

Tesco and its strategic implication

SAMPLE

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Question 1

Using appropriate Strategic Management tools and models, critically analyse and evaluate Tesco's current strategic position as at 2010 (include any SBU's in your analysis).

Answer:

The Company Profile

The public limited company Tesco was incorporated in 1919 in Cheshunt, United Kingdom by Jack Cohen and the first store was inaugurated in 1929 in Burnt Oak. The company ranks third largest among the global grocer and merchandize retailer based on its revenues. The unique feature of Tesco has been its size that is, large in-built spaced stores mostly located outside the town.

Tesco has diversified its operation both in terms of geography and products or services it provides to the customers. The company is presently operating in 14 countries with over 4811 stores and 4, 72,000 employees retailing products and services like books, clothing, furniture, petrol, electronic, software, providing financial services, telecom, DVD rentals and music downloads. (About us: Tesco plc)

Mission

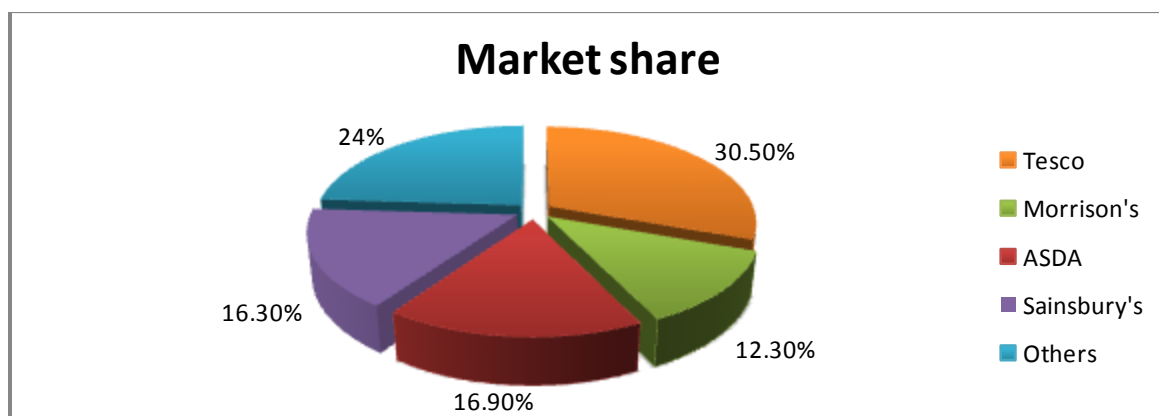
The company follows a mission "to create value for customers to earn their lifetime loyalty".

The core purpose drives the company to provide every little help to customers and employees building a long-term relationship to retain them. This value is represented in their operation to understand customers, provide them goods and services as per their demands before their competitors does, maintain social responsibilities towards the community, build trust and respect among the employees by enhancing teamwork, listening to their complain, supporting their efforts and sharing knowledge and experiences. (Our values: Tesco plc)

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Competitive market position

The company dominates the UK market with a market share of around 30.5% (Schulte, 2011) which leaves behind its competitors like Morrison's with 12.3%, Sainsbury's with 12.9% and ASDA with 16.9%. Tesco was the first company to launch self-service system in its stores to avoid long queues with high waiting time. The company also arranged for in-store cameras for security vigilance. For achieving a competitive advantage over its competitor's products the company manufactures and sells its own labeled products.



(Tesco share news:ADVFN website)

The company to retain and improve its market share has opted to expand in UK markets with different retail store formats which posed a threat to small butchers and bakery shops and compelled them to move out of the way. The different format stores of Tesco are: (Lal, Quelch, & Rangan, 2000)

- **Tesco Extra:** Hypermarket format stores with large area around 7000-8000m² offering customers a shopping destination.
- **Tesco:** Superstores and compact superstores format with an area of 3500m² and 2000m² respectively offering customers a one-stop shop.
- **Tesco metro:** retail stores with an area of about 1000m² in high streets or city centre focused on shoppers, local residents and employees.

