

Tesco's external environment

Business, Company



My organisation for this assignment is "Tesco". It is one of the largest food and grocery retailers in the world, operating around 4,331 stores. My report is aimed at analysing the micro business environment of company. I have used Strategic evaluation tools such as PESTEL, SWOT and others. Tesco is among the biggest food retailers in the world with returns in surplus of £54 billion in 2009 and over 470,000 workers. It has 4,331 stores in 14 countries. The company's Head Office is based in Hertfordshire, UK and operates mainly in the USA, Europe and Asia.

PESTEL Analysis[2], analyses the vibrant and erratic environment in which company operates by identifying the forces that have the most impact on its performance, Influences Company has, to achieve strategically success. However this forces becomes interrelated some times. Political China's accession to the WTO has promoted a free flow of foreign trades by removing all barriers encouraging Western companies, including Tesco, to make way into the world's most profitable market encompassing over 1.3 billion[3].

In 2009 an agreement was signed by Tesco to set up a premeditated series of joint ventures for the development of shopping malls in China. This joint venture included three malls: Anshan, Fushan and Qinhuangdao.

Furthermore, 18 new hypermarkets are expected to open in China by 2010[4]. The growth of Tesco's international business segment is on the rise and it is predicted to account for one quarter of the company's profit.

Immersion of 10 further countries into the European Union took place in 2004 promoting trade between Western and Eastern European countries[5].

This has provided Tesco with a platform to expand its retail network across the EU. Economic factors are a matter of concern for Tesco since they impact directly on the buying behaviour of customers. Although the UK economy was declared officially under recession in 2008, the government's substantial reduction in interest rates helped to minimise further rises in unemployment during 2009 [6]. As a result of this, the spending power of consumers is again on a steady rise as they are more confident about their current financial situation.

However, there is still a lot of financial uncertainty meaning that consumers are likely to spend less on premium products, encompassing organics and ready prepared meals, which will adversely affect both sales value and margins[7]. However, the positive aspect of recession is that the customers eat out less and eat more at home which provides opportunities for grocery retailers like Tesco to increase their output[8]. It must be noted that food is the last thing that customers will cut back on. The percentage of overall consumer spending on food has risen considerably over the years.

Social An analysis of the UK population shows that there are more retired people than children representing the Baby Boom generation[9]. The ageing population is discouraging for the food retailers older people tend to eat less. They are less likely to travel to supermarkets to shop compared with the younger generation. Although internet literacy level drops over the age of 65 years within the, it has nevertheless been predicted that the ageing population would find online shopping more convenient. However, small deliveries are considered to be ineffective and expensive.

Consumers' attitude towards food is incessantly changing as they have become more health-conscious. An increase in the demand for organic food has been accommodated by Tesco to reflect this change in demand.

Payment by cheques and cash at the checkout was first made possible by Tesco. Technological One of the key macro-environmental variables that have directly influenced the supply chain, operations and processes of grocery and food retailers is technology. The operation of supermarkets is being affected by the use of the Internet through online grocery retailing, which is showing steady growth.

It has been estimated that the Internet is being used by 60% of the youth in the UK[10]. Mobile technology has also taken off as a platform for distribution within food retailing. New Wine App developed by Cortexica Vision Systems, for example, has been used by Tesco via which the customers are directed to Tesco Wine enabling them to buy the selected wine directly from their iPhone [11]. Online retail shopping has gained considerable popularity due to the increased access to broadband internet in the UK. Most of the users are ready to move for 100Mbps and are ready to go extra mile[12].

Loyalty programs are being introduced through information technology which discourage customers from switching over to their competitors[13] Environmental[14] Tesco has introduced its Greener Living Scheme to give consumers advice on environmental issues, including how to reduce food waste and their carbon footprint when preparing meals. Consumers reusing bags, recycling mobile phones and aluminium cans and preferring bagless

deliveries are being rewarded through Tesco's green Clubcard points . Due to the consumer awareness of the carbon footprint of the .

Tesco has added carbon footprint data on dairy products, potatoes and orange juice, and aims at expanding it to bread and non-food items in coming years. Legal Drawing upon the Low Pay Commission Report, year 2008 and 2009 combined up-ratings have resulted in an increase in the minimum wage of 15. 5%. This will result in an increase of operating costs of supermarkets. [15] It has been predicted that VAT would have to rise to 20% since the Government has to finance a huge budget deficit. This will affect the non-food sectors of Tesco, such as clothing.