

Tesco's Business Strategy

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Executive Summary

Tesco PLC is a British company that was established by Jack Cohen in 1919 in East End, London. The company has its headquarters in Cheshunt, Hertfordshire, United Kingdom. Initially, the company specialized in selling groceries but with time it branched into retail of clothes, electronics, furniture, software, telecom and financial services. Tesco is one of the biggest food retail companies in the world, operating over 6,000 stores internally and internationally. Tesco serves millions of customers every day. Outside the United Kingdom, Tesco operates in Ireland, India, Malaysia, China, Poland, Czech Republic, Thailand, South Korea and the United States of America. According to Tesco's annual report, the company is the leader in grocery retail business in the United Kingdom. The grocery stores are the biggest and most profitable division of Tesco PLC. The grocery division sells over 40,000 different food products. The proposed strategies included: increasing revenues to £65,000 million by 2019; increasing trading profits to £4,000 million by 2019; increasing number of Tesco grocery stores in the U.K. from 3,378 to 4,100 in 2015; upgrading the online shopping website to a more user-friendly and secure site; increasing the number of point of sale terminals in order to increase the speed of transactions in the grocery stores; increasing market share by acquiring smaller grocery stores within the U.K. The proposed strategies are economically feasible and fall within the vision, mission and core values of Tesco. It is recommended that Tesco implements the business strategy. The report herein is an out-and out analysis of Tesco's business strategy.

1.0 Strategic Analysis

1.1 Tesco PLC and the Grocery Retail Business

Tesco's grocery business is the largest division of the Group. The grocery retail business generates more revenue than all other branches. The company offers a wide variety of food products to customers. Some of the products offered include fruits, baked items, frozen food, beverages, baby food, pet food, milk products and household items. Tesco Grocery serves both walk-in customers and online shoppers. Online shoppers can buy from website and have the goods delivered to their homes or take the delivery from select collection points within the U.K.

1.2 Organizational Purpose

1.2.1 Tesco's Vision and Mission

Tesco's mission is to create value for their customers, to earn their lifetime loyalty. Tesco's vision is to gain a valuable position and trust among its customers, community employees and shareholders. The company wants to grow into an innovative company offering the best service to customers. Tesco aims at becoming the leading grocery retail company in the world with strong customer loyalty. The company targets at expanding its business globally and offering new opportunities to the communities it serves. The firm aims at creating new ideas and strategies to increase revenue and profit. Improving the range and quality of Tesco's core products. Becoming the leading retail company in the countries that Tesco serves. Tesco groceries also aims at offering stable and competitive prices to customers. Tesco aims to be an environmentally sustainable company by 2050. The core values of Tesco are exceptional customer service and establishing brand value. The company also focusses on using its position to help the community.

1.2.2 Tesco's Vision and Mission Analysis

The mission statement is short and clear. The mission is consumer focused and is inspiring. The mission states in comprehensible terms what the business hopes to be viewed by customers. The vision statements describe clearly what the business aims to achieve. The targets are achievable and visible. The vision and mission outline the targeted relationship with all stakeholders especially customers, staff and shareholders. The vision also lays down the targets the company hopes to achieve in regards to domestic and global markets. The vision and mission convince customers and all stakeholders of Tesco's commitment to them.

1.2.3 How Tesco Treats Stakeholders

Tesco treats delivers quality customers service to all consumers. Tesco main concern is the satisfaction of customers and as such, customer feedback is given ample consideration. Tesco delivers products to buyers on time. Tesco has a strong bond with its suppliers and distributors ensuring efficient operational flow. Distributors and suppliers can give feedback through Tesco's Producer Clubs. Regular meetings with stakeholders helps to strengthen bonds and increase trust. Tesco regards all stakeholders highly and is committed to customers regardless of the country of operation. The company offers shareholders with a high dividend ratio (InvestmentWeek, 2004). Tesco engages in seminars and conferences with shareholders to comprehend their views on the company's corporate strategy.

