Tesco vs wal mart: strategies

The retail industry is the largest private sector employer and is dominated by a number of businesses that vary in size and financial influence. Meyers (2010) advises that the retail industry will face a challenge over the next two years due to a dwindling consumer confidence. Tesco and Wal-Mart operate in this business sector which has seen changes in consumer habits.

This report will:

Review business issues facing the sector in which both organisations operate.

Describe the financial health of both companies.

Identify key aspects of each organisation’s leadership and cultural style.

2. Review of business issues facing the retail sector

The retail industry sector is becoming more consolidated with larger supermarket chains and the recent growth of hypermarkets resulting in their exerting more power, control and influence over smaller competitors.

Meyers (2010) states that Mintel’s retail analyst, Richard Perks advised the economic recession will impact negatively on the retail market as the power of consumer spending falls due a rise in interest rates. He also confirmed that the UK has not yet experienced a retail recession as consumers reduce spending while maintaining their lifestyle level as long as possible. This consumer trend should continue through 2011 but he predicts a retail downturn would be unavoidable by the end of this year.

Hall (2000) advises that Stephen Robertson, (Sunday Telegraph) director general of the British Retail Consortium, confirmed this market view by predicting “ tough sales and perhaps no growth” this year. He further stated that high unemployment, impending VAT increases coupled with income tax and interest rate increases will further dampen consumer confidence. During these upcoming tough times, this would put leadership development strategies being proposed by retailers to the test.

The above is the predicted overall market mood from retail experts. The following points will deal with market specifics affecting the retail sector.

Consumer / buyer mobility. During this current economic downturn, this may be the biggest market factor for consideration by the retail sector. Brand loyalty carries little weight and consumers will look for the best deal at the best price from whatever source.

Retail competition – Existing. This is a particularly strong factor within the food retail market sector which is dominated by a small handful of major players. These competitors struggle with brand and product differentiation as they are extremely similar organisations and this increases the competition factor to attract consumers.

Retail competition – New entrants. Datamonitor (2009) confirms that entry and exit costs within the industry are relatively low and this encourages potential entrants. Direct competition against the established big players is unlikely but identification by competitors of a niche market (ethical, organic and top end products) can lead to indirect, yet profitable competition.

Supplier issues. Even where a retailer maintains a wide range of suppliers, supply shortages, pricing disagreements and ethical issues may impact both physically (spaces on shelves – lack of stock), and ethically (adverse publicity – damage to corporate brand). This can be highlighted by the recent independent review of Tesco’s milk purchasing price structure. This recommended Tesco needed to increase its unit cost payment to dairy farmers and was subsequently given press coverage that indicated previous Tesco supplier policy was less than generous.

Subsistence Agriculture. Common in bygone years, Datamonitor (2009) confirms that environmental concerns, increasing health consciousness and fears over political or economic instability may, in the long term, give this substitute a more significant role. They currently assess this threat as weak to moderate.

Other Factors. These will include commodity price exposure to external influences including exchange rate fluctuations. Additionally cost inflation will squeeze profit margins. Finally, community resistance to expansion coupled with local business concerns over out of town stores may lead to planning permission issues with local authorities.

3. Describe the financial health of both companies.

Due to the diversity of both products and business locations, a direct comparison of the financial statements of Tesco and Wal-Mart would show skewed results. Wal-Mart operates on a larger global base than Tesco and offers a wider range of products. For example, Tesco’s operation to break into and penetrate the American market in 2007 has failed to produce a satisfactory result in its direct competition with Wal-Mart. Whilst Tesco has opened over sixty stores in California, Arizona and Nevada, it is still the third largest retailer, following Wal-Mart who are first and Carrefour (France) who are second. Wal-mart is a well established American brand with a solid base that has managed by acquiring Asda to successfully penetrate the UK market as a direct competitor to Tesco and the other big players within the food retail sector. As such the best way to compare the two is to look at the net sales and profit margin percentage figures.

Using the figures provided from the financial statements of Wal-Mart (see appendix A), the 2007 the Net Sales Increase figure show that Net Sales have been decreasing. However, the profit margin can be seen to have increased slightly. This shows that Wal-Mart is in good financial health as it is still making a profit and that these profit margins are increasing.

