

Tesco: A STEEPLE Analysis

Student ID: 28502655

MANG1013

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Executive Summary

Tesco's business position is examined using a STEEPLE analysis in this report. There are recommendations on each of the seven factors which are summarised in the appendix. A key recommendation, in the report, is domesticating more of Tesco's supply chain. Social and Political factors support this recommendation. It also makes financial sense to borrow money for domestication as interest rates are at their lowest. It is advised Tesco relocates some business activities because of the referendum. Investing money into more communal recycling areas will recognise Tesco's environmental and ethical interests. This report explains these recommendations, among others, in detail to inform shareholders of external factors impacting Tesco and to aid informed executive decisions.

Context

Tesco PLC is headquartered in Hertfordshire, England and has 6,902 stores in eleven countries. The focus of this analysis is domestic stores of which there are 3,500 stores (Tesco, 2016). Tesco's core purpose is serving shoppers better every day; their current UK grocery market share is 28.2% (BBC, 2016). I selected Tesco – a company in the tertiary sector – because of their high market share and potential to increase it. The Tesco-Booker merger, a £3.7 billion deal (BBC, 2017a), announced in January 2017, will drive growth. Booker, the UK's largest food wholesaler, supplies a "large number" (BBC, 2017b) of independent convenience stores competing with Tesco, so the acquisition will enable control over competitor's supply chains.

Social Factors

Social class

Existing Tesco customers belong to low and middle income categories and they socially reside as working, skilled working, lower middle, or middle class (Mahoney, 2015). Customer income and social class drove these customers to Tesco - positioned as a cost saving supermarket. Price reductions and promotions will retain these customers. Luxury product lines (e.g. Tesco finest) could be expanded to attract upper-middle class shoppers.

Demographic

A "greater life expectancy" contributes to the UK's ageing population (Palmer and Hartley, 2012a). 86% of over 65's attributed local food purchase to supporting local producers (IGD, 2010), so Tesco should source more products locally and noticeably state provenance on packaging. A *product development strategy* launching new product lines; low in saturated fats (due to cholesterol concerns), low in salt (blood pressure concerns) and high in fibre (digestive changes) will meet the needs of the ageing population aiding customer retention.

Psychographic Factors

Single person households and "on the go culture" has popularised ready-meals as time becomes scarce (Spence, 2017). Tesco should expand ready meal lines and clearly illustrate, on the product packaging, the time it takes to prepare the food. Families, a primary reference group, are getting smaller and there are more nuclear families. Pester power can target customers shopping for children. Over-line advertisements of children's favourite products could be advertised on channels like Nickelodeon.

Social identity theory

Consumers develop tastes consistent with ingroups that adopt habits based on aspirational groups. Purchasing shopping and consuming it is mainly private, so influencing shoppers via their groups is currently difficult. Customers can already rate and review Tesco products online (an example of social categorisation), but Tesco should provide shoppers with incentives (e.g. Clubcard points) for reviewing to increase participation.

Connecting Tesco accounts to existing social profiles (e.g. Facebook) will allow shoppers to see what friends (a secondary reference group) buy, making shopping inclusive. Social identification dictates we adopt the identity and behaviours of the group we categorised ourselves to (Cardwell and Flanagan, 2012). Implementing social components into online shopping will allow customers to recommend products and see reviews written by people they identify with. Tesco could collect data on these connected consumers to provide product recommendations. Existing customers may attract their friends, from competitor grocers, to shop with Tesco because of social shopping.

Cultural Environment

Tesco needs to continue with a predominately ethnocentric approach to strategy and integrate it with polycentric strategy. Considering geography and adapting to a local population's food and drink preferences will benefit Tesco. MOSAIC (Appendix A) identifies a population's origin, in an area, and segments the population enabling Tesco to target the local area's population with designated shelves of native products.

See *Appendix B* for summarised recommendations based on social factors.

