Tesco plc

Strategic analysis: a case study of Tesco Plc with reference to Chinese market

· Introduction:

This assignment is relating to strategic analysis of Tesco Plc. Main focus is given on global expansion of Tesco in Europe, Asia and U. S. it is difficult to sum up all strategies that has been adopted by Tesco PLC in different parts of the world therefore to be more effective emphasis will be given on strategic analysis of Tesco in China.

Furthermore this assignment is focused on the reasons why Tesco has opted to go international. I will analyse certain aspects such as location advantage, to analyse that what was the reason that Tesco has chosen Asian market for it business operation and will include pull factors such as cheap labour, low production cost and increased population, ownership advantage i. e. Tosco's reputation, name recognition and goodwill etc and Internalization that how Tesco handles it markets secrets (not to be copied by its competitors) by securing ownership control, as in Chinese market Tesco successfully entered with 51%-49% joint venture with a local company but to secure absolute ownership Tesco increased its shares to 91%.

The assignment will also concentrate upon push factors that what were the reason in the UK market that compelled or instigated Tesco to expand its operation to overseas markets. These reasons include UK market saturation, overseas market size, increased economic growth in the home market that enables the company to invest in foreign market and less opportunities of financial growth in the local market because of high competition, exploiting resources etc

I will also link different theories with Tesco global strategy i. e.

(1) Strategic international expansion

(2) Porter's five forces

(3) Porter' diamond model (will be exhibited in appendix)

(4) Swot analysis (will be exhibited in appendix)

(5) Dunning's electric theory etc

It will also analyse the role of Tesco club card loyalty scheme in gathering information from its customers in order to know customer's behaviour and need.

Furthermore the study also concentrates upon Tosco's strategic initiatives i. e. customers focus, act local, maintain focus, use multi formats, developing capacity and build brand etc which is used by the company in its domestic market and overseas.

The assignment also contains a COMPARISON OF Tesco with its market rivals i. e. Wal-Mart and Carrefour and their strategic approaches in overseas markets.

Similarly the study will also look at Tesco's strategy of sourcing to low cost producers and Tesco's own brand i. e. Tesco's value products etc.

- **Company background:**

Tesco was founded by Jack Cohen in 1919. Since its inception the company has gone through different development stages and Tesco is now one of the

UK’s largest retailers and is one of the top three retailers in the world. Tesco is operating business activities in three main regions in the world i. e. Europe (Republic of Ireland, Hungary, Czech Republic, Slovakia, Turkey and Poland) Asia (China, Japan, Malaysia, South Korea, Thailand and India) and U. S . The company has 3, 799 stores located in Europe, Asia and U. S and has employed over 440, 000 people around the world.[1]

Tesco has adopted different strategies for gaining entry into foreign markets i. e. Acquisition of The Three Guys chain in Ireland in 1979, Acquisition of Catteau in France in 1992, Acquisition of 51 per cent of Global in Hungary in 1994, Acquisition of K-Mart business in Czech Republic/Slovakia in 1994, acquisition of Savia in Poland in 1995, acquisition of ABF’s Irish food retailing business in 1997 Acquisition of 75 per cent share of Lotus in Thailand in 1998, Partnership with Samsung (81 per cent) and the acquisition of Homeplus in South Korea in 1999, Acquisition of one Makro store in Taiwan in 2000, Joint venture with Sime Darby Bhd (Tesco share 70 per cent) in Malaysia in 2001, Acquisition of HIT hypermarket from Dohle Gruppe in Poland in 2002, Acquisition of the C Two (C2) in Japan in 2003,[2] Joint Venture in China and wholly owned subsidiary in India.

