

How do corner shops survive against Tesco?

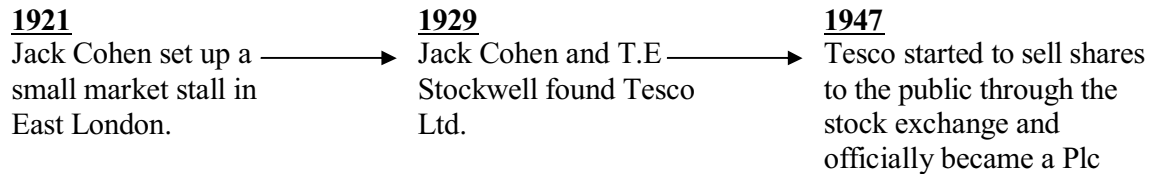
My name is Anees Ahmed, I am a year 10 student at slough and Eton C of E School and I am studying a course based on GCSE business studies. Over the next few months, I will be researching on how a small corner shop survives against Tesco and I will research on what methods the corner shops use to survive against Tesco.

The question I will be investigating is:

How do corner shops survive against supermarkets?

In this business, studies course work I will be researching by doing a price survey, which will involve me, comparing a corner shop against Tesco. I will be using different techniques to find research. I will be comparing the two businesses finance, liability, location, doing a price survey, advertising, specialist and extra services. I will be analysing the good and the weak points of the two different businesses.

History of Tesco



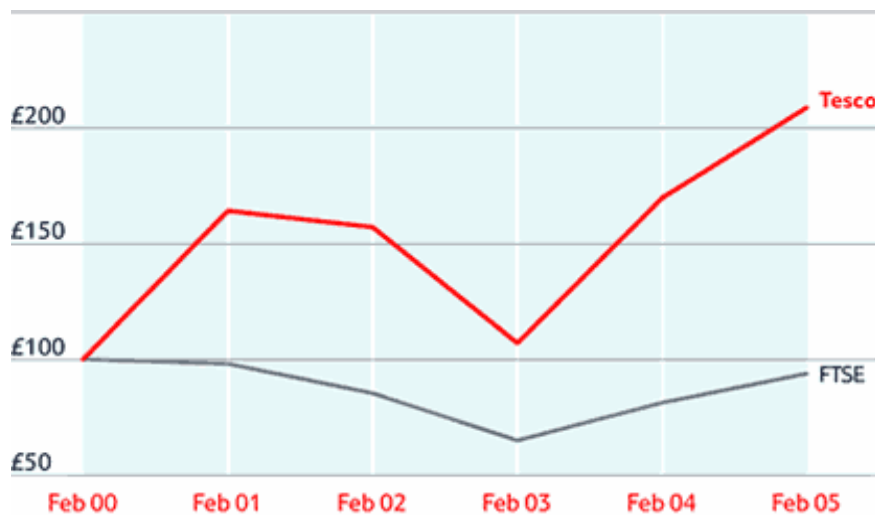
In the year, 1919 just after world war one Tesco was founded by a man called Jack Cohen who was at that time a sole trader. The only products he sold were simple groceries on a market stall in east London. In the year 1924 Tesco sold their first ever brand called Tesco Teas, which was supplied by a man called T.E. Stockwell. Later on in that year, Mr. Cohen went into partnership with T.E. Stockwell his supplier. In the year 1932 the two partners did not like working as a partnership and were worried about the disadvantages of being in a partnership and wanted little more protection so they decided to change into a private limited company- Tesco stores Ltd.

In 1947, the two partners were finding it quite hard to raise finance, as it was just two people so they decided to change into a Plc because in that way they can raise money through the public by selling part of company to the public called a share, which was at that time 25p.

Tesco PLC

A Public Limited Company is a company, which sells its shares on the **stock exchange**. By doing this, this gives them the ability to raise millions of pounds from all over the world. Firstly, to set up a PLC one shareholder has to invest £50,000, and sometimes it can be quite difficult to find someone who can invest the money.

