

STRATEGIC ANALYSIS OF TESCO SUPERMARKET

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ABSTRACT

Having heavily invested in the entrance of Fresh & Easy to the US market, management is facing several questions and wonders what the best strategy will be in the near future. The central question examined and answered in this report is therefore; Which strategy should Tesco Fresh & Easy pursue in order to make a gross profit of 100 million in the US in 2013?. After a thorough internal and external analysis, a SWOT analysis is made, of which three relevant strategic options are derived. These possible strategic options are evaluated using several evaluation criteria and subsequently, one strategic option is suggested to be the best strategic option for Fresh & Easy in their current situation.

This report concludes with It is suggested that implementing a customer intimacy and local focus is the best strategy for Fresh & Easy. Although it does not immediately realize the company's initial objectives, it will help Fresh & Easy to survive in the US market and to be more profitable (in order to keep existing). Fresh & Easy should target the rapidly growing and ethnically diverse population and focus on the 'True friends'. It must position itself as the neighborhood supermarket that is responsible, interested, familiar, listens, interacts and offers the products that these customers wants. This report concludes with some implementation suggestions and broad financial forecasts. When implementing this customer intimacy and local strategy the right way, Fresh & Easy will most likely make profit after the approximately two years.

1. INTRODUCTION

Tesco is the largest food retailer in the UK and one of the top supermarket operators in the world. In 2007, Tesco had entered the western US market with a new band-Fresh & Easy Neighborhood Markets. This expansion faces some challenges as the US retail market is the most competitive retail market in the world. Many UK retailers have found difficulties to compete or survive in the US retail market. For instance, a well-known fact that UK retailers Sainsbury's and Mark & Spencer failed to attract US customer. However, Tesco's annual report (for fiscal year ending February 2010) explained that Fresh & Easy has been successful and has been making good progress. The total sales and new spaces increased by 70 percent and 52 percent respectively in 2010. However, Fresh & Easy experienced a trading loss of 165 million pound in 2010. Some analysts argued that it was caused by economic recession which has dampened consumer demand. Management is now wondering what to do next. In order to answer this question and solve the problems Tesco Fresh & Easy is facing, we analyzed the following research question:

Which strategy should Tesco Fresh & Easy pursue in order to make a gross profit of 100 million in the US in 2013?

To answer the research question, we first examined the external and internal factors which affect the performance of Fresh & Easy. From this SWOT analysis, we derived

the main strategic options for Tesco's Fresh & Easy. After the evaluation of the options we conclude with our recommendations for Tesco together with some basic implementation suggestions.

Market definition

In this report we focus on the US grocery retailing supermarket in the states Arizona, Nevada, California. In the analysis we will focus on Tesco Fresh & Easy chain.

2. EXTERNAL ANALYSIS

2.1 Customer analysis

The market can be segmented based on the segmentation variables 'customer loyalty' (high or low) and 'profitability' (high or low). This way, four segments can be distinguished. In table 1, these different segments are illustrated.

Table 1: Customer differentiation based on profitability and loyalty (Reinartz & Kumar, 2002)

	<i>Short-term customers</i>	<i>Long-term customers</i>
<i>Highly profitable</i>	Butterflies	True friends
<i>Low or not profitable</i>	Strangers	Barnacles

Within the segment of *Butterflies* (high profitability, short-term customers) there is a good fit between the company's offerings and customers' needs. This group has a high profit potential. However, these people enjoy hunting out the best deals, and they avoid building a stable relationship with a company (Reinartz & Kumar, 2002).

Within the segment *Strangers* (low profitability, short-term customers) there is little fit between the company's offerings and customers' needs. This group has a low profit potential (Reinartz & Kumar, 2002).

True friends (high profitability, long-term customers) have a good fit between the company's offerings and customers' needs. These customers are usually satisfied with existing arrangements and they are loyal to a company. This group has a high profit potential (Reinartz & Kumar, 2002).

Barnacles (low profitability, long-term customers) have a limited fit between the company's offerings and customers' needs. However, they are loyal to a company. This group has a low profit potential. This can be due to a small wallet or a small share of the wallet (Reinartz & Kumar, 2002).

2.2 Competitor analysis

Some analysts are convinced that the US market was over stored and thus saturated. The result is an intense price competitive market. There is no national grocery retailer in the US market. The closest was Wal-Mart which accounted almost for a quarter of groceries sold nationwide.

The leading grocery retailer in southern California is Ralph's which have 263 supermarkets and 100 additional stores under the Food 4 Less and Food Co. Brands,

followed by Vons with 260 stores, Stater Brothers with 165 stores, Albertsones with 135 stores. Moreover, there are other important competitors which offer freshness at upscale prices, namely Trader's Joe which is owned by Aldi of Germany with 97 stores and Whole Foods with 59 stores. In addition, supermarkets, discount stores and even drug chains were increasing their fresh food offerings.

2.3 Market analysis

Emerging submarkets

Emerging submarkets are the to-go supermarkets and the ability to buy groceries at home via the internet. In addition, due to the economic turndown of 2008 and 2009, only extreme discounter retailers benefited significantly from the reserved American shoppers.

