

# Pest analysis of sainsburys in a 3rd world country

Countries



Introduction of the Company : Sainsburys is the third largest chain of super markets in the United Kingdom. It was founded in 1869 and has been growing all over the United Kingdom ever since, and today operates over 1000 super markets and convenience stores and employees over 150, 000 employees and captures more than 16% of the market share. It is also listed on the London Stock Exchange and is the constituent of the FTSE 100 index.

Sainsburys not only provides products to its customers but also services to some extent. The products and services offered by Sainsburys have a wide range from food and drinks to energy providing, clothing to insurance, appliances to banking facilities. Sainsburys has been a growing entity at a growing rate. Though TESCO has overtaken Sainsburys to become the market leader and has expanded not only in United Kingdom but also outside the United Kingdom such as Europe, Asia and North America.

Since TESCO has always been a strong competitor of Sainsburys so Sainsburys also has this intention to expand outside United Kingdom, too. It is necessary for a firm or company to carry out a PEST analysis either as a new entrant or to exist and survive in the market to keep it's self updated with the influence of the macro environmental factors. Introduction of PEST Analysis : PEST analysis stands for " political, economic, social and technological analysis". PEST Analysis focuses on analysing the macro-environment in which a business or a firm operates.

Each of these factors play a vital role in the overall business environment and one should consider these factors and have vital knowledge of them as they can either make you a success story or may end up shutting down the business. Political factors refer to the economic policy given by the <https://assignbuster.com/pest-analysis-of-sainsburys-in-a-3rd-world-country/>

government and the government intervention the economy. This includes areas such as tax policy, labour, law, tariff and trade restrictions. Political stability is also quite important for the economic growth. While, governments have great influence on health, education and infrastructure of the nation.

Interest rate, economic growth, monetary and fiscal policy, inflation and the exchange rates are the important economic factors. These factors play a vital role in a firm's business strategy and decision making. Every country has its own culture and the nation has a strong impact on their living. The social and cultural influences on business vary from country to country. Social factors include the cultural aspects and include health consciousness, language, population growth rate, age distribution, career attitudes.

Trends in social factors affect the demand for a company's products and how that company operates. For example, the roles of men and women in the society. Furthermore, companies may change various management strategies to adapt to these social trends. Technological factors have vital place in PEST analysis. Some markets are labour intensive and some are capital intensive. Technological factors determine barriers to entry, minimum efficient production level and influence outsourcing decisions.

It is one of the major drivers of globalization and is the base for competitive advantage. Innovation is offered to the customers or consumers through technology for example internet banking, smart phones etc. It also enables the firm to produce a product cheaply and to a better quality in standard. Pakistan is the sixth most populated country in the world with over 180 million people. It is estimated that the 25% of the population belongs to

the middle income class. It is also estimated that 55% of the Pakistani population is in the 10-40 years age bracket.

The upper middle-income class is estimated at 17 million with relatively high per capita income which favours more consumer spending. The average Pakistani consumer spends 42% of his income on food related products. The upcoming changes in demographic will create opportunities and challenges for businesses in Pakistan. Pakistan's food retail sector is unorganised and highly dominated by independent small stores. Over the past few years, some large European food retailers have opened stores in all major Pakistani metropolitan cities like Makro, Metro and Carrefour (Hyper star).

Pakistani families are attracted towards these stores due to their strategic location, multiple product range and imported processed food. Studies also show that there has been a significant shift to organized format of shopping from traditional format, in urban areas. This provides a challenging and profitable opportunity to other food retailers to enter the market. Sainsburys provides convenient shopping under one roof, has wide range of products, consumer friendly environment, large storage and discounted prices.

These factors give Sainsburys an advantage over other food retailers currently present in Pakistan. If Sainsburys decides to enter in food retail sector then it has to perform a PEST analysis. PEST Analysis of Sainsburys in Pakistan : Political Factors : The political factors revolve around the current government in a country. Currently, in Pakistan, the ruling party is Pakistan People's Party which was democratically elected in 2008. Though it is backed by western powers but still is considered to be a weak government.