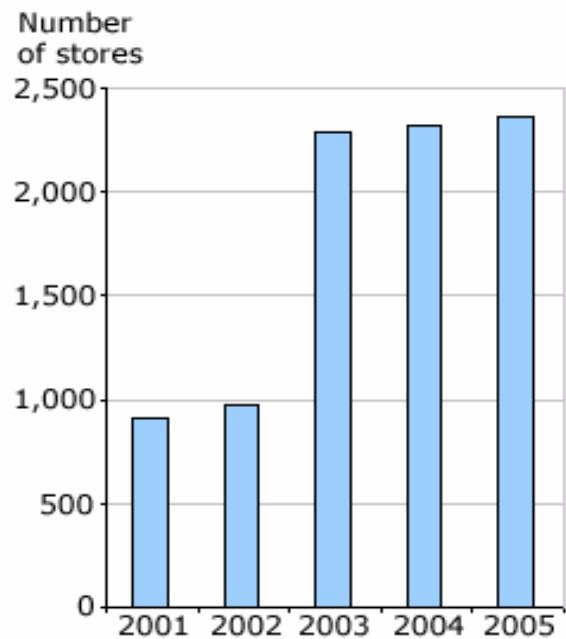
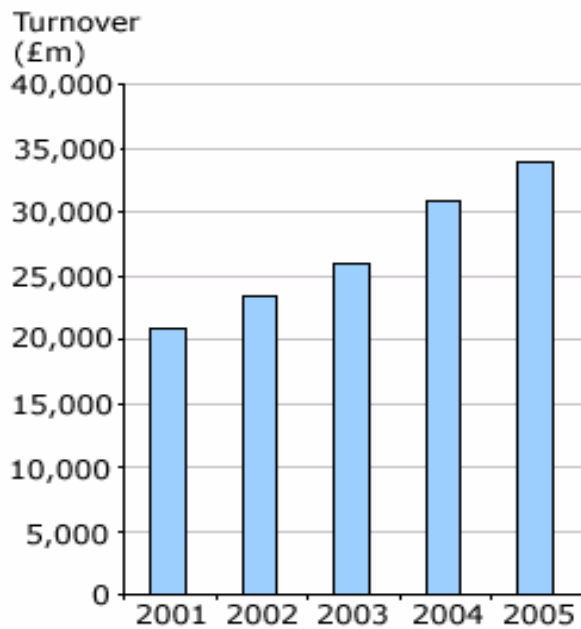
Another problem is that several legal documents have to be produced in order to set up a PLC.



The stock exchange is a huge gain for selling shares to people from all over the world. Nevertheless, shareholders also expect to get high dividends. PLCs have to legally **publish their accounts** to the public who can access their performance and company, and therefore make their own decisions into investing into the company.

Another advantage, which has helped the company promote its shares, is the media e.g. the media has encouraged people to invest into the company. Shareholders have **limited liability** when they invest in PLC like Tesco, and this helps to **safeguard their investment**, which means that the shareholders do not lose their funds even if the company goes bankrupt therefore, this allows the shareholders to be **more secure about their personal possessions**.

Tesco have been very beneficial through their stock exchange and showing the public their high profits from 1.7 in 2004 to 2.2 billion in 2006. This shows that Tesco have increased their profits vividly in the two years. This also shows that Tesco's performance has been excellent in comparison to Asda's £485 million. Due to this, it has encouraged the public to invest into the company and therefore giving Tesco extra **capital** to help expand into the on line/club card and a number of other services e.g. non-food and financial services, as a result, making the public's life easier by having **everything under one roof**. All this has led to Tesco to gain a market share of 29% and become the number one U.K supermarket.



Another service, which makes the public's life easier, is the **Tesco.com** website, which encourages people to shop from the comfort of their homes and therefore helped to raise their **sales and profit**. This service has been developed because of shareholders investment into the company. In the year 2005, Tesco made £280 million profit. This definitely has helped people whose lifestyles are very busy, ill or disabled. The public benefit and this has definitely helped the society because the goods can be delivered within 24 hours with a charge of £5.

I think it is a pity that Tesco still charge £5 even though they have a profit of £2 billion.

Club card is another financial service and a loyalty system, which means that every time a customer makes a purchase he/she gains points for every £1 they spend in the store. In return for their points, they receive vouchers for their favourite products. This has encouraged thousands of people to shop at Tesco and as a result helped increase their **sales revenue**.

With the success of **Tesco's £2.2 Billion profit**, it shows that they have been able to **invest in various areas wisely** and as a result, with their high profit, they are able to pass **on high dividends to their shareholders** allowing them to **invest more** and allowing **new shareholders to invest**.