Distribution systems

Most groceries use traditional channels (local brokers and distributors) which supply the goods to the chain distribution centers or directly to the chain stores. From the distribution centers the goods are divided and transported to the individual stores of the specific grocery chain. Most grocery chains depend on separate deliveries from multiple suppliers.

Trends

Market research found that more and more consumers from the region of California are aware of consuming healthy food and it continues to become a trend towards on-the-go consumption. The consumers experience less time to go for grocery shopping, are time pressured, and therefore are more interested in both fresh food and ready-to-eat meals. Furthermore it shows that the automobile commuting times are higher for California than the nationwide average.

2.4 Environmental analysis

Technological Dimension

There are also technological changes in the retail market. Because of the constant stream of technological and IT innovations, it becomes more easily and efficient for supermarkets to operate (think of automatic ordering systems etc.). Furthermore the use internet increases, which offer the consumers the ability to buy their groceries at home.

Governmental Dimension

There is a government policy in saving energy and environment design which is called Leadership in Energy and Environment Design (LEED).

Economic Dimension

Grocery retailing in US has grown very fast. There are 35,000 supermarkets in the US. Most of the retailers from drugstores to home improvement centers are selling grocery items. Moreover, several analysts believed that the US was over stored where there was price competition, aggravated during economic downturns. In a typical year, the average US Supermarket made an operating profit of 2% to 3% of sales.

Demographic Dimension

The population of California is rapidly growing and is ethnically diverse over 35 million with a median household income well above the national average. This profile indicates a promising demand and a high purchasing power for grocery products. Moreover, the percentage of people which is identified as Caucasian had fallen to below 45% and 40% of people spoke a language other than English at home. Based on the culture and race, Hispanic-Americans accounted for 37% of the population, Asian-Americans for 12% and African-Americans for 6%. The population in Nevada and Arizona also showed the same characteristics with high growth and highly diverse. Furthermore, the unemployment rates of Arizona, California and Nevada remained relatively high and it was not expected that the consumers would return to the pre-recession levels of personal spending soon.

3. INTERNAL ANALYSES

3.1 Performance analysis

Sales and Profitability

By 2007 Tesco had invested heavily in US market by opening a lot of Fresh & Easy stores and had already spend \$700 million, but generated only 30% of its targeted sales. Tesco's weekly sale per store was only \$50.000 to \$60.000, which was approximately \$200.000 below the targeted sales.

Tesco had planned to open 200 new stores but, by April 2009, the chain had managed to open 115 locations. This was because of the US economy so that the growth of Tesco Fresh & Easy was rather slow. Based on the annual report 2010, Tesco Fresh & Easy gains £349 million in revenues, with a trading loss of £165 million. In contrast, the total Tesco revenues were £62.5 billion with trading profits of £3.4 billion where it was a 9% increased from the previous year.

Business characteristics

Tesco is the UK's leading retailer that offers in-store food and beverage selection. In 2010, Tesco began to open Fresh & Easy stores in the western United States. Fresh & Easy Store emphasized on everyday low pricing rather than weekly specials and it hoped to leverage lower operating costs what its website termed "honest low prices" on "fresh wholesome food" that should be available for everyone in a "neighborhood market". It offers high quality goods and meals. Each store has 20 up to 30 employees from the local community.

Distribution system

Tesco Fresh & Easy has developed \$100 million distribution center in California. The distribution center has enough capacity to service 500 Fresh & Easy stores. This center joined with Wild Rocket, one of Tesco's UK produce suppliers, to build its US distribution center near Fresh & Easy. It also made a partnership with another UK company, 2 Sisters that supply fresh poultry and meat for Fresh & Easy store. Tesco Fresh & Easy is depended on few suppliers rather than multiple suppliers like most US retailers do.

Customer satisfaction

Customer satisfaction, also referred to as cumulative satisfaction, involves all of a customer's experiences over time with a product or service provider (Johnson and Fornell, 1991). Especially in the retail industry, satisfaction is considered to be an important driver of customer loyalty (Martensen et al. 2000). Regarding to the customer satisfaction of Tesco Fresh & Easy, overall, consumers reaction are positive about the product quality and the low price of its products. However, there are number of issues from consumers that Tesco has to deal with. Several consumers concern about the freshness of prepackaged produce and meats as well as worried about the lack of familiar brands. Moreover, they also complain about the décor, the operating hours of Tesco Fresh & Easy (perceived too short, since typically US retailers open 24 hours a day) and the frequency of shelf stockouts. Another perceived big disadvantage that consumers face is that Tesco Fresh & Easy do not accept American Express, personal checks or coupons and that it had no loyalty program.

Products quality

Tesco Fresh & Easy in US offers variety of food items and non-food items (5%). It provides fresh products namely fruits and vegetables, high-quality private label goods with low price. Fresh & Easy put highlight on its "ready to sell" approach where many products involving fresh produce arrived at the store pre-packaged. This aims to protect the produce from being damaged during shipping and handling.

New product/service activity

Tesco launched a website tesco.com in 2000, which became Britain's largest online grocer with 250.000 registered home delivery customers. Tesco.com became profitable since it coordinated delivery service from local stores and grew fast.

