How sustainable is tesco's strategic position?

Jack Cohen, Tesco’s founder, began as a barrow boy. In 1947, he established one of the first pilot self-service stores in St. Albans in Hertfordshire (Bowlby, 2001, p7-18). Tesco is presently the biggest retailer in the United Kingdom with revenues in 2009 clocking $96, 210 million. One third of the entire national food expenditure in the UK occurs at Tesco’s (Tesco, 2009, p1).

The supermarket business in the UK is experiencing difficult times in the wake of the economic downturn. Tesco states that its UK sales growth was nearly flat during the previous quarter, even as it battled declining food prices (BBC, 2010). A supermarket chief who declined to be named stated that a “ bloodbath” might be looming and thousands of jobs might be threatened (Finch & Wood, 2010, p1).

A fresh generation of supermarket chiefs is taking over the running of the £130 billion UK retail sector at this uncertain juncture (Finch & Wood, 2010). Sir Terry Leahy, Tesco’s Chairman, will retire in March 2011, after directing the retailer for 14 long years. He will be succeeded by Philip Clarke, currently in charge of Tesco’s Asian and European business (Telegraph, 2010). Sir Leahy’s departure proclamation came mere weeks after new chiefs had taken over at competitors Asda and Morrison’s (Finch & Wood, 2010, p1).

This study aims to analyse various important strategy models to understand the strategic position of Tesco, its key external drivers of change, and how it adds value. The study also examines the sustainability of Tesco’s strategic position.

2. Analysis

The retailing business, both non-food and food, is going through a crisis (Finch & Wood, 2010). The Like-for-like turnover for Tesco, excluding new store openings and petrol, increased 1. 1 percent in the quarter to 30May (BBC, 2010, p1). The growth figure reduced to only 0. 1 percent after factoring in the reinstatement of VAT to 17. 5 percent; post its temporary cut (BBC, 2010, p1). Company sources said that the 30 percent increase in fuel prices over last year had reduced customer spends on other goods (BBC, 2010, p1).

Richard Hunter, Head of UK Equities in Hargreaves Lansdowne Stockbrokers observed that imminent government belt-tightening measures would make it even harder for Tesco customers (BBC, 2010, p1). He added that the company is now exerting itself to achieve the type of progress customarily expected of it by the markets. Sir Terry’s looming retirement has exacerbated uncertainty further, even as Tesco’s competitors continue to threaten its market domination (BBC, 2010, p1).

2. 1. Tesco’s Strategic Position

Johnson & Scholes, in Exploring Corporate Strategy, (2002), defined strategy thus: “ Strategy is the direction and scope of an organization over the long term, which achieves competitive advantage for the organization through its configuration of resources within a changing environment and to fulfil stakeholders’ expectations” (Stirr, 2003, p1).

Michael Porter’s Generic Strategies model (1985) categorises 3 generic strategies into (a) cost leadership (b) differentiation and (c) market segmentation. Porter argues that a successful company needs to practice one of the 3 strategies. It must not get ‘ stuck in the middle’ between the two fundamental generators of competitive advantage, namely low prices and differentiation (Referaty, 2010, p1). He also recommends that companies with high market share should adopt cost leadership strategies to become profitable, even as companies with low market shares should target profitability through market segmentation or differentiation (Referaty, 2010, p1).

Tesco’s strategies do not however appear to be influenced by Porter’s model. Whilst the company has over 30% market share in UK’s grocery retailing, it does not offer discount shopping. It is also not the cheapest amongst major supermarket chains. It furthermore offers customers options of Tesco Finest and Tesco basic foodstuffs (Referaty, 2010, p1).

Empirical evidence suggests that several companies adopt both low-cost and differentiation strategies (Referaty, 2010, p1). Tesco utilises low costs to offer superior differentiation and subsequently reinvests the returns to reduce the costs even more. It also strategically works towards differentiating through its community building approach (Referaty, 2010, p1). Tesco’s customers cannot be categorised into distinct social groups. Offering both cheap and expensive merchandise, it provides goods for customers with thin budgets and also for those with more purchasing power (Referaty, 2010, p1). Whilst this approach challenges Porter’s requirements for successful strategies, it seems to be functioning in Tesco’s favour (Referaty, 2010, p1).

Cliff Bowman's " Strategy Clock" helps in the examination of a company's competitive position, compared to the offerings of competitors (E-fost, 2010, p1). Bowman, like Porter, believes that competitive advantage emanates, either from cost leadership or from differentiation advantage (E-fost, 2010, p1).

