

# Tesco nature scope and purpose of strategic management



**ASSIGN  
BUSTER**

## **INTRODUCTION**

Tesco started as a one-man business in London's East End. Tesco was founded by Jack Cohen, son of a Polish Jewish tailor. He sold groceries in the markets of the East End from 1919.

The Tesco brand first appeared in 1924. The name derived after Jack Cohen bought a large shipment of tea from T. E. Stockwell (formerly Messrs Tarring and Stockwell of Mincing Lane), he made new labels by using the first three letters of the supplier's name and the first two letters of his surname forming the word "TESCO".

The first Tesco store was opened in 1929 in Burnt Oak, Edgware, and London. The firm was floated on the London Stock Exchange on 23 December 1947. The first Tesco self-service store opened in 1948 in St Albans and is still trading in 2006 as a Tesco Metro store. The first Tesco supermarket was opened in 1956 in a converted cinema in Maldon, Essex.

Tesco's first "superstore" was opened in 1968 in Crawley, West Sussex. The group began selling petrol in 1974 and its annual turnover reached one billion pounds in 1979. Also In 1975 Tesco opened one of its first Hypermarkets in Irlam. The first Hypermarket under the "Extra" name opened in 1997.

## **EXPANSION:**

In 1994, the company took over the Scottish supermarket chain William Low. Tesco successfully fought off Sainsbury's for control of the Dundee-based firm, which operated 57 stores north of the border, paving the way for Tesco

to expand its weak presence in Scotland. To the present day, Tesco has based its Scottish headquarters at the former Wm. Low offices in Dundee. From small beginnings in Scotland - Inverness was recently branded as "Tescotown", since an estimated 50p in every £1 spent on food is believed to be spent in the three Tesco stores within the city. (Nationally, it is estimated that 1 in every £8 is the proportion spent) It introduced a loyalty card branded 'Clubcard' in 1995 and later an Internet shopping service.

During the 1990s it expanded into Central Europe, Ireland and East Asia. In July 2001 it became involved in internet grocery retailing in the USA when it obtained a 35% stake in GroceryWorks. In October 2003 it launched a UK telecoms division, comprising of mobile and home phone services, to complement its existing internet service provider business. In August 2004, it also launched a broadband service.

## **NATURE, SCOPE AND PURPOSE OF STRATEGIC MANAGEMENT**

### **NATURE:**

Tesco opened its first store in Edgware, North London in 1929. It is founded by John Cohen and T. E. Stockwell. Tesco mainly used strategies to build customer loyalty. It reached the £billion pound turnover in 1979. It became the first UK business to reach £2 billion pound and became the largest retailer in UK.

### **STRATEGY:**

According to Johnson and Scholes strategy is defined as

the direction and scope of an organisation over the long term; which achieves advantage for the organisation through its configuration of resources within a changing environment, to meet the needs of markets and to fulfil stakeholder expectations.

Tesco's growth over the last two or three decades has involved a transformation of its strategy and image. Its initial success was based on the "Pile it high, sell it cheap" approach of the founder Jack Cohen. The disadvantage of this was that the stores had a poor image with middle-class customers. In the late 1970s Tesco's brand image was so negative that consultants advised the company to change the name of its stores. It did not accept this advice, yet by early 2005 it was the largest retailer in the United Kingdom, with a 29.0% share of the grocery market according to retail analysts TNS Super Panel, compared to the 16.8% share of ASDA and 15.6% share of third-placed Sainsbury's, which had been the market leader until it was overtaken by Tesco in 1995.

### **Key to success:**

Focus on customers.

Focus heavily on value for money.

Finest and low price.

Core UK business.

Non-food business.

Retailing services.

International Expansion.

## **SCOPE**

According to Mintzberg and Quinn there are five definitions of strategy

Strategy as a plan

Strategy as a pattern

Strategy as a position

Strategy as a perspective

Strategy as a ploy

Tesco's growth over the last two or three decades has involved a transformation of its strategy and image. Its initial success was based on the "Pile it high, sell it cheap" approach of the founder Jack Cohen.