Employees are adequately remunerated and incentive are offered for exceptional service. The firm engages staff though annual viewpoints surveys, face-to-face briefings and store forums. Tesco has maintained a healthy and safe working environment for employees in all

sectors of operation. Tesco has initiated several projects to help the community offering educational grants to schools and disability centers. Tesco offers employment to the local community and helps in regeneration of stalled projects. Tesco is accountable to all government regulation agencies and meets all the set standards of operation. Tesco exchanges valuable information with the government in order to improve public policies.

1.3 Financial Analysis

The grocery business in the U.K. is highly competitive. The retail industry has experiences financial challenges in recent years. However, Tesco has managed to grow its grocery retail business achieving increase in revenue and profits. Tesco has held off competitors in the U.K. to become the leading firm in the grocery sector. Currently, Tesco holds a 30.7% of U.K.'s grocery retail market share. Tesco is operating at a higher margin of profit than the retail industry average of 2.2%. Below are the financial performance analysis for Tesco UK for the past 5 years (Financials, 2014).

Fiscal year ends in February. All figures in Great Britain Pounds in millions.	2010 - 02	2011 - 02	2012 - 02	2013 - 12	2014-02
Revenue excluding IFRIC	39,104	40,766	42,803	43,582	43,570
Trading Profit	2,413	2,504	2,478	2,272	2,191
Operating Profit Margin	6.0%	6.4%	6.5%	3.7%	4.1%
Return on Capital Employed (ROCE)	12.1%	12.9%	14.7%	14.5%	13.6%

Total Shareholder return	9.5%	6.7%	(3.0)%	2.1%	3.7%
Number of Stores	2,507	2,715	2,979	3,146	3,378
Revenues by Employess	198,897	202,850	207,931	204,319	200,637
Weekly sales per square foot	25.22	24.95	24.86	24.15	23.33

Table 1: Tesco UK 5-year financial analysis. Source: Morning Star – Financial.

Return on Capital Employed (ROCE) reflects the overall return on the capital flowing in the company. ROCE measures a firm's profitability and the rate at which capital is employed. ROCE comprises of equity and debt. Tesco's ROCE has risen from 12.1% in 2010 to 13.6% in 2014. Tesco is operating above the weighted average cost of capital of 8% – 10% in 2014 (Microaxis, 2014).

1.4 External and Internal Environment

1.4.1 External Environment

- Political and legislative factors. Government employment regulations within the United Kingdom demand that Tesco groceries provides jobs from highly skilled and highly paying jobs to low skill and locally-based jobs. Tesco also has to meet demographics categories such as parents, students and senior citizens. Tesco also has an employment quota for disabled people. The Code of Practice regulates aspects such as demanding payment from suppliers and altering prices without notice. Tesco is expected to provide

politically correct prices in line with pricing policies. Legislation regarding advertising fatty foods have been implemented (Parliament, 2014).

- Economic factor. Economic factors are taken into evaluation by Tesco. Economic factors influence demand, costs and profits. High unemployment rates reduce reduces purchasing power and consequently the demand for grocery decreases. Economic factors are beyond Tesco's control (Economics, 2014).
- Environment factors. There are many factors from environmental stakeholders to be environmentally sustainable and offer more eco-friendly services. Tesco aims at supplying zero-carbon products and reducing wastage from its retail stores. Tesco has plans to reduce environmental pollution from its stores to zero by 2050.
- Social-cultural factors. Tesco has to evaluate the influence of customer culture within the U.K. Customers have shifted from single purchases to bulk purchases in order to save money. Tesco has begun offering higher packages for food products that were previously not sold in bulk. Population factors such as increasing percentage of elderly citizens and increase in the number of women workers have led to Tesco offering added-value services and products. Customers have increased their health awareness causing a shift towards food product with cholesterol. Tesco has complied with all socio-cultural changes appropriately.
- Technological factors. Technological advancements have changed the way Tesco operates. Consumers are shifting towards online shopping and Tesco has improved its website to comply with this trend. Tesco has introduced various electronic point of sale terminals in all grocery stores in the U.K. Implementation of Electronic Funds Transfer Systems has improved the customer buying experience. Tesco grocery stores also utilize

wireless devices, electronic shelf labelling, and intelligent scales. Many people in the U.K. especially young shoppers prefer to shop online. The Tesco website provides a provision for online shopping and delivery.