By comparison, Tesco has more widely ranging figures for both Net Sales Increase and Profit Margin. During the period 2007 to 2009, Tesco showed a large increase in Net Sales. These subsequently dropped during the 2010 financial period. However, the overall Profit Margin has stayed within 0. 3% over the four years.

In direct comparison with Wal-Mart, Tesco shows a higher overall profit margin percentage. This indicates that Tesco is more profitable then Wal-Mart. However due to the widely fluctuating figures it can be argued that Wal-Mart is in a more stable position financially.

Whilst both companies have global interest, Datamonitor (2009) advise that Tesco generates revenues through one business division, i, e, retail. Wal-

Mart generates revenues though three businesses: Wal-Mart US, with 63. 8% of total revenues during fiscal year 2010; International, with 24. 7% and Sam's Club, with 11. 5%.

In Wal-Mart's 2010 company annual report, Michael Duke, Chief Executive of Wal-Mart confirmed that the company's financial strength aimed to improve shareholder value and this was in part as a result of good performance by its staff. With reported earnings of $3. 72 per share and international sales exceeding over $100 billion for the first time in Wal-Mart's history, he advised that the company would continue to spearhead the business.

In Tesco's 2010 company annual report, David Reid, Chairman of Tesco confirmed that the company's good financial health was due to dedicated leadership and management as revenue increased by 2. 2% over 2009.

3. 1 Revenue Analysis

Detailed below is a financial overview for both companies as supplied by Datamonitor (2009).

REVENUE ANALYSIS for Tesco

The company recorded revenues of £56, 910 million ($90, 445. 4 million) during the financial year

ended February 2010 (FY2010), an increase of 5. 6% over 2009. For FY2010, the UK, the company's

largest geographic market, accounted for 67. 6% of the total revenues.

Tesco generates revenues through one business division: retail (100% of the total revenues during

fiscal year 2010).

Revenues by Division

In FY2010, the retail division recorded revenues of £56, 910 million ($90, 445. 4 million), an increase

of 5. 6% over 2009.

Revenues by Geography

The UK, Tesco's largest geographical market, accounted for 67. 6% of the total revenues in FY2010.

Revenues from the UK reached £42, 254 million ($67, 153 million) in 2010, an increase of 2. 2% over

2009. The difference in revenues is because the revenues by geography include VAT. Percentages are rounded off.

Rest of Europe accounted for 16% of the total revenues in FY2010. Revenues from rest of Europe

reached £9, 997 million ($15, 887. 9 million) in 2010, a decrease of 1. 2% compared to 2009.

Asia accounted for 14. 5% of the total revenues in FY2010. Revenues from Asia reached £9, 072

million ($14, 417. 9 million) in 2010, an increase of 19. 7% over 2009.

The US accounted for 0. 6% of the total revenues in FY2010. Revenues from the US reached £354

million ($562. 6 million) in 2010, an increase of 70. 2% over 2009.

Tesco bank accounted for 1. 4% of the total revenues in FY2010. Revenues from Tesco bank reached

£860 million ($1, 366. 8 million) in 2010, compared to £163 million ($259. 1 million).

REVENUE ANALYSIS for Wal-Mart

The company recorded revenues of $408, 214 million during the financial year ended January 2010

(FY2010), an increase of 0. 9% over 2009. For FY2010, the US, the company's largest geographic

market, accounted for 75. 3% of the total revenues.

Wal-Mart generates revenues through three business divisions: Wal-Mart US (63. 8% of the total

revenues during fiscal year 2010), international (24. 7%) and Sam's Club (11. 5%).

Revenues by Division*

In FY2010, Wal-Mart US division recorded revenues of $258, 229 million, an increase of 1. 1% over

2009.

The international division recorded revenues of $100, 107 million in FY2010, an increase of 1. 3%

over 2009.

The Sam’s Club division recorded revenues of $46, 710 million in FY2010, a decrease of 0. 4%

compared to 2009.

Revenues by Geography*

The US, Wal-Mart’s largest geographical market, accounted for 75. 3% of the total revenues in

FY2010. Revenues from the US reached $304, 939 million in 2010, an increase of 0. 9% over 2009.