## **Levels of planning**

Planning of strategy in any organisation is categorised into three levels:

Top level planning: this is done by the top management and is termed as strategic planning. It is a long range planning and is linked to long range goals.

### **Second level planning:**

This is carried out by senior executives and is termed as tactical planning.

The plans are devised to achieve the organisation's main objectives. The

long-range plans of the organisation are segmented and are oriented to functions and departments.

### **Third level planning:**

This is the concern of the departmental managers and supervisors and is called 'activity planning 'or 'operational planning'. It is confined to short term activities and also individual assignments and establishes performance of the organisation.

### **Corporate strategy:**

It is concerned with the overall purpose and scope of the business to meet stake holder expectations.

It is often expressed as 'mission statement' of the organisation.

The company's mission statement reads, " Our core purpose is, 'To create value for customers to earn their lifetime loyalty'. We deliver this through our values, 'No-one tries harder for customers', and 'Treat people how we like to be treated'". The underlying aim is of course to make higher profits, but there is a clear focus on customer service at the top level of the company.

### **Business strategy:**

It is concerned with how a business competes successfully in a particular market.

Tesco's business strategy is to

Expand overseas

Maintain a strong uk business

Expand into non-food merchandise

### **Operational strategy:**

It is concerned with the operations to deliver the corporate and business strategy of the organisation.

Tesco has its every little helps strategy to make both its employees and customers happy while achieving the organisational goals.

### **PURPOSE**

Tesco adopts its strategy with a core purpose 'to create value for customers to earn their lifetime loyalty.' This is expressed as two key values.

No one tries harder for customers

Treat people as we like to be treated.

Tesco positions all its resources with a purpose to satisfy this strategy while achieving its organisational goals.

### **PROCESS FOR DEVELOPING STRATEGIC MANAGEMENT**

While the corporate strategy of an organisation sets the objectives for different businesses; business strategy deals with individual sections of the overall business and the operational strategy directs and determines each function of the organisation.

The process of business strategy of Tesco can be outlined as:

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Stating and understanding The Company's vision.

Stating and understanding The Company's mission.

Analysing the business environment.

Crafting and evaluation of strategy.

Implementation, monitoring and control.

## **VISION**

Tesco's vision can be clearly understood in the statement of its CEO Terry Leahy " we have got only 5% of the non-food market in Britain, we have got only 6% of the convenience market and we have got only 2-3% of the banking market ... In all these examples we could be much bigger".

This statement clearly presents the idea where Tesco wants to be in the future.

## **MISSION**

A mission statement spells out the central purpose and shared values of a business organisation.

Mission of Tesco is " To create value for customers to earn their lifetime loyalty which is delivered through two key values 'no one tries harder for customers and treat people how they like to be treated'.



## **ANALYSIS OF THE BUSINESS ENVIRONMENT**

For the formulation of strategy, it is necessary to analyse the organisational environment. These would include political, economic, social and technological factors.

According to Johnson and Scholes:

" Managers face difficulties in trying to understand the environment. First, the environment encapsulates many different influences; the difficulty is making sense of this diversity in a way which can contribute to strategic decision making".

A simple analysis of the business environment so Tesco involves three aspects:

Analysing Internal capabilities and resources(core competencies)

Analysing external environment by PEST Analysis

Analysing the competitive environment by Porter's five forces

### **Core Competencies**

Core competences relate to those resources and capabilities if the firm which enable to

Attain a competitive edge in the market...

According to Johnson and Scholes " core competencies create and sustain the ability to meet the critical success factors of particular customer groups better than other providers in ways that are difficult to imitate".

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Tesco identifies core competencies by three factors:

Creation of new products and services which provides potential access to a wide variety of markets.

Skill which makes a significant contribution to the perceived customer benefits of the end product.

