail chains was less against themselves than tradition; many consumers still shopped at traditional markets or ate outside the home. Taipei supermarkets were in the awkward position of fighting to bring back the family tradition of eating at home. Classification of modern retailing depended on the goods and services offered: Department stores: environment + choice + service; Supermarkets: proximity + price; Hypermarkets: price + choice; Convenience stores: proximity + time.

Department stores. These stores developed greatly in quantity and quality under guidance of major Japanese department stores. They brought professional management and merchandising to Taiwan and were often linked to real estate investments by large construction or insurance companies. Previously, Taiwan department stores operated by "consignment," stores leased space to "brands" (manufacturers or sole importers) providing merchandise for commissions paid to the store. However, department stores increasingly developed purchasing policies and no longer relied exclusively on consignment. They also tended to concentrate on fashion, accessories, cosmetics and expensive imported goods from Europe, Japan and the U.S. Most department stores contained a basement floor supermarket, typically just-profitable high-price outlets not particularly geared for department store shoppers. Observers believed these supermarkets would gradually evolve into such stores as delicatessens and health food. These supermarkets would thus find a niche beside expanding neighborhood supermarkets and large hypermarkets.

Supermarkets and hypermarkets. Although the main difference between these two outlet types was size, many other differences existed. Hypermarkets had larger sales areas, usually offered free parking and required large development sites; high real estate costs led to locations outside city centers. Supermarkets were centrally located downtown in densely populated areas, were much smaller and rarely had parking lots. Although hindered by high land prices and zoning regulations, hypermarkets were expected to develop further, favored by the "automobile" population that enjoyed weekly one-stop shopping sprees and picked up forgotten items at convenience stores.

Convenience stores. The retailing sector that typified development of the entire industry was convenience stores. In just a few years, they mushroomed at many street corners and changed the face of Taiwan streets. Convenience stores offered: convenience of time, open 24 hours a day; convenience of distance, within 250 meters of every home; convenience of checkout, convenience of self-service. Convenience stores offered limited choice of goods, mainly food (65% of total sales); other goods were magazines and personal products. They targeted mainly students, night owls and young hard-working adults not wishing to waste time shopping but prepared to pay extra. A survey by Dr. Ripley (CEO Wellcome, Taiwan) (sample, 250 students) revealed less than 1% of grandparents and 10% of parents patronized convenience chain stores but 85% of students were regular customers. (Comparable U.S. figures were 20%, 40% and 45%.) Convenience chains' chief objectives were quickly to establish many outlets to increase buying power. Food manufacturers set up convenience store chains to increase control over product distribution.

Impact of Large Food Stores on Taiwan's Distribution System

Taiwan's food distribution system, as in most countries, was strongly influenced by the retail sector. As retail changes occurred, the distribution system tried to adjust to meet retailers' changing needs. Retailing changes in Taiwan created shock waves throughout the distribution system.

As major supermarket chains developed new and larger stores, they placed different demands on supplying wholesalers and manufacturers. Small retailers with low sales volume might find one delivery per week adequate; larger supermarkets might require two or three deliveries per week for packaged goods, daily deliveries for fresh and frozen products. Supermarket firms with new warehouse facilities demanded that suppliers ship in large quantities and reduce wholesale prices by 3% to 5% to reflect retailer warehousing activities and wholesaler delivery cost savings. These price reductions placed increased pressure on suppliers to be efficient low-cost distributors. Many small manufacturers and wholesalers found such price competition a serious problem; they were unable to reduce costs by introducing efficiencies in their distribution systems.

Very large supermarkets placed additional demands on suppliers since merchandising programs demanded products be sold in large sizes or quantities; manufacturers were frequently required to provide special packages. In addition, suppliers might be asked to deliver products directly to hypermarkets and cash-and-carry stores, bypassing distribution centers and other middlemen. Some large retail chains imported directly, bypassing import agents.

Since Taiwan's food retailing system was in transition, wholesalers and manufacturers faced challenges of meeting the needs of new supermarket customers, yet continuing to provide services and products for the many small food retailers making up the majority of Taiwan's food markets. Observers said small retail stores would continue to play an important food distribution role for many years, in spite of numbers declines. Because wholesalers and distributors provided special services to small food retailers, they would also play important roles in the food distribution system.

