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AI Acknowledgement Statement:

I confirm that I have not presented any AI generated materials as my own work.

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1. Organisational Overview

Organisation Background

Tesco plc is one of the largest food retailers in the United Kingdom and a major multinational grocery business operating in Europe. Founded in 1919 by Jack Cohen as a

London market stall, Tesco has grown into a publicly listed company on the London Stock Exchange and forms part of the FTSE 100 index (Tesco, 2023a). As a public limited company, ownership is distributed among institutional and private shareholders, meaning strategic decision-making must balance long-term competitive positioning with shareholder return expectations (Johnson et al., 2020).

Tesco operates within the highly competitive grocery retail sector, an industry characterised by low margins, intense price competition, and significant supply chain complexity (Burt and Sparks, 2019). The UK grocery market is oligopolistic, dominated by a small number of large retailers including J Sainsbury plc, Asda Stores Ltd, Aldi, and Lidl. In recent years, competition from discount retailers has intensified, placing sustained pressure on pricing strategies and operational efficiency (Intel, 2023).

Tesco's corporate purpose is centred on "serving customers, communities and the planet a little better every day" (Tesco, 2023a). This reflects a broader shift within retail strategy towards sustainability, ethical sourcing, and stakeholder accountability, consistent with contemporary strategic management thinking (Freeman et al., 2020).

Products and Services

Tesco's core business is food retailing. Its product portfolio includes fresh produce, packaged foods, frozen goods, bakery items, beverages, and household essentials. In addition to groceries, Tesco sells clothing under its F&F brand, consumer electronics, homeware, and seasonal merchandise (Tesco, 2023a).

A key strategic feature of Tesco's offering is its multi-tiered private-label structure. The retailer operates three primary own-brand categories: value products (e.g., "Everyday Value"), mid-range Tesco-branded goods, and premium "Finest" ranges. This segmentation strategy enables Tesco to appeal to diverse consumer income groups while protecting margin differentiation (Burt and Sparks, 2019). Such tiered branding reflects Porter's (1985) view that firms may combine elements of cost efficiency with differentiation to broaden market appeal.

Tesco also generates revenue beyond traditional retail sales. The company operates Tesco Bank, offers insurance and financial services, and co-owns Tesco Mobile. These

diversified services contribute additional income streams and strengthen customer loyalty through ecosystem integration (Tesco, 2023a).

Digital retailing represents an increasingly important service dimension. Tesco operates one of the UK's largest online grocery platforms, offering home delivery and click-and-collect services. The Tesco Clubcard loyalty programme further enhances value by using data analytics to deliver personalised discounts, thereby improving retention and switching costs (McKinsey & Company, 2022).

The organisation's primary revenue stream remains grocery retailing, but diversification into services and digital channels reduces reliance on physical store traffic and enhances strategic resilience.

Markets and Geographic Scope

Tesco's largest market is the United Kingdom, where it holds one of the highest grocery market shares (Kantar, 2024). The company operates multiple store formats, including large Tesco Extra hypermarkets, standard supermarkets, and smaller Tesco Express convenience outlets. This multi-format approach allows Tesco to target urban, suburban, and rural consumer segments effectively (Johnson et al., 2020).

Internationally, Tesco operates in Ireland and Central European countries including Poland, Hungary, Slovakia, and the Czech Republic. However, compared to earlier decades of aggressive global expansion, Tesco has strategically refocused on core markets following divestments in Asia and other regions. This retrenchment strategy aligns with the concept of strategic focus and core competency concentration (Prahalad and Hamel, 1990).

Tesco serves a broad customer base, from price-sensitive households to premium consumers. Its combination of value pricing, premium differentiation, and loyalty incentives enables it to sustain a strong domestic market position while maintaining selective international presence.

Recent Strategic Developments

Over the past three years, Tesco has implemented several strategic responses to inflationary pressures and intensified competition from discount retailers.

Firstly, the organisation has prioritised price competitiveness through price-matching campaigns against Aldi, reinforcing its defensive positioning within the UK grocery market (Intel, 2023). This reflects elements of cost-leadership strategy to protect market share (Porter, 1985).

