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Strategic Analysis of Tesco PLC in the UK Grocery Retail Market

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1. Introduction

Within the growing, competitive, and dynamic retail environment in the UK, supermarkets operate under mounting pressure from discounting, online, and consumer dynamics. Tesco PLC, being the largest food retailer in the UK, operates in an industry with market maturity described as having low margin, fixed costs, and buyer power in a medium to low market environment due to its size. Tesco, to maintain competitiveness, will have to evolve its business model changing socioeconomic value drivers like those associated with rising living costs, consumer concern for sustainable living, and advancing technology (Spulber, 2019). It has been very important to have a strategic analysis of Tesco PLC in the UK grocery retail market, and the report solely focus on the plan and existing trends of market regarding Tesco PLC. This not only impacts Tesco PLC, but also shows the existing gap, opportunity, or competitions in the retail market.

Tesco PLC started its journey from 1919, and is one of the world's largest retailers, with core operations in the UK, as well as other markets in the Republic of Ireland and Central Europe (Zehner, 2020). The UK food retail market is substantial, highly concentrated, and fiercely competitive (Zehner, 2020). By value share, the market leader is Tesco, with several major players, including Sainsbury's, Asda, and 'Big Four' plus discount operators Aldi and Lidl (Spulber, 2019). Whilst it is appreciated that Tesco is in fact an international retailer, for this assignment, there will be an explicit emphasis on its UK market, that it is likely to generate most revenue in such markets (Sax and Andersen, 2020).

2. Task 1: Critical Analysis of the Macro Marketing Environment

2.1 Overview of the Macro Marketing Environment

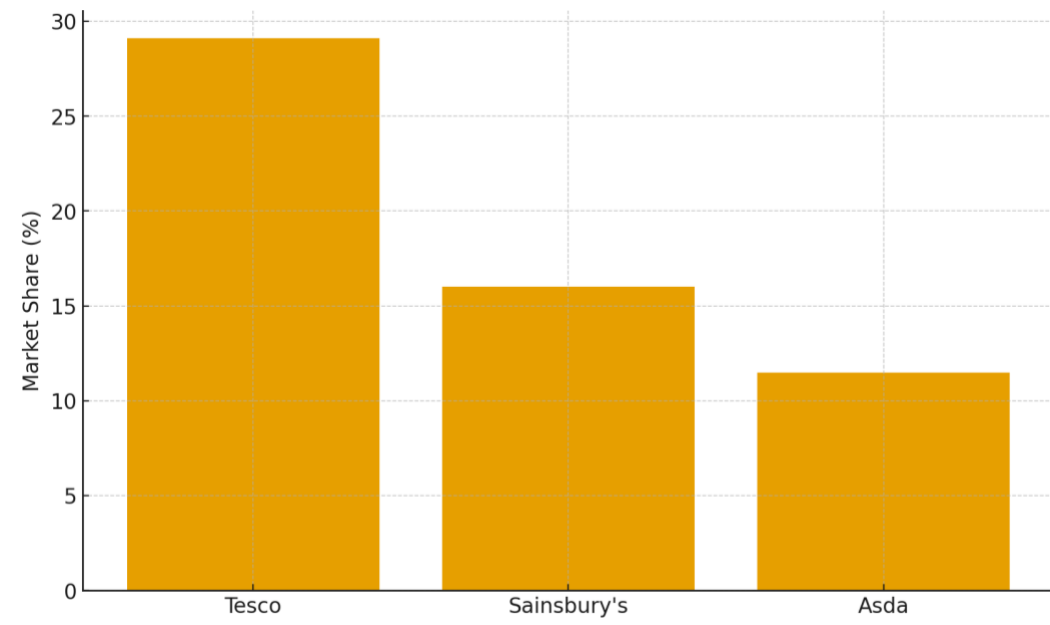


Figure 1: UK Grocery Market Share of Selected Retailers (Petit, 2019)

The macro marketing environment is largely made up of external factors surrounding the organisation but which does not have much direct influence on them. From the perspective of a major supermarket chain like Tesco PLC, for example, these factors determine “the rules of the game” as regards cost, market demand, and rates of innovation. A strategic marketing approach to positioning, pricing, format evolution, and spending on new media for Tesco PLC is thus required to smoothly adapt to changes in its overall marketing environment for it to maintain its edge as a major market player among the UK supermarkets.

