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Internal and external Environment analysis of Tesco Supermarkets

Introduction

Marketing may be termed as the process and activities related to manufacturing, communicating, and delivering products with a transactional exchange that adds value for consumers, partners, clients and the overall society at large (Li, Larimo and Leonidou, 2021). In general, it is the process and the act of buying and selling products as well as communicating with the customers and exposing them to the goods or services offered by businesses, and helping them make a decision on what to buy; but this process is impacted by many internal and external factors of influence. Therefore to shed light on these key aspects of influence this report aims to address the largest supermarket chain “Tesco PLC”- by analysing the Macro and Micro factors that influence its marketing initiatives.

1.0 Main stages of marketing process

Situational analysis: is a process of evaluating a company and thus its competitors based on factors such as market position and share, past business history, costs, and profits, utilisation of advertising, the nature and types of clients, and many other aspects (Li, Larimo and Leonidou, 2021). Fundamentally, it is an unanticipated look into the internal and external elements affecting a business. Such elements can include customers, rivals, the market trend, or the capabilities of the company.

Objectives: "Marketing objectives" can be thought of as defined, attainable goals that are intended to help a business generate sales as well as make a profit. These are a set of goals that the company aims to achieve by altering its marketing strategy to fit the context. In general, these objectives are founded on 5 basic aspects, they are:

- a) Provide customer fulfilment
- b) Create demand in the market of products
- c) To increase market share
- d) Generate profits and
- e) Fostering a positive brand awareness of the organisation (Li, Larimo and Leonidou, 2021).

Strategy: It includes everything, from determining who their clients are to deciding which means businesses employ to reach them. Such approaches aid in developing a detailed plan for

accomplishing a company's objectives by identifying client needs and creating a clear and sustainable advantage.

Implementation and Control: The execution and management of marketing strategies should work together to ensure the achievement of the organisation's key objectives. A strategy for demonstrating implementation is to put the marketing strategy into practical use to produce worthwhile results (James and Cooper, 2018). Additionally, controls are a collection of methodologies employed to monitor the advancement of the promotional activities outlined in a company's marketing plan. These serve as specified areas for determining whether the advertising strategy will be successful in achieving important goals. Moreover, Control has 3 primary interests that it tries to take into account, they are - a) customer satisfaction b) delivery and c) Pricing strategy.

2.0 Macro environment analysis of Tesco Supermarkets

Pestle Analysis

Political: Tesco being an international conglomerate is highly dependent on the political stability in the places of its operation. Legislative stipulations chalked out by the “Free Trade Agreement” (FTA) or rules and regulations based on EU trade policies all need to be followed by the company to be legally competent. Moreover, due to the present economic turndown due to covid-19 and war in Europe, the company is seeing higher taxation (Adamyk, 2019). Additionally, it is also influenced by the international geo-political structure that TESCO cannot control (ex- relationship with other countries). This is an unfavourable aspect that the company needs to mitigate always to gain political assistance.

Economic: The organisation's long-term pursuit of "internationalisation and diversification", plays a vital factor in its effectiveness, are key strategies used by TESCO. In particular, they have shifted their preponderance of focus away from more costly merchandise toward the promotion of its valued labels due to the decline in average earnings and disposable cash flow levels seen in the UK citizens (Adamyk, 2019). Thus, the company's primary concern centres on these variables because they will likely employ expenses, demand, returns, or costs. Furthermore, the company still relies heavily on the UK market, where it holds a 25% -30% share of the sector as a whole. The present economic condition is unfavourable for the company and seeks to find solutions around it.

Social: Tesco being the largest supermarket chain in the UK is one of the largest employers in the country with over 350000 employees. But due to employees exiting the company the number of employees has gone down by 3.5% in 2022. Trends demonstrate that customers in the country have shifted toward bulk buying and one-stop purchasing as a result of changes in various aspects of social life, and indeed the company is reacting to these advancements by encouraging interest in organic offerings in its grocery portfolio. Hence, Tesco has increased the assortment of "non-food" items that can be purchased in an effort to ease these concerns (Adamyk, 2019).

Technological: Implementation of technology on the retail floor is seen to be highly favourable for the company. Technological innovation is one of the key elements that can provide TESCO with a competitive advantage in the industry against rivals. The implementation of online selling capabilities has aided the company during the pandemic and is viewed as an effective channel of sales for the future as well. Moreover, the cash-less check-out facility being leveraged by the company is gaining traction and providing convenience to the customers, thus, creating more value and customer satisfaction (Monte, 2021).

Legal: Avoiding legal complications is an unfavourable aspect of the company as it falls into legal complications quite often due to issues seen in its grocery products (Monte, 2021). Moreover, government mandates need to be followed by the company to avoid legal complications such as the FRC legislative stipulation of 2004 that states codes of business practices to safeguard consumers. Hence, they offer their customers "cost reductions" on the groceries they purchase in accordance with the amount spent at their stores and reduce short window evaluations in order to comply with all of these rules.