Bowman however differs from Porter in some ways. Whilst agreeing with the concept of cost leadership he feels such tenets to be too general and brings in more detailed combinations of perceived added value and price. Bowman suggests the active consideration of eight core strategic alternatives (E-fost, 2010, p1). Table 1 below illustrates the eight alternatives

Table 1: Bowman's Strategy Clock (Zanthus. com, p1)

Bowman's eight alternatives comprise of (a) low price / low added value, which is liable to be segment specific (b) low price, which carries the danger of price war and small margins or organisations to be ' cost leaders', (c) hybrid options with lower cost base and reinvestment in differentiation and low price (d) differentiation alternative with / without a price premium that is able to bear price premium or yield market share benefits (e) focused differentiation, yielding perceived added value to specific segments (f) increased price / standard product, which could lead to risks of losing market share (g) increased price / low values, which is feasible in a monopoly situation, and (h) low value / standard price, resulting in loss of market share (E-fost, 2010, p1).

Tesco has a firm and deep based strategy for growth, which works towards reinforcig its core UK operations and its the growth thrust in fresh markets

(Quick facts, 2009, p1). The fundamental tenet of its strategy, formulated in 1997, concerns the expansion of business scope to permit delivery of robust and sustained long-term growth (Quick facts, 2009, p1). Such expansion is realised by pursuing existing Tesco customers and making them customers of various other UK Tesco businesses like non-food, telecommunications, and financial services (Quick facts, 2009, p1).

The company's strategy has five objectives, viz (a) to be successful in its global retail business (b) to develop its mainstay UK business, (c) to be equally strong in non-food and food sectors (d) to expand other retailing and financial services, and (e) to position community at the heart of its strategy (Tesco plc, 2009, p1).

" Sir Terry said that " when I became CEO I had a plan to build Tesco around its customers, to make it number one in the UK and to find new long-term growth in non-food, in services and international expansion. It has taken 14 years but that strategy has become a firm reality now and so I feel my work is almost complete" (Telegraph, 2010, p1).

2. 2. Key External Drivers

PESTLE analysis helps in the analysis of the external macro environment within which a business functions (Rapdbi, 2010, p1). The understanding of opportunities or threats within the ' big picture' environment in which a company operates helps in exploiting opportunities and minimising threats (Rapdbi, 2010, p1). It is a valuable tool for understanding the relationship between market growth or decline and the potential, position, and direction of a company or its business (Rapdbi, 2010, p1).

PESTEEL is another extension of the same model and is an acronym for the " political, economic, socio-cultural, technological, environmental, educational and legal" dimensions that need to be analyses to evaluate the market for the strategic plans of organisations or businesses (Rapdbi, 2010, p1). These factors are briefly discussed as under.

Tesco's operations are often influenced by political conditions and developments within and outside the UK (Docstoc, 2010, p1). The company might for example have to respond to British and Columbian politics to protect its coffee supply (321books, 2010, p1).

Recession has caused unemployment levels in the UK to rocket to 28. 93million. Adverse economic conditions can affect consumer spending, as well as impact prices, costs, profits, demand and supply. UK retail turnover, for instance, reduced 0. 7% during January 2010 in relation to the January 2009 numbers on a like-for-like basis. Sales in 2009 had increased 1. 1% (KPMG, 2010, p1).

Sociological factors can also greatly influence Tesco's operations. Such factors are immense and can range from immigration to changes in fashion and consumer behaviour (321books, 2010, p1). British consumers have, experts state, turned into " one stop" shoppers urging chains to stock ever increasing ranges and varieties of goods (Docstoc, 2010, p1).

Tesco makes use of technology to drive its business. It uses forecasted weather patterns to estimate demand and sales of its products and services. Their software, developed after 3 years of research, can indicate changes in sales that can occur because of a degree rise in temperature rise or an extra hour of sunshine (Swaminathan, 2009, p1). Technology also facilitates services like Tesco. com and self-checkout facilities (Docstoc, 2010, p1).

Tesco’s environmental policy has resulted in adoption of measures to lower carbon emissions. The company aims to attain a 30 percent decline in the carbon impact on it entire supply chain by 2020; the overall objective is to become a zero carbon group by 2050 (Tescoplc. com [Press release, 2009]) (Docstoc, 2010, p1).

Increasing educational levels affect organisations. Higher educational levels facilitate people to receive higher incomes. Increases in incomes also generate opportunities for procurement and sales of additional goods and services (Referenceforbusiness. com, 2010, p1).

Tesco is also subject to various government policies and national legislatives, especially in areas of health, safety and labour. Failure in adhering to these can have a direct affect on its performance (Docstoc, 2010, p1).

