

**MODULE TITLE: BUSINESS MANAGEMENT**

**MODULE NUMBER: 221BSS**

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**COURSEWORK NUMBER 1: STRATEGIC  
ANALYSIS**

**WORD COUNT: 2,196**

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## **1. Introduction**

In this report we have been asked to choose a major organisation/company of our choice within a chosen industry sector. We then will be applying an analytical tool which we feel will be most relevant, and carry out a strategic analysis, and a detailed evaluation of the company in question. We have chosen to conduct our report on the fast-growing market leader Tesco's and we have decided to look at their competitors in a competitive analysis. In this we will use models such as Porters' Five forces, and we will also conduct a SWOT and a PEST analysis. These tools will assist us in understanding Tesco's and the industry it works within.

## **2. Tesco's History**

Tesco's is a public limited company, which was founded in 1919 by Jack Cohen, with Terry Leahy acting as the CEO. The industry that they work within is retail, specialising in grocery. They have also expanded their product portfolio into general merchandise, financial services and telecoms. In the UK alone they have 1,800 stores employing over 260,000 staff. They have set up their own website at [www.tesco.com](http://www.tesco.com).

The first store to be opened was in North London, and this is when it became a private limited company. Tesco's grew rapidly and took over 212 stores in the North of England. As the years went by their sales reached £1billion. In the 1980's, Tesco's sales figure reached £2billion and Tesco's Stores Ltd became Tesco PLC, making it public. Tesco's became huge in the 1990's; this is when they began expanding into other countries.

Tesco's also became a 24 hour store so this was a substantial boost for them. They opened other stores such as Tesco's Express, Metro, Extra and Superstores (see appendix 4). Tesco's provide their own brands as well as other known popular brands. They have recently announced that they plan to enter the US market also.

Tesco is operating in the UK grocery market, which in early 2007 was estimated at £33.5billion. Food sales are the core business of the chain and UK expense on food has been growing year-on-year since 1990. The market has proved to be very recession proof. However non-food articles also account for a growing share. The market is led by the 'big four' – Tesco's, Sainsbury's, ASDA, and Morrison's.

## **3. Strategic Management**

Strategic management is, as quoted by Lamb in 1984;

“an ongoing process that assesses the business and the industries in which the company is involved; assesses its competitors and sets goals and strategies to meet all existing and potential competitors; and then reassesses each strategy annually or quarterly [i.e. regularly] to determine how it has been implemented and whether it has succeeded or needs replacement by a new strategy to meet changed circumstances, new technology, new competitors, a new economic environment., or a new social, financial, or political environment<sup>1</sup>.”

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<sup>1</sup> Robert, B, Competitive strategic management, Englewood Cliffs, NJ: Prentice-Hall, 1984

Organisations these days will have created strategic plans, and some will have tried to implement them. However some businesses find that their intended strategies have not been implemented due to un-foreseen events, such as new technology, changes in competitors or the environment that they are working within. Sometimes simply time constraints will be the issue. A strategy is a change process and to ensure that the strategy is implemented, management need to become adaptive and responsive to issues that may arise.

#### **4. Understanding Porters framework**

Porters' five forces help businesses or industries to understand their competitive forces, which should be the underlying principle of every industry (see appendix 1). They allow a company to assess its success in terms of market dominance and potential profits, along with how they should overcome their threats and meet their opportunities within the external environment. Although there are five separate forces they should not be seen as independent forces. One area may all influence other areas, therefore changing patterns of competition, and businesses should understand the significance of this.

##### **4.1. Industry competitors and extent of rivalry**

Tesco have many competitors, these vary from the UK to overseas. The UK competitors include the likes of "Asda, Sainsbury's and Morrison's" and in the US competitors such as Wal-Mart. Tesco's dominate the retail market by focusing on the consumer's wants and needs. Tesco understands the value of the consumers and launched a Club card in 1995. This is a loyalty scheme to encourage customers by recognising buyer's behaviour patterns, for which they will be rewarded.

In 1995 Tesco's took over Sainsbury's as the UK's largest supermarket. In 2001, Tesco's occupied 15.6% of the UK grocery retail market. In 2007, they currently hold a 31.2% share of the UK grocery market, which is more than the combined share of its closest rivals Asda and Sainsbury. After Morrison's merged with Safeway, Tesco had permission to buy 10 of the 52 Safeway stores that Morrison's were obliged to sell, by the competition authorities for their achievement. Tesco's profits are also increasing year by year. They reached a profit of £1.6billion in 2004, which is approximately 17% higher than the previous year.