Opportunities

Tesco has entered into strategic partnerships with different suppliers to provide quality groceries. Rapid advancement in technology has led to an increase in the number of people shopping online. The online shopping arena is a growing market segment that Tesco is exploiting. Tesco has opened new grocery stores or added more stores in various cities across the U.K. More stores means that Tesco can serve more customers every day. The increasing population and the increased purchasing power of the U.K is also an opportunity that Tesco can exploit (Sharda, et al., 2008).

Threats

Stiff competition from other retail stores such as Asda and Sainsbury. Competitor mergers and trade agreements, such as Walmart with Asda, put pressure on Tesco's market share. New entrants into the market provide lower prices thus eating into Tesco's market share. The fluctuating taxes adversely influence Tesco's financial performance. Increasing costs of raw material lead to an increase in operating expenditure, higher prices for consumers and reduced profits (Ruddick, n.d.).

1.4.2 Internal Environment

Strengths

Tesco is the largest grocery retail firm in the U.K. Currently, Tesco holds a 30.7% market share of the grocery market in U.K (PremierFoods, 2014). The company has the highest number of online grocery shoppers in the U.K. The company's brand is associated with reliability, value for money and superior quality. The financial meltdown did not adversely affect Tesco groceries as evidenced by the growth in all levels of business. The revenues for Tesco groceries grew each year during the five years under evaluation. The continued growth is a proof of Tesco grocery's strategic competence. Tesco's flexibility is another strength of the company. Tesco has been able to improve its brand by carefully planned packing. The branding strategy has become inimitable by competitors (Tesco, 2014).

The company offers exceptional customer service to all buyers. Walk-in customers are attended to with professionalism, friendliness and urgency from the moment they walk into the store. Online shopper have their purchases delivered punctually. Tesco has specialized customer services to cater to each individual customer. The company has come up with creative ways of improving the shopping experience in stores. Tesco has a wide network of distributors and suppliers, therefore, increasing the variety in the grocery stores. A broad variety of grocery meets the assorted tastes of consumers. The company has built strong customer loyalty due to its loyalty card program that offers discounts and redeemable points to customers who shop regularly. Tesco groceries has been able to offer groceries in line with market demands. Tesco's online presence in social media has increased the information flow to customers (Datamonitor, 2012).

