

A pestel analysis of tesco expansion overseas

[Business](#), [Company](#)



Tesco first launched their international expansion in 1994. After 11 years their sales have grown to contributing 20%(7 billion) of the total turnover has been from overseas sales. The success of Tesco expansion overseas has mainly been down to the strategy of seeking out new markets in an early growth stage. These markets have few and weak competitors and lots of potential. Tesco expansion overseas has mainly been in Eastern Europe and the Far East. Tesco has set up in thirteen countries abroad so far, some of these include; Czech Republic, Malaysia, Poland, Republic of Ireland, Thailand and Turkey. This assignment will focus on Poland in Eastern Europe, Thailand and Malaysia of the Far East.

The assignment will undertake a PESTEL analysis of Tesco expansion overseas. Involving political, economical, social, technological, environmental and legal issues that effect Tesco.

There are many political factors that effect businesses. The main factors are legislation, government agencies and incentives put forward by the governments in order to attract investors. Investment incentives in Poland are very favourable for large companies such as Tesco. Polish government offers these incentives mainly to companies that invest more than 10 million. Some of these incentives that the Polish government offer Tesco are, employment grants, training grants and grants for infrastructure development. There may be problems to businesses through political unrest, which may result in civil unrest and violent crimes. This civil unrest and violence is a problem that Tesco has faced in the Far East. In December of 2001 an antitank missile hit the office of EL AL Israel Airline.

However the Thai authorities believed that the target was a Tesco building adjacent that had received numerous bomb threats previous. The government may also be taking action against businesses in order to protect their economy. The government of Malaysia has recently taken action against the large investors in the retail sector. They have recently put a five year ban on any new hypermarkets being build in the countries top three cities Kuala Lumpur, Penang and Juhor Bahru. The Malaysian government have also stated that they are concerned with the negative affect that Tesco may have on the economy. As a result they have stated that any new hypermarkets that are being planned, are to submit their plans two years in advance. They have also required a socio-economical study to be carried out in advance. This has effect Tesco strategy as they may have to result in building smaller stores where there range is less.

Economic factors are those that affect the purchasing and spending habits of the consumer. When the economy is decreasing there will be less disposable income and consumer spending will decrease. Even though the countries economy is low, it does not mean businesses cannot benefit if the right strategy is deployed. With the right strategy businesses may be able to gain market share and increase turnover. Despite Thailand's uneasy economic future Tesco has decide to invest more capital into their partnership with Lotus.

However, Tesco-lotus has shifted their strategy towards the development of smaller projects in downtown areas. This is due to the current economic environments as there is less risk in development small-scale retail

stores. This is because they require small budgets and have a decreased breakeven time compared to hypermarkets. Other economical factors are those of unemployment, however companies can exploit these. If a country has a high unemployment rate then they may offer great incentives. The polish government offers companies such incentives as;

- Reimbursing the cost of high ring an unemployed person for up to twelve months.
- Reimbursing up to 50% of the cost of training employees

Tesco can take advantages of such incentives when employing Polish staff as it has invested over 10 million pounds.

Sociological factors are those that affect the business through the people of the country. Income distribution is a sociological factor; if there are a high percentage of people with a low level of income there will be a large market for inferior goods. In Thailand there is a large class divide between high-level income and low-level income. To control the effects of this divide the Thai government have create legislation that states that brands of prestige must have the same amount of advertising of those of inferior goods. Tesco has adhered to this through the amount of shelving space allowed for products. Another factor that affects business throughsociologyis that of the attitudes in which the population has on such aspects as work and leisure.

Businesses need to take into account that different countries will have different attitudes. In Poland where the population is mainly of Roman Catholic belief, leftwing political parties have accused Tesco of undermining the traditional Polish values of home, familyand church. These views have

mainly come from the poorer rural population who are suspicious of foreign investors. Mobility of the population is also important. If the countries population is less mobile, then the retail outlets of goods must be near to the most densely populated area. In Thailand Tesco has started to focus more on smaller convince stores that will be situated closely to the customer.