Tesco Plc

A Plc stands for a public limited company, which is usually a large company owned by shareholders who own shares in a company. The more shares you own the more control you have. The first word in a PLC is public which means that shares are available to anyone over the age of eighteen. Anyone over the age of eighteen can buy shares through the stock exchange, this is where the shares are bought and sold.

As a shareholder, you can receive a percentage of the profit once or twice a year called dividends, which is a thank you for investing into a business. However, this only happens if the business is doing really well. If you are a shareholder in a plc you have limited liability, this is the biggest advantage over sole traders and partnerships. Limited liability means that if the shareholders got into debt they are not personally responsible for paying back any debts the business acquires, they only lose the amount of money that they have invested into the business. A plc is incorporated which means that it has a separate legal status. This means that if anyone wanted to sue a shareholder they cannot, just the business.

The advantages of Tesco being a Plc

Tesco is suited to being a Plc because they have the dispensation of selling shares to the public through the stock exchange instead of borrowing money from the bank – something, which a business might do. By Plc's doing this, it is easy to expand and diversify the company further and therefore, making them successful and profitable.

Due to Tesco being a Plc, banks are more prepared to finance Tesco, as it is a well-known company, which is not in any threat of going bankrupt. Therefore, this will why banks are more likely to finance Tesco, as they know that they have no threat to survival and the fact that they are the number one leading supermarket in the U.K, who has performed extremely well in the past years. By showing their remarkable profit of £2 Billion pounds, which is outstanding, has encouraged existing shareholders to keep investing into the business and encourages new shareholders to invest.

Over the past few years, the company has cleverly diversified into non-food products such as, financial services, Internet shopping and clothes etc. this suits Tesco as they have the finances available to them to purchase the non-food products, which allows them to attract a wide range of customers to shop at their stores because they provide everything under one roof, which makes corner shops more convenient to shop at.

The disadvantages of Tesco being a Plc

As well as Tesco having advantages of being a Plc, they are also open to having many disadvantages.

One of the disadvantages of Tesco being a Plc is that every year, when the company has a board of directors meeting, each shareholder has very little say on how the business should be run – unless they own an awful lot of shares. This would mean that not many ideas would be able to get across. The founders of the company might even lose control over the business as anyone can buy enough shares to take over the

company, which is a huge threat to the shareholders who own over 50% of the shares in the company.

Another disadvantage is that if Tesco do not perform well in one branch, then it would have an effect on all the other branches and along with that, it would affect the sales of other stores and will cause a decrease in profit for the company. This can lead to a decrease in the share price. If the share price decreases, it may cause some shareholders to give up their shares in the company and buy shares from one of their competitors. Therefore, Tesco have to do whatever it takes in order to satisfy their shareholders in order to keep them investing in the company.

As Plc' such as Tesco become very large, it may become very difficult to manage as shareholders are only interested in receiving dividends and not interested in the company, unlike sole traders who actually own the business and work extra hard to gain the extra profit.

Business activity

Tesco's core product is food and drink because that is what they are specialised in. Tesco also sells different ranges of food e.g. foreign foods, Halal, take-away/ Chinese and microwave food. The reason why they do this is because they want to attract more customers, which will help increase their profit.

In order to keep all the customers happy Tesco sells their products in three different ranges. These are Tesco 'value', which is for people that are cost conscious, who are at the low end of the market and have a low spending power. Then there is Tesco 'family' which is for people with large families and finally there is 'Finest' which is for people who are at the top end of the market and have a high spending power and maybe want to spend a little extra. Tesco has these ranges to suit every customer's needs. They also attract customers from all ends of the market to make a higher profit. Tesco's main income comes through food and drink as the majority of people buy them.

Non-food

In the past ten years, Tesco has diversified into new markets. They no longer just sell food and drink but also sell baby products, mobiles, electronics, and clothes. They decided to sell different products because they wanted to increase their income and attract more customers in order to gain a **higher market share**.

Selling non-food products makes life much easier as it makes it more **convenient** and everyone can buy all the products they need under one roof because nowadays people have busy lifestyles and they are in a rush, so this saves a lot of time and keeps customers happy.

There are a wide range of products that you can buy under one roof for example; you can now buy paint instead of going to the DIY store, you can buy CDs instead of going to HMV. Tesco have sold more CDs than HMV and more clothes than Mothercare.

