

# Tesco – leading uk supermarket



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Situational analysis of performing markets relative to specific industrial settings is a common strategy used to analyze the recurring elements in the market. The United Kingdom Market presents a relatively different market in terms of the variables that are affecting the performance of different players in the supermarket industry. Tesco supermarket is one such player in the industry affected by the relative market forces both from an internal and external perspective. In order to establish these facts, the report aims at presenting a situational analysis of Tesco supermarket using SWOT analysis, PESTLE analysis, and Porters five forces analysis. Situation Analysis of Tesco Supermarket i. Political AnalysisThe legal framework of the United Kingdom gives Tesco a relatively easier platform of operation given its size (Lambert & Francis, 2008). These factors are also largely supported by fewer instances of intellectual property and rights invasion resulting from competitors in the vast market. In addition the UK trade regulations and subsequent tariffs imposed on the retail market businesses are relatively low, which significantly spurs the growth of Tesco (Lambert & Francis, 2008). This factor also includes aspects of pricing regulations and subsequent taxation levels for the retail markets in which there are different taxation rates and incentives given depending on the global currency performance of the sterling pound. ii. Economic AnalysisThe arrangement of the economic system in the UK gives provision for a free market and the same is seen for other countries in which Tesco operates especially in the Asian markets like Japan (Lambert & Francis, 2008). These features offer a comparative advantage for Tesco to spur its growth based on the financial markets efficiency. In addition, the quality of infrastructure enables transportation, supply and consumer access to goods. This has a great impact on the

workforce skills levels and relatively low costs of labor. The manageable interests rates of UK banks enables Tesco to access loan packages to stimulate further expansion in offshore markets which require a significant amount of lobbying. Despite the recession, in early 2008 Tesco was still able to stay afloat many challenges and protect its market share (Lambert & Francis, 2008).

iii. Social Analysis

The social factors in the markets in which Tesco operates gives Tesco significant advantages to expand its trade activities. The management at Tesco has formulated mechanisms aimed at exploiting the occurring demographics of the UK population, the education levels of the citizens, the existence of different class levels of citizens, the accommodative and liberal culture of the citizens which impacts positively on their attitudes towards Tesco. According to Humby et al (2007), " Nobody at Tesco would claim that Clubcard was the exclusive reason for Tesco's success. Almost simultaneously with the introduction of the Clubcard loyalty programme, Tesco beat competition from other supermarket chains... transforming into a truly national retailer" (p. 68). Furthermore Humby et al (2007) state that " in the 18 months that followed the launch the card changed and developed the way Tesco rewarded customers... this resulted in knowledge" (p. 68)

iv. Technological Analysis

Technology advancement, impact of product, impact of cost structure, impact of value chain structure, rate of technological diffusion

Tesco has enhanced its technology through diversifying its market strategies ever since its inception. This has consequently led to its grabbing of a huge chunk of its market share due to e-Retailing. It is reported that Tesco's competitors, Safeway supermarkets ([www.safeway.co.uk](http://www.safeway.co.uk)) and J. Sainsbury ([www.jsainsbury.com](http://www.jsainsbury.com)) supermarkets respectively made an attempt of implementing this system in

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the UK, but still they were unable to gain popularity similar to the market leader, Tesco (Harris and Dennis, 2002). This could be attributed to the impact of Technology on product cost structures with regard to the rate of technological diffusion.

v. Legal Analysis In a move to exploit a weak regulation system in Thailand, the management at Tesco targeted to implement its expansion strategy. As Vorley et al (2007) reports, " As a result Tesco, Casino and Carrefour rushed into all areas of Thailand, especially the north, in order to secure sites before the draft regulations became effective. These regulations also stimulated the diversification into convenience store formats such as Tesco Express" (p. 54)

vi. Environment Analysis The culture seen at Tesco's management has greatly enhanced its operations since there is significant integration between staff and the management, a factor that further impacts positively on its customers. In addition, Tesco has embraced a community perspective and included these into their operations. In addition, Tesco embraces positive environmental attributes through the use of environmentally degradable packaging material (Lambert & Francis, 2008).

