

Analysis of tesco

Nutrition, Food Safety



Tesco 1. 0 Introduction In my assignment the focus will be on analysing the business environment within the food retail industry in relation to Tesco. Also, there will be an analysis of Tesco's resource capability on their domestic market in UK. Tesco is United Kingdom's leading hypermarket. They started out by operating in the food industry, but as the business grew, they now operate within food, non-food (books, DVD's and clothes.) and they sell different services like car and travel insurance, telecommunication products and have their online site Tesco. com, where you can buy everything online and get it delivered directly to your door. Since the mid-90s, Tesco has been investing in new markets overseas like Poland, Hungary, Thailand, China and now USA. The group operates in 13 markets outside the UK and is expanding their business throughout the globe. 2. 0 Task A — analysis of Tesco's business environment 3. 0 Microenvironment - Porter's Five Forces (Porter, M. E - 1980) 3. 1 Threat of entry When a new competitor enters the food retail industry, the entry is low, but there are high barriers to entry, the important factors are seen below. The newly started company would not be able to get the same cost benefits as the experienced players in the industry like Tesco. When entering the food retailer industry, the capital requirements is quite high. It is needed to rent/buy a store, either take a loan in the bank or use your own capital and arrange a deal with different food suppliers. As a new player in an industry it is hard to know the supply and distribution channels, so the company may not know where to begin and whom to negotiate with. New players do not have any experience in the specific industry, so experience and knowledge in the food retail industry is gained when the company has been in the game for years, for

that reason it is tough for newly started retailers.

3. 2 Threats of substitutes
The threat of substitutes in the food retail industry is minimal, people need their everyday groceries. There might be a turnaround in the way people eat, if we look at take-away food and going out for dinner more often. This could have a small influence, but not enough to see a large decrease in the food retail industry.

3. 3 Buyer power
The buyer power is high in the industry because the consumer can easily choose between ASDA, Tesco or Sainsbury etc. The importance is often which retailer is closest to the consumer. Since the buyer power is high the cost of switching is very low.

3. 4 Supplier power
Supplier power is relatively weak because there are a large number of supermarkets and a small numbers of dominant buyers. But we must have in mind that large suppliers such as Proctor and Gamble or Unilever have countervailing power.

3. 5 Rivalry
The rivalry is high in the industry because of a very competitive market industry. As seen in table 1, Tesco is the market leader in UK; however, the five largest players have a market share of 65. 6 % which indicate that it is an oligopolistic market. It is a high capital industry and a new market challenger must have financial resources on a very high level. Because the food retail market in UK is a mature market, growth is achieved by taking market share from competitors.

Table 1
Grocery market shares, 2006-2007
Retailer 12 weeks to 26 March 2006 (%)
12 weeks to 25 March 2007 (%)
Tesco 30. 6 31. 2
Asda 16. 3 16. 9
Sainsburys 16. 0 16. 4
Morrisons 11. 3 11. 1
Somersetfield 4. 0 3. 7
Waitrose 3. 7 2. 9
Iceland 1. 6 1. 6
Netto 0. 6 0. 6
Lidl 2. 1 2. 2
Aldi 2. 3 2. 4
Kwik Save 1. 4 0. 2
Other multiples 1. 5 1. 5
Total Coops 4. 7 4. 7
(www. nfuonline. com, 2007)

Criticism of Porter's five forces model
Digitalisation, globalisation and

deregulation have become powerful forces during the last years, but Porter's models rarely take them into consideration. Today's markets are highly influenced by technological progress, especially in information technology.

