

Tesco porter value chain and environmental analysis



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1. Porter's Value Chain is a chain of activities for a firm operating in a specific industry. According to Lynch (2003) it can be defined as the links between key value adding activities and their interface with the support activities. The five primary activities namely inbound logistics, operations, outbound logistics, marketing and sales and service are more important in value adding process than support activities: firm infrastructure, human resources, technology development and procurement, so focus will be given to primary activities as they are crucial for distinguishing the strengths and weaknesses of Tesco's performance.

The overall cost leadership strategic management of Tesco is exhibited in its lean and agile inbound logistics function. The company uses its leading market position and economies of scope as key bargaining powers to achieve low cost from its suppliers. According to Office of Fair Trading (OFT) 2006 report, the largest retailers were able to obtain non-cost related discounts from suppliers to such an extent that suppliers were forced to charge higher prices to smaller retailers.

Tesco also constantly monitors and upgrades their ordering system, and in-store processes to increase effectiveness and efficiency of the company's inbound logistic process. Innovative IT systems are the heart of Tesco's supply chain management strategy. According to Tesco (2010) the company has invested over £176 million in streamlining its operations through their Tesco Digital program, which is a third generation ERP solution for the firm. The system helps with, for example, minimisation of stock holding within the company.

Technology except of operation have also an application in others sectors of Tesco's primary activities, namely marketing and sales. The Tesco's Club card loyalty scheme involved the issue of points according to the value of the customer shopping bill (Rowley, 2005) Rewards in the form of discounts and opportunities to use points in payment for products encourage customer to shop on regular basis. Turner (2006) states that there is a positive moderate relationship between the owning of a club card and loyalty to store. Adding brand value and collecting data about customer spending habits are other benefits of the club card scheme.

Innovative technology systems like DM and CSR analyse the data collected: customer details (address, age, profession) and spending habits. Information collected from over 13 million active card holders give an organisation clear and reliable picture of what customers want, which is then used for manufacturing and promotion purposes. Outbound logistics refers to a range of store formats: Tesco Express, Metro, Superstore and Direct developed and strategically placed to achieve maximum customer exposure. Different formats of stores aim to suit the varied shopping patterns of customers.

Big families tend to shop a lot once/twice per week in large stores as they offer a range of food and non-food products (baby stuff, cosmetics etc), while single working people usually grab a ready meal when back home from work. Online shopping system launched by Tesco few years ago and free delivery service aim to increase sales to possible maximum by providing new shopping experience even without leaving home. Tesco has been pursuing a dual strategy of cost leadership and differentiation, which has led to an increased importance placed on customer service.

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The idea of this dual strategy refer to the development of self-service kiosks, financial services (insurance and mortgage) and direct marketing and promotions. In light of the above analysis, it can be concluded that Tesco continues to hold its leadership position within the highly competitive retail industry, where companies required to pursue both cost leadership and differentiation strategies. Tesco has been able to achieve both with the help of a lean and agile supply chain management, along with the strategic use of information technology.

The core competencies of Tesco have been seen to be aligned with the business environment, therefore highlighting a positive future outlook for the company. 2 Tesco is one of the largest food and grocery retailer in the world operating around 4, 400 stores (Tesco, 2010). The business environment in which company operates is a highly turbulent competitive segment, which according to political, social events, performance of global economy and technology developments is constantly changing. Pestel, SWOT, Porter's Five Forces are frameworks that can be used to discuss and evaluate recent changes in Tesco external environment.

The waves of globalisation and privatisation have a great impact upon retailing sector, which changed radically over last two decades. In the past Tesco could be content to sell to a local or regional market and make a decent income. In today's world all successful businesses are going global in order to maximise profits and take advantage of untapped markets. The changes, except of globalisation aspects involve advancements in technology, rise in competitive rivalry, political, legal issues and marketing.

Technology is playing a vital role in the expansion of global retail.

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Consumers can find most of the products they buy online, through various retailers, compare prices, thus choose the best offer. Companies like Tesco must have a large online presence if they want to be successful over a long period of time. Tesco must compete with other retailers on price and/or try to provide benefits in other ways. This led to the idea of club card loyalty scheme and other services developed, for example tesco financial service. Political events also play a large part in the globalisation of Tesco.

