# Tesco warns of unprecedented retail challenges amid soaring costs and geopolitical instability



Tesco's chief executive, Ken Murphy, has issued a stark warning regarding the current challenges facing the retail sector, describing this period as one of unprecedented difficulty. Speaking at the World Retail Congress, Murphy highlighted various factors contributing to the pressure on retailers, including rising energy and labour costs, increasing regulatory burdens, and geopolitical instability affecting global supply chains.

Murphy's comments come amidst a backdrop of significant fiscal changes in the UK, including a £25 billion increase in National Insurance and hikes in the minimum wage imposed by the Labour Government. These measures are driving up operational costs for retailers, prompting fears of potential shop closures and job losses across the sector. “Things have rarely been as tough for retail as they are today,” Murphy stated, emphasising the need for innovative strategies to sustain growth in an increasingly hostile environment.

The supermarket giant is not just grappling with domestic issues; global disruptions, notably from military conflicts and climate-related events, are compounding the strain. Murphy specifically pointed to instability from the Ukraine conflict and its impact on supply routes. “[There is] geopolitical instability from the Ukraine to the Red Sea,” he mentioned, predicting ongoing challenges for grocery supply chains. The consequences of climate change—such as droughts and wildfires—have also placed unprecedented stress on farmers, many of whom are critical suppliers to Tesco.

Despite these formidable challenges, there is cautious optimism in some quarters. Tesco recently reported a 4.1% rise in underlying UK sales during the festive season, signifying market share gains attributable to enhanced product quality and competitive pricing strategies. This growth, however, has been overshadowed by the rising cost of doing business. Tesco faces an increase in its National Insurance bill of £235 million this year alone, while overall profits are expected to take a £400 million hit due to heightened competition among grocers.

Consumer confidence has also taken a hit, with reports indicating a decline following the post-Christmas spending spree. According to market insights, despite a slight uptick in sales figures, retail stocks have been sluggish. For instance, Tesco experienced a 1.3% drop in share value despite its reported sales growth. Analysts suggest that consumers are becoming increasingly cautious in the face of ongoing economic uncertainty fuelled by rising inflation and government borrowing costs.

In light of these economic pressures, Murphy has called for government intervention to alleviate some of the burdens on retailers. He pointed out that Brexit-related regulations have materially increased the costs of grocery imports, exacerbating financial pressures on businesses. Higher operational costs, alongside a doubling in business rates over the past decade, have forced Tesco to explore ways to lower prices to remain competitive. He noted that while food inflation might have peaked at 19%, the reality is that many essentials will continue to experience elevated prices due to persistent cost pressures.

While Murphy acknowledged the strain experienced by consumers, he remains hopeful that price increases may moderate in the latter half of the year. He indicated that changes in commodity costs and energy prices could provide some relief. “We hope we will start to see an easing of aspects of inflation that will help to moderate it,” he noted, stressing the importance of maintaining the purchasing power of families amidst these challenging economic conditions.

Overall, Tesco's position serves as a microcosm of the broader retail landscape, where rising costs and regulatory challenges are creating a perfect storm for both businesses and consumers. As the largest private employer in the UK, Tesco's ability to navigate this landscape is critical, not just for its own sustainability, but also for the communities and families that depend on its services.

**Reference Map:**1: Paragraph 1, 2, 4, 5, 6, 7, 8, 9 2: Paragraph 4 3: Paragraph 5 4: Paragraph 6 5: Paragraph 7 6: Paragraph 8

Source: [Noah Wire Services](https://www.noahwire.com)