International accounted for 24. 7% of the total revenues in FY2010. Revenues from international

reached $100, 107 million in 2010, an increase of 1. 3% over 2009.

** The difference in total revenues is because of membership fees which is not included in the

breakdown by division or geographies.

Source: Datamonitor (2009)

4. Key aspects of each organisation’s leadership and cultural style

Before identifying Tesco and Wal-Mart’s leadership and cultural styles, it is necessary to explain the difference in styles.

4. 1 Definition of culture:

Collective programming of the mind that distinguishes one human group from another (Lynch, 2005)

Patterned ways of thinking, feeling and reacting acquired and transmitted mainly by symbols, constituting the achievements of human groups, (Fleming& Senior, 2005)

The specific learned norms of a society, based on attitudes, values and beliefs (Daniels, et al 2005)

Culture affects operating results. Cross-cultural discrepancies in managerial behaviour arise from a variety of historical, political and economic factors. Business performance is affected if these differences are ignored.

4. 2 Definition of leadership:

Stogdill (1974) states that there are “ almost as many definitions of leadership as there are persons who have attempted to define the concept.” However, there are associated functions connected to leadership that both Tesco and Wal-Mart reflect within their businesses.

Leadership Function

Creating an agenda

1. Establishing directions: – Vision of the future, develop strategies to achieve goals

Developing people

2. Aligning people: -Communicate vision and strategy, influence creating of teams which accept validity of goals

Execution

3. Motivating and inspiring: – Energise people to overcome obstacles, satisfy human needs

Outcomes

4. Produces positive and sometimes dramatic change

4. 3 Tesco's leadership and culture

Deering, et al., (2003) state that when Ian McLaurin retired, some predicted that Tesco's position as a leading grocery retailer would be diminished. McLaurin had created a culture of leadership and Deering, et al., further stated, " Leahy is quite a different leader from McLaurin, but he would not have been so successful and become so admired in his own right if McLaurin had failed to ensure that the legacy he left behind him was " in the muscle" of the company". The appointment of Terry Leahy as the CEO of Tesco in 1997 saw the adoption of a participative leadership style and affirmation of an embedded culture wherein the employees were given voices in the decision-making process. With an emphasis on the importance of appointing many leaders to handle company processes, the organisational structure became flat, allowing roles and responsibilities of every employee level to be clearly stated. Due to the change in leadership style brought by Leahy and subsequently copied by lower level managers, the company has adopted an organic form of organisation structure which is characterised by low to moderate use of formal rules and regulations, decentralised and shared decision making, broadly defined job responsibilities, and a flexible authority structure with fewer levels in the hierarchy. This style of structure is often seen in companies where there is a need to be innovative such as Tesco, as it can respond to environmental and ethical variations rapidly, so it is necessarily loosely defined and flexible. The organisation tends not to be formalized nor are roles too closely structured (Salaman 2001, p. 106).

4. 4 Asda / Wal-Mart leadership and culture

Asda went through its first major leadership style change with the appointment of Archie Norman 1991 who quickly installed the “ Asda Way of Working”. Norman provided a framework for a new organisation structure making stores the ‘ heroes’ and promoting colleague involvement. Norman wanted to build a culture that valued ‘ listening, open communication, learning and speed of response’ (Hayes 2010) and embraced confrontation meetings where senior managers could debate difficult issues. Norman’s leadership style was unique in its openness, and desire for confrontation. The changing of the cultural attitude to allow for freedom of communication allowed for the identification of opportunities for improvement. Although an overall successful change had been implemented, some managers found it hard to adjust which led to over 50 percent of store managers being replaced or leaving. Since the departure of Norman in 1999, Asda has been under the leadership of Allan Leighton, Tony De Nunzio and Andy Bond. All the CEO's had their own ideals for leadership styles, however, after the ' union' between Asda and Wal-Mart – the then CEO De Nunzio made a deliberate effort to copy many of Wal-Mart's strategies. De Nunzio claimed that, ' When we were acquired, it was like acquiring a clone.' He desired to use leadership strategies which had proven themselves in the current environments with a company similar to his own.