The PESTEL analysis is a popular technique for scanning the macro-environment for managers on six themes: Political, Economic, Social, Technological, Environmental and Legal. It helps managers to direct their thinking to these key drivers and to make sense of their interactions to

create opportunities or threats rather than focusing on each factor in isolation (Qi, Zhao and Sheu, 2019).

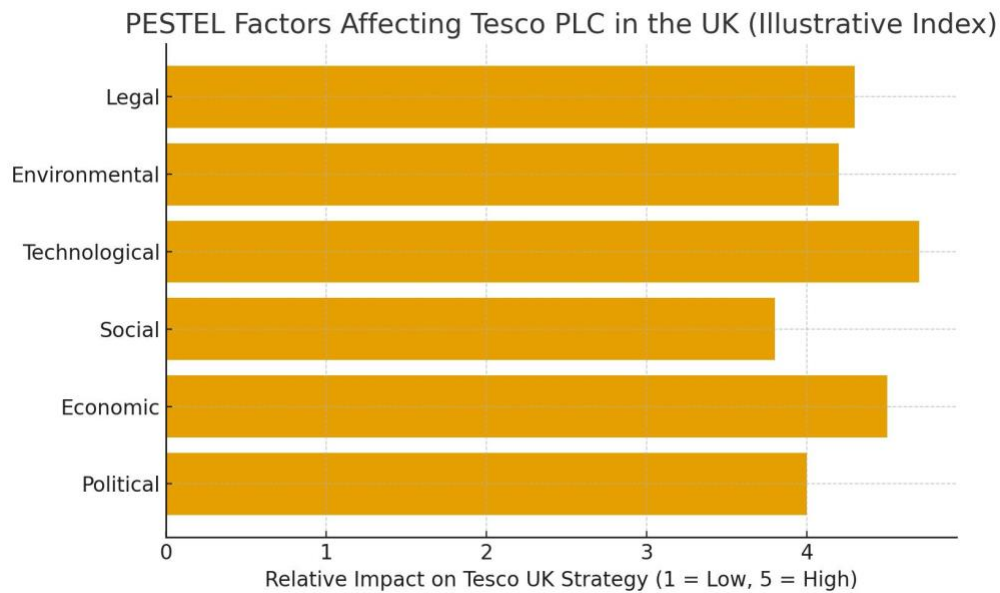


Figure 2: Illustrative PESTEL impact index (Qi, Zhao and Sheu, 2019)

At Tesco, instead of just being a diagnostic tool or checklist for information-gathering, PESTEL analysis is instead used as a framework for strategic thinking and planning. For instance, economic factors have been highly interrelated with Tesco's value positioning strategy and its development of private-label products (Spulber, 2019). On one side or another, environmental or social factors continue to influence its reputation and activities regarding trust-building and differentiation strategies for its brands through sustainability efforts or food-waste reduction schemes (Zehner, 2020).

P	Political (e.g. regulation, trade, labour policy)
E	Economic (e.g. inflation, real incomes, FX)
S	Social (e.g. health trends, demographics)

T	Technological (e.g. online, data, automation)
E	Environmental (e.g. climate, packaging, waste)
L	Legal (e.g. food safety, data protection)

Table: Conceptual PESTEL Summary for Tesco PLC in the UK Grocery Market (Huang et al., 2023)

2.2 Selection of Two External Macro-Marketing Actors

For the purpose of this assessment, two macro actors have been picked which are highly relevant to Tesco and the UK retail market: Economic and Technological factors. Both are highly interwoven and linked to dynamic pressures of cost structure and retail value and strategic approaches adopted by Tesco recently.