'competitive unique' skills which are difficult for competitors to imitate

## **PEST ANALYSIS**

The external environment of an organisation is analysed by PEST analysis. It helps to identify the key changes that are taking place around the organisation and which influence it in the future.

A PEST Analysis looks at

Political Factors

Economic factors

Social factors

Technological factors

The following is the PEST Analysis for Tesco

### **Political Factors**

Risks of potential competition commission enquiry

GM- Food

EU competition Law

## **Economic Factors**

Intensive price competition between the large supermarkets

Cost of products keep falling because of strengthening buying power

## **Socio cultural factors**

Organic foods and drink

Customer concerns about GM food, allergies and additives

Animal welfare policies

Environmental policies and practices

## **Technological Factors**

Radio Frequency identity technology in operation of its supply chain

Radio barcode technology for tagging cases.

Self service check-out system.

## **PORTER'S FIVE FORCES**

Porter's five forces are used to analyse the external environment of an organisation and to determine the attractiveness of the market. The five forces are:

The bargaining power of customers

The bargaining power of suppliers

The threat of new entrants

The threat of substitute products

The intensity of competitive rivalry

### **Bargaining power of customers**

The buying power of customers may influence Tesco to force prices down.

This may lead to competition where the other rivals may also bring down the prices.

Tesco should maintain the customer loyalty to stop them from drifting to others.

### **Bargaining power of suppliers**

Demand of suppliers to pay high prices for their goods. Recently, the agitation by the dairy farmers to get high price for milk is an example.

But market giants like Tesco has an overwhelming advantage over their suppliers where they dictate the price they pay their suppliers.

### **Threat of new entrants**

Supermarket chains like Tesco manage the threat of new entrants by imposing barriers to entry.

This is achieved by paying high price to suppliers and buying large volumes of goods. This makes Tesco to supply goods at cheaper prices to its customers where it corners the new entrants.

Tesco also has the advantage of economies of scale.

### **Threat of substitute products**

Tesco faces the threat of cutting down the prices of groceries and goods by other giants like Asda and Sainsbury. This may lead to lowering of prices where the buyer gets an advantage.

### **Intensity of competitive rivalry**

Retail industry is the one where the profit margins are low and the competition is high.

According to classical economics, rivalry between companies should drive profits to zero.

All the above mentioned factors impact the intensity of competition for Tesco.

Asda, Sainsbury's, Morrisons and others with their expansion plans and strategies are making the competition tough. Their disciplined approach towards prices setting is preventing the destruction in profit war.

### **Environmental evaluation of Tesco**

The environmental audit is reliant on the monitoring activity undertaken by the organisation. It includes

### **Market intelligence**

Largest supermarket chain with a market capitalisation of £26. 037bn

New strategies for mergers and expansion plans to US

Effective and low prices

Continuous monitoring and direct information on the sales figures in stores

Efficient maintenance of customer loyalty.

## **Technical intelligence**

RFID technology for supply chain management

EPO's and Bar-coding technology

Extension of RFID technology for tagging the cases through out the supply chain by 2007.

Effective implementation of 'one in front policy' at the tills to satisfy the customers.

## **Acquisition intelligence**

Decision of receding from the bid to takeover Safeway.

Expansion plans for US

## **Other issues**

Convenience stores according to the needs of the people

Decisions regarding the environmental issues

## **Crafting a strategy**

By considering the above factors Tesco clearly crafted a strategy that keeps it in the leading position in all the aspects:

The selected strategy of Tesco is

To provide all the customers with excellent value and choice in UK business which is its biggest market and where Tesco enjoys top slot.

Having a six element approach to be an international retailer while focusing on satisfaction of needs of the different local customers.

## **KEY FACTORS FOR DEVELOPING STRATEGY**

The key factors for an organisation are those which exist within an environment and may generate a need for change. These are triggers for change in the organisation. The following is a brief description of the key factors which may lead to strategic change in

Tesco.

