

Marketing Fundamentals Analysis and Evaluation of Tesco

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Introduction

COVID-19 has had a significant impact on business organisations on a global scale. It is considered as a severe challenge due to the adverse effects in relation to a wide range of activities, operations, and factors of influence in the business development process. According to recent research of KPMG (2021), the pandemic has been felt by all businesses around the world, ranging in impact and regardless of their size or nature of operation. Thus, it is crucial to assess the internal and external environment in which companies currently operate, so that the effect of COVID-19 crisis is accurately evaluated. The accessed information could be of value as a part of the strategic development process and decision-making. In this light, the current report has the aim to address this by using Tesco as an illustrative example. A thorough situational analysis is conducted by considering the impact of the pandemic on the company. For this purpose, a wide range of academic theories and models is applied together with the use of industry analyses and empirical evidence from a variety of credible sources.

External business environment

PESTEL analysis

PESTEL analysis is one of the most commonly used models for assessing the external environment. It is focused on exploring the political, economic, social, technological, environmental and legal factors which deliver opportunities and threats to companies.

Political factors are focused on impacts arising from or related to the stability of the political situation (Matovic, 2020). The effect of different government regulations and political decisions can have a significant impact on business operations, especially when the case of COVID-19 pandemic is taken into consideration. Especially in 2020, the UK government has imposed several lockdowns and restrictions on physical movement in the country as a direct

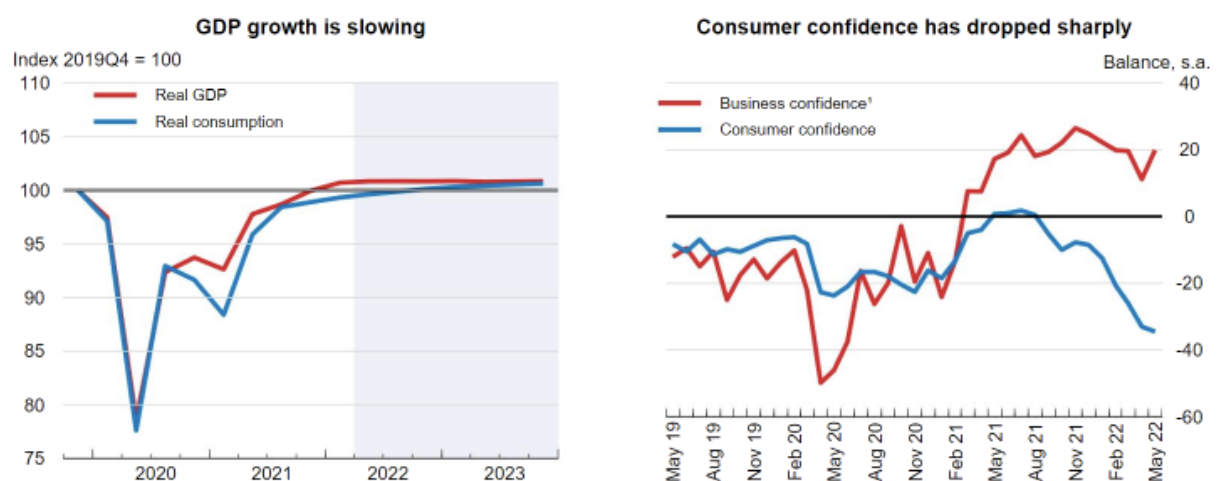
response to the fast spread of COVID-19. In addition to that, it has implemented a series of requirements for social distancing and other measures requiring strict compliance by individuals and companies (IFG, 2022). This has led to temporary closures of stores and significantly increased concerns of buyers regarding their health and safety. In the case of Tesco, as the brand is a grocery retailer, stores did not close, but the company had to invest significant capital to ensure the protection of personnel and visitors. Examples include screens, face coverings, hygiene stations and many more. As also explained in greater detail further below, all this has led to a massive increase in digital sales, requiring Tesco to invest in improving its technological capabilities (IFG, 2022). The pandemic also resulted in panic buying, which has led to challenges in supply chain and product mix decisions.

