

TESCO PLC: PESTLE ANALYSIS
STRATEGIC IMPLICATIONS FOR MARKETING DECISION-MAKING

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1. INTRODUCTION

The United Kingdom's largest supermarket chain by market share is "Tesco plc" offering more than 3,400 stores throughout the UK with over £65 billion in annual revenues (Tesco Annual Report, 2024). It was founded in 1919, and has grown from a single market stall to a multi-national retailing conglomerate providing a range of goods and services, including financial services, grocery, electronics and clothing items. Tesco is a player in the very competitive FMCG retail business where there is considerable competition for price, consumer tastes and trends are constantly evolving and technology is developing at a fast pace. This report performs a PESTLE analysis of Tesco's external context in which it operates, and it recognizes crucial macro-environmental factors that can impact Tesco's advertising strategy and its long-term sustainability. Political, economic, social, technological, legal and environmental factors are analysed to gauge the strategic implications and for decision making.

2. PESTLE ANALYSIS

2.1 Political Factors

UK retail has a complex political landscape which has a significant influence on the operational strategy of Tesco. New compliance requirements have been added as a result of the Brexit regulatory changes, impacting on operations across the supply chain and the sourcing of products (Brexit Trade and Cooperation Agreement, 2020). Also, Government policies on food security and agricultural subsidies directly affect Tesco's supplier relations and stock. Business rates taxation is still a political debate as high business property taxes have a disproportionate impact on large businesses, such as Tesco, which has called for a change in the rate (Institute of Grocery Distribution, 2023). In addition, government-led policies on wages and good working practices have required Tesco to identify living wage policies, which have had implications for the way they do business, and their approach to their workforce.

2.2 Economic Factors

Tesco's macro environmental outlook in the UK is challenging and also has opportunities. Consumers' purchasing power has been reduced by persistent inflation and has become more price sensitive towards value products and the budget ranges (ONS, 2024). Tesco's expansion programs and the interest they pay on loans are affected by interest rate changes. With the cost of living crisis changing consumer behaviour, people now seek more affordable alternatives, which Tesco has embraced with the growth of its value range. But, in times of economic uncertainty, consumer confidence is volatile, and pricing strategies and promotions must be flexible. The foreign exchange rate changes have a significant impact on the price of the imported goods, especially for Tesco which imports goods from other countries. In response to these economic threats, Tesco must keep their price competitive as well as ensure profitability by maximising their efficiency and optimising their supply chain.

2.3 Social Factors

Consumers' attitudes and values are changing, which has a significant impact on Tesco's marketing strategy. Consumers are becoming increasingly concerned about sustainability and ethical sourcing, leading to a surge in demand for organic, Fairtrade and locally-sourced products, which Tesco has grown significantly in (Tesco Corporate Responsibility Report, 2024). With consumers becoming more health conscious, demand for healthy, plant-based and allergen-free foods has grown—and Tesco is expanding its product offerings. A change in demographic structure such as an ageing population and an increasing ethnic diversity requires culturally appropriate marketing strategies and product lines which meet consumer needs. With a shift in consumer behaviour during the pandemic, ecommerce has become the norm and not a 'nice to have'. Moreover, social media has evolved a significant influence in the purchasing process, and Tesco must engage actively in social media and be quick to react to consumers' opinion and perception of the brand.

2.4 Technological Factors

Technology is changing the retail world and how brands interact with their customers. Digital capabilities and digital logistical systems are essential competitive differentiators, and a significant investment is required in the infrastructure and systems for ecommerce and click & collect services (McKinsey & Company, 2023). The use of AI & machine learning technologies give the ability to offer personalized product suggestions, dynamic pricing and proactive inventory management which are crucial to stay competitive with Amazon and other digital native shops. The blockchain technology has the potential to provide transparency and traceability in the supply chain, a feature that consumers with eco-concerns are seeking more. The expectations of increased consumer convenience that mobile payment solutions and digital wallets have brought have created a new demand for omnichannel payment infrastructure. While data analytics can provide advanced customer segmentation and targeted marketing, it also raises significant concerns and questions surrounding data privacy and consumer protection, especially within the framework of GDPR.