Selling non-food products has helped Tesco to increase their profits as 28% of the overall profit comes from non-food products.

Financial services:

- Mortgages
- Car insurance
- Life insurance
- House insurance
- Pet insurance
- Loans
- Credit cards
- Saving accounts
- Bank accounts

In the last five years, Tesco have been offering these financial services. In order to offer the financial services Tesco carried out extensive research and found out that the unemployment in the U.K. is very low and most people are rich and have a high spending power. They also found out that since house prices have been going up people feel rich and are willing to go out and take out a loan and get credit cards. As the people in the U.K feel rich, Tesco has decided to offer services like e.g. pet insurance, loans, mortgages and car insurance.

Over the last five years since Tesco has been offering these financial services. Tesco has increased its income by making millions and has diversified into new markets. The reason why Tesco is successful is that they have loyal customers who put faith in their products and services.

By diversifying into different markets, Tesco have benefited by a huge amount, which has lead to them having a £2.2 Billion profit, making them the leading supermarket in the UK, which has a market share of 28%.

Features of Tesco

Tesco offers their customers a range of services, which include disabled facilities for example; they offer disabled toilets, parking which allows them for an easy entrance. Another service they offer is disabled buggies which is for customers who are unable to walk or have back problems. They also offer services for children under five years old, which include nappy changing and parent, and child parking services. Tesco offers these services in order to retain customers, encourage new customers to shop at Tesco and to make it easy as possible for customers to spend their money.

One of the services Tesco offer is 24-hour opening times. Customers benefit from 24 hour openings because they might be busy or working long hours. This makes the customers shop at a convenient time. Tesco benefits from 24-hour openings because in that way they attract more customers to shop at their store and to encourage more customers, which mean they make more profit.

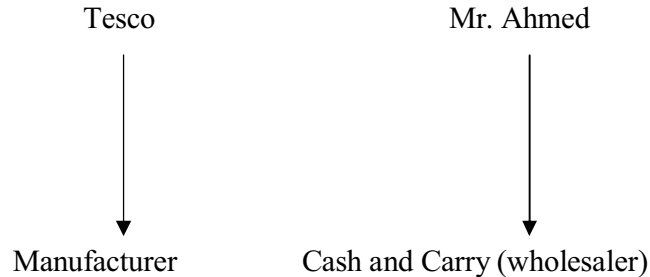
Another service that Tesco offer is free parking. This makes it more convenient for customers to shop. Because the parking is, free customers are allowed to park for three hours max, this makes the customers spend more money and keeps them happy. As well as food and drink, there is also a petrol station. This makes it more convenient as everything is all under one roof. Tesco benefits from this because they make more profit and the customers receive club card points.

Other major services Tesco offer are baby facilities, which include trolleys and nappy changing. This makes life much easier for the parents because they would not have to worry about their kids and they can shop easily. This benefits Tesco because the customers want to keep coming back to Tesco and spend more money.

Tesco also has helpers who are members of staff that help people who are disabled, old or who are unwell. This makes life easier for customers because they would not have to worry about shopping on their own they would have someone to do the shopping with them. It benefits Tesco by attracting more customers to come back every time they shop and helps to increase their profit.

Central buying system

This diagram shows how Tesco and Mr. Ahmed buy their stock/products for their customers.



As you can see from the diagram above Tesco buys its stock from the manufacturers for example, they buy their biscuits from Mcvities, their computers from Microsoft and their cereals from Kellogg's. Tesco also has 1780 stores where the head office buys the stock for all the 1780 stores. Since Tesco's head office buys on behalf of all their stores and therefore, has the benefit of negotiating low prices. Tesco benefits by receiving huge discounts because they can buy in bulk.

While Tesco buys its stock it manages to miss out the intermediary (cash + carry) which means they save a lot of money.

Tesco's head office buys all of its products rather than each store buying separately this makes it easier for the manufacturer to deal with one department rather than dealing with 1780 stores. Therefore, in this way the manufacturer just has to send Tesco one invoice rather than sending 1780 invoices. This saves more time, as there is less paperwork to do and makes the central buying system more efficient.

