Critical Evaluation Of Tesco’s Actions To Return To Profit

Executive Summary

This study analyses and examines the sequence of actions taken by TESCO in order to return to future competitiveness, liquidity and financial stability following the greatest losses suffered by the retail sector. The study also critically discusses TESCO's approach to ICT and its contribution to progress.

The report finds the five ways TESCO’s approaching retail technology is extremely positive. The major areas require further development and tests. Nevertheless, the company has started to have profit following the new approaching and it results in higher performance and effects after the biggest loss.

Recommendations discussed include:

1. Weaknesses of high-technology; one company cannot be controlled by technology and ignore human capabilities; TESCO should invest in quality work-life for its employees.

2. TESCO should take customer feedback regarding the introduction of new ads and goods; This action can prevent potential disapproval from the public;

3. Upgrade its e-commerce and online business and boost its marketing strategies to attract more customers.

Introduction

Even the most prosperous brands could face choppy waters. The TESCO brand is synonymous with shopping and success in the UK. Following questionable investment decisions and scandals in the business in 2013 and 2014, TESCO began to face unprecedented losses. The company must prioritise decisions and actions to solve the effects of economic depression and avoid pitfalls. The TESCO crises management are being implemented to increase and retain the current profit ratios and prevent the company to pull into the bottomless abyss of bankruptcy. Of course, that brings a huge impact to the customers. TESCO has a long way to gain their trust again and for that reasons, a few strategies and actions related to technology have been implemented to focus on customer experience and increase the sales again. These strategies are using RFID, connected devices, BYOF, mobile payments and mobile’s potential maximized. TESCO believes that with these approaches he will be able to improve online and offline shopping both in own e-commerce and retail.

To get a better perception of TESCO, PESTEL analyses will be applied. Given the above, the present study aims to present and analyse the pattern of acts undertaken by Tesco to recover income and the model of actions using information communication technology (ICT) that TESCO has implemented to return to profit and how it has contributed to success.

Chapter 1. Critical evaluation of TESCO’s actions to return to profit

Tesco has been the UK's most dominant supermarket for more than two decades and it is still the biggest supermarket in the UK. At the moment, all is not well with TESCO. The company enjoyed a flawless reputation and greater market control until a crisis arose which hit the company, impacting its market performance. The company has posted declining sales in the UK since 2013. The food retail giant also lost market share in the UK from a high of 30.9% in 2012 to the current 27.6% in 2018 (Statista, 2017). The disclosure of the company's illegal behaviour has caused the company to suffer huge losses as a share of the company's revenue and the share prices continue to fall. Because of these effects, TESCO has made several efforts including hiring the new CEO Dave Lewis and new track record executives, paying court fines and compensating stockholders for their shares purchased over the period affected by the financial scandals.

To get a better understanding of this retailer, the PESTEL (Political, Economic, Social, Technological, Environmental and Legal Factors) analyses will be a great tool to analyse TESCO's operation and performance. According to Sammut-Bonnici & Galea (2015),

PEST is an acronym for four sources of change: political, economic, social, and technological. PEST analysis is a powerful and widely used tool for understanding strategic risk. It identifies the changes and the effects of the external macro environment on a firm's competitive position.

Regarding political factors, one of the main effects of Brexit has been its impact on food prices which have steadily increased since September 2016. UK supermarkets such as TESCO have been enforced to seek costly UK suppliers rather than EU suppliers, one of the reasons why UK food prices have seen dramatic rises from pre-Brexit deflation to post-Brexit inflation. Concerning economic factors, the UK economy shows positive signs of financial crisis recovery. Economic growth is a positive sign for Tesco as it contributes to growth in the retail sector, which is Tesco's main industry. Only the lowest-priced discounters like Aldi and Lidl have benefited most from the economic downturn since Brexit (Rodionova, 2017). Kotler and Armstrong (2010) explain about social factors:

In the past years, there was a decrease in the birth-rate and an increase in the life expectancy of people. This led to a shift in the tastes of individuals which should be taken into account by Tesco. For example, the adoption of online shopping by Tesco for grocery products is an approach that takes into consideration the mobility issues that elderly people face. This research also suggested that elderly people with a high income are generally more in favour of the use of the Internet and are interested to acquire products online. Therefore, Tesco has positively responded to this social change.

Another social factor concerns to sugar and healthy foods and beverages. UK adults are worried about this topic and actively taking steps to decrease sugar in their diet. This is also a threat to supermarkets as TESCO who stock a lot of processed foods and drinks high in sugar content.

Moving to technological considerations, broadly, technology is a key enabler of TESCO's global business. Leading technology will help to improve customer loyalty, increase sales and turn more effective the company internally, such as analytics, social media and mobile software innovations. The company uses new technology such as PayQwid, radiofrequency recognition, Clubcard, tesco.com ordering and scanning as you buy. These advances are good not only for

customers but also for the industry as they can reduce costs. More focus will be paid to the technical aspects used by TESCO in the second part of this study. TESCO promotes a range of green initiatives (environmental factors) aimed at protecting the atmosphere and dedicated to reducing energy consumption. Moreover, according to Johnston (2017)

Tesco has announced it will run 100 per cent on renewable electricity in the UK and Ireland this year and worldwide by 2030 in a move which one solar panel company said would create “huge demand” in the sector. The supermarket giant said it was announcing tougher science-based carbon reduction targets for its stores and distribution centres to help combat climate change. In addition to buying green electricity, Tesco also plans to generate its own.

The last source is legal and that brings to TESCO’s scandal. Three former TESCO’s executives face retrials by the SFO over the company’s 2014 accounting scandal where it overstated its profits. (Croft, 2018). The debacle resulted in one of the worst years in the 100-year history of TESCO and destroyed its reputation.

