Strategic analysis and strategy formulation of tesco

Jack Cohen founded Tesco in 1919 when he began to sell surplus groceries from a stall in the East End of London. His first day's profit was £1 and sales £4. The Tesco brand (Tesco Tea) first appeared in 1924. The name comes from the initials of TE Stockwell, who was a partner in the firm of tea suppliers, and CO from Jack's surname. The first Tesco store was opened in 1929 in Burnt Oak in North London, and Tesco was floated on the London Stock Exchange in 1947 as Tesco Stores (Holdings) Limited. Nowadays its market capitalisation is about £35 677 billions, which rank it at the 10th position. The first self-service store opened in St Albans in 1951 (still operational in 2009 as a Metro), and the first self-service supermarket in Maldon in 1956. Originally specialised in food and drink, it has gradually diversified into areas such as clothing, consumer electronics, financial services, telecoms, home, health and car insurance, dental plans, as well as retailing and renting DVDs, CDs, music downloads, Internet services and software.

The principal activity of the Group is retailing and associated activities in the UK, the Republic of Ireland, Hungary, Poland, Czech Republic, Slovakia, Turkey, Thailand, South Korea, Malaysia, Japan, China and the US. The Group also provides retail banking and insurance services through its subsidiary Tesco Personal Finance.

Tesco's net sales excluding VAT reached £62. 5 billion (US$95 billion) in the financial year to February 2010. Tesco's revenues are considerably smaller than Wal-Mart's, which reached US$405 billion for the financial year ending January 2010, up by 1% , but they are comparable to Carrefour's, whose turnover reached EUR 85. 9 billion in 2009 (US$114 billion), down by 1. 2%.

The Group's selection, training, development and promotion policies ensure equal opportunities for all employees regardless of factors such as gender, marital status, race, age, sexual preference and orientation, colour, creed, ethnic origin, religion or belief, or disability. All decisions are based on merit. Internal communications are designed to ensure that employees are well informed about the business of the Group. Employees are encouraged to become involved in the financial performance of the Group through a variety of schemes, principally the Tesco employee profit-sharing scheme (Shares in Success), the savings-related share option scheme (Save As You Earn) and the partnership share plan (Buy As You Earn).

2. Strategic analysis

4 pillars sustain Tesco's strategic positioning in any region of the world

SWOT

Strengths

- Supermarkets/hypermarkets, steady growth
- Private label
- Established position gives buying power and economies of scale

Weaknesses

- Customer service
- Relatively small overall market share (just over 3%)

Opportunities

- Different store concepts

- Room to increase market share
- Growing demand for premium/imported/organic stuff
- Car insurance and other non-food products
- Online shopping

Threats

- Competition – intense
- Saturation: hypermarkets

5 forces:

Industry rivalry

- Very strong
- Fragmented and competitive market (consumers have wide choice)
- International retailers and smaller local rivals

Threat of substitutes

- Also supply products (mainly private label) at discount
- Online retail (new and underdeveloped – opportunity)

Threat of new entrants

- Low, saturated, relatively high barriers to entry
- If large retailers were to start buying up smaller domestic rivals it would be a threat
- They would be bigger – more economies of scale

Bargaining power of suppliers

- Low

- As the market becomes less fragmented, will get even lower
- Customers such as Tesco represent large % of their revenue, so Tesco can dictate to suppliers
- Margins and prices lower with increase in private labels

The retail business is very competitive and Tesco is fighting against several different competitors around the world to remain as one of the biggest retailers. A ranking of the different competitors shows that Tesco arrived at the 3rd place, distanced by Carrefour and Wal-Mart, which is much bigger in comparison of all other opponents. We will cast a glance to four main competitors: Wal-Mart, Carrefour, Schwart Beteiligunfs and Seven and I holdings.

Wal-Mart is a giant in comparison of other, and that retailing share are slowly improving, around 0, 1%, except for Wal-Mart which has a 0, 3% growth.

Wal-Mart Stores Inc.

Wal-Mart (New York Stock Exchange) is an American retailer founded in 1962 by Sam Walton. In less than two decades the company was the dominant player on the American market and is nowadays, seen as a titan among other retailers. Its world retailing share is impressive and rose from 3, 5 to 3, 9% between 2008 and 2009.