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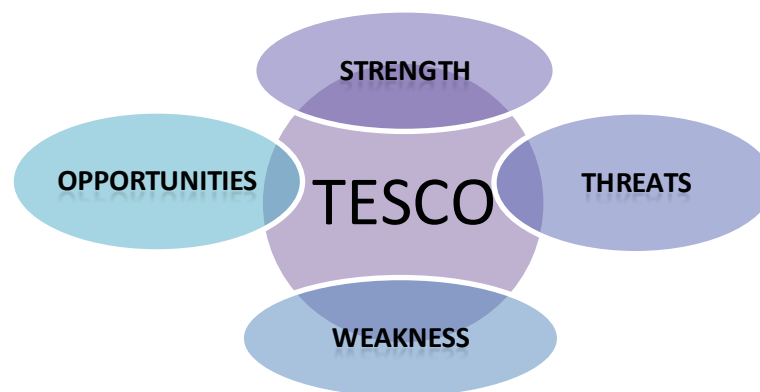
- **Tesco Express:** the convenience stores with a small area of 200m² in localities and petrol pumps to capture customers by offering daily use products.
- **Tesco.com:** this approach was to serve customers with online shopping facilities delivering goods at their doorsteps with a click of their mouse. This increased their reach to customers efficiently. (Sleight, 2001)

The company followed a strategy to retain their existing customers by issuing club cards and collecting more information on them by communicating with them about their preferences.

(Boothby, 2007). This enhanced the loyalty of their customers and provided a competitive edge over other rivals.

SWOT analysis

(Balamuralikrishna & Dugger, 1995)



	Strengths	Weakness	Opportunities	Threats
1	Market-orientation strategy providing goods and services as per customer's needs and preferences.	Concentrating more on the UK markets	Potential markets developing globally	Global financial crisis.
2	Strong brand reputation on which consumers can rely on.	Implementing strategies which impact the cash inflow	Demand for innovative products in every market.	Decrease in purchasing power of the customers

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<p>3 High investment in technology offering customers with innovative products</p>	<p>For example: Calling off certain products in 2010 led to high losses</p>	<p>Supportive financial background making way to expand</p>	<p>Any crisis in their core business market UK</p>
<p>4 Stable cash inflow</p>	<p>Requirement of essential items like food products in day-to-day life.</p>		
<p>5 Different store formats for serving people at every level and different geographical location.</p>	<p>Opportunity to succeed in non-food area by the stability and reputation in food items</p>		

(Pride & Ferrell, 2010)

Porter's Five Forces model

(Donnelly, Harrison, & Megicks, 2009)



	<i>Threat of new Entrants</i>	<i>Bargaining power of Suppliers</i>	<i>Bargaining power of customers</i>	<i>Threat of Substitutes</i>	<i>Bargaining power of Competitors</i>
1	Tesco with other few brands is dominating the market leaving very little scope for other players	Power of influencing the suppliers by the large retail chains like Tesco	Customers in the present days are more aware of the fair trade issues.	Switching cost of customers are low when shifting in more generalized products	The identifiable growth in the grocery market with size, increased players, huge in-built space and greater concentration has been observed
2	Difficult for small and new entrants to match the high fixed costs and advanced technologies of Tesco	Suppliers are afraid of losing business to such big houses moreover when stores like Tesco deals in its own labeled products	Loyalty of customers are retained by club cards and communicating with the customers recognizing their demands as switching cost is high when products are more specialized and differentiated like in Tesco	Substitutes in general food items due to shift of customers preferences or tastes is a threat for Tesco	Competitors have been competing head to head by offering different store formats and innovations in the food product market.
3	Tesco's enhanced supply chain and economies of scale with differentiation in product line pose other barriers for entrants.	In such circumstance Tesco negotiates with suppliers at promotional prices and hence stabilizes its leading position in the market over the small business stores.	Tesco in order to retain customers also has opted for diversifying into non-food products and services providing a one-stop shopping hub as per the ongoing trend.	Convenience stores and other small-scale operations acquiring local customers provides for substitute of supermarkets like Tesco	Tesco is improving the market share by accumulation of more market and customer information though operating in a market where growth is difficult.
4	Extensive marketing strategy and developed distribution channels are the other barriers.	This strategy often bangs on the business and hence, Tesco has to exercise low margins while selling the products.	In-store promotions, lower prices, good quality, wide range of choices and personalization of goods are also offered.	Hence, Tesco diversified its store formats to capture the small-scale operations	Dominant players like Tesco are also adding value to their product by revising on the prices and benefits of the products.