Future Challenges for Taiwan's Retail Industry

Warehousing facilities. Lack of adequate warehouse facilities was a critical problem faced by fast growing retail chains; it undermined efficient food distribution. Most retail chains had inadequate central warehousing; they relied on small in-store stocks and frequent supplier deliveries (e.g., Carrefour); facilities were usually too small and often multi-level. By contrast, Wellcome and 7-Eleven set up centralized warehousing and distribution systems early. Central warehousing allowed retailers to consolidate a wide assortment of products in a single shipment and make single deliveries to stores. This system was important as retailers typically received products from many suppliers (up to 400); furthermore, located in urban areas, frequent deliveries were inconvenient for the neighborhood.

Centralized purchasing. Large food retailers mostly bypassed traditional wholesalers; they were too small and disorganized to provide needed services. High wholesaler operating costs prevented price discounts requested by retail chains; offering quantity discounts was not their practice. Most large retail chains preferred to purchase fresh fruits and vegetables via direct negotiation with farmer groups or importers to secure low bulk prices.

Bar coding. Smaller manufacturers gave only lukewarm acceptance to bar code scanning technology, provided by major food product suppliers to increase productivity, performance and profits. About 60% of products in supermarkets and 75% in convenience stores were barcoded. However, this technology concept did not fit well with small suppliers that traditionally sold products through small grocery stores and food shops. Not all retailers agreed on bar coding system advantages.

Palletization. Large retail chains requested suppliers to ship all products to distribution centers or stores on pallets to speed handling. However, pallet sizes were not standardized and retailers were trying to achieve uniformity. Products delivered in bulk had to be palletized by retailers; this took time and slowed truck rotations and distribution of other deliveries waiting at the docks.

Customer Service should Adapt to the Local Environment[2]

There were significant differences between Taiwanese and American experiences and expressions of good customer service (Table 1). Some major themes were similar: polite/friendly salespeople, knowledgeable salespeople, no pressure sales, pleasant store. Differences included: Taiwanese defined good customer service by a feeling of respect (second most important theme) but no U.S. respondent mentioned this; conversely, merchandise-related aspects of customer service (e.g., good merchandise, quality, good prices) were important to U.S. consumers, not Taiwanese. The similarity in importance of impolite/impersonal salespeople affecting the service experience masked many differences. Taiwanese defined bad experiences by reference to respect: being ignored, followed around, embarrassed, hurried and subject to abusive language; in the U.S., bad experience was characterized by merchandise (e.g., not having required products, badly informed staff) and price (higher than expected) considerations.

[2] Based on "Cross-cultural similarities and differences in definitions of customer service in retailing settings," Richard A. Feinberh, Ko de Ruyter, Charles Trappey, Tzai-Zang Lee, World Marketing Congress, Academy of Marketing Science, Istanbul, Turkey, July 1993.

Table 1: Taiwan and U.S. Service Differences

Taiwan		U.S.	
Polite/friendly	19%	Good merchandise/what I want	18%
Felt important/respected	12%	Friendly	11%
Competent/knowledgeable salespeople	10%	Good prices	10%
Smile	7%	Knowledgeable salespeople	9%
Patient/paid attention	6%	Pleasant interior	9%
No pressure	5%	Convenient	8%
Went out of way/special service	4%	No pressure	7%
Pleasant/comfortable store	4%	Quality merchandise	4%
Good merchandise presentation	4%		
Prompt/quick	4%		
25 total themes	75%	30 total themes	76%
Taiwan		**U.S.**	
Impolite/impersonal	16%	Doesn't have what I wanted	19%
Ignored	12%	Impolite/impersonal	12%
Problems in delivery	8%	Not knowledgeable	11%
Long delay/lines	6%	Little selection	10%
Followed around	6%	Paid more than expected	9%
No attention/help	5%	Left feeling angry/disappointed	6%
Abusive language	5%	Dirty store	5%
Embarrassed me	5%	Inconvenient	4%
Sales pressure	4%	Long delay/lines	4%
Hurried me	4%		
29 total themes	71%	53 total themes	80%

As consumer-oriented businesses face problems and opportunities of internationalization, they must also face the challenge of delivering excellent customer service. If international results mirror U.S. experience, a direct link exists between customer satisfaction, sales and profits. Understanding how customers define and experience good and bad customer service must precede its delivery. Dr. Feinberg's results show that despite similarities in how consumers in different countries define good and bad customer service experiences, significant differences require special approaches to delivering customer service and satisfaction at retail. Training employees and delivering customer satisfaction must consider the country's unique experiences, history and culture, and the unique experiences of that market place.