## **EXTERNAL ENVIRONMENTAL FACTORS**

Macro environmental analysis increases awareness of the relevant environmental changes at managerial level. This enhances strategic planning.

Macro environmental analysis further focuses attention on the primary influences of strategic change and provides anticipation to opportunities and carefully develops responses to change.

The following are the external environmental factors which pose challenges to Tesco

High energy costs

High recovery costs

Improving position of competitors

Risks of the potential competition commission enquiry

Growing cautiousness among consumers

## **STAKEHOLDERS**

Stakeholders can be defined as " As those individual actors and parties, organisations and professions and institutions that have a bearing on the behaviour of the organisation as revealed in its policies and actions on the environment".

Stakeholders can be divided into two categories;

Those view the organisation externally

Those have an internal interest

External stakeholders for Tesco are competitors, customers, suppliers, shareholders government departments' etc. They judge the efficiency and try to influence its activities. So Tesco always determines the outputs required by the stakeholders.

Internal stakeholders for Tesco are the owners, managers and employees. In large companies like Tesco there are thousands of shareholders who have a vested interest in the success of the business.



## **MEDIA**

Media plays a very important role in an organisation's strategy. It works in two ways;

Interest in the success of the organisation and its subsequent positive feedback

Interest in the proposed developments

Tesco notifies well that the influence of effective public relations on the opinions of a wide range of groups will enhance the likelihood of success for its strategy. So it always maintains good relations with the media. Tesco's media centre contain the latest news releases, images and briefing notes. Their latest TV ad campaign can also be viewed from their video library. The media people can also access to their media centre for easy access to the latest developments.

## **LEGAL**

Organisations need to anticipate and prepare themselves for changes in legal procedures. The potential competition commission enquiry and other regulations are important legal factors which can influence retail sector now. Tesco has all the legal resources which enables it to respond to such changes well in advance and as a part of its developing strategy.

## **ETHICAL**

These are the moral principles that should govern human relations and conduct. These are very important considerations in formulating strategy which involve subjective personal feelings about human behaviour. Tesco

identifies as one of the key factors in its strategy and accepts this with enthusiasm and commitment.

## **EDUCATIONAL**

In the present business scenario, the capacity to transmit knowledge through devices as the internet has become formidable. The most important and interesting aspect of the improvement in education and subsequent growth of knowledge has been the increasing professionalism of workforces in an organisation. Tesco understand this well and implements it in the improvement of skills of its human resources. It conducts training programmes a least two times a year.

## **POLITICAL**

Political factors generally effect the organisation in two ways. One driven by the government pr by the multinational political initiatives and another concerned with the political shifts within the particular business environment.

## **INTERNAL ENVIRONMENTAL FACTORS**

The following are the factors that are instrumental to the internal environment of Tesco.

### **Organisational policy**

The mission statement of an organisation sets out the purpose of a business  
The mission statement of an organisation is refined over the time to reflect the developed or enhanced capabilities of the business . The following are the purpose statements for Tesco which gives a clear picture of its policy

Scope of an organisation's activities is a fundamental element of strategy.

Tesco's scope relates to the extent of the market into which it sells its products and services. It is already the largest retailer in UK and is planning to expand to US . It has already wide markets in Europe and Asia.

A key consideration for a firm is to identify what areas of activity to pursue in its markets. Tesco targets customers of all ages with its products and services ranging from food, household products and retail to insurance and personal finance.

An important aspect of strategy is for a company to identify the 'positions' held by their products and services in the market place. Tesco has already built a very strong businesses over the time with very strong market positions. Each and every one of them has huge potential for further growth.

## **Human resources**

Tesco is the largest private sector employer in UK. Tesco is the largest private sector employer in UK. It employs 250, 000 staff alone in the UK and 367, 000 staff worldwide.

It has 2365 stores all over the world. Tesco employs about 11, 000 employees every year.

It recruits about 80 to 150 graduates each year to two training schemes one store and one office based. It recruits by in-store advertising, events in local areas. and recommendations

From existing employees through an employee referral scheme. These employees are the need for effective communication in the field of management.

