

Introduction to Business Management – CP40081E

Tesco SWOT Analysis



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Introduction

In this report I will be assessing internal and external factors that affect Tesco PLC, including strengths, weaknesses, opportunities, and threats and evaluate them against Tesco's core purpose: "Serve our customers, communities and planet a little better every day" (Tesco PLC, no date -b). I will consider how each factor affects the three focuses of Tesco's core purpose, customers, communities, and the planet.

Brief Introduction to Tesco

Tesco is a multinational retailer, supplying the UK and other countries with many household products, fresh produce, and other items. They are the largest retailer in the UK.

The conglomerate started in 1919, by Jack Cohen, in the East of London. 5 years later the first Tesco own brand product was sold, 'Tesco Tea' and in 1929 the first Tesco store was opened in North London. Over the years Tesco, expanded more and more at an accelerated rate. As of 2023 Tesco has >3,440 stores in the UK.

Organisational Structure of Tesco

Tesco has a decentralised, tall hierarchy which means managers lower down have the power to make decisions about how they conduct business operations and allowing teams to operate independently. This structure is useful for stores to adapt quickly to local environments.

There are three levels of the organisation: Top, Mediate, and Base. (Study Smarter, no date)

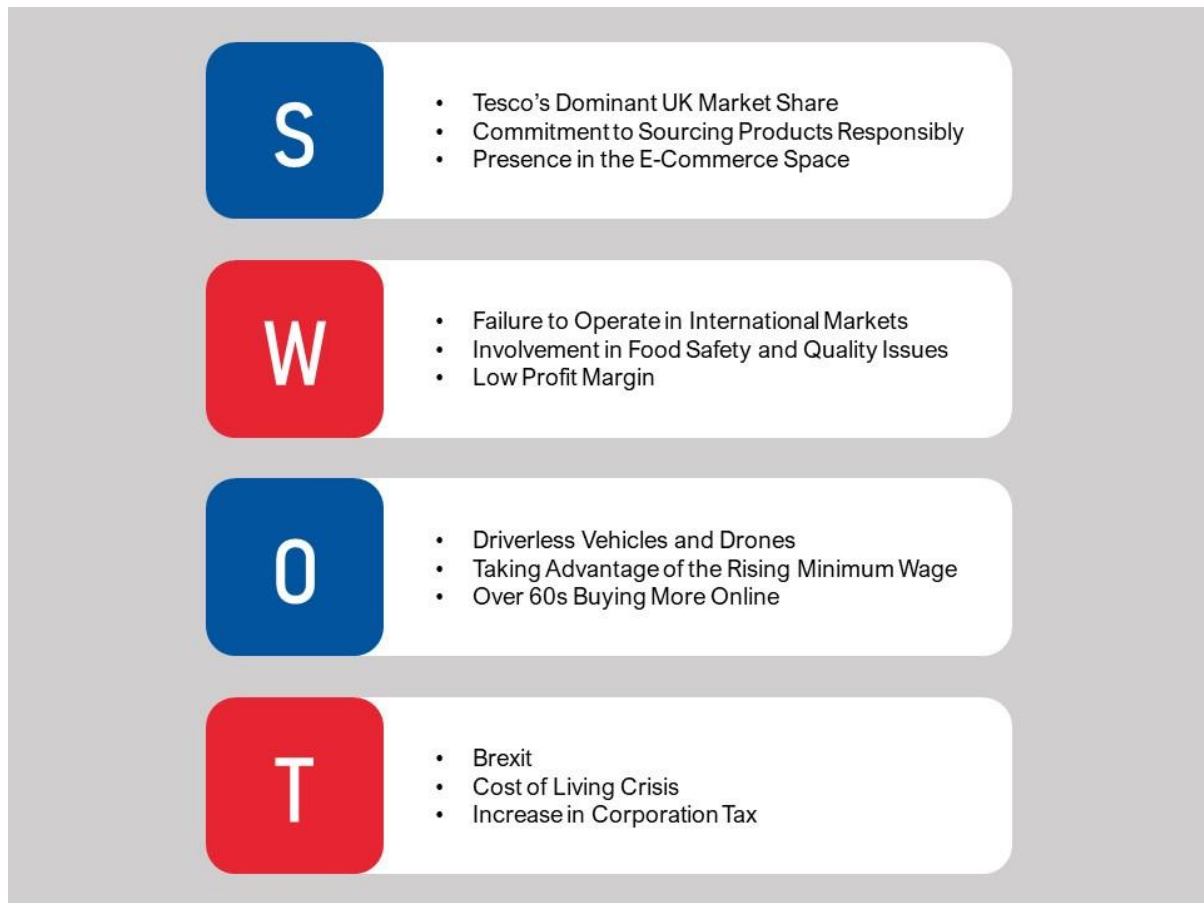
At the top is the board of directors. (Tesco PLC, no date -a)

At the mediate level there are five committees:

1. Audit Committee.
2. Corporate Responsibility Committee.
3. Nominations and Governance Committee.
4. Remuneration Committee.
5. Executive Committee.

At the base level the business is split up by region (Dudovskiy, 2016). Each region has a regional manager. Each store has a manager and several managers working underneath them who handle specific product and service areas. Each store will have a slightly different organisational structure allowing for adaptability.