Delivery of good customer service in Taiwan is based on the process by which goods are delivered and how the person is treated in the stores. The respect issue seem to conform to the West's view of the Asian personality. There seems to be less of a merchandise/price orientation to defining good and poor customer service. Notwithstanding these findings, consumer habits and attitudes to customer service were rapidly changing in Taiwan. The limited importance of price in customer service could partly be explained by the separation of price and service in consumers' minds. Taiwan remained a very price-oriented market, especially in the food sector.

Regulations Slowly Adapt to the De facto Situation

Although Taiwanese trends clearly favored mass merchandising, regulations and laws failed to keep pace with this rapid development. Some large supermarkets established on industrial land conducted marketing and sales operations in conspicuous violation of land use laws prohibiting profit-driven warehousing or commercial distribution centers in industrial zones. Despite assistance from the central government, local county governments were reluctant to approve land conversion to supermarkets, notably because of opposition from many other business stores. Some argued that use of industrial land for commercial purpose gave large supermarket chains an unfair competitive edge against smaller stores with high land costs in commercial districts.

In May 1994, the Taiwan Provincial Government notified Makro Taiwan that it should change operations at two stores or face closure. A few days later, two stores (Kaohsiung and Wuku, near Taipei) were shut down by local county authorities. Makro claimed to be a victim of conflicting policies of the central and municipal governments; it argued that central government instructions to allow Makro stores to operate on industrial land were being defied locally. An additional political dimension concerned the conflict between fully democratically elected local governments (often run by the DPP opposition party) and the not-yet-entirely legitimate central government, still controlled by the KMT. Makro decided not to open its latest store (planned opening, May) in Chungho, a southern Taipei suburb. Makro temporarily froze new investments in Taiwan until the situation was resolved.

Some changes were occurring. In March 1994, the regulation restricting retail stores to a maximum 500 sq. m. was partly abolished. Basements and ground floors of buildings in residential areas of Taipei City and Taiwan County could be used for commercial purposes without size limitations. A July 25 decision of the Ministry of Economic Affairs (MOEA) began the process of regulating warehousing and wholesale industries; more complete regulations were expected after the December county elections.

According to one western executive: "It is difficult to be 100% legal in this country." Foreign firms were advised to be as pragmatic as the Taiwanese and accept that sometimes situations were slightly illegal, especially when no specific regulations applied. A compromising fiction had to be maintained; operators should keep a low profile, simply to give authorities face. These situations could last many years and might result in de facto situations slowly being accepted, if not entirely legal, until a new law endorsed the status quo. This process occurred for discos before the lifting of Martial Law in 1987.

The Number of Actors in the Retail Market was Increasing

Large foreign chains expanding operations in Taiwan competed with traditional retail outlets.

Government stores. The government operated about ten supermarkets in Taipei, more in other cities. These stores faced competition from new foreign chains (e.g., Wellcome, Park 'N Shop) that offered better prices and service. The Ministry of National Defense operated PX Stores (MNDPX), the only really hard discounters in Taiwan. Initially designed for military personnel only, in 1971, the franchise was broadened to allow access to government employees, dependants and retired military and government staff, as compensation for poor public sector wages. As a result, 18% of the population had access to PX Stores causing significant problems, especially with purchases for resale. In 1988, the PX was split in two (50/50), the old PX and the United Cooperative Association (UCA): the UCA took over some urban PX supermarket outlets.

With sales over NT$17 billion, the 110 small MNDPX stores were too big for suppliers to ignore. However, they had to sign particularly onerous contracts guaranteeing not to sell at lower prices and facing penalty clauses for non-delivery and out-of-stocks. Product listing was by invitation only; typically via announcements in newspapers, usually once a year. Price negotiations were conducted across a table from three uniformed men; potential suppliers had three opportunities to write out their best price! For certain product categories, MNDPX were essential outlets, responsible for large percent sales of shampoo (50%); milk powder (60%) and tissue paper (50%). The more commodity-oriented product categories had higher percent MNDPX sales.