## Bibliography

1. <https://www.dailymail.co.uk/money/markets/article-14708159/Retail-rarely-tough-says-Tesco-chief-Grocer-battered-rising-costs-red-tape.html?ns_mchannel=rss&ns_campaign=1490&ito=1490> - Please view link - unable to able to access data
2. <https://www.reuters.com/business/retail-consumer/uk-consumer-confidence-falters-after-christmas-splurge-2025-01-09/> - Following a Christmas spending spree, UK consumer confidence has declined, impacting retailer shares like Marks & Spencer, which, despite reporting an 8.9% rise in food sales and 1.9% in clothing, saw a 6.5% drop in its shares. Similarly, Tesco reported a 4.1% sales increase but experienced a 1.3% drop in share value. The sector is bracing for higher costs due to April’s planned tax and minimum wage hikes, coupled with rising government borrowing costs and inflation, signaling a tough year ahead. Retail giants are also preparing for potential further tax increases. Greggs saw slowed sales growth, and B&M experienced a 2.8% sales decline. Overall, consumer caution and economic challenges are expected to persist, impacting retail performance in 2025.
3. <https://www.reuters.com/business/retail-consumer/britains-tesco-keeps-annual-profit-outlook-after-christmas-sales-rise-2025-01-09/> - Tesco, the UK's largest supermarket group, reported a 4.1% rise in underlying UK sales during the Christmas trading period, resulting in market share gains. This growth is attributed to improved product quality, innovation, enhanced customer service, and competitive pricing strategies. Tesco achieved a 28.5% share of the UK grocery market by the end of 2024, its highest since January 2016. Shares rose by 23% over the past year, supported by efficient savings strategies to fund competitive prices and the successful Clubcard loyalty scheme. Despite anticipated cost increases in 2025/26 due to new government policies, Tesco expects a retail adjusted operating profit of about 2.9 billion pounds for the financial year ending February 2025.
4. <https://www.bbc.com/news/business-66932287> - Tesco is trying to 'lower prices wherever we can' as customers continue to grapple with cost-of-living pressures, its boss has said. Ken Murphy said the pace of rising food prices would continue to slow this year, easing the pressure on shoppers. The UK's biggest supermarket chain reported a jump in profits for the first half of the year after wholesale food costs came down. It said customers had been buying more own-label products to save money. Mr Murphy told the BBC consumers were starting to see 'stability in [grocery] pricing and actually they're starting to see prices coming down'. 'We know how challenging it is for many households across the country, as they continue to grapple with ongoing cost of living pressures,' he added.
5. <https://www.theguardian.com/business/2023/jun/16/tesco-boss-food-inflation-has-probably-peaked-but-prices-will-stay-high> - Tesco has called on the government to help combat inflation by easing regulations linked to Brexit. Photograph: Daniel Leal/AFP/Getty Images. Tesco has called on the government to help combat inflation by easing regulations linked to Brexit. Photograph: Daniel Leal/AFP/Getty Images. Ken Murphy says higher costs of grocery imports because of Brexit are partly to blame for rising prices. Sarah Butler. Fri 16 Jun 2023 12.08 CESTLast modified on Fri 16 Jun 2023 17.16 CEST. Share. The chief executive of Tesco has said food inflation has probably peaked but that prices are likely to stay high. Ken Murphy, the head of the UK’s biggest supermarket chain, said the price of milk, bread, cooking oil and some vegetables such as broccoli had come down this month but inflation continued in other essentials, including rice and potatoes, as weather issues and locked-in increases in the price of labour and energy continued to bite. A peak in annual food price inflation, currently at 19% according to the latest Office for National Statistics data, would not mean that prices overall would start to come down, just that they would rise more slowly. Murphy urged the government to help tackle inflation by easing regulations linked to Brexit, which he said had had a “meaningful impact” on the cost of importing groceries into the UK from the EU and from Great Britain to Northern Ireland. He also called on ministers to consider easing business rates, which he said had cost Tesco £700m last year and had doubled in the past 10 years while grocery sales were largely flat. “We would really welcome help in a number of different areas in ways that could help reduce the cost to serve” customers, he said. He also said price rises would continue to ease in the second half of the year, but that it was difficult to determine how long high levels of inflation would remain because costs were partly dependent on commodities and the cost of energy, on which long-term contracts continued to suggest prices would remain high. “We hope we will start to see an easing of aspects of inflation that will help to moderate [it]. It is unlikely prices will return to where they were but wages are higher than they were and what’s important is the purchasing power of families,” he said. At Tesco’s annual shareholder meeting on Friday, Murphy defended the company’s recent move to charge extra fees for suppliers selling goods via its online business. He said grocery producers had been trying to “push through price rises” on a regular basis in the past year or so, and that Tesco had “actively been trying to hold them back”. “Most of the consumer goods companies in the world are now mega-companies and the idea of the large retailer and small supplier is a wrong assumption which is no longer a reality,” he said. Inflation is causing serious problems across the UK, driving up costs for businesses and making everyday essentials more expensive for households, prompting them to rein in spending. The building materials business Travis Perkins issued a profit warning on Friday, saying that rising mortgage rates and high inflation had led to home owners delaying projects such as extensions while the construction industry was holding back on building new homes. The company said annual profits were set to be £240m, £30m less than previously predicted.
6. <https://www.bbc.com/news/business-65925217> - Tesco's boss has said there are 'encouraging early signs' that price rises are easing as the retail giant reported higher sales. Ken Murphy said he was 'very conscious' of the financial pressure on shoppers, but hit back at claims that the supermarket was profiteering. The chief executive said he believed it was unfair for grocers to be blamed for inflation remaining at a high level. Latest figures showed food inflation hit 19.1% in the year to April. The rate at which food prices are rising has been pointed out as one reason why the inflation rate for all consumer goods is not falling as quickly as expected, with prices still 8.7% higher than a year ago.