

# Developments in uk food retailing: tesco case study



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Tesco is the largest operator of supermarkets in the UK and is one of the largest food retailing organisations in the world. Whilst the overwhelming majority of its products belong to the category of foods, it is aggressively expanding its range of non-food items and services.

## **Assignment A**

Supermarkets constitute the most common feature of the British landscape. Self-service shops that market an extensive variety of conveniently merchandised food and household products in large, attractive and organised properties, supermarkets have dramatically altered the food and household purchasing decisions and processes of UK residents since the 1970s.[1]

The food retailing sector in the UK has grown rapidly during the last two decades. With an annual turnover of more than 100 GBP, it is one the largest economic sectors of the country; by way of turnover, employment, and profits.[2]The structure of the UK food retail sector is made up of small grocery, vegetable, fish and meat shops, farmers markets, standalone departmental stores, and of course supermarkets; which are owned by national and international supermarket chains .[3]

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The last few decades have witnessed numerous developments in food retailing in the UK, including the materialisation of new shop formats, improved logistics, investment in new technology, sophistication of supply chain practices, and the constant growth of supermarket chains.[4]The sector has witnessed the emergence and growth of giant corporations, both national and international, who have come to control an overwhelming majority of the food retailing business.[5]Constant and heavy investments by supermarket chains have enabled them to benefit from scale economies, use sophisticated supply chain techniques, build hundreds of well planned and consumer friendly stores, achieve buying economies, offer product ranges that exceed more than 30, 000 items, and grow enormously in size, scale, and revenues.[6]

UK consumers are among the richest in the world. Most UK residents, even some decades back, purchased their food and other household requirements directly from vegetable, fish and meat sellers, and local grocers and markets. Today the huge bulk (80 %) of such purchases in the country takes place in retail stores that belong to one out of the five predominant supermarket chains, namely Tesco, Sainsbury's, ASDA/Wal-Mart, Waitrose and Morrison. Practically 33 % of the money spent on food in the UK occurs in a Tesco shop.[7]

Whilst it is difficult to find a perfect market with free competition in real life, the UK retailing sector has over the last few decades become truly oligopolistic in nature.[8]Oligopolies occur when a few large players come to dominate a market.[9]Such situations lead to reduction of competition and enable oligopolistic players, (whether intentionally in concert or otherwise), <https://assignbuster.com/developments-in-uk-food-retailing-tesco-case-study/>

to sway market circumstances to their advantage.[10]Theoretically an oligopoly should lead to increased costs for other market players and inefficient use of market resources, as a whole.[11]With oligopolistic players receiving more returns than normal, these resources cannot in such cases be used elsewhere.[12]

Ellickson (2004) states that oligopoly is natural to supermarkets because of John Sutton's (1991) theory of sunk costs.[13]Growth of markets leads local rivals to increase their sunken investments, thereby limiting the number of firms that can enter a market, irrespective of its size. Whilst the number of market participants does not alter, the quality of service that is provided does improve with market size.[14]It is this desire to provide better service that finally determines market structure.[15]

With concentration in food retailing, (common to developed countries across the world), being especially high in the UK, there exist apprehensions that retailer power, in the hands of Tesco and other major supermarket chains, could lead to its misuse, both with suppliers and with consumers.[16]Such supermarket chains have the ability to obtain more favourable terms from suppliers than what are available to other buyers, or would be normal under more competitive circumstances.[17]Apart from extracting abnormal discounts from suppliers, supermarket buyer power may reveal itself by way of imposition of contractual restraints on suppliers.[18]Seller power by supermarkets could possibly lead to higher consumer as well as reduced choice of service or product combinations than in normal competitive conditions.[19]Recent years have seen more than one anti-trust

investigation in the UK on the issue of supermarket chains exploiting their  
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concentrated market power.[20]Tesco has also in the recent past been accused of exploiting workers in an Indian textile factory.[21]

“ A key issue highlighted in that (anti-trust investigation report) report was the extent to which retailers can exert buyer power over their suppliers and the impact this has on consumer choice and competition in the food chain. It concluded that while there was only limited potential for abuse of market power with respect to consumers, there were grounds for significant concern regarding food retailers’ relationships with suppliers, highlighting 27 oligopsonistic practices that specifically gave cause for concern”[22]

Civil society organisations are deeply apprehensive of the seeming domination of supermarkets over the farming and food system.

