

# Strategic schools and their application to tescos



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Strategy formulation has always been a challenge for companies. The mission, vision, goals and objectives form the basis of the companies and the strategies are the way to achieving the latter. Over the decades, we have had an army of authors writing about the strategic management, some more prevailing and others improving on their predecessors. The designing of a strategy has been classified as the 5Ps, that is, “ Plan”, “ Pattern”, “ Position”, “ Perspective” and “ Ploy”.

Johnson and Scholes (Exploring Corporate Strategy) “ Strategy is the direction and scope of an organisation over the long-term: which achieves advantage for the organisation through its configuration of resources within a challenging environment, to meet the needs of markets and to fulfil stakeholder expectations”.

While Mintzberg, Quinn state that: “ A strategy is the pattern or plan that integrates an organisation’s major goals, policies and action sequences into a cohesive whole. In the book, The Strategy Safari, HENRY MINTZBERG, BRUCE AHLSTRAND and JOSEPH LAMPEL introduced to us “ The 10 Schools of Thoughts”. For the purpose of this assignment, we are going to take into consideration the “ Planning school”, “ the Culture School” and the “ Positioning school” to show how the latter have helped organisations participate better in the global arena. Other theories that will be considered over the course of this assignment will be the Michael Porter’s “ Diamond”, “ Five Forces”, “ Generic Strategies” and the “ Product Life Cycle”. We will consider the case of Tesco for this assignment.

## **Tesco History**

Tesco was founded in 1919 by John Cohen when he began to sell surplus groceries from a stall in the East End of London. The business grew gradually and in 1924 Jack Cohen sold the first own brand Tesco product, the Tesco Tea- before the company was called Tesco. In 1932 Tesco Stores Limited became a private limited company.

In 1947 Tesco Stores (Holdings) Ltd floats on the Stock Exchange with a share price of 25p. Tesco grew gradually and in the year 2000 Tesco. com was launched.

Over the period from 2000-2005, Tesco enters Malaysia, Turkey, Japan and China. In 2006 Tesco Direct is launched and soon after that Tesco enters the US as Fresh & Easy. In 2008, Tesco announces entry into the Indian Market and acquires 36 hypermarkets in South Korea and in 2010 it opens the world's first zero carbon supermarket in Ramsey and a " Lifespace" mall in Qingdao, China.

Over the years, Tesco has extended its product lines in breadth and depth and has hence entered in diverse products and services ranging from Clothing, Broadband, Finance, Housing, Insurance and many other own brand products. [http://www. tescopl. com/plc/about\\_us/tesco\\_story/#](http://www.tescopl.com/plc/about_us/tesco_story/#)

Over the course of this assignment, we are going to see how the different schools of thoughts have been adopted and implemented by Tesco to gain global recognition and exposure.

## **School of Strategy Overview**

Strategy formulation is the core for any organisation and it varies from business to business. Mintzberg's ten school of thoughts help with the formulation of the strategies that differ from a case to case basis. These schools have been classified under the Prescriptive and the Descriptive schools. The Prescriptive school contains the " Design school", the " Planning school" and the " Positioning school". These are the special course of action designed to attain the overall objectives of the company. This school was introduced by M. Porter in the 1980's

The Descriptive school consists of the " Culture school", the " Cognitive School", the " Learning school", the " Entrepreneurial school", the " Political school", the " Transformation school" and the " Environmental school". This school attempts to understand the historical reasons why a given company is where it is at a particular point in time. (" Strategy Safari: A Guided Tour Trough the Wilds of Strategic Management", Henry Mintzberg, Bruce Ahlstrand, and Joseph Lampel)

In this assignment, we are going to see how a company like Tesco Plc uses the understanding of the Planning, the Culture and the Positioning schools in its strategy formulation to achieve success in the global market.

## **The planning School**

### **Definition**

It originated at the same time as the design school; its most influential book, Corporate Strategy, by H. Igor Ansoff, was, like that of the Harvard group, 1965. The planning school is part of the prescriptive school and more

generally deals with the formulation of the strategies rather than the formation.

It is a formal process derived from the theory of Mechanistic and Organic Systems which assist with the scenario planning. It gives a clear direction to the organisation and enables better resource allocation and control mechanism.