A corner shop could not buy from a manufacturer because they cannot afford to pay in huge amounts like Tesco do e.g. 1 million cans of mushroom. Another disadvantage is that a corner shop has much smaller profits than Tesco and does not receive money from shareholders like a PLC. Therefore, this means that you would only have your own savings. If a corner shop buys in large bulk, they might not have enough space to store millions of products and they are not able to sell stock as fast as Tesco.

As there are thousands of corner shops in the UK, the manufacturers are not interested in dealing with thousands of small orders because it is time consuming and expensive. The manufacturers also do not want the hassle of delivering to each corner shop themselves rather than just going to one central office e.g. Tesco's head office.

Price survey

Here I have made a table to show a price check of Tesco's products and a corner shops products and I will show the weight of the product and the price difference.

| Brand | Product | Weight | Tesco | Corner shop | Price difference |
|---------------|----------------|---------------|--------------|--------------------|-------------------------|
| Anchor | Butter | 250g | £0.76 | £0.96 | 20p |
| Cadbury | Chocolate | 200g | £3.28 | £3.50 | 22p |
| Golden wonder | Crisps 6 pack | 160g | £1.18 | £1.29 | 11p |
| Cravendale | Whole milk | 2 litres | £1.11 | £1.40 | 29p |
| Kellogg's | Coco pops | 375g | £1.17 | £2.09 | 32p |

This grid shows a price survey that compares the price between a corner shop and Tesco and the shows the price difference between some of the same products that they sell. The grid also shows the brand, the products, the weight of the product and the price of both shops and it shows that Tesco is cheaper by £1.14, and also shows consumers will save a great deal of money by doing their weekly shopping at supermarkets.

The reason why Tesco manages to sell their products easily is that they buy in bulk because in that way they are able to negotiate discounts, that is why Tesco's products are sold at a cheaper price than a corner shop. The low prices of Tesco help to retain **customer loyalty** and therefore, have the advantage of gaining a higher market share.

However, Mr. Ali cannot afford to sell at low prices because they would not survive in business because they have to pay overheads.

Low prices bring huge number of customers,.....increase market share and sales and profit.

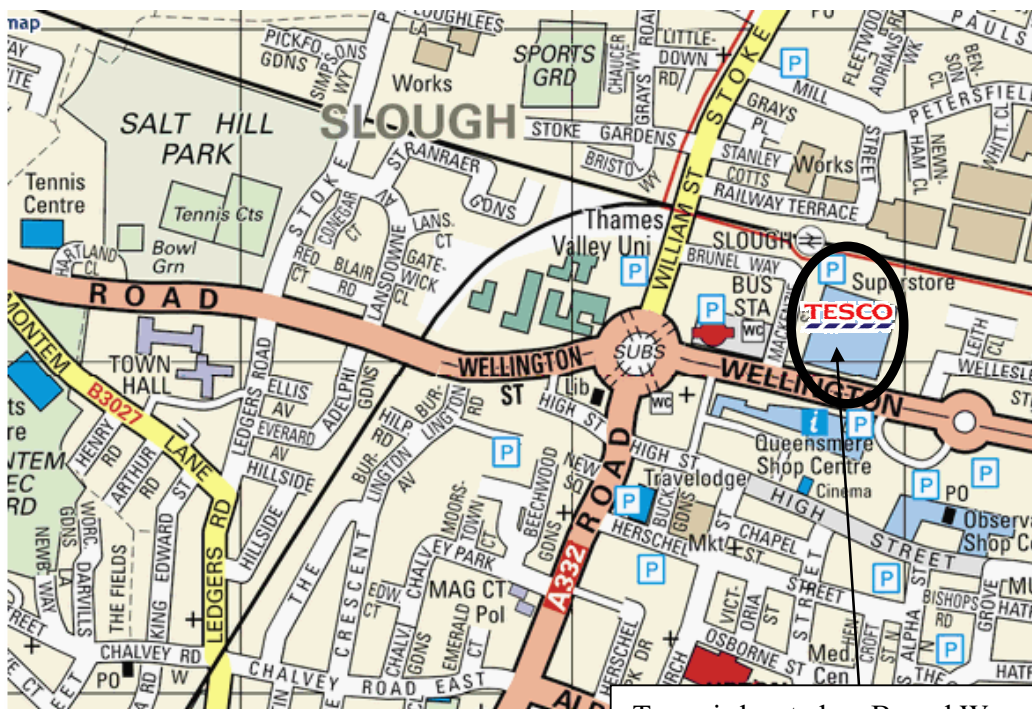
Location of Tesco

Tesco decided to locate in Slough, as it is a **prime location**. As it is a prime location, it is very close to the Slough high street and Queensmere, which means Tesco, can get even more customers rather than locating outside town centre. Tesco also have a large piece of land, which means they have a lot of space for car parking, enough space for a petrol station. The other advantage is that because Tesco sells non-food they have enough space inside their store, which means they can sell all under one roof.