Secondly, Tesco has invested heavily in digital transformation and automation within its supply chain. Distribution centre automation and data analytics improvements have enhanced operational efficiency and reduced costs (McKinsey & Company, 2022).

Thirdly, sustainability initiatives have gained strategic importance. Tesco has strengthened commitments to carbon reduction, food waste minimisation, and sustainable sourcing, aligning with ESG expectations and stakeholder theory principles (Freeman et al., 2020).

Finally, cost control and organisational streamlining have remained central priorities. In a low-margin sector, maintaining operational efficiency is critical for sustaining profitability and investor confidence (Johnson et al., 2020).

Overall, Tesco's recent strategic developments indicate a focus on operational efficiency, price competitiveness, digital innovation, and sustainability, reinforcing its dominant domestic position in an increasingly competitive retail environment.

2. External Environment and Stakeholder Analysis

PESTLE Analysis

Analyse the macro-environmental factors affecting the organisation:

Political

The UK grocery sector is politically sensitive due to its importance to food security and cost-of-living concerns. Rising food inflation has increased government scrutiny of supermarket pricing practices (Intel, 2023). Post-Brexit trade arrangements have also created regulatory complexity and supply chain disruption, increasing import costs and administrative burdens (Johnson, Scholes and Whittington, 2020).

Government agricultural policy and international trade agreements influence sourcing costs, particularly for fresh produce. Political pressure regarding food affordability creates reputational risk for dominant retailers such as Tesco.

Opportunity: Established domestic retailers may benefit from government emphasis on supply chain resilience.

Threat: Increased regulatory oversight may limit pricing flexibility and profitability.

Economic

Economic conditions significantly affect Tesco's performance. High inflation and rising interest rates have reduced consumer disposable income, increasing price sensitivity (Office for National Statistics, 2024). This has strengthened competitive pressure from discount retailers such as Aldi and Lidl.

Although grocery retailing is relatively recession-resilient because food is an essential product, consumer "trading down" behaviour impacts margin structures (Burt and Sparks, 2019). Customers increasingly purchase private-label goods rather than premium brands.

Currency fluctuations also affect import costs, particularly given Tesco's European supply chains.

Opportunity: Growth in private-label demand allows Tesco greater margin control.

Threat: Sustained inflation compresses margins and intensifies price competition.

Social

Social trends strongly shape retail demand. Consumers increasingly prioritise value, convenience, health, and sustainability (McKinsey & Company, 2022). Demand for plant-based products and ethically sourced goods has grown, reflecting broader societal shifts toward responsible consumption (Freeman, Harrison and Zyglidopoulos, 2020).

Demographic change, including ageing populations and smaller households, has increased demand for convenience formats and smaller packaging. Tesco's Tesco Express stores reflect adaptation to urban lifestyles.

Reputational expectations are also higher; consumers expect transparency regarding sourcing, environmental performance, and labour standards.

Opportunity: Alignment with sustainability trends strengthens brand positioning.

Threat: Failure to meet social expectations risks reputational damage.

Technological

Technological innovation is transforming retail operations. Automation in distribution centres and AI-driven forecasting improve operational efficiency and cost management (Johnson, Scholes and Whittington, 2020). Tesco's Clubcard loyalty programme generates extensive consumer data, enabling personalised marketing and targeted promotions (Tesco, 2023a).

E-commerce growth has accelerated since COVID-19, increasing the strategic importance of online grocery platforms (McKinsey & Company, 2022). However, online retail requires substantial investment in logistics infrastructure and cybersecurity systems.

Opportunity: Data analytics strengthens customer retention and operational optimisation.

Threat: High capital expenditure and cyber-security risks.

Legal

Tesco operates within strict regulatory frameworks including competition law, employment regulation, food safety standards, and data protection legislation such as GDPR. Employment law is particularly relevant due to Tesco's large workforce.

Competition authorities monitor pricing behaviour to prevent anti-competitive practices. Data protection regulation constrains the use of customer data collected through loyalty schemes.

Opportunity: Strong compliance enhances trust and brand credibility.

