

# The tesco importance of innovation in marketing



The importance of innovation in modern society cannot be negated. There has been a lot of research for various kinds of innovations. Innovation in marketing strategies is one type of innovation which has been studied often by the researchers. According to Halpern, marketing innovation may be defined as novel methods through which businesses can promote their product to their customer base. (Halpern, 2010). The focus of this thesis is the importance of innovation in marketing strategies keeping in view the innovative strategies conceived and implemented by Tesco. The research questions are: Is Tesco employing the traditional marketing practices or it has incorporated innovation in its marketing strategies? What is the current marketing innovation strategy employed by Tesco? Is Tesco's marketing innovation strategy successful? Did the company gain any competitive advantage over its rivals through the use of marketing innovation strategies?

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## **1. Chapter 1: Introduction**

In the modern society, innovation is considered a burning issue (Bessant and Tidd, 2007). According to Bessant and Tidd, innovation can be defined as the method of conversion fresh notions into helpful exercise and employ them, in terms of innovative products, strategies and facilities. Various researches can be found on the topic of management of innovation which in turn presented many theories regarding innovation. These include but are not limited to theories which pertain to types of innovation, tools available for assessment of capability which a corporate has regarding innovation, the innovation process etc. Although various types of innovations exist today, research has mostly kept its focus on innovation of process or product

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(Brown, 1995). Among the various types of innovations, Marketing innovation is considered an important type (Halpern, 2010). As defined by Halpern, the novel methods by which businesses tend to reach its customer base is called market innovation. However, sometimes, marketing innovation is considered as a sub-part of product innovation (Tidd and Bessant, 2009) however, hypothesis and information concerning marketing innovation is deficient in prose. The focus of this thesis is importance of innovation in marketing strategies.

Organizations and nations have advanced on the basis of innovation; therefore one can't deny the importance of innovation. Advancements in technology and innovation have become an important aspect of success which is usually referred by firms, policy-makers and researchers on day-to-day basis. The governments have increased their focus on innovation and the topics on innovation are mentioned frequently by the governments (Swedish Government 2008).

The term innovation is generally defined differently by different authors and is classified in various types. Schumpeter (1934), an Australian economist and also the pioneer of innovation management described innovation as creative destruction. Five aspects of the terms were given by the author. Firstly, the introduction of new commodities in which either the customers are not familiar with the product or the quality of the product is enhanced. Secondly, for the production of the product new method or technology is announced and it also includes the new way of handling the product commercially. Then moving on, the third aspect involves the product market

is enhanced in which new enterprises enters the market. Lastly, new sources of raw materials for the production of the product are improved.

Tidd and Bessant (2009) presented a representation of the process of innovation comprising of four stages: generation of fresh thoughts or ideas, selection of the best possible idea, implementation of the selected idea, capturing the advantage intended from the idea.

Tesco was established in 1919 by Jack Cohen when he made a profit of £1 by selling surplus groceries worth £4, kept on a stall in London. Five years later, Tesco appeared as a brand name when Cohen imported tea shipment from Mr T E Stockwell in 1924. The name Tesco originated by combining the initial letters and just five years later, Mr Cohen was able to open a retail store named Tesco in North London. Tesco kept grasping the UK's market and by 1990's Tesco was a household name with a reputation of aggressive marketing and a tough competitor of UK's foremost grocery retailer Sainsbury.

In the year 2000, the official website of the company, Tesco. com was uploaded on World Wide Web, giving Tesco a global presence. The company continued to open new ventures and introduced new products every now and then which included electrical items, clothes and options for personal financing. In the year 2004, Tesco opened its first twenty four hour store and also opened ventures into other countries including Czech Republic and Poland.

