

The multinational tesco company marketing essay

[Business](#), [Marketing](#)



TescoOsheane Chambers

Introduction

This report will analyse the macro the micro business environment of the multinational Tesco company group, a company which has grown to become the largest grocery store in the UK, operating in over 14 countries. In addition, this report will evaluate the weak and strong market forces that influence Tesco strategy and any barriers to market entry they may be affecting them. Evaluating the competencies of Tesco and how they maintain their position as the market leader. Recommendations for future Tesco group business strategy both in terms of where they can exploit opportunities and defend against threats. Construct practical suggestions as to how Tesco could implement Recommendations while managing business risk. In summary this report is analysing the macro and micro business environment of Tesco through Porters five forces model and PESTEL.

Company overview

Tesco was founded by Jack Cohen on a market stall in North London (Hackney) in 1919. Over the years it has broken records and has grown significantly to become the world's third largest retailer, operating across 14 countries and with over 5000 stores. Tesco is also the biggest private sector in the UK to date. This company has more than 10000000 employees worldwide. Tesco store ranges from big super markets, Tesco Express, Tesco extra, Tesco metro and Tesco petrol stations. There expansion in the UK and internationally is Tesco's main strategy to grow the business even further. Main corner and off license shop owners have been complaining about the

increase in Tesco express stores causing them to lose customers and reducing in sales. The opening of more Tesco stores is reducing unemployment significantly, which will increase Government Tax revenue and increase standard of living.

Analyse the macro business environment in respect of Tesco and identify the factors that will have significant impact on Group's business (20)

The Macro business environments are external factors that will impact a business. These factors are out of the Business, Shareholder, CEO or Founders control; however the external factors can both have a negative or positive effect. We learn in system thinking that everything is a system, and that one tweak in something will have a multiplier effect. Both Monetary & Fiscal policies such as interest rates, Government spending and Tax rates can affect the business. Other factors that may influence a business is more competitors coming in the market, a reduction in Tradable permits, increasing price of raw material, demographic change and a change in customers taste. There are various methods and tools out there that could be used to analyse the macro-environment of Tesco. The most common one is the PESTLE (political, environmental, sociological, technological, legal and ethical) analysis.

Political Factors-

All businesses try their up most best to break a few laws without getting caught which helps them stay ahead of competition, retain customers and increase sales. The Government have placed rules and regulations for all businesses to practice fairly. There are rules for planning systems,

competition policies and on the sale of goods and services. The Big four has been increasing the barriers for potential competition or new business wanting to join the market by purchasing huge land (land holding) which they don't need so others have no chance. Is this smart or selfish? In 2000 the Land commission implemented a law which prevented Tesco and other well established supermarkets to bank land. Not only is this unfair but is ruining habitats unnecessarily. The rules are not for the Governments or the Businesses benefit but to protect the consumers from being exploited due to imperfect information. Business claims that their main focus is on customer satisfaction and growth; in most cases this is false, their main goal and drive is profit maximisation.

Economical Factors

Economics factors are the second most significant factors that could affect business activities terribly. If disposable income is rising, consumers will spend more resulting in an inflationary. Businesses will increase prices to reduce demand. This will impact consumers spending as they will spend less or simply look for cheaper alternatives, especially when inflation percentage is increasing more than their monthly disposable income. Employees may protest or demand more wages as inflation is rising, this may reduce workers morale or some may leave to find a better paid job. Economic problems will also have a huge affect on fixed costs such as taxes, rent of building etc. The UK was experiencing a double dip recession due to three consecutive quarters of negative growth; however the Olympics games helped the economy grow again in the third quarter of 2012. According to the financial times due to the current weather " Economists have warned that heavy

snowfall sweeping across the country could increase the chances that the UK enters a triple-dip recession, as commuters brace themselves for another week of bad weather" (Financial Times, 2013) . This report will have people feeling pessimistic about the economy in regards to job cuts, less disposable income which will result in more saving. As a result Tesco decided to discount prices heavily in order to retain consumers, attract more customers and most importantly for consumers to afford it. PessimisticThe government spotted this problem and have kept interest rates at a record low 0.5 % to persuade consumers to borrow more, spend more and save less, which will essentially increase economic growth. Although the government have implemented monetary policies if people are not optimistic about the improvement of the economy they still won't spend money more money especially on premium and organic food which will affect Tesco's financial margins.