Economic factors have been particularly significant because of pressures relating to energy prices, logistics, and labor budgets, as well as pressures on real household incomes. As a mass market retailer offering a combination of value, variety, and convenience simultaneously, Tesco is highly sensitive to changes in inflation and consumer confidence (Martin, 2019; Spulber, 2019). Periods of economic downturn tend to heighten price sensitivity among economic shoppers, thereby driving downtrading to own-label or discount brands and changing category composition (e.g., toward core categories such as staples and promotion-driven purchases).

Technological factors have been selected as the second macro actor because of the advent of data capabilities and digitalisation that is altering the landscape of grocery retailing. Technology not only alters the manner in which buyers shop for their groceries but also affects retail industry players' management of suppliers, products, prices, and direct marketing to shoppers (Papadia et al., 2019). Indeed, the company's emphasis on e-commerce infrastructure development and its self-

service checkout systems is critical but its Clubcard retail media offering is crucial for its strong data analytics capabilities (Tesco Annual Report 2020/2021).

2.3 Critical Analysis of Each Actor

2.3.1 Economic Factors: Impacts on Pioneers and Followers

Economic instability impacts pioneers and followers in different ways based on their size and cost structure or brands. Since Tesco is market-leading, it enjoys economies of scale through its strong buying power and efficient supply chain management systems (Spulber, 2019; Zehner, 2020). This gives Tesco leverage to adopt hybrid strategies that aim to retain its market share while struggling against inflationary pressures by maintaining price matching for major products while continuing to offer widely established ranges and services (Brookfield, 2023). For Tesco market pioneers, economic instability opens opportunities to further win the loyalties of budget-friendly households through its Clubcard Prices initiatives and its new entry-point ranges for its private-label products (Godet, 2022).

Nevertheless, economic disturbances may also carry strategic threats for pioneers. This is because their high fixed cost structure associated with their large number of retail outlets and central administration makes them highly susceptible to volume declines. Additionally, labor rigidities associated with strong trade unions may also constrain labor flexibility (Martin, 2019). Additionally, discount retailstore followers like Aldi and Lidl, whose strategies are aligned to focussed offering and discount retailstore concepts, may become highly appealing to customers during scenarios associated with real-income pressures, further intensifying price competition (Forsman, 2019; Brookfield, 2023).

2.3.2 Technological Factors: Stumbling Blocks for Pioneers

The asymmetric impacts of technology change are especially prevalent herein because pioneers have opportunities to create capabilities that cannot easily or cheaply be replicated by others. This is how Tesco, as a pioneer of UK food retail technology, has harnessed digital platforms and capabilities to enhance customer offering and operational efficiency (Petit, 2019; Dodgson, 2023).

The Clubcard offering and retail media business developed by Tesco leverage scale and data from its big transaction database to deliver highly segmented promotions and facilitate category management to support business growth and cost reduction objectives (Qi, Zhao & Sheu, 2019). Developments to support online retailing and click and collect business have helped maintain its multi-channel retail strategy while competing successfully in growing online retail market (Zehner, 2020).

In terms of opportunities for Tesco as a pioneer, significant opportunities include: increased customer knowledge, increased customer loyalty, decreased stock-outs, and efficiency gains from automation and business process improvement. These capabilities may transform into sustainable advantages if managers are able to integrate them into business processes or embed them into their business culture (Huang et al., 2023; Ghamari, 2023). Despite the opportunities presented by being leaders in technology adoption, pioneers also have strategic risks to consider. Large investments required for capital intensity and quick obsolescence make it imperative for pioneers to continuously improve and manage their technology architectures (Qi et al., 2019).

Follower organizations have been under different pressures regarding technology. Discount supermarkets like Aldi and Lidl operated for many years on comparatively simple technology retail formats but find themselves increasingly obliged to improve their online capabilities to keep pace with evolving shopper demands (Brookfield, 2023). Smaller regional food retail chains and convenience stores may simply not have access to the same kind of analytics or overall digital connectivity capabilities as Tesco but do have a gap in capability which may widen further over time (Dodgson, 2023).

