

Paper Reference(s)

**6121/01 6122/01 6123/01**

**Advance Information**

**Edexcel GCE**

**Business Studies (8076)**

**Advanced Subsidiary**

Advance Notice of Case Study for

Unit 1: Business Structures, Objectives and External Influences

Unit 2: Marketing and Production

Unit 3: Financial Management

**May 2009**

This paper may be opened on

Monday 16 March 2009

**Instructions to Candidates**

---

In preparing for the Case Study paper, candidates are advised to undertake general revision as well as detailed investigation of issues related to the Case Study.

This Advance Notice should not be taken into the examination. The Case Study is reproduced with the examination paper.

Printer's Log. No.

**M34129A**



M 3 4 1 2 9 A

W850/6121/57570 6/6/6/

This publication may be reproduced only in accordance with Edexcel Limited copyright policy. ©2009 Edexcel Limited.

*Turn over*

**edexcel**   
advancing learning, changing lives

## Tesco plc 2007

### The UK Supermarket Industry

In 2007, grocery sales in the United Kingdom (UK) were estimated as being worth £95 billion. The grocery market also contained over 278 000 small, local retail shops, half of which were owned and managed by sole traders.

In 2006, a survey carried out by a market research group stated that the big four supermarket chains (Tesco, Asda, Sainsbury and Morrisons) held almost three-quarters of the UK grocery market (**See Appendix 1**). It was estimated that, in 2006, Tesco plc took £1 of every £8 spent by consumers in the UK. 5

The growth of the big four supermarkets was considered by some to be the main cause of the decline in the number of local retail shops. In 2005, it was reported that 2 000 local retail shops had closed down as supermarkets expanded. These closures were one of the factors that led the Office of Fair Trading (OFT) to investigate competition concerns in the grocery industry. The OFT looked at two main issues – competition worries surrounding the local retail market and whether supermarkets abuse their relationships with suppliers. 10

### Tesco plc – Background

Jack Cohen, founder of Tesco plc, began selling groceries from a market stall in 1919. In 1932, Tesco Stores Ltd was formed and in 1947 the company was floated on the Stock Exchange. The first Tesco self-service supermarket opened in the UK in 1956. By 2007, Tesco plc had become the market leader in the highly competitive UK retail food market with 1 988 stores, returning profits for the year of over £2.5 billion. Tesco plc, in 2007, also operated a further 1 274 stores worldwide. 15

Over the years, Tesco plc developed different store formats, namely: Express, Metro, Superstore, Extra and Homeplus, and expanded into different sectors, ie non-food, finance and communications. Sales in the UK accounted for nearly 80% of the company's total sales and profits in 2007. It was estimated that, each week, Tesco plc's staff served around 30 million customers across 13 countries. 20

### Aims and Values

Tesco plc's aim or core purpose is 'to create value for customers to earn their lifetime loyalty'. This core purpose is delivered through the company values of 'no-one tries harder for customers', and 'treat people how we like to be treated'. Tesco plc has a long-term strategy for growth, based on four key parts: growth in the core UK market; to expand by growing internationally; to be as strong in non-food as in food; and to follow customers into new retailing services. 25 30

### Employees and Benefits

In 2007, Tesco plc was the largest employer in the UK private sector, employing over 260 000 people, a further 116 000 were employed in Tesco plc's overseas stores. Employees were offered a package of pay and benefits, such as childcare vouchers and share-buying schemes. In addition, a 'Shares in Success' scheme gave employees free Tesco plc shares from its profits as a reward for their hard work and commitment. The company's pension scheme, which had around 150 000 members in 2007, allowed members to build up a pension based on their earnings and service. In 2006/07 the employee retention rate for permanent staff was 84.1%. 35

## Product Range

As well as being the market leader in the UK supermarket grocery industry, Tesco plc has a growing non-food market share. In 2007, non-food sales grew faster than food sales. However, in June of that year, the company reported a slower than anticipated growth in the more 'challenging' non-food goods market. The company said that the overall UK non-food market had slowed and that interest rate rises had had a negative effect on consumer spending. 40

