Tesco: Pestle Analysis

Introduction

Tesco is one of the leading UK retailers with operations in over 12 countries around the globe (Fatricia, 2017). Tesco started its operations in 1924 as a London based vegetable stall. Today, it has expanded to be the biggest supermarket in the UK, with the most massive superstores dealing with a variety of retail products and services, from food, hardware products, to insurance and finance services(Tesco, 2020). Globally Tesco is ranked the second-largest retailer after Walmart in terms of market share and profitability. This essay examines how Tesco supermarkets are governed and how the external environment impacts their business operations.

How Tesco Plc Is Governed and Management Structure

Like many supermarkets chains in the UK and across the globe, Tesco follows a hierarchical organizational structure (Meng, 2020). In this organization structure, all the company's critical positions are divided into different segments, which ensure a smooth flow of operations across all their business premises. At the top of this structure are vital managers and leaders who have supreme authority and responsibilities.

At the top of Tesco's leadership is the Tesco board. The board is composed of 10 members who include the chairman of the board, the CEO, Chief financial officers, and four non-executive directors. Below the Tesco PLC Board are five committees. These committees include the audit committee, the corporate responsibility committee, the nominations committee, the remuneration committee, and the disclosure committee. The committee plus the board have the most significant responsibility and authority overall operations of the company around the globe. This top-level management performs supervisory roles and takes all critical decisions as to the functioning of the business. These managers also represent the company in major national and international market activities.

Beside this holistic approach to the management of the organization, Tesco organization has another structure at regional and store level. This is also referred to as the mediate level. It is the link between the top-level managers and the ground staff. The vice presidents and other managers are found on this level. They coordinate activities between these two levels and perform essential operations functions such as human resource management, marketing, and personal relations.

The last level at Tesco management is the base level. At the top of this structure is the regional manager. The regional managers are responsible for making key decisions regarding the stores located in their regions. Below him is the store manager. The store manager receives reports from three key personnel: the food trading manager, the non-food trading manager, and the personnel manager. Each of these managers also controls another set of managers; for instance, there are fresh food section manager and ambient food section managers who report directly to the food trading manager. On the other hand, the electrical section manager and the clothing section managers’ report to the non-food trading managers.

One of the critical reasons why Tesco has adopted this structure is that it is large and has several layers within its operations (Meng, 2020). Thus the organization opted to use a functional structure that focuses on different departments in their business operations. Besides, this structure is based on function as opposed to individual store locations. Secondly, since the company has operations across various countries around the globe, it would have been different for one person to monitor and control all activities. Thus, the hierarchical structure helps the company manage various departments and stores, but it also helps them handle different people differently across different countries and cultures.

Furthermore, Tesco has an elaborate purpose and vision it seeks to achieve-'to serve shoppers a little better every day.' hence it is crucial to have the best care for customers in all stores it operates. The hierarchal structure helps the company to achieve this goal.

Importance of Carrying Out Pestle Analysis

Pestle analysis is a tool used by business managers and experts to monitor and analyze the external environment factors that impact a given organization (Morrison, 2020). PESTLE is an acronym for the political, economic, social, technological, environmental, and legal factors that influence business operations. According to Morrison (2020) conducting a PESTLE analysis is an essential process that helps marketers to identify threats and opportunities. Besides, scholars agree that it is crucial to perform this analysis before venturing into any market. Similarly, if you have an existing business, the review is significant in conducting the SWOT analysis. As a result, the PESTLE framework is strategic planning, a tool that helps managers to reduce business threats in their market. The importance of conducting a PESTLE analysis range from the idea phase, product launch, product development, marketing strategies to increasing success.

One of the key importance of conducting a PESTLE analysis is the cost-effectiveness associated with the analysis (Boddy, 2016). The only significant costs associated with this analysis are the time. This analysis can be completed through a simple organization of data and collection of responses from stakeholders. Simply put, the PESTLE analysis is a straightforward analysis where the amount of research and resources needed to conduct this analysis is optional. Besides, anyone in the organization can do the PESTLE analysis.

Another significant importance of the PESTLE analysis is that it helps the organization to have a deeper understanding of the external environment in which they are doing business (Boddy, 2016). Without this analysis, the environmental factors that directly or indirectly affect organization success might go unnoticed. For instance, a pharmaceutical company trying to develop a vaccine or drug for COVID 19 may overlook other safety and consumer laws while pushing to develop its drug. Such a company may also neglect the technological changes and barriers that consumers face in less developed countries compared to consumers in developed countries. Similarly, some organizations have developed products that thrive in one market but fail miserably when exported to other markets. Thus, the PESTLE analyses help managers understand different influential factors that can affect the success of any product launched in the market. Consequently, it encourages the development of strategic thinking for a deeper and holistic understanding of the business environment.

The PESTLE analysis has proved to be an essential tool for analyzing specific products in a

given market segment. Even though many firms used this analysis to analyze the entire organization, it can also be used to analyze particular products. This analysis can be used to analyze customer relationships as well as marketing plans. This narrowing of the analysis can raise alertness and awareness of the potential opportunities and threats within and outside the external organizational environment. For instance, the PESTLE analysis can be sued to tell whether there is an existing competitor, potential /upcoming competitors, or whether there are other products within the organization that may provide threats or opportunities for the organization or specific products. For instance, an organization may look into projections for population increase that can be used to develop products that meet certain age segments effectively. With the PESTLE analysis, a business can thoroughly examine changes and create new strategies to maximize profits. Without this analysis, the organization may be gearing to existing threats within their market segment.