## **Financial resources**

As per the statistics of 2006 Tesco is the fourth largest retailer in the world.

Its market capitalisation was £26. 035 billion which was the largest of any retailer based outside the united states. Tesco also has got tremendous property portfolio. It does its own development and owns about 85 of all its assets around the world. And always Tesco invests a lot in its property.

According to company authorities over the next five years its property value will be £5 billion and still be a predominantly freehold property company.

All these factors are described as the key factors for Tesco

## **DEVELOPMENT AND EVALUATION OF STRATEGIC OPTIONS**

Strategy whether developed for a whole organisation or for an operating department or a team follows the same building process . Its central concern is to create a long-term vision of where we want to be or what we would like to become . Strategy that an organisation adopts should be feasible and practicable. Its pulling power is extremely important to survive in the tough competitive environment where an organisation operates . The art of strategic development involves a set of sophisticated tools to facilitate the process.

The following is a brief context of different strategic options for TESCO and their evaluation.

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## **PEST ANALYSIS**

To develop a strategy for an organisation to assure its long-term effectiveness it should carry an analysis about its future. For this PEST Analysis is the best tool. It carries analysis of four or six major factors which can effect the organisation in future . TESCO which is the largest player in retail sector carries PEST Analysis to analyse the external factors which may affect in the future . The following is the PEST Analysis for TESCO:

### **Political and legal considerations**

Risks of potential commission enquiry

TESCO may face the risk of the potential commission enquiry in future which aims to curb the unhealthy competition in the retail sector.

GM-Food

With increasing awareness in the consumers all over the world TESCO may face the risk with Green peace workers regarding the labelling of genetically modified foods. .

EU Competition Law

EU Competition Law constituted to regulate monopoly power may impact TESCO and its expansion in the European Union in the near future.

### **Economic considerations**

Intensive price competition between the large supermarkets

Cost of products keep falling because of strengthening buying power

## **Social Factors**

Organic foods and drink

Consumer's growing concerns about the organic food and drinks may influence in near future

Customer concerns about GM food, allergies and additives

With growing cautiousness and discontent about the GM food and use of allergic causing agents and additives in the manufacture of food may show impact

Animal welfare policies

Animal welfare policies which oppose the testing of the products on animals

Environmental policies and practices

Green peace workers and changing concerns about environmental issues.

## **Technological Factors**

Radio Frequency identity technology in operation of its supply chain

Use of RFID technology in its supply chain helps TESCO to efficiently carry its operations and maintain its position.

Radio barcode Technology for tagging cases.

Use of Radio barcode Technology to tag the cases and extending this technique to the entire chain by the end of 2007 will show an impact on operations in TESCO.

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Self-service checkout system

## **SWOT Analysis**

IT is a commonly used tool . Its main purpose is to locate the organisation in its operating environment and try to assess its internal and external capabilities and vulnerabilities. SWOT stand for strengths, weaknesses, opportunities and threats. Strengths are internal and opportunities are environmental. Similarly weaknesses are internal and threats are environmental. The following is the SWOT analysis for TESCO

### **Strengths**

These are the strengths of TESCO

TESCO 's Brand name

Loyal customers

Largest player in the retail sector

Well established supply chain

Excellent ware housing capability

Largest online grocer

Great store locations

Skilled work force

Club card scheme for enhancing customer loyalty.

## **Weaknesses**

These are the weaknesses of TESCO

Vast usage of fossil fuel in transport chain and super market heating systems

Lack of integration between departments at certain times

## **Opportunities**

These are the opportunities where TESCO can explore in future

Improving customer relationships

Real growth opportunity for grocery retailing in the newly enlarged European Union.

Increasing sales through better integration of high street and internet resources

## **Threats**

These are the threats that might affect TESCO in the future.

High energy costs

Increasing taxes on retail items

Expansion of low cost supermarkets like LIDL.

