

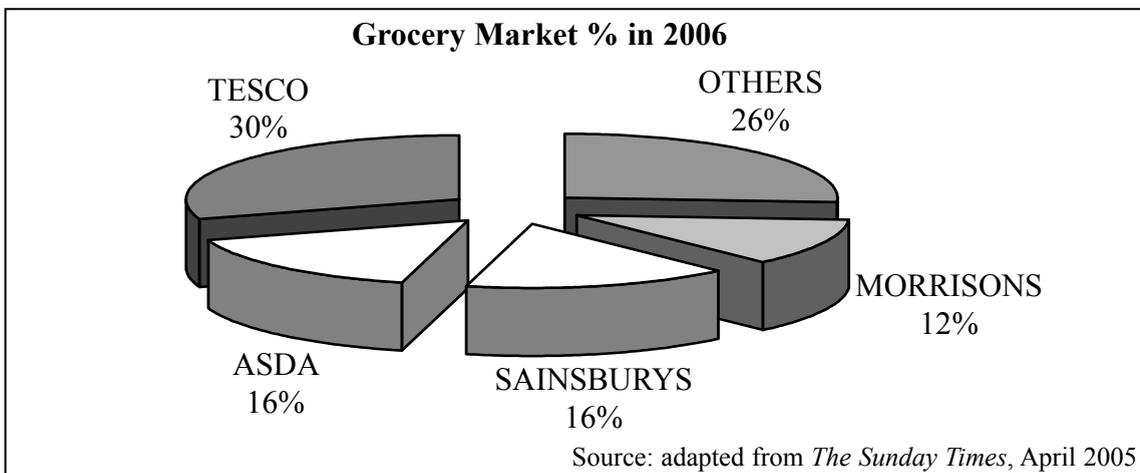
Answer ALL questions

Tesco plc is a very large and expanding multinational retailer. It plans to further expand in order to increase its profitability. However, there has been some recent criticism of its activities.

Your task is to advise Tesco plc about the different methods it could use to expand further.

Some Facts and Opinions

Pile it high	However,
<ul style="list-style-type: none"> • Tesco’s offshoots – International, online, personal finance and telecoms – now make more profit than the entire group did in 1997 • Half of Tesco shoppers buy clothing as well as food • Tesco’s biggest store – the 11 000 sq metres outlet in Kingston Park, Newcastle – takes more than £1m a week from its non-food ranges alone • 150 000 people a week shop through Tesco.com • Tesco personal finance now has 5 million customers and signs up 60 000 new customers a month • Annual profits were a record £2.03bn, up 20.5 per cent on last year and the highest-ever for a UK retailer • Tesco now makes as much profit from its 12 overseas chains, its non-food division and its bank as the entire group made in 1997 	<p>Tesco issued a reality check of sorts last week. It said that it expects UK like-for-like sales growth of 3 to 4 per cent this year compared to 9 per cent in the year just ended. It seems that rising costs, an uncertain consumer outlook and a resurgent J Sainsbury, the UK’s Number 3 supermarket, knocked from the top spot by Tesco in the mid-1990s, could all contribute to a slowdown in sales growth.</p> <p>Critics such as the Association of Convenience Stores, a trade group for small shops, say that Tesco’s size allows it to bully suppliers into providing goods at the lowest possible price. However, Tesco argues that The Office of Fair Trading (OFT) gave supermarkets a clean bill of health in a recent report.</p> <p>Also, Tesco is buying up sites just a few miles from its existing stores, raising fears that it is simply attempting to frustrate its rivals.</p> <p style="text-align: right;">Source: adapted from <i>The Guardian</i>, April 2005</p>



Sources of information

At the end of this examination paper, there are various sources of information on how Tesco plc have expanded their business. You should study all of them and then use the information, together with your own knowledge and understanding of commerce, to prepare a report advising Tesco plc. The report has been divided into a series of tasks on the following pages.

You should use commercial concepts and terms you have learnt during the course, not just information in the sources you have studied.

1. My task is to advise Tesco plc about

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Q1

(Total 2 marks)

2. (a) List **four** facts which show that Tesco plc is successful.

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(4)

(b) Outline **two** concerns about the growth of Tesco plc.

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(2)

Q2

(Total 6 marks)



3. There are various methods by which Tesco plc could expand further.

Assess the advantages and disadvantages of **three** of these methods.

