

Running Head: STRATEGIC ANALYSIS: TESCO PLC

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### Company Background

Tesco is a leading retailer in the UK, and one of the largest food retailers in the world. It also sells non-food products such as electrical products and clothing. Tesco is headquartered in Hertfordshire, the UK and employs about 318,300 people.

([www.datamonitor.com](http://www.datamonitor.com))

The group recorded revenues of £42,641 million during the fiscal year ended February 2007, an raise of 8.1% over 2006. The working profit of the group was £2,648 million during financial year 2007, an raise of 16.1% over 2006. ([www.tescocorporate.com](http://www.tescocorporate.com)) The net profit was £1,892 million in fiscal year 2007, an raise of 20.5% over 2006. (Spulber, 2007)

The company began life as a grocer, but subsequently expanded into a very wide range of retail, which it has supplemented with an equally wide range of services. These include financial and insurance, telecom, travel agency, and assorted other products including legal advice in the form of do-it-yourself wills and divorce kits. It also runs an extremely influential petrol retailing business. Tesco is predominantly present in supermarkets and hypermarkets, but the company diversified greatly over the review period. Its operations include convenience and petrol retailing via its Tesco Express fascia, small high street outlets via Tesco Metro, supercentres via Tesco Extra and non-food specialists via Tesco Homeplus. Financial services are existing through Tesco Personal Finance, and its online delivery channel Tesco.com has 98% coverage of the UK and is the country's top internet delivery service. (Thomas, 2007)

Its recent overall strategy has been straightforward – expansion by all available means in order to create the greatest possible economies of scale to severely threaten its

competitors. This means selling a massive range of products, stratifying its offer so that wealthy and poor consumers can shop there and above all, opening as many outlets as possible. Famously, the small market town of Bicester in Oxfordshire was left with six Tesco stores after the company took over convenience store retailer T&S stores. (Foerster, 2007) There has been great muttering in the UK press about the speed and success of the strategy, but Tesco's operations have not yet been deemed illegal or monopolistic. However, the speed of re-referral to the Competition Commission by a Parliamentary Select Committee suggests that Tesco may be challenged.

Tesco has a fully national network in the UK, although it is possibly stronger in the south of the country, given its roots in London. The company's international plans are gaining increasing headlines in the UK. Most recently, it withdrew from talks with Indian firm Bharti Enterprises about a retail joint venture. This is a huge opportunity for foreign retailers to get into a market expected to double in size to US\$640 billion by 2015. Tesco is still looking for opportunities in the Indian market, however.

### Mission Statement

A mission statement shows the companies main priorities. Tesco's mission statement is to retain loyal customers, this shows to the world that Tesco expects to make sure that the customers they have come back to them and don't go to their competitors. The reason that Tesco has a mission statement is so that their shareholders and customers know where the business is heading. (Spulber, 2007) For Tesco to achieve this they must set themselves aims. Tesco aims are to keep their customers happy this is because if they do this then this will mean that the customers of Tesco will be happy at Tesco so will stay with them and not go to the competitors of Tesco therefore Tesco is retaining loyalty from its customers. For Tesco to achieve its aims it must set itself small objectives. (Simms, 2007)

### Tesco's objectives

Tesco aim is to retain loyal customers to do this Tesco has to set them selves objectives these are small targets that help Tesco to achieve their big aim. Tesco's objectives are to keep customers happy, to achieve high profit margins, to motivate workers, expand abroad, support economic issues and to be friendly towards the environment.

### Customers

To retain loyal customers Tesco must look after their customers they do this by having low prices this is because if Tesco have low prices then Tesco will attract more customers, as they have to spend less of their money at Tesco. Tesco also keep their customers happy by opening more bigger and luxurious stores this is because when Tesco open bigger stores then they have everything under on roof this is convenient for Tesco's customers that are very busy as they can just take on trip to Tesco and get every thing they want to. (Lincoln, 2007) Tesco also keep their customers loyal to them by having a club card system this encourages customers to buy more stuff from Tesco and receive points. When the customers receive enough points then they get vouchers that they can spend back into Tesco this is very beneficial to Tesco as it receives a lot of loyalty from customers.

