

Corporate strategy of tesco

Business, Strategy



{draw: frame} An evaluation of Tesco's competitive position within the food industry market. Corporate strategy ASB-4004. December the 14th 2009. Shahbaz Ansari- abpa40, 500 200603 Word count- 3300 excluding references, appendices, and tables. Contents page Introduction P3 History P3 Business strategy P3 Corporate strategy P3 Company values P3 Value chain P4 Joint Ventures and Mergers and Acquisitions P4 PESTEL analysis P5 Competitors P7 Figure 1: Tesco's main competitors P7

Figure 2: Ansoff matrix for Tesco's marketing strategy P8 Figure 3: Tesco's sub-bran position in the United Kingdom P9 Figure 4: Tesco's competition in the UK P10 Figure 5: Tesco's internal competition P10 Core competencies P11 Human Resource P12 Recommendations P13 Conclusions P14 References P15 Appendices P17 Appendix 1: Retail Competitors Analysis by Mintel P17 Appendix 2: Leading UK food retailers, market shares, 2008 P18 Appendix 3: Tesco UK store formats, 2008/09 P 19 Introduction The company that our group has chosen to analyse is Tesco.

Tesco was founded in 1919 by Jack Cohen who began his new venture by selling surplus groceries from a stall in the east end of London; On his first day he made ? 1 profit and ? 4 of sales (Tesco plc. com [history]). Tesco has come a long way since then and is now one of the largest food retailers in the world, operating around 2, 318 stores and employing over 326, 000 people. Not only has Tesco managed to monopolise the food sector, they have also diversified into a number of other sectors, some of which being insurance, mobile networks, clothing, and electronics.

However, this report shall have a focus of the food sector in the United Kingdom. Albeit that Tesco has 2, 200 stores locally, it is categorised as operating in a globalised environment. Currently Tesco has stores in seven European countries; the United Kingdom, Poland, Hungary, Turkey, Slovakia, Czech Republic, and the Republic of Ireland. Furthermore also operates in Asia, stores can be found in China, Malaysia, Japan, Korea, Thailand, and Taiwan (Tesco plc. com [community plan]; Tesco plc. com [core UK]).

The long term business strategy of Tesco is currently fivefold; to be a successful international retailer; to grow the core UK business; to be as strong in the non-food arena as the food arena; to develop retailing services- such as tesco. com, Telecoms, and Tesco personal finance; and to put community at the heart of what they do (Tesco plc. com [long term strategy]). How Tesco chose to implement the corporate strategy is via a steering wheel model; that all of the key elements of the business, customers, operations, people, finance, and community, are dealt with an equal and balanced scorecard (Tesco plc. com [CR strategy]). It has been stated by Tesco that the steering wheel has been implemented to place emphasis on the fact that corporate responsibility is not a specialist function in Tesco, it is a part of everybody's job every day (Tesco plc. com [CR strategy]). Tesco works off the business value that their " core purpose is to create value for customers to earn their lifetime loyalty" (Tesco plc. com [our values]). Great emphasis is placed within " people", without their customers and employees Tesco's success would not have been possible.

For the remainder of this report the variables that can affect Tesco's competitive advantage shall be considered and evaluated. Value chain When considering the value chain of Tesco there are a number of primary variables that can either add value (+), lose value (-), or have the potential to add value (P+). For the primary activities; Inbound logistics These have an integral importance in the creation of the value chain as they provide the earliest opportunity to create value, therefore because of the elements related to the logistics Tesco try to achieve and maintain the level of consumer choice in store (+).

The efficiency of distribution system of Tesco does need to be improved (+), and the quality control system should be managed by the company efficiently so that the cost of losses are not imposed upon the customers (P+). Operations Tesco's core operations are service orientated and these services involve opening and closing the store, shelf maintenance, and replenishing the stock (+). Outbound logistics The main emphasis for this stage in the chain is delivering the product to the customer (+), the customer service that is provided (+) and the implementation of the trolley service which is convenient for the customer (+).

Marketing and sales The Tesco Clubcard gives discounts and provides loyalty to customers (+), selling healthy and environmentally friendly products (+), and Tesco's advertisements and new policies on using recycled products to help Tesco come "carbon free by 2050" (+). Joint Ventures and mergers and acquisitions In 2008, Tesco made an agreement with the Royal Bank of Scotland to buy 50% of their shareholding. This allowed Tesco to build up

Tesco Personal Finance. Tesco currently offer financial products such as home insurance and a credit card. However, Tesco wishes to offer a full service retail bank.