Method 1:

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Method 2:

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Method 3:

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Q3

(Total 24 marks)

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4. Discuss which of the methods that you considered in Question 3 is the best form of expansion for Tesco plc.

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(Total 8 marks)

Q4

TOTAL FOR PAPER: 40 MARKS

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Source A: Overseas Expansion

Not content with dominating the UK retail scene, Tesco started its overseas expansion in 1994 when it began trading in Hungary. Eleven years later, it is the market leader with a share of more than 14% and is the single largest foreign investor in the country. The Budaors hypermarket in Budapest is now Tesco's largest in the world, with 150 000 sq ft of floor space.

Tesco's speciality in Hungary is live carp, a popular choice across central Europe. In China, chickens' feet and scooters are best-sellers while live crabs draw the South Korean shoppers.

Whereas Tesco has opened almost 50 hypermarkets in Poland, its stores in Thailand are much closer to traditional 'wet' markets. This is typical of the retail giant's overseas policy; it uses local suppliers and its stores are run by local staff. In Turkey it operates under the Kipa brand and in Thailand uses the Lotus name.

Tesco operates in 12 overseas markets, from Ireland to south-east Asia.

Tesco plans to open more new stores

- 15 in China
- 14 in Hungary
- 14 in Poland
- 11 in Thailand
- 7 in the Czech Republic
- 7 in South Korea.

Source: adapted from *The Guardian*, April 2005

Source B: Online Shopping

The Tesco online home delivery operation, which now has 150 000 regular customers, generated an additional £36m from sales of more than £700m.



A Tesco shopper in London fails to make use of the grocer's increasingly popular online home delivery service.

Source: adapted from *The Guardian*, April 2005



Source C: Takeovers of small shops

In the last 10 years, Tesco bought many small convenience shops and renamed them Tesco Express outlets. They sell the same goods from the same suppliers as Tesco superstores and benefit from the same buying power and marketing campaigns. This has given Tesco a big advantage over its rivals. It has built up a chain of 600 Tesco Express outlets in 3 years and plans to open many more in the future.

Previously convenience stores were independent, small and stocked different ranges and quantities. They were much different from 'one stop shopping' at big supermarkets.

The UK competition minister has admitted 'something is wrong and needs to be done'. Other critics believe that Tesco's size enables it to bully suppliers, and those not cooperating risk going out of business altogether.

It is hard, actually, to argue against Tesco. The fact is that shoppers just can't get enough of it. When Tesco acquired a few former Safeway outlets, the sales achieved in those stores more than doubled. The same is true when a Tesco Express replaces a local store.

The chain has had an unarguably beneficial effect on prices. Tough competition between the big supermarkets has cut food prices and mauled accepted price structures in other markets. Most recently, Tesco waded into the contact lens business. Prices have fallen by 30%.

The consumer group *Which?* won't hear a word said against it. But it is the job of competition watchdogs to consider the future shape of markets and listen carefully to warnings. Tesco uses guerrilla tactics to win shoppers from rivals, offering up to 40% off their shopping bills. This is fair play when the rivals targeted are big beasts such as Asda, but a case of bully boy tactics when it is picking on independent chains such as the five-shop family-run Yorkshire chain Proudfoot.

Tesco's vast Clubcard database gives it access to detailed information about shoppers that no other retailer can match.

Source: adapted from *The Sunday Times*, April 2005



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Source D: Opening new stores in UK

- **Land**

Faced with tough planning restrictions and stiff competition for the few available sites around, Tesco is becoming increasingly inventive. Even building a tunnel and concrete platform over a railway track – at the cost of millions of pounds – is not a step too far.

Industry data seen by *The Sunday Times* show Tesco has a landbank of more than 185 sites, which, once developed, will create more than 4.5m sq ft of new retail space.

- **Expansion**

Rivals have identified dozens of places across the UK that they call “Tesco towns”. Falkirk, where a Tesco superstore will soon be joined by a new store and there is a proposal for two more. Ashford in Kent where Tesco has just applied to extend one of its two large stores.

In the south of Manchester the group already has three hypermarkets in Stockport, Handforth and Baguley. Yet it is due to open a new store in Burnage and has applied for planning permission to open a store at Hazel Grove.

Source: adapted from *The Sunday Times*, April 2005



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