US market was the next target of Tesco where the company opened a new venture by Tesco the name of " Fresh & Easy". Moreover, Tesco also made <https://assignbuster.com/the-tesco-importance-of-innovation-in-marketing/>

its presence felt in more than thirteen countries worldwide. The wide network of Tesco in UK can be imagined by the mere fact that all except one postcode in the country have Tesco's presence. Therefore, Tesco is undoubtedly the largest retailer belonging to UK with profits of more than three billion pounds. Globally, after Walmart and Carrefour, Tesco is considered the 3rd largest retailer on revenue base and 2nd largest on profit base. The magic of Tesco's global success is sometimes attributed to its diversified consumer products which include clothing, electronics, software, dental services, groceries, internet telecoms etc.

Tesco is one of the largest UK supermarkets and is known for its quality and innovation. The organization has its food businesses as well as non-food businesses which have proven to be successful. The organization has initiated an online business and recently, the company has invested in banking and mobile industry. The expansion has led to Tesco mobiles and Tesco banks in the United Kingdom and its loyalty scheme was a good portent for CRM program which was launched in 2009 (Marketing week 2012).

According to Krish (2009), the marketing of Tesco is all about innovation and how to associate or create bond with the target market. The primary focus of the company is to satisfy the needs and wants of the target customers. The innovations of the company included own-label product lines: centralizing and computerizing distribution systems. The organization developed shopping centres outside the major cities to provide needs of all the customers. Tesco introduced in-store television advertisements of the products in which suggestions were provided to the customers. According to <https://assignbuster.com/the-tesco-importance-of-innovation-in-marketing/>

the statistics, around 70% of the purchase decisions are made in store. The marketing innovation strategy was successful as it got customers where they were most vulnerable.

## **Current Issues**

Tesco directed its efforts to improve marketing as in the first three months of the financial year (2012) the sales fell by 1.5% in the first thirteen weeks. A plan was made to build a better Tesco by Philip Clarke (CEO of Tesco) in April 2012 which was responsible for the £1 billion. It has come to the understanding of the company officials that the marketing of the firm was unclear, irrelevant and not successful. The plan had six points among them were improvements in marketing, products as well as stores. For that matter, the company hired additional 4300 staff at the United Kingdom shops, innovated more than 100 stores to improve the store experience of the customers and gave training to the increased staff. The effort led to increase of 2.2% in the group sales which includes Tesco's international businesses during the three months. The company experienced a robust performance in the Asia (Baker 2012). The tastes, preferences and lifestyles of customers have altered over time which can act as a threat and opportunity for Tesco. There are other retail stores such as Sainsbury, Morrison's and Sweden national stores that can act as a threat to the sales and growth of the company (Finne 2008).

## **Prior Issues**

In June 2002, the company was charged as well as found guilty of charging slotting fees to transmit manufacturer's products. Tesco along with other supermarkets was responsible for charging entry fees to suppliers, product

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display fees and advertising fees. The Tesco Lotus started to display own manufactured brands next to the similar products with different brands. The company was charged with the case of exploiting suppliers and was also accused of contempt of selling whale, porpoise and dolphin meat in 200. The research indicated that the meat contained toxins for customers.

## **1. 1 Research Question**

The focus of this study will remain on the subject that is the importance of innovation in marketing strategies keeping in view the strategies employed by Tesco, the extent of their implementation, the success of the implemented strategies and the competitive advantage gained by Tesco over its rivals in the same field. Tesco prides itself with innovative marketing strategies employed and the benefits gained through such implementation. This “ claim” of the company makes it a prime corporate for research and study in this area. The success and loss stories associated with Tesco are perfect examples for comparing the theoretical knowledge associated with innovative marketing strategies and their implementation in the real life context.

In order to explain the importance of innovative marketing strategies by studying Tesco as an example, the thesis structure will be formulated in such a format so as to answer following research questions:

Is Tesco employing the traditional marketing practices or it has incorporated innovation in its marketing strategies?

What is the current marketing innovation strategy employed by Tesco?

Is Tesco's marketing innovation strategy successful?

Did the company gain any competitive advantage over its rivals through the use of marketing innovation strategies?