Environmental: The world and the industry both are shifting toward ecological sustainability and forcing the company to adopt sustainable practices through legislative pressure. It is an unfavourable but highly important factor that the company needs to undertake to be relevant in the future (Tesco Plc, 2018). Energy consumption, waste management and Co2 emissions are the main challenges faced by Tesco as it is enforced by legislation as well as due to the trending desire of the company's customers.

2.1 Advantages and disadvantages of PESTLE analysis

Advantages	Disadvantages
• Pestle analysis uses a simple	• The influencing factors go through a

framework that covers all external aspects of influence that can impact an organization or business. ● Pestle analysis can be applied in different perspectives such as a specific nation or the global business environment in entirety (Li, Larimo and Leonidou, 2021). ● It helps device strategic marketing plans to mitigate future business threats by forecasting them early on.	continuous change that cannot be portrayed through a single pestle analysis. ● There is a possibility that data gained from a huge pool may be misinterpreted that would entail in drawing wrong conclusions. ● As the facts are immensely vast gaining enough data is hard to acquire and cannot offer the full picture with precise detail (James and Cooper, 2018). ● It is a very labour intensive and expensive as well as time consuming process.
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3.0 Porter 5 force analysis

Threat of new entrants: (HIGH)

The supermarket industry is highly competitive and rivals may enter the market easily. Additionally, for entrants, opening a shop and starting business operations calls for a one-time payment of reserve requirements (Tesco Plc, 2018). However, competing with a well-organised behemoth like Tesco will entail running afoul of their deals and marketing initiatives, which are rarely synchronised. These existing massive players can also constantly consider their own efficiencies of scale operations and limitations. The rivals have the capacity to mimic Tesco's strategies to dilute them which may shift the core customers of Tesco to other brands.

Bargaining power of buyers: (LOW)

The groceries retail industry is saturated, along with large numbers of competitors who are of similar size and selling the same products pose a threat to Tesco (Tesco Plc, 2018). As a consequence, the customers have several alternatives at their disposal, which they can use. Customers can choose the stores that offer the greatest efficiencies of scale and convenience

because the products provided by the store are typically ones that specifically address their basic needs and the same as Tesco's. However, prices for necessities do not significantly vary between store locations. Consequently, it can be said that the clients' propensity to barter is low in comparison.

Threat of substitution: (LOW)

The organisation's primary product is groceries, but it also sells other things including apparel, gasoline, equipment, as well as other merchandise in its supermarkets. These are year-round necessities that are continuously restocked in the shopping outlets as soon as the inventories run out. Additionally, the majority of people require these as they fall under basic necessities. In this way, it is very reasonable to anticipate that the risk of replacement is minimal (Krummel, 2022).

Bargaining power of suppliers: (LOW)

In this way, the retail owners alone own the negotiating power, and they will be in a stronger position to delve into negotiations on a price because alternative sources are available for the same commodity in each retail outlet. Additionally, a variety of suppliers generally supply the stores nationwide with various materials, thus switching from one vendor to another is not a significant endeavour for the "Tesco" groceries store (Krummel, 2022). As long as the quality remains equivalent it gives the company flexibility to choose whatever products of the traders who provide them at the lowest possible price.

Competition in the market: (HIGH)

The competition in the market as mentioned above is extremely high, thus increasing the rivalry between companies. The immediate competitors of Tesco include WALMART, ASDA, Sainsbury and Carrefour. All these companies selling the same types of products fight for the same market share. All these companies do have different strengths but as they sell groceries the showdown in pricing war is a very common challenge faced by Tesco Supermarkets (Bozic, Siebert and Martin, 2019). Same strategies with slight variations are used to attract customers by all the supermarket chains, not only Tesco.

4.0 SWOT Analysis of Tesco supermarket

Strength	Weakness
• Tesco has very good brand awareness	• Lack of brand recognition in the

in the minds of the customers as they exist in the industry for a long time (Bozic, Siebert and Martin, 2019). • Tesco has the highest sales revenue compared to any other supermarket brand in the UK. Additionally, with over 70000 million pounds recorded as profits each year through the last 5 years. • Provides one of the largest portfolios of grocery compared to other rivals. • The supermarket chain of Tesco is one of the most technologically advanced and uses digital capabilities to provide clients convenience (Ex- online buying, cash-less checkout or use of AI to control the supply chain). • The company has a highly efficient network of suppliers that aim to diversify the portfolio of offering present by Tesco to its customers (Roznizam et al, 2020). • They are the largest employer (Private) in the world with over 500000 individuals working for the brand worldwide. • The chain has expanded into 14 counties in the EU along with close to 7000 retail outlets operational all over the world.	international market excluding the EU. • The company sees high levels of operational expenses, thus impacting the share price negatively and has seen a drop of 9% in the last year. • The Low-cost strategy employed by the company to attract customers is hurting profit retention (Chakraborty, 2018). • Financial recording errors and accounting fraud scandals have increased legal complications for Tesco and are negatively impacting the brand image.
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Opportunity	Threats
● Delving into strategic partnerships with other brands can be done to increase presence in the international market. ● Jack's store established by Tesco gives good competition to immediate rivals and is performing well. This can be leveraged by the brand to gain a competitive advantage in the industry. ● New emerging market places are popping up all over the world due to globalization and the expansion of the middle class. This gives Tesco the opportunity to capitalize on and expand into new territories (Roznizam et al, 2020).	● Due to BREXIT, UK has seen many trade policy changes that hinder trade within Europe and shrink profits (Chakraborty, 2018). ● The economic downturn faced by the country is negatively affecting the financials of the firm. Includes- higher taxation, governmental credits and regulations. ● Tesco's Christmas scandal has generated a negative perception of the brand as the advertisement offended a lot of people rather than being humorous. ● High competition in the groceries retail industry has posed a threat to the company's growth. ● Currency rate fluctuations in the international market may impart bad profit generations and possess a challenge for Tesco in the coming years (Kar, Bansal and Mishra, 2021).