During 2009, Fresh & Easy took action to consumer feedback by bending several things. For examples frozen food space was increased, all beer stock was refrigerated. Then Tesco refreshed 60 opened stores by changing stores décor. Moreover, they enhanced the couponing and in-store promotions.

Environment friendliness and operational efficiency

Tesco's distribution centre has a solar roof. Furthermore, Tesco has a ready-to-sell approach whereby many products arrive pre-packed at the stores. This enhances the product freshness and protects the products from being damaged during transportation. It also cuts down spoilage of products, requires less refrigeration and reduces the labor necessary to stock store shelves. Next to this, the produce was shipped in reusable plastic containers rather than disposable cardboard cartons and the containers are already shelf-ready, which increases efficiency.

Tesco has only a few suppliers and has chosen use its own truck fleet to transport the bought goods, which also increases their efficiency.

Tesco makes use of relatively small locations in contrast with regular supermarkets. This increases the change of obtaining sites, planning is easier and costs about 50% less, which result in lower overhead costs.

Due to the LEED certification, the average Fresh & Easy store uses 30% less energy than a comparable traditional store.

3.2 Determinants of strategic options

Past strategies

The past strategies were focused on the trend that consumers are interested in wellness, in food choices, a continuing trend towards on-the-go consumption, and in both fresh foods and ready-to-eat meals. Tesco had international strategies contains six elements: be flexible, act local, maintain focus, use multi-formats, develop capability, and build brands. Moreover, on its website, there are terms highlighted the Fresh & Easy's strategies: "honest low prices" on "fresh wholesome food" that "should be available to everyone" in a "neighborhood". Hence, Tesco's Fresh & Easy offered fresh and wholesome foods at affordable price to the costumers. Moreover, Fresh & Easy sought to fill the gap between convenience stores and supermarkets in the western US.

In addition, Fresh & Easy invested on a more advanced distribution center enough capacity to serve the stores in Arizona, southern California, and Nevada. This strategy aims at extending product freshness, protecting from damaged and saving energy.

In order to expand a market share, Fresh & Easy opened 90 new stores during 2008, which is the second largest expansion compared to its competitors. Moreover, Fresh & Easy has a 4000 item assortment which is lower than the average supermarket items. The executives keep maintaining the convenience of a keep-it-simple and preselected assortment as the Fresh & Easy's main advantage.

Current strategies

Current strategies conducted by Tesco's Fresh & Easy are based on customer feedback and related to the economic downturn of 2008 and 2009. In relation with the customer feedback, assortments are adjusted; frozen food was increased, all beer stock was refrigerated and 1000 new items were added without increasing congestion by resizing the height of the grocery aisles. In addition, Tesco refreshed some of the stores already opened by adding pastel colors, additional banners, wall massages about the company's value and redesigned panels on grocery aisle end caps. The advertisement and promotion was also improved to increase brand awareness and drive store traffic. The advertisement by massages on billboards, busses and radio was expanded to highlight Fresh & Easy's honest low price, no additives or preservatives in own-label products, date-coding of all products, local sourcing, and reuse and recycling of packaging materials.

Considering economic crisis which have dampened the consumer spending on grocery products, Fresh & Easy agreed to accept WIC (Women, Infants and Children's Government nutrition program) vouchers in some area stores. This program offered couponing and in-store promotions with affordable prices, for instance adding \$0.98 fruit and vegetable specials, and "under \$1" displays. This strategy is appropriate to the current economic situation because only extreme discount retailers could survive and benefited significantly. An interesting Fresh & Easy flyer which emphasized this strategy is "A financial crisis shouldn't mean a dinner crisis". Moreover, Fresh & Easy had also acquired sites for additional stores as the economic recession reduced the cost of site leases and new store construction. However, some analysts argued that Fresh & Easy should have opened even more stores.

Strategic problems

A main concern related to the current and the past strategies is whether the market “gap” between convenience stores and supermarkets that was sought to fill was substantial. In California, there was increasing number of supermarkets, discount stores and even drug chains that offered fresh foods. Therefore, the accelerated expansion is questioned since some analysts believe that Fresh & Easy’s accelerated expansion strategy was not gaining the expected customer response.

Another important question is; had Tesco misread the American consumer? By providing 4000 item assortment which is lower than items in the average supermarket, some analyst felt that Tesco had overestimated both the level of demand and the speed with which consumer would switch to the Fresh & Easy format.

Organizational capabilities and constraints

Tesco is established since 1929. Based on one of its six international strategies, the CEO Terry Leahy remarked that Tesco has capabilities through people, processes and system at all level. The rapid growth and profitable business are able to achieve with light investment in management. Moreover, as a well-developed company, Tesco included the company’s core purposes, values, principles, goals and a balanced scorecard to establish Tesco as a “value retailer”.

Financial resources and constraints

Based on the 2010 Tesco annual report, Tesco experienced significant increase of sales and trading profits in Asian markets (such as Thailand, South Korea, Taiwan and Malaysia). Meanwhile, in Europe and USA, Tesco had suffered prolonged trading losses. Therefore, the significant growth of sales and profits in Asia became a source of financing to expand its business.