### Grow sales

Another one of Tesco objectives was to increase their income the only way hat this could be done is by growing sales. Tesco grew their sales by first diversifying into the non-food section because this meant that Tesco could sell a wider range of products therefore attracting more customers and an overall growth in sales. Once Tesco felt that they had achieved a lot of profit from the non-food section they then diversified into financial service

as this meant that Tesco would have a wider range of services to offer to their customers.

(Clive, 2007) Tesco also introduced other services like club card and internet shopping

because this meant that Tesco could reach a wider range of customers which therefore helped them achieve their objective of growing sales and getting a higher income.

### Operations

One of Tesco's most important objectives is to have low prices because having low prices means that Tesco increase their chances of gaining loyalty from customers and getting higher profits. The way that Tesco achieve low prices is by operating through the central buying system. In normal businesses they would buy their stock through the central buying system, this would mean that they would have to buy it from the wholesaler who get their products from the manufacturer. Tesco do not do this they skip the wholesaler so that they get their products cheaper from the manufacturer. This is how Tesco keep their process low and achieve high profits.

### Expand Abroad

Tesco had conquered the market in Britain and then decided that it was time for them to go for a wider range of customers for them to get this wider range of customers Tesco had to go abroad. I believe that Tesco expanding abroad was a good move because Tesco has so far made 280 million pound profit abroad and I believe that this is still going to increase just all of Tesco's other profits.

### Community

Another one of Tesco's objectives is to please the community, Tesco pleased the community by showing them that Tesco cares they done this in the following ways: Gave

money to charities this showed the community that Tesco is a caring business that helps people all around the world. Tesco also looked after the environment by planting trees outside their stores this showed the community that Tesco are environmentally friendly and that they care about the community's surroundings. (Foerster, 2007)

### Private Label

Tesco's private label strategy is to operate as broad as possible a range of products, and to have a number of different brand positions within the offer. In the case of its food products, this includes brands-within-the-brand such as Finest, Value, Fair Trade, Organics, Wholefoods and Healthy Living. Each is acceptable or appealing to a different economic or social group, thus expanding the company's consumer base to its broadest possible width. (Manfred, 2008) The company follows the same strategy in its non-food offer. It operates a number of clothing ranges including the more upmarket Florence and Fred, Cherokee and Schoolwear. Ominously, Tesco has followed high street retailer Top Shop's template to develop its Florence and Fred range, replicating expensive fashion at a fraction of the price of leading couture brands. This shows Tesco's determination to muscle into all areas of retail.

New private label developments for the company in 2005 and 2006 included the launch of its Gi range, which caters for adherents of the Glycaemic Index diet and the Wholefoods range of non-processed foods. Both were set up in response to consumer demand, although actual sales of the formats may be less important to the company than the appearance of being responsible and responsive to food trends.

### Competitive Positioning

Tesco's positioning is blanket-like: it aims to cover every conceivable part of the consumer base. For example, the retailer is surprisingly sensitive to specific regional demand.

Its outlet in Brixton – a part of London with a high level of immigrants – has a strong offer of Afro Caribbean and Asian produce. (Manfred, 2008) This reflects the company's positional strategy of being all things to all consumers. The company is, by a distance, the leading retailer in the UK. Its 11% value share of the market in 2006 is almost double that of the 6% generated by J Sainsbury Plc, its nearest rival. (Thomas, 2007)

Tesco consistently increased this share over the review period, thanks to its strategy of unit expansion, and using its enormous economies of scale to establish extremely preferential terms for itself. The company now dictates prices to producers rather than vice versa. This enables it to compete extremely aggressively on price, forcing smaller consumers out of the market. These two factors, combined with the undeniable convenience of shopping there, as well as a series of groundbreaking consumer service offers, huge food and non-food retail ranges and loyalty schemes, have combined to build the largest consumer base in the UK. (Lincoln, 2007) Tesco is a market leader, insofar as its scale allows it to consistently set the bar in terms of product range and prices. However, much of its innovation is related to expansion rather than actual radical new ways of doing business. There is no pressure on the company to adapt, as its competitive advantage in the UK is so great. (Manfred, 2008)

Nonetheless, Tesco consistently rolls out new offers and formats. The company is reported to be developing an estate agency. In August 2006 it announced it was to launch a range of budget private label PC software to compete against the likes of Microsoft and Symantec. At the same time, it announced it was launching a new homeshopping service for a range of 8,000 items including sofas, bikes, golf clubs and cameras, taking it into direct competition with retailers such as Argos. (Patrick, 2007) The company is entirely interested in market and format/channel leadership, and has a strong presence in most formats/channels. This includes leading ranks in both store-based and internet retailing. The company will do anything to build this leadership. In 2005 it invested nearly £2 billion in price cuts – a figure

roughly equivalent to operating profit for the year – and at the beginning of 2007 announced it was permanently cutting prices on 600 key items by a total of £80 million.