Threat: Regulatory breaches could result in financial penalties and reputational harm.

Environmental

Environmental sustainability has become strategically significant. Tesco has committed to achieving net-zero emissions and reducing food waste (Tesco, 2023a). Climate change affects agricultural supply chains, increasing volatility in fresh food sourcing (Burt and Sparks, 2019).

Consumers increasingly expect reduced plastic packaging and responsible sourcing practices.

Opportunity: Sustainability leadership can enhance competitive differentiation.

Threat: Climate-related disruptions increase operational costs and supply uncertainty.

Industry and Competitive Environment (Porter's Five Forces)

Competitive Rivalry

High.

Competitive rivalry in the UK grocery sector is intense. The market is dominated by large firms including J Sainsbury plc, Asda Stores Ltd, Aldi, and Lidl. The growth of discount retailers has significantly increased price-based competition over the past decade (Mintel, 2023).

The sector exhibits characteristics that intensify rivalry:

- Low product differentiation (many products are similar across retailers)
- High fixed costs (large store estates and distribution networks)
- Slow market growth in mature UK grocery markets
- Frequent promotional pricing campaigns

Price matching and promotional strategies reduce margins, particularly during periods of high inflation when consumers become increasingly price sensitive (Office for National Statistics, 2024). As Porter (1980) suggests, high rivalry places downward pressure on profitability.

Threat of new entrants

Low to Moderate.

Barriers to entry in large-scale grocery retailing are significant. These include:

- Substantial capital investment in property and logistics
- Economies of scale in procurement and distribution
- Established brand recognition
- Complex supply chain networks

Johnson, Scholes and Whittington (2020) note that high fixed costs and scale advantages discourage new large entrants. However, digital retail platforms and niche online grocery models slightly reduce entry barriers in specific segments.

Despite this, replicating Tesco's national infrastructure would require considerable financial and operational resources.

Power of suppliers

Moderate.

Supplier power varies depending on brand strength and product category. Large multinational consumer goods manufacturers possess negotiating leverage due to strong brand recognition. However, Tesco's purchasing scale provides countervailing power (Burt and Sparks, 2019).

The expansion of private-label products reduces reliance on branded suppliers and strengthens Tesco's negotiating position. Backward integration in certain supply chain activities further limits supplier dominance.

However, external factors such as global commodity price volatility and agricultural disruptions can increase supplier leverage.

Power of buyers

High.

Consumers in the UK grocery market have high bargaining power due to:

- Low switching costs
- High price transparency

- Numerous alternative retailers
- Growth of discount chains

According to Porter (1980), buyer power increases when customers can easily switch between providers. During cost-of-living pressures, consumers demonstrate heightened sensitivity to price differences (Intel, 2023).

Digital comparison tools and price-match guarantees further empower customers.

Threat of substitutes

Moderate.

Substitutes to traditional supermarket shopping include:

- Independent convenience retailers
- Online meal-kit providers
- Food delivery platforms
- Wholesale clubs

While food purchases are essential, alternative purchasing channels reduce dependency on large supermarkets.

However, Tesco's multi-format strategy (large stores, convenience outlets, online delivery) reduces substitution risk by covering multiple consumption channels.

Stakeholder Analysis

Stakeholder theory argues that organisations must manage relationships with groups that affect or are affected by firm performance (Freeman, 1984). Tesco's scale and public profile create a complex stakeholder network.

Key Stakeholders

The primary stakeholders influencing Tesco include:

- Customers
- Employees
- Shareholders (investors)

- Suppliers
- Government and regulatory bodies
- Local communities
- Environmental interest groups

Each stakeholder group possesses varying levels of power and interest.

Mendelow (1991) proposes mapping stakeholders according to power and interest to determine management priority.

High Power / High Interest

- **Shareholders:** Expect financial returns, dividend stability, and long-term growth (Tesco, 2023a).
- **Regulators/Government:** Monitor compliance with competition law, employment regulation, and pricing transparency.

These stakeholders require active management and engagement.

High Interest / Moderate Power

- **Customers:** Highly interested in pricing, quality, and ethical sourcing. Although individual power is limited, collective purchasing behaviour significantly influences performance.
- **Employees:** Interested in wages, working conditions, and job security.