In its Tesco Extra and Homeplus stores the company offers its widest range of food and non-food product lines, such as electrical equipment, clothing, cookshop items and soft furnishings. Some stores also have an optician and a pharmacy. 45

Tesco plc offers three own-brand label ranges for both food and non-food products: Value, Tesco and Finest. The Finest food range, with its quality ingredients, distinctive packaging and higher prices, makes a significant financial contribution. Tesco plc also sells the branded products of other businesses, such as Hallmark cards, Cadbury's chocolate, Heinz baked beans, etc. Clothing products carry Tesco plc's own-brand labels, eg Cherokee. 50

Tesco plc operates in the e-commerce market through Tesco Direct, Tesco.com, Tesco Personal Finance and Tesco Telecoms. Tesco Direct is an on-line and catalogue non-food service. Tesco.com offers home delivery for food and a range of other services, including flower delivery, operating in the Republic of Ireland and South Korea as well as the UK. Tesco Personal Finance is a joint venture with the Royal Bank of Scotland. It offers customers a range of financial products and services from banking to insurance. Tesco Telecoms offers customers a mobile network, home phone, internet phone and internet access services. 55

## Supply Chain

In 2007, Tesco plc had 30 distribution centres, six of which were dedicated to non-food products. The company's supply chain was made up of a complex range of relationships with individual farmers, growers, processors, manufacturers and distributors. The company had nearly 2000 own-brand label primary suppliers in 98 countries. Fairtrade products, as well as a limited range of local produce, were sold in its supermarkets. Tesco plc claims on its website: 'We try to treat our suppliers as we like to be treated: in a fair, honest and responsible way, as they are vital to our success.' During the period 2004–2007, Tesco plc conducted an anonymous and completely confidential survey on what it was like to work with the company. Over 94% of suppliers reported that they found the company to be trustworthy, reliable, helpful and fair. 60 65

## Promotion

A wide range of promotion techniques is used by the company, including a loyalty card scheme called Tesco Clubcard. In 2007, the scheme had over 13 million cardholders. These cardholders were awarded points according to the amount of money they spent with Tesco plc and other businesses in the scheme, such as Avis car rental. 70

Tesco plc has also been involved in a variety of community initiatives, including: Computers for Schools; Sports for Schools and Clubs; the Tesco Great School Run; Cancer Research UK Race for Life; plus a range of smaller projects. In April 2007, the Computers for Schools initiative was criticised in an article in The Times newspaper. The article stated that: 'The voucher scheme is a valuable source of advertising and positive publicity for the supermarket chain among children, parents and teachers. However, charities and head teachers have questioned the benefits of the initiative after it emerged that, collectively, customers must spend £1 500 for the cheapest item on offer'. Nevertheless, since 1992 Tesco plc has given schools over £92 million in computer equipment. 75 80

A further community initiative used by Tesco plc involves the company giving free fruit to local schools for four weeks before opening a new store – this initiative combines promoting healthy living with direct marketing.

### **Growth and Development**

Tesco plc's growth in the UK has been achieved by widening its product portfolio, undertaking further capital expenditure on building new stores, and extending existing ones. During 2007–2008, the company planned to open a further 574 stores; 142 of these were in the UK. In March 2006, a newspaper article stated that Tesco plc was believed to own land which had the potential for 185 new stores. Industry insiders believed Tesco plc's market share could soar to 45 per cent should all its land bank be turned into stores. 85 90

In 2007, Sir Terry Leahy in his Chief Executive's Statement, stated that international markets have the biggest potential for growth. In the autumn of that year, the company launched its business into the United States (US) market. According to Sir Terry, the start-up losses in the US of £85 million were in line with company strategy. Sir Terry was quoted as saying: "The United States is clearly an enormous part of the world's spending power and a market you can grow in if you have something successful. There is no shortage of retail space there, five times the amount per head than in the UK." 95

### **Corporate Responsibility**

Tesco plc considers being a good employer and regenerating communities to be important aspects of its Corporate Responsibility programme.

