

Tesco: analysis of competition and future prospects



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Tesco is the largest food retailer in the UK and one of the leading grocery retailers in the world. It supplies 30 % of the food purchases made in the UK. More than 550, 000 employees service the company's customers in nearly 5, 000 locations spread across 14 countries in Europe, Asia and North America (Tesco plc, 2010).

The company's operations in the British retailing space, coupled with its steady overseas expansion, have opened it to numerous competitive challenges and threats. Tesco faces strong and increasing competition in the UK from its heavyweight rivals like ASDA-Walmart, Sainsbury's and Morrison (Finch & Wood, 2010, p 2). Each of these organisations is trying to improve its market share through various customer focused and efficiency oriented strategies (Finch & Wood, 2010, p 2). Whilst Tesco continues to lead in market share, sales and profitability in the UK, it remains under competitive pressure and any strategic or market place error could have adverse results (Finch & Wood, 2010, p 3).

The economic environment in the UK is possibly going through its worst turmoil since the 1980s. Increasing unemployment, thousands of job losses and a very slowly reviving economy have dampened the enthusiasm of supermarket shoppers and created difficult market conditions for market participants (Finch & Wood, 2010, p 3). Sharp reduction in government spending, the proposed elimination of thousands of public sector jobs by the present coalition government and the three-fold increase in academic fees have already led to widespread protests and are expected to affect the economic climate further (Kollewe, 2010, p 3) (ABC Inc, 2010, p 4).

Whilst the company is steadily increasing its global footprint, the UK continues to be its overwhelmingly large market and accounts for practically 67 % of its total sales and 71 % of its profits (Tesco plc, 2010). The economic and social turmoil in the country, along with increased competitive pressure from its main competitors, will intensify environmental and competitive challenges for the company in the coming years (Tesco plc, 2010).

Tesco is steadily expanding its global operations and is the grocery leader in two overseas markets, Malaysia and Thailand. Its global presence is however less than that of Walmart, Carrefour and Metro and its position in the global retail market does not mirror its dominant position in the United Kingdom (Finch & Wood, 2010, p 3). Tesco, like other major firms expanding strongly into international markets often faces different and difficult environmental and competitive conditions in its various operational regions.

Much of the competition in its overseas markets comes from numerous local competitors, who not only operate with far lesser overheads but also understand local tastes and preferences much better. Tesco is combating competition in its overseas markets and trying to establish its presence with the help of well established local firms and different store formats (Tesco plc, 2010). The global experiences of various supermarket majors like Walmart and Carrefour however reveal that global expansion is not easy and that significant market failures can occur from incomplete understanding of market requirements and choice of market strategies (Sarkar, 2009, p 4).

Tesco's Corporate and Marketing Strategy

Tesco's rapid growth is being driven by its carefully planned and sustained customer focused strategy. The company is possibly the only retailer to appeal to different market segments, upmarket, midrange and low price. It constantly focuses on improvement of customer value and services with focused action in areas like supply chain management, pricing, quality, product range and in-store as well as on-line customer convenience.

The company initiated a major strategic change in the mid 1990s with the adoption and customisation of the balanced scorecard approach, soon after it was first advanced by Robert Kaplan and David Norton.

Balanced Scorecard Approach

The balanced scorecard approach was developed by Kaplan and Norton to provide businesses with a holistic tool for performance measurement in different critical areas. Whilst much of performance measurement in the past focused on the financial aspects of the business, the balanced scorecard approached performance measurement from four viewpoints, namely the financial perspective, the customer perspective, the business process perspective and the learning and growth perspective (Kaplan & Norton, 1996, p 27).

The diagram provided below illustrates the various dimensions and interactions of the balanced scorecard.

(Source: Balanced Scorecard Institute, 2010, p 1 and 2)

The balanced score card whilst originally constructed for performance measurement is now used for formulation and implementation of strategy. Organisations adopting the balanced scorecard set objectives in different prescribed areas and thereafter formulate targets and initiatives for meeting such objectives, as well as measures to assess actual progress in meeting them (Kaplan & Norton, 1996, p 28). Its use enables firms to clarify strategy in terms of the different dimensions, communicate strategic objectives in different areas, plan set targets and align strategic initiatives, and implement systems for achievement of feedback and engagement of double loop learning (Kaplan & Norton, 1996, p 29).