In addition to COVID-19 regulations, BREXIT is another example of a political decision with an impact on the brand. Leaving the European Union has led to significant disruptions in Tesco's operations, mainly focused on supply chain decisions and human resource management. This is the case due to new regulations in regard to trading goods and services with the countries within the EU, as well as the changed legislation focused on employing EU citizens in UK. However, as quoted by BBC (2021), Tesco states that its strong relationships with suppliers have allowed it to maintain reasonable levels of product availability during the BREXIT transition period by mitigating the risks of supply chain disruptions. The brand perceives currently faced challenges more as opportunities for creative and innovative decision-making which can serve as sources of competitive advantage against rivals (BBC, 2021). BREXIT consequences also led to a nation-wide crisis due to a shortage of approximately 100,000 HGV drivers (Thorburn, 2021). This has led to Tesco increasing payments and improving further working conditions with the aim of addressing the risk and minimising its impact.

Economic factors of influence include all potential impacts which can have an effect on business operations in regard to national and global economic environment (Matovic, 2020). Examples include but are not limited to economic indicators, policies and trends, mainly in the country of operation. The economic impact of the pandemic has been quite considerable. COVID-19 has hit global economy extremely hard and the recovery from this recession is expected to last long. As also illustrated on the figure below, GDP of the country fell significantly as a result of the pandemic and its associated consequences and regulations (OECD, 2022). Consumer confidence is currently falling at a relatively high pace which is

concerning, as it is expected to affect buying behaviour of customers both now and in the future (OECD, 2022). This is considered to be mainly triggered by the war conflict in Ukraine which is one of the main reasons for increasing gas and electricity prices, as well as higher uncertainty for the near future. This increase in basic utilities also affects the costs of Tesco and is expected to directly contribute to falling profits. This is also contributed by the fact that capital expenditure in 2020 has been £1.015 billion, which is £88 million higher than the year before (Mari, 2021). In addition to that, unemployment rate is rather low. This has two potential impacts on Tesco. On one side, it might create challenges for recruiting new employees as the pool of potential applicants would be smaller. On the other side, however, this can contribute to restoring consumer confidence faster, as households would have steady incomes and this would decrease concerns for the future. However, it should also be pointed out that all these economic turbulences are likely to increase the price sensitivity of consumers and make them shift to discounters.