In early August 2007, a Tesco Extra store was opened in Failsworth, a district of Oldham, where heavy industry once thrived. This store was built as part of a government-supported pilot scheme for the Underserved Markets (USM) project whereby a company opens a store in a deprived area and commits to employing 20% of the staff from local long-term unemployed people or people with a disability. 100

Oldham Council applied a mix of funding from six existing local sources, including New Deal for Communities, to give recruits extra training to reach Tesco plc's starting point. The training programme included help with such basics as completing the application form and with interview skills. 105

Part of the planning permission requirements for the Failsworth store demanded that Tesco plc had to pay for the local health centre to be rebuilt because the old one was demolished to make way for the store's petrol station. 110

Over an eight-year period, Tesco plc completed 17 Regeneration Partnerships and was able to offer jobs to almost 4 000 long-term unemployed and disadvantaged people in deprived areas.

## The Future

The opening of small, local retail shops by the big four supermarket chains has become a huge growth area. The 'big four' face greater planning restrictions for superstores, so one of the key ways they can expand is to adopt the convenience store format. This allows the 'big four' to target 'cash-rich, time-poor' consumers who like to pick up a few groceries on the way home from work. However, in 2006, the Association of Convenience Stores (an association that campaigns for over 33 000 local shops) warned that this approach could destroy local communities. Predatory or below-cost pricing, by supermarkets like Tesco plc, was driving small shops out of business as they are unable to compete with their bigger rivals.

Friends of the Earth and the Women's Institute had highlighted social and economic concerns raised by the increasing dominance of supermarkets. Consumers also voiced their concerns about having less choice on the High Street, and in-store. However, customers continue to shop at Tesco plc, helping its profits and sales surge.

### Sources adapted from:

[www.tesco.com](http://www.tesco.com)

[www.tescocorporate.com](http://www.tescocorporate.com) Annual Review

[www.acs.org.uk](http://www.acs.org.uk) The Association of Convenience Stores

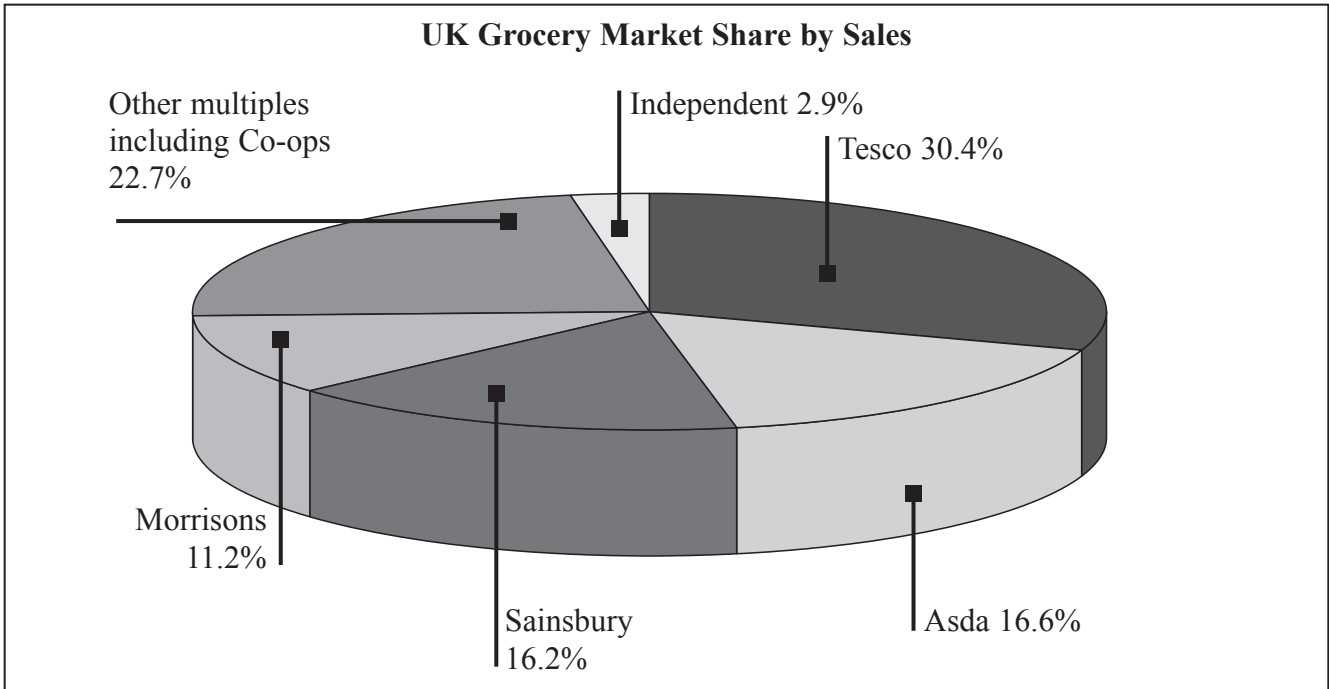
'Supermarket sweep-up' by David Conn, *The Guardian*, 25 July 2007