They had a profit of more than $ 13, 4 billion for the year 2009, it is an increase of 5% in a difficult financial context, far ahead of Carrefour and Tesco. Moreover they have a cash flow of more than $ 11 billion, and we can easily imagine that they will be able to easily continue their expansion abroad.

They are the main player on the American market and have different size of store : Hypermarkets, supermarkets, discounters, variety stores, mass merchandisers, warehouse clubs, clothing and footwear specialist retailers, internet retailing.

Sales are still improving in the US market, probably because of the “ always low prices” policy.

A basic SWOT analysis shows:

Strengths:

- Sales and profit, rivals are dwarf in comparison
- Performance in Latin America: they implemented with success in Brazil and Mexico

Weaknesses:

- Saturation of the large format in the USA. They built as many supercenter as possible, and now have to target a new kind of hypermarket.
- Dependence on home market: the USA still remains Wal-Mart’s core activities, and it is quasi impossible to increase significantly its market share in this country.

Opportunities:

- New concept of small stores: until now Wal-Mart is known for its supercenter, which are closer from a warehouse than a supermarket. They tried to developed new types of store, smaller to attract more clients from cities.
- Existing presence and future in emerging market. Wal-Mart is targeting expansion in Russia, but has a strong presence in Mexico and Brazil.

Threats:

- Corporate image: this is probably the major threat for Wal-Mart. Dozens of articles were published, several movies and books as well to highlight how employee are treated. The company has a very bad image, and an anti union policy. This policy explains the failure of Wal-Mart in Germany.

Sources: www. euromonitor. com

Carrefour S. A

Carrefour (Euronext) is a strong number 2 in the retailing sector, and Tesco clairly explained that its main objective was to take its seat. Even if in comparison of Wal Mart, Carrefour remains a dwarf, it is still far ahead of Tesco. Its world retailing share is between 1, 1% in 2008 and 1, 2% in 2009, its total net sales reached $ 144 billion in 2008, and those of Tesco were of $ 99 billion. However, Tesco had greater profits, but only in 2009 and due to the fact that Carrefour is facing difficult issues in emerging markets. They recently acquire several competitors in emerging markets, and their integration takes time and is quite costly. But the company will soon see its profit increasing.

A SWOT analysis highlights:

Strengths:

- Brand awareness and large size group: the group is well known and has the advantage to be very diversified, they are present on every segment: from the small to giant retailer.
- International and multi format reach: Carrefour is present in more than 30 countries, among retailing firm it is the one with the strongest presence abroad.

Weaknesses:

- Low margins: they faced price pressure from Tesco abroad and Leclerc in the home market (France). So they are force to reduce their margin.
- Reliance on Western Europe Market: the company is still using western markets as its main cash cow, the development abroad has been very costly and is still not very profitable. But it is mainly due to a transition period.

Opportunities:

- Recent and future new market entries: recent entry in Russia and Bulgaria will increase profits. The group is also targeting India.
- Re branding to bring more synergies: until now a lot of shops still had their own names like Champion, Shopi… There is a new policy of rebranding all shops to gain in visibility.

Threats:

- Challenges from the two largest discounters: Aldi and Schwartz are implementing Carrefour’s home market: France. There is a growing pressure on prices.
- Unfavourable economic conditions: even with a catch up of the world economy, some of Carrefour main markets like France, Italy or Spain are likely to have a weak economic growth which could have a negative impact on sales.

Sources: www. euromonitor. com

Seven & I Holdings Co

Seven & I is the main retailer in Japan, far ahead in front of its main competitor AEON and a world retailing share of 0, 7%. Profit for 2008 reached $892. 3 million, down by 29% due to difficulties in the Japanese economy.

SWOT analysis:

Strengths:

- Brand awareness and efficiency: they are very present in Japan.
- Global presence, especially in Asia: this company is operating in 17 countries, with special focus on Asian market like South Korea, Malaysia, Thailand and Japan.