Porter’s Five Forces analysis for companies involves the evaluation of the external environment vis-a-vis the industry structure. The five forces comprise of barriers to entry, buyer power, consumer power, the threat of substitutes, and the degree of rivalry.

Such assessments help firms to formulate approaches for exploitation of opportunities and protection from threats. Companies can thus accomplish competitive positioning and achieve differential advantage over the goods and services of their market rivals (Referaty, 2010, p1).

The supermarket retail industry has very high barriers to entry. High capital requirements create major entry barriers for prospective firms. The need to achieve scale economies and high quality and specialised logistics also constitute difficult entry barriers. Tesco and other major supermarket chains have the financial and operational strength to buy and handle enormous volumes of merchandise, which helps them in pricing of products and satisfaction of various customer needs (Referaty, 2010, p1). New firms also need to contend with the loyalties developed by existing firms, such barriers being evinced by the failure of discount stores like Lidl or Aldi that been unsuccessful in not growing up to become major contenders in the retail market (Referaty, 2010, p1).

Customers have options of shopping from diverse supermarket chains that compete on price and various promotions. Suppliers can wield considerable influence when they are in positions to claim price premium and also when the final merchandise on offer can be impacted by their quality and their delivery schedules. Tesco prefers to use a number of smaller suppliers rather than one big supplier. This increases its bargaining power and provides the company with the option of switching suppliers, if market and operational conditions so demand (Referaty, 2010, p1).

The threat of substitutes plays an important role in assessment of competitiveness. Companies need to examine the tendency and chance of customers to switch to substitutes. They need to for example, in the case of an obsolescence threat, keep competition at bay by making their goods and services more attractive. Tesco, for instance, offers merchandise price check facility on its website, thus enabling customers to view substitutes by themselves (Referaty, 2010, p1).

The extent of competitive rivalry depends upon the competitiveness of market participants. With all four major retail players aiming for a higher market share, the supermarket space in the UK is particularly competitive (Referaty, 2010, p1).

Porter's Five Forces, therefore, is a " bottom line" method of company analysis, from its own perspective. Essentially if goods or services cannot be differentiated, then competition mainly becomes price-based, and customer loyalty is difficult to ensure (Referaty, 2010, p1).

2. 3. Tesco's Value Addition

Michael Porter advanced his theory on Value Chain Analysis in 1985 in response to criticism on the inadequacies of the Five Forces framework in implementation methodology that connected internal capabilities with opportunities in the competitive landscape (Provenmodels, 2010, p1).

This framework centres on industry attractiveness being a causal factor in the earnings potential of all organisations in a particular industry. Considerable differences in performance occur between organisations operating within an industry (Provenmodels, 2010, p1). Value Chain Analysis can assist in identifying an organisation's core competencies and differentiating the activities that give rise to competitive advantage. An organisation's cost structure can be segregated by this method into discrete functions or processes on the presumption that the cost drivers for each of such activities work differently (Provenmodels, 2010, p1). Porter was able to compress an activity-based cost scrutiny into a standard template comprising of five primary and four support activities (Provenmodels, 2010, p1). These nine activities are categorised under two primary and support activity group areas. The primary activities comprise of (a) inbound logistics, comprising of materials handling, warehousing, transportation and inventory control (b)operations, including machine operating, testing, assembly, packaging and maintenance (c) outbound logistics of warehousing, order processing, transportation and distribution (d) marketing and sales, comprising of promotion, advertising pricing, selling and channel management, and (e) services, including installation, spare part management and servicing (Provenmodels, 2010).

The other support activities encompass (a) firm infrastructure, including general management, finance, planning, legal and investor relations (b) human resource management, encompassing education, recruitment, promotion and reward systems (c) technology development, including research & development, product and process development and IT, and (d) procurement, comprising of purchase of raw materials and supplier contract negotiations (Provenmodels, 2010, p1).

Attempts to engage in Value Chain Analysis of Tesco reveal various primary variables that can add or deplete value to the organisation (Docstoc, 2010, p1).

In terms of primary variables, inbound logistics have an essential significance in the generation of the value chain since they offer the initial prospect to create value. Tesco has sophisticated and ever-improving inward logistics that strive to improve the level of in-store consumer choices (Docstoc, 2010, p1). The effectiveness of Tesco’s distribution system could be improved. The quality control system should also be administered more proficiently by the organisation to reduce customers being burdened with the cost of losses (Docstoc, 2010, p1).