Strategic analysis of Tesco:

The main driver of Tesco’s successful business is because of overseas expansion, moving to ‘ higher margin’ non-food merchandise and maintaining a strong UK core business. Its UK success has been built on low prices, cultivating customer loyalty, offering a range of different store concepts and expanding into retailing services, such as banking and insurance. Tesco’s focus on non-food items has led some to wonder whether it is fair to compare Tesco with the other grocery retailers at all as it seems to have become a consumer goods company.[3]

· Tesco long-term strategy:

Tesco is growing with enormous speed. The company is following its long-term strategy based on five main initiatives, i. e. core UK business, international growth, Non-food, retailing services and community plan are the main objectives of achieving its long term success.

Tesco has adopted an effective and constant growth strategy which has enabled the company to strengthen its core UK business and expand into new developed and developing markets around the world. The rationale for the strategy is to develop the scope of the business to enable the company to deliver strong, sustainable long-term growth and competitiveness by following the customer into large expanding markets at home and overseas by serving their needs through selling a wide range of products and services such as food products, financial services, non-food products and telecoms etc.[4]

The strategy of diversification and global expansion of Tesco's business operation was laid down in 1997 and has been the foundation of Tesco's success in recent years. The new businesses which have been established and developed over the last decade are competitive and profitable and have enabled the company to lead largest market outside the UK.

§ Core UK business:

UK is the biggest market for Tesco and the company aims to provide all its customers with excellent value and choice. The company has developed a range of formats such as Tesco Express convenience stores, Tesco Metro stores, Tesco Super stores and Tesco Extra Hypermarkets.[5]

The UK grocery retail market remains the largest source of revenue for Tesco, representing some 50% of last year's (2008) £59. 4 billion of sales.[6]

§ International growth:

Tesco is expanding its presence across the world with main focus on customers need. For the purpose of better understanding of local customers and providing excellent services Tesco employees local staff which helped the company to achieve market leading position in Asia and across Europe. The company is giving more emphasis upon developing a range of local formats i. e. Express stores and Value stores in order to serve the needs of smaller communities.

The company's overall performance of overseas businesses was very strong in 2009, particularly against the background of increasingly challenging trading conditions in international markets as the effects of the economic downturn on consumers have grown and spread around the world. [7]

§ Non-food:

In the beginning Tesco was popular as a food retailer but with the passage of time non-food remains an important part of Tesco's strategy and the company continue to grow both sales and market share. Tesco has adopted the policy of differentiation and has now extended its policy to selling non-food items such as clothing, electrical goods, books etc.[8]

Similarly Tesco's online non-food business, Tesco Direct, continues to grow rapidly, increasing sales by more than 50% in 2009. The company is also planning to introduce an online clothing offer making fashionable, affordable clothes easier to buy for many more customers.[9]

§ Retailing Services:

Developing Retailing Services has been part of Tesco's strategy for over a decade with the aim of bringing value and simplicity to customers through services such as telecoms and financial products. After ten years of success, we have given it a renewed focus and in July we announced that Andrew Higginson would relinquish his role as Group

Finance Director to take on the role of Chief Executive of Retailing Services. He has assembled an experienced team to really drive forward this part of the strategy, which we believe has the potential to deliver £1 billion of annual profit in the next few years.[10] With the rapid changing life style for satisfying customers' needs Tesco provides new products and services like online shopping, personal finance and telecoms etc.

§ Community plan:

Tesco is also playing an active role to be a good neighbour in the communities where the company operates its business activities.

We understand the importance of behaving responsibly in all our operations. Over the past year, we have worked even harder to be a good neighbour and have strengthened our contribution to the wider communities we serve.[11]

All communities have their own individual concerns and priorities and so each of our countries has its own Community Plan. Whilst the goals and targets are tailored specifically to each country, each plan is underpinned by five core promises: actively supporting local communities; buying and selling our products responsibly; caring for the environment; giving customers healthy choices; and creating good jobs and careers.[12]

Tesco believes that its success depends on listening to the customers, and responding to their feedback by giving them what they want. Often the most significant contributions the company can make to communities are at the truly local level and so over the past year the company have appointed over 250 Community Champions in stores and depots across six countries. These members of staff are dedicated to working with local schools, charities and services to support the causes that matter most of its customers.[13]

· Tesco in Europe:

· Tesco in Asia:

· Tesco in U. S:

· Tesco FDI:

Foreign Direct Investment plays an important role in global economic growth and development. Due to global economic system competition increased and different governments are making strategies to reduce or remove trade barriers and encourage foreign companies for investment. Multinational companies are trying to enter new emerging economies to gain competitive advantage over their competitors.