SWOT Analysis of Tesco



Strengths

Tesco's Dominant UK Market Share

Tesco currently has a 27.5% market share of the UK retailer industry. The next leading retailer, Sainsbury's, has a 15.5% market share ('List of supermarket chains in the United Kingdom', 2023). Higher market share results in increased brand loyalty, access to a larger customer base, reduced marketing costs, ability to use economies of scale, and the ability to lead the market.

Commitment to Sourcing Products Responsibly

Tesco has committed to sourcing 100% of their beef from the UK (Tesco PLC, 2022a) and in a 2020 report, 52% of the wood and paper Tesco used was made of recycled content (Tesco PLC, 2022b). Tesco has the ambition to source all their wild fish from sources certified by third-party regulations (Tesco PLC, 2021). These efforts give Tesco a stronger brand image and reduce import costs.

Presence in the E-Commerce Space

Tesco is a market leader in e-commerce and was the first supermarket to introduce selling groceries online with a service called 'Tesco Direct'. In a study by (Spryker, 2022) of over 2500 people said that 16% of shoppers do most their grocery shopping online. That 16% could suggest that nearly ten million people in the UK do most their grocery shopping online. This shows that Tesco should continue to expand their online sales and grow their profits through e-commerce.

Weaknesses

Failure to Operate in International Markets

Tesco was in Japan from 2003 to 2012 and were in the USA from 2007 to 2013 ('Tesco International Operations', 2023). Their failures come from their lack of understanding about the target market. Tesco failed to recognise that Japanese customers like high-quality, personal shopping experiences. Even if Japanese customers do enjoy western products. Conversely, in the USA, Tesco marketed themselves as the 'healthy lifestyle' option, offering many British products and implementing self-checkout systems. They failed as America has a massive market for fast food and a love for customer service.

Involvement in Food Safety and Quality Issues

In 2021 Tesco was fined £7.56 million for displaying out-of-date products in multiple Tesco stores in Birmingham. Tesco admitted to 22 cases of breaches of regulations. 67 different items were on display after their best-by or use-by dates (The Guardian, 2021). This caused Tesco to gain a bad reputation.

Low Profit Margin

As of 2022 Tesco has a gross profit of 6.5% over the last 12 months (Finbox, 2022). It is common for supermarkets to have low profit margins, so Tesco should investigate reducing costs by streamlining management and targeting older audiences through e-commerce as recently e-commerce has become up to three times more popular among elderly people (Green, 2020).

Opportunities

Driverless Vehicles and Drones

Driverless vehicles could reduce labour costs for Tesco. Tesco could use driverless trucks long-distance freight. Additionally, self-operating drones are adapted to short-range and store-to-home deliveries which could make ordering services faster for the customer and cheaper for Tesco. In addition, electric vehicles are environmentally advantageous.

Taking Advantage of the Rising Minimum Wage

In November 2022, the UK government announced that the National Living Wage will rise from £9.50 to £10.42 an hour (UK Government, 2022). Tesco can take advantage of this new minimum wage since Tesco can afford paying their employees at or above the minimum wage while their smaller competition may not. Creating an opportunity for Tesco to expand by buying out small local retailers.

Over 60s Buying More Online

Over 60s is the fastest growing part of the global population and after the COVID-19 pandemic we have seen a rise in over 60s using online services. However, over 60s generally have less of a desire to use online ordering and prefer brick-and-mortar stores. Tesco could capitalise on this market by making their online services more user-friendly for over 60s, thus breaking down barriers to use and increasing adoption of Tesco's online ordering services.

Threats

Brexit

Tesco operates primarily in the UK, and they import most of their product from international sources. Brexit has made importing to the UK from EU countries more expensive due to VAT increases, freight charges, and additional paperwork (Retail Insight Network, 2022a). As a result, for example, before Brexit Tesco charged £3 for a meal deal. After Brexit that has gone up to £3.90. Tesco can reduce the effects of Brexit by furthering their commitment to sourcing within the UK.

Cost of Living Crisis

Inflation has risen from 2.6% in 2021 to 9.1% in 2022 and is forecasted to be 6.1% by the end of 2023 (Statista, 2023). When inflation rises, the cost of living rises. This reduces disposable income for Tesco's customers, which could cause them to switch to cheaper brands such as Aldi, or Lidl. Tesco could mitigate some of the potential losses by continuing to price match Aldi and Lidl, but also, they could try to reduce their labour costs by streamlining their organisational structure. However, they should be careful to not overwork their other staff.

Increase in Corporation Tax

In the UK before April 2023, corporation tax was 19%, however, it has now risen to 25% although companies with profits less than £50,000 will keep the 19% tax rate (HM Treasury, 2022). However, in 2022, Tesco made >£400m in profits before tax (Retail Insight Network, 2022b) so they would be subject to the 25% corporation tax. This could prove to be a problem for Tesco as their profits before tax dropped 63.9% from the year prior.

Conclusion

In conclusion Tesco's market share and commitment to environmental goals puts them in a great position to take advantage of upcoming opportunities and tackle current threats. Tesco should continue to improve on their weaknesses, namely, making sure their quality control standards are up-to-date and enforced to avoid any bad publicity. As of current Tesco is in a good position but will need to continue monitoring the effects of Brexit and the cost of living crisis.

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