Market Opportunities and Challenges: A Case Study of Tesco

Muhammad Raqib Aiman Bin Rosnizam¹, Daisy Mui Hung Kee², Muhammad Ekmal Haikal Bin Mohammad Akhir³, Misha Shahqira⁴, Muhammad Amril Hanif Bin Mohd Yusoff⁵, Roland Satrya Budiman⁶, Aisha Mohammad Alajmi⁷

Universiti Sains Malaysia, Penang, Malaysia¹,²,³,⁴,⁵
Ma Chung University⁶
Kuwait University⁷
Correspondence Email: daisy@usm.my

ABSTRACT

Tesco is one of the world’s leading multinational grocery and general merchandise retailers that was founded in 1919. Tesco opened its first hypermarket in Burnt Oak, England in 1931. Tesco has expanded rapidly in different countries such as Malaysia, Hungary, and Thailand. For decades, it has been the people’ go-to hypermarket. The success of Tesco was because of its low prices and the varieties of products. Tesco has diversified into areas such as the retailing of books, clothing, furniture, and electronics. Despite the undeniable success, Tesco faces setbacks such as the accounting scandal, horsemeat scandal, and the downward shift in quality and services. This paper will show the improvements that can be made to handle the situations.

Keywords: retailer, management, wage, grocery, Tesco, diversification

INTRODUCTION

Jack Cohen founded Tesco plc in 1919 when he started to sell surplus groceries in the East London of London. The Tesco name first appeared in 1924 from the derivation of the supplier’s name T.E. Stockwell (TES) and combined those initials with the two letters of his surname (CO). The first Tesco store opened in 1931 in Burnt Oak, Barnet. By 1939, his business has expanded as he had over 100 Tesco stores across the country.

The UK grocer has expanded globally since the 1990s with operations in 13 other countries in the world. Although, the company has exited the Japanese market in 2011 and the US market in 2013 but continues to see growth elsewhere. In the 1960s, the company began to diversify into areas such as the retailing of books, clothing, electronics, furniture, toys, petrol, software, financial services, telecoms and internet services.

Tesco is the multinational groceries and general merchandise retailer and the only British-based supermarket chain that has operations overseas. Despite its success as the ninth-largest retailer in the world measured by revenues, Tesco is facing issues such as a decrease in its products and services quality, the horsemeat scandal, and its failure to understand the trend and culture differences in other countries (Essays, UK, 2018).
Background of Ideas

Product or Service

Product is anything offered to a market for attention, acquisition, consumption, purpose, and to satisfy a want or a need. Whereas service is a form of product that consists of activities, benefits offered for a price and is essentially intangible and do not result in ownership. Services too like products satisfy the customers. Tesco was first focused primarily on a product which is food and drink but over the years has diversified into clothing retailing, electronics retailing, financial services, telecoms, and grocery home shopping service. Tesco is now offering both products and services. Even though Tesco is a well-known low-price retail shop, in recent years Tesco is facing a downward shift in its quality in both products and services offered resulted in poor customer experience (Daily Mail Reporter, 2013). Quality is very much expected by customers from any company. A business may survive without quality but cannot reach its earning potential. The lack of quality is costly through waste. Quality is more preferred than a low price and a lot of people are willing to pay for better quality products and/or services. If a company can give the best quality, then customers will be satisfied. Thus, the company will earn a good reputation and a company with a good reputation will attract more customers and positively affect the profit. The product and services are an important part of any business because it is often the only contact a customer has with the company. Whenever customers experience poor quality product or service, they expect the company's customer service or product department to resolve the issues. By improving the quality of its products and services, Tesco will be able to build trust with customers, fuels word of mouth and social media which is one of the effective marketing strategies, produce less customer complaints and returns, and produce higher revenues (business.com editorial staff, 2018).