## **Discussion**

In practice, the Planning School begins with an “ objectives-setting stage” [p. 49], followed by an “ external audit stage” and an “ internal audit stage” [p. 51], which are achieved by relying on “ hard data” [p. 69]. <http://www.nickpelling.com/dissertation/chapter4.pdf>

Tesco is one of the largest retail outlets competing in the global arena. <http://www.tesco.co.uk>

How did they come up with the global strategy? What were the strategies that helped them grow so fast? They needed to have a good plan based on the forecast of how the economy was behaving. Indeed, Tesco needs to have a clear sense of direction regarding where they want to be and how to get there. The planning school tends to answer these questions with the help of tools like the Ansoff Matrix and the SWOT Analysis.

## **Ansoff Matrix**

[7http://3.bp.blogspot.com/\\_Y3NdX3G1xkc/TOWh-K0cqRI/AAAAAAAAABQ/TsoF9PkPLwE/s1600/Ansoff-Matrix.GIF](http://3.bp.blogspot.com/_Y3NdX3G1xkc/TOWh-K0cqRI/AAAAAAAAABQ/TsoF9PkPLwE/s1600/Ansoff-Matrix.GIF)

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The Ansoff Matrix approaches the product mix from a different angle than the Product Life Cycle Analysis and the Boston Matrix. It outlines the options open to firms if they wish to grow, improve profitability and revenue. These options indicate to how to manage the development of the product range.

The analysis of the Ansoff Matrix helps Tesco select the right strategy in terms of product or market development, market penetration or diversification.

Tesco wanted to go global and hence adopted the Market development strategy, thereby, opening branches in different countries (China, Japan, US, Malaysia....)

Tesco also went for the product development strategy thereby providing a wider variety of products in the existing market, being, both the branded items and own-brands.

## **SWOT Analysis**

Another well known tool that is used for strategy building is the SWOT Analysis. This tool helps in analysing the internal and the external environment of the business. In the case of Tesco:

### **Strengths**

Winning the “ World Retail Awards” in 2008 has tremendously helped Tesco in securing a commercial stand. This can be used to further the brand to other potential customers for further growth and sustainability.

Tesco’s intensive distribution strategy will enable it to retain the market leader position.

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The recent economic downturn has left the retail industry in the decline with a level of performance on a like for like basis. By remaining focused on our strategy and helping customers to save money, Tesco has weathered the economic storm well.

### **Growth on 2009 (for the 52 weeks to 27 February 2010)**

**6. 8% Group sales (including VAT)\***

**10. 1% Underlying Group profit before tax**

**10. 4% Group profit before tax**

**9. 1% Underlying diluted earnings per share\*\***

**9. 8% Diluted earnings per share**

**9. 1% Dividend per share**

<http://www.tescopl.com/plc/ir/financials/highlights/>

As a business looking for continued expansion TESCO have reserve funds of credit coupled with income derived from property portfolio development funds.

### **Weaknesses**

Bad debts, credit card arrears and household insurance claims had a negative impact on the profit levels of Tesco Finance

Having the bigger market share and being the price leader in the UK market might lead to falling profit margins in order to retain key price points on basic commercial items.

The credit crunch is crunching through the pockets of the population in general and this is led to a fall in the disposable income of the people, thereby, a fall in their purchasing power.

## **Opportunities**

Statistics suggest TESCO is the fourth largest global grocer which indicates a level of buying power to ensure mainstream economies of scale.

## **Global: Top 20 Grocery Retailers, 2010**

### **Rank Company Number of Outlets, Banner Sales , Banner Sales, 2014**

#### **2009 2009(USD bn) (USD bn)**

1) Walmart 8, 451 426. 06 582. 79

With exciting growth opportunities at home and abroad, Walmart continues to improve its credentials as a food retailer and is expected to enter several new markets in 2010/11.

2) Carrefour 14, 215 152. 34 193. 02

Carrefour's priority is to reinvent its hypermarket format, which is struggling in its core saturated European markets. It will further expand in China and Brazil and enter India to drive future growth.

3) Metro Group 2, 127 104. 22 135. 51

Leading cash & carry chain Metro is benefiting from first-mover status in many emerging markets. Will enter Egypt in 2010. Large percentage of sales from non-food formats.