## **1. 2 Research Aims and Objectives**

The aim of the study is to analyse the current situation of Tesco and whether the company has employed the use of marketing innovation techniques. The company is currently facing a strong competition from Morrison's, Asda, Sainsbury, etc. The research will indicate the competitive advantage the company has over its competitors and whether it has adopted appropriate marketing strategies which are based on innovation to sustain this competitive advantage. There have been alterations in the lifestyle and consumer tastes which can affect the retail industry. The research will determine the effects it had on Tesco's sales and growth.

## **1. 3 Rationale of the study**

In the earlier times, researchers and theorists considered innovation simply as generation of novel ideas. However, with more research in the field, many models of innovation have been presented which explicitly argue that generation of new ideas is only one tread of the innovation process. Such models include Development funnel by Wheelwright and Clark (Wheelwright & Clark, 1992), the Innovation pentathlon framework by Goffin and Mitchell (Goffin & Mitchell, 2005) and a general model of innovation process presented by Tidd and Bessant which describes innovation to consist of four steps divides the innovation process into four phases; generation of fresh thoughts or ideas, selection of the best possible idea, implementation of the



selected idea, capturing the advantage intended from the idea. During the innovation process the company should have complete information about their marketing position and thereby, the resources should be allocated properly to gain absolute advantages. The advantages help the organizations in the realizing the objectives of the marketing innovation. Therefore, it is imperative to concentrate on the importance of innovation in marketing and keep focus on how innovative marketing ideas and techniques can be implemented in order to better serve the customers and the market. Mostly, big businesses have shifted from traditional styles of marketing and are more focused on the ways by which novel marketing strategies can be implemented in order to gain benefit from the market. It is a known fact that the organizations which implement innovative marketing strategies are able to sustain competitive advantage over their competitors. Therefore, this study has been carried out in order to discover how businesses are implementing innovative marketing strategies and what kinds of benefits are being enjoyed through this implementation. Moreover, the drawbacks of such kind of implementation have also been studied in order to give a true picture of the situation in hand. A special case of Tesco has been studied to evaluate the importance of innovation in marketing strategies. Moreover, the thesis aims to study the novel inclinations of businesses in terms of market strategies with main focus being on innovation.

## **1. 4 Research Methodology**

In this chapter, the methodological considerations of the researcher are being displayed. In order to obtain an in depth background knowledge, the importance of innovation in marketing strategies is to be used as a

communication tool, a literature analysis will be carried out. The secondary sources of information in literature analysis will initially provide information about what innovation is and how it has gained significant importance in the 21st century. Furthermore, the literature will provide the required knowledge about the innovation, marketing management, innovation implementation and how these strategies have been helping the organizations to achieve the desired results.

However, a literature review alone will not serve the main purpose of this research which is to determine the importance of innovation in marketing strategies. Hence, as a means of primary data collection, in-depth interviews would be conducted of Tesco managers from three different Tesco stores located in different areas. Both primary and secondary data is of qualitative nature as innovation in marketing strategies can be seen as a philosophy rather than a formula that provides solution based upon certain components.

The chosen approach is justified through the investigation of advantages and disadvantages of the different research methods. Further, limitations of the chosen research method will be stated.

## **1. 5 Organization of the study**

This dissertation comprises of a total of five chapters. The organization of these chapters is as per following scheme:

### **1. 5. 1 Chapter 1: Introduction**

In this chapter, the purpose of the study is briefly touched upon and the readers are familiarized with the term innovation process in marketing and its steps as elaborated by researchers. The aims and objectives of the study

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are also elaborated in this chapter which is followed by a brief rationale for the study and the research methodology.

### **1. 5. 2 Chapter 2: Literature Review**

In this chapter, past literature pertaining to the topic is reviewed. This review is structured under different topics and headings for easy understanding. The previous research work pertaining to innovation, market innovation and implementation of marketing innovation are discussed at length.