Weaknesses:

- Under performance in non grocery retailing: in its store non grocery items represent 32% of sales, and this kind of product make the group more vulnerable.
- Heavy reliance on Japan: the group is in a tight corner, Japan remains its main cash cow and they need to diversify their funding sources.

Opportunities:

- Growth opportunities in emerging market: the presence in China might be increased if they receive an authorization for franchising. They also have expansion plans in Thailand, but nowadays it might be risky due to political trouble.
- More synergy and economies of scale : among all its subsidiaries they can still improve economies of scale between brands and internet retailing.

Threats:

- Price battle: there is an intensive price battle in Japan. AEON and Wal Mart developed aggressive pricing strategies, and forced Seven to reduce its margin.
- Japan might face demographic and economic difficulties. There is an ageing population and it could turn as a threat for this retail firm.

Sources: www. euromonitor. com

Schwarz Beteiligungs Gmbh

Schwartz is a German firm mainly active in the hypermarket and discounter business. It is mainly known for its discount branch Lidl. It ranked 8th among global retailer, with a constant world retailing share of 0, 6%, but it is the first discounter. Its main competitor is Aldi, ranked at 10th place. It is a family group and has a secret policy, so they do not release publicly the profit results, but the group cash flow reached $ 1, 7 billion for 2008.

SWOT analysis:

Strengths:

- Group ownership and store concept: the group remains the propriety of one family, so they are well protected from takeover threats and shareholder pressure which could affect a long term strategy.
- Broad presence in Easter Europe: there is an important presence of the company in eastern Europe with two different brands, far ahead from its competitor Aldi, but still far behind other important competitors like Tesco or Carrefour.

Weaknesses:

- International development confined in Europe: the group is present in Europe, but has no presence in any emerging market like BRICS.
- Bad corporate image: accused of spying its employee in Germany in 2008.

Opportunities:

- New store formats and internet retailing: the group can develop new format in Europe which are saturated market.
- Extend presence in Easter Europe: expansion in Poland, Romania, and Bulgaria could generate important profits increase.

Threats:

- Price wars: most of the discounters are engaged in a price wars to gain more and more customers, it could be a important threat because they are force to reduce their margin.
- Intensive competition among discounters.

Sources: www. euromonitor. com

Tesco is present in numerous different markets. We couldn’t present all of them. So we choose the most strategic for the company in term of sales and profit, and we also add China and the USA because they are two giants market. We didn’t show Tesco’s market share in Japan, because its present is not very important, the company is not in the top twenty retailers, the market is strongly dominated by Seven and AEON.

A rapid overview of the table shows that Tesco expansion abroad is very successful. Indeed, in most of the case Tesco is number one in term of market share (Hungary, Czech Republic, Thailand), or number three (Poland and South Korea).

Furthermore, in its home market Tesco is an unquestionable leader with more than 13, 4% of market share.

Abroad Tesco met its goal; the abroad expansion was always leaded by the motto “ abroad expansion is only justified to become number one”, and in several markets like Czech Republic and Hungary, Tesco beneficiated of the “ first mover advantage”.

Tesco is definitely the most influent retailing firm in CEE countries, even if in Poland retailers like Biedronka or Carrefour are serious competitors.

In comparison, results in China and in the USA might be seen as counter performance, but we have to adopt a relativist posture.

China is a very competitive market, the market leader is GOME Electrical Appliances Holding Ltd, and has only 0, 9% of market share. The first European firm is Auchan China, ranked at the 4th place and with 0, 8% of market share. All competitors are in a tight corner, and no one can dominate the market.

In the United State, Wal Mart dominates the market, and all others are dwarf in comparison. Becoming the market leader in the USA is an unrealistic goal.

3. Strategy formulation

Tesco has a well-established and consistent strategy for growth, which has allowed them to strengthen their core UK business and drive expansion into new markets. The rationale for the strategy is to broaden the scope of the business to enable it to deliver strong, sustainable long-term growth by following the customer into large expanding markets at home – such as financial services, non-food and telecoms – and new markets abroad, initially in Central Europe and Asia, and more recently in the United States.