Figure 1 – Economic indicators

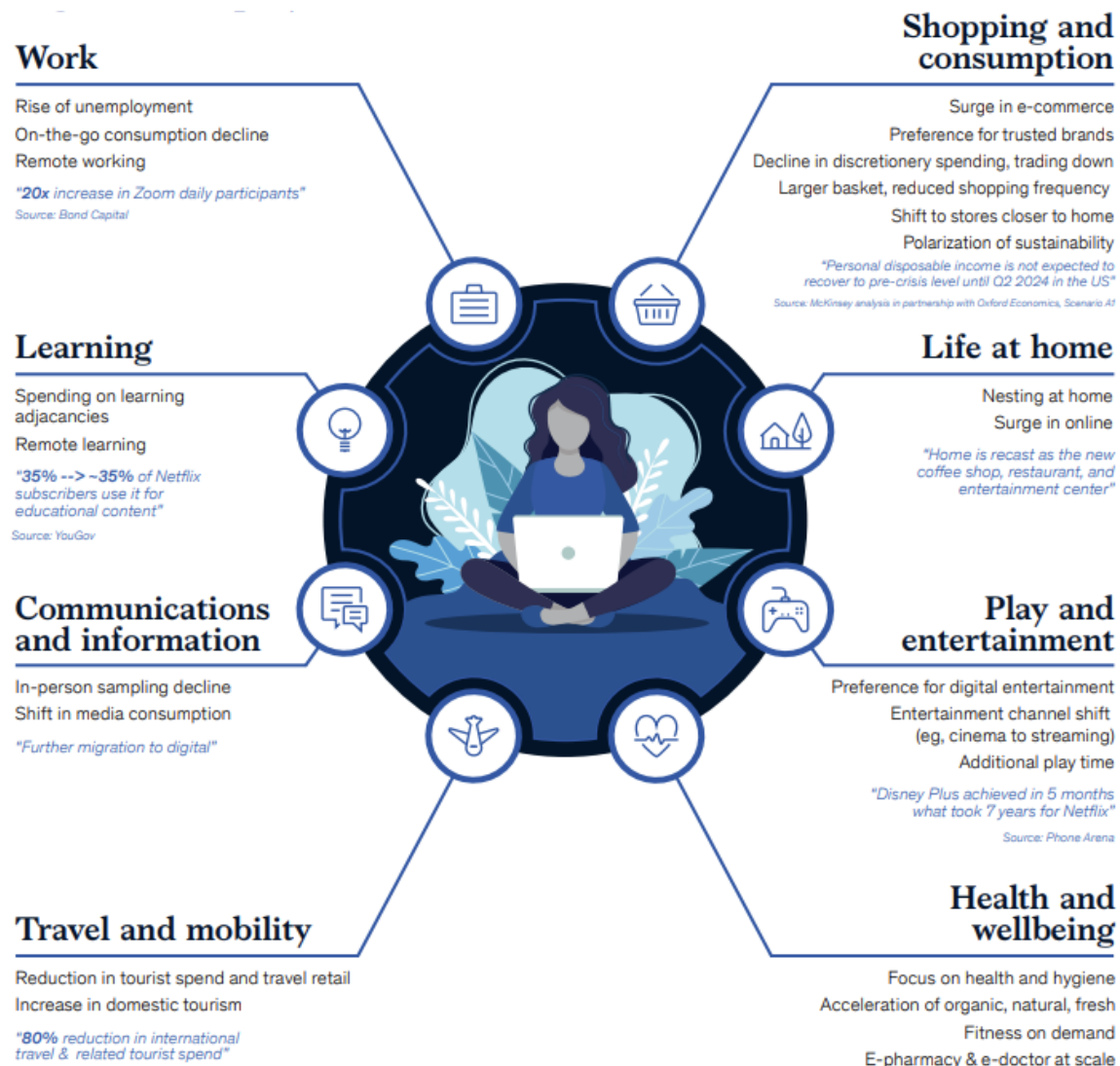


Source: OECD (2022)

Social factors of influence are associated with the general trends in regard to stakeholder groups' behaviour, demographic structure, cultural shifts and many more (Matovic, 2020). The pandemic has affected human behaviour in main areas of life, as illustrated below. The way people work, study, communicate, travel, shop, live, entertain and take care of health and wellbeing have drastically changed and some of these trends are expected to remain valid in the long-run (Kohli et al., 2020). A large proportion of individuals had to change the way they work and study, many of them shifting to distance working and learning alternatives

(Kohli et al., 2020). In-person communication was forced to decrease significantly, leading to increased use of media intermediaries and digital channels of communication. This increases the importance of digital marketing strategies and policies of Tesco. Mobility and travel have also been decreased significantly, affecting the consumption of related items and the possibility to visit brick-and-mortar shops (Kohli et al., 2020). This has triggered consumers to increase their preference for e-commerce channels and online shopping, as well as to prioritise trusted brands in order to enhance this experience (Kohli et al., 2020). In addition to that, many consumers have changed their purchasing and shopping patterns. They have decreased shopping frequency but increased basket spending, mainly as a result of panic buying and health and safety concerns (Kohli et al., 2020). The selection of stores to visit has also changed. The pandemic also resulted in greater priority placed on sustainability and relevant practices of brands (Kohli et al., 2020). All this directly affect the marketing mix decisions of Tesco by focusing on developing e-commerce capabilities, sustainability practices and adjusting product portfolio to directly address changed preferences of buyers. The pandemic also led to a significantly higher priority placed by consumers on health and hygiene, also reflected in strong preference for healthier food and nutrition (Kohli et al., 2020). This is also a niche which should be explored and tapped more by the brand.