### Strategic Direction

Tesco is looking to become as strong in non-food as in food sales. Industry sources suggest that the company will become the UK's largest non-food retailer by the end of 2006, with sales of over £6 billion. In 2005 the company opened its first standalone, non-food store called Tesco Homeplus, and is set to expand the chain over the forecast period. In 2006 it launched the Tesco Direct catalogue in competition with Argos. The catalogue offers only 8,000 non-food items at present, but this will expand.

The company is determined to expand its core UK business. However, it faces a number of obstacles beyond the maturity of the UK retail market. The company is finding it increasingly difficult to acquire suitable sites for development. On top of this, the large supermarkets were re-referred to the Competition Commission in 2006, and there is some speculation that Tesco may be compelled to give up parts of its land bank (a property portfolio of suitable sites yet to gain development approval) which, it is claimed, acts as a barrier to entry to competitors. This may suit the company. To fund its growth strategy, the company was looking to restructure part of its £12 billion real estate portfolio anyway.

(Lincoln, 2007)

Tesco is therefore looking at development outside the UK. To this end, it is looking to develop new international markets. The company operated more than 800 stores abroad in 2005-6, generating sales of more than £10 billion. It has undertaken the development of stores in the US – at least 100 Fresh & Easy convenience stores are planned for Las Vegas, Los Angeles, and Phoenix in 2007 – and although recent plans to launch a joint venture in



India were aborted, the company is still examining retail possibilities for that market.

(Sternquist, 2007)

It is hard to see Tesco failing to achieve its strategic goals in the UK – international development, especially in the US where the competition includes retailers such as Wal-Mart may prove more difficult – as the company seems to have achieved a kind of critical mass in retail terms that makes it unstoppable, thanks largely to its overwhelming scale.

One of the key challenges for Tesco over the forecast period will be maintaining its high levels of retail innovation that led to recent developments such as Personal Finance, Telecoms, and its on-line service Tesco.com.

### Findings and Recommendations

Tesco are obviously doing well to be the leading supermarket, but how are Tesco going to maintain this success and take it further. I believe that Tesco can still go further by offering more services to please their customers. I recommend Tesco to open a play area for children this is because it will allow customers of Tesco that have children to have a more peaceful time while shopping. If Tesco has a play area for children it will attract more customers that have children, as Tesco are the only superstore that offers this service.

I also recommend Tesco to improve their Internet shopping by making it more secure as potential customers of Tesco are worried that their personal information could be stolen. The ways in which Tesco can make their internet shopping safer is by making there website hacker free, this will therefore make internet customers feel more secure and open with their information.

I recommend that Tesco should also make their stores more ethnic so that they appeal to customers from all around the world. The way that they can make there stores more ethnic is by employing customers that speak a variety of languages so that they can understand

people that are from different countries. The way that Tesco can get customers that speak a variety of languages is by training them to speak different languages. Another way is if for example the store is located in Slough where there is a large community of Indians and Pakistanis then Tesco can employ people who can speak Punjabi or Urdu because this is the main population in Slough. The advantage of having more ethnic stores is that Tesco not only appeal to customers from the UK they also appeal to customers that have come from other countries.

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## SWOT ANALYSIS

### STRENGTHS

- Market leadership
- Strong performance of Tesco.com
- Strong brand image

### WEAKNESSES

- High dependence on the UK and Europe
- Weak returns
- Weak inventory turnover

### OPPORTUNITIES

- Retail environment in the Eurozone
- Opportunities in private label and non-food markets
- Opportunities in India and other international markets

### THREATS

- Rising labor wages in the UK
- High interest rates in the UK
- Intense competition
- Difficult conditions in the international markets ([www.datamonitor.com](http://www.datamonitor.com))