

Strategic Evaluation of Tesco Plc

Executive Summary

This report provides a strategic analysis of the operations of Tesco Plc with specific consideration to the implications of the ongoing global pandemic on the business. Tesco Plc is one of the leading supermarket retailers of the UK and has operations across several countries in Europe and Asia. This study focuses on the supermarket retail operations in the UK and ignores all other businesses of the company, including Tesco's financial services. The report provides a PEST analysis for Tesco alongside an evaluation of the company's resources and competencies. The available growth strategies that can be applied by the company are determined using the Ansoff matrix. The author recommends a market penetration strategy to be applied by the company. There are several market uncertainties affecting retailers and it is not recommended that further investments in new markets or product development be undertaken.

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About Tesco Plc

Tesco Plc is one of the largest food retailer and supermarket chains of the UK with over 6800 shop locations (Tesco Plc, 2019). The company has retail operations across several countries in Europe, and Asia. Even though the majority of the firm's operations are focused towards the retail of food and consumer staples, the company also has subsidiaries that provide financial services like retail banking and insurance (Tesco Plc, 2019). The firm is headquartered in Hertfordshire, UK and is a FTSE100 constituent firm (Tesco Plc, 2019).

In spite of being one of the Big Four supermarkets, Tesco has been at the receiving end of several scandals since 2010. The firm was criticised for its poor supplier relations, and for the contamination of its burgers with horse meat, among other issues (Tse et al., 2016). The most crippling scandal to have rocked the company was the profit overstatement and earnings management scandal of 2014 (Kukreja and Gupta, 2016). The company was found guilty of having overstated its profits and other accounting irregularities. After the scandal of 2014, the company has been managed by Dave Lewis but it is expected that the company will appoint a new CEO, Ken Murphy, in the current year (Tesco Plc, 2019). At the end of FY2019, Tesco Plc. reported £2206m in gross operating profits before exceptional items, which was a 34% increase from the profits of £1646m in 2018 (Tesco Plc, 2019).

Scope of the Report

An evaluation of Tesco's strategy is relevant because of the current global pandemic having affected the environment of the industry significantly, requiring strategic changes to be implemented.

This report will restrict itself to the critical evaluation of Tesco's food retail and supermarket business within the UK. The essay will ignore its international operations as well as financial service businesses entirely.

Strategic Review

PEST Analysis

Political Factors of Consideration

The UK is still in the process of completing its exit from the EU. The ambiguity on the final trade deals between the EU and UK will continue to affect the firm's operations (Lang et al., 2018). There is also a likelihood of legislative changes in the health and safety requirements from companies like Tesco that are considered 'essential businesses' (Douglas et al., 2020).

It is expected that businesses employing essential workers will be expected to provide better contracts and offer sick pay for workers who are commonly not on the business' records (Ylenia Gostoli, 2020). Additionally, the government's strict regulations regarding the lockdown of the economy, mandatory work from home, and temporary shutting down of several businesses is likely to continue affecting Tesco's operations and supply chain (Hobbs, 2020).

Economic Factors of Consideration

The furloughing of workers in non-essential industries has led to a decline in the disposable income of customers (Ylenia Gostoli, 2020). There is also an increased demand for essential food and household products that are economical due to the rise of work-from-home and home-schooling activities (Douglas et al., 2020). Thus, there is a distinct shift in the consumption patterns of the customers.

The rising demand for essential good and household products, alongside delays in the supply system due to lockdowns affecting the manufacture and transport of products, has led to severe shortages (Hobbs, 2020). The continuing uncertainty over Brexit, alongside the national lockdown has also affected availability of workers and import of essential supplies into the country, that are likely to increase the cost prices of the goods being sold.

Social Factors of Consideration

The government of UK has been requiring people to go into lockdown and restrict their movement to the greatest extent possible. This has had a significant impact on how customers shop for groceries. There has been a noticeable decrease in the number of shopping trips being made by customers. This decrease in shopping frequency has led to a simultaneous increase in the volume of goods being purchased, thereby increasing the volume of products being purchased by each customer (Thomson Reuters, 2020). The increase in self-isolation measures have also changed the demand for goods drastically. Convenience and shelf-stable foods like snacks, frozen meals, or pantry staples have become more popular than fresh produce or other perishables. Furthermore, the need for social distancing and self-isolating has also led to a decline in the number of customers shopping in physical stores (Barr, 2020).

There is a continued need for special shopping hours dedicated to essential workers like NHS staff, police workers, etc., as well as at-risk population of the elderly and immunocompromised in order to ensure their continued access to essentials (Douglas et al., 2020, Barr, 2020).

Technological Factors of Consideration

The current global pandemic is likely to increase the demand for online shopping and home delivery of food and consumable items. Additionally, customers will be keener to use the self-check-out services as compared to cashier check-outs (Barr, 2020). The additional demand for home delivery and online

shopping will require a potential increase in the firm's investment in technological infrastructure and improvement to their logistics management. The number of self-check-out tills will need to be increased to cater to the additional demand for them.