However in 2007, the rate of Tesco's growth seems to be slowing down, allowing their closest competitor Sainsbury's to close in. The growth rate of Tesco's has slowed down by 7.2% in 2006. Tesco's have been capped off by the authorities to allow only a 31.2% of the retail market share. This is a result of the Tesco's dominating too much of the retail share and not allowing there competitors survive. As a result of Tesco's being capped off, Sainsbury's will be back in contention challenging for the market share. Sainsbury's market share is now 16%, just behind Asda's 16.3%. If Sainsbury's is growing in stature of 4.2%, compared with Asda's growth rate of 1.9% it'll be behind Tesco's in a matter of months.

##### **4.2. Threat of new entrants**

Tesco is the most successful UK supermarket, and due to there only being 4-5 main competitors in this industry the threat from potential new entrants is relatively

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low, as it is extremely difficult to enter the market and compete with these hugely successful companies. The only real competition is now coming from Sainsbury's who are closing in on them, however Sainsbury's is an already well-established company and so has the power to do this.

Porter considers this factor and has identified seven major barriers to entry, that should be given careful consideration.

- Economies of scale
- Product differentiation
- Capital requirements
- Switching costs
- Lack of access to distribution channels
- Cost disadvantages
- Government policy

### **4.3. Threat of Substitutes**

“Substitution reduces the demand for a particular ‘class’ of products as customers switch to the alternatives – even to the extent that this class of products or services becomes obsolete<sup>2</sup>.”

Substitution can take three different forms:

- Product for product substitution
- Substitution of need
- Generic substitution

Tesco has many competitors, which makes the threat of substitution high. For instance, Tesco has competition from companies like Asda, Sainsbury, Morrison and many more that can provide substitutes for their products. When a substitute becomes available both demand and prices are reduced. If beans or bread are too expensive in Tesco then buyers will exploit their power and move to one of their competitors. Substitution strengthens buyers' power.

The market has matured as prices are high but are coming down. Between 2000 and 2006 Tesco prices have fallen by 17%. Tesco's are extending their food range and reducing their prices to meet customers' needs and provide more choice.

### **4.4. Buyer Power**

Buyer power for Tesco is high but decreasing. This is because customers are price sensitive therefore there is a 'lock in' of these customers which limits their power as they are very unlikely to shop elsewhere.

Tesco is also able to offer a premium service of one stop shopping. This is because buyers are time poor but cash rich which essentially means a buyer would rather spend the extra few pounds to save time than search elsewhere to save money instead. For an organisation like Tesco this means a greater profit margin. Hence, in the last tax year gone Tesco's pre tax profits were in excess of £1 billion.

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<sup>2</sup> Johnson, G, Scholes, K, Whittington, R (2006) 7th edn. Exploring Corporate Strategy, Text and Cases. : Prentice Hall

Buyers seek a large range of products at once and in doing so has meant that the balance has tipped in favour of a firm like Tesco and rather than buyers having power over Tesco, Tesco has now increased its power over buyers instead.

There have even been attempts to take on such firms like Tesco and increase buyer power; however the effects have been fairly minute, for example renowned chef Jamie Oliver's attempts to influence buyers when buying chicken. The sad fact is that the majority of buyers will not consult their ethical conscience before buying goods and such factors mean that buyer power is decreasing and a firm like Tesco can expect even higher profits in the coming years.

Tesco is doing very well at implementing its strategies. It will minimise buyer power and build customer loyalty, hence schemes such as reward cards and points. The shift in balance towards Tesco having greater power is reflected by the presence of having watch-dog groups and relevant authorities such as the monopolies commission or trading standards for example.

#### **4.5. Supplier Power**

The ability to charge customers different prices in line with differences in the value created for each of those buyers usually indicates that the market is characterized by high supplier power and at the same time by low buyer power.

Bargaining power of suppliers exists in the following situations and for this example we will use the vegetable; cauliflower.

Within England, the temperatures vary from cool summers and mild winters meaning that Cornwall is the only county within the United Kingdom, which can deliver this vegetable all year round. Because of this Cornwall farms play a vital role in Tesco's efforts to reduce the need for imported food, and therefore reduce their costs.