· Tesco JV:

· sourcing:

To ensure that we offer the best possible prices for customers we buy many products globally so that we benefit from our scale. We have an international sourcing office based in Hong Kong which is responsible for buying 100, 000 non-food products for the Group. The international sourcing operation has seen rapid growth in the last few years and now sources 60% of our clothing in the UK and 40% of hardlines, including electricals, homewares, entertainment, toys and books. In Europe it provides over 25% of our hardlines and 85% of our clothing and we have recently started to source products for Asia. In the last year our international sourcing team shipped 72, 000 containers from 54 ports.[14]

We also have sourcing centres in China, India, Sri Lanka, Bangladesh and Turkey, with smaller offices in Thailand, Czech Republic and Italy. [15] We have invested in buying hubs where we have a critical mass of suppliers and shipment volumes. It helps to be close to our suppliers so that we can ensure great quality products, delivered from ethical sources, on time and at the best price.[16]

Where possible we try to source products direct from factories rather than through agents or middlemen. This way we can ensure the lowest possible cost price as well as making sure that our products are sourced safely and fairly. We also manage to strip out more costs by consolidating freight volumes. This gives us the best shipping and transportation rates, which can be passed on to the customer in the form of lower prices.[17]

Strategic analysis of Tesco’s expansion to china: to look at Tesco’s expansion strategy into Chinese market there are many factors involved. Reasons of

Tesco global expansion: Tesco’s expansion was spatially characterised as being largely regional in nature and less global oriented. Cautiously, Tesco had decided to dominate the smaller central European markets that were unlikely to attract much attention from the large retail multinational peers such as Carrefour and Wal-Mart who preferred to focus on the larger markets. The company incrementally entered markets rather than entering several markets at the same time.[18]

Tesco’s huge growth in this country is a hard act to follow. With the domestic market increasingly saturated, some UK supermarket chains, namely Tesco, Sainsbury (who have now sold their interests in the USA) and M&S have looked to overseas markets to maintain their positions. This is a whole new ball game, bringing into play competition with large firms from other countries, such as US retailing giant Wal-Mart and French multinational Carrefour.[19]

Main reasons for an organization to expand their business operation to overseas markets include saturated markets, growing economies and improving transportation systems and in some countries business environment seems more attractive than others. Most recently, Tesco has moved into China and the USA, and its rivals i. e. Carrefour has started pulling out of some eastern European countries while focusing on its Chinese strategy and Wal-Mart is also expanding business operation aggressively worldwide.[20]

Determinants of foreign market entry modes:

The choice of entry mode into a foreign market has a great impact on the success of a firm’s international operations, so consequently, related theories and critical determinants will be represented in the following section as to understand the relationships between MNEs and different factors.

Mode of entry into foreign market:

Tesco used a combination of multinational entry mode strategies within one country. As previously discussed, Tesco entered the central and eastern Europe by acquiring a relatively small chain of convenience stores in Hungary, a supermarket business in Poland and a department store chain in the Czech Republic and Slovakia (see Table II). It was certainly unusual for such a large public company to become involved in these operations, and even competitors at the time questioned the logic of their approach. However, the use of “ seed acquisitions” with a view to develop knowledge of the market before expanding organically through store-by-store development allowed Tesco to minimise their own human and financial capital in the face of potential economic and political uncertainty.[21]