(Curtis, 2007) (Henry, 2008)

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Culture at Tesco

The culture of any organization is denoted by the structure, hierarchy, routine, systems and behavior pertaining to the organization. The values, beliefs and attitudes toward the market influence the strategic decision-making in Tesco. Thus, the culture of the company plays an active role in formulation of future strategies.

Tesco is a company where the employees work in an environment of trust and friendliness. The employees are supported in their efforts to perform and respect towards other employees is fostered by grouping them into teams. The meetings and continuous communication within the hierarchies builds a strong internal environment. The monitoring system is under constant review to control the employee's actions and increase their operational efficiencies. (Grundy & Brown, 2003)

The company also lays down special rituals to build a strong bond with customers, employees and suppliers through special events and corporate gatherings. The company communicates with its customers and collects information to build up more rapport and enhance loyalty among them by issuing club cards.

Stakeholders

The stakeholders in the company are mainly the

- **Employees-** though company employs aspiring young students, working parents and elderly people at lower compensation, they prove to be loyal and dedicated employees. Tesco's employee turnover rate is far less compared to the industry. Tesco provides employees a friendly and supportive environment to work in.
- **Customers-** Tesco offers variety of products keeping in mind the financial inequality within the customer segments. The company provides products and services according to the needs and preferences of the customers to attract as well as retain them. Customers

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are also served through their website tesco.com to enhance their sale by enhancing customer's value as well as satisfaction.

- **Suppliers**- the suppliers in this industry face a threat to lose their large business clients like Tesco with the company's initiative to sell their own labeled products. Thus, Tesco get an opportunity to negotiate with the suppliers at a much lower rate than any other small business houses. The suppliers get affected with any strategic changes in the business hence they keep them updated with any information related to Tesco. In 2010 report 91% of the suppliers stated they were treated with respect in Tesco. (Corporate responsibility 2010:Tesco plc)
- **Community**- the community has always an importance in operation of a business. Tesco is aware of the corporate social responsibilities and it has performed activities like spending an amount of £61.6m in local charity houses and for good causes, challenged to reduce emission of carbon by 50% by 2012 and zero carbon emission by 2050. 6.2 m staffs and customers got active by their program on awareness of healthy food consumption and active lifestyle, responsiveness about alcohol and informing them about health options. (Corporate responsibility 2010:Tesco plc)
- **Government**- Tesco is the leading chain of food-items retailer and merchandiser with its operation expanded across boundaries. The governments of the countries are benefited with such a large business chain to be operating in their territory proving for economic development. The company provides job opportunities to local residents to be a part of Tesco. Any strategic decision of Tesco would impact the government at a large. Government has a role to impose regulations and check if any unhealthy activity is taking

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place and ensure politically correct pricing in order to rule out monopoly practices or high price conflicts among competitors.

Tesco Operations

The operations of the company from its inception were focused at minimizing cost and offering product and services to customers at a cheaper price compared to its competitors. That is the main aim was to achieve a long-term strategy of cost reduction the UK market. The cost minimization strategy was useful to provide Tesco a competitive advantage and reach more customers by providing quality products at cheaper prices and hence inducing them to buy in bulks.

The company over time followed a market oriented strategy in order to capture the dominant market share in the UK market. The objective was not to maximize profits by pushing sells but to create value for customers and maximizing customer satisfaction. The orientation was to provide customers with quality products according to their need and preferences. To sustain in the competitive market the company upgraded its technology and offered customers with new innovative products. The company did this by gathering data through communicating with their customers to understand their demand and retained their customer's loyalty through provision of club cards. Not only the customers, but also the employees were given a supportive environment for working.

The company then emerged with the strategy of growth in terms of both geography and products to cope up with the growing trend of customers preferring a one-stop shopping destination. The company well known for its food products diversified to many non-food items and services like financial services, telecoms, broadband, music downloads and DVD rentals etc.

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This assisted Tesco to compete in the market and attract customers in the new channels as well as retain the existing ones. Tesco came up with various store formats and technology to excel in the market trend.

To focus on the customers the company segmented its present customer base into three sections and targeted different products for different segments.