3. Task 2: Strategic Responses of Pioneering and Follower Organisations

3.1 Pioneering Organisations' Strategic Responses

Ansoff's Growth Matrix

Ansoff Growth Matrix is a popular tool for strategic planning, which has assisted in assessing growth opportunities based on cross-classification between new/existing products in new/existing markets. It shall assist in highlighting areas for Tesco to invest, while taking into consideration their risk/return profile for their ongoing strategic direction, which passes through market penetration, market development, product development, and divestment strategies.

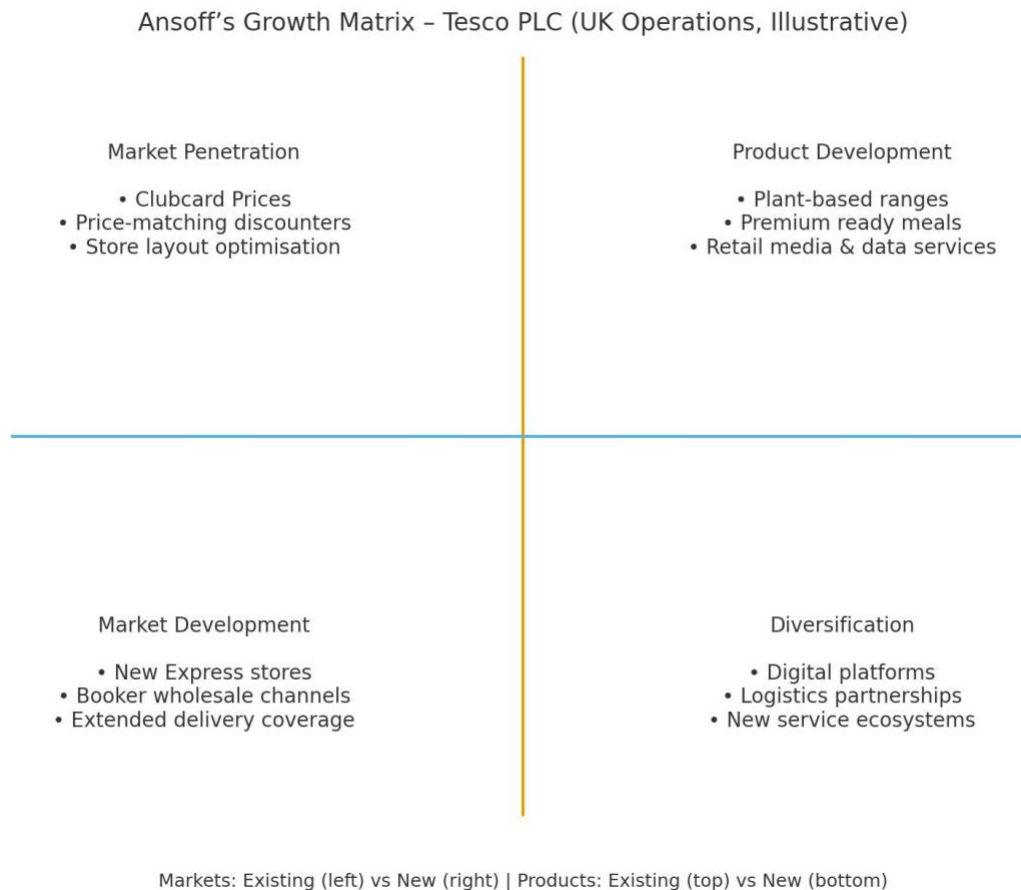


Figure 3: Ansoff's Growth Matrix (Huang et al., 2023)

4.1 Market Penetration (Existing Products, Existing Markets)

Market penetration is, however, the primary method adopted by Tesco in the UK market. It seeks to grow its share of wallet in its core base by sharpening its value proposition, improving its availability, and improving its customers' shopping experience. These measures include matching prices with discount stores on core products, extending its delivery on its Clubcard Prices, improving its in-store layout, and using its data to provide customers with value-based offers. It improves its own-brand offerings, especially in value lines, to retain value-conscious consumers (Godet, 2022).