The Cornwall based farms, who provide Tesco's with cauliflowers, also supply Tesco's with green cabbage all year. They can also grow courgettes for two months longer than farmers in other areas around the UK. Much of their packaging bears the Cornish logo to help customers across the South to choose local food. People prefer home grown foods compared multi corporate brands because the local people believe that home grown foods are fresher, and due to this belief the company created an extra 40 jobs. Due to the extra work required they were offered a contract to supply Tesco with vegetables directly. As an important local supplier, with currently 160 staff employed, a new building worth £2 million is being built to increase capacity and enable further growth.

### **5. Useful analytical tools**

Porter's five forces analysis can complement other analytical tools, such as a SWOT or a PEST analysis. A SWOT analysis focuses on the company, analysing their Strengths and Weaknesses internally, and Opportunities and Threats externally. The SWOT analysis (see appendix 2) and the PEST analysis below (see appendix 3) summarise the key issues of Tesco.

## **6. Recommendations**

Tesco's will want to ensure that they remain the market leader in this particular industry. After analysing their company the key areas that we think they should address are the fact that Sainsbury's are closing in on them. This is putting a lot of pressure on Tesco's, and they need to try and create barriers to prevent Sainsbury's from once again becoming market leader.

Competitive rivalry within this industry was low; however as you can see from the results found, this is increasing. Tesco's have no control over this and cannot prevent this from happening.

This then makes threat from new entrants low. With such competitors and such a strong successful company like Tesco, it is unlikely that they will have any threat of new entrants, unless potential entrants can buy their way into the market by purchasing, or even merging, with an already successful competitor, as what happened with Safeway's and Morrison's.

Threat from substitutions is high. Currently, there a lot of similar products available, where the only differentiating factor is the brand and price. People are beginning to see past this and 'own brands' becoming more and more popular with the ever-increasing range. This shows that barriers have been built by individual companies to attain customer loyalty in replacement of brand loyalty.

Supplier power is high, as buyer power decreases. As suppliers have a lot of power this affects buyer power. Customers tend to look at the suppliers of products and in recognising this and liking this, there power decreases. They appreciate that Tesco's is addressing their needs to the best of their ability. Suppliers are lucky in this that as they have the power, and Tesco's have to accept this in order to keep their customers happy and their power low.

I do not think Tesco's, or any retail firm can escape competitive rivalry. In providing such a necessity like food, there need to e some competition. People need varieties and need to be given options. Some people shop in 2 or even 3 places as they like different groceries, from different places. For example Sainsbury's provide a high standard of fresh fruit and vegetables, with Tesco's being cheaper and of a lower quality. Customers will always look primarily at cost and quality, and there needs to be competition to satisfy their differences.

# APPENDIX 1-PORTERS FIVE FORCES

## BARRIERS TO ENTRY

Some people think that depending on how many competitors there are in an industry they can analyse the ability to enter the market. Threat of entry is how difficult it is for new entrants to enter the market and become a competitor, and overcoming barriers that may exist in preventing them from doing so. Some companies are so large and successful it may be extremely hard to enter that particular industry. However, if it is easy to enter the market this usually tends to mean that there are a lot of competitors, which will therefore restrict the potential for a particular company to dominate and influence the market.

## POWER OF SUPPLIERS

Supplier power is a mirror image of the buyer power. As a result, the analysis of supplier power typically focuses first on the relative size and strength of suppliers relative to the industry participants and second on the degree of differentiation in the inputs supplied

## POWER OF CUSTOMERS

Without customers a business will not survive. This is no different for Tesco who obviously have very large numbers of customers which has made them such a dominant force within the supermarket industry. However, if analysing the competitive environment for Tesco, buyer power is of key importance. What exactly is it that means customers keep returning to Tesco and what power do such customers have over Tesco?

## COMPITITIVE RIVALRY

This will occur where companies have similar products and services targeted at the same customer group. Conflict is bound to occur, mainly being price wars, market dominance, and profitability.

## AVIALABILITY OF SUBSTITUTES

Substitution gives buyers the choice to switch if there are alternative products. Threats of substitutes can depend on a number of key factors, for example, quality of the substitute; does it meet customers' needs', and is the buyer willing to substitute, along with the costs and simplicity of switching from one product to another.