### **1. 5. 3 Chapter 3: Research Methodology**

This section comprises of the research methods adopted and a brief discussion on research objectives. Moreover, research techniques, research methodologies and research procedures have been explained.

### **1. 5. 4 Chapter 4: Analysis and Discussion**

In this chapter, the data which is gathered through various research techniques, is analyzed which is followed by discussion of the data. The information gathered through various sources is also analyzed with regards to literature review. In the end of this chapter, pertinent findings based on the research results are presented.

### **1. 5. 5 Chapter 5: Conclusion and Recommendations**

The concluding chapter also concludes the research by adding all the findings and describing the limitations of the study. Moreover, in the light of findings mentioned in the previous chapter, pertinent recommendations are also forwarded.

## **2. Chapter 2: Literature review**

Around 80 years ago for the first time the theory of innovation was presented by Schumpeter (1934) and it is still considered the basic theory of innovation whose rationality is widely known. Today, the five aspects of the theory is divided into five types of innovation such as organization innovation, resource allocation innovation, process innovation, product innovation and marketing innovation (Xi 2005).

### **2. 1 Defining Innovation**

Many definitions of innovation were given by researchers such as Bessant and Tidd (2007) defines the process of innovation as the translation of innovative ideas into useful practice and therefore, use them for the introduction of new products, services, etc. the study considered that the generation of new ideas can't be considered as innovation. The focus was on distinguishing between innovation and innovation. The major difference described by the author was the placement of the ideas into useful practice.

Joseph Schumpeter is considered the founder of management innovations.

He was an Austrian economist who defined innovation in a new and novel way by describing it as creative description (Joseph Schumpeter, 1934).

Schumpeter further went on to describe innovation from five different facets:

Introducing such a product in the market which is unfamiliar to the customers. Or introducing a product with renewed quality.

Introducing a novel technique of production which includes latest technology and novel techniques to manage the product in the market.

New market opening. The opening of new market does not only refer to a market which did not exist in the past but it also means a market which does exist but the ventures have not been introduced earlier.

Discovering a fresh resource to form raw material for the product. Similar to the new market for the product, fresh source does not only mean that the source should first be created but also means such resources which did existed but were never used as a raw material.

Re-organizing an industry for example creating or ending the domination of an industry.

The theory presented by Schumpeter is still considered the fundamental innovation theory due to its own consistency, even after a lapse of more than seventy years. However, later on researchers have presented the abridged version of this theory by defining innovation into five basic steps namely: innovation of product, innovation of process, innovation of marketing, innovation of resource allocation and innovation of organization (Xi, 2005).

Four types of innovation were stated by Tidd and Bessant (2009) and are also known as 4p's of innovation such as product innovation, position innovation, process innovation and paradigm innovation. Every researcher has presented his definition and type of innovation but there are two types of innovation: process and product innovation, which are almost stated by every researcher (Johne 1999; Propris 2002)

## **2. 2 Marketing Management and Marketing Innovation**

The scholastic purview of innovation does not frequently describe the term marketing innovation. Therefore, prior to delving into the discussion of marketing innovation, it is considered prudent to discuss the notion of marketing management. Information about marketing management will assist us in appreciating the concept of marketing innovation and its importance in today's business.

### **2. 2. 1 Marketing Management**

Marketing management is defined as procedure of defining the marketing ambitions for a business organization and stakeholders by the According to the definition given by American Marketing Association (2004), marketing management is the process of setting marketing goals for an organization and its stakeholders by allowing for the resources available with the organization and keeping in view the market opportunities. Moreover, preparation and implementation of activities in order to accomplish the ambitions, and gauging improvements towards the achievements of goals is also a part of marketing management. Marketing management is a cyclic process in order to allow the organization to revise its strategies according to the changing market requirements.

A famous expression known as marketing mix was coined by researchers who considered the sellers as objects of research. McCarthy refers to the rudiments of marketing mix as product, price, place and promotion (also known as the Four P's) (McCarthy, 1975). In later stages, the customers became the research objects instead of sellers and the rudiments of

marketing mix came to be known as Four C's (Lauterborn, 1993): consumer, cost, convenience and communication.