Market Opportunity Analysis

Market opportunity analysis is a tool to identify and assess the attractiveness of a business opportunity (MBASkool.com, [APA], n.d.). Before undertaking a product or service, it is important to analyze the market for it to determine probable profit and revenue from it. The first step is to identify the business environment forces which include economic conditions and trends, relevant social changes, and cultural differences. Tesco has internationalized its retail in both Asia and Europe; however, Tesco has failed in Japan and the USA. The failure was due to Tesco overlooked the importance of understanding the target market. After only 9 years, Tesco left the Japanese market in 2011. According to Tesco, the failure was because of the high cost of trading and the demands were difficult to meet. However, Tesco may have overlooked the cultural differences because the Japanese prefer high-quality products and services during their shopping experience. Tesco store is large in size and this has made Tesco unable to provide high levels of customer service to every shopper. Tesco expanded internationally to the USA with the name of "Fresh & Easy". The store focused on convenience and fresh organic food instead of convenience and price. Tesco tried to establish a healthy image in a country where its citizens love fast food. The self-checkout system was un-welcomed as they are used to high levels of customer service in supermarkets (Christin Ahlfeld, 2012). Next, describe the industry and its outlook. The types of marketing practices include billboard campaigns, advertisements in newspapers, and internet advertisements. These are the implications for the opportunity that should be sought by Tesco which are joint ventures, online shopping, and emerging markets.
Moreover, Tesco must analyze its competitors from the customers’ point of view and rivals’ points of view. Tesco needs to know its competitors well since Tesco not only competing locally in the UK but internationally with other countries' local supermarkets. By analyzing from customers’ points of view, Tesco will be able to identify the strengths and flaws in the service and quality of Tesco and its competitors. From the rivals’ point of view enables Tesco to understand the firm better in their past and current strategies, whether they have the same strategies, or if the use aggressive advertisements. This will allow Tesco to mimic the rivals’ strategies that are found successful. Then, Tesco must also create a target market profile allowing them to determine their potential customers. Target market profile factors include demographic, geographic, and psychographic. The final step is setting sales projections. Sales projections are the amount of revenue a company expects to earn, by doing so will help determine the health of Tesco whether the sales will trend upward or downward. The results obtained should be compared and then a decision should be made on the go or no go for the product or service in question.

**Political Environment**

Tesco operates in 13 countries in Asia and Europe. With its international operations, Tesco is exposed to many political factors that can affect the operations of Tesco. Political factors include tax rates, political instability, and unemployment. The tax on supermarket (Tesco Tax) was proposed but declined by the UK government to avoid price hike but similar initiatives in the future can negatively affect Tesco (Michael Stones, 2014). Tesco also faces import duty on goods as it imports some of its inventories.

**Economic Environment**

Economic environment refers to economic factors which have a bearing on the functioning of a business. In 2018, the UK has increased the Minimum Wage Rate by 4.4% and this resulted in an upward shift in labor cost. Tesco was affected by the increase of wage and its annual wage bill total of GBP 4.5 billion (Caroline Noblet, 2017). The increasing unemployment rate has decreased the demands for goods, adversely affecting the demand required to produce goods. Although economic factors are beyond the control of Tesco, their effect on performance and marketing mix can be profound. Tesco’s international business is growing and is expected to contribute to profit but the company is still highly dependent on the UK market.

**Social Environment**

The social environment is the facts and experiences that influence individuals’ personalities, attitudes, and lifestyles. Customers’ beliefs and attitudes are related to the demand for goods and services. Consumer shopping trends are constantly changing. Nowadays, people with busy schedules prefer the same day and fast delivery with the flexible goods return policy and one-stop shopping. Healthy lifestyles are becoming popular and more people are concerned about their health. So, Tesco must consider a change in behavior and the demand for organic food.

**Technological Environment**

The technological environment is the variable that is used to evaluate available alternatives concerning technology capabilities. Tesco has introduced radio-frequency identification technology (RFID) which increased the in-store experience for the customers (Chloe Rigby, 2016). Tesco has made its digital wallet service called “PayQwiq” (Kantar Retail IQ, 2016). The self-checkout system has made customers experience convenient and faster checkout (Samantha Khor, 2015). The “Scan &
Shop" app or scan as you shop allows customers to experience convenient shopping as customers can shop and tag products, the app saves both time and labor cost (Alexander Wong, 2019). Tesco faced issues like poor customer service and the horsemeat scandal, the accounting scandal, and the technological advancement brought new opportunities to Tesco to regain the customer's trust.

Justification of Ideas

Product or Service

Tesco plc is facing issues regarding the quality of their products and services. Tesco has been the peoples’ go-to grocery store for wet products as it was relatively cheaper than other grocery stores. However, in recent years Tesco is unable to maintain the quality of its products and the low-price tag no longer attracts as many new customers as it once was as more customers favor quality than the low price. Tesco is relying on suppliers for its products and the shelves restock need to be ramped up to maintain its freshness and quality. As for the services, Tesco needs to hire more staff and train them in customer service to ensure shopping at Tesco is more appealing.

Market Opportunity Analysis

There are five steps in market opportunity analysis which identify the business environment forces, describe the industry and its outlook, analyze its competitors, create a target market profile, and set sales projections. Tesco needs to have an effective market opportunity analysis as it can help in getting valuable insights into the shifts in the economy, competitors, ongoing market trends, demographics, and the traits of customers’ expenditure. Market analysis is one of the vital components to help businesses with all the essential information and making wise business decisions.