The reason for wanting to embark on this new venture is because owning its own bank would not just increase Tesco's revenue, it would also attract new customers and provide a further service for its existing loyal customers, which other competitors do not offer (REFERENCE PLEASE YOUNG). In 1999 a French hypermarket chain named " Carrefour" tried to enter the Korean market but it failed. This was due to the fact that the Korean population had a preference for domestic supermarket chains, which this was not as the owners failed to localise the store (REFERENCE PLEASE YOUNG).

Interestingly Tesco attempted to enter the South Korean market in 1999 as a joint venture with Samsung. It was named " Samsung Homeplus Tesco" and was extremely successful due to the recognition by the Koreans that it was a domestic retailer. By joining forces with a Korean business Tesco was given an instant competitive advantage and the opportunity to thrive: " it has now become one of Koreas leading retailers and there are currently 30 hypermarkets and two super express stores" (Kollewe, 2004). Finally, in 2008 Tesco acquired a Korean supermarket chain named Homever which was owned by the E-land group in Korea.

Tesco paid ? 958 million to take over the 36 stores that the group owned (Walker, 2008). The takeover will not only increase Tesco's revenue, in a country that they have already been successful in, but will also enable Tesco to gain knowledge of the Far East and Asian markets through merging the

two companies, this hopefully should enable them to be just as successful within these new markets. PESTEL analysis for Tesco Political Due to operating in a global environment, Tesco is largely influenced by the political and legislative conditions of these countries, as well as the European Union enforcing governing rules.

The government legislation for employment encourages retailers to provide work for a variant of people, ranging from flexible, lowered paid, and locally based jobs to highly skilled, highly paid, and centrally-located jobs (Balchin, 1994). This piece of legislation also allows for the various demographics to be given work opportunities, such as students, senior citizens, disabled people, people from various ethnic backgrounds, and working parents. This gives Tesco a competitive advantage as it produces loyal employees.

Economical

The recession has caused the unemployment level in the United Kingdom to soar over 28.93 million (Office for national statistics). As economical factors are likely to influence demand, cost, price, and profits, these figures should make Tesco's management feel particularly apprehensive. Although Tesco's international business does bring in a high amount of profit, they are still largely dependent on the UK market. If the unemployment rates continue to soar, the slowdown of the UK food market could have a severely detrimental effect on Tesco's. Social

British customers have become "one stop" shoppers. Due to this movement, Tesco has been able to successfully diversify their company into a range of different markets. One can now not only buy their weekly shop but can

purchase personal insurance, electronic goods, clothing, and a range of other products from Tesco. com. Technological This particular variable of the macro-environment has helped to develop many of Tesco's products and has not only been indicative of the company's satisfaction but also that of the customer's. Due to services such as Tesco. om, the self checkout service and the Tesco Clubcard, the customer satisfaction levels have increased due to more personalised shopping, goods that are readily available, and convenience. However, due to the modern use of technology, it does allow for job cuts as face to face services have been replaced. Environmental Tesco has put in place measures to ensure that their company helps in the fight to lower carbon emissions. Their challenge is to achieve a 30% reduction of the carbon impact of the Tesco's supply chain by 2020 and to become a zero carbon business by 2050 (Tesco plc. om [Press release, 2009]).

Implementations in the forms of using green clubcard points in order to encourage environmentally friendly, carbon conscious purchasing; the “ buy one get one free later” scheme, that allows customers to acquire their free product at a later date to reduce waste; and are striving to reduce packaging, reduced carrier bag use, and increase recycling, this year alone they have reduced carrier bag usage by 53% (Tesco plc. com [Press release, 2009]). Legal There are certain government legislations and policies that Tesco's have to abide by and have a direct impact on their performance.

Bodies such as the Food Retailing Commission (FRC), who prevent companies from demanding payments from suppliers and changing agreed prices without notice. Government policies for monopoly and the reduction of the buyer's power can limit entry into the sector (Mintel report, 2004).

