

# Strategic management analysis



**ASSIGN  
BUSTER**

## **Introduction**

Tesco is UK's largest food retailer. It also operates 2, 318 across the world. In the UK, the food retailer operates 1, 878 stores in the UK alone. The company, which is headquartered in Hertfordshire, UK, also owns an online subsidiary, Tesco. com. Apart from food products, Tesco also sells non-food lines such as clothing. The company has its own label products, which make up for approximately 50% of all sales.

Tesco stores also have gas stations. Indeed, the company is one of Britain's largest independent retailers of petrol. Additionally, the company provides personal services, a venture that is run jointly with the Royal Bank of England. Some of the other European countries where Tesco has operations include Poland, Hungary, Slovakia and Czech Republic. In Asia, the company's countries of operation include Malaysia, Thailand, South Korea and Taiwan.

### Tesco's industry analysis

Many factors determine the company's operations in the industry. The factors are political, economic, technological, socio-cultural, environmental, and legislative in nature. The company operates in a globalized environment and its operations are highly influenced by the political conditions of different countries, notably those of the European Union and Asian regions.

Tesco operates in a sector that is both localized and labor-intensive. The company employs a large population of students, disabled people and elderly workers (Balchin 1994, p. 57). These types of workers are preferred

mainly because they offer a high level of loyalty in a sector that is characterized by a high staff turnover.

The economic factors that affect Tesco are largely beyond the company's control. However, their effect on the company's performance and marketing mix can be profound. Any slowdown in the food market in the UK is likely to bring about negative effects on the Tesco's performance. The most significant factor that has an influence on the company's operations include high unemployment,

Tesco managers are worried about various demographic changes as well as new current shopping trends. As the UK population continues to age, there is a decrease in the rate at which meals are prepared at home. Therefore, need to focus on added-value products arise. Additionally, focus is currently shifting towards own-label business marketing strategies. This discourages Tesco managers from taking on any new suppliers.

Social conditioning also influences the product line on which Tesco puts focus. For instance, increased demand for organic products forced Tesco to adapt its product mix. Moreover, a change in attitudes and beliefs necessitated a decision by Tesco to allow customers to pay for their products in both checks and cash at the checkout.

Like any other company in the world today, Tesco has had its share of encounters with the technological revolution wave. Technology has been a major macro-environmental variable that influences the way Tesco's products are developed (Anon 2004, p. 68). New technologies have been beneficial to both customers and the company. Technology has made

products readily available, while the services offered have become highly personalized, making shopping a convenient experience. The ECR (Efficient Consumer Response) was launched in order to facilitate proper management of Tesco's food supply chains in response to technological developments (Finch 2004, p. 191).

Some of the technologies used by Tesco include intelligent scale, wireless devices, self check-out machine, electronic shelf labeling and RFID (Radio Frequency Identification). Use of electronic funds transfer systems, electronic point of sale and electronic scanners have improved the level of efficiency in all Tesco's retailing activities. These activities include distributing and stocking, whereby needs are communicated to the supplier almost in real time.

Tesco has also been affected by environmental factors, which require companies to act in a socially responsible manner through adoption of various measures. Food retailers have been required to recognize the recent shift towards careful adherence to corporate social responsibility by exceeding the minimum obligations expected of them by stakeholders. Tesco meets these requirements through regulation and corporate governance (Johnson and Scholes 2002, p. 15).

Tesco's performance has also been impacted on directly by various government policies and legislations. For instance, the FRC (Food Retailing Commission) suggested the establishment of an enforceable Code of Practice that would ensure that most of the current practices are banned. Some of

these practices include changing agreed prices retrospectively and demanding payments from suppliers.

Price wars have affected Tesco's performance just as much as government policies for control of monopolies and limitation of buyers' power. Tesco implements politically correct pricing strategies and policies by offering all consumers a reduction on their fuel purchases based on the amount that customers spend on company's grocery stores.

### Tesco's Swot analysis

Tesco PLC is a reputable food retailer operating primarily in the United Kingdom. Apart from food products, the company has reached out to other market segments, including banking and insurance services, as well as telecommunication products and electrical appliances (De Toni & Tonchia 2003, p. 956). The company's main strength is the increasing share of its retail market in the UK, which currently stands at 13%.

The retailer has multi-format capability, meaning that while its share in food products continues to increase, it also benefits by increasing contribution from hypermarkets (Clarke, Bennison and Guy 1994, p. 18). This allows Tesco to increase its share in the non-food segment. Tesco plans to open 59 new stores within the UK. In late 2002, Tesco invested into T&S, a convenience store group based in West-midlands. This move was considered the most aggressive move one by a big-name retailer within the neighborhood market. This investment decision has made Tesco UK's second largest convenient retail store after Co-operative Group.