- The Upmarket segment comprised of 24% of customers who were health conscious and preferred healthy and finer foods.
- The mid-market segment comprised of 53% of the existing customers who preferred convenience and traditional products.
- The less affluent market segment comprised of 23% of the existing customers who were price sensitive.

The segmentation provided Tesco with the idea to plan and classify its own labeled products into different brands like Tesco healthy living, Tesco finer; Tesco value, Tesco kids and Tesco fair trade etc. to target its products to the segments efficiently.

The company laid down the strategy of “**Every Little helps**” in the year 1997 with a focus on four elements (Our Strategy: Tesco plc)

- To be the leading international retailer.
- To focus on the core UK business
- To strengthen its non-food business market as it is in the food product business
- To enhance its retailing business in financial services, telecom and online services.

The fifth element community was added in the year 2007.



(Our Strategy: Tesco plc)

Conclusion

Tesco have provided with various benefits to the customers to sustain the competitive rivalry in the market. The responsive company has been preferred by customers for its provision of products to meet the customer's expectations and thus satisfying customers creating value for the company. The company with its core business in UK enjoys the privilege of dominating the market share with high diversification in products and services and a scope to diverse to more countries for enhancing its revenues in the future.

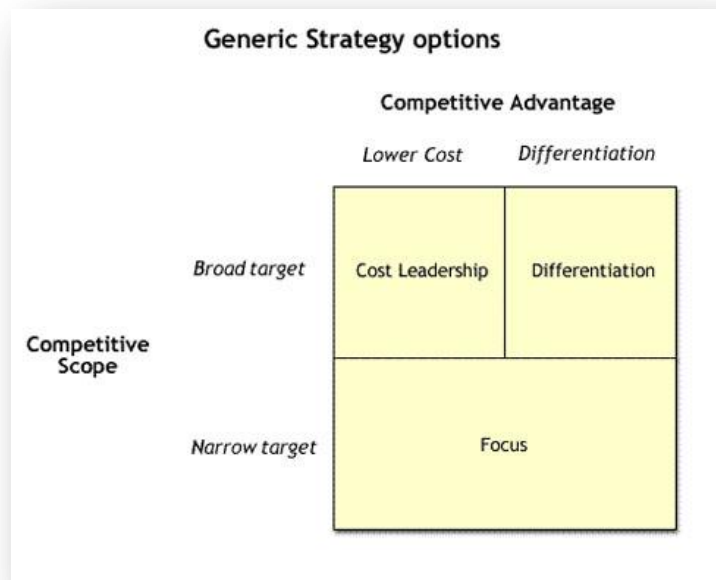
Question 2

What is their current strategy? Generate, using appropriate strategic models, three appropriate strategic options for the company to trade successfully over the next five years.

Answer:

The company follows a strategy to maximize customer's value by market-orientation strategy providing quality products at a competitive price as per the needs and preferences of customers. For the next five years the strategic options for Tesco can well be explained by the strategic models as follows:

Porter's Generic Strategies



Tesco can efficiently follow one of the generic strategies proposed by Porter in order to gain competitive advantage in the next five years. Many organizations get stuck in their operation with the objective to follow all three together. Tesco with a well reputed background to provide quality goods at reasonable prices to customers can achieve cost leadership with little efforts focusing more on own label products sell by reducing production costs. Clearly defined market segments also allows the company to target differentiated range of product lines to specific markets or positioning of few products on at broad markets. (Eldring, 2009)

VRIO

(Peng, 2009)

Value: Value denotes a company's ability to explore the market and offset the threats from the competitors by its internal strengths or capabilities. Tesco has needs implementation of core competencies in its routine activities. Benchmarking the performance standards may also help in creating value for the company in the next five years. The company has a leading position in the market as a food product retailer but it needs to develop on the non-food sector as well to create

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more value. Though its reputed background in food products provided with around 35% rise in their earnings from service sector, the company will enable to achieve more value with strengthening its quality in non-food products and services offered at low cost. Especially the financial service sector is a growing business to hold on.

Rarity: The product in which the company deals in a global arena is facing a growing competition over the years. The company to impose control over the market is required to provide more technology based innovative products. Tesco with a strong impression on the customers mind is surely to succeed in it by attracting more customers. This would help Tesco to charge a quite high price in the market though there are restrictions on monopoly practices.