These stakeholders must be kept informed and satisfied.

Moderate Power / Moderate Interest

- **Suppliers:** Interested in contract stability and fair pricing.
- **Local communities:** Concerned with employment provision and environmental impact.

Stakeholder Expectations and Conflicts

Conflicts arise due to competing priorities:

- Shareholders demand profitability and cost control.
- Customers expect low prices during economic hardship.

- Employees seek wage growth amid inflation.
- Environmental stakeholders demand sustainability investment.

These expectations may conflict directly. For example, wage increases or sustainability initiatives increase costs, potentially reducing shareholder returns or increasing consumer prices.

Freeman (1984) argues that long-term organisational success depends on balancing stakeholder interests rather than prioritising one group exclusively. Tesco's sustainability commitments and loyalty strategies illustrate attempts to align economic and social objectives.

3. Internal Strategic Capability Analysis (900–1,000 words)

Resource and Capability Analysis

Understanding internal strategic capability requires examination of the organisation's tangible and intangible resources, and how these are deployed to create competitive advantage (Johnson, Scholes and Whittington, 2020). In the case of Tesco plc, scale, data capability, and operational efficiency are central to performance.

Tangible resources

Financial resources represent a key strength. As a FTSE 100-listed company, Tesco benefits from strong capital access, stable revenue streams, and significant cash flow generation. Its size enables large-scale investment in digital infrastructure, supply chain automation, and price competitiveness initiatives. Financial resilience is particularly important in a low-margin sector characterised by intense price competition (Burt and Sparks, 2019).

Physical infrastructure is another major tangible asset. Tesco operates an extensive UK store portfolio including Tesco Extra, Superstores, and Tesco Express formats. This multi-format estate allows coverage of diverse geographic and demographic markets. In addition, Tesco owns and operates a sophisticated distribution network, including automated distribution centres that enhance logistics efficiency and stock availability.

Technological resources are increasingly central to competitive performance. Tesco's online grocery platform is one of the largest in the UK, supported by integrated warehousing and last-mile delivery systems. Its Clubcard loyalty infrastructure provides advanced data analytics capabilities, enabling targeted promotions and demand forecasting. Investment in automation and AI-supported inventory systems enhances cost efficiency and reduces waste.

Collectively, these tangible resources support economies of scale, cost leadership elements, and national market coverage.

Intangible resources

While tangible assets are important, intangible resources often provide more sustainable advantage (Barney, 1991).

Brand and reputation are significant assets. Tesco has strong brand recognition in the UK grocery market, associated with reliability, value, and accessibility. The brand spans value, mid-tier, and premium segments, enabling broad consumer appeal. Reputation for affordability is particularly important during cost-of-living pressures.

Customer data and knowledge constitute a critical intangible resource. The Clubcard scheme provides extensive behavioural data, allowing Tesco to understand purchasing patterns at granular levels. This supports personalised pricing strategies and strengthens switching costs. Data-driven insight enhances strategic responsiveness compared to competitors with less developed analytics capabilities.

Organisational culture and human capital also contribute to capability. Tesco employs a large workforce across retail, logistics, and head office functions. Operational routines in procurement, merchandising, and inventory management have been refined over decades. Such embedded routines represent tacit organisational knowledge that is difficult to replicate (Prahalad and Hamel, 1990).

Supplier relationships form another intangible asset. Long-term partnerships with suppliers improve negotiation leverage and supply chain reliability. In an industry vulnerable to disruption, relational capital reduces risk exposure.

Capabilities

Capabilities refer to how resources are deployed effectively (Johnson et al., 2020). Tesco demonstrates several core capabilities:

1. **Supply chain and logistics management** – Efficient procurement, distribution, and replenishment systems enable cost control and high stock availability. Scale economies reduce per-unit costs, reinforcing competitive pricing.
2. **Data-driven retail management** – Advanced analytics derived from Clubcard data enhance forecasting, personalised promotions, and demand planning. This strengthens customer retention and optimises margin management.
3. **Multi-format retail execution** – Tesco effectively operates across hypermarkets, supermarkets, convenience stores, and online platforms. This diversified channel capability reduces substitution risk.
4. **Private-label development** – Tesco's tiered own-brand strategy allows margin control and differentiation across price segments. This supports resilience during economic downturns when consumers "trade down".