China's accession to the WTO has promoted a free flow of foreign trades by removing all barriers encouraging Western companies, including Tesco to make way into the world's most profitable market, encompassing over 1.5 billion people. Government regulations can stimulate or block international expansion. Lynch (2003) presents how promotion of free trading block by government benefit from globalisation. Immersion of 10 countries into the European Union (EU) in 2004 provided Tesco with a platform to expand its retail network across Europe. Rise in competitive rivalry is another factor to consider.

Although treat of entry of new competitors into food retail industry is low as it requires huge capital investments, time and authorisation from local government, Tesco experienced over last two decades an invasion of foreign retailers. Wal-Mart entered into British food retailing market with its Asda supermarkets chain, and at present it is considered as one of the Tesco's biggest competitors. Except of direct competitors, the smaller supermarkets chains, in particular Aldi and Lidl also need to be considered as potential, serious rivals.

Both non-frill supermarkets, so called 'hard-discounters' reported growth in sales by 15% just during last three months (Wood, 2011). As prices offered by Aldi and Lidl and Asda often appeared to be lower than those offered by Tesco for the same basket of food products, the company broadened its product range by electronics, furniture, clothes, cosmetics and financial services. Goal of being equally strong in selling food and non-food products is systematically achieved as Tesco, according to valuation consultancy report is UK's most valuable retail brand in terms of both in-store and online sales (Foxwell, 2008).

The most significant changes in Tesco's external environment discussed above enforced company to formulate its long-term strategy. The key strategic issue is systematic growth of the UK core, which actually is key driver of sales and profits. Strong domestic base with extensive marketing data has been of fundamental importance to international expansion. Large fast-growing markets in India, Indonesia and China are demographically high opportunity markets for Tesco to increase both the scope and scale of its international sourcing operation.

Summaries, the most significant changes in the Tesco's external environment that have impacted upon company, refer to globalisation process. Established retailers recognised that with domestic organic growth becoming more difficult to sustain in mature markets, expansion into new markets is a necessary step towards securing future profitability. 3. Tesco as an established retailer in the UK, with more than 30% of UK market share recognised that there is nothing more to do really within its domestic market.

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An increasing number of local competitors and communities started to take action against further developments of Tesco. Moreover Tesco nowadays denied it was creating a country of 'Tesco towns' and set out a robust defence to accusations it has a near monopoly of the UK grocery market. As the firm is successful and has enormous financial resources the only way to develop and expand is international invasion. The importance of international expansion refers to the process of securing of future profitability and obviously increases its market share.

There are a few success factors if a company expands internationally. Creating a global alliance is a fundamental approach and one of the oldest strategies used when planning international expansion. Newly formed ventures aim to maximize their competitive advantage. Tesco when planning its expansion to India also found a local partner - Tata Group, a retail arm of Trent Ltd. Finding a local partner is very often the best possible scenario; total costs can be shared between the partners. Local business also provides knowledge about consumers' spending habits and local culture.

In the case of food retailers, culture is a key determinant of success. Before Tesco went to the US it spent 10 years and millions of pounds on research in order to ensure that the products they were offering were absolutely relevant for the American customers. They sent several times a team of researchers for a few weeks to typical American families to live with them and record their spending patterns. Although all the effort the company made, it recently reported a loss of £186 million pounds (Geoghegan, 2011). Tesco seems to struggle in the US.

Assumptions whatever they not doing well involve a set of questions: for example is their chain of supermarkets ' Fresh and Easy' provide Americans with something new, what they don't already have? Is there a gap in the market? Anonymity of brand and lack of reputation can be another issues to consider. Some of the 4. According to Johnson and Scholes (2010) strategy is the direction and scope of an organisation over the long term: which achieves advantage for the organisation through its configuration of resources within a challenging environment, to meet the needs of markets and to fulfil stakeholder expectations.

In other words, well formulated strategy provide answers for questions such as: where is the business trying to get to in the long term, how to achieve competitive advantage, so how can the business perform better than competitors and what resources in terms of finance, assets, technology applications and skills are required in order to be able to compete?