Technology

Tesco should increase research and development expenditure, currently £1.49m (Tesco, 2017), to develop their technologies. The technology acceptance model indicates for technologies to be accepted, they must communicate to end users their ease of use and usefulness (D. Davis, 1985). Tesco already uses:

- Electronic shelf labelling
- Electronic scanners
- Electronic point of sale
- Self-check-out machines
- Just-in-time stock control systems

These technologies offer improved efficiency and management over supply chains. Innovative technology (e.g. Beacon networks) should be embraced as these existing technologies were. A beacon communicates with smart devices (e.g. phone) within range via a mobile application. A beacon network can be installed in each store so customers receive unique offers on their device enabling cross-selling. The beacon could also transmit additional product information to the customer's device.

Radio Frequency Identification (RFID) can improve stock control. Inventory delivered to Tesco stores would be fitted with RFID tags upon entry. All information about each tag, connected to a product batch, is stored on a central computer in store (Want, 2006). As the inventory leaves the store's warehouse and enters the store front, it is automatically registered on the central computer. Information is gathered in real time allowing faster, more accurate, inventory tracking.

See *Appendix C* for summarised technological recommendations.

Economic Factors

Disposable Income

Median UK disposable income in 2016 was £600 greater than the preceding year at £26,300 (ONS, 2017a). In 2014, ONS reported average weekly household spend on groceries was £59 (*Appendix D*) this will increase as shoppers spend additional income in Tesco stores due to the *Wealth Effect* (Copp, Lawrence and Stoddard, 2008). Increased disposable income may cause customers shopping at cheaper supermarkets to shop at Tesco, while some existing customers to shop at upmarket grocers (e.g. Waitrose).

Economic Growth

Economic growth enhances the *Wealth Effect*. Growth for 2017 was forecast at 1% but was raised by the European commission to 1.5% (Allen, 2017). Economic growth for the year is 1.6% which has increased consumer spending by 2% (PwC, 2017a). Retail sales are also up 3.4% (ONS, 2017b). Irrespective of potential uncertainty, caused by the EU referendum, customers have continued to spend and have increased spending in the retail sector. The Confederation for British Industry (CBI) survey supports this; it found 40% of 64 retailers noticed increased sales volumes in February 2017 (FT, 2017a).

Interest Rates

Interest rates in the UK are 0.25% - an all-time low (FT, 2017b) - so customers are less likely to save because of unattractive interest rates, and more likely to spend. Low interest rates should also encourage Tesco to borrow money for ventures, supporting vertical integration

of their supply chain. Tesco Bank customers are more likely to loan money from Tesco Bank.

Inflation

Inflation forecasts of 2.8% for 2018 (PwC, 2017b) dampen the impact of economic growth, low interest, and increased spending. CPI is forecast to be greater than GDP's predicted increase, so customers will get less for their money. Promotions and shrinkflation can be utilised to maintain sales and profits. Shrinkflation involves decreasing product volume, but maintaining its price (Shrinkflation, 2017).

Exchange Rates

Shrinkflation can be used to mediate the effect of a fluctuating pound. Despite the weakening of the pound, down 12% against the euro and 20% against the dollar, (BBC, 2017c) it has stabilised in the past quarter; £1 now buys €1.18. The weaker pound, post BREXIT, increases the cost of Tesco's imports and provides Tesco with another incentive to domesticate more of their supply chain. Re-negotiating with external suppliers for imports will mediate the effect of a weaker pound.

Labour Market

Express chains are increasingly popular as trends shift to fewer big weekly shops and more small shops. Tesco have replaced 1,700 deputy managers, removed a management layer, and hired 3,300 lower paid "shift leaders" (BBC, 2017d) to align with the trend. An estimated 3.2 million workers will be employed by the retail sector by 2020 (UKCES, 2016a). Over half of the UK's "low paid workers" work in retail (UKCES, 2016b). Working in retail has a negative stereotype; new HR strategies should attract talented workers and improve retention rates at Tesco. Recruiting and retaining skilled employees will ensure a competitive advantage is maintained. Motivating, developing, and rewarding employees will retain these valuable assets and improve employee engagement (Appendix E). Spotify and YouTube advertisements, targeting 18-25 year olds, can communicate opportunities available to Tesco staff. Working closely with colleges, sixth forms, and universities, while offering graduate schemes, will attract talent. A wider demographic can be reached with television advertisements.