Figure 2 – Changes of human behaviour due to COVID-19 pandemic



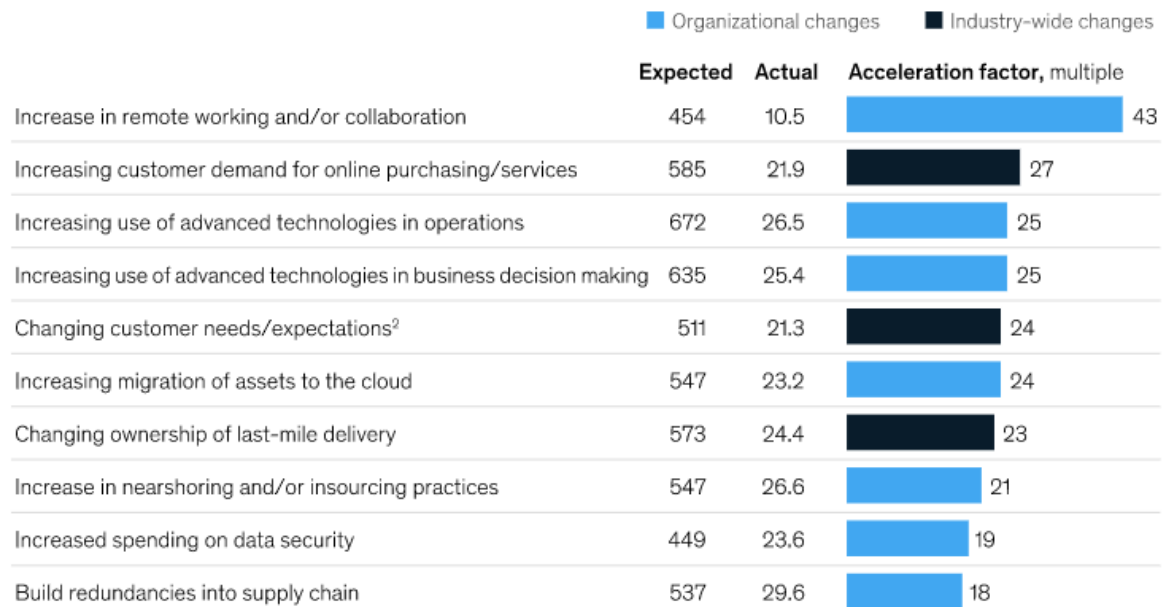
Source: Kohli et al. (2020)

Technological factors of influence are the ones related to technological development, the use of information technology, importance of digitalisation, innovation and many more (Matovic, 2020). As already mentioned, due to social distancing measures and decreased opportunities for personal communication, the use of technological solutions and different media has increased significantly as a direct result of the pandemic. Recent research conducted by McKinsey (2020), shows that technology is one of the main solutions to a wide variety of issues and challenges faced due to the pandemic. As shown on the figure below, the majority of companies worldwide have experienced an increase in remote working and/or collaboration, higher demand for online purchases, a wider use of advanced technologies in operations and strategic decision-making and many more (McKinsey, 2020). It is expected that most of these trends remain valid in the long-run; thereby, creating pressure on companies like Tesco to invest in technological capabilities and ensure that they are

reflecting current customer needs and expectations. Tesco is also a company which faced proofs of these trends first hand. The company reported a 74.1% increase in digital sales in 2020, compared to the same period in 2019 (Skeldon, 2021). Tesco has also faced a significant increase in preference for communication online (e.g. via social media channels).

Moreover, the company's Clubcard loyalty program also increased significantly in usage, reporting more than 20 million users, while 6.6 million of them are app-based (Skeldon, 2021). Thus, Tesco has been able to significantly increase its e-commerce capabilities and capacity. The company has succeeded to increase its online order capacity to 1.5 million slots per week (Mari, 2021). Tesco also hired 20,000 permanent workers during the pandemic, aiming to sustain its increased capacity and fulfil increased demand arising from it (HR World, 2021).

