

# Food retailing commission essay

[Business](#), [Corporate Governance](#)



Strategic Management of TESCO supermarket: PESTEL analysis, Porter's 5 Forces analysis, Critical success factors, SWOT Analysis, VALUE CHAIN analysis, TESCO'S strategic options, Core Competences & Cultural Web.

**INTRODUCTION** The food and drink retail sector represents the largest industry in the UK, providing employment for over three million people in primary production, manufacturing and retailing. In 2003 retail accounted for 9% of gross domestic product (Datamonitor, 2003). In recent years UK supermarkets have come under increased scrutiny over their treatment of suppliers, particularly of own-label products, yet the development of strategic supply networks has been an integral part of most supermarket strategies for the past decade. The report below provides an insight into the supermarket company, Tesco, with emphasis on its external environment analysis and company's analysis of resources, competence and culture. Two future strategic options are suggested in regards to the resources based strategies.

Tesco is one of the largest food retailers in the world, operating around 2,318 stores and employing over 326,000 people. It provides online services through its subsidiary, Tesco.com. The UK is the company's largest market, where it operates under four banners of Extra, Superstore, Metro and Express. The company sells almost 40,000 food products, including clothing and other non-food lines. The company's own-label products (50 percent of sales) are at three levels, value, normal and finest.

As well as convenience produce, many stores have gas stations, becoming one of Britain's largest independent petrol retailers. Other retailing services offered include Tesco Personal Finance.

2.0 INDUSTRY ANALYSIS: PESTEL  
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FRAMEWORK 2. 1PoliticalFactors Operating in a globalized environment with stores around the globe (Tesco now operates in six countries in Europe in addition to the UK; the Republic of Ireland, Hungary, Czech Republic, Slovakia, Turkey and Poland. It also operates in Asia: in South Korea, Thailand, Malaysia, Japan and Taiwan), Tesco's performance is highly influenced by the political and legislative conditions of these countries, including the European Union (EU). For employment legislations, the government encourages retailers to provide a mix of job opportunities from flexible, lower-paid and locally-based jobs to highly-skilled, higher-paid and centrally-located jobs (Balchin, 1994). Also to meet the demand from population categories such as students, working parents and senior citizens.

Tesco understands that retailing has a great impact on jobs and people factors (new store developments are often seen as destroying other jobs in the retail sector as traditional stores go out of business or are forced to cut costs to compete), being an inherently local and labour-intensive sector. Tesco employs large numbers of; student, disabled and elderly workers, often paying them lower rates. In an industry with a typically high staff turnover, these workers offer a higher level of loyalty and therefore represent desirable employees. 2.

2EconomicalFactors Economic factors are of concern to Tesco, because they are likely to influence demand, costs, prices and profits. One of the most influential factors on the economy is high unemployment levels, which decreases the effective demand for many goods, adversely affecting the demand required to produce such goods. These economic factors are largely

outside the control of the company, but their effects on performance and the marketing mix can be profound. Although international business is still growing (Appendix A), and is expected to contribute greater amounts to Tesco's profits over the next few years, the company is still highly dependent on the UK market. Hence, Tesco would be badly affected by any slowdown in the UK food market and are exposed to market concentration risks.

2. 3 Social/Cultural Factors Current trends indicate that British customers have moved towards 'one-stop' and 'bulk' shopping, which is due to a variety of social changes. Tesco have, therefore, increased the amount of non-food items available for sale.

Demographic changes such as the aging population, an increase in female workers and a decline in home meal preparation mean that UK retailers are also focusing on added-value products and services. In addition, the focus is now towards; the own-label share of the business mix, the supply chain and other operational improvements, which can drive costs out of the business. National retailers are increasingly reticent to take on new suppliers (Clarke, Bennison and Guy, 1994; Datamonitor Report, 2003). The type of goods and services demanded by consumers is a function of their social conditioning and their consequent attitudes and beliefs.

Consumers are becoming more and more aware of health issues, and their attitudes towards food are constantly changing. One example of Tesco adapting its product mix is to accommodate an increased demand for organic products. The company was also the first to allow customers to pay

in cheques and cash at the checkout. 2. 5 Environmental Factors In 2003, there has been increased pressure on many companies and managers to acknowledge their responsibility to society, and act in a way which benefits society overall (Lindgreen and Hingley, 2003). The major societal issue threatening food retailers has been environmental issues, a key area for companies to act in a socially responsible way.

Hence, by recognizing this trend within the broad ethical stance, Tesco's corporate social responsibility is concerned with the ways in which an organization exceeds the minimum obligations to stakeholders specified through regulation and corporate governance. Johnson and Scholes, 2003) Graiser and Scott (2004) state that in 2003 the government has intended to launch a new strategy for sustainable consumption and production to cut waste, reduce consumption of resources and minimise environmental damage. The latest legislation created a new tax on advertising highly processed and fatty foods.

The so-called ' fat tax' directly affected the Tesco product ranges that have subsequently been adapted, affecting relationships with both suppliers and customers 2. 6 Legislative Factors Various government legislations and policies have a direct impact on the performance of Tesco. For instance, the Food Retailing Commission (FRC) suggested an enforceable Code of Practice should be set up banning many of the current practices, such as demanding payments from suppliers and changing agreed prices retrospectively or without notice (Intel Report, 2004).

The presence of powerful competitors with established brands creates a threat of intense price wars and strong requirements for product differentiation. The government's policies for monopoly controls and reduction of buyers' power can limit entry to this sector with such controls as license requirements and limits on access to raw materials (Intel Report, 2004; Myers, 2004). In order to implement politically correct pricing policies, Tesco offers consumers a price reduction on fuel purchases based on the amount spent on groceries at its stores. While prices are lowered on promoted goods, prices elsewhere in the store are raised to compensate.

Technological Factors Technology is a major macro-environmental variable which has influenced the development of many of the Tesco products.

The new technologies benefit both customers and the company: customer satisfaction rises because goods are readily available, services can become more personalised and shopping more convenient. The launch of the Efficient Consumer Response (ECR) initiative provided the shift that is now apparent in the management of food supply chains (Datamonitor Report, 2003). Tesco stores utilise the following technologies:

- Wireless devices
- Intelligent scale
- Electronic shelf labelling
- Self check-out machine
- Radio Frequency Identification (RFID).