Tesco is near other large businesses for example, University, O2, Yellow Pages and the Post Office. This benefit Tesco because all these businesses are nearby and hundreds of workers who have the benefit of using Tesco at lunchtimes and after work to complete their weekly shopping. This helps **both** the company and the customers.

Another reason why Tesco has a good location is that the road links e.g. the A4, which is where Tesco is located, M4, which leads to the M25. Tesco benefits from this because in that, way they have easy access for the suppliers, which makes it convenient for everyone.

Map of Tesco (Brunel Way)



Tesco is located on Brunel Way surrounded by the High Street and other large businesses, which makes Tesco convenient for people who are working or going to do their weekly shopping as they sell everything under one roof. This makes Tesco convenient for the customers because they would know that everything is **sold under on roof**.

The reason why Tesco is so successful is that where they are located, there is very little competition. The only competitor Tesco had was Co-op which unfortunately closed down because they could not cope which ended up in Co-op closing down in 2004. Later on in that year, Tesco bought the Co-op store. The only remaining competitor of Tesco now is Iceland but they are only specialised in frozen food, which means that Tesco had no danger from any competition in the surrounding area.

Tesco is also located close to various villages and towns such as, Windsor and Cippengham. This means that Tesco has even more customers coming in their store from different towns and villages. This benefits Tesco as they make more profit, which means their sales increase, and this benefits the shareholders because they receive high dividends. The major roads are nearby, and this gives easy access to the customers who come in from outside town, and the suppliers, and this makes their location convenient.

In my opinion, I think that because Tesco have located in the high street, they have benefited a lot from having easy access to a wide range of customers who come in to do their weekly shopping, which makes Tesco fight off their competitors helping them to become the leading supermarket in the UK.

Summary of Tesco

Over the past couple of years, Tesco has become the most successful and popular supermarket in the country. They are also known to be the leading supermarket in the country. By the year 2005, Tesco had made a record profit of £1.7 billion, which means that they had increased their profits by 12% compared to the profits the year before. Due to this happening, Tesco are able to gain new customers by selling new products at very low prices, which persuades the customers to come into the store and do their weekly shopping.

Business activity

Over the past few years, Tesco's business activity has been outstandingly good and is increasing all the time. Due to this, their profits are able to rise constantly, because they sell a wide range of products, (non-food products and foreign goods) which can be found all under one roof.

Several different departments can be found in Tesco, such as food and drink, non-food, clothes, pharmacy/opticians and electrical products.

By selling all of these products, it means that Tesco have diversified, which means they are able to spread their risks. By having all of this, it means that Tesco has made their store convenient and efficient for their customers, which makes them keeping coming back to shop.

Tesco also offer various facilities to their customers, such as free car parking, a petrol station, a café and free trolleys. All of these different facilities attract the customers to keep coming back and therefore, allows Tesco to increase their **sales and profit**.

Different sales methods

Tesco use several different sales methods on how they sell their products. They do this by knowing what type of products consumers tend to buy for their everyday needs, and what their shopping habits are. This sort of information can be found out by efficient market research and from customer club card records.

Tesco uses a unique method of attracting a wider market by selling their products on their online website (Tesco.com). This is known as Internet shopping, which Tesco has set up for the customers to use in order to purchase inline. However, I think that it is a pity that they still charge £5 for each delivery that they make even though they are a multinational billionaire company.

Another method of raising finance for the company is by offering club cards, which attracts customers to purchase from Tesco, as they will be rewarded points by purchasing using their club card. This has lead to Tesco being the first retailer who has been successful in investing in the club card. Therefore, by investing into the club card, it has been a **good return on investment**. Furthermore, this will help Tesco to **gain customer loyalty**, which will make customers keep coming back to shop there for their weekly shopping.

The reason why I think that Tesco has been successful is because they had the privilege to purchase products through bulk buying, online shopping and the club card system.