Resource & Competence Analysis

Tesco has a large volume of resources at its disposal that make it well positioned to meet the changing demands of the current environment. The large number of stores of varying sizes are beneficial for the company to ensure consistent supply of essential products to its customers. Like other big supermarket retailers, Tesco has an efficient home delivery system that is easily scalable to the growing demand (Barr, 2020). Furthermore, the company also has significant financial resources that can be employed to improve operations by hiring more workers as per the demand.

Tesco also has a strong and robust supply chain of over 350 suppliers that are dedicated to the development of products for Tesco's own branded products (Tesco Plc, 2019). These suppliers can be mobilised to increase production of value range products thereby ensuring more supply of products to Tesco's stores. The company has already invested in the rebranding of its products in 2019, which has increased consumers' awareness and affiliation to the company's own brand products (Douglas et al., 2020). This can improve the company's revenues for own brand products significantly in the current environment because consumers are willing to buy cheaper products and are willing to shift purchases from name brand goods (Ahlert et al., 2009).

As mentioned earlier, Tesco is one of the largest supermarkets of the UK. This implies that there are certain strengths that the company can continue to build upon. The company has managed to regain customer trust and build customer loyalty over the past five years, thereby strengthening its reputation (Sparks, 2019). Furthermore, the company has improved key stakeholder relations with employees, and suppliers ensuring that it continues to hold a strong bargaining power with them (Tesco Plc, 2019). The company has several resources and competencies that make it ideally suited to becoming a better performing business during the current pandemic; thereby offering greater value to shareholders in the long run.

Recommendations for Future Development

Ansoff Matrix Strategic Options

On the basis of the strategic evaluation of the environment and the resources and competencies of Tesco as an organisation, there are multiple opportunities for growth that can be considered. Tesco has a clear and dominant market presence in the current markets of the UK. It also has an existing wide range of

products that are well established within the market and it continues to invest in research and development into new product ranges for its own brands. There is also a growing and consistent demand for essential supplies of household products and food that is likely to continue increasing because of the reduced demand for take-away and restaurant foods.

On the basis of these factors, it is evident that Tesco aligns with three strategies of the Ansoff matrix (Grant and Jordan, 2015). The company can either continue with its current products in the current markets and focus on market penetration. Or it can focus on introducing new products into the current markets and employ a growth strategy based on product development. The third option available to the company is to employ a market development strategy whereby it focuses its efforts on new markets.

Review of Probable Options

Each of these strategies of growth have their own benefits and challenges. The least favourable of the three options is a growth strategy of market development. There are several concerns that arise in the current global environment. There is a distinct lack of labour force and several restrictions on the movement of goods across cities and countries. This makes it unlikely for Tesco to be able to mobilise the human resources required for the establishment of new stores. Due to social distancing requirements, it is also uncertain how much footfall will be directed towards existing stores and thus, it makes little financial sense to invest in entering new markets.

The other two options, i.e. product development and market penetration are equally compelling options for the company. Due to the growing demand for home delivery of goods, it is possible for Tesco to increase its market share in existing markets by optimising use of its delivery team and increasing the availability of online delivery slots for customers. As all supermarkets are struggling with the increased demand for home delivery of products, the retailer with the swiftest increase of home delivery options will increase its market share significantly (Barr, 2020). In spite of the obvious and immediate benefit of improved market share in the foreseeable future, this option does pose the challenge of ensuring sufficient employees to fulfil online delivery orders. This will require an increased investment at all stages of the delivery chain, such as employees to collect items and collate into orders, more delivery drivers and vans, increased server capacity to handle increased orders, etc.

Product development is also a compelling option because consumer demand is likely to change. The pandemic has encouraged more people to eat at home, thereby increasing their demand for convenience foods and snacks. Furthermore, the reduced volume of restaurant and take-away orders implies a growing shift towards pre-packaged, ready-to-eat freezer meals or meal planning kits being the preferred means of reducing time spent in the kitchen (del Rio-Chanona et al., 2020). There is also likely to be a growing demand for non-perishable food items since customers are restricting their visits

to the markets (del Rio-Chanona et al., 2020). Thus, if Tesco develops products that cater to these specific demands and increases its sale of own brand convenience foods, it will be able to grow significantly. This strategy also faces similar challenges as the strategy of market penetration, in terms of getting the goods to the consumer. However, this strategy is more feasible for long-term growth because it capitalises on Tesco's existing research and development expenses towards product development.

Final Recommendation

On the basis of the considerations presented above, it is recommended that Tesco employ a market penetration growth strategy. In the current environment and short term, a strategy of market penetration will help the company to bolster its performance and shift customers from other retailers onto themselves. Furthermore, it will also allow Tesco to further reduce its inventory, thereby improving its working capital management.

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