Customers are price sensitive, so if customers can buy the same product for cheaper elsewhere, they will substitute. Price remains a core driver of loyalty for customers to choose where to shop. Tesco and its competitors share more or less as many of their regular shoppers becomes some buyers may purchase there milk and bread from Tesco, as it may be cheaper, and then go to Sainsbury's to get beans, as it may be cheaper there.



## **8. APPENDIX 2-SWOT ANALYSIS**

| Strengths   | Weaknesses   |
|---|--|
| <ul style="list-style-type: none"> <li>• Own Labels</li> <li>• Work Delivery Scheme</li> <li>• Fresh/ Quality Food (own farms)</li> <li>• Wide Range of products</li> <li>• Service</li> <li>• Online-Shopping</li> </ul> | <ul style="list-style-type: none"> <li>• Expansion is difficult due to existing store coverage</li> <li>• Very dependant on the performance of own labels</li> </ul>   |
| Opportunities   | Threats  |
| <ul style="list-style-type: none"> <li>• Internet shopping</li> <li>• Further exploiting the Non-food sector</li> <li>• Mark four stores</li> </ul>   | <ul style="list-style-type: none"> <li>• Cheap-chains targeting the high end market</li> <li>• Tesco's are only allowed 30% of the market share. which allows other competitors to gain more reputation and liability</li> <li>• Manufacturers are still seeking to legally slow down the penetration of own brands</li> </ul> |

### **8.1. Analysing the SWOT analysis**

Tesco have their own-brand product range. They have a 'value' range which are cheap and cater for the lower end market, and they also have their 'finest' range which promotes their quality and class. They are competing with their competitors being both successful companies and successful well-known brands.

In large Tesco stores, they have appliances such as TV's, DVD players, games console as well as food, clothes and other products. Tesco do have many competitors, as mentioned earlier Sainsbury's is a threat to them and are closing in on Tesco's.

Tesco's are only allowed 30% of the market share, so this gives the chance for other supermarkets such as Sainsbury's, ASDA to come back and gain their status.

However Tesco's do have opportunities such as internet shopping for customers, this type of facility can allow the customers to shop online, which can save time and money.

## **9. APPENDIX 3 - PEST ANALYSIS**

| Political   | Economic  |
|---|---|
| GM-Food<br>Planning Policy Guidance<br>Competition Commission<br>EU Competition Law   | 2007 Market value: £35.6 billion<br>Relative Recession proof industry                                   |
| Social Cultural   | Technological   |
| Organics and healthy eating<br>Eating out and take-away<br>Environmental aware<br>> <sup>3</sup> / <sub>4</sub> of shoppers travel by car | Communication/ IT<br>Supply Chain Optimisation<br>Transport/ Cool Storage<br>Bar Code/ Stock Management |

### **9.1. Analysing the PEST analysis**

A PEST analysis is a tool that management would use to evaluate the external macro-environment. It allows a business to look in particular at Political, Environmental, Socio-Cultural and Technological factors. As these factors are generally beyond the control of the organisation and so are usually considered as opportunities or threats.

This PEST analysis for Tesco's, shows that they have a fairly equal number of factors for each external area. Tesco policy on Genetically Modified (GM) is driven by the view of the customers, 75% of Tesco customers do not want GM food. So therefore, Tesco stick to the rules and regulations and try to keep GM food off their shelves. They also keep the cost of their products and goods at a reasonable price.

Technology is changing the life of work, for instance, Tesco's have club cards for customers to use. This allows customers to collect points and gain more out of their shopping. Also other technology such as computers allows managers in store to keep up to date with their stock on a daily basis. The user may interact with the retailer to order goods and products and also pay for them over the system linked to their bank or Credit Card Company, this will also save time and money for the business.

## **10. APPENDIX 4 – THE UK MARKET**

### **UK at a glance**

|                    | <b>Number of stores</b> | <b>Sales area (million sq ft)</b> | <b>% of UK space</b> |
|--------------------|-------------------------|-----------------------------------|----------------------|
| <b>Extra</b>       | 100                     | 6.6                               | 27.2%                |
| <b>Superstore</b>  | 446                     | 13.9                              | 57.4%                |
| <b>Metro</b>       | 160                     | 1.9                               | 7.8%                 |
| <b>Express</b>     | 546                     | 1.1                               | 4.5%                 |
| <b>Total Tesco</b> | 1,252*                  | 23.5                              | 96.9%                |

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