The strategy to diversify the business was laid down in 1997 and has been the foundation of Tesco’s success in recent years. The objectives of the strategy are:

- To be a successful international retailer
- To grow the core UK business
- To be as strong in non-food as in food
- To develop retailing services such as Tesco Personal Finance, Telecoms and tesco. com
- To put community at the heart

Their long term strategy is pictured in this Steering Wheel scheme:

Source: Tesco Annual Report 09

Tesco is implemented in 14 countries, employing 470, 000 people and has 4 331 stores worldwide.

Source: Tesco Annual Report 09

First, in order to increase sales, Tesco needs to sell more products to existing customers in existing stores. In order to do so, the company has divided its offer into two main streams: products and services. Food and non-food products (fuel, closing, household, health & beauty and entertainment goods) are leveraged by private labels programs. Customer segmentation was enhanced by the introduction in 1995 of the company’s loyalty card, Tesco Clubcard, which provides benefits and discount to the firm’s regular customers. In addition, it provides a solid database on the customers’ needs and profiles. This substantial database is currently used to target identified customer’s segments by launching private labels which are sub-brands. Tesco’s Corporate Strategy can be summarized with this statement: “ Tesco has pulled off a trick that as no any other retailer. That is to appeal to all segments of the market”.

Tesco’s Private labels targeting identified segments:

Source: Tesco: A case of retailing excellence-Coriolis Research

On the other hand, services were expanded into four kinds:

Tesco Financial Services named Tesco Bank which is 50/50 joint venture with Royal Band of Scotland. Products on offer include credit cards, loans, mortgages, savings accounts and several types of insurance, including car, home, life and travel;

Travel Services: Focused on low-cost packages and travel deals. Joint-venture with Travelcare (UK’s largest independent travel agency);

iVillage. com: Shopping and information website for women in the UK. Tesco initially acquired a 50% stake and later 100%. It expanded the brand into magazines and books.

Tesco Telecom: Home telephone and Internet services offering lower prices than British Telecom. Moreover, they launched a 50/50 Joint Venture with O2 to provide mobile phones services. A similar service has since been launched in Ireland and Slovakia. However, Tesco has not purchased or built a telecoms network, but instead has pursued a strategy of pairing its marketing strength with the expertise of existing telecoms operators.

Second, Tesco developed new store formats to capture more customers. It was designed in order to suit varied shopping patterns of their customers. Its store portfolio was splitted into four different store formats:

Express: Tesco Express stores are neighbourhood convenience shops, stocking mainly food with an emphasis on higher-margin products (due to small store size, and the necessity to maximise revenue per square foot) alongside everyday essentials. They are found in busy city centre districts, small shopping precincts in residential areas, small towns and on petrol station forecourts.

Metro: High street store/shops in large city centre shopping areas aimed at workers, shoppers and local residents. Tesco Metro stores are sized between Tesco superstores and Tesco Express stores. The first Tesco Metro was opened in Covent Garden, London in 1992.

Superstore stores offer a full range and many non-food products. These are standard large supermarkets, stocking groceries and a much smaller range of non-food goods than Extra stores.

Extra hypermarkets are very large stores offering the maximum food and non-food range situated mainly out-of-town. Their number of these is now being increased by about 20 a year. Newer Tesco Extra stores are usually on two floors, with the ground floor for mainly food and the first floor for clothing, electronics and entertainment. Older stores have all sales on one floor and a cafe on a large upper balcony.

In addition, Tesco became the world leader in e-grocery. Tesco has operated on the internet since 1994 and was the first retailer in the world to offer a robust home shopping service in 1996. Tesco. com was formally launched in 2000. It also has online operations in the Republic of Ireland and South Korea. Grocery sales are available within delivery range of selected stores, goods being hand-picked within each store.

Third, Tesco expanded on global level. By the mid-90’s Tesco realized that the UK retail market was saturated and the growth opportunities would be few. This necessity to expand its business, which was financed with its UK’s operations profits, has to be leveraged by 5 prerequisites framing the market.

It has to be a large market meaning that it must add significant scale to existing U. K business;

The market has to be growing in order to participate in strong organic growth;

Retail market has to be underdeveloped which means that there would be an underdeveloped competition and a large availability of premium location store;

Opportunities for mass merchandise have to be high in order to use hypermarkets as the vehicle for growth, and thus skip the supermarket phase;

Tesco seeks a direct market-leading position usually associated with higher returns.

