

Tesco marketing and financial analysis



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Tesco company obtained its name and begun its first operations in 1929 when Jack Cohen consolidated his small-scale business by joining forces with T. E. Stockwell. By 1939, Tesco owned a hundred operational stores that were cushioned by its creative innovations both in warehousing and stock control. Currently, there is some degree of affection that the people from the working class maintain for the company and it can be traced back to the beginning of Second World War when the company was the first one to introduce food-rationing way before the government did. Tesco undertook its first expansion when it opened a store in Hungary in 1995. Other international expansions followed in 1990's and they include expansion to Thailand, the Republic of Ireland, Poland, the Czech Republic, Slovakia, Northern Ireland, Taiwan, and South Korea (Tesco Corporate, 2008).

Tesco is now the Britain's largest food retailer, employing over 240, 000 people worldwide and has remarkable net yearly profits of over £1 billion. Tesco serves a total of twelve international markets, including a store in California in the United States opened in 2007 as well as all areas of the United Kingdom. The company is head quartered in Delamare Rd. Cheshunt, Hertfordshire, United Kingdom.

Products and Services range

Tesco offers a broad range of products and services, spanning across several sectors and industries. Tesco's retail outlets offer groceries, electrical and entertainment goods, mobile phones and accessories and clothing. Other

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products include those it offers in its 'direct' business that provides other categories of items like Jewelries and watches, sound and vision, grocery; DIY and car maintenance; sports and leisure; toys and gifts; home and bathroom; baby and toddler and furniture and kitchen (Tesco Corporate, 2008).

Brands

The company has several brands including adminstore, dobbies Garden, clubcard, cullens, harts, homever, kipa, Tesco, Tesco Express, Tesco extra store, Tesco homeplus, teco. com, Tesco. net, Tesco metro and ISP.

The Marketing Mix

Market orientation in cooperates satisfying the market through an understanding and response to the local needs of the final and intermediate customers, competitors and the macro-environment leading to superior performance.

Tesco as been able to market mix through its emphasis on customer needs through its values philosophy " no one tries harder for customers; treat people how we like to be treated." Which are disseminated through an internal marketing strategy by distributing the company's papers to its employees (Mockler, 2002). Another way Tesco has succeeded in market mixing is the use of its ' clubcard' loyalty card scheme and websites like tesco. com. Through these, the company has been able to acquire a significant customer base, which an analysis can be performed on. ' Clubcard' significantly influence consumer behaviour in the UK and it's

closely integrated with the business processes and aligns with the brand and brand strategy.

Tesco utilizes the use of online services to enhance its customer experience. These include establishing a site that easy to use, faster, relevant, valuable, serviceable and enhance product development (Rowley, 2008). In addition, Tesco has developed other online products to meet new customer needs like offering of music download and developing grocery delivery services that includes wine and white goods.

Tesco also use its product range to create stronger customer experience as a customer is able to purchase a range of products in a single store. In addition, online services have been made easier hence; a customer takes the shortest time with least effort to complete and order creating better customer experience.

Tesco uses technology to gather marketing information and planning. First, is the scanning of 'clubcard' to derive information required for customer database. Secondly, is the ability of customers to collect points through the scheme through transactions with various partners and the online services (Grant, 2005). Thirdly, is the data analysis process which Tesco has paid a lot of attention in its design hence ensuring an adequate database, data currency, data equality and tight control of data analysis costs.

Tesco another marketing mix is the their astute response to perceived opportunities and threats like entering UK market with express format in 1995 and by refining same format Tesco opened new generation of express units which included pre-fabricated facilities.

Tesco operate as the world's leading internet grocer and runs financial services through a joint venture with the Royal Bank of Scotland. Tesco utilises the technique of entering markets where competition is weak or fragmented hence there is no presence of established global retail giants (Hirsh, 2008). Tesco is very adaptable to its marketing strategies like the idea of not introducing the use of 'clubcard' scheme in US newly opened stores since research found out that most consumer were cynical about the concept.

SWOT Analysis

(S)trengths:

Tesco's strengths in grocery retail allow it to compete easily with companies like Sainsbury, ASDA, and Marks & Spencer. This has led to its brand name and financial power becoming strengths in themselves. This has led to many more stores being built at home and abroad, leading to geographical strength. The introduction of Tesco Express and Tesco metro show led to strength in flexibility to increase market share.

(W)eaknesses:

The SWOT analysis of Tesco reveals several weaknesses that include great amount of fossil fuel that is being used in its transport network. With an ever increasing oil prices, Tesco needs to keep a close monitoring of its transport costs. Another weakness is the Tesco's high dependence on the UK grocery market, which is affected by political factors hence it is need to increase its foreign outlets and selling other goods.

(O)pportunities:

The main opportunities for Tesco, is in the online arena. Tesco has already had many online successes, having turned the Amazon threat into an opportunity by selling books at lower prices (Caves & Porter, 1977). Tesco biggest problem in pursuing possible opportunities is deciding exactly which ones to pursue and this is definitely a nice position to be.

(T)hreats:

Possible threats to Tesco include fluctuations in the stock market and tax increases. Most companies worry about taxes, and have an objective of decreasing the tax burden. But probably the biggest threat is innovation and competition by other supermarkets, including Asda, Sainsbury, Morrison, and Waitrose.

PESTLE Analysis

Political factors: Tesco operates in a globalize environment, as it owns stores in other countries hence its performance is highly influenced by the prevailing political and legislative conditions in these countries. Employment legislations encourage retailers to provide a mix of job opportunities and in Tesco implementing legislations, it offers employment opportunities to a larger number of students, disabled and the elderly who are being paid at lower rates and due to high staff turnover, these employees become loyal and desirable to the company (George, 1994).