The slow recovery of US economy and other developed countries is a major obstacle for Tesco to seek sources of financing for investment and business development.

4. SWOT

After analyzing the internal facets of Fresh & Easy and the external environment influencing Fresh & Easy, we derived the following strengths and weaknesses and the opportunities and threats that Fresh & Easy faces.

Internal	External
Strengths S1 Tesco is a well established Retail Company with a lot of experiences. S2 Fresh & Easy is responsive to consumer needs – trying to answer the demands of the market S3 Fresh & Easy emphasized on everyday low pricing (= pro in recession times) S4 It offers high quality private label goods and meals. S5 Local community employees (create stakeholder value) S6 Distribution center is near to Fresh & Easy and has enough capacity. S7 Partnerships with UK suppliers, so stable and trustworthy suppliers. S8 Has only few suppliers (efficient and less risk).	Opportunities O1 Emerging submarkets: to-go supermarkets and internet grocery shopping. O2 Extreme discounter retailers benefited significantly from the reserved American shoppers (due to the economic turndown). O3 Consumers want healthy food and a trend towards on-the-go consumption. O4 Consumers are time pressured and interested in both fresh food and ready-to-eat meals. O5 Automobile commuting times are higher for California than the nationwide average. O6 Population is rapidly growing and is ethnically diverse with a median household income well above the national average (=promising demand and high

<p>S9 Consumers positive about product quality and low prices. S10 Tesco launched tesco.com in 2000, which became Britain's largest online grocer with 250.000 registered home delivery customers. Tesco.com became profitable since it coordinated delivery service from local stores and grew fast. S11 Fresh & Easy is environment friendly and has operational efficiency S12 Fresh & Easy agreed to accept WIC (Women, Infants and Children's Government nutrition program) vouchers in some area stores.</p>	<p>purchasing power).</p>
<p>Weaknesses W1 Tesco invested heavily in US market, already spend \$700 million, generated only 30% of its targeted sales. W2 Fresh & Easy offers less variety of products range compare to average supermarket item. W3 Several consumers concern about the freshness of prepackaged produce and meats as well as worried about the lack of familiar brands. W4 Consumers complain about the décor, the operating hours and the frequency of shelf stockouts. W5 Fresh & Easy do not accept American Express, personal checks or coupons W6 Fresh & Easy has no loyalty program. W7 The US market is not self supporting, significant growth of sales and profits in Asia became a source of financing to expand its business. W8 Hard to find sources of financing for investment and business development, due to recession.</p>	<p>Threats T1 Saturated market, intense price competition. T2 Supermarkets, discount stores and drug chains are increasing their fresh food offerings. T3 Shoppers are reserved due to economic turndown of 2008 and 2009, only extreme discounter retailers benefited significantly from the reserved American shoppers. T4 Most of the retailers from drugstores to home improvement centers are selling grocery items. T5 High unemployment rates. Expectation: personal spending will not return to the pre-recession levels soon.</p>

5. STRATEGIC OPTIONS

Now that the strengths, weaknesses, opportunities and threats of Fresh & Easy are clear, several strategic options could be composed from this information.

Segments

Looking at the customer segmentation, the main segment Fresh & Easy should focus on is the 'True friends'. They have a high profitability, are long term customers and hence, they have a high profit potential. In addition the segments 'Barnacles' and 'Butterflies' could be also attractive, but it is important to keep in mind not to invest too much in these segments, because they are (respectively) not very profitable or they are short term customers. The main focus thus should be on the 'True friends' segment.

After analyzing the customer segments and the strengths, weaknesses, opportunities and threats of Tesco's Fresh & Easy, the following main strategic options can be derived.

Strategic option 1 – Focus on neighborhood store (customer intimacy/differentiation focus)

S1, S2, S5, S12, W4, W6, W3, W4, W5, O3, O4, O6, T1

The customers in the segment 'True friends' have a good fit between their needs and wishes and what the company offers. True friends are loyal, satisfied customers. To keep the customers satisfied, loyal and maintain this fit with the company, it is of vital importance to distinguish yourself from the competitors by keeping in touch with your customers, to interact with them and to derive what they want. So, the segment 'True

friends' should be served by a customer intimacy strategy with a local focus. Using a customer intimacy strategy the companies build customer loyalty for the long term, (Treacy and Wiersema, 1993). Distinguishing yourself from your competitors with the product you offer and focusing on a niche market is referred by Porter (1980) to as a differentiation focus strategy.

Fresh & Easy should target the rapidly growing and ethnically diverse population. They have an above average income and are high purchase power. They want fresh, healthy food and ready-to-eat meals. Furthermore they have a little time to shop and looking for on-the-go consumption. Fresh & Easy could meet their needs by using its strength of being able to adapt easily to the consumer needs and thus offer fresh, healthy food and ready-to-eat meals at a to-go shop. Furthermore, Fresh & Easy should take in account the different ethnic cultures by offering produce which are often used by the different cultures.