Tesco’s failure in the USA market and the Japanese market is due to the company not identifying the business forces including economic conditions and trends, relevant social changes, and cultural differences. Tesco needs to understand what the trends in the countries are that it wishes to venture to. So, Tesco can follow the trend to meet the customers’ needs. Next, Tesco must be able to describe the industry and its outlook including the marketing practices. Marketing plays an important role in any business it can make or break the business. Tesco is often associated with low product quality because of the low price because people often think that price is equivalent to quality, so the lower the price is the lower its quality. To overcome this stigma, Tesco needs to enhance its marketing practices.

Market opportunity analysis also includes analyzing competitors. With this evaluation, Tesco can establish what makes their product or service unique and therefore what attributes they play up to attract their target market. Tesco may evaluate its competitors by placing them in strategic groups according to how directly they compete for a share of the customer's dollar. For each competitor or strategic group, list their product or service, its profitability, growth pattern, marketing objectives and assumptions, current and past strategies, organizational and cost structure, strengths and weaknesses, and size in sales of the competitor's business.

Moreover, Tesco must be able to create a target market profile for its business as it enables the company to direct its resources to those customers with high potential for sales growth, interest in the product and loyalty to the brand. Once Tesco established its target market and able to achieve a solid presence in the target market, it will act as a barrier to competitors seeking to enter the same market and retaining a competitive edge may be one of the most important benefits of target marketing. The final step in
the market opportunity analysis is setting sales projections and with this Tesco will be able to better manage inventory, gauge the demand for their products, and aid in the financial plan for the company’s growth.

**Political Environment**
The political environment involves the state, government and institutions and legislations and the public and private stakeholders who operate and interact with or influence the system. The political atmosphere should be in good and stable condition for a firm to operate successfully. Currently, Tesco is operating in 13 countries in the world and this has made the company exposes many political factors that can affect its operations. These factors include Tax rates, current and impending legislation, political instability, unemployment rate, the economic condition of the countries where it is operating.

Tesco can overcome the political problem by managing political risk with several solutions. Firstly, Tesco must fully understand the power of insurance to mitigate political risk because to mitigate political risk, having a complete understanding of how an insurance functional will reduce the risk to manage at a macro level political risk and catastrophes.

Next, Tesco must be aware of Macro and micro political risk environment. This is important for Tesco because Micro level risks can impact industries or projects while macro-level risks can affect the entire economy. By knowing the Macro and micro political risk environment, Tesco can manage its shifting investments without affected by any changes and unfavorable legislation.

**Economic Environment**
Retail business like Tesco is highly driven by the economic environment. In 2017, Tesco is avoiding passing on the impact of price rises to consumers. Since the EU referendum results in the previous year, inflation has been increasing steadily (Wood, 2017) . A retail business needs to have control over the internal and external economic factors to survive in a tough economic environment. Minimizing inventory is a good way to deal with inflation. Holding too many inventories is risky especially perishable goods and fashion-oriented goods.

**Social Environment**
Family, community, socioeconomic status, and religion are some of the social factors that will influence the retail business. For a retail business, it is important to know what stock to carry, where to locate brick and mortar shops and how aggressively you pursue online shopping options to meet the social demands. Online selling has been a trend in this decade. In 2017, Tesco suffers website malfunction leaving customers unable to check out and buy groceries online (Sophie Christie, 2017) . A customer expressed their anger and frustration on Twitter after he lost his entire order. Tesco needs to come out with a backup system that can save customers’ orders every time the website crashed. It will avoid customers to waste their time to reorder everything.

**Technology Environment**
In the life of modern society, technology has become one of the most important things in this world. Technology plays a big role in business operations. The company must keep on track on the latest technology as it keeps changing and improving over time. Since the change in technology influence the work cultures, the methods, and the systems, a company must change its operating strategy as a result of changes in the
technological environment. The latest technology usage can boost business operations. Many retailers are going to the cashier-less store. It can help the company to grow its retail presence so the company can lower its reliance on online shopping, but at a faster pace and at a lower cost than building its stores. Artificial Intelligence (AI)-powered cashier-less shopping is gaining ground across the globe. Customers need to scan their phones, grab products off shelves and then walk out and receive a receipt for whatever they took with them. By implementing the system, Tesco can compete with other retail giants such as Amazon and Walmart.

**RESEARCH METHOD**

This research uses qualitative method. The data are collected by analyzing the opportunities that Tesco has and the challenges they face.