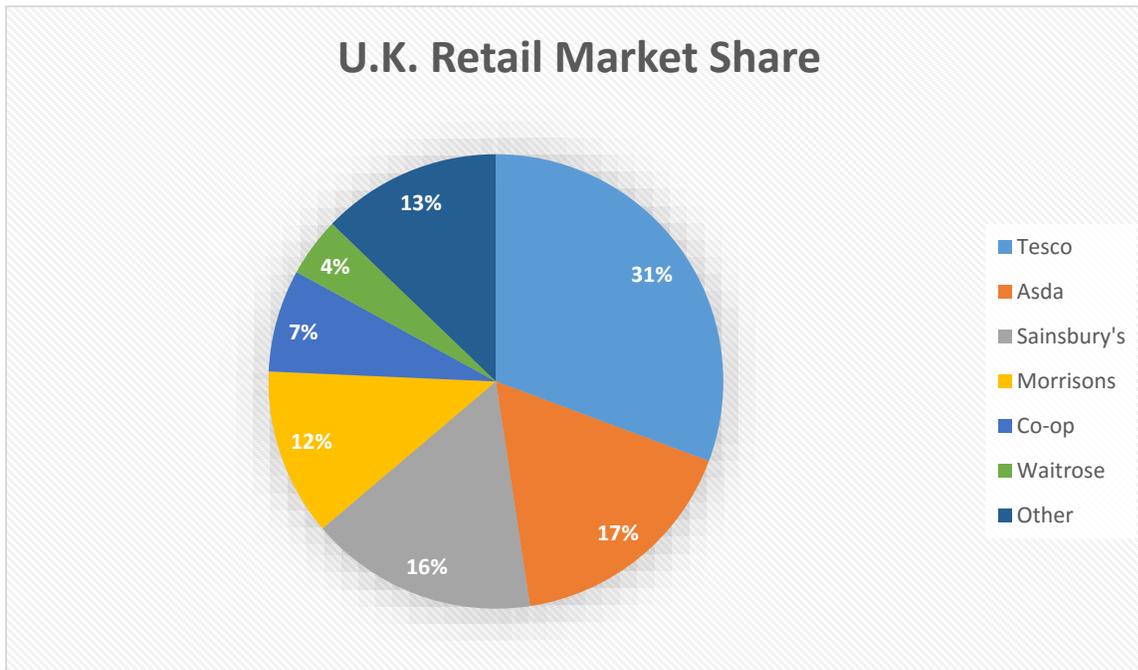


Figure 1: U.K. Retail Market Share. Source: Premier Foods

The company offers exceptional customer service to all buyers. Walk-in customers are attended to with professionalism, friendliness and urgency from the moment they walk into the store. Online shoppers have their purchases delivered punctually. Tesco has specialized customer services to cater to each individual customer. The company has come up with creative ways of improving the shopping experience in stores. Tesco has a wide network of distributors and suppliers, therefore, increasing the variety in the grocery stores. A broad variety of grocery meets the assorted tastes of consumers. The company has built strong customer loyalty due to its loyalty card program that offers discounts and redeemable points to customers who shop regularly. Tesco groceries has been able to offer groceries in line with market demands. Tesco's

online presence in social media has increased the information flow to customers (Prospects, 2014).

Weaknesses

Increasing of Tesco's geographical spread makes it difficult for the company to focus on a specific market or demographic. High fuel cost lead to increased transportation costs. High transport costs increase Tesco's operating expenses and reduce profit. Due to Tesco's rapid expansion internationally, the groceries arm of the company in the U.K has little financial resources for expansion. The broad assortment of customers means that some services could displease some people causing customer defections (KPMG, 2014).

1.4.3 Competitive Environment

Tesco groceries faces competition from various retail companies in the U.K. The main competitors include Asda, Sainsbury's, Morrison's and Co-op. Porter's five forces regarding Tesco are analyzed below (Nickels, et al., 2011).

(i). Threat of new entrants. The U.K. grocery market is dominated by a few competitors. The huge profits in the retail sector have lured new companies into the market. However, it is difficult for new entrants to raise adequate capital because of highly developed supply chains and large fixed costs (Euromonitor, 2014).

(ii). Bargaining power of suppliers. The fear of losing business to other suppliers means that Tesco is able to consolidate its suppliers and bargain for prices. U.K suppliers are threatened by

the ability of Tesco groceries to import products from other countries. The bargaining power of customers is low .

(iii). Bargaining power of customers. Tesco's loyalty card is a successful method of retaining customers. Customers have adequate information regarding various products and the prices offered by different stores for that product. The consumer power is medium (Humby, et al., 2012).

(iv). Threat of substitutes. Substitution reduces the demand for a particular grocery. Change of needs can cause the customer to change grocery stores. Product-for-product substitution however does not affect Tesco because of the wide variety of products on offer. The threat of substitution is medium (Zack, 2009).

(v). Bargaining power of competitors. The competitive rivalry is high. The grocery market has experienced an increase in size and market share growth for large retail companies. Competitors can build larger stores, increase retail specialization and utilize a range of formats. Increasing or operating with a flat market share is difficult due to the stiff competition (Economics, 2014).

1.5 Basis of Competition

Tesco grocery holds the largest market share in the U.K. The company holds a competitive edge due to its excellent customer service, flexibility, variety of products and a quality brand. The factors that consumers consider when choosing a grocery store are price, accessibility, customer service, loyalty reward and variety (MarketingWeek, 2014).

1.6 Key Success Factors

The key success factors for Tesco groceries include its loyalty club card; the exceptional customer service, quick delivery to online customers; superior quality of products available; and the variety of provisions.