Imitability: The competition in the market is not under the control of Tesco's surveillance though it has scope to identify the core competencies in the internal organization and bang the market with it. The unique competencies would gain it a competitive advantage. The company was considered to be the leading grocery retailer in UK markets till 2003 and its strong financial background is difficult to imitate by its competitors. Even imitating Tesco would be difficult if the company focuses more on technology and offers a wide range of innovative products and services at a low price.

Organization: this denotes whether the company is organized and ready to explore the resources in the market. The company has different store formats to capture the market potential. Tesco is in requisition to engage more experienced professionals into the organization grid with reducing the number of low salaried staffs including the elderly people, the young students and the working parents. In the dynamic environment as such it is required to involve experienced and advanced proficient employees in the company to enhance its competency and work with a clear structure of hierarchy and authority delegation.

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Ansoff Matrix

	Existing Products	New Products
Existing Market	Market Penetration	Product Development
New Market	Market Development	Diversification

The Ansoff matrix represents the strategies an organization can plan based on the four different product-market combinations. The company to follow a strategy of market penetration being a leading brand in the US is not feasible and neither diversifying to new markets with new products as it is a risky venture. The strategy options for Tesco for the next five years are: (Luck, 2008)

Market Development: it is a strategy to enter new markets with existing products. Tesco though is operating in 14 countries its concentration is in the UK markets contributing 71% of the total revenues. Entering new markets, a strategy of internationalization by strategic alliances and joint ventures would enable Tesco to tap the global resources and cash flows on a higher scale. This strategy would enhance the global market share of the company and its brand recognition across boundaries. This would require extensive research on the different markets and understanding the local customer's needs and preferences for Tesco's success.

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Product development: product development strategy by Ansoff is a step by the company to offer new products in the existing market. This denotes diversification of the product lines to attract new customers in the present area of operation. Diversifying Tesco's product mix further can be a profitable strategy for the company. But implementing this strategic option requires maintaining focus on well developed R&D and investment on the technologies and the expert professional team. The success factor is high reaping on the reputed brand image in the existing markets.

Question 3

Assess, using suitable criteria, the three strategic options and determine the most appropriate one for the company to follow. Include some suggestion of implementation and timescales.

Answer:

An organisation is required to evaluate a list of strategic options with suitable criteria to select the appropriate one to be implemented for effective and efficient performance of the organisation. For assessment of the above mentioned strategic options the criteria of suitability, feasibility and acceptability is to be judged for every option. (Johnson, Scholes, & Richard, 2008)

- **Suitability:** the suitability criterion evaluates the organisation's environment and measures the strategic implication of the organisation in a given environment. It is used to integrate the organisation's strengths and weakness for efficient implementation of the strategies. Tesco's operations are continuously updated to cope with the environment dynamics. The environment and the market oriented operations of Tesco provide it a platform to implement the strategies of cost leadership and product development to a large extent.

- **Feasibility:** the scope of Tesco to operate in an environment by applying any of the above strategies has to be evaluated on the basis of its financial viability, time duration to implement the strategy successfully and other factors like whether the internal skills and competencies support the strategy option. Tesco with a strong financial background and huge capital invested in technology can focus more on product development, cost leadership or imitability strategic options to position Tesco at a leading position globally. But to implement such strategies the company is required to focus on its core competencies by recruiting more skilled professionals.
- **Acceptability:** With high brand recognition in the UK markets Tesco would not take long to implement the strategies successfully. The company's financials are expected to rise rapidly with implementation of the appropriate strategic option. The cost benefit analysis will also indicate benefit in a case like this where the company already an upgraded technology operating at its stores and the market oriented strategy retains customer loyalty. Product development and cost leadership in such a case would be a less risky as well as less costly venture to be enforced.

The company's environment and the operational efficiencies are indicating the strategy of cost leadership to be appropriate to create a strategic fit for the company. The product development strategy is discarded in comparison as the company already deals in a variety of products and services.

The strategy of cost leadership for the company covering a wide range of products and services will provide a boost to the customers purchase rate. Hence the market share of the company is expected to increase leading Tesco to the top from the third-largest ranking in revenues contributing towards their mission of creating customer value.



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