These capabilities illustrate dynamic alignment between resources and competitive positioning.

VRIO Framework

The VRIO framework (Barney, 1991) evaluates whether resources provide sustained competitive advantage based on Value, Rarity, Inimitability, and Organisational support.

Value

Tesco's supply chain scale, data analytics capability, and brand strength clearly create value. They enable cost efficiency, customer retention, and revenue generation. In a highly competitive market, the ability to match discount pricing while maintaining margins is strategically valuable.

Rarity

While large competitors such as J Sainsbury plc and Asda also possess national scale, Tesco's combination of scale and advanced loyalty data infrastructure is relatively rare.

The depth and historical continuity of Clubcard data create insights not easily replicated quickly by smaller or discount competitors.

However, some tangible assets (e.g., store networks) are not rare within the oligopolistic structure of UK grocery retail.

Inimitability

Imitation barriers vary:

Physical infrastructure can theoretically be replicated but requires substantial capital investment.

Data accumulated over decades is path-dependent and therefore more difficult to imitate.

Organisational routines embedded in logistics and procurement are socially complex and causally ambiguous, increasing inimitability.

Competitors can imitate pricing strategies, but replicating the integrated ecosystem of data, supply chain scale, and brand equity is more challenging.

Organisational

Tesco's organisational structure, digital investment, and centralised procurement systems indicate strong alignment between resources and strategic deployment. Investment in automation and data platforms demonstrates that valuable resources are actively supported and leveraged.

Sustained Competitive Advantage

The resources most likely to provide sustained competitive advantage are:

Integrated data analytics capability

Supply chain scale and efficiency

Strong brand equity combined with private-label architecture

While no single resource is entirely unique, their combined configuration creates systemic advantage. According to Barney (1991), such bundles of complementary resources are more defensible than isolated assets.

Strengths and Weaknesses

Key Strengths

1. **Scale and market leadership** – National infrastructure and purchasing power reinforce cost competitiveness.
2. **Advanced data capability** – Personalised marketing and demand forecasting improve customer loyalty and margin control.
3. **Multi-channel presence** – Physical and digital integration reduces reliance on any single format.
4. **Strong private-label portfolio** – Enhances differentiation and profitability control.
5. **Financial resilience** – Capacity for continued investment during economic volatility.

These strengths align closely with Tesco's strategic emphasis on price competitiveness and operational efficiency. They underpin its ability to respond to discount competition without significant erosion of market share.

Internal Weaknesses

1. **High fixed cost base** – Large store estates create inflexibility and exposure to shifts toward online or convenience formats.
2. **Margin sensitivity** – Heavy reliance on price competition compresses profitability.
3. **Reputational vulnerability** – As a market leader, Tesco faces heightened public and regulatory scrutiny.
4. **Complex organisational structure** – Large scale may reduce agility compared to smaller competitors.

These weaknesses create strategic risk. For example, a sustained shift toward low-margin price matching could undermine long-term profitability. Additionally, maintaining large hypermarket formats may present structural challenges if consumer behaviour continues shifting toward convenience and online channels.

4. Strategy and Competitive Position

Current Strategic Approach

The competitive strategy of Tesco plc can best be described as a hybrid strategy combining elements of cost leadership with selective differentiation. Porter (1985) argued that firms typically pursue cost leadership, differentiation, or focus. However, later strategic management literature recognises that large retailers may successfully integrate cost efficiency with differentiated features where scale advantages allow both competitive pricing and value-added services (Johnson, Scholes and Whittington, 2020).

Tesco's primary strategic emphasis is price competitiveness. In response to intensified rivalry from discount retailers such as Aldi and Lidl, Tesco has implemented price-matching initiatives and expanded its value-tier private-label ranges. These actions reflect cost-leadership characteristics aimed at protecting market share in a highly price-sensitive environment.