By the mid 90’s, Tesco realized that the UK market is saturated and it would offer few opportunities for growth. To continue its success in the retail business, the company recognized the necessity to expand its retail business in the international markets. First, it has targeted the developing markets in Asia and Central-Eastern Europe. Then it decided to enter some developed market such as Japan in 2003 and the United States in 2007.

After selling its operations in 1986, Tesco re-entered the Irish market in 1997 after the purchase of Power Supermarkets Ltd. Now it operates from 101 stores. They offer a home delivery shopping service as well as petrol, mobile telephone, personal finance, flower delivery service and a weight-loss programme. Also available is Tesco’s loyalty programme, the Clubcard. Tesco is now the grocery market leader in the Republic of Ireland. Tesco Ireland also claims to be the largest purchaser of Irish food with an estimated €1. 5 billion annually.

Tesco opened its first store in the Czech Republic in 1996 and now has over 84 stores, with further planned. Tesco opened its first stores in the Czech Republic by buying Kmart’s operations for £79 millions and converting them into Tesco stores. The retail sector in Czech Republic was highly fragmented which attracted Tesco to implement in this country (50 retailers covering about 20% of the total market). Tesco is also keen to expand non-food items and has already opened petrol stations and offers personal finance services in the Czech Republic.

In 1995 Tesco launched in Hungary its first operation abroad, after purchasing US Kmart’s operations. It also opened its first hypermarket in

Hungary in the same year. Tesco operates through 101 stores in Hungary with further openings planned. Tesco offers its value, standard, healthy living and finest range in its stores. Tesco Hungary also offers a clothing line and personal finance services.

Tesco entered the Polish market also in 1995. It currently operates from 334 stores. Tesco Poland offers the value, healthy living and own branded line of products as well as regional produce, petrol, personal finance services and on-line photo processing.

In 1996 Tesco expanded in Slovakia. Now days there are 48 stores. They plan to introduce Tesco Express like local stores. Tesco Slovakia has recently put great emphasis on organic products. However, Tesco Slovakia caused controversy amongst the Slovak government when it was found to have come foul of food safety laws in 2006. In the year 2010 were in Tesco Extra in Bratislava opened the first self-service cash flow, which is also the first of its kind in Central Europe.

Tesco entered Turkey in November 2003 by acquiring 5 hypermarkets of " Kipa". Tesco remains focused on building infrastructure in Turkey to complete its expansion plans and has already introduced the Tesco Express format. There are plans to increase the rate of expansion as basic infrastructure is built.

Let's just remind that Tesco has a small outlet in Calais, France since 1992. It is selling wine, beer and spirits in a single store of 1 400 m^2.

In 1999 Tesco bought 51% stake in the supermarket retailer Homeplus, which is a part of Samsung, to enter South Korea. The company had focused its location around Seoul's developed region in order to become the country's leading food retailer. Currently Tesco holds 94, 6% of the shares in the venture. It operates hypermarkets as well as a home delivery shopping service. It is the second largest retailer in South Korea, just behind Shinsegae Group. On 14 May 2008, Tesco agreed to purchase 36 hypermarkets with a combination of food and non-food products from E-Land for $1. 9 billion (£976 million) in its biggest single acquisition, making Tesco the second largest in the country. The majority of the E-Land stores formerly belonged to French retailer Carrefour before 2006 and most of the stores will be converted to Tesco Homeplus outlets. Tesco's South Korean discount store chain, Home Plus, currently has 66 outlets.

Tesco entered China in 2004 by acquiring 50% ownership of Hymall, a Taiwan based hypermarket operator. In December 2006 it raised its stake to 90% in a £180 million deal. Most of Tesco China's stores are based around Shanghai. However, Tesco plans to equip the business to expand more quickly and in different areas and take advantage of one of the largest market in the world. Tesco has been increasing its own brand products into the Chinese market as well as introducing the Tesco Express format.