MNDPX policies requiring suppliers not to sell at lower prices was of greater concern since the National Fair Trade Law came into effect (January 1, 1992). Large retailers were expected to test the law if MNDPX stores could buy at lower wholesale prices. As large supermarkets developed greater sales and more efficient distribution systems, suppliers would find it difficult to justify selling at lower wholesale prices to MNDPX stores than to large privately owned firms. MNDPX prices were still 10% to 15% lower than large retail stores.

Supermarkets. Wellcome was positioning itself as the "convenient neighborhood supermarket." "We're not trying to be all things to all people," said Jeffrey Shaw, CEO of Wellcome Taiwan. "We just want to be the friendly, low-cost supermarket around the corner." A recent independent study found that 95% Taiwanese recognized the Wellcome name, making it Taiwan's best known supermarket chain.

Wellcome was 97% owned by Dairy Farm International; local firm, Ding Hao Acme Ltd. owned 3%. Wellcome opened its first Taiwan outlet in 1987; it operated 72 stores, 15 more were scheduled before end 1994. It targeted 200 stores in five years, 400 before 2005. The average store had approximately 1,025 sq. m. floor space. Wellcome offered a wide range of products: 4,000 dry food, 1,000 perishable, 2,500 non-food. Carrefour considered Wellcome a possible threat because of fully centralized purchasing but believed its profit margins were a problem. Wellcome measured price competitiveness against hypermarkets to stay ahead among the supermarkets. According to Shaw, when Wellcome opened in Taiwan it put in the most modern and efficient system possible. All stores had scanning devices and would soon be on-line with the new distribution center that receive consolidated orders each day. The 1995 target, "to be more fresh than anyone," counted on opening a new ultra-modern frozen and chilled center and a new produce distribution center.

Wellcome operated in Hong Kong, Taiwan, New Zealand, Australia, Spain and the U.K.; its first Malaysian store would open in September 1994; it was actively examining Indonesia, Thailand and Japan. Wellcome signed joint-venture agreements in four different Chinese cities; the Dairy Farm Group managed 15 7-Eleven stores in Shenzhen.

The second largest player, Park 'N Shop (wholly owned by A.S. Watson, Hong Kong) opened its first store in 1989; it operated 30 stores and planned to open approximately 12 new stores per annum in the next four to five years. The average store contained approximately 560 sq. m. of trading area. A firm official said it would attempt to change public habits. "Conversion of wet market shoppers to supermarket shoppers will be our first priority. Considerable work is needed as more than 80% of Taiwan shoppers still prefer to purchase fresh produce in the market."

Locally-owned supermarket chains were emerging. Wang Teh Fu Supermarket Company operated eight full-size outlets in northern Taiwan; floor space, 335 to 700 sq. m. It also operated three mini-marts, 33 sq. m. shopping area; future outlets were planned as suitable sites were located. Other chains were developing networks; for example, Kasumi, controlled by local manufacturer Wei Chuan and Sun-Ching, each had ten supermarkets in Taipei.

Hypermarkets. Capturing increasing market share among Taiwan's supermarkets were hypermarkets, huge outlets providing 10 to 15 times typical supermarket floor space. Taiwan had two major players, Makro and Carrefour.

Makro emerged as Taiwan's largest retailer, sales about NT$21 billion per annum. Said Carlos Perez, President of Makro Taiwan: "We are the leader, we have no challenger, we need to challenge ourselves." Makro defined itself as a wholesaler rather than a retailer; it targeted professional customers, often food retailers. However, analysts regarded Makro as a retailer because it employed a tiered price structure; individuals purchased products at higher prices than *bona fide* resellers. The largest share of company sales were to individual buyers.

Makro was owned by SHV Holding (Holland) (55%); Charoen Pokphand (Thailand) (10%), Taiwan's Holinsgreen Group (35%); Makro in Thailand had the same partners. Although the Taiwanese partner helped considerably with legal and political issues, management was left entirely to SHV. Perez (who took a crash Chinese course before taking up his position) was the only foreigner in Makro Taiwan; local management will succeed him. (By contrast, Carrefour had a large staff of expatriate managers.) For Makro, the human factor was key to managing retailing operations. Finding good profiles, picking the winners and teaching them the Makro way of doing things was central to Makro management. At Makro, "Buying is central, decision making is local," said Perez. "This often leaves a grey area with which managers must deal. It is a situation of 'managers who manage without definitions.'"