4.2 Market Development (Existing Products, New Markets)

Within its home market in the UK, market development opportunities could include further growth in convenience formats in underserved areas or further development through partnerships via the Booker wholesale business. It could target different market niches, such as small independents, hospitality, or institutional customers, with different offers (Hitt, 2021). It could also explore extending home delivery into rural areas, though with care on profitability. Other markets, such as other UK regions, could provide further sales growth opportunities for its Convenience offer.

4.3 Product Development (New Products, Existing Markets)

Nevertheless, Tesco remains committed to innovation in product development, especially in faster growth areas like healthier ready meals, plant-based, world foods, and premium lines. Research on new pack sizes and types will enable us to respond to evolving family sizes in houses, thereby addressing food wastage issues. Away from its core business areas, Tesco is innovating in its digital and financial services, including enhanced banking offerings, memberships, and retail media offerings based on its data strengths. These initiatives fall under product development, with strategic objectives to strengthen bonds with its core clientele in the UK (Huang et al., 2023).

4.4 Diversification (New Products, New Markets)

Diversification poses the most risk, yet it could provide support for resilience on a long-term basis if properly attended to. It is now apparent, given Tesco's experiences with its non-core, international initiatives, that there are hazards associated with extending itself too far into new markets (Gray, 2021). On the other hand, given its UK market, there are opportunities for diversification in areas such as other online properties, last-mile delivery partnerships, or joint projects with tech companies to produce new value-added offerings.

Market Penetration	Product Development
Existing products / Existing markets	New products / Existing markets
(e.g. Clubcard prices, price matching, store refresh)	(e.g. plant-based ranges, retail media, financial services)

Market Development	Diversification
Existing products / New markets	New products / New markets
(e.g. new convenience locations, Booker channels)	(e.g. adjacent digital platforms, partnerships)

Table: Ansoff's Growth Matrix Applied to Tesco PLC's UK Operations.