However, Tesco does not compete solely on price. Differentiation elements include:

- A tiered own-brand architecture (value, core, premium "Finest" ranges)
- Extensive product variety compared to discount competitors
- Integration of financial services and mobile offerings
- A sophisticated loyalty scheme (Clubcard) offering personalised promotions
- A strong online grocery and click-and-collect infrastructure

This combination allows Tesco to target multiple consumer segments simultaneously, from highly price-sensitive households to premium-oriented customers. The hybrid nature of the strategy enables broad market coverage while maintaining operational efficiency through scale economies.

Tesco competes through three principal mechanisms:

1. **Scale-driven cost efficiency** – Centralised procurement and distribution reduce per-unit costs.
2. **Data-enabled customer retention** – Loyalty analytics enhance switching costs and promotional precision.

3. **Multi-format convenience** – Physical stores and digital platforms ensure accessibility across consumption occasions.

Thus, Tesco's strategy can be characterised as broad-market hybrid positioning supported by operational excellence.

Competitive Position

Tesco occupies one of the strongest competitive positions within the UK grocery sector. It consistently holds the largest or joint-largest market share in the UK supermarket industry, ahead of competitors such as J Sainsbury plc and Asda Stores Ltd. However, the rapid growth of discount retailers has narrowed performance gaps and intensified price-based competition.

Relative to competitors, Tesco possesses several competitive advantages:

1. Market Share Leadership

High market share strengthens purchasing power and supplier negotiation leverage. Economies of scale reinforce its ability to sustain price-matching strategies.

2. Advanced Loyalty Infrastructure

Tesco's Clubcard system provides more mature data capabilities than many rivals. While competitors operate loyalty schemes, Tesco's long-standing database provides deeper behavioural insight.

3. Multi-Format Portfolio

Unlike pure discounters, Tesco operates across hypermarkets, supermarkets, convenience outlets, and online channels. This reduces vulnerability to substitution and enables strategic flexibility.

4. Private-Label Depth

Tesco's private-label segmentation is more diversified than that of discount retailers, allowing it to capture margin across multiple price points.

Despite these strengths, competitive disadvantages are evident:

- Discount retailers operate leaner cost structures, allowing structurally lower prices.
- Large hypermarket formats face declining footfall compared to convenience and online formats.
- As a market leader, Tesco is more exposed to regulatory scrutiny and public criticism.

Competitive rivalry remains intense, and price wars compress margins across the sector. Although Tesco benefits from scale and brand strength, it operates within a mature, low-growth market where differentiation opportunities are limited.

Overall, Tesco maintains a strong but contested leadership position, requiring continuous efficiency improvements and customer value enhancement to sustain advantage.

Strategic Alignment or Drift

Strategic alignment refers to the coherence between organisational strategy, environmental conditions, and internal capabilities (Johnson et al., 2020). In Tesco's case, there is significant evidence of alignment rather than strategic drift.

Alignment with Economic Conditions

The current cost-of-living environment has heightened price sensitivity. Tesco's emphasis on price-matching and value-tier expansion directly responds to macroeconomic pressures. This demonstrates adaptive capability rather than inertia.

Alignment with Social Trends

Consumer demand for convenience and digital accessibility aligns with Tesco's investment in online grocery services and smaller-format stores. Sustainability initiatives also reflect social and environmental expectations.

Alignment with Internal Capabilities

Tesco's cost-competitive positioning is supported by its scale, procurement systems, and data analytics capability. The organisation's internal resources reinforce its external strategic orientation, suggesting strategic coherence.

However, potential risks of drift exist. If Tesco overemphasises price competition at the expense of differentiation or innovation, it may erode long-term brand equity. Additionally, reliance on large-format stores could create misalignment if consumer behaviour shifts permanently toward digital-first models.

Currently, the evidence suggests strategic consistency rather than drift, but ongoing environmental volatility requires sustained adaptation.

Risks and Limitations

Although Tesco's hybrid strategy provides flexibility, it is associated with several risks.

Margin Compression Risk

Persistent price competition with discounters reduces profitability. Sustained price matching may weaken financial returns and constrain reinvestment capacity.