Makro operated seven stores, floor space, 10,200 to 13,475 sq. m.; each store provided parking for 700 to 1,000 cars. Makro claimed it was Taiwan's price setter; it sold both local products and a wide range of imported goods, as well as generics and own labels under the Aro name. In mid-1994, Makro was forced to close two stores in industrial areas not zoned for commercial activities; all other stores were in similar situations. Makro treated its huge outlets as warehouses; clients could enter only with membership cards. In the legislative vacuum, Makro preferred to wait for the December municipal elections results when, it believed, political decisions would be made.

Makro recently caused controversy among suppliers by making a clean break with standard price fixing. To attract customers, Makro offered best selling merchandise at cut-throat prices for a limited period. It sold Proton brand TV sets at NT$1,000 less than the fixed wholesale price, popular Hey-Song soft drinks at NT$265 per carton (standard wholesale price, NT$310) and offered 25% discounts on all products supplied by President Enterprises, Carrefour's partner. Makro's cut-throat competition irritated other buyers and supplier company agents. Many Proton Electronics agents filed complaints with their supplier; Carrefour threatened to stop purchases from President Enterprises. Insiders said Makro should not destroy the market order and hurt other competitors just to promote itself. Some Makro suppliers decided to limit supplies if Makro did not cease its oligopoly-busting activities.

Makro also operated in Indonesia, Malaysia and Thailand; it was seriously considering entry in South Korea, the Philippines, and Beijing and Guangdong province in China. Makro's next Asian move would build regional purchasing power using synergies from different countries, a possible future advantage when competitiveness would be more based on retailer margins.

Carrefour entered Taiwan at the same time as Makro (1989) and expanded rapidly. It had eight stores and planned to open more in 1995 (see Carrefour in Asia (A)).

Convenience stores. The omnipresent 7-Eleven convenience store chain was managed in Taiwan by President Enterprises in cooperation with the Southland Company. It added 60 stores in 1992, 100 in 1993 to total 809; 1993 revenues were NT$17.6 billion, pre-tax profits NT$815 million, up 57% from 1992. 7-Eleven planned 910 stores by end 1994 and purchased real estate for 30 more, posing a threat to competitors having to pay rent. 7-Eleven was also planning to open over 500 outlets at gas stations owned by China Petroleum Corporation. On opening (1979), 7-Eleven targeted housewives; results were disappointing. It changed strategy and switched attention to the workforce, adolescents, working women and night owls, by opening 24 hours per day. All stores were near large people flows; product ranges catered to the target markets needs.

Increasing competition from other convenience chains led 7-Eleven to develop new business strategies. In 1992, it launched a fast-growing mail order operation; in stores, it planned more service item expansion, offering magazines, transportation tickets and installing automatic teller machines. It also planned banking, postal and telecom services, classified ads and ticket agency services. A second direction was upgrading information systems by installing an electronic ordering system to eliminate slow moving items and improve inventory control. The final axis was adopting the franchise system for rapid expansion and broad distribution at relatively low cost.

Although 7-Eleven tried franchising earlier with poor results, it believed its success would facilitate this development. President was also eyeing mainland China, competing with Hong Kong's Dairy Farm Group to negotiate retailing rights.

President also managed a chain of over 650 President Bakery stores focusing primarily on selling food items produced by President Enterprises. It also oversaw a franchise program; independents operated stores similar to President Bakery shops under the name President 3Q Shops. President also managed many vending machines.

Another rapidly growing company was Niko Mart, operating 84 shops; the most noticeable difference from other players was in imported foods. Because of ties to the Japanese Niko chain, it relied heavily on Japan as a source of imported products; most other convenience stores obtained the bulk of imports from the U.S. One of the largest convenience chain store firms with no ties to either a foreign chain or major local industrial group was Green Bean. It opened its first outlet in 1986 and currently operated 50 company-owned stores; it oversaw another 130 franchised outlets. It planned 250 stores by end 1996.