There are a number of strategies that can be adopted by an organization as a mode of entering into foreign market i. e. foreign direct investment, wholly owned subsidiary, joint venture, franchising, licensing and contract manufacturing. Some of these strategies are associated with high risk such and needs high investment and management skills i. e. wholly owned subsidiary and direct acquisition and some of them are exposed to minimal risks from overseas markets i. e. licensing, franchising, contract manufacturing and joint venture. Joint venture is a lowest risk strategy that accompanies greater benefits for the organization such as gaining overseas market knowledge and knowing consumers' behaviour from overseas partner, risk sharing and gaining quality management capability.[22]

Tesco has opted joint venture in order to gain entry into Chinese market. The company has gained a substantial presence in China in 2004 by signing an agreement of 51%-49% joint venture with a host company Shanghai Hymall Commercial Retail Group which was subsequently increased to 90%-10% in 2007.[23]

Market attractiveness:

Reasons of global expansion:

There are a number of push factors and pull factors that plays an important role in an organization's decision of expanding business operation to foreign markets. The following are the main factors that motivated Tesco to invest in China.

Push Factors:

Home market saturation:

When a business organization decides to enter into a foreign market there are a number of push factors that instigates such organization to invest in foreign market. In the case of Tesco the main factor of its global expansion is home market saturation as there is no room for further expansion because of large number of retailers and high competition.

Increased capital gain from home market:

Another reason of business expansion to Chinese market could be increased capital and better performance of Tesco's business in the UK market which has enabled the company to expand its business to more profitable regions i. e. china.

Pull factors:

Foreign market attraction:

The existence of potentials and financial gains in overseas markets are important pull factors that attract foreign companies to invest in such markets. Chinese market is expanding with enormous speed and it has been predicted that the market will worth $596bn by 2010 which gives an insight to foreign companies i. e. Tesco and its rivals, to exploit the existing potentials in Chinese market.[24]

High quality production at low cost:

Similarly high quality production at lower cost and the availability of cheap labour is another pull factor that attracts foreign investment. To look at China labour is very cheap and the country is capable of producing high quality products at competitive cost, there for it is very advantageous for Tesco to invest in Chinese market. China is the prime location of sourcing for Tesco products within china and for its business in the rest of the world.

Tesco club card loyalty scheme:

Tesco is using club card loyalty scheme as a marketing tactics in order to know customers' behaviour in purchasing products from Tesco[25] and in return this scheme leads to customer's commitment to do business with the organisation, to purchase their goods and services repeatedly, and recommend the services and products to others.[26]

Dunning's:

To make an effective strategic analysis of Tesco in Chinese market it would be better to take into consideration the Dunning's Electric theory. This theory includes location advantage, ownership advantage and internalization.

Motives of International Expansion

Many companies expand their business internationally, and compete within the globe market. They know their domestic market better than abroad, and they may face the customs, language, tariff regulations, transport systems and volatile foreign currencies for international operation. This means they will have to face many new challenges, if they decide to enter into a new foreign market, but why do they do so? There are several motives for international expansion (Jobber, 2001).

Saturated domestic markets: There are few opportunities for the company to expand in the domestic market with sales and profit pressure. This is one of the major drivers of international expansion. Many of the European supermarket chains were fuelled by the desire to take a proven retailing formula out of their saturated domestic market into overseas market.

Small domestic markets: For some industries, survival means broadening scope beyond small national markets to the international arena. Companies cannot compete against with other strong global competitors. Therefore, internationalisation is the fundamental condition for them to survival.

Low-growth domestic markets: when economy is in recession at home, companies want to seek new marketing opportunities in more buoyant overseas economies. Customer drivers: Customer expectation is also one of the factors, which affect the company's decision to go international. This is increasingly common in advertising, with clients requiring their agencies to coordinate international campaigns.

Competitive forces: when the several companies in the same industry go abroad, this cause others to follow in order to keep the market share and growth rates. This is particular in oligopolistic industries. The attack of the foreign competitor entering into the domestic market is also another factor affecting a company's decision to go abroad.