Porter's Generic Strategies

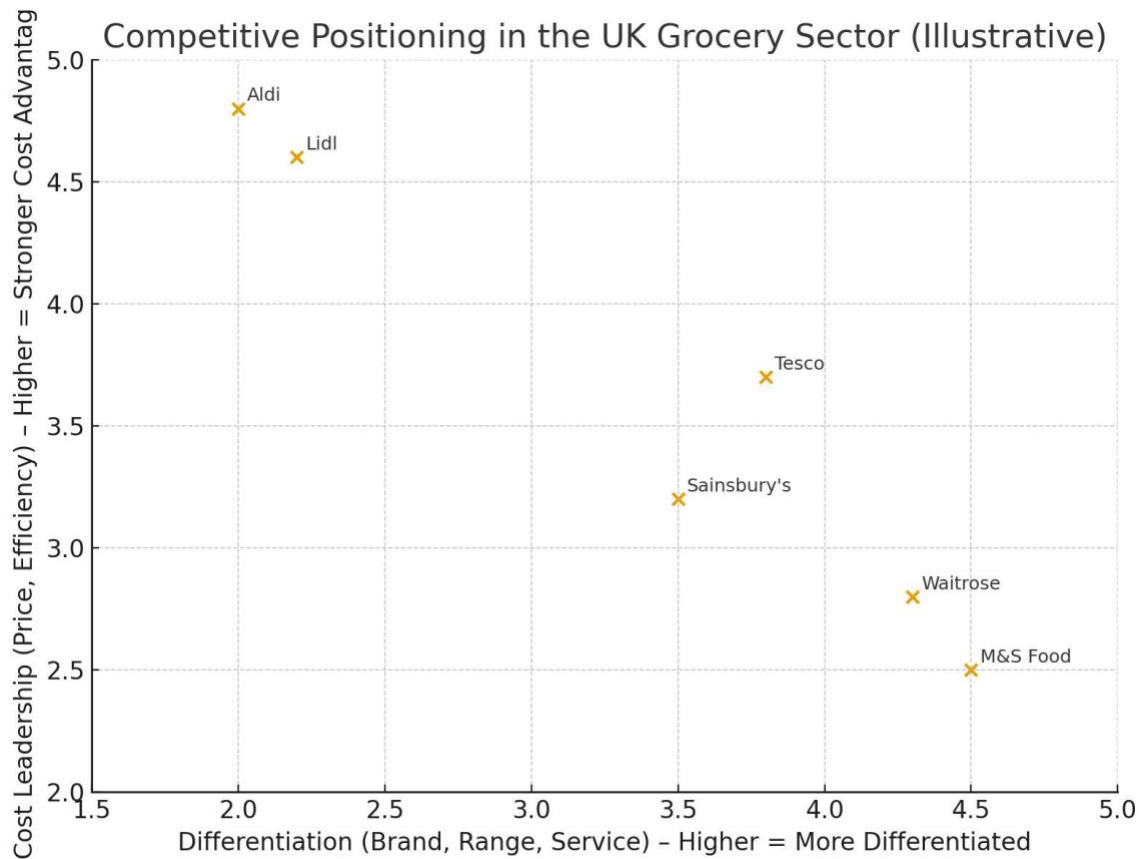


Figure 4: Illustrative competitive positioning of Tesco (Huang et al., 2023)

According to Porter's Generic Strategies, achieving cost leadership, differentiation, or focus constitutes obtaining a competitive advantage (Ghamari, 2023). It is not feasible to maintain multiple strategies concurrently, thereby creating stuck in the middle. Within the UK food retail market, Tesco has operated in the presence of discounters, operating on low prices with fewer product choices, and up-market/specialist operators, distinguishing on attributes like quality, service, or niche (Bernhardt, 2021).

Historically, Tesco has sought to leverage elements of cost leadership alongside elements of differentiation (Brockhoff, 2021). On the one hand, its size, advanced supply chain, and purchasing

powers confer cost leadership advantages in relation to pricing on core value items. On the other hand, its differentiation strategies emphasised its broader range, convenient locations, integrated Internet services, and enhanced loyalty proposition through its Clubcard scheme. This approach is clearly targeted at delivering value, together with convenient shopping for mainstream UK consumers.

