Shareholders Warn Tesco on Strategy

Tesco faces pressure from big shareholders to start “shock and awe” price cuts after Wm Morrison sent tremors through the industry by promising to plough £1bn into discounting.

Several of Tesco’s top 10 investors are urging the chain to retaliate in the price war launched by its rival last week. One described Morrisons’ gambit as “game changing”. “Tesco has been in denial and at some point it has to wake up,” he added.

The UK’s biggest supermarket disappointed the City last month when it revealed £200m of price cuts and a £200m Clubcard petrol promotion. The moves were designed to combat Aldi and Lidl, the cheap German retailers who have stolen market share from the big four - Tesco, Asda, J Sainsbury and Morrisons - but were seen as too mild.

Morrisons tried to take the initiative last Thursday by vowing to spend £1bn on lowering prices over three years. The Bradford-based grocer also issued a severe warning on next year’s profits. News of the planned cuts wiped £3bn off the share prices of listed food retailers as the stock market steeled itself for a price war.

Tesco will automatically match Morrisons through its Price Promise, which gives vouchers if its prices can be bettered elsewhere. However, several shareholders said it could not rely on the voucher scheme alone. One suggested that Tesco should consider spending billions rather than hundreds of millions on price cuts.

“There’s no point in going small. The risk is you don’t do enough and you don’t change the momentum. It needs to be shock and awe,” he said. However, this view is not held by all shareholders. Some fear that aggressive price-cutting would destroy profits without jump-starting sales.

Tesco is likely to wait for Morrisons’ gradual reductions to take effect before deciding on its response. Data from the analyst Kantar Worldpanel last week underlined how rapidly Aldi and Lidl are advancing. Tesco’s market share fell to 28.7% in the 12 weeks to 2 March 2014, its lowest in a decade, and sales fell 0.6%. Morrisons’ till takings were down 3.2%. Aldi’s sales grew 33.5% and Lidl’s by 16.6%.

Until now, Sainsbury’s has appeared immune. But on Tuesday 18 March 2014 it is due to report a 3% decline in quarterly sales.

Further Information
- An Introduction to Strategic Planning
- Tapping the Strategic Potential of Boards

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