5.0 Segmentation, Targeting and Positioning of Tesco supermarkets

Segmentation

- Geographic: based out of the UK and operates in over 13 countries worldwide. Retail stores are situated in rural and urban areas that receive high footfall or demand.

- Demographic: caters to all ages and gender and is focused on the middle and upper middle class of society. The majority of customers are shopping for families in the low and middle-income category (Tian, 2018).
- Psychographic: Tesco customers are mainly contending conformers and traditionalists in nature with a determining but easy-going personality.
- Behavioural: customer attitude is positive but sceptical who are looking for variety and cost advantage and are regular customers of Tesco (Tian, 2018).

Target audience

The target audience of Tesco is family buyers who seek the lowest rates. Thus, they use the cost leadership strategy to attract customers. Moreover, they target cost-conscious individuals who are looking for variety and have an interest in bargaining.

Positioning

For health and beauty products the company uses an “Experiential position” whereas for other items such as groceries they use a “Multi-segment positioning” as it aids in targeting several segments simultaneously with different products (Thabit and Raewf, 2018).

6.0 Tesco supermarket - 7 P's of marketing mix

Place: Tesco uses both physical stores and online stores to conduct business and serves as the foundation of the company's distribution strategy. Most retail outlets are located in urban areas that have the highest visibility and footfall. The supermarket chain has over 7000 stores all over the world that is well integrated by the extensive supply chain established by the brand for product procurement and sales.

Price: Tesco's leadership wants to pass on the cost savings to customers as the core value of their brand by reducing operational and procurement expenses through economies of scale and a variety of other strategies. They then employ a "Cost leadership" strategy that centres on a limited-time "Every little helps" campaign. By using competitive pricing that is comparable to the prices offered by competitors like ASDA or Sainsbury, the company is able to offer the most affordable prices to customers (Thabit and Raewf, 2018).

Product: The product portfolio of Tesco supermarkets includes a variety of food items that include both fresh produce and packaged goods and is the core product of sales (Singh, 2019).

But the company has diversified into areas such as electronics, books, apparel, toys, furniture, household items, fuel; and network services through their supermarkets.

Promotion: Promotion channels used by the company make use of both traditional and contemporary advertising channels. Using social media for promotions is extensively used as it provides the best ROI and has the highest reach compared to other mediums (Singh, 2019).

People: They have over 450000 employees, making them the largest private recruiter, and a large number of customer service representatives who are crucial to the company's success. The staff members are typically qualified. Moreover, they make significant investments in the training and growth of their staff and have reward programmes in place to keep them motivated.

Process: All process of the business is standardized and selected by the management that further Tesco's business objective. They provide credit facilities to customers and have an efficient payment portal to recount sales (Foabeh and Achaleke, 2020).

Physical evidence: Online stores can be easily navigated and aid in customer fulfilment. Additionally, the huge number of retail stores disperses all over the country making their products easily accessible to customers (Sparks, 2019). Additionally, Tesco has a stunning logo that effectively uses bold colours to increase brand recognition among the general public.

Conclusion and recommendations

To conclude, buying and selling products, connecting with clients, introducing them to the products or services provided by businesses, and assisting customers in making purchasing decisions are all aspects of marketing. However, this process is influenced by a variety of internal and external factors as seen from Tesco's internal and external analysis. The company is seen to be highly effective in using strategic marketing to attract clients. Their "Every Little helps" promotional strategy is aided by the company's lost leadership strategy. It can also be seen that the company is facing challenges in present times due to the economic turndown and strict legislative guidelines that are hindering Tesco's growth.

Recommendations

- To increase awareness of Tesco's brand the company must make strategic partnerships with smaller brands that have a presence in the countries they are trying to enter. This would moreover, strengthen the company's supply chain and presence internationally (Tesco Plc, 2018).

- The cost leadership strategy must be re-evaluated as it is draining profit reserves. Sacrificing needed profits to keep the customers happy is not a sustainable approach in the long term (Sparks, 2019).
- Accounting fraud scandals and financial recording errors have worsened Tesco's legal issues and are harming the company's reputation. Thus, more money must be spent on CSR initiatives and PR to change the unfavourable customer opinion in order to mitigate such problems.
- All supermarket chains (Tesco Rivals) basically sell the same products as Tesco, thus, the threat of losing customers to others is immensely high. Tesco must diversify its product range and aim to offer product that is not sold by their competition. This will help customers fulfil their needs by providing options to them and stopping them from being snatched by other supermarket brands.

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