Social and Cultural Factors

The UK is experiencing a huge social and demographic change with a high population of young people, high population of old people and a increase in female workers. It is also found that people are now doing longer hours as a result it has become the norm for people, young people especially to eat fast food as food is rarely prepared at home, as mother isn't in or doesn't have enough time. This is a huge scale for Tesco as they will experience fewer sales, especially on fresh fruits, fresh vegetable and organic food. To combat this social change Tesco launched the healthy living brand which consists of the healthy club. This club offers members weight loss tip and dietary information. They have recently increased their advertising and marketing

which has increased the awareness of products. The UK is a diversified country with people with different dietary restraints, religious and cultural backgrounds. British love readymade meals, Asians love traditional food, blacks love chicken and seasoning and green activists and vegetarians love healthy food and foods with biodegradable packaging.

Technological Factors

Technology is constantly changing; some may argue that this has a negative impact on people and businesses. One because it leads to a massive change in the market, but also some people may not understand the advancement of this technology, especially adults 65 years and over. However technology advancement has a more positive impact than a negative one. Why?

Technology reduces business cost, improves quality, and reduces queues (in stores & online shopping) which benefit both the business and consumer.

The boom in the amount of people who have access to broadband in the UK has attracted and retained customers. Supermarkets are expanding businesses online are seeing steady growth on online sales. According to the World Bank, statistics reveal that the number of internet users in the UK to date is 81.71% (51.1823 Million) in 2011 appose to 0.09 % 1990 (49,979, and 89) (World Bank, 2011). Data is in relation to people with access to the internet per 100 inhabitants. Advancement of technology leaded to the loyalty card program (encryption technology) which offers customers deals- this has discouraged customers from change their previous shopping store.

Legal Factors

In 2010 the Bank of England announced increased VAT from to 17. 5% to 20%, this because the government had to finance the increasing budget deficit- which according to Tory Chancellor George Osborne was ‘ 149 Billion’ (British-National-Party, 2011). This rise may affect Tesco’s profit because customers may change their buying preferences and save more as their confidence in the Economy and Government has lowered. Also National minimum wage has increased from by 1. 8% from £6. 08 to £6. 19 for adult workers but has remained frozen for younger adults (BBC, 2012). This is great news for the workers as they will have more disposable income, however for Tesco this will result in an increase in operation and labour cost. To cut rising cost Tesco may purchase more human capital such as self check outs or simply cut jobs.

Environmental Factors

The Government and green activist are implementing strategies to reduce global warming. Supermarkets such as Tesco’s have a major impact on global warming and the burning of fossil fuels. Due to tradable permits and social image, Tesco is cutting back on emission and executing strategies to be greener. Previously consumers had no or imperfect information about the big four’s carbon front print, however now that the consumers have access to the carbon foot print, Tesco has added the carbon front print data to its products. They have now provided customers with a Product Carbon footprint summary which explains what carbon front print is and the products they have included it on and why. This gives the customers the feeling that Tesco are loyal honest company who care for the planet. Tesco

are pushing towards a greener planet by announcing a 500 million green incentive plan, Investing £25 million to help find ways to create greener and more affordable lifestyles for everyone, more recycling centres, became the first store to open a zero-carbon store in Ramsey Cambridgeshire and now have opened two more, and their reducing the amount of bags they give away using the green Club card points and bag less deliveries. (Tesco, 2010) Tesco noticed that these changes has increased their popularity so they have now introduced a Greener Living Scheme-which essentially provides customers with environmental issues, and ways to reduce food waste and to reduce their carbon footprint when buying and preparing meals.

Analyse the micro business environment in respect of Tesco and identify the both the weak and strong market forces that influence Group's business and any barriers to market entry.

Tesco like all retail environments are broken down into internally and externally. Analysing the inside of the retail environment is called the Micro Environment, the term used to analyse the external environment of the retail business is called the macro environment. Micro-environment factors are variables within a business that have a direct impact on the business performance, decision making, operation and competitive advantage. The most important factor of the micro-environment is the stakeholders of the business. This includes some employees, suppliers, public, competitors, CEO, Government and the media. (Check for plagiarism). To analyse the micro

business micro business environment we have used the porter's five forces model.

