

# THE CASE OF TESCO

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## **Executive Summary**

The main aim of this paper is to analyze the external and internal environment of Tesco in the light of the current economic conditions surrounding the organization. Various tools like SWOT and PESTLE have been employed to analyze the factors existent within and outside the organization. The final section of the report recommends a set of strategies the organization can follow in the wake of the issues and threats identified.

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## **Introduction:**

Founded in the year 1919 the organization has come a long way to become a retail giant. Tesco is one of the retail giants in the UK. The company has expanded its operations across the globe and at present it is operating 4331 stores in around 14 countries. The workforce volume of the company is around 470,000 employees. The discussion has been framed with an objective to analyze the factors effecting the operations of the company and to provide effective remedies for the short comings. Tesco has created an empire in the retail sector of UK. The company has performed outstandingly over the years. The environment surrounding an organization influences its growth and operations in numerous ways. The organization currently ventures in the fields of finance, mobile, hardware services, insurance etc. The organization has a market capitalization of approximately £21 billion and is listed on the LSE and is also a constituent of FTSE 100 Index. Though the organization has an illustrious past the ground beneath the organization has been shrinking in the UK. The organization has started to lose the faith and loyalty of people which it had enjoyed for decades. The organization operates within a fiercely competitive European market. There are organizations that have been employing new techniques like selling products and groceries online to increase their market share.

### **Analysis of the internal and external environment of Tesco:**

The external and internal environment surrounding Tesco act as the driver of the growth and prosperity of the company and the purpose of this discussion is to evaluate and analyze the external and internal environment of Tesco. There are various external and internal evaluation tools such as, PEST analysis and SWOT analysis have been used for analyzing the external and internal environment of the company (Jeffs, 2008).



Figure.1: PESTLE Analysis

Source: (Ventell, 2014)

A PESTEL analysis is a strategic analysis tool that is used to assess the environment surrounding an organization and the main drivers present in the external environment and the way they influence the activities of the organization again Porter's five forces model will also be helpful to analyze the competitive environment of the organization. However Tesco aims to expand its operations globally and due to that reason it has been decided that PESTEL analysis would be the most appropriate tool to analyze the external environment of the organization (Zanoni, 2012). The PESTEL analysis of Tesco is as follows:

PESTEL consists of six different environmental factors:

**Political factors:**

Political factors consist of the political decisions and regulations framed by the government of a nation. For Tesco the political decisions taken by the government of various nations are regarded as factors influencing its operations. A recent expansion of Tesco in China can be regarded as an instance of the government policies that led the expansion of Tesco in the international market. China is regarded as one of the most performing economies of the world and the country at present has opened its doors for the western companies (PESTLE Analysis, 2014). As a result of that Tesco has signed an agreement with the Chinese government back in the year 2009 to enter into a number of joint venture. This enabled the company to open numerous shopping malls and developing them in the cities like Anshan, Fushun and Qinhuangdao. The company is expecting that in future the Chinese market will open up to a greater extent (Jeyarathnam, 2008).

Again the new legislations of the EU have opened up the markets for Tesco in the Eastern European segment. This initiative established a link between eastern and western Europe but the same policies have also opened up market for the competitors like ASDA and Lidl in the Eastern European market too. And this phenomenon has created issues for Tesco.

**Economic forces:**

Economic forces are considered as highly significant in influencing the growth and development of an organization as it directly impacts the buying behavior of the consumers. The economy of UK has experienced more downs as compared to ups since 2008 when it was officially declared under the grip of the recession (PESTLE Analysis, 2014). Though the UK government had successfully suppressed the rise in the rate of unemployment in the UK by keeping the interest

rates as lower as possible but the overall effect of the economy hit the consumer segments as they tend towards spending more on products that will provide value. But this recessionary pressure did not harm the growth of Tesco as it provided low priced products to its customers and also the sale of products such as groceries hiked as the customers avoided to spend money in different restaurants rather they cooked their meals back at home.

### **Social forces:**

The social comprises of the factors such as the taste, choice, customers of the customers that influences the growth and sales of a business. The population in UK comprises a significant number of people who are retired and aged (PESTLE Analysis, 2014). The aging population has tended to eat lesser and that has affected the sales growth of companies like Tesco. And on the other hand it is also raising the expenses of the companies as the retired people prefer online shopping than physically visiting a store and this has increased the numbers of small deliveries thereby increasing the cost. The social forces in the UK such as the aging population have affected the retail industry and big giants like Tesco significantly. And at present it is required to frame appropriate strategies for tackling this situation (Chiron and Aubier, 2001).

### **Technological Forces:**

Technology is a strong factor for success in this 21<sup>st</sup> century for an organization. The technological development that has taken place all around the world have paved the way towards success. The technological forces comprises of the technological developments that will affect the running of a business. For retail giants like Tesco the role of the technology is unparalleled. With the growth in sales and competition various companies pertaining to the retail industry have switched to use the internet to sale its products online (PESTLE Analysis, 2014). The growth of online grocery has

increased substantially. Statistics says that almost 60% of the youth in the UK prefer online shopping and again for the aging population the option of online shopping is indispensable. At present the craze of mobile shopping has also increased significantly, the smart phones providing access to internet, helps in committing online shopping. There are various web applications such as; Cortextica Vision Systems helps in committing online shopping. Tesco keeps a data base of its loyal customers with the help of IT that has helped in tracking its customers and preventing them from going towards their customers (PESTLE Analysis, 2014).