The basic questions arise such as how stable is the political or is there any government intervention in the economic policy making or laws and legislation protecting the businesses. Unfortunately, due to weak governments in the past, the security and corruption has been the key issues Pakistan has been facing over the the last decade. Which certainly is not a good sign for any foreign investors. However, giants in food-retail sectors like Metro and Carrefour ( hyper star) have set an example with an increasing growth in profit and expansion even in such circumstances.

Sainsburys may enter in the Pakistani market with it's variety of products which are available under one roof, as the increasing trend in urban areas shows, there will be high demand for it. Political factors may also include the goods and services which the governments want to provide or be provided. Sainsburys collects much of it's revenue by selling it's wide range of wines and spirits. Pakistani law prohibits the sale or consumption of any type of wines and spirits within its geographical boundaries, Sainsburys will not be allowed to sell it in their stores which may negatively affect their sales.

Government of Pakistan ensures that there is foreign investment in Pakistan and it has signed a few trade agreements too. It also provides foreign investors the incentives to invest here. Partial ownership by the Pakistan government usually serves as an insurance policy for the share holders and the investors. Economic Factors: Extremely volatile oil prices are the root cause of global financial crisis in Pakistan which has also worsened the energy crisis. These two factors increase the cost of production.

High inflation is a key resultant of it As Sainsburys produce much of it's products in stores so they may go beyond their feasible region in producing  
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a product. Interest rates are at their peak, economic growth is quite slow and this is due to the low level of lending and purchasing power of the consumer is weak. Though it is a labour intensive country and labour supply is quite high and also available at low cost than most other countries but unemployment is rising regardless of the above mentioned fact. The gap between rich and poor continues to expand and the percentage of poor is increasing everyday.

However relatively quite cheaper labour may do a significant impact in Sainsburys production. It will also bring employment opportunities for young and skilled labour. Heavy loans from financial institutions like IMF and world bank has made the government in debt upto neck and there are no significant changes in sight. However financial aid packages in the name of war on terror and from the friends of Pakistan has kept the economy from collapsing. Pakistan has integrated with global economy and has brought positive impact on economy with increase in GDP.

Despite of the worse conditions, Investing in such a country where cheap labour is available and more than half of the country's population lies in the labour force, targeting middle-income class-keeping the fact in mind that government provides support to private investors would not be a bad decision. Social Factors : The culture and religion are very close to each other in Pakistan. As mentioned above this will affect the sales of wines and spirits of Sainsburys as it is not only prohibited by the dominant religion and prohibited by law but the targeted class does not accept it too.

Health and Education are the two important sectors for any developing nations and Pakistan lack both of them and government of Pakistan fails to

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allocate the required budget in both the sectors. However, people like to shop and come with families to the big retail stores. There has been a significant shift from traditional to organized format. The studies show that 11% of the population tend to buy long life food related products in advance for a month. Sainsburys provides a healthy and safe environment to work with, which for a change would attract the people to work and shop here.

In comparison to the past, women have also started to contribute in the labor force. Language will be a barrier for the citizens of Pakistan as English is not the first language in Pakistan. Buying imported products is considered a status symbol in Pakistan so there is a high demand for foreign products in Pakistan and is appreciated in the local market. According to studies people spend 42% of their income on food related products. So there will be high demand for a food related products provided by Sainsburys. Technological Factors :

Technological expertise is overflowed in Pakistan as the labour supply and demand for IT professionals is high. There has been an improvement in the industrial sector but still the country's imports are higher than exports. Since it is a labour intensive area and not capital intensive so use of technology higher the cost of production but shift to focus more on labour may help Sainsburys to produce its products relatively cheaper. There is also a trend of buying products online seen. Sainsburys already provides the service of buying its products online which saves much time so the typical " 9-5" workforce can also be targeted.