Environmental factors: Considering the fact that in recent times successes of many retail dealers have been threatened by societal concerns regarding environmental issues; Tesco's corporate social responsibility is concerned

with the ways in which the organization is to exceed the minimum obligations to other stakeholders specified through regulation and corporate governance. The government has a strategy in place that promotes sustainable production and consumption to cut on waste, reduced consumption of resources and to minimize levels damage to the environmental (Heiens, 1990). This legislation has increased costs that are incurred on advertising highly processed and fatty foods. This directly affects the already adapted Tesco's product ranges thus affecting relationships with both suppliers and customers

Social /cultural factors: Tesco has increased the amount of non-food items that are available for sale as current trend indicate that as result of variable social changes most of British customers have moved towards 'one stop' and 'bulk' shopping.

Customer's function and social conditioning is reflected by the type of goods and services they demand hence affect their attitudes and beliefs. Currently, customers are becoming aware of health issues and hence constant changing attitudes towards foods. Tesco has been able to adapt to the evolving product mix by accommodating the increased demand for organic foods.

Thirdly, demographic changes as aging has led to increased working females resulting in reduced home meal preparation hence Tesco now focus on value-added products and services as well as adopting its own label share of the business mix.

Technological factors: This is a major variable that has influenced development of many Tesco products and these newly adopted technologies benefit the company and its customers by raising customer's satisfaction through increased goods availability, availability of more convenient shopping experience and more personalized services. Tesco utilize the following technologies in its operations: Radio Frequency Identification, intelligent scale, wireless devices, self-check out machine and electronic labeling (McGahan, 2004). In addition, communication of needs to customers in real time has been made possible through the adoption of Electronic point of Sale (EPOS), electronic scanners and the Electronic Funds Transfer Systems (EFTPos).

Legislative factors: Governmental intervention in regulation of some operation in the industry through formation of bodies to regulate the code of practices and the issues of monopoly. These legislations and policies directly impacts on the performance of Tesco, for instance the body concerned with Code of practice prevents the company from demanding payments from its suppliers and the privilege of changing agreed prices without notice (Yip, 2004). Also policies on monopoly (license requirements and limits to access raw materials) reduce buyers power and limits entry in to the sector. For Tesco to implement politically correct pricing policies it has to lower price on promoted goods while compensatively raising prices on other goods.

Economic factors: economic factors influence the company's costs, demand, price and profits thus highly influential factors like unemployment greatly decrease effective demand for goods affecting the demand of production of such goods. Most of these factors are out of control of the Tesco Company

thus its effects on marketing mix is profound (Merrilees & Fry, 2005). The company is therefore reliant on intentional business, which yields greater profits to the company.

Competitive Analysis: Porter's 5 Forces

Bargaining power of suppliers: This is a force represented by the power of suppliers that can be influenced by other major grocery chains and the fear of losing their businesses to other well-established chains or supermarkets (Henry, 2008). To counter this force, Tesco and Asda have negotiated for better promotional prices from suppliers that the smaller chains cannot match with. Some of the UK-based suppliers are threatened by the growing ability of larger chains like Tesco to source their products from abroad at cheaper deals and hence this force of competitive rivalry has reduced the profit margins of Tesco and other chains and suppliers.

Threat of new entrants: Most of the UK grocery market is dominated by few supermarket business competitors and major brands from Tesco, Asda, Sainsbury and Sainsbury own a larger stake of the market. These chains have been able to build their power on one-stop shopping, major market mix advantage and on operating efficiency thus, greatly affecting traditional shops and creating a barrier to new companies who desire to enter the grocery market. This is possible through high capital, due to highly developed chains and large fixed costs. In addition, other barriers include economies of scale and differentiation because of Tesco and Asda engaging in aggressive operational tactics in product development, promotion and better distribution. Tesco . Tesco has put huge investments in advanced

technology for checkouts and stock control systems have affected both new entrants and existing ones.

Bargaining power of competitors: The sector of grocery retailing has been growing significantly both in market size and in dominance. There has been an increased retailer concentration as well as utilization of a range of a range of formats. The purchasing power of the food-retailing industry is often concentrated in the hands of a relatively small number of retail buyers. Tesco is accruing larger customer information to help it communicate with its customers as well as to try to satisfy their sophisticated demands. This highly competitive market has led to accelerated level of development resulting to retailer innovativeness in order to maintain and build market share through development of trading formats in response to consumer changes. Dominant market leaders like Tesco have responded by focusing on price and value while reinforcing added-value of their elements.

Bargaining power of customers: Porter theorized that the more products that become standardized or undifferentiated, the lower the switching cost, and hence, more power is yielded to buyers Porter M. (1980). Tesco has been able to achieve this through the use of its club card, loyalty card. It is the company's retention strategy which has increased its profitability. In addition, Tesco brands have controlled and retained its customer base through customized services, better choices, low pricing and maintaining a constant inflow of in-store promotions (Scott & Graiser. 2004). Large number of customers demands to do shopping in supermarkets that sell non-food items hence providing them with new strategic expansion into other new market like pharmacies and banking sector. Most customers are now

informed of fair trade and the influence of western consumers on the expectations and aspirations of third world producers. Finally, production of ecologically and ethically sound consumer produce like coffee and tea is a viable venture and are therefore readily available in majority of chain stores.

Threats of substitutes: General substitution reduces demand of a product because there is a threat of consumers switching to other alternatives.

(Porter, 1980). In grocery industry there is a product-product and substitute from need further weakened by new brands. Tesco and other players are now trying to acquire existing small-scale operations by opening metro and express stations in local towns and city centres.