### **Environmental forces:**

Environmental forces comprise of the factors relating to the protection of environment and encourage sustainability. The environment friendly measures taken by various companies increase their image in the market keeping them ahead of competition (Chiron and Aubier, 2001). An ethical step towards the environment taken by different organizations increases its presence in the market and also acts a way of promoting the image of the organization.

Tesco has also adopted certain steps to protect the environment. It has taken the initiative to increase awareness among the consumers towards the protection of the environment and reduction of food waste. It has also taken appropriate initiatives towards reduction of carbon footprint.

### **Legal forces:**

The legal forces are the various laws that are framed by the government to regulate the industry and trade in a country. The laws framed by the government affects the operations of the business. The policies framed by the government to regulate the rates of taxation and other statutory payments affects the revenue level of an organization. The minimum wage rate in the UK has increased to 15.5% that has increased the cost of Tesco as it is required to adhere to the policy



framed by the government towards wages of the workers (Chiron and Aubier, 2001). Again, throughout the years the rate of VAT has increased by 15% this has also increased the expenses of the organization.

The internal environment of an organization comprises of the forces that lies inside an organization. The factors present in the internal environment also affect the growth of an organization considerably. SWOT analysis will be the appropriate strategic analysis tool that can be used to analyze the internal environmental factors that affects the operations of Tesco.



Figure.2: SWOT Analysis

Source: (LIFE AT UNITEDWORLD, 2014)

The SWOT analysis of Tesco is as follows:

Strength:

The ultimate strength of Tesco can be regarded as its position; the company has held 3rd position in the global retail grocery segment. Tesco has also achieved 37% of the grocery market in the UK. Throughout the years the organization has projected outstanding performance. Due to the strong strategic framework built by the company the recessionary pressure could not affect the organization to a greater extent. The revenue earning capacity of the company and its significant position in the UK as well as global market has led the organization to hold a stronger position (Fine, 2009).

#### Weakness:

The company took the initiative to provide cheaper products to its customers and due to that it suffered considerable loss. On the other hand the immediate rivals of the company such as ASDA and Sainsbury have gained the lion's share of the market by providing quality products at reasonable prices that made it difficult for Tesco to survive the competition. Tesco earns almost 75% of its revenue from the UK retail market and as because UK is still not out of recession it can be considered as a strategic failure of the company (Bertelsen, 2012).

#### Opportunities:

The invitation from the emerging economies for setting up business there is regarded as an opportunity for Tesco. Tesco is expanding its operations in different countries around the globe such as China. New markets have opened up for the organization in the light of the new legislations framed by EU.0020

#### Threats:

The ultimate threat for the company is the pressure of competition. Its competitors like ASDA, Lidl etc are framing aggressive pricing policy and strategies that are regarded as threat for Tesco (Barnes, 2011). Also the organization is faced with the issue of survival due to the recent lack of investments.

### **Leadership style to be applied:**

Being the new CEO of a big brand like Tesco that has a huge workforce I should frame a democratic style of leadership. I should take effective steps to motivate the employees of the company in order to increase the revenue. Proper initiatives should be taken to appoint separate leaders for each department. The communication system of the organization should be thoroughly checked so that the responsibilities of different parties are clearly communicated to them. Proper monitoring of the staffs should be done by conducting meetings and discussions and also following up the employees in order to check their capacity to provide quality services. The employees must also be invited in the decision making process (Yoder-Wise and Kowalski, 2010).

### **Strengths and weaknesses of the current organization structure:**

Currently Tesco has modified its organizational structure and at present the company is experiencing the following strength and weaknesses:

#### **Strengths:**

The company has a strong consumer base more than its competitors. Tesco has experienced growth with the enhancement in the food prices due to the growth of inflation. The organization has well operated 586 retail stores with full capacity (Woods, 2007). To the content of the organization the possession of green fields has increased.

**Weakness:**

The organization has been facing problems with poor communication. The inefficient promotion process has been hampering the growth of the concern and making a way for the competitors. Another problem that has made the light of the day is that the efficiency of the employees working at Tesco is poor. The inefficiency in the performance is primarily due to lack of effective training programs (Boynton, 2007).

**Recommendations:**

By analyzing the overall condition of the company, the surrounding environment of the organization and the competitive position a number of recommendations can be made.

The company should take effective steps to establish effective internal communication. There should be proper employee appraisal programs and training programs organized for the employees (Sheehan, 2011). Tesco should take effective steps to promote its brand, such as placing advertisements in the web and utilizing the electronic and print media. The company should establish effective control mechanism to control its retail stores (Blythe, 2006).

**Conclusion:**

It can be said that the organization has done well throughout the years of its operations. It has managed to keep itself less harmed at the time of recession by framing efficient strategies. But still there lies certain draw backs the company is suffering from. Effective recommendations have been provide to overcome such issues.

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