Among the dozens of other convenience store operators, some of the largest players included The Best, B&D, AM-PM Mini-Market, OK and Family Mart, a large completely independent distributor. Local food manufacturers Hsin Tung Yang, Wei Chuan and I-Mei also operated convenience stores under their own names, mainly to distribute their own manufactured products.

Department stores. The most successful and ambitious department store chain was a recent market entry; Shin Kong Mitsokushi, a joint venture between Shin Kong Insurance Group (Taiwan) and Japan's Mitsukoshi department store. The first store opened in October 1991, a second in December 1993 (in the new 52-story Shin Kong Life Tower [Taiwan's tallest building]), another in Kaohsiung City. By end 1993, it was Taiwan's largest department store and one of the few to report expansion plans in the nearly saturated market. Branches were expected to open in Taiwan (1996), subsequently in Taichung and in Taipei's Hsinyi district. Other main department store chains were Far Eastern (11 stores); Lai Lai and Tokyu Evergreen (three stores each). President Group had two Isetan stores, Sunrise (two stores) and Sogo (one store). Ming Yao and Tonlin (one store each) had management contracts with the Japanese group Keio. Most recently, Dayeh Takashimaya opened in Taipei.

Local Operators Teamed up with Foreign Firms on New Projects

Promodes, one of Carrefour's largest competitors in France operated hypermarket chains, Continei and Champion. After several years' examination (first Taiwan mission, 1986), Promodes (35%) formed a NT$700 million joint venture with a large local company, the Far Eastern Group (65%). Far Eastern operated department stores and three hypermarkets. Observers speculated the balance of power would be different from Carrefour's joint venture PresiCarre; President was only a sleeping partner. The new venture, Far Eastern Continent, would use Promodes management technology to open a hypermarket in southern Taiwan, the first of a planned hypermarket chain. Originally planned to open in July, the store would open at end 1994. Observers believed Continent was awaiting resolution of the Makro situation to avoid antagonizing local authorities by opening a new hypermarket as others were being closed. The Far Eastern Group was a serious competitor; it had a track record as a developer, operating department stores in urban areas; it also had land available in industrial areas following overseas delocalization of most plants of its Far Eastern Textile affiliate. Continent had a reputation for very aggressive promotions.

The President Department Store Group (Kaohsiung City) (unrelated to Carrefour's partner) (49%) planned a NT$5 billion joint venture with Price-Costco Group (U.S.) (51%) for 25 large-scale discount wholesale stores. President entered retailing 19 years previously; annual sales exceeded NT$10 billion. It operated the Dollar hypermarket chain, a serious competitor to Carrefour in southern Taiwan. The three Dollar warehouse clubs were directly inspired by Makro; they offered the lowest Taiwan prices on beverages but did not promote these too strongly because of warehouse regulations. President also cooperated with the Isetan Department Store Group of Japan.

The Price Club (U.S.), the U.S.'s sixth largest discount wholesale store group recently acquired the Costco Group. Price-Costco operated over 100 outlets around the world; it would open in South Korea in September 1994. Price Club's headquarters were in the same building as the Carrefour Sanchung store, clearly an aggressive act towards Carrefour that actually owned 25% of Price Club. One marketing analyst noted, "If Price Club sells products in Taiwan at U.S. prices, it will probably bury any competitor on the island."

A Large Number of Domestic Construction Firms Entered the Hypermarket and Department Store Markets

The Tuntex Group recently opened its first hypermarket (10,000 sq. m.) in Keelung, north of Taipei; managed by a former Makro employee, very good results were reported. Far Eastern Construction (unrelated to the Far Eastern Group) was building its first store (planned opening, September 1994) in Hshichi, an eastern Taipei suburb.

J & Y Huang Land Development and Construction Company signed a contract (April 1994) with Standa, Italy's largest department store, to establish the first Sino-Italian department in Taiwan. Located in Neihu, a northern Taipei suburb, it planned to offer Italian imports at 40% to 60% of average Taiwan prices. Construction would begin in September, the new store was expected to open by end 1994.

Despite increasing competition from these new chains, most retailers did not feel threatened because of their expertise and lead acquired in the last few years. They believed the market was far from saturation and that room existed for many. Official declarations were of the form: "We welcome more companies to join the business line, so Taiwan consumers can enjoy lower prices."