Cost factors: High national labour costs, shortages of skilled workers, and rising energy charges can raise domestic operation costs to uneconomic levels. These factors may stimulate the company to choose foreign direct investment in low costs areas, such as Asia, Central and Eastern Europe. Foreign market expansion can also reduce costs by gaining economies of scale through an enlarged customer base.

Portfolio balance: Marketing in different regions provides the opportunity of achieving a portfolio balance, and each region may have different growth rates. By marketing in a selection of countries, the problems of recession in some countries can be balanced by the opportunities in more buoyant economies in other countries.

First

Buy successful companies abroad, not ones that need turning around: There followed a strong expansion overseas in the 1990s, with ever more significant movement into growing markets such as Hungary and the Czech

Republic, Thailand and South Korea. Here Tesco was buying into successful companies, but also ensuring neighboring markets were targeted and that its expansion strategy included eventual market domination. Hence the second lesson for internationalization success:

Second

It is all about market synergies and market share: Internal strategic processes. One of the chief concerns for retail strategists is market selection. Tesco decided to enter into markets where local competition was soft, hence the initial forays into Eastern Europe and South East Asia, away from the harsh gaze of other expanding giants such as Wal-Mart. Tesco also adapted to opportunistic events, and decided on different entry modes in order to develop knowledge. Hence the next lesson:

Third

You will never learn anything until you open some kind of store somewhere: External strategic processes. Tesco were comparatively weak internationally compared to bigger, more experienced rivals, despite their increasing dominance in the UK, but it nevertheless decided on an aggressive, organic expansion strategy in its target markets that left some analysts wondering about its long-term prospects. However after sticking with the strategy, it has been paying off, with its vulnerable period seen as a necessity for long-term growth internationally. It also had problems over planning procedures in foreign countries, particularly Ireland, but negotiated with central government for mutual benefit.

Also key were Tesco’s dealing with shareholders, who were initially wary of risking their investment abroad, and there were reports that the City held back expansion within European in the 1990s. However as initial forays such as Catteau became successful, however gradually, soon the debate surrounded the pace of expansion. Tesco initiated a ‘‘ What is apparent from the completed study is that despite concerns from analysts and shareholders about its internalization strategy, and despite negative local press and resources issues, Tesco got it right. ” public relations exercise to get shareholders more on board with their internationalization strategy, although this was seen through by many, and exerted debatable influence. Internal operation functions. Many international ventures founder on the failure to commit enough human capital to a project, and this constituted Tesco’s next lesson.

Fourth

Use strength and size at home to secure the best human resources overseas In order to compete with the likes of Carrefour in their own jardin, Tesco had to make sure it had the very best people on hand to drive its expansion. Experience with financial capital and marketing were also imperative, ensuring that the correct strategies and knowledge was on hand in foreign markets. This is particularly the case in the latter category, where expansion can be seen as an invasion by the home press. While Tesco almost inevitably suffered some bad press initially, the adoption of an intensive PR campaign once business success started to develop overseas highlighted the need for an evolutionary marketing strategy. [27]

Factors underlying Tesco’s success

An analysis of the UK online grocery market highlights five factors that have been critical to Tesco’s success – profit model focus; smart mover entry;

leveraging “ reach”, “ richness” and “ affiliation” (Evans and Wurster, 1997); strategic positioning (Mintzberg and Waters, 1985; Hamel, 1997); and brand power. [28]

The first ‘ Fresh & Easy Neighborhood Market’ opened in Hemet, 75 miles east of Los Angeles on 1st November 2007. As the Financial Times commented: ‘ Tesco…has staked its fortunes on an innovative new store that is about a quarter of the size of a traditional US supermarket, building on the success in the UK and Europe of its Tesco Express local stores. Some elements of the Hemet store will be familiar to UK shoppers. But the store also includes a “ kitchen table” where a staff member heats up samples of prepared foods such as pizza and chicken curry. In a further innovation, all the check-out registers require customers to scan their own goods with staff on hand to assist’ (Financial Times, 4 November 2007).

- **Conclusion:**

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