2.0 Strategic Development

2.1 Existing Strategies

2.1.1 Business Stream Level

Market penetration. Tesco will establish new grocery stores in unexploited areas such as North Scotland, parts of Northern Ireland and North West England. Tesco also plans to revive large grocery stores in order to increase market share in the U.K. Tesco groceries has plans for acquisition of independent family businesses in order to increase the division's profits and increase market share (Copestake, 2012).

Product development. Tesco groceries plans to increase customized branding for new goods. The company will increase the variety of products available in stores in order to give customers a wider product range to choose from.

Market development. Tesco plans to invest £150 in the online business in order shopping and user experience. Improving the online business will increase online purchases and thus increase the company's grocery market share. The company will have the capacity to exploit new markets.

Diversification. Tesco groceries plans to take over Giraffe, a consumer business with a chain of restaurants in the U.K. The company plans to invest as a shareholder in Euphorium (a bakery)

and Harris and Hoole (a coffee shop). Tesco aims at providing new grocery products for the existing market.

2.1.2 Corporate Objectives and Strategy

The company believes the objectives are achievable and reflect the company mission and vision. The company has plans to have a majority share in the U.K. grocery retail business. Tesco grocery plans higher profits from local operations. The company hopes that by acquiring new businesses such as Euphorium it will effectively diversify its products and offer consumers a wide assortment of products. Tesco targets acquisition of new family businesses will increase revenues and market share. The company has invested in improving the online business section in order to add new consumer demographics and increase revenue. The company targets at improving management of the grocery stores by recruiting experienced and driven managers.

2.1.3 Operational Level

The company plans to improve customer service by providing customer-specific services. Online shoppers will have goods delivered to their residence or collection points punctually. Faster deliveries will be possible through acquisition of speedier vans and by responding promptly to customer demands. Collection points will be located near residential estates in order to increase customer accessibility to purchased products. Products will be priced at competitive prices in order to increase profits. Tesco will establish agreements with various suppliers and distributors in order to provide broader varieties of products in grocery stores (Ireland, et al., 2008).

2.2 Strategy Generation

2.2.1 Financial Objectives

- Tesco will aim to increase its revenues from £43,570 million in 2014 to £65,000 by 2019. Increasing the Return of Employed capital from 13.6% in 2014 to 20% in 2019.
- Tesco will achieve this by targeting new buyer demographics such as teenagers. The company will also increase its online trading volumes and increase the variety of products provided. The company will also enter into strategic collaborations with other companies on sharing distribution chains (Baye & Beil, 2006).
- Increasing trading profits from £2,191 million in 2014 to £4,000 million by 2019. Increasing operating profits margins from 4.1% to 8.0%. The company will achieve this by increasing trading volumes and offering competitive prices on products. The company will also source suppliers for the best quality goods for the lowest prices.

2.2.2 Expansion Strategies

- Increasing number of Tesco grocery stores in the U.K. from 3,378 to 4,100 in 2015.
- Expanding the online store to include more products.
- Increasing market share by acquiring smaller grocery stores within the U.K.
- Setting up more stores in unexplored regions especially in Northern Ireland, Wales and Scotland.

2.2.3 Value Chain Analysis

- Improving the speed of delivery of ordered products.
- Increasing the number of store attendants in order to offer more assistance to customers.

- Increasing the number of point of sale terminals in order to increase the speed of transactions in the grocery stores.
- Continued implementation of the Tesco Clubcard. Offering better offers on point redemption schemes.
- Establishment of self-service kiosks.
- Direct marketing adverts and promotions.
- Increasing the number of store ranges and formats in order to entice targets more sections of the demographic.
- Improving the technology in use within the grocery stores in order to speed up operations.
- Customer feedback will be gathered through a support desk and from social media interactions (Chesbrough & Appleyard, 2007).

2.2.4 Resources and Capabilities

Tesco has 3,378 stores within the U.K. The company has 440,000 employees. Tesco UK has a revenue of 43 billion pounds and operating income of 2.191 billion pounds. The intangible resources possessed by Tesco are brand uniqueness; service innovations; wide comprehension of the retail industry; a user-friendly website; and excellent customer service. Tesco has a competitive edge due to its loyalty Clubcard, knowledge integration and a broad knowledge of the retail industry (IGD, 2014).