Strategic "Stuck in the Middle" Risk

Porter (1985) warned that firms attempting to combine cost leadership and differentiation risk lacking clarity. If Tesco fails to maintain cost discipline while offering differentiated value, it could lose ground to both premium and discount competitors.

Structural Cost Base

Large store estates create high fixed costs. If footfall declines further in hypermarkets, Tesco may face underutilised assets and reduced operational efficiency.

Regulatory and Reputational Exposure

As the market leader, Tesco faces higher scrutiny regarding pricing practices, labour standards, and environmental performance. Compliance failures could result in financial penalties and reputational damage.

Competitive Imitation

Rivals increasingly adopt similar loyalty technologies and digital platforms. The competitive advantage of data analytics may erode if competitors close the technological gap.

Limitations of the Current Strategy

Tesco's strategy is primarily defensive—focused on protecting market share rather than pursuing radical innovation or international expansion. While this supports stability, it may limit long-term growth opportunities. Furthermore, heavy dependence on the UK market concentrates risk geographically.

5. Future Strategic Direction

Vision, Mission, and Values

The stated corporate purpose of Tesco plc is to serve “customers, communities and the planet a little better every day.” This purpose functions as both a mission statement and an expression of organisational values, emphasising customer focus, community contribution, and environmental responsibility. Tesco's strategic communications consistently highlight commitments to affordability, sustainability, and long-term value creation for shareholders.

Core values underpinning this purpose include:

- Customer-centricity
- Value and affordability
- Responsible sourcing and environmental stewardship
- Support for communities and employees
- Sustainable long-term growth

There is strong alignment between Tesco's mission and its current strategy. The emphasis on price competitiveness directly supports the objective of serving customers “a little better every day,” particularly during periods of economic hardship. Investment in sustainability initiatives—such as carbon reduction and food waste minimisation—aligns with the stated commitment to serving the planet. Additionally, loyalty schemes and digital innovation reinforce customer-centric values.

However, tensions exist. Heavy emphasis on cost control and price matching may conflict with sustainability investments, which often require higher short-term expenditure. Similarly, shareholder expectations for stable dividends may limit flexibility for transformative long-term investments. While alignment is currently coherent,

maintaining balance between affordability and responsible business practices will remain strategically challenging.

Strategic Risks

Looking forward, Tesco faces several strategic risks that could affect long-term performance.

1. Risk of Margin Erosion and Competitive Intensity

Persistent competition from discount retailers such as Aldi and Lidl may continue to compress margins. If price competition intensifies further, Tesco's hybrid positioning could become increasingly difficult to sustain profitably.

2. Risk of Strategic Inertia

As a large and established market leader, Tesco may be vulnerable to organisational inertia. Johnson, Scholes and Whittington (2020) argue that dominant firms often struggle to respond rapidly to disruptive change. A failure to adapt to evolving consumer preferences—such as digital-first shopping or alternative food distribution models—could lead to gradual strategic drift.

3. Technological Disruption

Digital-native competitors and technology-driven supply chain innovations may alter cost structures within retail. Cybersecurity threats also represent a growing operational risk given Tesco's extensive customer data infrastructure.

4. Environmental and Supply Chain Volatility

Climate change increases unpredictability in agricultural supply chains. Extreme weather events, commodity price volatility, and geopolitical instability may disrupt sourcing and increase costs.

5. Reputational and Regulatory Exposure

As a dominant retailer, Tesco remains subject to political scrutiny regarding pricing fairness, labour standards, and sustainability performance. Regulatory tightening could reduce pricing flexibility or increase compliance costs.

Collectively, these risks highlight the need for proactive strategic renewal rather than defensive consolidation alone.

5.3 Strategic Options for the Future

To secure long-term competitiveness, Tesco could pursue the following strategic options. Each is evaluated using Suitability, Acceptability, and Feasibility (Johnson et al., 2020).

Option 1: Accelerated Digital and Data-Driven Retail Expansion

Tesco could further expand its online grocery capacity, invest in AI-driven forecasting, and enhance personalisation within its Clubcard ecosystem.