Therefore it is not enough to develop a strategy only on this model. 4. 0

Macro environment - PESTEL analysis (Johnson et al 2006, p. 68) 4. 1 Political

(www. food. gov. uk) UK has several important legislation and food laws. The

FSA (The Food Safety Act) provides the support for all food legislation in

Great Britain. Some of these acts are: - Falsely describing or presenting food

- Rendering food injurious to health - Selling food to a purchaser which is not

of the substance or quality as demanded - Unsafe — unfit for human

consumption The companies within the food industry must operate under the

government's regulations, such as, the employment laws, Tesco employs

over 250. 000 people in UK which can be difficult to control. Also

environmental regulations and trade restrictions and tariffs are something to

be aware of. Political changes may affect the food industry if certain

restrictions appear in the future, for that reason companies need to be

flexible and ready to change quickly. Tesco certainly is a company which has

the power and knowledge to change when difficulties occur. 4. 2 Economical

Even though inflation rose to a high level at 3 % and interest rates rising to

5. 75 %, the UK economy is generally healthy (www. bankofengland. co. uk,

2007) The economic growth is currently at 3, 2 % (www. statistics. gov. uk,

2007), unemployment has been falling since 1992 and the UK housing

market continues to be buoyant with rising house prices being a strong

factor in maintaining consumer spending and confidence. Companies in the

UK are making record high profitability. It is important to have in mind that,

the American economy might be entering a harder economical phase because of housing bubble and large loans - UK economy will then feel it too. Companies in the food retail industry will suffer. Therefore, last year's extremely high profit might decrease when consumers tend to be thrifty. Higher interest rates and rising labour costs would adversely impact Tesco's margins negatively.

4. 3 Sociocultural factors The annual income in UK has been increased since 2001 and is expected to increase even more in the future (www. euromonitor. com, 2007) which is connected with the healthy economy in UK. Another important factor is lifestyle changes, it has big impact on consumer habits and expenditure, some of these factors are weight loss and dieting, which increases focus on health products in the food retail industry. " It is not so much a question of developing new products but increasing dietary information and educating consumers on a healthy lifestyle in a way that is more actionable for them " The early adopters of this approach include British retailers like Sainsbury and Tesco, both of which have 'diet' ranges that do not include this word on packaging. Instead their ranges are branded as 'healthy', often emphasising heart health, a major issue associated with obesity". (www. nutraingredients. com) Also consumerism is central, it is linked to consumer expenditure, as you see below the forecast is showing increasing spending in the UK from 2006-2011, which is essential to the food retail industry. Table 2 historic/ forecast - £ mn

- constant	2006	2007	2008	2009	2010	2011
United Kingdom Consumer expenditure on food and non-alcoholic beverages	51 68954,	57 69207,	54 69697,	93 69518,	95 69252,	81 70118,

77 (www. euromonitor. com, 2007) 4.

4 Technological UK government spent approximately 22bn on technology in

2005 (www. zdnet. co. uk) which is double as much as ex. Germany. It indicates that UK is willing to spend a large amount on the future within the technology area. The speed of the technology transfer in the UK rises while internet users increase every year, see forecast below. Table 3 historic/forecast - '000

Year	United Kingdom Internet users ('000)
2006	43751
2007	45732
2008	47215
2009	48348
2010	49236
2011	49956

08 (www. euromonitor. com, 2007) The technological development in the UK and in the retail industry is emerging. New technologies such as self-service technology are becoming popular (Retail Week April 20, 2007). This technology gives the consumer the possibility to check-out by them self and it gives the retailers cost advantage because of less till employees — it is a win-win situation.

4. 5 Environmental The green issue is becoming more and more relevant in society. Especially businesses needs to take part in the future of recycling and waste programs set up by the government. The framework of this is: (www. defra. gov. uk, 2007) - Phase out the use of free disposable bags in store and bag free delivery from the online shop. (www. tescocoporate. com) - Reduce food packaging — use in-store devices to deliver product information instead. (Retail Week, 2007) - The Business Resource Efficiency and Waste program — advise businesses on how to reduce and recycle their waste, with £4 saved by business for each £1 of government money.

4. 6 Legal Retail companies like Tesco needs to be aware of commercial and consumer laws like Sale of Goods Act 1979 which regulates contracts in which goods are sold and bought , food safety laws mentioned before and consumer protection laws, which protect the consumer against unfair and deceptive practises. Also fair trading which

makes markets work well for consumers ex. The Office of Fair Trading (www.oft.gov.uk). These laws and acts can have a negative effect if not

researched or taken into consideration. 5. 0 Market opportunities and threats

Opportunities: Market share growth in UK, stronger economies of scale, focus on private label products in UK (higher margins than branded products, see chart below), focus on healthy food and organic segment and increasing

sales. Threats: Higher interest rates and labour wages in UK, intensive

competition from the major retailers in UK, negative customer behaviour

towards Tesco's dominance in UK. Table 4 (www.kpmg.ca, 2007) As it is

seen above, in the UK, the private label food prices are approximately 30 %

cheaper than manufacturer brands — therefore higher margins on private

label will improve profitability. 6. 0 Ansoff's Product/Market Expansion Grid

Current Products New Products Current Markets Market Penetration: Increase sales by capture new customers from competitors (Market share increase)