Moreover, Fresh & Easy should create a local focus. They must use their strengths of experience and the usage of local employees to create stakeholder value and commitment. They should listen and interact with all their stakeholders, in order to solve the questions and complains about the décor of the store, the operating hours, the freshness of the preplaced produce and meats and the shelf stockouts. By interacting with the consumers they will feel that Fresh & Easy listens to them and that will create loyalty and shopping comfort. In addition, to create more shopping comfort and loyalty, Fresh & Easy should accept American Express, personal checks or coupons and create a good loyalty program in order to maximize the customer convenience. In addition, they must inventory with the local consumer, whether they should accept WIC (Women, Infants and Children's Government nutrition program). By targeting this group of consumers with a customer intimacy and local focus, Fresh & Easy will overcome the threat of the saturating market and create loyal, long term customers.

Important to note, Fresh & Easy could maintain the amount of stores they have at the moment, but should not invest, on the short term, in additional stores. Fresh & Easy should first invest in a more local focus, before acquiring new stores.

Strategic option 2 – Focus on costs (operational excellence/cost leadership/cost emphasis)

S3, S7, S8, S9, S11, W1, W4, W8, O2, O3, O4, T4

Another strategic option for Fresh & Easy is an internal focus, a focus on optimal efficiency and thus to reduce costs. Treacy and Wiersema (1993) call this the operational excellence strategy. The operational excellence approach refers to the production and delivery of products. The goal of this approach is to 'lead its industry in price and convenience' (Treacy and Wiersema, 1993). In other words, trying to minimize costs and to operate as efficient as possible and deliver products at competitive prices and with minimal inconvenience. Porter would name this strategy a cost leadership strategy (Porter, 1980) and Rust et al. (2002) classify this strategy as a cost emphasis approach. The cost emphasis strategy concentrates on the efficiency of the processes of firms and 'customer satisfaction improvements are sought only indirectly, through such results as increased reliability or lower prices' (Rust et al., 2002).

The segments most addressed by this strategy would be the short term customer segments, 'Butterflies' and 'Strangers'. This because these consumers enjoy hunting out the best deals (Reinartz & Kumar, 2002).

Because of the economic recession, the high unemployment rates and the already high amount of investment costs of Fresh & Easy (and not generating the targeted sales), this could be a good strategy. Besides, shoppers are reserved due to economic turndown and extreme discounter retailers seem to do good business. In addition, Fresh & Easy already emphasized on everyday low pricing.

It is also hard for Fresh & Easy to find sources of financing for investment and business development, due to recession, which won't be necessary with this strategy. Also, Fresh & Easy already began with operating efficient and environmental friendly with the solar roof, their ready-to-sell approach, the shipping in reusable shelf-ready plastic containers, using its own truck fleet to transport the bought goods, making use of relatively small sites and by getting LEED certification. Furthermore, Fresh & Easy operates already efficient with having only few suppliers (which is efficient and less risky) and having partnerships with stable and trustworthy suppliers from the UK (which enhance volume discount).

From market research it also shows that consumers are positive about product quality and low prices of Fresh & Easy. But consumers also complain about the frequency of shelf stockouts, which must and can be solved using the operational excellence approach. This strategy will reduce costs for Fresh & Easy and therefore Fresh & Easy could offer competitive prices.

Of course, Fresh & Easy should also take in account the wishes of the consumer, which want fresh, healthy food and ready-to-eat meals at an on-to-go shop. Important to note here also that Fresh & Easy could maintain the amount of stores they have at the moment, but should not invest, on the short term, in additional stores. Fresh & Easy should first invest in more efficient processes, before acquiring new stores.

Strategic option 3 – leave US market, sell stores - W1, W7, W8, T1, T2, T3, T4, T5

Another option for Fresh & Easy would be to sell the stores of Fresh & Easy and leave the US market.

Fresh & Easy is facing the threats of a saturated market, with intense price competition and supermarkets and other retailers (e.g. discount stores, drug chains and home improvement centers) are increasing their grocery and/or fresh food offerings. In addition to that, they face revered shoppers and high unemployment rates due to the recession.

In addition, the Fresh & Easy stores on the US market are not self supporting, the significant growth of sales and profits in Asia became a source of financing to expand its business. By selling the US Fresh & Easy stores, Fresh & Easy could get (a part of) the money back they invested over the years and solve the weakness of not being able anymore to find sources of financing for investment and business development, due to recession.

6. STRATEGIC EVALUATION

In order to decide which strategic option would be the best strategy for Fresh & Easy to realize the objective of making a gross profit of 100 million in the US within 3 years (2013), several evaluation criteria are used.

6.1 Evaluation criteria

The first criterion to select a strategic option is the suitability of the option to the goals of Fresh & Easy. The goal of Fresh & Easy was initially to become market leader in the US market (ahead of profitability).

	Does it fit with the goals of Fresh & Easy?
Option 1	Yes
Option 2	Moderately yes
Option 3	No
<i>Choice</i>	Option 1 , because option one offers the best strategy to become, on long term, market leader.