Projected Trends in the Taiwan Retail Market

In the past few years, the Taiwan retail market changed quickly under pressure of modern retailing forms, but more change was expected. Douglas Hsu, Chairman of Far Eastern Department Stores, made the following predictions: independent stores (e.g., old fashioned convenience stores) will be replaced by convenience stores; new selling space will become larger; new commerical areas will develop in the suburbs in conjunction with construction of Taipei's Mass Rapid Transit System; government policy will encourage establishment of fully functioning shopping centers; operational efficiency will improve with advanced computer techniques and usage.

Exhibit 1: Taiwan Background Data

Economic data of Taiwan R.O.C.

Year	Population '000	GNP growth %	GNP per capita US$
1985	19,258	5.0	3,144
1986	19,455	10.8	3,784
1987	19,673	11.9	4,989
1988	19,904	7.8	6,048
1989	20,107	7.3	7,571
1990	20,353	5.0	7,954
1991	20,557	7.2	8,788
1992	20,752	6.0	10,215
1993	20,944	5.9	10,566

Motorization in Taiwan

Year	No. of sedans registered for private use	No. of registered motorcycles
1985	830,315	6,588,854
1986	956,625	7,194,202
1987	1,159,701	5,958,754
1988	1,480,478	6,810,540
1989	1,868,389	7,619,038
1990	2,225,174	8,460,138
1991	2,535,174	9,232,889
1992	2,932,796	10,057,307
1993	3,317,580	10,948,972

Change of household expenditures in Taiwan

Expenditure (%/year)	1964	1976	1987	1991
Food, beverages & tobacco	59.7	46.4	36.5	31.1
Clothes & footwear	6.3	6.8	6.0	5.9
Rent, fuel & power	17.2	21.5	23.0	25.7
Family furniture & equipment	3.4	3.9	4.4	4.3
Transportation & communication	2.0	5.0	8.5	8.9
Education & recreation	1.2	6.4	10.6	12.8
Medical care & health expenses	–	4.6	5.3	5.4
Others	4.9	5.5	5.6	5.9

Source: *Statistical Yearbook of the Republic of China.*

Exhibit 2: Taiwan Retailing Data

Monthly food expenses in 1989

Store type	NT$ billion	Market share
Super & hypermarket	1.1	10
Traditional wet market	3.2	30
Street vendors	2.5	24
Mom-and-pop shops	2.2	21
Convenience stores	0.66	6
Government & military stores	0.66	6
Others	–	3

Changes in the number of food retail stores by type

Store type	1988	%	1991	%
Large supermarkets	130	0.3	313	1.0
Small supermarkets	1,041	3.0	1,164	4.0
Large traditional	1,466	4.0	1,582	5.0
Medium traditional	7,279	18.7	12,346	40.9
Small traditional	19,627	51.0	12,604	42.0
Pure food	8,195	25.0	2,352	8.0
Total	37,738	100.0	30,361	100.0

Source: Government statistics.

No. of food stores operated by major chains, by type (1992)

Type of format	No. of stores
Convenience stores	887
Supermarkets	161
Hypermarkets	7
Cash and carry	7
Total	1,062

No. of convenience stores operated by the major food chains

Company	No. of stores (1992)
7-Eleven	680 (vs 420 in 1988 and 809 in 1993)
Family Mart	80
Nesun	55
AM/PM	38
OK	17
High Life	17

Sources: AC Nielsen Taiwan/Investec Taiwan Ltd./survey data by Gene German.

Exhibit 2 (cont'd)

No. of supermarkets operated by major food chains

Company	No. of stores (1992)
National Co-op.	60
Wellcome	40
Far Eastern	13
Taipei Ag	12
President	11
Kasumi	11
Sung-Ching	8
Park 'N Shop	7
Makro	6
Carrefour	4
Homey	3
Total	175

Sources: AC Nielsen/Investec/survey data by Gene German.

No. of supermarkets and convenience stores

Year	Supermarket	Convenience store
1986	404	122
1987	69	18
1988	121	378
1989	213	795
1990	343	1,229
1991	438	1,617
1992	491	1,914
1993	541	2,289
1994 March	n/a	2,310

Source: Investec Coopers & Lybrand.