Convert non-users to users Product Development: New food products:

Healthier food in-store, more organic food and a wider range of take-away

food. New Tesco restaurant: Invest in a restaurant in connection with the

store. New Markets Market Development: Diversification: Because of Tesco's

enormous size, third largest retail seller in the world, the company has many

opportunities. The focus in my assignment is on the UK market therefore it is

the current market/current products and current market/new products that is

relevant, Tesco's strategies should be to capture new customers so they can

increase their market share in UK and to convert non-users to users. The

second focus would be on new products on the current market — focus on

healthier food products, organic food and a wider range of take-away food. A

totally new investment could be the Tesco Restaurant in connection to the store. People, who work long hours and are tired after buying food, could go for a meal at the restaurant.

7. 0 Porter's Generic Strategies

Tesco is placed between the cost leadership strategy and the differentiation strategy. On one side they have large economies of scale to reduce costs, they try to avoid costs altogether. On the other side they sell products like Tesco's finest, organic products and unique services. Both of the two strategies are in a broad target scope in a wide industry.

8. 0 Task B — Analysis of Tesco's resource capability

9. 0 Value Chain analysis of Tesco — Primary activities (Porter, M. E 1985)

9. 1 Inbound Logistics

The inbound logistics is of critical importance in the Tesco value chain, because of the strong bond between Tesco and its suppliers. Tesco needs to make sure that the stores get the right products at the right price, the right quality, the right quantity and of course at the right time. Balance between these elements is central, so at the end, the consumers get what they want. The inbound logistics is one of Tesco's competitive advantages and deals with reception of products, staff scheduling, facilities planning, stock control and storing.

9. 2 Operations

The operation within the Tesco organisation is in fact all the different products arriving to the store and placed in-store. Tesco buy large amounts of groceries, clothes, electronics etc. so they get the advantage of economies of scale, then they increase the price and sell it direct to the consumer with a positive margin. That is very simplified how Tesco's operation works, of course there are things to be done before they sell it, like packaging, machining, testing of products, assembling, till operations and store operations.

9. 3 Outbound Logistics

The outbound logistics is a smaller area

in the organisation because Tesco do not have to send things out of their stores; customers come into the store and pick up their groceries, pay at the till and go out again. However, queuing management is important, so the customer gets a quick and efficient check-out. The location of the store and the car park outside the store is also central and linked closely to the consumer when they leave the store. Customer management is essential for the reason that Tesco is customer driving and the company needs all the information they can get about their customers to develop customer relations.

9. 4 Marketing and Sales Because of Tesco's size, the company uses many marketing tools like Public Relations, advertising, promotion and in-store layout which "hit" the consumer on all senses when they shop. Tesco also have many in-store sales techniques, from different price schemes like expensive, less expensive and cheap areas in the store, in addition to price comparison with ASDA and J. Sainsbury etc. They do everything there is to capture the customer while they shop at Tesco's and try their best to make sure people will come back. Another marketing scheme is their vouchers, you can actually use an ASDA voucher in the Tesco store and that is a perfect example of the sales techniques and Tesco's willingness to capture customers.

9. 5 Service Tesco has many employees working all around the store, if you cannot find a special article at the store and asks an employee, they will either show you where it is or find somebody who knows about the article. Another service is when people check out and pay the employee at the till always asks the customer if they need any help with packaging. Service outside the store is provided by the effective [www. tesco. com](http://www.tesco.com) where people can buy groceries, clothes and

electronics online. Furthermore Tesco has a service and repair group who concentrates on everything that evolves service and repairs of product.

9. 6 Support activities - Firm Infrastructure When a company grows as big as Tesco, the management structure will be divided into several areas as they do not only operate in their domestic market but are a global company. That is why Tesco now has a manager in all the major areas. The organisational structure is centralised at Tesco because it gives greater control, better goal congruence and greater expertise. In addition, Tesco has a multidivisional organisation structure which is clear because they have so many different directors working in different divisions around the organisation. Tesco also has a large legal department where they focus on the treatment of new suppliers.

9. 7 Human Resource management Tesco employs over 250. 000 in the UK only, so dealing with recruiting the right people and developing the right teams in the stores has a huge impact on the firm. Tesco educate the employees by sending them to employment-training programmes and some of the managers to management and leadership courses, to prepare them for the problems that often occur in the company and in the stores.