Rivalry

As the market leader in the grocery retailing industry, Tesco has many competitors who are fighting for that number one position. They use to compete on prices to gain a bigger market, for example in Tesco played tactically by discounting products heavily, this was a disaster, Tesco stated that this was their worse sale performance since 1988... . Tesco discovered that in an oligopolistic market they have found that competing on prices reduces results in a price wars which lowers marginal's substantially and businesses don't make their potential/ expected profit and revenue. As a result these companies especially the big four compete on non price; such as 24 hour shopping, Loyalty cards, Home delivery, advertising etc.

Threat of substitutes

Substitutes are products that a consumer can get another company within (Get from a text book)

Due to globalisation we now see the same food and services in all the retailing grocery stores, especially the big four which consist of Tesco, Sainsbury's, Asda and Morrison's. In the UK, the grocery market is cluttered with many small and big supermarkets providing goods at different prices giving consumers a wide range of substitute products and cheaper alternative. This is a big scare to Tesco, especially during the ' double dip recession' as previous customers tend to borrow less, save more and tend to seek cheaper alternatives i. e. Netto, Lidl, Aldi, and Iceland. The recession

has lead to Tesco having to do drastic price drop to retain customers. Since Wal-Mart took over ASDA, in 1999. Asda has remained Tesco's biggest competitor, to date and been placed as the second largest chain in the UK with a market share of 17. 6 after purchasing Netto's UK chain. Due to bulk buying, Tesco can purchase a lot of goods at a cheaper price than its competitors, especially new stores trying to enter the market. This is a great competitive advantage. Bulk buying with the addition of the Loyalty has retained Tesco's customers despite the economic turmoil.

Buyer's power

Get buyer's power definition from a book or journal.

Buyer's power is determined by the amount of customers a store has. " Powerful customers are able to exert pressure to drive down prices, or increase the required quality for the same price, and therefore reduce profits in an industry" (Riley, 2012). Tesco has a strong buyer power which has resulted in consumers demanding lower prices without the quality of the goods or the customer service being affected. As Tesco knew they could switch to another company if requirements weren't met and the recession had a double effect they heavily discounted their product, which as stated earlier in the report, affected their normal performance in 2008. (P)

Supplier's power

Get Book definition of suppliers here:

If supply of goods is low (few or no substitutes) or switching cost is high and the demand is high, supermarkets like Tesco would have a limited choice of suppliers so they are inclined to purchase at a particular price. However if

the supply is high and demand is high then supermarkets have a wide range of suppliers to choose from and to look for the cheapest. As market leader Tesco is stronger than its suppliers as prices are set by them, which keeps their production low, which is then passed down to customers. This has retained their customers from leaving, hence why they have a large market share. The big four, Tesco especially have an advantage over small convenience stores and new entrants (barrier to entry) as they can dictate the price they pay. However if the supplier doesn't compromise with the big fours prices, no supermarkets would sell their good. Behind closed doors some illegal agreements may be made by the big four CEOs in order to persuade the suppliers to conform to the cheaper prices. The big four know that these supplies rely on the big supermarkets and are scared of losing their contract, which in most cases is keeping the business (supplier) from going into administration.

Threat of new entry

Threat of new entry is the desire for a new business to enter the market to gain market share and in most cases experience supernatural profit. In order for this company to gain market share they need to get through all the barriers. If the barriers to entry are low then threat of new entrants to Tesco will be high, however if the barriers to entry are high then one could argue Tesco has no threat at all. These barriers to entry include: Economies of scale: New entrants will find it very difficult to break and establish in the market due to Tesco bulk buying which has resulted in lower unit cost. Investment cost: For a small business to produce output to Tesco level they would have to invest in a lot of human capital. This is expensive and will stop

them wanting to enter the market as the risk is too high; a lot of money is at stake. Product differentiation: Tesco is a well known brand with international brand awareness for being the market leader for grocery retail, and for other aspects such as charity donations. Through years of establishment and growth they have built a strong bond with their customers especially since the Loyalty card and the green club card points. It would be very difficult for new start ups to attract their customers and gain market share. Retaliation: The big four hate new competitors and will bully new comers to discourage entry. However predatory pricing is illegal as everyone should have a chance to develop a well established business, especially when it can increase government tax revenue through corporate tax.

Identify the core competencies of Tesco and justify why they have these competencies.