See *Appendix F* for summarised recommendations based on economic factors.

Environmental Factors

Sustainability and satisfying environmental regulations are key to maintain Tesco's public image. Concerning environmental statistics and legislation has encouraged Tesco to commit to reducing energy consumption and greenhouse gas use (Tesco, 2014).

Leaving the EU will alleviate some UK environmental legislation, but domestic companies are still bound by UN legislation. The United Nations Framework Convention and Kyoto Protocol both aim to reduce member state's emissions. The UK is a founding member of the UN, so domestic companies like Tesco should closely comply with international treaties by realising their environmental commitment.

Communal recycling areas near Tesco stores and in Tesco car parks will encourage the local community to recycle, offsetting the environmental impact of Tesco's business activities. Selecting products with biodegradable packaging and working with a biodegradable packaging company, like enviropack, to package more of Tesco's existing products, will reduce plastic wastage. Subsidising wax worm farms will also offset Tesco's

plastic waste. Recycling and biodegradable packaging will ensure compliance with Environmental Protection Act 1995 and Environment Act 1990.

Purchasing hybrid home delivery trucks will reduce Tesco's greenhouse gas emissions and improve online shopping efficiency. Delivery leaders UPS have a "green fleet" of over 2,500 vehicles, including electric vehicles, electric hybrids, and hydraulic hybrids. It accounts for 7% of their total fleet (UPS, 2017). Starting a green fleet, recycling, and introducing biodegradable packaging will realise Tesco's 2014 environmental commitment.

See *Appendix G* for summarised environmental recommendations.

Political Factors

51.9% of the UK voted leave in June 2016 enacting The Great Repeal Bill (FT, 2017c). The UK government supported the result concluding European Union (EU) law in the UK. Trading freedom was a key motive for leaving. Evidence, published by Financial Times, indicates "trade creation has exceeded trade diversion" because of this decision (FT, 2017d). Increased trade benefits Tesco however, in the long-term Britain will lose access to the European single market. Importing European products and exporting products to Tesco stores based in EU countries will be effected by the referendum.

2017's General Election will cause uncertainty as the 2017 vegetable shortage did. Tesco sold vegetables at a loss as Spain and Italy's warm weather caused a vegetable shortage. These two countries supply 80% of the UK's leafy vegetables (BBC, 2017e). The vegetable shortage highlights Tesco's reliance on European suppliers. Investing in domestic projects cultivating crop will reduce reliance. A greenhouse scheme, for instance, would control environmental conditions, which caused the shortage abroad, and by extension prices. Tesco vegetables would be fresher and could be rebranded with the *British* label. Domestication requires investment but the benefits include; annual transportation savings, greater control, and reduced expenditure on imports.

Michael Barnier, EU Chief Negotiator, anticipates Britain and the EU will agree a deal, outlining trade and migration, by October 2018. Relocating European business activities, by March 2018, will protect Tesco from repercussions caused by the deal agreed in October. Stores in Czech Republic, Hungary, Poland, and Slovakia may have to close due to trade restrictions imposed by the EU. All domestic companies have been advised to relocate activities (FT, 2017e). The UK's departure from the EU should be completed by April 2019.

See *Appendix H* for summarised political recommendations.

Legal Factors

Taxation

Three taxes pertinent to Tesco:

- Corporation tax - 20% of the year's profits are payable to the government nine months after the end of each accounting period.
- Value added tax (VAT) – Each product and service Tesco sells is taxed at a rate of 20%.
- Pay as You Earn (PAYE) - Each employee on Tesco payroll is taxed on their earnings as they are earned, payroll must now be sent to HMRC in real time.

Employment and Consumer Legislation

Minimum wage legislation is the main statutory legislation for employment, it changes annually in April. Tesco must react to annual changes in this statute law to avoid penalties, as they did in March 2017, due to staff payroll errors. Errors costing Tesco in the region of £10 million (Monaghan, 2017). Minimum wage in April 2017 is:

Age	Under 18	18-20	21-24	Over 25
Pay Per Hour	£4.05	£5.60	£7.05	£7.50

Consumer legislation, such as Consumer Rights Act 2015, helps protect the interests of customers. Tesco must comply with consumer legislation to avoid enforcement bodies such as National Trading Standards and Food Standards Agency.