'Spend £379,000 at Tesco and buy your school a PC' by Helen Nugent, *The Times*, 19 April 2007

'Sales growth slows at Tesco', *Metro*, 20 June 2007

'Tesco owns more than half the unbuilt UK supermarket sites' by Abigail Townsend, *The Independent*, 12 March 2006

**APPENDIX 1**



**APPENDIX 2**

**Tesco plc's Clothing Range**

Tesco plc's clothing range is popular with UK consumers, due mainly to the low prices charged for fashionable items. The vast majority of these clothes are produced abroad, in places such as Bangladesh. In summer 2007, newspaper articles highlighted the plight of workers employed in the Bangladesh garment-making industry, including those who make clothes for some of Britain's best-known high street brands such as Tesco, Asda and Primark. One article stated that: 'Over the last 10 years, Bangladesh's clothing industry has boomed, fed by the huge demand for cut-price clothes on sale in supermarkets and discount chains. An estimated 2.5 million people work in thousands of factories in Bangladesh, but their wages have halved in real terms in recent years, making them one of the cheapest workforces in the world.'

5

Tesco, Asda and Primark have faced previous allegations that their suppliers exploit factory workers. All companies have emphasised their commitment to labour rights and have signed up to a code of conduct which sets out basic rights for employees.

10

**Source adapted from:** 'High price paid for cheap UK clothes' by Karen McVeigh, *The Guardian*, 16 July 2007

### APPENDIX 3

Di and Donny's Dairy Farm in Devon is an example of a small business which Tesco plc is using in response to its Local Sourcing Policy. This Policy demonstrates Tesco plc's on-going commitment to sourcing and promoting local products as part of the company's Corporate Responsibility Programme.

As a supplier to Tesco plc, Di and Donny's Dairy Farm would expect to see its cash-flow improve significantly. In 2007, the **trading** cash-flow is predicted to provide an overall balance of £90 000, compared with £60 000 in 2006.

5

#### **Trading Cash Flow Forecast (£s) for Di and Donny's Dairy Farm, Devon January to December 2007**

	<u>Jan-Mar</u>	<u>Apr-June</u>	<u>Jul-Sep</u>	<u>Oct-Dec</u>
	£	£	£	£
<u>Receipts</u>				
Milk	19 000	32 000	36 000	40 000
Calves	3 000	12 000	10 000	5 000
Subsidies				12 250
<b>Total</b>	<b>22 000</b>	<b>44 000</b>	<b>46 000</b>	<b>57 250</b>
<u>Payments</u>				
Seed	1 000			
Fertiliser	1 500			
Feedstuffs	9 500	4 000	3 250	8 500
Labour	5 000	5 000	5 000	5 000
Misc	5 250	6 750	8 250	11 250
<b>Total</b>	<b>22 250</b>	<b>15 750</b>	<b>16 500</b>	<b>24 750</b>
Net Cash-flow	-250	28 250	29 500	32 500
<b>Balance</b>	<b>-250</b>	<b>28 000</b>	<b>57 500</b>	<b>90 000</b>

**BLANK PAGE**