‘ Core competencies are those capabilities that are critical to a business achieving competitive advantage. The starting point for analysing core competencies is recognising that competition between businesses is as much a race for competence mastery as it is for market position and market power. Senior management cannot focus on all activities of a business and the competencies required to undertake them. So the goal is for management to focus attention on competencies that really affect competitive advantage’ (Riley, 2012). Core competency provides consumers’ benefits, not easy to imitate, can be leveraged widely to many products and markets. Tesco’s two main competencies are their employee which help the business grow internally and their customers who help their business externally, i. e. referral, publicity, brand image, carrier bags etc. Without any

workers there wouldn't be any output or productivity would be low, without any customers there would be no sales, hence why Tesco two main focuses is customers and employee. In 2007 Tesco was growing rapidly until the recession in 2008 where their sales percentage wasn't as high as usual. This had been because their customers had a wide range of substitute stores with heavily discounted brands such as Asda. To tackle this issue and rekindle customer loyalty, Tesco remarketed the club card scheme which started in 1995. This customer focused strategy has allowed Tesco to 'stalk' in a sense all of their customers purchases, most purchased items, how often they visit the store, which days in particular and which product they don't purchase. This critical information allows Tesco to improve customer experience and offer them deals on frequently purchased goods. This vital information gave Tesco a competitive advantage over their competitors because by using this information Tesco was able offer deals accordingly and arranges stocks. The club card was seen as a pull strategy which encourages customers to shop frequently at Tesco to get special deals and money off voucher. This was a better alternative than heavily discounting products, which would result in a price war. The club card scheme has given the customers the assumption that Tesco values them as a shareholder and is providing offers to their purchases. The market and customers needs are always changing; the data from Tesco club card has allowed Tesco to adjust their marketing accordingly. This is given them a competitor advantage over their rival, hence why Sainsbury launched their nectar card (2008) and Iceland launched their bonus card (2008). This scheme is much quicker and effective than a survey hence why it's one of Tesco's competencies.

Use the results of this analysis to make recommendations for future Tesco strategy both in terms of where they can exploit opportunities and defend against threats (10)

Analysing a business there are always loop holes and recommendation which would allow Tesco to expand their horizon to grow globally and become the world's number one dominant grocery store and brand. Tesco used to be behind boots in the beauty industry however Tesco have out dominated them. Just like the Tesco Value the skin care range is booming and is surpassing all the other alternatives which other supermarkets offer.

However they do face competition from savers who according to a questionnaire done in Lewisham, is much cheaper than Tesco. Also Asda (George) and Sainsbury clothing department is becoming more popular among the nation. Most people would rather have a store where they can purchase quality food and drinks, electronics, petrol and quality clothing. For Tesco to become the only store customers need to go to they need to invest and focuses more on the non-food areas and focus on the UK more the internationally. It has come across that Tesco has been distracted by foreign markets, especially China. As a result business growth in the UK hasn't reached it its full potential. Tesco's has a lot focus on the core business, which is popular when managements sees that foreign markets are growing and China is soon to become the world's largest economy however, there has to be a very strong foundation in the domestic country. Investment overseas has become more than the investment at home, Tesco not only needs to invest in self check outs in the UK, but stores, interior design, food and the clothing department. The dictation of foreign markets hands has also caused Tesco in a sense to forget about their initial business which was food

and now is focusing more on banking (this venture needs more investment) and insurance, which potential could make the food shopping customers leave. Green activist are going rampant about the carbon footprint of all businesses, but especially the 'big four'. Like all supermarkets, Tesco has had high impact on global warming and have used a lot of raw material. This major issue needs to be addressed, especially if Tesco wants to attract the green activists to their store. To tackle this issue Tesco has introduced the green scheme and have stated that they aim to become carbon free by 2050. Although this doesn't seem ethical, Tesco have already started to promote long life bags and reduced the packaging on products. (Try get journal or news paper source) . If Tesco aims to become a green company they will get more customers, better publicity, reduced cost and be helping the environment.

Make practical suggestions as to how Tesco could implement your recommendations while managing business risk. Also provide your personal evaluation of doing the following case study (10)

Personal Evaluation

Having done two undergraduate assignments now I have found that writing this one was less challenging. This report was due for the end of March however as I have a lot of knowledge of Tesco, I thought it was best to finish it two months earlier. Until this report I wasn't aware of the five porter forces model. This required me to do a lot of research and watch a few YouTube video's explaining the concept and how it relates to Tesco. I believe that I managed my time well, as I have important exams coming up, finishing

assignments as soon as possible to focus on the exams was wise. My previous report on Sainsbury's I didn't meet my target which was 70%, as I have completed this assignment earlier it has given me two months to make this report 75%. Having read the marking scheme I believe I have met this target.