Tesco entered Japan in 2003, even though it is the second biggest food market after the US. In fact, the company considered that Japanese market has a strong potential, as it consisted of large number of consumers with high disposable income. Thus, they bought 78 stores of C Two stores for £139 million in July 2003 by a buy-out. Later on April 2004 they bought stores from Fre'c. Tesco has adopted an approach which focuses on small corner shops operating similarly to its Express format rather than opening hypermarkets. It has also launched its range of software in Japan.

Tesco opened its first store in Malaysia in May 2002 with the opening of its first hypermarket in Puchong, Selangor. It bought a 70% stake of Sime Darby, Malaysia's oldest industrial group, to form Tesco Stores. Tesco Malaysia currently operates 32 Tesco and Tesco Extra stores. One third of total shops are in Selanagor with 11 stores. Tesco also acquired Makro, a local wholesaler which was rebranded Tesco Extra and provides products for local retailers. Tesco Malaysia offers a value range; own branded range, electronic goods, the loyalty clubcard and clothing. Tesco Malaysia's clubcard introduced Green ClubCard Points in 2007 making Tesco Malaysia to be the first Tesco international business to introduce the scheme.

Tesco entered Thailand in 1998 and operates through 380 stores as part of a joint venture with Charoen Pokphand and named the operation Tesco Lotus. This partnership was dissolved in 2003 when Charoen Pokphand sold its shares to Tesco. Tesco Lotus sells a diverse range of products from value food products to electronics to personal finance services. The company is keen to promote its green values and has partnered with the UNEP. Tesco Lotus claims to serve 20 million customers every month and that 97% of its goods are sourced from Thailand in order to fit local needs.

In December 2000, Tesco acquired shops of Mackro Asia and entered Taiwan market. It offered special value lines targeting specific customer segments. However, in September 2005 Tesco announced that it was selling its operations to Carrefour and purchasing Carrefour's stores in the Czech Republic and Slovakia. Both companies stated that they were concentrating their efforts in countries where they had strong market positions.

In February 2006, Tesco announced its intention to move into the United States market, opening a chain of grocery convenience stores on the West Coast (Arizona, California and Nevada) in 2007 named Fresh & Easy. Tesco purchased a 130, 000 square metres (1, 400, 000 sq ft) distribution centre in Riverside Country. The company established its U. S. headquarters in El Segundo, California. The first store opened in November 2007 with 100 more expected in the first year. They plan to open a new one every two-and-a-half days in the United States, to mimic the successful expansion of pharmacy chains such as Walgreens in the U. S. Currently Fresh & Easy operates 135 stores in the United States.

The company announced plans to open stores in wealthy suburbs of the Pakistan's capital cities, Islamabad and Karachi. These new stores will be wholesale cash-and-carry businesses. They will compete with Makro and Carrefour who already operate in Pakistan and have done so for many years. Tesco have not yet ruled out plans to open stores in an Express format, though this format would cater more towards the country's growing middle class. In addition, the project of implementing in Croatia is under construction.

In 2009, Tesco's International business delivered a very strong performance, helped in part by favourable exchange rate movements during the year, and excluding the United States contributed 51% of the growth in Group sales and 45% of the growth in Group trading profit.

Total International sales grew strongly – by 30. 6% at actual exchange rates to £17. 9bn (£13. 7bn in 2008) and by 13. 6% at constant exchange rates. Sales growth slowed in Europe during the second half, which reflected deteriorating economic conditions in a number of markets. In contrast, sales growth in Asia accelerated, driven by the acquisition of the 36 Homever stores in South Korea at the start of the second half. Finally, we can notice in this “ Group Sales/Space by Region” chart that Tesco keep UK’s market as their core business

Source: Tesco Annual Report 09

4. Recommendations for long term strategic positioning for Tesco in Poland

- Be as strong in non-food as in food
- Develop retailing services – such as Tesco Personal Finance, Telecoms and tesco. com
- Develop online shopping
- Improve customer service
- Acquire domestic small chain from traditional trade to reach consumers in small towns
- Open more Tesco Express in the cities for people looking for proximity
- Open delicatessen like stores
- Open small inside restaurants in the supermarkets