Recovering competitions like Sainsbury's and Morrison's.

A weakening economy

An increase in unemployment



## **PORTER'S GENERIC STRATEGIES**

After establishing the strengths and weaknesses of the organisation and analysing the competitive environment, we have to establish the generic strategy of the organisation.

No set of the strategic tools will be complete without a look at Michael porter's generic strategies. Porter advocates, " Gaining and maintaining competitive advantage..."

The three generic strategies of Porter are

### **Differentiation**

This is a strategy where the organisation offers a product or service which is unique compared with those of its competitors . This differentiation must be known to at least a segment of the market.

### **Cost Leadership**

This is a strategy where the organisation enables itself to provide the products or services at a cost less than any other competitive organisation. It is the ability the organisation has to price below competitors if and when it needs so.

### **Focus**

This is a strategy where the organisation targets its products or services at a given sector of the market with great accuracy and with a depth of capability and knowledge to support its position in the sector.

In the retail sector with a very low profit margin the environment is hypercompetitive . TESCO being the largest player adopts the Cost Leadership strategy to challenge its competitors. TESCO has all the capabilities to adapt to this strategy. It develops its internal resources and its core competencies to support this strategy.

In addition to these a number of generic strategies have emerged to define the modern organisation . The following is a list of the strategies.

Reducing cost base

Improving quality

Getting closer to the customer

Shorter cycle times

Strategic partnerships

Ability to change fast

Of the above mentioned generic strategies, TESCO adopts the following:

### **Reducing cost base**

To cut down the expenses and to increase productivity and efficiency, TESCO adopts this strategy to face the challenges of price war with its competitors, high property costs and to provide value based products to the customers.

## **Improving quality**

TESCO always concentrates on improving quality to rule the existing markets. It adopts new techniques and software's both in the logistics and in-store operations to consistently serve the customers.

## **Getting closer to the customer**

Customers are whimsical, customers are fickle, customers are not loyal. The ability to anticipate this fickleness is a strategic strength. TESCO understands this well and introduced club card schemes which helps TESCO to have millions of loyal customers.

## **THE ANSOFF MATRIX**

This is a classic model in strategy building . Its main purpose is to analyse the organisation's approaches to its products and to its market to ensure that an appropriate marketing strategy is being pursued . The following is the An off matrix for TESCO

### **Current products New products**

#### **Current**

#### **markets**

#### **Market penetration**

Improving services

Improving quality

#### **Product development**

Expand own brands like 'The Finest' and 'TESCO Value'.

Expansion into non-food sector

Adding new products to the existing product line

## **New**

### **markets**

#### **Market development**

International expansion and globalisation

Home shopping

Developing small express stores

#### **Diversification**

New services

Using the Ansoff matrix in conjunction with the BCG matrix, TESCO conducts a useful review of its strategy to achieve its vision.

## **EVALUATION**

### **The BCG matrix**

The Boston Consulting Group matrix is a valuable tool . Its purpose is to analyse the organisation's product portfolio. The definitions used in the BCG matrix are very precisely expressed in terms of the generation and use of cash. This makes this matrix a sharp-edged tool. the following are the definitions used in BCG matrix

## **Stars**

These are the products that are performing well . They are generating positive cash and they usually require continuous update to maintain their market share.

## **Problems**

These are the products which are not performing and not generating sufficient cash to maintain them in their markets.

## **Cash cows**

These are the products which are performing well in markets which are growing slowly or are static. They are probably generating more money that can be profitably invested in them.

## **Dogs**

They have low market share in markets which are growing slowly or are static. They may be consuming more resources to maintain their availability. They need quick decisions.

The following is the BCG matrix for Tesco

## **Market share**

### **High low**

#### **Star**

On-line shopping

Organic foods

Loyalty cards

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Non-grocery items

New services

## **Problems**

On-line shopping with demographic analysis

Home delivery of products

Cash cows

## **Cash cows**

Branded produ