Most of the business opportunities are found in the external environment. Thus an organization may use the external analysis to exploit and strengthen the firm's operations. For instance, today, most business organizations are concerned with the changes in technology and social trends. As such, most of the organization has integrated social media channels in marketing and communication strategies. Today social media platforms such as Twitter, Facebook, and Instagram have become an essential tool for business communication and marketing campaigns. Thus social and technological changes have emerged as opportunities to expand and increase their sales revenues. Many organizations have used this tool to build marketing campaigns and reach out to new customers. A robust external analysis allows the business to convert the external environment to the customer before competitors do. However, as Morrison (2020) points out, it is crucial to understand your reason before conducting any PESTLE analysis activity. You should be able to understand the target audience or the product which you would like to increase.

TESCO PESTLE Analysis

Political Factors

Tesco headquarters are in the UK. Besides the company, major operations and supermarkets are found in the UK. Needle (2015) posits that businesses must comply with various legislation that ensures the smooth functioning and safety of their operations. As Tesco operates across multiple jurisdictions across the UK and Europe, it needs to keep up with the changing political landscape. Tesco also has to analyze the political stability of any country it is operating since the more stable the political landscape; the more opportunities are available for Tesco to exploit. One of the critical political activities that have impacted Tesco's operations is the Brexit. The new regulations that will come after Brexit are formalized will have a significant impact on the business operation and the sales of the revenues. As such, Tesco should be ready to analyze the Brexit regulations and identify potential threats and opportunities. Similarly, the tensions between China and the United States have a significant impact on the organization's operations. The trade tensions between these two superpowers have affected the regulations regarding the products and services emanating from these markets. Besides the changes in tax policies among the two countries and elsewhere where Tesco operates significantly affects the profitability of its stores.

Economic Factors

There are numerous factors that play a significant role in the consumption of the products and services that Tesco deals with. As a result, Tesco has to analyze the trends in the economic changes in every country that it operates. These factors have a considerable impact on the sales revenues, product distribution, and the overall profitability of the stores(Needle,2015). For instance, the company keeps a keen eye on the various changes in tax policies to leverage the same for its future success. However, despite its global presence, Tesco largely depends on the UK market segment for a significant share of its profits. Thus any changes in the UK economy will have a massive impact on the profitability of the company. For instance, the economic changes will affect how the company prices its commodities and how it delivers its products and services to the consumers. The additional costs associated with the changes in the economy will be transferred to the consumers. Thus Tesco largely depends on the inflation index to price its commodities. On the other hand, the sales volumes largely depend on the disposable income in the countries it operates.

Social Factors

According to Fatricia(2017) social factors have played an instrumental role in the business strategies at Tesco supermarkets. Due to the current social changes and, people prefer buying products in one go and based on social trends. Through the analysis of the social factors, the company has switched from a retailer of food items to cum non-food model where it stocks a variety of both food and non-food items. The company has also realized that various consumers' products and services are demands based on societal influence. Hence the choice of products and services depends on different cultural and social factors with which the store is located.

Tesco has been monitoring the changes and trends in society and the culture of its consumers for ages. Through this analysis, the company has managed to design stores, products, and services that meet these changing needs. Since most of the stores are located in urban and cosmopolitan areas, Tesco has realized that to beat competitors across the UK; it needs to provide consumers with sufficient products and services to choose from. Similarly, over the recent past, most of the UK consumers have shifted towards organic products, and the company has managed to capture its customer base by changing its attitude towards promoting social activities and healthy living through eating organic products. Corporate social responsibility, which has been linked to many organizations' success, has become an integral part of Tesco competitive strategy. Today, Tesco hires locals in a move aimed at benefiting society(Tesco, 2020).

Technological factors

Over the last decade, there have been numerous technological changes in the retail and manufacturing sector. According to Rosnizam et al., (2020) these changes have affected how businesses such as Tesco are conducting their activities. Tesco has realized that it is essential to keep up with the changes in technology for it to become relevant and competitive in the retail sectors. Consequently, the company has been experimenting with various retailing aspects and has achieved significant success in many stores. For instance, the company has been operating an online store where customers can order products and get their products delivered at their doorsteps. Today over 40% of its customers shop online (Rosnizam et al., 2020). Tesco has also partnered with another giant in the industry, Amazon, to create the Amazon Go, a cashier-less billing technology that is likely to revolutionize the retail industry. Through this technology,

the company aims to reduce the long ques in most of its supermarkets, which will make shopping to be less time-consuming.

Legal factors

Any changes in laws and regulations regarding trade and industry will significantly impact Tesco operations. Thus, the company needs to follow all the laws and government policies to smoothly and conveniently meet the client's needs.

Government department such as food retailing commission has laid down various rules and regulation that all retailers must follow by all industry players. Besides, Tesco has to adhere to labor laws, including equal pay, gender, race, and ethnicity issues.

Environmental Factors

Tesco is involved in various environmental initiatives. The main aim of these initiatives is to comply with the government regulations on environmental protection and create a more sustainable business venture (Tesco, 2020). For instance, the company is involved in various activities aimed at reducing and removing all non-recyclable materials in the supply chain (Evan and Mason, 2018). The company has also ensured that it is engaged in sustainable sourcing of its products which adheres to a zero-tolerance policy on pollution and illegal sourcing of raw materials (Evan and Mason, 2018).

Conclusion

In conclusion, the PESTLE analyses of Tesco PLC showcase the various external factors that impact its business operations. This analysis helps the company and other interested parties evaluate the brand's external business factors and some of its major products and services.

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