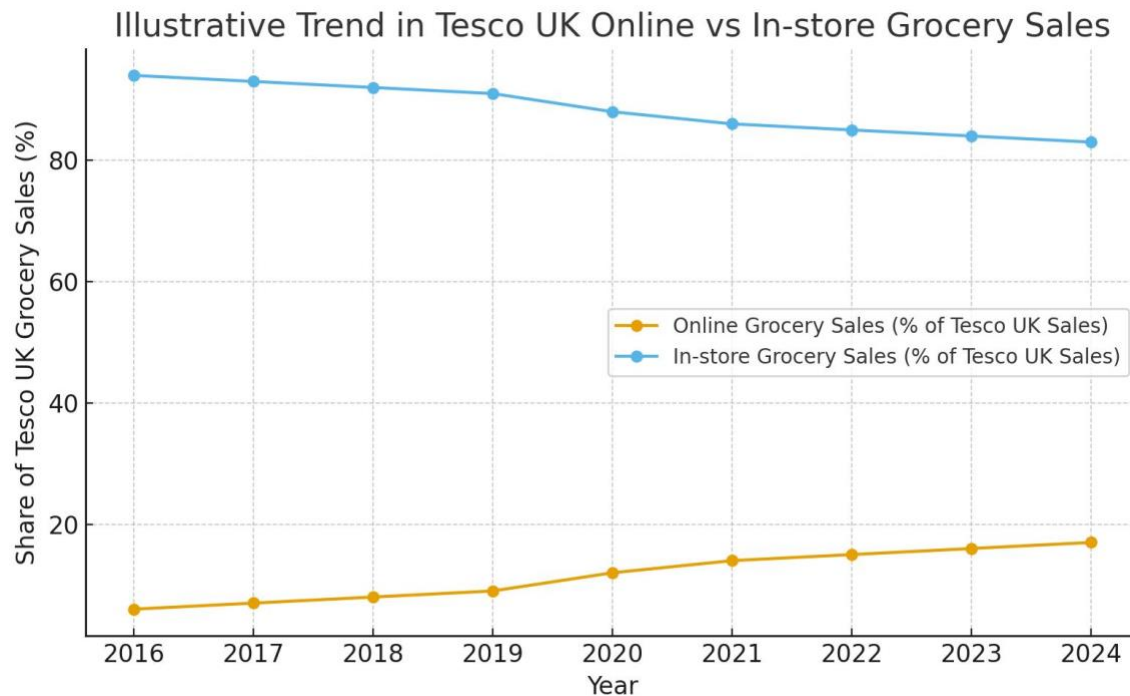


Figure 5: Illustrative trend in the share of Tesco UK (Zehner, 2020)

3.2 Follower Organisations' Strategic Responses

Aldi's and Lidl's emergence has significantly impacted pricing, pressuring Tesco to make its cost leadership strengths more pronounced (Brookfield, 2023). Price-matching, EDLP strategies on staples, and increasing offers in entry-level private labels have aided in maintaining market share. But purely on pricing, shares could slide, which could be difficult to sustain with competitors not willing to stop in their pursuit to gain market share (Forsman, 2019). It is likely that Tesco resists being drawn into purely pricing battles while attempting to bolster its strengths on differentiation, such as internet-based home delivery reliability, fresh food counters, premium food offerings, and community schemes (Alexandrov, 2022).

From the standpoint of Porter analysis, Tesco could be viewed to be operating on broad-based hybrids. Here, its primary goal is to start with low costs while concurrently delivering better levels of service, assortment, and connectivity. The most crucial point in such contexts remains to stick to strategic fit. It means different things to different companies, like ensuring investments in differentiation in areas such as technology, sustainability, or employee development result in enough consumer loyalty to compensate for costs. Simultaneously, consumers must not over-fragment their offerings into niches, in which specialists have brand or capability advantage (Flanigan, 2020).

Future use of data analytics could enable increased value proposition refinement by micro-targeting promotions, in addition to adapting store formats to demographics in their areas (Dodgson, 2023). These elements could combine to enable granular value proposition differentiation, with productivity gains cementing the cost leadership component of their strategy.

Cost Leadership	Differentiation
Broad market (e.g. discounters, Tesco on key value items)	Broad market (e.g. Tesco's range, service, online, loyalty)
Cost Focus	Differentiation Focus
Narrow segment (e.g. limited-range budget formats)	Narrow segment (e.g. premium or niche food specialists)

Table: Simplified Porter's Generic Strategy Positioning in the UK Grocery Sector (including Tesco).

4. Conclusions

Within this report, Tesco PLC's strategic context in the UK food retail market has been assessed via PESTEL analysis, Ansoff Growth Matrix, and Generic Strategies analysis by Michael Porter. What emerges from this report is, on one hand, Tesco's size, its diversified presence, and its extremely powerful information technology, yet, on the other hand, its exposure to risks due to cost inflation, high competitiveness on prices, high complexity, and high stakeholder expectations regarding its social responsibility (Fahey, 2024).

The most attractive opportunities for growth for Tesco in the UK would be in enhanced market penetration and product development, based on incremental market development and online expansion. Diversification needs to be measured, with closer links to its core competencies in areas such as logistics, data, and relationships, rather than shifting to new industries. Its competitive advantage remains hybrid, with cost leadership on core value offerings while having differentiation on services, assortment, online offerings, and its environmentally sustainable profile.

Key areas to press on include: 1) continuing to apply discipline to cost management, investing in technology and employees, in supply chains; 2) speeding up data-driven personalization initiatives in retail media partnerships; 3) communicating more effectively its environmental/social agenda, with its credentials, to support improving trust in the brand for Tesco; and 4) sharpening overall local formats to deliver alignment with its stores and web offerings. Overall, such efforts could support improving its competitiveness in the UK food market for Tesco.

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