4) Tesco 4, 835 97. 54 146. 20

Growth at home through services. Internationally, its presence in the emerging markets of China, Thailand, Turkey and soon to be India will see its dependence on the UK decline.

[http://www1.planetretail.net/\\_data/assets/pdf\\_file/0016/42631/Press-Release-Global-Top-20.pdf](http://www1.planetretail.net/_data/assets/pdf_file/0016/42631/Press-Release-Global-Top-20.pdf)

The acquisition of Homever provided the opportunity to develop the brand through Asia, specifically South Korea and further grow International markets for the group.

The development of Tesco Direct through online and catalogue shopping will grow the use of technology, providing the launch pad for larger non food based products with moderate to high margin returns and less focus on sales and margin per foot return to space.

Over the year Tesco Mobile grew its customer numbers by 25% in 2010 and maintained its profitable status suggesting further growth and development within this technological area can be developed.

## **Threats**

UK and American markets have been affected by economic concerns through the “ credit crunch”. Lower disposable income will impact the strategic focus. They may need to change to a lower priced basic product with less focus on higher priced brands suggesting a switch in price architecture.

Rising raw material costs from both food and non food will impact profit margins overall.

Sourcing changes to Far East locations with regards exporting restrictions on some non food product areas will reduce margin rates on products with already low margins.

For TESCO USA (Fresh & Easy), there is a persistent threat of takeover from the market leader Wal-Mart who has both means and motive to pursue such action.

Hence, the use of the planning school helps companies understand their market position and what are the possible options for them to survive, grow and gain market share. These tools will also help in planning for the launch of new products and services and decide whether to stay local or go global. Managing their budgets, scheduling and selecting the best strategy to fit their objectives are only a few more examples of how the above tools assist businesses.

[http://www. ivoryresearch. com/sample36. php](http://www.ivoryresearch.com/sample36.php) -Tesco Abridged SWOT

Analysis

## **Limitation**

Just like any theory, the Planning model also has its short comings. These maybe as follow:-

The company might focus too much on generating newer strategic concepts while paying less attention to the current ones, hence, might lose their sense of direction.

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The planning school bases its conclusions on forecasts. However, this might be difficult to predict and might lead the company off the tracks.

Predicting outcomes might lead to a situation of analysis paralysis whereby most of the top management time is spent speculating

## **Cultural School**

Culture was “discovered” in management in the 1980s, thanks to the success of Japanese corporations. The cultural school is part of the descriptive school. Various groups and departments within the company are involved and the strategy formulation process. This is seen as a fundamental and cooperative process. The strategy developed is a reflection of the corporate culture of the organisation.

Bjorkman (1989) has pointed that the radical changes in strategy have to be based on fundamental change in the culture. He described this as happening in the following 4 phases:

Strategic drift

Unfreezing of current belief systems

Experimentation and re-formulation

Stabilization

It not only explains the resistance to strategic change but also helps to deal with the predominant values in the organisation and the region as well.

## **Discussion**

The culture of a company plays a very important role in its success. Over the period of time, we have come across various academics with different views on culture. M. Porter, in his book, *Creating and sustaining Superior Performance*, “ Culture, that difficult to define set of norms and attitudes that help shape an organization, has come to be viewed as an important element of a successful firm.”

Lorsch has suggested that top managers must accept as a major part of any company’s culture the importance of flexibility and innovation (1986: 104).

Tesco, in its recruitment page says, “ We aim to make the selection process thorough and challenging for a number of reasons. Firstly, to make sure we employ only those people who are right for the role and, just as important, who will fit in with Tesco culture.”

This process of acceptance into the Tesco culture uses psychometric tests and interviews, following the pattern of many large companies. The interviewee then goes through a gruelling process of being “ shown round” and “ meeting the team”. (<http://www.321books.co.uk/catalog/tesco/culture.htm>)

The above statement from Tesco shows how important it is to get the right person for the job. The people in Tesco have to understand the company’s culture so that they can integrate and become part and parcel of it. It is important for the people to interact with each other across the hierarchy.

The decision making process relies absolutely on the interaction and communication from all members of the staff at all levels. Bad decision making is a result of lack of interaction within the organisation.

Tesco has a good, customer driven culture. It is this cultural aspect that is helping Tesco achieve its targets in terms of “ Customer Service”, “ Market Research”, “ Employing the right people” and providing appropriate “ Training”.

