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UK's Retail Market

Li reports that a survey conducted by IGD revealed that the UK retail market, from 1998 to the year 2008, has been on an upward growth trajectory, with a market value of grocery growing from £93.3billion in 1998 to a whooping £146.3billion in 2008 (1). Nevertheless, the retail market in the United Kingdom of late has experienced a myriad of challenges. Due to the global financial crisis that hit the world since 2008, the retail market in the United Kingdom, just like other sectors of the economy, has been reeling from reduced consumer spending, high operating costs and financial crunch. Notwithstanding, the UK retail market still recorded impressive growth rate during the economic recession period. Li observes that in 2008, the year in which the financial crisis raised its head, the grocery market value rose by 4.8% to touch a high of £146.3billion (1). In the United Kingdom, the retail market dominates the grocery market as it accounts for almost three-quarters of the total grocery sales. The retail market is dominated by Tesco, ASDA, which was an acquisition of Walmart, Sainsbury and Morrison. The four supermarkets comprise a list of the four largest retail chains in the United Kingdom in that order, with Tesco dominating the lion market share. The giant retail chain of stores controls 31.4% market share, ASDA Walmart comes in second dominating 16.7% of the total retail market, the third dominant player is Sainsbury, dominating 16.2% market share and the fourth player is Morrisons whose market share stand at 11.1% of the total retail market (Henry, 78). According to the survey, which was done by TNS Worldpanel between May 2006 and May 2007, Henry reports that other retail players include Somerfield that controls 4.0% of the market share, Waitrose controls that 3.9%, Iceland that controls 1.6% and others who include traditional stores, convenience stores and online channels that control 15.1% of the retail market (78). Though Tesco dominates the retail market in the United Kingdom, fierce competition is posing threats to its long-term pole position as other players continue to eat into its market share. Tesco, therefore, needs to continue enhancing its brand through product innovation and services to maintain its dominance in the retail market. Henry opines that though Sainsbury seems to be at a distance in retail market dominance , the retail chain is enhancing its competitiveness under the leadership of Justin King, the chief executive officer of Sainsbury, a factor that may pose future threat to Tesco's dominance in the retail market sector (78). The huge market share that Tesco enjoys, which is a combined market share of ASDA Walmart market share and Sainsbury market share, indicates that the retail giant enjoys the relative competitive advantage than its peers in the industry. Therefore, due to the huge discrepancy in the percentage retail market share that Tesco controls compared to its competitors, such as ASDA and Walmart, there arise a need to analyze the financial and strategic resources that give Tesco, the second largest global retailer based on profit, a competitive advantage over the other supermarkets in the United Kingdom This paper seeks to analyze and compare Tesco's performance to other retail chains in the United Kingdom, notably Sainsbury.

Overview of Tesco Supermarket

According to Clark Tesco was established in the year 1919 by Jack Cohen. The founder of Tesco started Tesco as an accident after realizing a profit of £1 from sales of £4. At the time Tesco founder was selling surplus groceries from a store in East End London. In 1924, the Tesco brand was born from the initial letters of Mr. T. E Stockwell, from whom Jack Cohen had bought a shipment of tea, the letters were combined to form Tesco. Clark reports that the pioneer Tesco store opened its door in 1929 in Burnt Oak, North London. Since 1929, Tesco has been riding on a growth tide. In 1930s, Jack Cohen opened a warehouse and headquarters for his fledgling company, Tesco. The retail giant then became a private limited company in 1932 and in 1947, Tesco Holding was floated on the London stock exchange at an initial public offering price of 25 pence (Palmer, 34).