Figure 3 – Technology-related impacts of COVID-19



Source: McKinsey (2020)

Environmental factors of influence include all concerns and potential impacts related to ecology, including human attitudes in this area, biodiversity, recycling practices and expectations, importance of sustainability and many more (Matovic, 2020). As a direct result of the pandemic, the majority of customers have increased their preferences for sustainable solutions. Sustainable practices are perceived as effective ways to achieve higher cost effectiveness (and, respectively, lower prices) and live a healthier and more eco-friendly life. This has also been addressed by Tesco, as the company has a sustainability strategy and program which is focused on developing and implementing policies for greater sustainability in many business areas. Some of the examples of such practices include the goal of achieving zero-emissions from supply chain operations until 2050, the increased variety (more than 450 items) of plant-based products, the achievement of removing more than 1.6 billion pieces of plastic since 2019 through introducing reusable packaging for some products, the development of recycling points and many more (Tesco, 2022). The high priority and preference on sustainability is expected to be one of the trends which would hold for the next decade, so it is crucial for Tesco to continue developing in this area (PwC, 2022; Liew, 2020). However, despite the long-term positive effects of this strategy, for the purposes of critical analysis, it should be noted that in the short-run it is likely to negatively influence profitability due to the capital requirements for the investments.

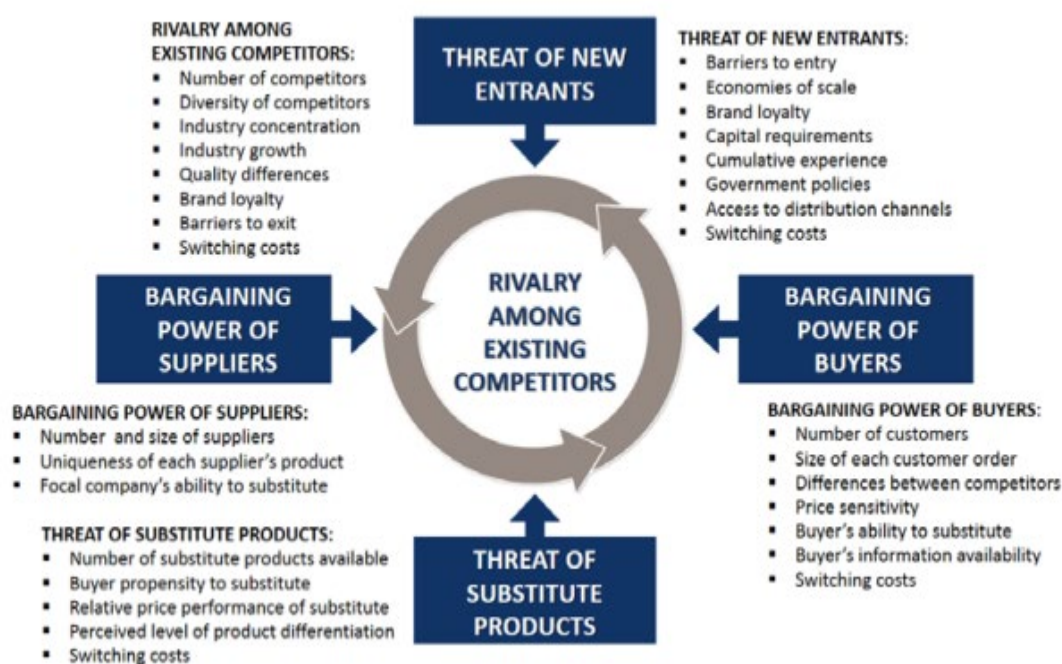
Legal factors of influence are the ones related to different legislations, legal norms, regulations, requirements, and standards which should be fulfilled by the company (Matovic, 2020). Tesco has to comply with all laws and regulations in regard to different areas of operations. Examples include employment law, sale of goods, import/export norms and many more. These should be regularly checked and monitored, so that the company is aware if any adjustments need to be made (e.g. mandatory vaccination for employees).

The PESTEL analysis clearly shows the dynamism of the external environment and the necessity to adapt accordingly in order to benefit from the emerging opportunities and cope with the threats.

Porter's five forces analysis

Porter's five forces is another extremely popular model for assessing external business environment which is very informative for strategic decision-making. It focuses on investigating five main elements, including bargaining power of buyers, bargaining power of suppliers, threat of new entrants, threat of substitutes and competitive rivalry (Hole and Bhaskar, 2019). The model can be graphically illustrated as shown below.