The second criterion is the feasibility of the options. (Preconditions FOETSLE)

	Financial	Organizational	Economic	Technical	Socially	Legal	Ecological
Option 1	Sufficient	Fit	Compatible to goal on long term, profitable	Possible	Acceptable	No problems	Good
Option 2	Sufficient	Fit	Could be compatible to goal on long term, profitable	Possible	Acceptable	No problems	Good
Option 3	-	-	Least compatible to goal	Possible	Acceptable	No problems	-
<i>Choice</i>	Option 1 , because this option has the best fits, is compatible to the initial goal (on long term), but is profitable on short term, which is necessary for Fresh & Easy to survive.						

The third criterion is the sustainable competitive advantage. Does it deliver a sustainable and relevant advantage for the customer?

	SCA?	Relevant advantage for the segment that fit with this option?
Option 1	Yes, namely customer intimacy	Very relevant
Option 2	Yes, low costs, but there are many competitors who already apply this strategy	Very relevant
Option 3	No	Not relevant
<i>Choice</i>	Option 1 , because there are already many competitors that focus on price, so the customer intimacy strategy would be a more sustainable competitive advantage.	

The table below summarizes the above criteria ranking for the best strategic option for Fresh & Easy (3 is the least and 1 is the best option)

	Suitability	Feasible (FOETSLE)	SCA
Option 1	1	1	1
Option 2	2	2	2
Option 3	3	3	3
<i>Choice</i>	Option 1.		

6.2 Strategic advise

To conclude, the best strategic option for Fresh & Easy is option 1, the customer intimacy and local focus. Although it does not immediately realize the company's initial objectives, it will help Fresh & Easy to survive in the US market and to be more profitable (in order to keep existing). In the long term it could realize the initial objective of Fresh & Easy, though. With the selection of this strategic option we also took in account the previous positioning strategies of Fresh & Easy in order to prevent that Fresh & Easy should use a whole other strategy that would draw into the brand values that Fresh & Easy already has.

6.3 Positioning

Fresh & Easy should target the rapidly growing and ethnically diverse population and focus on the 'True friends'. It must position itself as the neighborhood supermarket that is responsible, interested, familiar, listens, interacts and offers the products that these customers want. Further implementation suggestions will be discussed in the next chapter.

7. IMPLEMENTATION

To implement the customer intimacy and local strategy, Fresh & Easy must understand what brings customers into the store, how they shop, what they like about the store and the competitors, know the competitors' economics and what unique capabilities Tesco Fresh & Easy has and are worth keeping (Burns, Enright, Hayes et al. 1997). If Fresh & Easy knows all that the implementation can start. The strategy chosen is being a neighborhood store, so in every element of the marketing mix this customer intimacy and differentiation focus in comparison to the competitors must be made clear. Implementing this strategy requires retail renewal. We have reconsidered the current strategy and have identified a new strategy for achieving the gross profit of 100 million in the US within 3 years. We now understand the building blocks of renewal (Burns, Enright, Hayes et al. 1997), namely the in-store experience and the assortment, to become a local supermarket. When visiting the store, they must create a total experience, based on the social environment, service interface, retail atmosphere, assortment, price, the retail brand and the customer's experience in alternative channels (Verhoef, Lemon, Parasuraman et al. 2009).

7.1 Product

To differentiate their products from that of the competitors Fresh & Easy must offer an assortment that is focused on the local customers. What do they want and what are their specific needs. Moreover, the products must look fresh and must not be pre-packed, the products must show freshness and quality, because the customers want high-quality products.

Private labels or manufacturers brands

First, the question of selling (mainly) private labels or manufacturer's brands must depend on the customer's wishes. If, for example, the local customers like to buy manufacturer's brands they will need to adopt an assortment with manufacturer's brands. Because we want to attract the segment 'True friends' (which are loyal customers) we must develop a product strategy that attracts and keeps those loyal customers visiting the store. Dhar, Hoch and Kumar (2001) show that the best performing retailers offer a broad assortment, have strong private label programs, charge significantly lower everyday prices and use feature advertising to drive store traffic and display to increase in-store purchase. This shows that Fresh & Easy should extend their private labels, but Fresh & Easy must also note the u-shaped relationship between the private label share and the share-of-wallet. When the private label share goes beyond approximately 40%, the share-of-wallet begins to increase, because the willingness of consumers to purchase private label products varies across product categories (Ailawady, Pauwels and

Steenkamp, 2008). Moreover, a comment of customers was that there was a lack of familiar brands within the stores. To combine these two elements we advise Fresh & Easy to create private labels around the staple categories, because it is shown to be more effective in contributing to staple category performance in comparison to fill-ins, niches and variety categories (Dhar, Hoch and Kumar 2001) and to use familiar brands (manufacturers brands) for the fill-ins, niches and variety enhancers. To conclude, they will use their store brands as a means of differentiation, helping them to drive store traffic and increase loyalty due to unique identification with the store. Moreover, the usage of private labels will create higher retail margins, a better negotiation position towards national brand manufacturers and higher customer loyalty (Ailawady, Pauwels and Steenkamp, 2008).

Which products to localize?

