

Choosing new directions at Tesco?



Why has Tesco's successful growth strategy changed?

Starting in 1919 when Jack Cohen sold surplus groceries on an East London stall, Tesco has grown to become the UK's largest grocer with 440,000 employees, 6,800 stores in 10 countries, revenues of £64.5bn and profits of £1.6bn. However, Tesco posted a record-breaking loss of £6.4bn in 2015 and experienced several poor years due to much tougher competition in the supermarket sector. This has caused investors to speculate whether Tesco's dominance is coming to an end. Is it time for a new strategic direction?

From its humble beginnings, Tesco showed expansionary zeal in the 1950s and 1960s, buying up hundreds of shops from competitors. In 1961 Tesco entered the Guinness Book of Records with the largest store in Europe and soon opened its first superstore in 1968. Shortly afterwards in 1974 Tesco opened its first petrol stations and soon became the UK's largest independent petrol retailer. Tesco continued to open more stores and in addition took over supermarket rival Hillards for £220m in 1987. By 1995 Tesco overtook Sainsbury's to become the largest food retailer in the UK, helped by the launch of the Tesco Clubcard. There then followed a great deal of overseas expansion with shops opened in Hungary (1995), Poland, the Czech Republic and Slovakia (1996), Thailand (1998) and South Korea (1999).

By 2000 Tesco was offering more than just food and petrol, with a wider range of products including clothes, electricals and personal financial products. Further international expansion followed, with stores being opened in Malaysia (2001), Japan and Turkey (2003), China (2004) and in the US (2006) using the name 'Fresh and Easy'. However, many of these overseas initiatives did not work out, with closures and sales in Japan, South Korea, Turkey and the USA, and in China the operation became a joint venture with a local partner. Nevertheless in 2008 Tesco managed to complete opening stores in every UK postcode by taking over rivals Somerfield on remote Scottish islands. Tesco then decided to create Tesco's Bank in a joint venture with the Royal Bank of Scotland in 2009.

In 2013 Tesco saw its profits fall for the first time in 20 years, with a record-breaking loss of \$6.4bn in 2015. This underperformance persisted as competitive pressures intensified, with

discounters Lidl and Aldi making deep inroads, and premium stores such as Waitrose and Marks & Spencer continuing to be very profitable. In addition Sainsbury was bidding for Asda (numbers two and three in the industry) in 2018, in order to increase their buying power, and Amazon's purchase of Whole Foods and launching 'Fresh', an online delivery service in the UK, would further intensify competition.

In response, Tesco acquired the UK's largest food wholesaler Bookers, which supplies food to caterers, retailers and businesses, for £3.7bn. The competition authorities said they were in sufficiently different businesses to not harm competitors. Tesco also entered into a strategic alliance with French giant Carrefour, giving them annually £80bn purchasing power over suppliers and helping them achieve £400m savings. In October 2018 Tesco's shares fell as the retailer missed first-half profits forecasts. Weak trading in Thailand and Poland was blamed for eclipsing accelerating sales growth in the UK. In 2019 Tesco announced a major overhaul of its larger stores, which could result in thousands of job losses, as it tries to achieve cost savings of £1.5bn.

Questions:

1. Using the Ansoff matrix, plot Tesco's growth over time. What do you notice about the pattern of expansion?
2. How has Tesco's corporate strategy changed over time?

Source:

- Whittington, R. et al., 2020. Exploring Strategy. 12 ed. Harlow: Pearson Education Limited.