Li, C. J. (2006) classified the activities of marketing discipline into three diverse categories:

High-end market which focuses on marketing brand, design of the product and offer manufacturing in accordance with the demands of the market. Moreover, it also comprises the Make forecast and advertising of the product in order to gain customer base, customer loyalty, promote awareness regarding the brand and institute the image of brand. In short, high end market is the brand strategy of the company.

Mid-market focuses on execution of the brand strategy of the company. The main emphasis of the mid market is on the production of consumer item, its sale to the customer and the services provided to the customer.

Terminal market completes the transaction of the product which is delivered to the customer. Terminal market is in fact the finish line of the sales channel where the manufacturers show the finish product to the customers. At times different brands of the same item are displayed in a terminal shop for given more options to the customers to choose from. Therefore, terminal market is the place where different brands struggle to get the required customer attention; which in turn increases the sale of the brand.

**CRM or customer relationship management is another term widely used in marketing management. It depicts the customer focused business strategy which is used to gain customer base and retain customers by providing them fringe benefits e. g discounts through loyalty cards etc. CRM requires the involvement of staff, technology and processes to initiate good customer relationship which in turn improves the brand image.**

### **2. 2. 2 Marketing Innovation**

There isn't a lot of literature on the marketing innovation and researchers didn't focus on the marketing innovation strategies. The research on marketing innovation began in 1980's though the primary focus was on the practical aspects of the theory and no standard theory was formed for the concept (Qin 2008). Various researchers have given different theories and opinions about the marketing innovation concept. According to John (1999), marketing innovation focuses on augmenting the mix of target markets and tries to find how chosen market could be served effectively and efficiently. The primary application of the concept is to identify the new potential markets and the ways through which the new markets could be served. The marketing innovation is responsible for identification of the potential markets by using the market segmentation which in marketing is liable for the dividing the potential markets into manageable and smaller chunks. The secondary purpose of the marketing innovation focuses on serving the potential markets in the best manner possible for which the buying preferences of the customers are pre-requisite.

The author stated that for the marketing innovation to be successful the suppliers in every industry should comprehend the altering needs of the  
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customers and then, concentration should be dedicated on bringing innovation. The innovation in marketing can help the suppliers in merging product line management with respect to market opportunity analysis. The innovation in marketing not only helps the development of the business but also ensures the performance of the existing business.

## **2.3 Arguments for innovation**

As per Halpern's (2010) definition and understanding of marketing innovation, it is process through which companies can market as well as represent themselves in the potential markets to probable or existing customers. It complements the activities of the enterprises who try to enter in the new market and therefore, innovation gives them competitive advantage over businesses. The author stated that marketing innovation was different that market innovation and both should not be considered similar.

On the contrary, Zhang (2006) described the theory as the process that promotes the alterations in the market structure. It spots the new potential markets for the product or services that can satisfy the demand and needs of the customers as well as consumers. The author divided the contents of the marketing innovation into two segments: firstly, the inauguration new potential market and other being the creation of new combination of market factors. In the first the new markets was inaugurated on the basis of different areas, products or demands while the other focuses on the combination of factors such as new market segments, new marketing concepts, new products and new marketing methods. The understanding of Zhang (2006) was dissimilar to Halpern's (2000) understanding of marketing innovation.

Chen (2006) through his research in marketing innovation formed an economic analysis. According to the researcher, innovations in commodity and production processes as well as marketing innovations are extremely important for a market economy. The development of new marketing methods and tools play a key role in the evolution of the industries. These new techniques of gathering information about customers through the use of innovative marketing technologies and programs have permitted firms to reach customers as well as consumers more efficiently and effectively. It has enabled the use of various pricing strategies that were priorly not feasible.