Negligence

Tort law handles civil wrongs including negligence. Tesco is legally and financially liable for grievances caused by negligence. Breaching duties of care and trust Tesco has with; suppliers, customers, competitors, and employees can lead to lawsuits (Palmer and Hartley, 2012b). Tesco can handle negligence lawsuits by arguing actions were in conjunction with the necessary standard of care and challenging the causal link between company actions and harm. Additionally, proving the injured party also acted negligently can help Tesco avoid some liability.

Competition

Antitrust laws protect the competitiveness of the grocer market. Governments encourage competition by sanctioning price fixing and abusing monopoly power. Businesses with a 40% market share are classified by the government as having a “dominant position” (Gov, 2017). While Tesco's market share is below this, they are the leading UK grocer. Behaviour like setting low prices, to drive out competitors, is abusing monopoly power which Tesco can be sanctioned for.

See *Appendix I* for summarised legal recommendations.

Ethical Factors

Social contract theory proposes Tesco is obliged to improve society and satisfy employees and customers without *violating* them. Tesco can contribute to society with communal recycling areas. Tesco have been accused of falsely advertising prices and overcharging customers at checkout, this must stop to avoid violating customers. Squeezing suppliers, for lower prices, is necessary but to avoid unethical allegations Tesco should ensure suppliers profit by selling to them. Stakeholder theory conveys Tesco must prioritise stakeholder interests (Freeman, 2004) by maximising stakeholder value. Maximising is achieved by; minimising costs and waste, improving employee skills and satisfaction (with training and incentives), and contributing to local community development.

See *Appendix J* for summarised ethical recommendations.

Appendix

A) MOSAIC

- Tesco can use their existing relationship with MOSAIC Marketing, who promoted “everyone’s a winner”, on behalf of Tesco for the 2014 Football World Cup.
- Outsourcing demographic research to MOSAIC, will benefit Tesco which will better understand local populations living near their stores.
- This information can help Tesco to stock attractive native products for the local population increasing sales.

B) Summarised Social Recommendations

Short term:

- Continue offering promotions.
- Make provenance more prominent on locally sourced products.

Medium term

- Expand luxury product lines and introduce product lines for health concerns. “Healthy: Mayonnaise” for example.
- Offer foods that are faster to prepare and cook.
- Clearly show length of food preparation time on packaging.
- Advertise products of interest on children’s channels to utilise pester power.

Long term

- Make online shopping more public.
- Consider integrating a polycentric strategy.

C) Summarised Technological Recommendations

Short term:

- Begin to use RFID technology to improve inventory management.

Medium term:

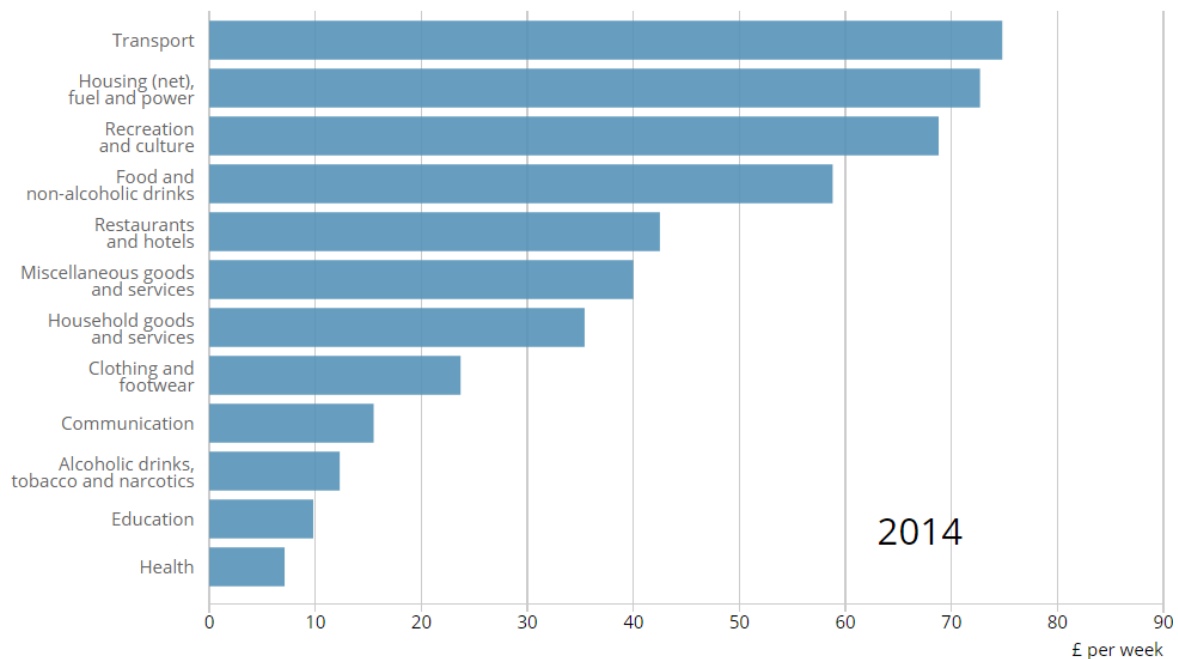
- Increase research and development budget.