i. Strengths Tesco is so far the largest outlet for selling sandwiches in the expansive UK market of which it sells an estimated 2.2 million units per week (Burch & Lawrence, 2007). This gives better access to the distribution chain in order to deliver its products to the final customer via the entire supply structure. Tesco has elementally utilized its diverse resource potential to diverge into different service domains. For instance, " Tesco competes in many different industries, such as financial services, consumer electronics, household goods, and food, among others" (Henry, 2008). This gives its customers different product packages a factor that enhances customer loyalty.

ii. Weakness The only relative weakness

affecting Tesco's operations is its weak campaigns when it comes to environmental initiatives. In most cases this is treated as a mere public relations gimmick (Lambert & Francis, 2008).

iii. Opportunities Tesco has largely exploited the international market given its ability to move on to offshore markets. According to Kew and Stredwick (2005), "Diversification has also been global, particularly by Tesco. They moved into France, Hungary, Poland and Thailand, and are poised to move into China. They are thus excellently positioned to exploit the expansion of EU membership into central Europe in May 2004" (p. 19-20).

iv. Threats Tesco has been party to various emerging market issues which at times have led to a shift in customer taste necessitating diversification. In addition, other factors threatening its market domain include the entrance of new substitute products, introduction of new regulations, and trade barriers in some offshore locations. In 2008 it was hard to estimate the extent to which the credit crunch would reach therefore leading to underestimation by most forecasters, which consequently led to emancipation of the current strong and dynamic environment bearing inherent uncertainties, unpredictability and chaos (Thompson et al, 2009).

i. Threat of Entry By virtue of Tesco's economies of scale other competitors especially in the UK, for instance, Morrison, find it hard to penetrate its market position. This is attributed to a high entry cost and limited access to distribution channels. During the credit squeeze of 2008 Tesco came up with a strategy in which it responded to the occurring competition by introducing highly discounted range of products in order to promote customer loyalty by preventing them from moving to competitor stores (Donnelly et al, 2009).

ii. The Power of Buyers Tesco has implemented several strategies in order to increase the relative power of its

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buyers. According to Little (2006), " All supermarkets carry out a finely judged balancing act between what they can give away to customer's to promote sales and how they can increase market share and contribution. In the UK, Tesco has been highly successful but their success has cost rivals clear" (p. 41). Bunte et al (2006) note that if Tesco made efforts to pass the relatively lower supplier prices they access in form of price reductions then they are in a better position to increase their buyers power (Bunte et al, 2006 ).

iii. The Power of Suppliers Tesco has one of the best branding strategies in the UK. For instance, in certain study it emerged as the most preferred choice of super market by local UK buyers. This is hown in the table below: Total in per cent Marks & Spencer Table Showing first and second choice supermarkets (Obitz, 2009) According to Bunte et al (2006), " Tesco, for example pays up to 10% lower wholesale prices than its smallest competitors do" (p. 13). This has an effect on the supply power since other competitors do not get similar price access.

iv. Threat of Substitutes According to Henry (2008), " To try and aggregate Tesco's products and services into a single industry for the purpose of analysis would lead to dubious results. In theory, organization need only to compete in industries which exhibit few competitors, have high bargaining power against buyers and suppliers, and where the threat of new entrants or substitutes is minimal" (p. 80). This aspect has been one of Tesco supermarket's greatest challenges.

v. Competitive Rivalry Tesco has faced increasing competition in the recent past. According to Donnelly et al (2009), " In the credit squeeze of 2008, Tesco was coming under attack from the cheaper supermarkets such as Aldi. Customers were moving to Aldi to take advantage of cheaper prices" (p. 87). This could be attributed to an

increasing market control by some suppliers and buyers. Judging from the above deliberations the 5 year market forecast of Tesco appears to face increasing number of competitors, which will see its market share drop significantly. In addition, the introduction of the Carbon Tax by the government would imply that Tesco adds better strategies to promote environmental objectives with regard to emissions. The utilization of the internet has a great impact on the business potential of most businesses. This can be seen in Tesco's case in which competitors sought to implement e-retailing strategies in a bid to reduce its impact on the industry.