Campo and Gijsbrechts (2004) showed that there are conditions for localizing specific categories to be beneficial. The different trading zones of the Fresh & Easy stores in the three states of America are very heterogeneous, there are categories that have a high appeal on the customers and they have the actionable, powerful resources to exploit local differences, so localizing specific categories can be beneficial for Fresh & Easy. Then the question remains, which categories to localize? Campo and Gijsbrechts (2004) show that for supermarket (the limited service stores like Fresh & Easy) it is beneficial to adopt micro-marketing in the food categories (the basic categories). Therefore we suggest that Fresh & Easy should localize the food categories that are perceived as important for the local customers.

7.2 Price

The price level of the private label must be under that of the manufacturer's products. Fresh & Easy is not a hard discounter, so they do not have to offer the lowest prices, but they also should not ask premium prices, because then consumers will travel further to get cheaper products at the competitors. So, Fresh & Easy should offer their products for an average price. Because price is also an estimator for quality for customers it is important to keep the prices not too low.

7.3 Promotion

Out-store promotion

In their promotion it must be visible that they are a local supermarket. They should sponsor local projects, local charity funds and communicate in their promotion that they have an assortment that is specially developed for this local neighborhood. According to Dhar, Hoch and Kumar (2001) feature advertising helps build store and hence category traffic. Especially in the beginning, after they have just changed the concept, it is important to tell the customers what they can expect at the supermarket.

In-store promotion

In addition, also the in-store promotion must be increased in stimulate cross-selling, because now people only spend 15 dollar per visit. In addition, the in-store promotion adapts on the intuitive buying behavior of customers. According to Dhar, Hoch and

Kumar (2001) display influences category volume by leading to opportunistic in-store purchasing. Fresh & Easy should expand this in their store. Moreover, as stated before, the consumer must get a complete experience within the store, so every element in the store must show that they are a local retailer with high quality products.

Loyalty program

In addition, Tesco Fresh & Easy should develop a loyalty program for their customers, which will make them visit the store more often and buy more. Loyalty schemes seem to be fully profitable only when applied to a small number of customers (Benavent et al. 2009). This indicates that customer segmentation and targeting is essential in a loyalty program. This is also recognized by Mägi (2003) and Leenheer et al. (2007). Mägi (2003) states that it could be worthwhile to segment consumers according to their propensity to be behaviorally loyal in terms of their primary store share-of-purchase. So that is what we did and how we selected the segment we want to focus on. That's why a loyalty program is very applicable in this situation. This is also underlined by Leenheer et al. (2007), who states that to increase participation rates it is important to consider the profile of consumers that are likely to sign up for a loyalty program. The marketing databases established by the loyalty programs make it able to carry out a profitable segmentation, retain customers and repeat business and spot potentially profitable customers (Kumar & Reinartz, 2006, p.152).

Leenheer et al (2007) also found that once a consumer has decided to enroll in a particular program, the effect of membership on share-of-wallet is independent of the saving rate and discount rate. The effect of a loyalty program decreases with the number of competitive loyalty program memberships. Overall, Tesco Fresh & Easy needs to develop an individual loyalty program, which is specifically developed for their target segment of customers.

7.4 Distribution

To localize the assortment it is important to establish efficient distribution channels in the countries where they are established, so in this case America. It is important to have the local products in the quality and taste the local people expect. Now they have contracts with suppliers in the UK, but those must be decreased, which of course takes time and maybe money, but then they can benefit the shorter distribution lines and adapt on changing needs of the customers much quicker. This breakthrough in the back room (logistics) will create a sustainable competitive advantage in the front room (complete, up-to-date range of local goods and other features visible to the consumer) (Burns, Enright, Hayes et al. 1997). This could also delete the problem of frequency of shelf stockouts, if good contracts with the local producers are made.

Moreover, to provide a complete experience it is important for Tesco Fresh & Easy be online and offer information (like the latest promotions and actions) online, and maybe also expand it to online shopping.

8. FINANCIAL RESULTS

One of the biggest challenges of renewal is affording it. To solve that problem we advice Tesco Fresh & Easy to effective tailor investments to each store's ability to

generate value and find ways to share costs (e.g. in store promotion of national brands and advertising possibilities) (Burns, Enright, Hayes et al., 1997). We advise them to keep their size like they have now, because it is important to focus on these stores first (and not be distracted by the development of new stores) and leave a first good impression at the customers and use these stores as a pilot study and if this new strategy is a success Tesco should expand their number of Tesco Fresh & Easy stores around America.

Revenues

The revenues per customers per visit will increase with the implementation of the new strategies, because it increases cross-buying and due to the specific demanded promotions more sales. Moreover, the margins will be higher, because of the Private Labels and with the good balance between Private Labels and Manufacturers Brands (and a small price difference between the Private Label and Manufacturers Brand) this also results in a higher dollar margin.