“ Supermarkets are accused of “ driving a ‘ race to the bottom’ by procuring food ‘ grown anywhere, anyhow’ without care for standards of labour, the conservation of wildlife and landscapes, the livelihoods (or even survival) of family farms, the congestion of roads, the demise of the high street, the management of waste, the welfare of farm animals, or the health and food security of neighbourhoods.”[23]

With Tesco competing primarily against other large supermarket chains, the company has to take care to see that its retailing power is used responsibly, both with consumers and suppliers.[24]As an oligopolistic company, its actions are influenced by the actions of other members of the oligopoly and its strategic planning takes care not to create internal conflicts between such members.[25]

With none of the oligopoly members having the power to dominate the demand curve by themselves, Tesco's actions need to necessarily focus on retaining and attracting more customers. The sector is seeing constant price competition, with all participants following the cue of the retail chain that decides to drop the prices of a particular food or commodity.[26] In these circumstances, the company looks at meeting customer needs through a range of customer oriented strategies like (a) constant consumer research, (b) increase in product range, (c) better product prices, (d) convenient stores layouts, (e) proximal stores locations, and (f) a sophisticated system of incentives and rewards for repeat visits and purchases.[27]

Whilst the participants of the UK supermarket sector, especially Tesco, have been innovative in their approach towards greener and more ethical supply chain practices, their desire to constantly provide better prices and quality to their customers can lead to oppressive supplier oriented practices, especially with regard to suppliers from developing countries.[28] With self-regulatory and voluntary initiatives likely to be taken only for concerns associated with mainstream consumer interest (like Fair-trade products), the state is expected to play an increasingly regulatory role in UK's food retailing sector. [29]

## **Assignment B**

The laws of supply and demand are considered fundamental to the operation of markets and to the governing of economies.[30] Demand, very briefly, refers to the quantity of a product or service that is wanted by buyers, the quantity required being the amount of the product people would be willing to buy at a definite price.[31] With supply representing the amount the market

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can offer at a determined price, price is essentially a manifestation of supply and demand.[32]The economy reaches equilibrium, when supply equals demand, or where the supply and demand functions intersect.[33]All market participants are satisfied because suppliers are selling all that they have produced, at a given price, and consumers are getting all that they are demanding.[34]

Whilst the concept is simple enough, demand supply relationships can be affected by a number of factors that play havoc with the achievement of equilibrium.[35]The major drivers of demand in the retail sector include factors like population levels, per capita and personal disposable incomes, employment levels, and individual debt.[36]The supply drivers on the other hand include variables like competitors in the sector, market size and the cost of factors of production.[37]

The size of the UK foods and household goods market has grown immensely during the last few decades, driven by increasing incomes and purchasing power, as well as by immigration powered steadily growing population levels[38].

Demand has also been significantly impacted by a host of social and cultural changes including the breakup of joint families, rapid increases in the number of women in the workforce, the earlier departure of children from parental homes, greater number of divorces and single parents, and increase in living standards.[39]Growing environmental and health concerns are also changing the demand for a range of food and household products.

[40]Although it is difficult to assess the impact of advertising, demand is also

significantly altered by the constant high voltage advertising (through a range of mass, direct and electronic channels) that is integral to modern day society.[41]

Changes in local economic circumstances also affect demand for food and household items.[42]Whilst demand has been subdued during the last two years because of the ongoing financial crisis, current indications reveal the likelihood of a slow revival in 2010.[43]

The demand for certain items like fruits, ice creams, and beverages, changes with the seasons.[44]Extreme weather conditions, which keep people at home, are associated with periods of low demand in the UK.[45]