9. 8 Technology Development Tesco make use of many technological tools like information systems and use IT for stock control. They have IT systems about customer satisfaction and databases with information about the club card holders. To develop check-out satisfaction they use self check-out tills. The internet is becoming more and more important and [www. tesco. com](http://www.tesco.com) is a good example of another technology initiative which has become a success since they launched their online shopping service in 1997.

9. 9 Procurement Tesco deals with a lot of procurement like the buildings they operate their

stores in, the IT equipment and buying tills for the stores. Things people do not think about when shopping at Tesco's like the lightning in the store, air-conditioning, ovens for the bakery and the take-away food, cleaning machines etc. A huge corporation like Tesco operates so many machines and spend millions on procurement which needs to be controlled by the management. Margin (www. tesco. com/corporate, 2007) I have search for Tesco's financial figures only within the food business in UK, but that was not possible to find. However the operating profit in UK was 2. 083. 000. 000 which is a very good margin in 2007. Tesco has a very high profit compared to its relatively small margin on groceries. 10. The Value Network It is not enough to look at the internal capabilities in the organisation, for that reason the value network is useful in understanding inter-organisational links and relationships. Tesco has an enormous supplier power which gives them competitive advantage and makes the entire link between the supplier and Tesco an important strategic capability. Tesco leaves responsibility at the supplier, so they can focus on their stores, online shop and the most valuable area, consumers. The suppliers make Tesco profitable and give them the kind of differentiation and advantage that makes them the market leader in the UK. So before Tesco's products reaches the customers, it goes through different stages - the value network seen below is very simplified, but gives an idea of the network. (Adapted from M. E. Porter: Competitive Advantage, 1985) The value network is normally used to describe production companies, but I choose to use it on Tesco even though they operate in the service industry. It is important to mention that the value network starts by the link between suppliers and Tesco and end up by pulling the customer

backwards toward the Tesco stores so profit is achieved, people has to come into the store. Furthermore, Tesco has strong external partnerships. Ex. Bank of Scotland and Tesco has a 50/50 % partnership offering financial services to customers.

11. Strengths and weaknesses Strengths: Strong Brand, market leader, strong supplier power = lowering costs, Innovative, loyalty schemes (club card), The management. Weaknesses: Heavily dependent on the UK market, The large organisation and management structure could be vulnerable.

12. Task C - The strategic fit and Conclusion Talking about Tesco's strategic fit in the UK it is clear that they fit excellent. The indicators of this fit are as mentioned before; they are market leaders with a strong brand and because of their size they have competitive advantage over suppliers with economies of scale. As the UK is their domestic market they got the experience, know-how and knowledge of the environmental issues in the country and the food retail industry in general. The largest threats in the industry is the rivalry of the nearest competitors, however Tesco seems to have it under control because their market shares keeps rising and the competitors is still left behind. The second largest threat is the power of the consumer, however Tesco probably has the best consumer knowledge and customer management in the business, which allows them to implement new innovative food product and other investments which the consumer eventually obeys to. Tesco's got the strategy to become even more powerful in UK and to increase the market share. In order to do so, I believe Tesco should focus even more on private label product because the margins are much higher than branded product (30 %). One of Tesco's success factors is the private label area and Tesco generates high levels of loyalty which gives

them the advantage to increase private label sales. In addition, Tesco's ability to match products to customer needs from sophisticated scanning and loyalty schemes has become a strong opportunity and strength in their marketing strategy. Although Tesco has plenty of strengths and opportunities in UK, they are now focusing even more on areas outside the food retail industry. Because of the partly mature food market in UK they focus on international expenditure, online sale and non-food industry. Since the future is pointing in other directions for profit, it is therefore important that Tesco keeps a fine balance between the UK market and their new areas. The UK market still earns Tesco the highest profit which is used to expand in all the new areas. As Tesco is so heavily dependent of the UK market it is a threat if the UK economy decreases — if the interest rates goes up, inflation raises, housing bubble bursts and of course if consumers expenditure decreases. All these assumptions can be negative towards Tesco's future profit. " As leading grocery experts observe, supermarkets in general and Tesco in particular will have to demonstrate — continuously — that they truly have consumer interests at heart, and that they are not abusing their enormous power just to enrich themselves" (Seth & Randall, 1999) I end my report on Tesco by using this statement from Seth & Randall, 1999. From 1999 until today, Tesco has showed that they have consumer interests at heart and a long with the pursuit of larger economies of scale is probably the main reason why they are and will still be so successful compared to their competitors.