Long term:

- Install beacon networks in several stores to trial the technology before installing it nationwide.

D) Average disposable income expenditure

Breakdown of average total household expenditure



E) Improving Employee Engagement:

- Have an open-door policy and team briefs
- Consider beginning share ownership schemes
- Recognising excellent performance

F) Summarised Economic Recommendations

Short term:

- Anticipate marginally increased sales.
- Anticipate increased loaners and fewer customers saving with Tesco Bank.

Medium term:

- Consider shrinking some product's volume and maintaining price.
- Re-negotiate with international suppliers for better prices.
- Produce communications to advertise the opportunities available to people if they work for Tesco.
- Establish relationships with colleges, sixth forms, and universities to find talented students with potential to lead.

Long term:

- Consider borrowing money to encourage more domestically supplied products.
- Improve recruitment processes to find better skilled staff.

G) Summarised Environmental Recommendations

Short term

- Place more communal recycling areas around Tesco stores and in Tesco car parks.

Medium term

- Begin to introduce more biodegradable packaging.
- Consider subsidising wax worm farms.

Long term

- Start purchasing hybrid home delivery trucks to reduce greenhouse emissions.

H) Summarised Political Recommendations

Short term:

- Replace some international suppliers with domestic suppliers.

Medium term:

- Begin to relocate Tesco's business activities in Europe before March 2018.

Long term:

- Invest in domestic greenhouse projects to gain more control over the supply chain.

I) Summarised Legal Recommendations

Short term

- Comply with employment legislation by ensuring payroll is error free and up to date with current minimum wage.

Medium term

- Increase employee awareness of consumer legislation and negligence.
- Avoid setting extremely low prices so Tesco is not accused of abusing monopoly power.

J) Summarised Ethical Recommendations

Short term

- Update all store promotions, on shelves and on the electronic checkout system, to avoid false price accusations.

Medium term

- Ensure suppliers still make a profit when selling to Tesco.

Long term:

- Prioritise stakeholders by reducing costs, improving employee skills, and contributing to the community.

K) Prioritised Recommendations

Prioritised Recommendations	
Short Term	<ul style="list-style-type: none"> • Place more communal recycling areas around Tesco stores and in Tesco car parks. • Replace some international suppliers with domestic suppliers. • Update all store promotions, on shelves and on the electronic checkout system, to avoid false price accusations.
Medium Term	<ul style="list-style-type: none"> • Expand luxury product lines and introduce product lines for health concerns. • Establish relationships with colleges, sixth forms, and universities to find talented students with potential to lead. • Begin to relocate Tesco's business activities in Europe before March 2018.
Long Term	<ul style="list-style-type: none"> • Make online shopping more public. • Install beacon networks in several stores to trial the technology before installing it nationwide. • Start purchasing hybrid home delivery trucks to reduce greenhouse emissions. • Invest in domestic greenhouse projects to gain more control over the supply chain.

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