**RESULTS AND DISCUSSIONS**

**Idea Application**

**Product or Services**

As stated above, Tesco has been facing low quality in both products and service over the years. The implementation that Tesco should be concerned about is to improve its product and service quality for Tesco to achieve its competitive advantage. Product quality should be determined by how Tesco customers view the product. Quality means a product's ability to satisfy a customer's needs or requirements (Perreault, W. D., Cannon, J. P., & McCarthy, E. J., 2019). Therefore, Tesco needs to understand the importance of quality as it is proven that a great number of customers will pay more for the quality of the products they buy. Tesco can improve its quality by developing the idea from the perspective of total quality management (TQM) where everyone in the organization concerned about quality, throughout all the firm's activities, to better serve customer needs. Defects are not inevitable despite the mass production and it is less expensive to do something right the first time than it is to pay to do it poorly and then pay again to fix the problems. Getting defective and low-quality products is inconvenient to customers and it certainly does not deliver superior value (Perreault, W. D., Cannon, J. P., & McCarthy, E. J., 2019). Rather, it leaves customers dissatisfied and less trusting of the brand. Thus, the massive cost of poor quality is the cost of lost customers. If Tesco adopted TQM method, it can reduce manufacturing defects and overcome many other problems. Tesco also needs to always look for ways to improve implementation with continuous improvement where it is a commitment to constantly make things better one step at a time.

In terms of services, the application that can be done by Tesco is by providing employee training such as Human-resource Management. Human-resource management contributes to the strategic development of a competitive workforce to optimize business results by utilizing a variety of personnel management techniques (McShane, S. L., & Von, M. A., 2018). The function of HRM in business is the planning, designing and implementing systems, procedures, and practices to improve the effectiveness of the workforce and the organization at large (McShane, S. L., & Von, M. A., 2018). Tesco also needs to hire qualified HR professionals that can assist its employees in labor conflict resolution, represent them in negotiation on the issue such as pay and working conditions and also involved in personnel issues such as training and induction of new employees; performance management to increase the organization commitment. As a result, excellent services can be achieved. The application of extrinsic rewards based on the employee's performance can be applied
to motivate them. The types of rewards are financial, material and social rewards. These rewards can boost their employee morale and motivate them to work with dedication so that they can perform better especially in offering services to the customers.

**Market Opportunity Analysis**

Culture variation across ethnic groups or countries can result in differences in how consumers make purchase choices. In this case, Tesco had pulled out its business from Japan after 9 years of operation. This event happened because Japan's culture has many family-owned and long-established grocery stores, which form a hub of the community, valued for the personal touch they offer. And also, Japanese customers prefer high-quality products and excellent service during their shopping experience. The application that can be applied from Tesco in this situation is to do thorough research in developing and planning its strategies to globalize its operations as each foreign market may need to be treated as a separate target market with its sub-markets. Ignoring cultural differences or assuming that they are not important can guarantee failure in international markets. Therefore, repetitive mistakes and failures can be avoided. If Tesco wants to create a new trend in any country as they did in the USA, they need to understand if the trend will be successful. In this case, Tesco had mistakenly established a healthy image in a nation where the population loves fast food and soda. Organic stores and lifestyles are a well-known trend in Europe, but not in the USA.

Marketing places an important role in business by anticipating customers' needs to achieve their satisfaction and the company's profit (Perreault, W. D., Cannon, J. P., & McCarthy, E. J., 2019). Therefore, Tesco needs to apply stronger marketing practices for it to achieve a competitive advantage. Tesco should focus to advertise their business online rather than using traditional methods such as newspaper, catalog, and magazine. Online marketing through social media and emails can create an enormous opportunity for Tesco to reach out to technological savvy consumers so that they will be a continuous interaction between the consumers and also Tesco. Other than that, Tesco needs to understand the importance of analyzing the competitors so that Tesco can stand out from the competition. Tesco can analyze through identifying the main competitors and gathering as much information about its competitors in terms of pricing, products and services, positioning and branding and market reputation. Analyzing competitors' strengths and weaknesses can help Tesco to adapt its strategy to counter their strong points and take advantage of their weak points.