The culture in Tesco has helped people realise and understand change as an opportunity instead of a threat. The dynamic culture prevailing within the industry has enabled Tesco to grow both locally and globally.

## **Limitations**

The cultural school emphasises the need for consistency and hence can discourage necessary changes. It is a heavy, established and deep rooted and so can encourage a kind of stagnation. It also equates strategic advantage with organizational uniqueness which can breed certain arrogance. As such Tesco has to make sure that they constantly keep looking outside the box so as to overcome any such limitations.

## **The positioning school**

This is part of the prescriptive school which sees strategy formulation as an analytical process. It places the business in the context of the industry and looks at how the organisation can improve its strategic position within that industry. This strategy was developed by M. Porter in the 1980. His main focus was on the components of the industry and how they affected the

strategies. The aim of this strategy is to compare business units within one particular environment, for instance, Tesco, Asda, Sainsbury and so on.

## **Discussion**

This model has been used by many companies like Tesco so that they can distinguish their market position vis-a-vis other company with similar industry. This helps the company analyse their current situation and design strategies to improve and sustain their position.

This can be seen through a Perceptual Map.

[http://abangkuraden.blogspot.com/2009\\_12\\_01\\_archive.html](http://abangkuraden.blogspot.com/2009_12_01_archive.html)

In the domestic market, Tesco is leading. This fact is clearly depicted from the two figures below.

[http://www.racplus.com/Pictures/web/t/i/v/Tesco\\_market\\_performance.jpg](http://www.racplus.com/Pictures/web/t/i/v/Tesco_market_performance.jpg)

<http://www.racplus.com/intelligence/retailers/tesco/>

Share of Leading Players in UK Food Retail Market

<http://www.ivoryresearch.com/images/sample36-fig1.jpg>

<http://www.ivoryresearch.com/sample36.php>

For Tesco, the main competitor is Asda. Asda is part of Wal-Mart which is the leading retailer in the USA. They have gained market share through their low price, market penetration strategy. Tesco and Asda have adopted similar, Cost leadership, strategies. Asda used the same strategies as used by Wal-

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Mart to penetrate and gain market share. However, Tesco has been able to maintain its market share by using Porter's generic strategy.

In the 1980s, M. Porter came up with the "Generic Strategies". According to this model, a competitive strategy takes offensive or defensive actions to create a defensible position in the industry. This is done in order to cope better with the competition and generate higher return on investment.

Tesco has been able to have sustainable competitive advantage by using the Cost Leadership strategy. That is, Tesco has been able to provide quality products at a low costs.

## **Limitations**

Though a successful strategy, it is also good to know about the flaws of this particular strategy. Some of the limitations are same as the planning school. Other than that, the positioning school neglects some of the important elements of the environment, which are, power, politics, culture, social elements and so on. Also, the decisions are taken by the top management and have to be implemented by the people at the lower level. This may lead to inconsistency if there is lack of communication between the levels of the hierarchy. This might also de-motivate the employees.

Furthermore, it has a narrow view in the sense that it only appreciates data which is either economic or quantifiable.

## **Whittington's School of Strategy**

We cannot talk about schools of strategy without the mention of Richard Whittington. His theory revolves around four different views on strategy as shown below:

What is strategy from The Planning Lab

### **The Classical Approach to Strategy**

According to Whittington, for classicists profitability is the highest goal of business and rational planning as the means to attain it. The Classical approach to strategy requires that managers be ready and capable of adopting profit-maximizing strategies through rational long-term planning. Tesco maximises its profits through intensive distribution policy and customer service.



## **Evolutionary Approach on Strategy**

Evolutionary approaches do not rely on top management's skill to plan and act rationally. Instead of depending on managers, they believe that markets will determine profit maximization and not the managers. As such, Tesco has more or less an open door policy, thereby encouraging the feed forward and feedback. This helps in participation at all levels of the hierarchy.

## **Processual Approach to Strategy**

Processual approaches also do not subscribe to rational strategy-making forwarded by Classical approach. However, they do not agree with the evolutionary perspective either for leaving the profit-maximizing outcomes to the market. The best Processual method is not to strive for the ideal but to work with what the reality offers. In the case of Tesco, data and knowledge is gathered from all possible means. This is then processed by the middle management and this intelligence is used by the top management for strategy formulation.