TESCO’s first move was to bring a new CEO, Dave Lewis, who had no experience heading a retailer. The company Mr. Lewis inherited in 2014 from Philip Clarke was reeling from an accounting scandal that would result in fines and redress provisions running into hundreds of millions of pounds. Subsequently, TESCO was able to improve. Between December 2014 and February 2015, the number of sold goods increased. This was a great indicator of starting to revert its situation. Furthermore, Lewis “placed an extra 4.652 employees on the shop floor to ensure that shelves are well stocked and that customers are better served” (Butler and Farrell, 2015) and reduced the number of management roles. Intending to attract more customers, Lewis also cut prices and create more alliances. Such tactics were the beginning of a new moment for TESCO. Unquestionably the path back to the success is lengthy although it has already begun.

Chapter 2. Critical review of TESCO’S approach to ICT

Tesco has always used the latest technology. Using technology, in a proper way, could increase online and offline shopping, promote a better shopping experience, help balance inventory assortments, manage orders, stock and track pricing. Likewise, customer tracking tools increase customer satisfaction and promote loyalty in the shopping experience. Correspondingly, technology improves decision making and planning on the executive level. Below is an overview of the latest technology’s strategies using by TESCO.

RFID – Stock Counter

TESCO has introduced a new RFID barcode to their F&F clothing range in-store. This works in combination with BYOD.

It allows the products to be automatically counted and removed upon entering and leaving the store, before and after purchase. This information is also back-tracked to the suppliers of the store, to give them an accurate replenishment of stock and improve the overall in-store experience for shoppers. (Anon, 2019).

If This Then Than

This is a technology development that TESCO introduced to improve online and offline shopping. IFTTT is an app that allows the customer to “connect other active apps and combine how and why you use them, to make a customer’s life more efficient” (Anon, 2019).

BYOD Integration

BYOD stands for “bring your own device”. This is an app for the stock manager that is able to attest the record of stock and disposal in real-time. The user needs to scan a product’s barcode or shelf label and precise information to ensure employees are getting products back in the stock as soon as they are out. It also finishes with the 5 or 10 minutes wait for the employee “check out back in the stock” the customer’s request.

Advanced M-Commerce

TESCO knows that technology and smartphones are part of almost everybody’s life, so the company wants to use full potential to provide the best online/offline shopping. The new digital space has multiple images from the products, video content and also 360-degree images.

Mobile Payments App

TESCO is testing and using the mobile payment app, PayQwid. This app can be downloaded and used in-store when the customer is doing his shopping. The customer makes the payment through the app and also can spend up his bonus available in his Clubcard loyalty points.

Unquestionably the new technology such as mobile, self-scan, payment through the apps among others will make a retail move faster, increase the shopping process and reduce lines. Nevertheless, the company can’t forget the customers that don’t use or don’t appreciate technology. According to Hobbs (2019), “only 18% of consumers are interested in using their smartphone to pay for purchases in shops […]. And the main barrier is still trust”.

The research found that only 1% think that a retailer can offer a secure mobile payment app. The same research found that 59% think that a bank can. (Hobbs, 2019). That justifies the lack of trust.

ICT is vital to TESCO. Every aspect of their operations is controlled and monitored by ICT – stock, payroll, communication, distribution, auditing, monitoring, planning etc. Ghattaora (2019) arguments that ICT is essential to the running of a modern store. According to Ghattaora (2019)

Tesco needs to communicate with a range of individuals and organizations. Including their customers, their competitors and their suppliers. Good communication in Tesco is essential if it is going to achieve its objectives and to operate effectively.

TESCO uses internal and external ICT. Although the most important topic in this study is the achievement objectives through ICT. TESCO ICT has transformed the ways of communication within and outside the business. ICT systems and their applications influence the ways TESCO operates and take decisions. (Ghattaora, 2019). Computerized Store Merchandising and Planning systems ensure that TESCO gets the right amount of space on each shelf. This allows optimizing the time and sales. However, technology has also limitations. Faults of computers can slow down all the process and fraud can take place. Moreover, the cost of ICT is expensive.

Just to give some numbers, last year TESCO spent £ 133 million on ICT, that is about 1.4% of their turnover. (Ghattaora, 2019).

The new technology and approaches have brought several opportunities for TESCO. First, the online shopping facilities. Second, self-service check-points, which have reduced labour costs. After the big loss and the scandals, the new tech tools provided by TESCO brought new opportunities to “rescue” the customer trust. Through RFID-technology, the customer experience is improved and also the stock issues. Likewise, customers can pay as they want through the new payment system (PayQwid). Farooq (2018) explains that for those who love convivence shopping, TESCO introduced “scan as you shop” checkpoints. “Customer shop and tag products. It saves time and labour cost as well”.

Conclusion

This study discussed TESCO’s approaches to return to profit and success after the massive crisis in 2015. Since taking over as TESCO chief in September 2014, Mr Lewis has put TESCO’s focus on price cuts, increasing the staff in stores and enhancing the customer experience in an attempt to revive the company’s fortune and triumph.

TESCO uses technology in the best way to increase the shopping experience. It has applied some technological strategies to grow the sales, simplify the workflow and improve the customer experience such as RFID-enabled barcode system, a mobile payment app, BYOD among others. Through these technologies, TESCO can upgrade the shopping business online and offline, reduce costs, better collect the data, improve marketing as well as home delivery services.

The benefits of ICT to TESCO are massive and it includes improving communications and customer service, increases productivity and it’s able to monitor sales analysis and promotions. Indubitably each system comprises weakness and that motivates the companies to push their limits and develop. The analysis methods are there to help and support companies to create strategies to overcome their limits. That is a great example of what the big loss from TESCO meant it and how TESCO is overcoming it.

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