Furthermore, for Tesco to determine its potential customers, it must create a strong target market profile. For Tesco to achieve that, Tesco needs to develop marketing mixes for its target market particularly in four basic variables: Product, Place, Promotion, and Price according to the factors of demographic, geographic and psychographic. Getting the right product, place, promotion, and price builds customer's trust and loyalty and achieves its competitive advantage. Lastly, setting up sales projections can help the company to expect the amount of revenue to earn. It indicates how much a particular product is likely to be sold in a specified future period in a specified market at a specified price. If Tesco develops this, it is likely for Tesco to have an accurate sales forecast that enables them to produce the required production volume. This is vital for the development of new products.
Political Environment
Tesco is exposed to many political factors such as tax rates, political instability, and unemployment. These factors can potentially affect the operations of Tesco in many ways. Several aspects of government policy can affect Tesco and the right initiative Tesco can do is to understand the policy and law that Tesco needs to abide for each country it operates. Tesco also must find how upcoming legislation can affect their activities. Tesco also should be ready to deal with the local and international outcome's politics as the political factors have the power to change results and impact the business. Other than that, Tesco can manage political risk by buying political risk insurance to reduce potential risk exposure (Lamptey, M.C., Makos, J., Choden, P. C., BowabSak, M. N. A., & Naeimi, I. A., 2016).

Economic Environment
The economic environment can change quite rapidly, and this can potentially affect Tesco. The effects can be far-reaching and require changes in its business strategy. Inflation is an important indicator of an economy. If there is inflation occurs in a country, an economy needs to achieve a low rate of inflation and the best way to achieve a low rate of inflation is to ensure that the products and services of the company are produced effectively and efficiently. However, Tesco has less control over internal and external economic factors and must work hard to account for them when positioning itself in the business.

Social Environment
Consumer shopping trends are constantly changing within time to meet their demands for quality goods and services. By keeping up to date to the trends helps Tesco to achieve the required demands. Tesco can improve its online shopping services by offering better-added values such as good and simplify return policy and one-stop purchasing. Tesco also needs to fully utilize the Internet to add value to its offerings where consumers can seek information to help them make a purchase decision.

Technological Environment
Tesco has innovated itself with current technologies such as radio-frequency identification technology (RFID), an online mobile payment system called “PayQwiq”, the self-checkout system and also the “Scan & Shop” application. All these technologies have increased their offerings towards the customer's shopping experience. Tesco needs to constantly plan and adapt strategies for new possible advanced technologies to bring more opportunities and spot threats to provide excellent customer service and build a good reputation. Tesco can use Artificial Intelligence (AI) that is implemented by an intelligent agent to observe an environment and act to achieve a goal. By utilizing AI, Tesco can deliver better customer services.

CONCLUSIONS
From the research that had been carried out, it can be concluded the Tesco faced several issues in their business. Political, economic, technology and social environments play a big role in ensuring Tesco to continue their business. The idea application and recommendation provided by this research should be considered by the management team in the hope that it can contribute to the growth of Tesco.

Moreover, Tesco should consider implementing new strategies, so that they can keep up with the trend and compete with other big retail businesses such as Amazon and
Walmart. As Tesco offers a wide range of products and services, the improvement of the product's quality and customer services also contributes to saving this company from a critical situation. The management team should take the idea application and recommendations into consideration.

In conclusion, by doing this research we hope that the idea application including implementing TQM methods, provide employee training and rewards, do thorough research in developing and planning its strategies to globalize its operations as each foreign market, and apply stronger marketing practices, purchase political risk insurance, keep up to date with trends to meet the demands, and implement AI technology to improve customer service and customers shopping experience can help in solving the problems that Tesco is facing and assist in Tesco's success.

**Recommendations**

Based on the study, there are many areas that Tesco can improve to overcome the situation they are facing and continue to grow their business. The following are key recommendations for Tesco to improve its current situation:

In the product and service issues, Tesco should restock shelves more frequently and implement TQM in order to maintain the product quality and to improve services, Tesco must provide training and rewards for its employees. Tesco must also have a department or a team dedicated to study the trend and cultural differences to analyze the market before entering the market. This is especially important if Tesco wishes to enter a market in a different country to avoid failure in the US market and the Japanese market.

As for the political issues, Tesco must understand the policy and law that Tesco needs to abide for each country it operates. Tesco must also find how upcoming legislation can affect their activities to prevent further consequences that may negatively affected Tesco. It is important for Tesco to have a political risk insurance in order to reduce the potential risk exposure. In order for Tesco to manage the economic situation, what Tesco can do is to minimize its inventory when dealing with inflation.

To improve its marketing strategies, Tesco should opt for a different marketing strategy. The following are some of the most effective marketing strategies which Tesco should implement which are internet marketing, social networks and viral marketing, earned media, and co-branding and affinity marketing. With effective marketing strategies, Tesco will be able to attract new potential customers.

Last of all, as technology implementation such as RFID, device wallet service “PayQwiq”, the self-checkout service, and “Scan & Shop” in Tesco stores are welcomed by the customers the company should keep up with the newest technology. By doing so enables the company to introduce new technology to enhance the customers shopping experience.

**REFERENCES**