Figure 4 – Porter's five forces



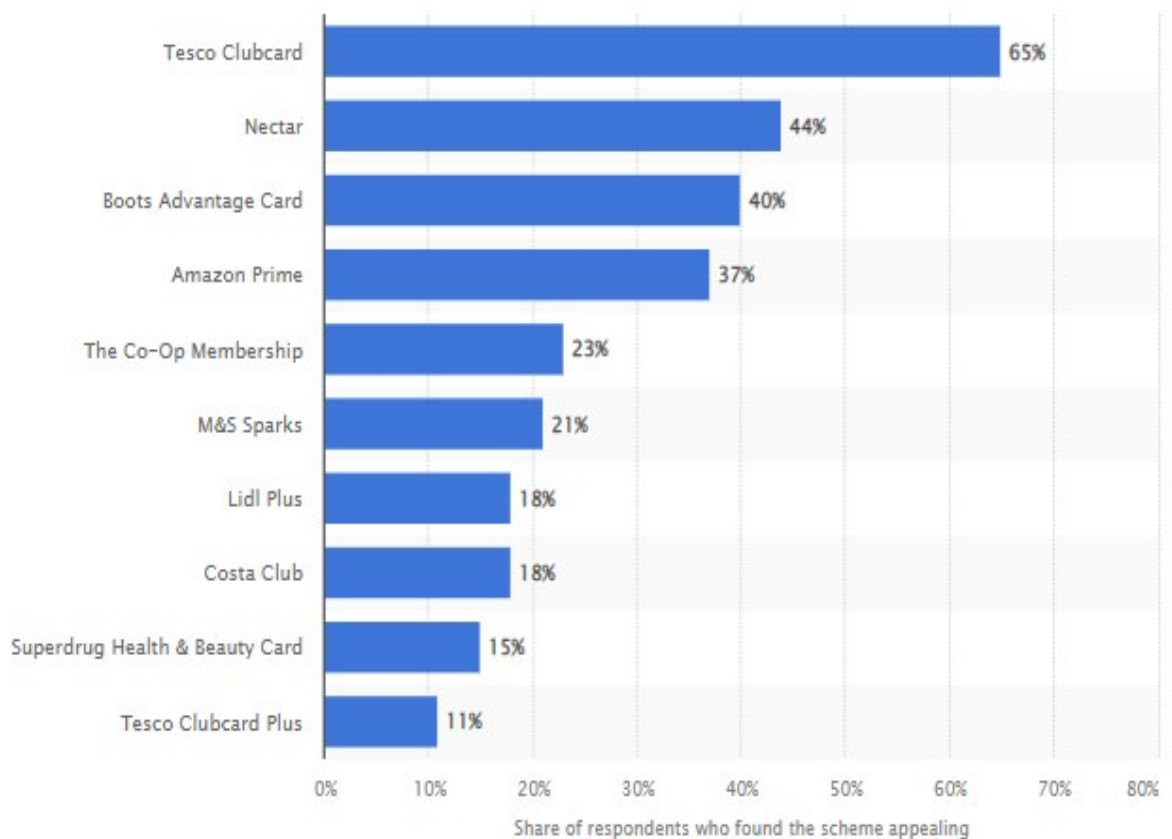
Source: Hole and Bhaskar (2019)

The bargaining power of buyers can be considered to be relatively high. On one side, it is increased by the high sensitivity provoked by the pandemic, the low switching costs between different brands, the easiness of substituting different products and the high information availability especially since e-commerce boom. The power of buyers is, however, restrained to a certain extent by the high number of customers and relatively small size of each customer order. The differentiation against rivals is crucial for Tesco in order to address this feature of the market. Understanding customer needs, proper segmentation and targeting and ensuring effective communication and engagement of buyers are essential in achieving this, especially in post-pandemic times when needs and preferences are constantly evolving.

The bargaining power of suppliers can be considered to be relatively low. Tesco is the leader in the marketplace; thereby, being able to exercise market power as a large buyer (Bedford, 2022). In general, due to its position, the company can also be considered to be able to substitute different suppliers relatively easy, as many grocery products lack differentiation. However, it should be noted that, reflecting current strategies of the brand to focus more on healthier, organic and eco-friendly products, this would increase the bargaining power of those suppliers to a certain extent, as items of this sort are more differentiated.