## **Systemic Approach on Strategy**

Systemic theorists believe that the organization is capable of planning and acting effectively. According to them economic activity cannot be separated from social relations such as family, state or religion. These social factors influence the means and ends of a systemic approach and define the suitable behaviour for their members.

(Reference: Whittington, Richard. "What is Strategy - and Does it Matter?" (2002) Thomson Learning, UK.)

After having thoroughly analysed the above strategies, it can be easily noticed that Tesco Plc adopts the evolutionary strategy as they aim at maintaining low costs and invest more in promotion so as to attract more potential customers.

The prices being offered by Tesco are lower than the immediate rivals, Asda and Sainsbury. The promotion helps to attract customers in the store. This proves that the right strategy has been adopted. Moreover, Tesco is a one-stop-shop product and service provider and so it is only very rarely that anyone leaves the store empty handed.

Indeed, we have to appreciate the fact that Tesco is successfully providing its products and services in the global market. As such, the Systemic strategy suggests that adapting the offerings in the global arena to match the needs is going to prove effective. Indeed, Tesco is successful across the globe as it appreciates the diverse needs of that particular country, respects their culture and shares their values.

## **Strategies for the Global Market**

Going global is one of the biggest challenges being faced by companies. The race to be the number one company on the global level has made companies shuffle through various strategies. Companies have to invest in market research, adaptation of the product or service, training, infrastructure, technology and much more. Many companies perish due to the highly versatile environment leaving behind only a few strong ones, for instance, Tesco.

Variation in the consumer behaviour highly affects the performance of the retailers in their local areas. Consumer tastes vary from country to country and companies have to adapt to these changes or perish. Countries like Brazil, India, Indonesia, Thailand have completely different tastes, buying behaviour and spending capacity and hence retailers are obliged to adapt to these changes in order to survive. For instance, in the United States, Tesco was obliged to change its name to Fresh and Easy.

In this part of the assignment, we are going to look at the formulation of the global strategies for Tesco Plc. Tools such as the “ Porter’s five force”, “ Porter’s Diamond” and the “ PESTEL” will be used. This will give the company an insight to the sort of problems that they might face and what strategies they are to adopt in order to avoid any such shortcomings.

## **Tesco Strategy Overview**

Tesco has a well-established and consistent strategy for growth, which has allowed them to strengthen their core UK business and drive expansion into new markets.

The rationale for the strategy is to broaden the scope of the business to enable it to deliver strong sustainable long-term growth by following the customer into large expanding markets at home – such as financial services, non-food and telecoms – and new markets abroad, initially in Central Europe and Asia, and more recently in the United States.

The strategy to diversify the business was laid down in 1997 and has been the foundation of Tesco’s success in recent years. The new businesses which have been created and developed over the last 12 years as part of this

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strategy now have scale, they are competitive and profitable - in fact they are now market leader in many of the markets outside the UK.

The Group has continued to make good progress with this strategy, which has five elements, reflecting the four established areas of focus, and also Tesco's long-term commitments on community and environment.

Importantly, the momentum which it has given the business has allowed the Group to continue to grow well through the economic downturn.

The objectives of the strategy are:

To be a successful international retailer

To grow the core UK business

To be as strong in non-food as in food.

To develop retailing services - such as Tesco Personal Finance, Telecoms and Tesco.com

To put community at the heart of what they do.

However, this success did not come without its failures. The process and learning and the effective knowledge management has enabled Tesco to be where it is today. Tesco has faced big problems when trying to expand into new countries, for instance, in 2000, when Tesco tried to get into Taiwan; they met with aggressive response from, then the French giant, Carrefour and had to eventually leave Taiwanese market in an asset swap deal with Carrefour. And in 2002, their expansion into Poland gave them a bumpy ride when the economy collapsed hence making their products less competitive.

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After a few of these mishaps, Tesco understood that understanding the competitive environment was crucial. Porter's Five Force model is still an invaluable tool for understanding the competitive environment.

## **Porter's Five Force**

M. Porter came up with the "Porter's Five Forces" in the early 1980's. The latter determine the industry profitability because they influence the prices, costs and required investment of firms in an industry — the elements of return on investment. This tool deals with the analysis of the competitive environment of the business in question. This framework can be applied to any business environment. In this section we will see how the five forces are assisting Tesco vis-a-vis the problems they are facing.

