

How successful has the strategy of tesco been within the industry? essay sample

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In nowadays Tesco has a presence in 13 markets and around 4000 stores worldwide. Tesco, the biggest retailer in the UK with amazing group sales of £51.8 billion and gross profits exceeding £2 billion. In 1937 Tesco opened Britain's first self-service store. This new system allowed for the faster servicing of people and lowered the costs of labor. Throughout the 60's Tesco used so called "pile it high, sell it cheap" strategy that was set in motion by Cohen. This new strategy proved to be unsuccessful. Tesco had a grocery market share of 29.0% and became UK's largest retailer in early 2005 and was ahead of its competitors. The main reasons for this were: An "inclusive offer". Tesco met the needs of low, medium and upper class customers in every store. Tesco's started its own-brand products, which include the upmarket "Finest" and low-price "Value" ranges.

Thus they were able to increase their profits rather than selling other brands products. Customer focus: they made an unusual strategy move by not focusing on "maximizing shareholder value" this move was taken by Sir Terry Leahy, chief executive since the mid-90s. The company's mission statement reads, "Our core purpose is, 'To create value for customers to earn their lifetime loyalty'. We deliver this through our values, 'No-one tries harder for customers', and 'Treat people how we like to be treated'". Since 2000 the company has a four-pronged strategy implemented by Laura Wade-Gery:

- "Core UK business" – Tesco made a large-scale expansion into the convenience-store sector that move was innovative and energetic.
- "International" – Tesco started its international operations, focusing on retailers with weak strategies in Central Europe, Asia and the US.
- "Non-food business" – Tesco also entered other lines of business like clothing,

consumer electronics, health and beauty products, media products etc. Many high street chains were soon threatened. • “ Retailing services” -Tesco also entered into areas like personal finance, telecoms and utilities. Tesco entered these sectors by joint venturing with the major players. Overall Tesco’s success is probably based on their ability of getting the basics of retailing right more often than most of the competition.

TESCO SWOT ANALYSIS

For a strategy to be effective, senior management must take into consideration all the distinctive competencies of the company, and they must review the environment. They must understand what competitors are doing, or planning to do and take that into consideration. They must critically examine other factors that could have positive or negative effect. This is the so called SWOT analysis.

Strengths

- TESCO have secured commercial image within the global market by winning Retailer of the Year 2008 at the “ World Retail Awards”. This can be used for a great marketing campaign towards the demographic segment for future growth and sustainability.
- The present environment shows that global retail sales are showing decline. Unlike other companies TESCO Group have published raise in sales of 13% for UK markets and 26% growth in international markets.
- TESCO is a business that is looking to expand and has reserve funds of credit in combination with income derived from property portfolio funds.

Weaknesses

- Tesco's Finance were affected through bad debt, credit card overdue debts and household insurance claims.
- Tesco's position as a price leader in UK markets can lead to a lowered profit margins in order to maintain the key price points on must have goods.
- As a Grocer retailer they are not set up to service as specialist in specific product areas which can be done by other smaller retailers.
- Having in mind the current economic conditions, Tesco's key value message will be successful, never the less there is a weakness in non-essential, mid to high priced items which will suffer due to the rising costs of living and lower disposable of incomes.

Opportunities

- Statistics suggest TESCO is the third largest global grocer which indicates a level of buying power to ensure mainstream economies of scale.
- The incorporation of Tesco Direct in the Tesco.com and catalogue shopping will grow the technology, providing an easier start for larger non-food based products with moderate to high margin returns.
- TESCO mobile have grown to about 250 000 customers, which suggests that this technology can be developed even further.

Threats

UK and American markets have been affected by the economic crisis and the "credit crunch". Lower available income will have a negative effect on their short term plan and strategic focus. Tesco might need to change to lower prices of basic commodities with less focus on brands with higher price. The overall profit margins will go down as the prices of raw materials for food and non-food products goes up.

People could order the correct products they wanted. Tesco managers were eager to integrate the online service, because it has a similar operating margin as the physical business which is approximately 5.7%; never the less the online shopping has a sales growth of up to 30% compared to the physical one for up to 9%.

At the beginning they used to face some problems with the deliveries of the wanted products. They just mixed some of the orders. Customers were supposed to pay a delivery tax of 5 pounds. Later, the delivery option opened a greener solution; the products were brought without bags.

“ More and more customers are using their computers and smart phones to shop,” said Tesco’s Barney Burgess, chief operating officer for grocery home shopping. “ This state of the art facility will increase our capacity in the area, enabling us to offer an excellent and convenient service to our customers.”

Tesco boss Philip Clarke has unveiled a two-tier online marketing strategy in a drive to develop a growth in the use of personalized Club card data.

Clarke said changes would be made to the Tesco. com site to enable Everyday Value offers to be flashed up to its most price-sensitive customers, while Finest products would be the center of personalized messages to more “ upmarket” Club card holders.

The move is the latest phase in Tesco’s plan to expand the use of Club card and also extends trials it has been carrying out in stores, whereby more

lucrative areas have focused on finest ranges and those in poorer areas have centered on price.

In a speech to the Consumer Goods Forum in Istanbul entitled ' Follow the Customer or Die', Clarke said Club card was a " critical" part of Tesco's plans.

" Data about food is more insightful than any other kind of data: you are what you eat," Clarke said.

" But now we're turning Club card digital, correlating the data we have about what food people buy with sources of data - social networking data, mobile phone data, payment methods - so we can get to know our customers better still, and use that understanding to deliver an even more personalized offer."

He added: " For example, we're now making changes to our UK website to highlight promotions that are relevant to the customer who is browsing the site. Using Club card data, we would show, for example, offers of our Everyday Value range to price-sensitive customers and offers of our finest range to more upmarket customers."