A few set of rules and principles are required to be followed by businesses while applying market innovation (Li, S. L. 2009). The first principle states that market innovation should be a tool for providing customer value. If market innovation fails to gratify customers and does not provide customer value, the implementation of innovation is considered a failure. The second principle of market innovation states that as a result of its implementation, a healthy competition should emerge among the brands. The third principle denotes that innovation implementation should not be done just for the sake of innovation. Its implementation should bring surplus to the company immediately or in future. And fourthly, the business companies should keep innovating and implementing novel strategies even in the wake of fierce competition in order to survive.

The author formed a model in which there were two key elements:  $\hat{I}^3$  states when a new marketing technology or program that enables a firm to acquire consumer information more efficiently but there is a possibility that the benefits of the technology might hurt some of the consumers while  $\hat{I}^f$  stands

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for a new trading method in which there are reductions in consumer transaction costs but it doesn't benefit's the organization due to the strategic reaction of the rival.

As the elements were observed and equilibrium between them was analysed, it was found that the effects and incentives of marketing innovation vary from those of process or product innovations. The author stated that the marketing innovation happens only if the organization benefits from the innovation which is sometimes not possible if there is an adequate delay for imitation. The researcher focused on the importance of marketing tools, cost, consumer information and imitation.

## **2. 4 Implementation of Marketing Innovation**

The implementation of a marketing innovation technique or strategy requires few principles that an organization needs to follow which were summarized by Li (2009). Firstly, the process of the marketing innovation should provide value to the consumers as well as customers. The success of the marketing innovation is determined by the satisfaction it provides to the customers and if the innovation fails to deliver the satisfaction, it is not considered an effective marketing innovation. Secondly, the marketing innovation should be in bringing competition to the potential market. Thirdly, the marketing innovation should be effective as well as fruitful to the company. The focus of the company should not be on the innovation but on the marketing innovation which means that the innovation should reap profits for the organization at present and moreover, in the future. Lastly, the process of marketing innovation should be sustainable. The altering fierce marketing

competition, dynamics and rapidly changing market condition force the companies to keep innovating so that the survival is feasible.

Jiang (2008) considered strategic choice was important for the marketing innovation. For the attainment of the expected objectives, the firm should create series of associated policies which can help in the management of the marketing innovation and will also help in the minimization of the strategic risk. The major reasons for the strategic mistakes of various firms were the failure to withstand marketing innovation. To form an effective strategy the firm must understand its marketing position, the availability of resources and competitive advantage/ innovation advantage.

Tian (2007) mentioned strategies for the marketing innovation in his study. He concluded that the markets consist of three primary elements which included the individuals with demand, paying capacity and purchase desire. Therefore, the marketing innovation can be carried through these three elements. The author formed a comprehensive study on the marketing innovation in which five aspects of the theory were focused. The first aspect contains the innovation of the product itself. Secondly, objectives of the innovation should be made that entails the marketing position of the innovation. Thirdly, the new geographical position of the innovation should be spotted which will ensure the location of a potential market. The position is an important aspect i. e. if a market is saturated or faces a competition then it allows the organization to alter the geographical position for the product which is more suitable for the sustainability of the commodity. Thus, the company's future development is guaranteed. The fourth aspect entails the innovation of the distribution channel. According to the author, the <https://assignbuster.com/the-tesco-importance-of-innovation-in-marketing/>

aspect has always been ignored by the companies. The aspect includes the quality and types of distribution intermediaries and channels that assist the process of the marketing innovation. Lastly, the innovation sales promotion is an important factor for the sustainability of the innovation process which is a widely discussed and implemented innovation area amongst various firms. The area includes the innovation of marketing price strategies, promotion, and promotion programs.

The focus of the author's study was on the analysis of the company's situation. The companies can chose innovative individually or simultaneously. The position and process innovation needs to be included in the marketing innovation but usually the companies are not able to distinguish between both aspects. It's a fact that a market cannot exist without the presence of a commodity but the study didn't focus on the position, product and