Competitors The market leader of food retailers in UK is Tesco. It has 26. 2% (including non-retail is 31. 5%) market share, 2, 115 stores and ? 34, 874 million sales (Intel, Food Retailing, 2008, details in Appendix 1). J Sainsbury which has 823 stores and 13. 5 (16. 5) % market share is in the second position. The third one is Asda group, and it gains 13. (15. 1) % market share with less than half of the Sainsbury stores number. The fourth player in food retailing market is Wm Morrison Group which holds 9. 5(11. 7) % market share. “ The top four account for 63% of all food retailers’ sales (after adjusting for fuel sales) and dominate the market for main food shopping. (Intel, Food Retailing, 2008)” “ British supermarkets are typically evaluated by potential customers by two sets of criteria: the perceived price levels charged and the quality of service offered in terms of range of goods, quality of merchandise, opening hours, and store environment (Bradley, 2003).

{draw: g} Figure 1: Tesco’s main competitors adapted from Intel report, 2009, (see appendix 1). As Tesco is in the middle of the position map, it has the opportunities to expand its product line to meet the up-market needs, or to have some discount products get the down-market interests, but the competition level in this position is very high. It is necessary to look at how Tesco still hold the No. 1 position in UK food-retailing industry. {draw: g}

Figure 2: Ansoff matrix to analyse Tesco’s marketing strategy.

Tesco started in the UK food retailing market and the business is maturing. “ Sales density and market share growth are both slowing, and UK space is becoming a smaller part of the whole (Leahy, 2008). ” Although Tesco will still plan to open more stores in UK, “ 80% will open outside of the UK in 2009 (Intel, Food Retailing, 2008)”. The opportunities for Tesco are: 1. Taking

advantages of the food retailing value chain to continue to grow internationall by market development, and 2. Providing non-food products/services to the loyal customers in food retailing area by product development.

Figure 3: Tesco's sub-bran poision in the United Kingdom. {draw: g} The above figure summaries the sub-brands of Tesco with two main factors: the customer perceived convenience and the product range (Food vs. Non-food). In order to hold and increase the market share, what Tesco is trying to do is to to set a small number of big stores which could be the best choice to purchase the products when the customer have enough time. Meanwhile, there are more than one thousand express/One Stop stores which could be convenient for the customers daily life purchase.

When considering the competitive advantages, our group uses Poter's " Five Forces" (1980) to analyze Tesco competition in the UK and international markets. In the UK, Tesco bulits the barriers for new entrants (high fixed cost and difficult to get suppliers), cooperates with local suppliers (strong relationship with farmers), uses Clubcard for retaining customers (Customer loyalty), and in the food retailing there is no specific substitutes. {draw: g}

Figure 4: Tesco's competition in the United Kingdom. draw: g} In the international markets, the situation will be different. Tesco should build relationship with the international suppliers, promote its brand to the international customers, provide products differentiation to avoid the threat from substitutes and potential entrants and compete with the international competitors which may already have strong supplier chains. Figure 5: Tesco

internal markets competition. Core competencies There are two issues as the core competencies of Tesco. One is the employees, and another is the customers. The staffs determine the competitiveness through the internal of the business, whereas the customers determine the external environment the profitability of the business" (Kotler and Keller, 2009). Especially, when the business is in the downturn, Tesco needs to spend more time to do the research on how to satisfy the customers better than its competitors'. The ultimate goal of Tesco is to reduce the cost for the customers. Since Asda enter the UK market with the introduction of parity strategy, the main players in supermarkets has faced a fierce competition which based on the low-cost strategy.

At that period of time (1980s), some of the main supermarkets had been replaced which was related to a low customer loyalty. People had a wide range of choice with a cheaper price. Until the Clubcard was established, customers have become more relevant to the supermarket. Although a Clubcard itself does not create loyalty, it can be a medium to produce the Tesco points (which can be accumulated and exchange the goods/money within Tesco, source from: Assen, Van den Berg, and Pietersma, 2009).

Tesco notice that the total customer satisfaction experience can create the generate loyalty towards ' a pull strategy' which is better than a direct promotion that is based on a low-cost products (a push strategy). According to Tesco's annual report, " In the first 6 months of the club card introduction, without any advertising case, Tesco have achieved about 17% of the "

customer spontaneous usage. " Based on this research, it is obviously to see that a Tesco Clubcard can not only enhance the customers' loyalties, but also can create a customer relationship management (CRM) for Tesco.

Tesco can get the information from CRM and analyze it to find those most valuable customers. On one hand it can reduce the cost and make Tesco to target more efficiently and effectively. On the other hand this may improve the company's service quality and customer satisfaction. Club card activity is successful and remarkable. Customers like these activities, as well as the store managers. It gives the opportunity to create a communication channel for the managers and the customers sharing knowledge. Tesco is trying to treat its customers as " shareholders".

