

Retail marketing report tesco assignment

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Tests leads significantly in the UK permeated industry with a 28.8% market share. It is one of the 'big four supermarkets', which include Sainsbury, Kingsbury and Morrison were up until recently the only serious competitors in the market [2]. Despite Tesco's apparent dominance in the market significant changes have been unraveling over the past few years which have posed serious threats to Tesco's performance. This report will go on to examine the nature of the problems Tesco faces, analyses possible reasons behind them and provide recommendations as to how to overcome them.

Problem Statement One of the most significant problems facing Tesco today, like most of the other 'big four', is its falling market share. Tesco's share has fallen to its current level from a record high of 31.8% in 2007 [3]. This is a result of the unprecedented growth from discounters Aldi and Lidl which have seen large increases in market share and huge market. At the same time Waitrose, at the top end of the market, also increased their market share pressuring the 'big four' to compete for the decreasing market in the middle [3]. This has had a knock on effect to Tesco's financial situation.

In August 2014 Tesco announced the expected profits for the previous six months would be £1.1bn, down from £1.2bn the previous year. It soon came to light that through an accounting scandal this figure had been exaggerated by about £100m, slashing the value of Tesco shares and sparking a plethora of negative publicity [4]. This leads on to the third major problem faced by Tesco; its damaged brand. This is depicted by Yogurt's Brand Index Score, measured by customer ratings of brand impression, value, quality, reputation, satisfaction and likelihood of recommendation, which has seen its brand fall significantly [5].

Possible Causes Each of these problems is interrelated and there are many factors involved. This report will examine in closer detail some of these factors. Store location is a major factor contributing towards financial difficulties. Location is considered as one of the biggest influencers in consumer's choice to visit a certain store [6]. Tesco operates four main store formats within the UK; Express, Metro, Superstore and Extra, with respectively wider assortments of food and non-food products. In recent years Tesco have implemented an aggressive store opening plan [2] with a particular push on the extra and express formats [7].

The push signifies Tesco's strategy to gain a sustainable competitive advantage by opening stores in strategic locations [6] to compete in the retail industry 'space race' [7]. Tesco Extra stores are developed as community shopping centers. They are large, have plenty of space for parking and are out of town. A reason for this is the high cost of land in urban areas due to high population density [6]. Therefore premises further out of town are favored as the space required for the enormous assortment of products offered in Extra stores, from groceries to white goods and garden furniture, is cheaper.

Yet, this location also coincides with consumer behavior. The behavior of a retailer's target market must be taken into consideration when making decisions on location, to ensure that the location coincides with their needs [6]. Tesco took their target market's behavior into account as they typically did a weekly shop, allowing them to buy everything they needed in one place once a week. This meant the convenient parking which makes shopping and

putting the week shop into the car easy, and the large product assortment to cater for a whole week suited these community locations.

However, this strategy to gain sustainable competitive advantage through aggressive development of 'Extra' stores has backfired. This is due to a significant change in consumer behavior as they start 3 consumers don't want to buy extra items along with their groceries and more people do their shopping online. This shift favors more conveniently located stores with a smaller assortment of products [8]. Considering this using the multivariate model there has been a shift in consumers weighting from assortment to store location and the consumers evaluation of the performance of Extra stores in location is not good [6].

As a result sales in Extra stores are falling and the expense of numerous staff to operate the large stores makes this a major contributor to Deco's financial downturn. This highlights the fact that location decisions are risky due to the large amount of investment required to develop real estate [6]. Where Tests have done better in gaining sustainable competitive advantage in terms of location is there expansion of Express stores. Express stores cater for the shift towards convenience shopping in the grocery market and Tests have many shops in excellent locations, often forcing the competition to establish in less desirable locations [9].

Although these stores are performing well it is also suggested that they ay also be having a negative effect. This is because it is considered that these stores may pose a threat of cannibalistic from existing extra stores, as people take the easier option to shop at the more convenient stores. This will

increase the cost to Tests of Extra stores even more [7]. However, if this trend towards convenience shopping is set to continue then Tests have done well to take advantage of many of the best locations before the competition could.

It is also suggested that express stores may have a negative impact on the Tests brand. Dunn and Davis [10] argue that brand is a crucial business asset which should be protected and nurtured. They go on to explain that brands are a combination of consumer expectations and associations which result from their full experience of the company and therefore everyone within the organization, from the top down should be driven to uphold the businesses desired brand. Company values should be used to underpin the retailer's brand [11].

One of Deco's core values which should be incorporated into their brand is "no one tries harder for customers" [1]. However this has come into 4 question, especially with the development of Express stores. Express stores operate on a lean business model with many self-service checkouts and few staff [9] which has a negative effect on customer service [7]. Consumers have many touchiness with an organization which develop their perception of the brand. Companies should priorities these to ensure it spends enough attention and resources to improve brand loyalty and customer relationships [10].

It is suggested that for many people one of their major touchiness with Tests is through express stores [9], and due to the lack of customer service this may be having a negative impact on the company's brand. This highlights

the need for Tests to allocate the necessary resources and attention to ensure these stores effectively communicate the desired brand, and ensure it is consistent with the other relevant touchiness [10]. Another shift in the market which could enhance Deco's financial difficulties and 5% of all grocery sales in the UK and this figure is expected to grow significantly over the next few years [12].

This rise comes as commerce offers consumer's cheaper prices, larger assortments, extra convenience and time savings [1 3] which is particularly important as consumers have less free time than ever before [14]. Currently Tests operate a successful e-commerce store and are the dominant player in the market [15]. However, there are also rumors that growing competitor Laid might move into online shopping in the I-J [16]. This move will increase Deco's competition in the online market which could see more Tests customers defect to this growing competitor, threatening market share.

This shift in consumer behavior could also devalue the sustainable competitive advantage Tests has gained through their aggressive store expansions strategy as online grocery retailer's appeal to shoppers who were not previously close to their brick and mortar stores. Although the permissibility of groceries does not allow for centralization of operations [1 7] store location in terms of footfall will likely become of less importance. There is also a growing threat from online-only competitors such as Coda who may gain competitive advantage through their specialization in online-only sales evident in their more user-friendly website [12].

However, there may still be advantages of store 5 location as Tests can take advantage multinational retail. For example, many consumers still like to touch products before buying them and pick their own fruit in store.

Therefore Tests could implement a strategy to focus their brick and mortar stores for this purpose. Or they push the benefits of click and collect allowing customers to order online and collect in store [18]. Preliminary Conclusions

Although Tests is a hugely successful retailer it faces real problems in its core business in the home market; falling market share; financial downturn and a damaged brand.

There are many elements which may have contributed towards this. One contributor is their development of large Extra stores located in community shopping areas which has left them losing money as consumer behavior has hanged and sales in these stores has dropped. Also their smaller express stores may be having a negative impact on the Tests brand as a result of poor customer service and as this is a major touching for many customers it may be predominantly what they base their brand perception on.

Furthermore the shift towards e-commerce poses significant threat for the future as more competitors enter the market to compete for market share. This trend may also diminish the competitive edge Tests have gained through their effective store locations. Further Propositions There are many other elements which have contributed towards Deco's problems which should be explored in more detail. One being Tests has strayed too far from their retail offering by expanding their assortment until it no longer met the needs of their target market.