

Analysis of tesco and organisations strategic position marketing essay



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Tesco was founded in 1919 and opened its first store in Edgware, London in 1929. Tesco now has 4811 stores worldwide. Tesco operates in 14 countries in Europe (Republic of Ireland, Poland, Hungary, Czech Republic, Slovakia and Turkey), the United States, Asia (South Korea, Thailand, China, Malaysia and Japan) and the UK. Their group sales reached £62.5bn, a growth of £3.1bn in the last year (2009 to 2010). Tesco has been the lead in the grocery sector in the UK for the past 15 years. (Tesco, 2010)

Competition in the Industry/ Rivalry among existing firms

There are few main competitors in the market with Asda, Sainsbury's, Tesco and Morrisons occupying 80% of the food retail market in the UK (Intel, 2010). These supermarkets are constantly competing over price, promotions and products. There is also competition from Aldi and Lidl which are deep discounted stores that are increasing their market share due to the recession in the UK (SOURCE/REFERENCE).

However Tesco obtained over 31% of the share of UK grocery market in 2010 (Intel, 2010) by having significant competitive advantage over other leading supermarkets. This is enforced through strong financial performance shown by the company over the years that underlies their strategic capabilities. Tesco have a clear long term strategy to be a successful international retailer and diversify the business to be as strong in non-food as in food (Tesco, 2010). The secret of Tesco's expansion success is due to their willingness to take risks, allow for mistakes and to learn from past performance (Palmer, 2005). It is through this technique that Tesco overtook

Sainsbury's for market share in 1996 (Independent, 1996) and had been market leader for the past 15 years.

<http://www.independent.co.uk/news/business/tesco-overtakes-sainsbury-in-stock-market-valuation-market-report-1357833.html>

However Tesco's operations are still mainly in Europe, with 75% of revenue during 2009 coming from UK stores (Tesco, 2010). This lack of geographical diversity means Tesco is more susceptible to risks in the UK market which is especially important during the recession, although food is still seen as a necessity so the food industry will not be as affected as the non-food market. With rising unemployment (RESOURCE) and decline in income, Tesco's luxury products such as clothing will be affected. (SWAT).

Tesco also introduced the Tesco Clubcard in 1995 (Guardian, 2003) as a loyalty system where customers collect points on items they buy in store and online. These can then be exchanged for vouchers to spend in-store (Tesco, 2010). This product allows Tesco to monitor consumer trends, target communication, accurately measure promotions and enable negotiation power as well as grow market share, encourage increased sales from existing customers, attract new customers and provide an insight into customer behaviour aiding planning for the future. (Emerald Strategic Direction, 2007) This scheme encourages brand loyalty meaning customers are less likely to change to another supermarket. (Financial Times, 2010)

(Jennifer Rowley, 2007) - find a place for this

The rivalry between existing customers is therefore seen as a very high threat for Tesco.

Threat of substitutes

Small convenience shops may be considered a threat to Tesco in the food side of the industry. These stores are generally more locally based, compared to Tesco's superstores that require more space and are therefore mainly located out of town centres. However large supermarket chains have considerable economies of scale, allowing them to compete on price with smaller stores. They also have an advantage in that large chains of stores will have larger stores of savings that they can fall back on allowing them to create a price war. Tesco has also fought back against small convenience shops by introducing Tesco Express which are smaller stores located in and around town centres. The threat of substitutes for food products is therefore relatively low.

Tesco also faces a threat of substitutes for non-food products, especially with clothing. There are many stores that specialise in retail and can therefore focus their attention on one area meaning they may be able to undercut Tesco on many prices. However Tesco have a broad appeal on price, range and store format in a way that allows them to compete in different markets (Tesco, 2010) which allows them to appeal to a large range of people. Also the way in which society has changed in the last 20 years is an advantage to Tesco's. More women are working full time, less meals are prepared in the homes and people prefer to be able to buy everything in one store rather than going to different shops for different items. In this respect Tesco has

adapted to modern day life by introducing non-food products which gives them an advantage in the market. The threat of substitutes for Tesco for non-food items could therefore be considered a medium threat.

Entry of New Competition

The capital investment required to open a supermarket is enormous which could be considered a barrier to entry. Add in to that the branding and loyalty schemes that existing supermarkets have as well as economies of scale and the threat of entry for Tesco's decreases. Existing supermarkets will be able to undercut on price due to existing trade routes and loyal suppliers. Any new competitors wishing to enter the market would need to be able to undercut with price or offer higher quality products to be able to have any chance of compete. Also planning permission to build a new supermarket as well as setting up funding and finding investment can take a long time and a lot of resources which could be considered another barrier. Existing established firms also have experience of the market, what works and what doesn't, something that can only be developed over time and something that may hinder any new competitors in the market. (REFERENCE, PORTER???) The threat to Tesco of new competition is therefore considered very low.

Bargaining Power of Buyers

Michael Porter points out that the more standardised a product and the more branded products with little differentiation, the easier it is to switch brands (Porter 1980 REFERENCE). With all of the main supermarkets, the switching costs are very low and most of the products sold have little differentiation <https://assignbuster.com/analysis-of-tesco-and-organisations-strategic-position-marketing-essay/>

between supermarkets. ; Also many products sold are branded meaning that it is easy for customers to go to a different supermarket if the prices are cheaper to buy the same product. . This is also applies to non food products that Tesco supply such as Petrol which they are also competing for with BP and ESSO (AND OTHER COMPANIES) for. Competition in the grocery industry for customers is fierce and supermarkets may try to undercut each other in order to lure people away from one supermarket to another.

Customers now have a significant advantage due to price comparison websites that can compare the price of many different products that are found in all main supermarket chains. The customer can therefore go online and look at who is the cheapest for the products that they would buy. Since the UK went into a recession in 2008 (REFERNCE) people are shopping around more for the cheapest prices.

However since the recession hit the UK, people are choosing to eat in more rather than go out to dinner (The Times, 2009). This increases the opportunities for grocery retailers and Tesco has reacted to this by introducing the ' Finest Meal Deal' which is dinner for two people including a bottle of wine for £10 or the ' Family Meal Deal' for £5 (Tesco, 2010).

Tesco is also reacting to changing customer demands such as a greater awareness to environmental issues. Tesco encourages the use of reusable bags as well as offering Greenclub card points for customers that do not need plastic bags. This reduces the overall costs and promotes a good corporate social responsibility image for Tesco. They also operate a ' Greener

Living Scheme' which offers advice, products and articles on how to save money and protect the environment.

Tesco is adapting to the changing environment around them and listening to what their stakeholders want which is increasing brand loyalty and encouraging their customers to continue shopping at their supermarket.

The threat of the power of buyers could therefore be considered fairly high, however Tesco are taking considerable action to combat this.

Bargaining Power of Suppliers

Tesco is able to dictate the price they pay their suppliers as they make up an extensive part of their revenue. If the suppliers are not willing to comply they are left with a much smaller market to sell their products to. Large supermarkets now also have the option to source from abroad which also gives them an advantage and means that suppliers are more willing to negotiate. This could therefore be considered quite a low threat for Tesco from suppliers.

Overall Tesco are identifying the threats around them and combating the low threats by listening to their stakeholders and implementing new ideas and technology. The higher threats are an issue for Tesco's but they are taking action to control these and maintaining their competitive advantage.

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