Clark observes that the retail giant started expansion plans during the period of 1950s. Tesco's expansion and growth plan was both organic and through acquisitions. The United Kingdom retail giant pursued the strategy of acquiring its rivals. For instance, within a decade that is between 1950 and 1960, Tesco acquired 70 William stores, 200 Harrow stores, 97 Charles Philips stores, and the Victor Value chain (Palmer, 34). It is also during the same decade that Tesco opened its first self-service store in St Albans and supermarket in Maldon (Palmer, 34). In 1968, the retail giant opened its first superstore in Crawley, West Sussex. In 1961, Tesco's aggressive acquisition and takeovers made it to feature in the Guinness Book of records as the largest store in Europe. One of the highly publicized hostile takeover happened in 1987 when the giant retailer acquired North England based Hillards, a chain of 40 supermarkets, in a hostile takeover bid for £220 million (Palmer, 34). Additionally, in 1994, Tesco successfully fought its rival, Sainsbury, to acquire William Low, the Dundee based chain of supermarket with 57 stores operating in Scotland. Tesco through its innovation revolutionized shopping through its national store network in the United Kingdom. Besides network expansion, Tesco diversified its product and services in its business portfolio. For instance, Clark reports that in 1974 Tesco established independent petrol stations that later would become the largest UK's independent petrol retailer. During the early 1990s, Tesco engaged in strategies to oust Sainsbury as the leading food retailer in the United Kingdom. Tesco aggressively continued its expansion and marketing campaigns, notable being “every little helps”, Tesco Value Range and Tesco Clubcard Scheme, and by 1992, Tesco overtook its rival Sainsbury to be the largest food retailer in the United Kingdom (Palmer, 34). The retail giant has also made footprints outside the United Kingdom through acquisitions and organic expansion. For instance, in 1996, Tesco opened stores in Poland, Czech Republic and Slovakia and recently, in early 2000s, the London listed supermarket giant opened stores in South Korea, Turkey, India, Malaysia, Thailand and Japan. Tesco is recognized to be a leader in online shopping with its loyalty card program dubbed Clubcard, which was the first profitable online shopping program. At the start of the new millennium that is early 2000, Tesco launched an e-commerce website dubbed Tesco.com to facilitate trade with the retail giant. Tesco.com is today the leading online grocer with a clientele base of one million customers every week accounting for more than twenty five thousand orders weekly (Palmer, 34). Today, the retail giant deals with products and services from a wide variety of industries such as clothes, electrical, personal finance services, and more recently, broadband internet services. Presently, Tesco continues to enjoy market dominance and robust profits. In the year ended 2012, the giant retail chain recorded a net profit of £3.44 billion (Palmer, 34). The robust performance of the FTSE 100 company is experiencing, however, remains uncertain as consumers are shifting to budget rivals due to tight household budgets

Overview of Sainsbury Plc

Sainsbury PLC is one of the UK companies in the FTSE 350 index. The parent company is a holding entity of food and non-food companies. However, the food retail business accounts for the largest transactions of the group. Besides the retail business, Sainsbury PLC holds investments in property and banking. Sainsbury Bank is a joint venture between Lloyds Banking group and Sainsbury PLC. In the property business, Sainsbury PLC co-owns two property ventures with Land Securities Group PLC and The British Land Company PLC. Sainsbury PLC was founded by a couple, John James Sainsbury and his wife Ann Sainsbury, in 1869 as a retail chain. The retain chain was the first retail store to operate a self-service branch and selling of own brand goods. According to Shannon Sainsbury Supermarket Ltd is the third largest retail chain in the United Kingdom with a sizeable market share estimated at 16.5%. The supermarket's headquarter is located in Holborn Circus, London at Sainsbury Store Support Centre. Today, Sainsbury PLC operates 934 stores, 557 supermarkets and 377 convenience stores, serving 21 million customers a week (Palmer, 34). Sainsbury retail stores have been operating for the last five years in a harsh business environment characterized by intense competition and dwindling sales. The global financial crisis has negatively affected Sainsbury profit margins due to eroded consumers' purchasing power. Just like in any food business, Sainsbury has been a victim of changes in consumer taste and preferences.

Tesco's Financial and Strategic Resources

Cost leadership and differentiation strategy

Business firms employ generic strategies to obtain a sustainable competitive advantage in the marketplace. Due to cut throat competition in the UK's retail market, Tesco had no choice but to pursue generic strategies to remain profitable and maintain its market share from invasion from the other retain chains. Notably, Tesco employs a cost leadership strategy. According to Porter asserts that cost leadership strategy enables a firm to sell products at the lowest cost compared to other industry players (40). According to Clark, the giant retail chain strives to provide a broad market with quality products at low prices. The ability of the management to control operating costs, provide goods and services at reduced prices and generate high operating margins has enabled the retail giant maintain a sizeable market share compared to its rivals such as Sainsbury. Financial analysis shows that Tesco generates more profits on its sales than Sainsbury. The operating margin for Tesco is 4.35% while that of Sainsbury is 2.68% (Palmer, 34). The figure shows that Tesco has been able to control its operating expenses than Sainsbury and other rival retail supermarket. Ability to control operating expenses aids businesses to operate profitably by selling their products at low prices.