Service orientation lies at the core of Tesco’s operations. Services that need to be diligently administered include 24*7 activities and various store management functions involving opening and closing stores, shelf maintenance, and stock replenishment (Docstoc, 2010, p1).

With regard to outbound logistics, value addition for Tesco can come about from reaching the goods to the customer, improving customer service, and implementing a customer friendly trolley service (Docstoc, 2010, p1).

Tesco’s marketing and sales activity is represented by its distinct Clubcard. The card is instrumental in giving discounts, providing customer loyalty offers, and selling health, wellness, and environmentally friendly merchandise. It carries Tesco’s advertisements and the latest promotions on deploying recycled goods for assisting Tesco in becoming “ carbon free by 2050” (Docstoc, 2010, p1).

2. 4. Unique Resources and Capabilities

All organisational resources are not essential for an organisation’s competitiveness. The resources that do not help in building competitive advantage constitute threshold resources (Lioukas & Voudouris, 2010, p1). Unique resources on the other hand are those which are not easily obtained by the competitors and can help development of competitive advantage (Lioukas & Voudouris, 2010, p1).

The same argument holds good for capabilities, which are obtained over time through application of resources and knowledge collation. DQE (Design, Quality and Environment) aims to develop unique capabilities and unique resources, which can help in building the foundation of competitive sustainability and competitive advantage (Lioukas & Voudouris, 2010, p1). Table 2, provided below, illustrates the permutations of the unique resources and capabilities in forming the foundations of competitive advantages.

Table 2: Unique resources & capabilities: The base of competitive advantage (Lioukas & Voudouris, 2010, p1).

The strategy of sustainability entails all characteristics of strategy and incorporates elements of strategy formulation, strategy definition and execution, as also the issue of strategic options (Stirr, 2003, p1). Strategic position is generated by the inter-relatedness of activities (Stirr, 2003, p1). Organisations that really comprehend strategic positioning are experienced in activity mapping. They recognise their core competencies and frequently plot their own and their competitors' activity network in order to assess the sustainability of their own strategic position (Stirr, 2003, p1).

Any organisation can replicate a particular competitive activity. Discrete activities per se do not generate a strategic position (Stirr, 2003, p1). It is the grouping of activities that an organisation selects to execute for every strategic function (be it marketing, finance, operations and human resources), and the manner wherein such activities are supported and interconnected by business processes and systems, that lead to the building of a strategic position. The extent of interconnectedness and support of these activities determines the degree of sustainability of an organisation's strategic position (Stirr, 2003, p1).

Organisational strategies relating to marketing, finance, operations and human resources are sustained by internal business systems. These refer to the intricate combination of policies, procedures, hardware, software, budgeting, control mechanisms, et al, which facilitate the optimal flow of data and information through the entire organisation as it tries to provide for the requirements of its customers. An organisation that does not have a lucid strategic position will be transparently riddled with backlogs, omissions and breakdowns within its business systems (Stirr, 2003, p1).

Business systems also focus on the means by which core competencies satisfy customer needs. It is through such systems that organisations leverage their entire accessible wherewithal on their customer requirements, build unique activity networks, remove waste through the entire organisation, and curtail their costs to the maximum possible extent.

Conclusion: How sustainable is Tesco's strategic position?

The analysis of the diverse strategy models during the course of this study highlights the significance of strategy in garnering competitive advantages. The key external and internal drivers that compel continuous changes have also been examined. It has also been examined how core resources and competencies need to be utilised effectively and continuously to keep renewing drivers of growth.

Activities or strategies per se neither generate competitive advantage nor sustainability. Enterprises that build a sustainable strategic position achieve it through the development of a number of distinct core competencies and by carrying out activities, (which stem from these competencies) that meet customer requirements (Stirr, 2003, p1). Organisations construct sustainable strategic positions by integrating their marketing, finance, operations, and human resource planning functions. They vigilantly review all the activities carried out by every functional sphere to ensure utmost integration (Stirr, 2003, p1). Strategy drives the scale and direction achievable by organisations in the long term and helps organisations in accomplishing competitive advantages through the arrangement of resources in a dynamic and aggressive changing environment to fully satisfy stakeholder expectations (Stirr, 2003, p1).

The foregoing analysis reveals how Tesco actively and persistently works in different areas of strategy formulation to achieve competitive advantage and value addition. Tesco strives for sustainability though the deployment of its core resources and integration of all its functions across the board. This renders it with sustainable competitive advantages through the construction of high entry barriers in different operational areas. Such barriers keep new competition from getting and existing competition from achieving parity. The sustainability of Tesco’s strategic position is also evidenced by its purposeful aim to be a carbon free global organization by 2050.