2.2.5 Ansoff's Growth Matrix – Proposed Change in Strategy

<p>Market Development</p> <ul style="list-style-type: none"> • Targeting new geographical areas especially in places that have few grocery retail stores. • Improving online sale channels by building a more user-friendly website. • Increasing direct sales. • Targeting new groups of buyers such as teenagers and senior citizens. 	<p>Diversification</p> <ul style="list-style-type: none"> • Introducing new customers to the retails stores. • Increasing the variety of products offered in all grocery stores. • Selling grocery products to different markets.
<p>Market Penetration</p> <ul style="list-style-type: none"> • Increase market share by increasing diversity of products. • Vigorous advertising to increase customer awareness about grocery products offered by the company. • Offering discounts for bulk purchasing of groceries. • Increasing the Tesco Clubcard rewards. • Offering competitive prices for food products. 	<p>Product Development</p> <ul style="list-style-type: none"> • Packaging existing Tesco-branded products in new ways. • Offering bulk purchases on various items. • Offering new more improved products to replace old brands. • Introducing product line extensions. • Improving customer service and quality.

Table 2: Ansoff's Growth Matrix

2.2.6 BCG Matrix

 Market Growth	Question mark: Tesco groceries cannot be considered a question mark. All the sectors are making profit and display potential to grow.	Star: Tesco groceries is a star with the largest share of the retail market and high market growth. The company has the potential of generating huge profits. Tesco should invest more money to realize its potential.
	Dog: Tesco groceries cannot be considered as a Dog because it generates income.	Cash cow: Tesco groceries could be deemed to be a cash cow because of the high market share. Tesco has exceptional customer service, wide distribution networks and a superior brand in the U.K. Tesco needs to adopt a new strategy to increase brand awareness.
 Market Share		

Table 3: BCG Matrix Analysis

2.3. Choice of Strategies

The following strategies have been selected for implementation in the next five years and beyond.

- Increasing revenues from £43,570 million in 2014 to £65,000 million by 2019.
- Increasing trading profits from £2,191 million in 2014 to £4,000 million by 2019.
- Increasing number of Tesco grocery stores in the U.K. from 3,378 to 4,100 in 2015.
- Upgrading the online shopping website to a more user-friendly and secure site.
- Increasing the number of point of sale terminals in order to increase the speed of transactions in the grocery stores.
- Increasing market share by acquiring smaller grocery stores within the U.K.

Implementation

Tesco will require huge financial resources to fulfil the proposed strategies. The strategies that will need the highest investment are: building new grocery stores; paying employees to work in the new stores; acquiring smaller retail stores in areas that Tesco does not serve and increasing the number of point of sale terminals in all stores. Tesco should form a team to evaluate the progress of implementing the strategies (Reece, 2014).

Year	2015	2016	2017	2018	2019	2020	2021
Task							
Increasing revenues to £65 billion							
Increasing trading profits to £4 billion							
Increasing grocery stores to 4,100							
Upgrading the online shopping website							
Increasing the number of point of sale terminals							
Acquiring smaller grocery stores							

Figure 3: Gantt Chart for implementation of the business strategies.

Evaluation will be done in the following ways:

Goal based Evaluation: Monitoring the implementation of the objectives. The company will constantly evaluate which goals have been met, which goals are nearly completed and which ones have failed. Outcome based evaluation: When implementing the strategies, the company will evaluate the outcome of the implemented goal. Regular reports: Setting up a monitoring team that will submit reports on a regular basis to the management. Meetings: Having regular meeting between the teams working on implementing the strategy (Barney & Hesterly, 2009).

Recommendations

The business strategy proposed is a thorough analysis of the internal strengths, weaknesses, opportunities available and threats posed by external factors. Ansoff's growth matrix and BCG matrix were applied to evaluate the strategies. All the necessary factors have been given significant consideration. Tesco groceries should implement the business strategy in its entirety. The strategy will increase the market share of Tesco, increase customer satisfaction, increase profits and increase revenues. The strategies are in line with Tesco's mission, vision and core values. It is highly recommended that Tesco grocery implements the proposed business strategy.

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