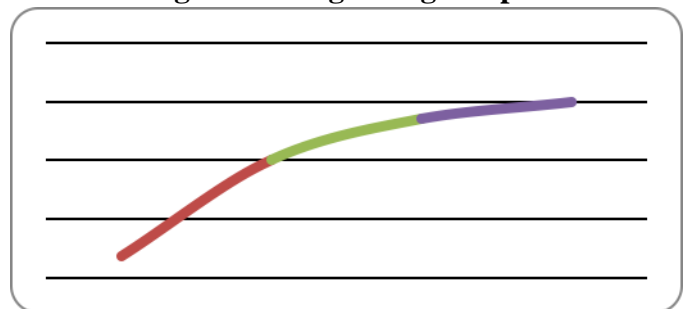
Costs

We are aware that providing local food raises the costs, because advantages of scale are deleted, but the high shipping and transportation costs also. Moreover, the promotional efforts and the changes in the store layout will cost money in the first year (2011). With this new strategy they will also achieve higher sales and more profits. The new sales expectations for 2011, 2012 and 2013 are as followed:

Table 2 – Future gross profits

Tesco Fresh & Easy (California, Florida & Arizona)	2010 (estimated)	2011 (predicted)	2012 (predicted)	2013 (predicted)
Sales	349	600	620	650
Costs of profit	514	600	550	550
Gross profit	-165	0	70	100

Figure 2: Prognosis gross profits



When reading these numbers, take into account that these are just rough sketches and need to be fine-tuned when we have the exact supplier costs and have a better projection of the specific amount of visitors. That's why it is important to learn from these 'pilot stores' in Arizona, Florida and California and make better predictions for future store gross profits and hopefully eventually for return on investments in other states.

9. CONCLUSION

After a turbulent time, with a lot of investments in Fresh & Easy stores to enter the US market, management is now wondering what to do next. In order to be able to give a good advice, the central question of this report is; *Which strategy should Tesco Fresh & Easy pursue in order to make a gross profit of 100 million in the US in 2013?*

After a thorough SWOT analysis, several strategic options are derived. The best strategic option for Fresh & Easy is to implement a customer intimacy focus, combined with a local focus. Being a neighborhood store.

9.1 The strategy advised

Fresh & Easy should target with this strategy, the loyal and satisfied customers, so called 'True friends' of the rapidly growing and ethnically diverse population of Arizona, California and Nevada. They have an above average income and are high purchase power, thus have a high profit potential. These customers must be served by Fresh & Easy by offering fresh, healthy food and ready-to-eat meals of at a to-go shop. Furthermore, Fresh & Easy should take in account the different ethnic cultures by offering produce which are often used by the different cultures.

Moreover, Fresh & Easy should create a local focus. They must hire local employees to create stakeholder value and commitment. Fresh & Easy should listen and interact with all their stakeholders, in order to create loyalty and commitment of the local customers. In addition, to create more shopping comfort, Fresh & Easy should accept American Express, personal checks or coupons and create a good loyalty program in order to maximize the customer convenience. Also, Fresh & Easy must inventory with the local consumer, whether they should accept WIC.

By targeting this group of consumers with a customer intimacy and local focus, Fresh & Easy will create a competitive sustainable advantage that overcomes the threat of the saturating market and will create loyal, long term customers who will be profitable for the long term.

Important to note, we advice Fresh & Easy to maintain the amount of stores they have at the moment, but not to invest, on the short term, in additional stores. Fresh & Easy should first invest in a more local focus. When this new strategy is implemented well (it will never be finished!), Fresh & Easy could invest in acquiring new stores.

We are aware that this strategic option does not immediately realize the company's initial objectives (to become a market leader, over profitability), but this strategy will help Fresh & Easy to survive in the current US market and to be more profitable (in order to keep existing). When the strategy is implemented well in the existing Fresh & Easy stores, Fresh & Easy could think of expanding the chain by acquiring new stores. So, in the long term this strategy could realize the initial objective of Fresh & Easy.

9.2 Positioning

Fresh & Easy should target the rapidly growing and ethnically diverse population and focus on the 'True friends'. It must position itself as the neighborhood supermarket that is responsible, interested, familiar, listens, interacts and offers the products that these customers want.

9.3 Implementation

To implement the customer intimacy and local strategy, it is of vital importance that Fresh & Easy interacts, listens and fully understands their customers' needs and wishes. Fresh & Easy must offer fresh and high quality products that are focused on the local customers with their specific needs. The amount of private labels or manufacturing brands must depend on the customer's wishes.

The products of Fresh & Easy should have a medium price. Fresh & Easy will offer the products that the local consumer wants and that may cost a bit, but they also should not ask premium prices, because then consumers will travel further to get cheaper (substitute) products at the competitors.

Regarding the promotion, it must be visible from the out-store promotion that Fresh & Easy is a local supermarket. In addition Fresh & Easy could sponsor local projects, local charity funds and communicate in their promotion that they have an assortment that is specially developed for this local neighborhood. The in-store promotion must stimulate cross-selling.

In addition, Tesco Fresh & Easy should develop a loyalty program for their customers, which will make them visit the store more often and buy more.

Concerning the distribution, the contracts with the suppliers of the UK can be continued, but it is important that Fresh & Easy includes local products in the quality and taste the local people expect.

When implementing this customer intimacy and local strategy the right way, Fresh & Easy will most likely make profit after the approximately two years.

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