The technological environment is very important for businesses as it can increase efficiency and decrease costs. Technological advancement is import for many governments as it encourages development and new opportunities. The Thai government have praised Tesco for the use technology in environmental issues. Tesco Lotus has achieved increased energy efficiency through technological advancement in chillers plant operation and air conditioning unit. Tesco has created a more efficient operation that lowers energy consumption and emissions into the atmosphere. Other technological factors include discovery and development of new technology. This may help companies with efficiency and may help businesses to enter new markets. Tesco had already launched its . com operation in the UK and had become rather successful. They then in turn took this new technological idea and brought it to Thailand. Thus creating a new market and higher revenues.

Technological development means that businesses can better themselves, making them more efficient and can decrease costs. Tesco has recently proposed to use RFID (radio frequency identification), these new tags will allow Tesco to monitor their products development through the supply chain. This will allow Tesco to monitor their temperatures more effectively. The temperature monitoring is important as it is through the supply chain where

most of the salmonella outbreaks occur. Another development that Tesco has recently been apart of is a new IT system named the Intactix space planner. This will allow the planning team of new stores to be more productive. The space planner uses 3D technology to create planners for store and shelving layout.

Environmental factors have become increasingly important over time.

Environmental factors pose worldwide issues for businesses. Businesses need to be aware of two major factors when looking at the environment.

Firstly is the usage of raw materials. Energy used by all businesses is mainly arises from fossil fuels which are running out at a high rate. Companies may also need to look at other aspects of material such as water usage. Which is already a problem in some US states. Tesco Lotus has taken large steps to combat their raw material and energy usage. Tesco lotus has created their first 'Green Store'. This 'Green Store' is said to be leading the way in energy conservation and environmental management in the retail section. Some of the key features of the green store include:

- Solar Panel Lighting System
- Reduced heat radiation - through extensive use of natural light
- The recycling of rain water as well system water
- Non lead paint
- CFC free refrigerators
- A totally asbestos free site

Another key issue with the environment is pollution. Businesses need to be aware of the consequences of their actions on the environment. Many

businesses today have started taking the effect on the environment very seriously and are introducing policies of recycling and lowering of emissions. These energy efficient policies can also save the company money in costs. Tesco Lotus reduced surplus airflow of the air conditioning unit, which lowers the electricity usage and saved the company 2 million baht. Further electricity usage reductions were made by reducing the lighting intensity by 20% which saved an overall 30% of the electricity bill saving the company over 12 million baht. Tesco is also trying to cut down on transport emissions through usage of railway systems. This allows fast economical usage of systems already in place. However the problems with sub contracting is the lack of control in which businesses have over the contractors.

The final stage of the analysis is Legal. Legal issues can interlink heavily with political. These issues that affect the business are those in which the business must comply with. Businesses must comply with government rules and regulations concerning areas like health and safety and product safety. Tesco product safety remains heavily on their chilled items, such as meat and dairy. To combat any area of salmonella poisoning they have created a system called the cold chain. This allows a product to be out of a refrigerated environment for no more than twenty minutes. If Tesco were found to be a cause of an outbreak then there would be large consequences. Employment law is another issue that affects Tesco.

In different countries there are different laws. Tesco will have to adhere to laws such as rate of pay and employee conditions. Tesco Lotus has just failed to win a court case involving paying their workers over time on bank holidays. Tesco were seen to be outside the employee law and therefore <https://assignbuster.com/a-pestel-analysis-of-tesco-expansion-overseas/>

were ordered to pay their workers a total of 35 million baht to a total of 8500 employees. There has also been inquest in the allegations of Tesco suppliers of forcing suppliers to sell their produce below cost. Tesco has also been accused of charging suppliers fees in order to sell their products. The Thai government have stated that these unethical business strategies are not welcome.

In my view the most important factors are those of the political and technological. Political problems plague companies looking to expand abroad as they have a large control of what companies can and cannot do. Technological factors are also extremely important as technological advancement can mean efficiency and being able to sustain any competition.