Suitability

This option aligns strongly with environmental trends toward digital consumption and data-enabled marketing. It builds directly on Tesco's existing analytics capability and responds to increasing consumer expectations for convenience.

Acceptability

Shareholders are likely to support digital investment if linked to efficiency gains and revenue growth. Customers would benefit from enhanced personalisation and convenience. However, increased automation may generate employee concerns regarding job security.

Feasibility

Tesco possesses the financial resources, technological infrastructure, and organisational expertise required for implementation. Existing data systems provide a strong platform for expansion. Therefore, feasibility is high.

This option strengthens long-term competitiveness and reinforces differentiation beyond price competition.

Option 2: Sustainability Leadership and Supply Chain Resilience Strategy

Tesco could position itself as the UK's leading sustainable supermarket by accelerating carbon neutrality targets, expanding regenerative agriculture partnerships, and investing in circular packaging systems.

Suitability

This aligns with macro-environmental pressures relating to climate change and stakeholder expectations for corporate responsibility. It supports Tesco's mission of serving the planet.

Acceptability

Environmental stakeholders and customers may strongly support this direction. However, shareholders may question short-term cost implications, particularly if sustainability investments reduce margins.

Feasibility

Tesco's scale and supplier relationships provide leverage to implement sustainability initiatives across supply chains. Financial capacity exists, but trade-offs with pricing competitiveness must be carefully managed.

This option could differentiate Tesco from discount competitors, strengthening brand equity and long-term resilience.

Option 3: Portfolio Rationalisation and Asset Optimisation

Tesco could further rationalise underperforming large-format stores while investing in convenience and urban micro-fulfilment centres to improve cost efficiency.

Suitability

This responds to changing consumer behaviour favouring convenience and online fulfilment. It addresses structural weaknesses associated with high fixed costs.

Acceptability

Investors may favour improved asset efficiency and return on capital. However, store closures may face community and employee resistance.

Feasibility

Implementation is feasible given Tesco's prior experience with portfolio restructuring. However, restructuring costs and reputational considerations must be managed.

This option enhances cost flexibility and reduces exposure to declining hypermarket demand.

6. Conclusion

This strategic evaluation of Tesco plc demonstrates that the organisation operates within a highly competitive, low-margin, and politically sensitive UK grocery market. The external analysis highlighted intense competitive rivalry, strong buyer power, and sustained pressure from discount retailers such as Aldi and Lidl. Macroeconomic conditions, including inflation and cost-of-living pressures, have reinforced consumer price sensitivity, while technological change and sustainability expectations continue to reshape retail dynamics. Regulatory scrutiny and climate-related supply chain volatility further intensify environmental complexity.

The internal analysis revealed that Tesco possesses significant strategic capabilities. Its scale, financial strength, extensive store network, and advanced data analytics infrastructure—particularly through its loyalty ecosystem—provide strong foundations for competitive performance. The VRIO evaluation indicated that while certain tangible assets are not rare in isolation, the integrated configuration of supply chain efficiency, customer data capability, brand equity, and private-label architecture generates defensible competitive advantage. However, internal weaknesses were also identified, including high fixed costs associated with large-format stores, margin compression risks arising from price competition, and potential organisational inertia.

The key strategic challenge for Tesco is sustaining profitability while competing aggressively on price in a mature market. Over-reliance on defensive price-matching risks long-term commoditisation, whereas insufficient adaptation to digital and sustainability trends could result in strategic drift.

Based on the analysis, the recommended strategic direction is a balanced approach combining accelerated digital and data-driven innovation with strengthened sustainability leadership, supported by ongoing asset optimisation. This direction is justified as it aligns with macro-environmental trends, leverages existing organisational capabilities, and enhances differentiation beyond price alone. It also supports stakeholder expectations while maintaining financial discipline.

In conclusion, Tesco's long-term sustainability will depend on its ability to balance affordability, operational efficiency, and responsible business practices. While the

organisation remains strategically well positioned, continued adaptation, investment in innovation, and careful management of structural cost pressures will be essential to preserving competitive advantage in an evolving retail landscape.