Clarke said that Tesco had trialled the idea around sales of mattresses, having used Club card data to tell if a customer was more swayed by price or quality to decide which offer was displayed to them. Sales, grew by 10% during the trial.

Tesco is seeing a boom in online shopping in the UK, as it opens a new dotcom store at Crawley, UK, creating 700 jobs.

The Crawley facility follows the high-tech model launched on the other side of London, at Enfield. It features the latest technology and systems available to support Tesco's home grocery delivery business.

Final statistics - Internet purchases supported a moderate rise in sales at Tesco, according to the FTSE-100 supermarket chain's latest trading statement.

Group sales in the six weeks to January 5t, 2013 increased by 3. 8% including petrol, while the international business performed at a similar level to the third quarter.

In order to define the level of success of Tesco's strategy, in my opinion the best way is to follow it thorough Tesco's timeline/history. Tesco owns 30% of the UK market share. The business was started in 1919 by Jack Cohen as a cluster of market stands. The first Tesco store was discovered 1929 in Middlesex, Burnt Oak. The retails expanded quickly, and by 1939 there were over 100 Tesco stores in UK. During 1990 Tesco relocated, from its reception as a down-market retailer, to one which demands a wide social group, from Tesco Value to Tesco Finest ranges. This strategy was effective, and boost the chain develop from 500 stores in the mid-1990s to 2, 500 stores after fifteen years. Tesco was launched on the London Stock Exchange during 1947. A self-service store was opened in St Albans during 1956 which was named Tesco Metro and a supermarket in Maldon the same year. During 1950s and 1960s Tesco developed progressively, and through acquisitions, up to a level at which it owned more than 800 stores.

The giant company bought 70 Williamson's stores in 1957, 200 Harrow Stores outlets in 1959, 212 Irwins stores in 1960, 97 Charles Phillips stores in 1964 and the Victor Value chain in 1968. During 2006 Tesco was the single food merchant that made online shopping profitable. July 2001 Tesco launched in the internet grocery selling in the USA when it gained a 35 percent stake in Grocery Works. During 2002 Tesco acquired 13 HIT supermarkets in Poland. It also purchased the T & S Stores, possessor of 870 utility stores in the Dillon's and Day and Nite networks in the UK. During 2003 the company introduced a UK telecoms division, including mobile and home phone services, to supplement its obtainable Internet service provider. Later on in June 2003 Tesco bought the C Two-Network in Japan. It also purchased the popular Turkish supermarkets chain Kipa. Spreading up to Thailand, Tesco Lotus was a joint venture with the Charoen Pokphand Group, but expecting disapproval over the growth of supermarkets Charoen Pokphand Group sold its shares in 2003.

In late 2005 Tesco purchased 21 remaining Safeway/BP stores. In mid-2006 Tesco acquired an 80% stake in Casino's Leader Price hypermarkets in Poland. During 2003 Tesco became a share in a joint venture with O2 in order to procedure the Tesco Mobile, the Tesco's virtual network operator. Profits during 2011 were £1. 9 billion for the first half, but sales in the UK were the most decreased in 20 years. In 2012 Tesco launched again its own trademark Tesco value range renamed as ' Tesco Everyday Value', with new wrapping and technique. In the five years period following the implementation of the Club Card program, sales have increased by 52% and

still grow at a rate higher than the industry average. Store openings and expansions have increased Tesco floor space by 150%. In Figure 1 we will see that Tesco's strategy have been very much successful through the years. Reviewing the history of Tesco it is obvious that their strategy has been outstandingly efficient, having in mind the fact that by 19 of April 2012 Tesco owns 2, 975 hypermarkets.

On the graph (Figure 1) we could see that the strategy of Tesco is very much sustainable. It has brought an increasing profit year after year (as we can see also on Figure 2). However the strategy of Tesco. com is also a unique and easy flow strategy. It is built around the needs of the customers. Its design is created to be used extremely easy. It possesses many features that turn online shopping into a pleasure. The website includes groceries and non-food goods. Tesco have tried very hard to be good at both sectors. The website has all kinds of tools reminding and helping the client with a quick and efficient shopping. E. g. Express shopper, Lunchbox Tool, My Favorites, Organic Box Tesco, Online Recipe Book and Season's choices, those tools are incredibly easy to use.

Tesco. com did not stop there they wanted the website to be accessible for as many clients as possible at all times. During 2001 their customers were able to use mobile commerce applications to make their acquisitions. The strategy that they use is in store picking instead of building warehouses. This strategy has been very much successful and sustainable. Tesco. com started during 1996 at the beginning they were couple of computers in one office. Their first annual revenue have been around 25 million, recently their

revenue have increased up to 1.5 billion and they are currently employing thousands of people working for their Dot Com sector. I find their website very much effective. Recommendation:

The problem that Tesco experiences recently is the dramatic decrease of their shares. As shown in Figure 3.

This intense reduction is caused by the fact that Tesco have concentrated lately on Globalization. During 2011 they have been focused on expansion in Asia and US, and globalizing the website (making delivery international). It seems like they put aside the fact that most of their profit comes from UK, as shown in Figure 4.

Our recommendation for Tesco is to divide their attention equally and to learn better their competitive advantages in order to take advantage from them. The major task facing Tesco is rejuvenating its UK industry. Tesco should attract customers back to themselves, which approximately will come at a great cost in relations of capital spending and it will take time.

Temporarily, superstores are all needing to increase consumer expenditure in an environment of severity, high redundancy and low wage progress. They are bankrolling customers and that is having an influence on revenue margins, as well as the rise of the food price.