Supply in the UK supermarket sector is being shaped by internationally sourced commodities that are imported from across the world to meet local demand and make up for local shortfalls.[46]UK supermarkets now sell a range of fresh and frozen foods and food products, as well as other goods from across the world.[47]The major supermarket chains source a significant amount of their material from overseas markets and, as described in the previous section, are being severely criticised because of their use of buyer power to marginalise them as well as a number of other undesirable outcomes.[48]International production of various foods, as well as international demand, therefore impacts the supplies available for the UK market.[49]

With the market being oligopolistic, the different supermarket chains are interdependent in their actions and largely follow the lead of others in creating demand through price alterations.[50]Thus when ASDA dropped the <https://assignbuster.com/developments-in-uk-food-retailing-tesco-case-study/>

price of bananas sharply some years back, all other supermarkets followed its lead immediately.[51]

Supermarket managements need to ensure that customer demand is satisfied, first by quantifying it through various techniques and thereafter taking supply chain actions to ensure that it is adequately met. Supplies of products can be influenced by a range of factors like local and international production, fuel prices and by political and other environmental developments in producing areas. The supply chain management of huge retail chains is thus a complex operation that needs to be constantly monitored and improved.

Although all supermarkets work towards meeting customer expectations in range, quality and price, they face serious issues regarding their approach in sourcing material, which very often can lead to oppression of farmers and workers in developing nations, ignoring of local producers and significant consumption of fossil fuels.

UK consumer demand is being met through the agency of supermarkets at the cost of local farmers and producers, whose goods are ignored because they cannot meet the lower costs of overseas suppliers. It goes without saying that the rise of supermarkets has also been accompanied by the demise of thousands of smaller shops selling a range of produce, who have been forced to shut shop because of customer shifts towards supermarkets.

Whilst Tesco and other supermarkets are trying to address some of these issues through green sourcing policies and stocking of Freetrade products, much more needs to be done on this account.

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## Assignment C

Elasticity is primarily an indicator of responsiveness.[52] Price elasticity determines the rate of response of demand in quantity in response to a change in price.[53] Income elasticity of demand on the other hand measures the rate of response of demand in quantity because of change in consumer income.[54]

“ Income elasticity of demand is used to see how sensitive the demand for a good is to an income change. The higher the income elasticity, the more sensitive demand for a good is to income changes. Very high income elasticity suggests that when a consumer’s income goes up, consumers will buy a great deal more of that good. Very low price elasticity implies just the opposite, that changes in a consumer’s income have little influence on demand.”[55]

Concepts of elasticity help in explaining the amount of change that could come about in goods sold by retailers due to changes in unit price.[56] It is important for retailers to know about how elastic their goods really are in quantitative terms; such knowledge helps them to change prices, both to increase turnover and to improve profitability.[57]

The demand elasticity of goods differs with their nature, for example, goods that fall in the category of necessities are likely to have inelastic demand, even as demand for luxuries is likely to be elastic.[58] Demand is also elastic when goods can be substituted with others that continue to be available. [59] Again most goods are elastic in the long term because people adjust

their behaviour when goods with inelastic demand continue to be highly priced or unavailable for long periods.[60]

Empirical research has confirmed the clear relationship between price elasticity and revenues, making it an area of importance for all retailers. [61]The revenues from sales of items increases if its demand is inelastic, decreases if it elastic, and stays constant if it is unit elastic.[62]Knowledge about price elasticity helps supermarkets in deciding upon and optimising consumer-centric pricing policies that are based on their information about consumer behaviour and demand.[63]It also helps them in defining strategies and optimising prices across complete product lifecycles, namely during introductory phases as well as through every day, promotion and markdown periods.[64]

Such knowledge helps supermarkets like Tesco in determining the right balance between the appropriate balance between EDLP (everyday low pricing) and Hi-Lo pricing, validate and improve price tiers, and leverage their customer insights to respond to price elasticity phenomena, consumer demand and competitor actions

It is often important for retailers to know the impact on sales of various marketing initiatives like price discounts and special promotion schemes. With the arrival and use of optically scanned data, retailers now regularly utilise estimates of the results of changes in marketing mix to improve inventory management, allocation of shelf space, and promotional initiatives. The impact of marketing actions on retail sales is often evaluated by estimation of sales response functions.