Threat of new entrants is relatively low for Tesco. The barriers to entry are not so significant and new players are only able to overcome them, if they have the capital and financial capabilities and resources. However, currently, economies of scale, brand loyalty and experience of Tesco in the market are relatively high and these would be difficult to overcome. In the last annual report Tesco, the company reports that its net promoter score (indicator for customer satisfaction) increased by three points, reaching 18 points in total (Tesco, 2022). In addition to that, Tesco's Clubcard is ranked first in the most popular loyalty programs in UK for 2022, as shown below (Tighe, 2022). All these indicators restrain to a certain extent the threat of new entrants for a high-scale brand like Tesco.

Figure 5 – Most popular loyalty programs in UK in 2022



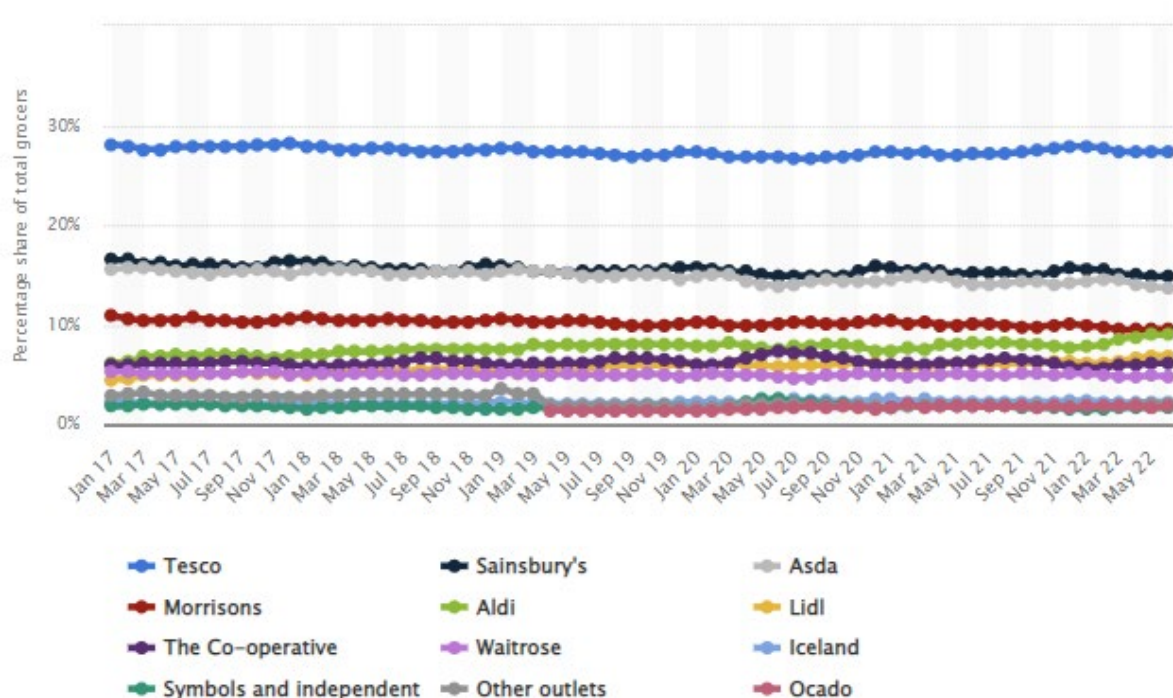
Source: Tighe (2022)

The threat of substitute products is significantly high. This is due to the high number of substitute alternatives available in the market, low switching costs between brands for consumers and the variety of price ranges of substitutes combined with increased priority placed on price by buyers. This, however, can be partially addressed by the new marketing strategy of Tesco, aiming to emphasise more on healthier, organic and eco-friendly product options offered to consumers, as these are more difficult to substitute and are directly addressing newly formed needs and expectations of consumers. Differentiation achieved through multiple strategies, as well as engaging customers more with the brand are essential for limiting this threat.