Adoption of Balanced Scorecard by Tesco

Tesco adopted the balanced scorecard method in the mid 1990s to drive its strategy and operations. Tesco's adoption of the balanced scorecard method led to the development of the famous Tesco Steering Wheel, which was originally divided into four quadrants, namely Customers, People, Operations and Financials (Kaplan, 2008, p 3). The Tesco Steering Wheel (TSW) originates from the company's core purpose and long term objective, namely the creation of value for customers in order to earn their constant loyalty. The company added a fifth dimension to the TSW in 2004, namely community, in order to encourage employees to become excellent community focused citizens. A diagram of the new Tesco Steering Wheel with five quadrants is provided as under.

(Source: Kaplan, 2008, p 1)

Tesco's steering wheel helps in ensuring that its 550, 000 employees in multiple countries work towards delivering distinctive and unswerving buying experiences to consumers in each store. The concept of the TSW came about in the early 1990s when Tesco engaged in a process to elucidate its mission and strategy to ensure the realization of this objective. " Tesco, (in the words of Sir Terry Leahy, CEO) doesn't want one leader. We want thousands of leaders who take initiative to execute the strategy." (Kaplan, 2008, p 4)

Tesco uses the steering wheel, (a symbolic tool to drive performance and assist employees to find their way in the future), to communicate to its employees. The original TSW had four equal arcs, representing the four areas of balance scorecard focus, namely financials, customers, operations, and employees (Tesco plc, 2010, p 4). Tesco's steering wheel is not easy to implement. Extensive efforts are required by way of consumer research, collection of data, and analytics to ensure that objectives and metrics continue to remain appropriate, even as consumer tastes and preferences change and competition intensifies (Kaplan, 2008, p 4). All Tesco stores get monthly updates on the steering wheel and summaries of metrics of the five arcs, so that Tesco employees in different regions get appropriate performance feedback. Tesco adds to the effectiveness of its steering wheel report with small lists that explain important strategic key elements simply for employees to pursue in their routine functions. The TSW has

Tesco has an established and steady growth strategy that is based upon broadening business scope in order to achieve sustainable long-term growth by pursuing customers into large and growing markets at home and new markets overseas (Tesco Annual Report, 2009, p7). The company's growth

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strategy has five main components, namely (a) to achieve success in international retailing, (b) to increase the core UK business, (c) to achieve equal strength in non-food businesses, (d) develop retailing services and (e) place the community at the centre of all operations (Tesco Annual Report, 2009, p 9). Tesco's business strategy has been based on diversification during the last decade and the company intends to strengthen its various businesses across multiple countries and formats during the next two years (Tesco Annual Report, 2009, p 5).

Recommendations

Recommendations for Tesco's strategy for the coming two years are indicated in the BSC chart provided below. These objectives are based on study of Tesco's annual reports and the proclaimed objectives of the Tesco senior management in each of the different areas.

Apart from the above conventional BSC objectives, Tesco also focuses on Community Care. Tesco has undertaken numerous initiatives in labeling of products, reduction of carbon footprint, diverting of store waste directly to landfills, and reduction of carbon emission from stores and distribution centers.

The strategic objectives in community care for the next two years in this area have been formed on the basis of Tesco's commitment to these areas.

Reduce carbon emission from stores and distribution centers by 10% each year.

Support causes in local communities.

Buy and sell products responsibly.

The company has gone through the worst phase of the recession without reducing its commitment to its customers, to the community and towards its objectives for diversification and expansion of markets. Tesco will however continue to face difficult economic conditions in UK and its international markets. Conditions in the UK are expected to become more difficult and lead to pressure on prices and profitability. Tesco will have to continue to improve customer comfort and benefits without disadvantaging its suppliers. This constitutes the biggest challenge for the company in the coming months.