In addition, Tesco must learn and adjust their marketing strategy to meet their customers' needs. That means if Tesco can notice the changing of the customers' needs more quick than its competitors. Their competitors will lose their customers' satisfaction and this is one of the most important competencies of Tesco, especially the critical successful factor in UK. Human Resource Tesco's distinctive strategic resources and assets can be found in its employees. The HR department in Tesco's has been strategically integrated in the overall plans; management utilizes HR whenever they are making decisions (Beardwell J. 004). HR department helps in the building of the company through the following: - creating new plans and techniques to measure and reduce labour turnover. It has played a crucial role in aiding diversification into new business sectors. Their slogan ' Every Little Helps' is part of their ethos and is also inculcated in the training programs offered to

their employees (Armstrong, M 2005) Tesco focuses on high commitment through the HR department by incorporating all employees; by discussing its strategic directions.

The major challenge to Tesco is ensuring that all employees are aware of the roles assigned and how these various roles and actions can affect the 'big Tesco picture' (Whitelock, N. 2003). As a result, training has increased within the organization with high value placed on employees through the offer of basic and extended training. (Beardwell J. 2004). The increment in employee training within the organization is as a result of HR adopting a proactive strategic role and not an administrative one.

The stance taken by HR is that by equipping the employees with the skills that they need to work will in the long run lead to increased growth. (Mullins, L. 2005) Career development is also looked at. This is in light of the changing employment market and employees feeling less secure in their jobs. A disadvantage of this is that since these skills are transferrable, they could in the long run be of benefit to their competitors. Though the merits of training the employees outweigh the demerits, employee shift or movement should not be overlooked. (Marchington M & Wilkinson, A 1997) In terms of sustainability, developing employees through T&D and education are imperative because these are the most important factors in determining long-term business profitability. This can also be achieved by fully exploiting the wealth of knowledge within the organization; its employees. (Armstrong, M 2005) It aims to integrate learning as part of its business culture because

learning is seen as an integral way of being flexible which has a long term organizational value thus maintaining its huge step ahead of its competition.

In conclusion, Tesco's integrating HR as part of its strategy and focusing on the training of its employees has made them feel a part of the overall strategy which in turn has led to higher employee commitment. This long run effect gives Tesco the added value it needs in the competitive retail market. Recommendations There are a number of recommendations that can be specified which could enable Tesco to grow into more dominant brand and have even more success both locally and internationally.

Tesco's growth largely depends on its non-food products, these account for over 25% of its sales (not including petrol), and it is these areas that are the key to Tesco's future success. The main emphasis should now be on developing new and innovative strategies so that these areas can blossom. Already it has been noted that Tesco beauty section is only second to Boots, and their skin care range is the fastest growing range in all supermarkets. However, they do face stiff competition from Asda's and Sainsbury's clothing range.

If Tesco wishes to be viewed as the number one "one stop shop" then more efforts need to be placed into the non-food areas otherwise customers shall use a different supermarket that do satisfy all their consumer needs.

Currently there is a serious cause for concern that our carbon foot print needs to be decreased drastically. All supermarkets have a high level of waste; cardboard, plastics, paper. This problem needs to be address,

although Tesco has stated that they wish to be carbon free by 2050, they need to ensure that this dream becomes a realisation.

They can reduce these variables by having less packaging on products, promoting recycling, and disposing with plastic bags all together and instead implement long life bags that the customer brings to the store when they visit. Tesco have been extremely successful in many foreign markets through joint ventures and mergers and acquisitions. They have acquired a lot of useful knowledge about the Korean market and now hopefully will flourish in the Asian and Far East market. This shall only happen though if they bring not only their own values but adopt the ones of the country that they are entering.

Finally, further steps need to be taken into promoting Tesco's banking service. If this venture does go ahead they will be an unstoppable force. Conclusion Tesco is a remarkable chain. Although it is leading in its market and is attempting to conquer the international world, it is the values that they uphold that are second to none. It is the emphasis on " its people" that have allowed them to be so successful; by continuously trying to provide better and faster services of a high quality, and investing time and money in its employees is why they have so many loyal customers.

Tescos are known for innovation, they have now become a one stop store, not only can one acquire the weekly shop but now can obtain insurance, home furnishing, clothing, and electrical goods. It is for reasons such as these that they have always been able to stay one step ahead of their competitors. Word count - 3300 References Armstrong, M (2005) (9th

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