In terms of competitive rivalry, it can be suggested that Tesco operates in an extremely dynamic and competitive industry. As shown below, there are many key players in the market. However, Tesco still holds the leading position with 27.3% market share as of June 2022, representing a significant lead in front of Sainsbury's and Asda which are the second

and third biggest chains in the market with 14.9% and 13.7% market share respectively (Bedford, 2022). The data confirms that Tesco has a favourable position in the market with lower threat of new entrants and ability to address threat of substitutes and bargaining power of consumers. The data illustrated below also confirms, however, the increasing power and popularity of discounters like Lidl and Aldi, which are expected to grow further due to increasing price sensitivity of buyers and higher uncertainty for the future (Bedford, 2022).

Figure 6 – Market share of grocery chains in UK 2017-2022



Source: Bedford (2022)

To sum up, the industry environment appears to be quite attractive and profitable for Tesco. Being the largest retailer, Tesco has been quite effective in coping with rivals and exercising pressure on suppliers. The developed brand and distribution network have also effectively protected the company against new competitors. Nevertheless, Tesco should not be complacent with its success and constantly evolve in accordance to the external and industry-level trends.

Internal business environment - SWOT

As identified by the external environment assessment, strategic and marketing decisions are crucial for strengthening the leadership position of the company in the market and ensuring that threats and risks are properly addressed. This requires an examination of the outcome of external environment analysis in a direct reflection of internal capabilities.

SWOT assessment is one of the most appropriate tools for this purpose. It focuses on identifying different strengths, weaknesses, opportunities and threats of the company (Gurel and Tat, 2017). This helps the brand to assess the areas which need to be further developed, the ones that require greater attention and solutions for improvement, as well as external opportunities that can be pursued and threats which have to be addressed and mitigated (Gurel and Tat, 2017).

Organisational strengths include all the characteristics of a brand which provide it with an advantage over others in the industry and can serve as a source of differentiation and growth (Gurel and Tat, 2017). Some of the main strengths of Tesco which have been identified include:

- Strong relationships with suppliers
- Leadership position in the market
- Strong e-commerce capabilities
- High customer satisfaction and loyalty
- Strong online presence
- Sustainability initiatives
- Solid workforce
- Investment in digitalisation
- Good understanding of customer needs

Weaknesses are considered to include all characteristics which can place a disadvantage for the brand as when compared to other rivals in the industry (Gurel and Tat, 2017). The main weaknesses of Tesco can be summarised as including:

- Falling profits due to increasing costs
- Medium prices

Opportunities include all external elements of the environment which can provide a future benefit or options for growth of the company (Gurel and Tat, 2017). In the case of Tesco, the audit of the external environment identifies the following main opportunities.

- High purchasing power of consumers leading to strong demand
- Preferences for organic, natural, fresh and other niche products with higher value-added
- Sustainability preferences
- Technological changes fostering productivity
- Emergence and growing popularity of online retailing

Threats are the external elements of business environment which can impose risks on the company (Gurel and Tat, 2017). The PESTEL and Porter's five forces models suggest the following key risks for Tesco.

- BREXIT impacts
- COVID-19 long-term impacts
- Drivers' crisis
- Decreasing consumer confidence
- Increased price sensitivity of consumers
- Intense competition and increasing popularity of discounters

The SWOT analysis also confirms the view that Tesco has a favourable position in the market but needs to put efforts to preserve and maintain it.

Conclusion

To sum up, the assessment of internal and external environment indicates that COVID-19 pandemic has had a considerable impact on Tesco and other businesses around the globe. It resulted in severe changes in many industries and the grocery retail sector in the UK is not an exception. Tesco has been identified to have a favourable position in the UK market but this should be maintained and further developed by reflecting the significant factors of influence on business activity and constantly changing customer needs. Therefore, the brand has to conduct a thorough and in-depth analysis of the internal and external environment, so that it makes informed marketing and strategic decisions which would support its future development and growth. As a result, future development should incorporate various strategic

decisions and appropriate changes in the marketing mix in order to better position the brand in the competitive marketplace.

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