2.5 Legal Factors

The laws and regulations governing retail trade have become more stringent. Competition law enforcement is high, and the Competition and Markets Authority (CMA) is closely watching retail convergence and pricing to ensure that there is no anti-competitive activity (CMA, 2023). Employment law, such as the minimum wage, the working time directive and health and safety laws, have a direct effect on costs of labour and how it is used. Food safety regulations and product traceability regulations have very strict requirements to meet, with the consequences of non-compliance risks to brand image and business sustainability. The law on consumer protection, such as the Consumer Rights Act 2015, sets out precise requirements on the quality of products, accuracy of advertising and fair pricing. The data protection regulations (GDPR and UK-GDPR) limit the collection, processing, and use of customer information by Tesco, which impacts their marketing analytics functions and direct marketing approach.

2.6 Environmental Factors

The issue of sustainability in the environment has grown from a side issue to a main strategic concern. The effects of climate change on climate change resilience of the supply chain, especially of agricultural inputs under extreme climate events and/or disrupted growing conditions. Tesco Net Zero Roadmap 2024 indicates that

significant investment is needed for the company to achieve net-zero emissions by 2035. Significant investments in renewable energy, sustainable logistics and circular economy initiatives are required for Tesco's targets to become a reality (Tesco Net Zero Roadmap, 2024). Tesco's efforts to reduce packaging waste and use sustainable materials come at a higher cost and complicate the processes of operations, due to consumer demand. The limited availability of water and the potential risks of water pollution to the agriculture suppliers, especially in areas of high agricultural supply, require proactive measures to be taken by suppliers to engage with suppliers and invest in sustainable agricultural practices. Sustainable business practices will be encouraged by regulatory pressures such as potential carbon taxes and extended producer responsibility schemes, and may entail additional costs.

3. CRITICAL ANALYSIS AND EVALUATION

The PESTLE analysis identifies the external environment of Tesco as a complex and multifaceted environment that has a number of overlapping pressures and opportunities. Political and legal conditions set structural constraints: they must be complied with, but are an additional cost of business for competitors. However, scale is a differentiator of competitive positioning and Tesco is able to achieve this by being cost leader, with efficiencies gained from its supply chain that allow them to offer value products which smaller supermarkets cannot compete in (Porter, 2008). Consumer expectations for more sustainable products, digital convenience, and personalization are transforming retail value propositions, creating the most dynamic opportunities for social and technological influences. Tesco's huge investment in capital resources allows them to invest in e-commerce capabilities and change their supply chain that other smaller retailers are unable to do, giving them competitive advantage (Johnson et al., 2017). In contrast, environmental demands are driving a shift in the business model, such as the commitment to net-zero for Tesco, which will impact long-term business models and profitability forecasts, including supply chain transformation and transition to renewable energy. The synergy between these factors is very important: if, for example, the economic pressure (cost of living crisis) affects a consumer's willingness to pay premiums for sustainable products to a certain extent, there is a strategic rift between sustainability commitments and margin protection.

4. CONCLUSION

In an increasingly challenging external landscape, where regulatory uncertainty is prevalent, economic fluctuations are inevitable, consumer needs are ever-changing and environmental demands are growing, the strategic positioning of Tesco is bound to be complicated. The PESTLE analysis illustrates the need to pursue sustainable competitive advantage by balancing the economic, technological, environmental, legal/political and social considerations – and consumer-centric value proposition. Some of the key recommendations are: (1) invest in ecommerce and omnichannel capabilities to meet evolving consumer behaviour; (2) strategically position across price points to leverage economic uncertainty and sustain premium sustainability offerings; (3) proactively transform supply chains to address net zero commitments, while maintaining market competitiveness; and (4) invest in data analytics capabilities to personalise customer engagement while upholding GDPR compliance. Situational analysis is capable of making the macro-environmental assessment more systematic, offering an essential strategic clarity, allowing for evidence-based decision making and providing a first glimpse of emerging threats and opportunities before they become a crisis. In conclusion, it is

clear that ongoing PESTLE analysis is crucial to Tesco's success in retaining its market position and staying competitive in the ever-evolving retail environment.

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