In an industry with many players, business firms add uniqueness to their products to gain a competitive advantage over their peers. This strategy is known as differentiation strategy. Porter asserts that differentiation strategy help firms gain competitive advantage through offering customers products with unique features that add value to them, thus gaining competitive advantage (Rowley, 281). Tesco is a leader in differentiation strategy because of its unique branding of its products. The giant retail, for example, has categorized product value into three levels, from normal to finest. Tesco's own label products, according to the company's management account to over half of its total sales. Therefore, branding aid Tesco pursue its differentiation strategy. Tesco has grown to be a brand, customers no longer buy products but buy brand Tesco, consequently serving a strategic advantage in the firms push to gain competitive advantage in the saturated retail market in the United Kingdom (Rowley, 281). The retail giant through its marketing promotion and branded packaging has helped the giant retail capture and consolidate its market share. Additionally, Tesco is known for its high quality products that represent value, thus enhancing its brand image to consumers in the United Kingdom (Palmer, 78). Tesco's strong image instills brand allegiance that leads to price inelasticity on the part of buyers. As a result, buyers face high switching costs. It is for this reason that Tesco continues to dominate the retail market with a lion market share estimated at

32% in a market with many players. Tesco has increased product and service development has played a key role in enhancing the Tesco's brand image. The retail giant was the pioneer supermarket chain to introduce checkouts and assist customers in packing their goods. In 1995, Tesco introduced a loyalty card program for its customers dunned the Clubcard (Palmer, 30). Customers using the Clubcard were offered points on their purchases that they would later use to exchange for products. The Clubcard was instrumental in enhancing customer loyalty. Tesco, which at that time dominated the retail market, dismissed the card program as a publicity stunt only for it to lose its market share to Tesco (Rowley, 281). Other product and service development that has helped Tesco maintain a huge market share of the retail market is the online shopping experience. Due to busy schedules, Tesco revolutionized the shopping experience for its customers by introducing an online shopping platform, which has grown to be the largest online shopping platform. According to Rowley, today Tesco operates that biggest online supermarket in the world with sales of about £577 million annually (278). The online supermarket in the United Kingdom runs 270 stores, covering 96% of the entire country (Palmer, 34).

Tesco's value chain

Business firms achieve competitive advantage by performing value-adding activities that they hold competitive strength. Henry observes that a value chain links value-adding activities to support the activities of an organization (88). Therefore, value chain analysis is the evaluation of a company's activities to the company's strength. Tesco engages in primary activities that it holds competitive strength, and thus, able to enhance its competitive advantage. Tesco's inbound logistics enables the giant retail supermarket pursues cost leadership strategy (Rowley, 280). Due to its wide store network and economies of scale, Tesco is able to purchase goods from suppliers at low costs, a benefit that is passed to consumers. Continuous improvement in order and store processes helps Tesco to enhance efficiency in its inbound logistics processes. The giant retail now enjoys reduced lead-time in its supply chain. Tesco has a distinguished outbound logistics due to its online supermarket platform and wide spread stores, thus enhancing its leadership position in the retail market. According to Rowley the retail giant introduced in 2011 a program dubbed Big Price Drop that will see the retail chain lower costs of its everyday products to help families in these tough economic times (280). The price campaign is marketing and sales initiative enhances and consolidates Tesco's market share. Due to its wide store network and diversification, Tesco offers diverse products in its store, both food and no-food items, a strategy that enables shoppers in any of Tesco's store conveniently meet their shopping needs. Thus enhancing Tesco's competitive advantage in the retail business in the United Kingdom. The management of Tesco is more efficient than that of Sainsbury and other supermarkets in the United Kingdom. This is evidence showed by return on assets and return on equity of both Sainsbury and Tesco. Tesco's return on assets and return on equity, as of February 2012, stood at 6.38% and 16.36% respectively while Sainsbury's return on assets and return on equity stood at 5.83% and 10.82% (Palmer, 34). High return on equity and return on assets for Tesco shows that the management of Tesco is more effective than the management of Sainsbury, thus Tesco is able to achieve competitive advantage than its rivals.

Profitability and capital base

Sainsbury, which was established earlier than Tesco, dominated the retail market space for many years until Tesco took over the leadership position in early 1900. However, today, the United Kingdom retail market is largely dominated by Tesco, which has over 30% market share of the retail market (Palmer, 34). This is due to vast resources, both financial and strategic, that the retail giant enjoys compared to its peers in the retail market industry like Sainsbury. As at 2012, Tesco had a capital base of £27.712 billion as compared to Sainsbury capital base of £8.246 billion (Palmer, 34). The huge capital base enables Tesco to expand its store networks, capitalize losses on its non-performing stores and pursue a cost leadership strategy. Therefore, Sainsbury is unable to compete effectively with the giant retail chain because of its low capital base, which is a third of the Tesco capital base. As of February 2012 , Tesco's total assets stood at £50.758 billion compared to Sainsbury £12.34 billion (Palmer, 34). Due to Tesco's huge total asset, the giant retail is able to generate higher profit than Sainsbury. For this reason, Tesco's earnings before interest tax and depreciation, which was recorded as of February 2012 at £5.613 billion, was four times the earnings recorded by Sainsbury, which was reported as of February 2012 at £1.397 billion (Palmer, 34). In conclusion, Tesco's leading position has been aided by financial and strategic resources that other retail players lack.

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