Tesco's international business segment is also growing steadily. If geographical spread continues to expand, Tesco will gain additional regional strength, mainly in Europe and Asia. In fiscal year 2003, the personal finance division of Tesco managed to attain the milestone of one million motor vehicle-related insurance policies. This achievement made it the fastest growing provider of motor insurance ever. In pet insurance, more than 330,000 dogs and cats are covered. Tesco online is the world's largest online supermarket. In 2004, the group made 577 million pounds, a 29% increase on the previous sales volume. Tesco Online has over 270 stores across the country.

The brand value of Tesco's products continues to increase in Europe and Asia. The goods are trustworthy and innovative ways of improving the shopping experience of customers are always being sought. Additionally, market leadership has been reinforced in the UK since 1996, thanks to a multi-format strategy that was introduced the same year.

Tesco's main weakness is reliance upon the UK market. In 2003, 78% of the company's revenues were generated in the UK market. However, this is not a serious problem in the short-term. In the long term, though, this may alter the supermarket power in the country, thus affecting Tesco's share. Additionally, Tesco retains a large capital expenditure program due to the huge investments being made in pursuit of new stores. The expansion program is so aggressive that it hardly leaves any free cash for other operations.

Tesco's main opportunities lie in the non-food retail segment. The growth of the hypermarket format in Tesco's mode of business in the UK indicates that expectations for a 13% increase in sales by 2012 are extremely high.

Another leg to growth can be added through the use of the company's footfall, low-cost structure and improved merchandizing skills. Additionally, its continued growth overseas is expected to increase the scale and earnings even further, leading to a virtuous circle of business growth.

Tesco's sales in the world non-food market stands at 7 billion, representing 23% of the total sales. The company's goal of maintaining a strong presence in the non-food segment is becoming a reality. This goal is being achieved through adherence to basic tenets of choice, value and convenience that have proven to be successful in the food segment. About half of the new spaces opened in the UK in 2005 were for non-food products.

Additionally, Tesco PLC's health, beauty and telecoms ranges continue to grow. The company is offering these ranges in efforts to increase the variety of popular products. Nineteen Tesco PLC stores are already offering optician's services while almost 200 have operational pharmacies.

Further international growth is expected to take place within Europe as well as in Asia. Tesco has been forced to take the idea of hypermarkets seriously, mainly because of growth in the international markets (Graiser and Scott 2004, p. 11). This has led to many positive implications for the company's growth prospects within the UK. This growth approach has been repeated in the banking sector, where capitalization of Tesco's brand has created good future prospects.

The main threat for Tesco is the looming structural changes in UK's retail market. These changes could spark price wars as aggressive investors come up with better services for more competitive price strategies. Different players offered different threats. For instance, Safeway offers a real threat because of new ownership, whereas Sainsbury because of change of management.

Porter diagram and smart analysis

Porter's five forces

Porter's five forces include supplier power, barriers to entry, threat of substitutes, buyer power and degree of rivalry. The factors that are worth considering Tesco PLC's situation with regard to supplier include presence of substitutes, importance of volume to the buyer, supplier concentration, threat of forward integration and differentiation of inputs. Supply chain management is a critical factor in Tesco's success.

The main barriers to entry by other competitors in Tesco's line of business include absolute cost advantages, the UK government policy, capital requirements, switching costs, expected retaliation, proprietary products, economies of scale and brand identity. Tesco finds it difficult to abandon that has been nurtured over very many years. Additionally, all retail outlets run by Tesco are heavily reliant on economies of scale for profitability.

The threat of substitutes is real for Tesco PLC. Buyers may be inclined towards some substitutes and not others. In terms of buyer power, Tesco is heavily reliant on product differentiation and brand identity in order to make



success in sales. Fortunately, Tesco has no bitter rivalry with many players in this sector, owing to the huge capital outlay needed in order to establish identical businesses.

### SMART analysis

SMART (Self-Monitoring, Analysis and Reporting Technology) was invented by IBM in order to predict the company's own technology failure. The same concept can be used to predict the potential for success or failure of Tesco PLC's operations. The main weaknesses that can be identified accurately through smart analysis include knowledge of customers and their culture, new and existing competition, the nature of the ideal foreign brand and markets shifts as a result of forces of globalization.

### Conclusion

There are many challenges to Tesco's future prospects. Overseas returns could fall while local competitors continue to adopt new, competitive strategies. However, Tesco PLC has an excellent brand that will continue to become more popular both locally and internationally, if the right management and marketing strategies are adopted.