The five forces look at the following dimensions:-

### **Buyer Power**

The power and demand that customers bring can have an impact on a firm's business. Customers may be collectively powerful or weak. For instance, if beans are too expensive in Tesco, buyers will move to Sainsbury. Fortunately for Tesco, as there are only a few big players in the market, the pricing strategy is more or less disciplined. Discipline stops the companies destroying each other in a profit war.

### **Supplier Power**

Supplier power is an important part of the Porters five forces model. The power of suppliers also has a bearing on the firm's business. Suppliers may be so specialized that the firm has no choice but to use particular suppliers, or they may be plentiful and worth "a dime a dozen." Implications for Tesco

are many. Supplier power is manipulated by suppliers demanding that retailers pay a certain price for their goods. If retailers don't pay the price, they don't get the goods to sell. But large supermarkets, like Tesco, have an overwhelming advantage over the small shopkeeper—they can dictate the price they pay the supplier. If the supplier does not reduce the price, they will be left with a much smaller market for their produce.

### **Intensity of Rivalry**

Tesco, Asda, Sainsbury and other supermarket chains put up considerable barriers to entry. These barriers are directly or indirectly imposed on anyone willing to start up a new business. For instance, Tesco may have cornered the market for certain goods; the new supermarket will not be able to find cheap, reliable suppliers. Tesco also has the advantage of economies of scale. The amount it pays suppliers, per-item, is a lot less than the corner shop. It achieves this, partly, through buying large volumes of goods. A small supermarket chain can only buy a relatively small volume of goods, at greater expense.

### **Threat of New Entrants**

Some industries have low barriers to entry, and some have high ones. High barriers may include having vast resources such as technology or capital. However, high profits indicate a healthy market and high potential returns. This very often attracts many new generics to seek for the market gaps and come in to have a chunk of the market. This may enhance the price sensitivity of buyers, trigger price competition, and erode the high advertising barriers that have kept out new entrants.

## **Threat from Substitutes**

Some industries have a high threat of substitutes, and some have a low threat. High threat industries would include the restaurant industry and the retail industry, as there are many substitutes easily accessible. It has been predicted by the classical economists that profit of a company will gradually vanish due to increasing competition especially from the substitutes. For instance, let us take the case of Tesco and Sainsbury. Both deal in almost the same product range and hence one is the substitute for the other and this brings down the price for the customers of both the companies.

## **Challenges**

The main challenges of Tesco are growth, adaptation of their products and services and understanding the requirements of the global market. The strategies of Tesco, the structure and its rivalry are all based on the above model. They have a clear strategy where growth is targeted in all the four areas, the grocery sector, the non-food sector, the international expansion and the retail sector (financial services, online services and the telecommunication services.) The core business of Tesco is being used as a shield against the risks that they are facing in the other areas and when pursuing the growth strategy.

## **Porter's Diamond**

### **Discussion**

This model is for the competitive advantage of Nations that helps understand the comparative position of a nation in the global competition. He introduced the concept called Clusters of interconnected firms, suppliers, related

industries and institutions that arise in certain locations. ([http://www.12manage.com/methods\\_porter\\_diamond\\_model.html](http://www.12manage.com/methods_porter_diamond_model.html))

Using this strategy depicts that the objective of the company is to become the lowest cost producer in the industry, hence, being the cost leader. For Tesco, the main emphasis after enhanced customer service is cost minimisation. If the selling price can be greater or equal to the average cost of the market, then the lowest cost producer will enjoy the most profits. This strategy is applicable with large scale businesses which are offering standard products with little or no differentiation. At times, Tesco offers promotions so as to attract more new customer and encourage repeat purchase. Following this strategy, Tesco has launched multiple discount-brands within its existing product ranges. This strategy is helping them maintain their current clientele and attract new ones.

## **Challenges**

The challenges for Tesco come both locally and globally. Locally Tesco has to abide by the local rules and regulation while at the same time making sure that the environment is being catered for, the human resource are being dealt with appropriately and so many more. Globally, Tesco has to adapt its 7Ps, (Product, Price, Place, Promotion, People, Process and Physical Evidence). This learning process happens overtime. In many cases Tesco has had to go for trial and error and learn from its mistakes and using