

# Tesco

## History

Tesco PLC is an international grocery and general merchandising retail chain. Founded in the UK it is the largest British retailer and globally it is the third-largest retailer after Wal-Mart and Carrefour. In 2007, the supermarket chain announced over £2.55bn in profits, approximately the same amount as it declared in 2012. Tesco now controls just over 30% of the grocery market in the UK. Its declared mission is to 'create value for customers to earn their lifetime loyalty' and it's declared strategy is based on offering a range of different types of stores, understanding its customers and treating its employees well.

The company originally specialised in food retail. It has now diversified into other retail areas such as discount clothes, consumer electronics, consumer financial services, selling and renting DVDs, compact discs and music downloads, Internet service provision, consumer telecoms, consumer health insurance, consumer dental plans and budget software.

The name Tesco was introduced in 1924, when the founder of the company Jack Cohen bought a shipment of tea from T. E. Stockwell. The product was branded Tesco Tea, merging the first three letters of the supplier's name (TES), and the first two letters of Cohen's surname (CO). In 1929 Cohen opened the first Tesco store in Burnt Oak, Edgware, Middlesex; the first self-service store opened in St Albans less than twenty years later, in 1947, and the first supermarket store in 1956, in Maldon. Meanwhile, the company was floated on the London Stock Exchange in 1947, as Tesco Stores (Holdings) Limited.

The 1950s and the 1960s were years of growth for Tesco: by the end of this period, there were more than 800 Tesco stores. In 1973 Jack Cohen resigned and was replaced as Chairman by his son-in-law Leslie Porter. Porter and managing director Ian MacLaurin changed the strategy of the company from a 'pile it high sell it cheap' philosophy which had left the company stagnating and with a bad brand image. In 1977 Tesco abandoned offering the discount savings scheme, Green Shield stamps, to its customers and implemented price reductions and centralised buying for all its stores.

During the 1970s and 1980s the company continued its strategy of acquiring new stores through takeover of existing food retail chains. During the 1990s the company began diversifying in terms of its product range, its operating area and its delivery channels. Acquisition of Associated British Foods gave the company a major presence in Northern Ireland and the Republic of Ireland. A business alliance with the Esso Petroleum Company allowed the leasing of petrol stations under the Tesco Express format. Key developments in this period were the introduction of a loyalty card and an Internet shopping service. Tesco was one of the first UK retailers to be able to make a profit out of online shopping.

This process of diversification and expansion continued during the early 2000s as Tesco started to become a major international food retailer. In October 2003 it launched a UK telecoms division, comprising mobile and home phone services, to complement its existing Internet Service Provider business.

In the UK, there are four major formats for Tesco stores, depending on size and the range

of products sold. The largest stores are called Tesco Extra – they are usually located out-of-town and offer the complete range of tangible products. A smaller range of non-food goods is available in Tesco superstores, that can be described as standard large supermarkets, stocking mainly groceries. Tesco Express stores cater to the “convenience” segment of the market (that is, small neighbourhood stores), while Tesco Metro stores are sized between Tesco superstores and Tesco Express stores and are mainly located in city or town centres.

### **Informatics infrastructure**

Tesco uses ICT and information systems more generally in a number of ways within its business. The company chairman, Terry Leahy claimed in 2007 that if the firm’s ICT failed the firm would fail.

In terms of its customer chain, Tesco introduced its loyalty card for customers, ‘clubcard’ over twenty years ago. To get such a loyalty card must supply a range of personal details to the company. The customer can then use the clubcard in all interactions with the company. Swiping the clubcard through the EFTPOS terminals at checkouts associates purchase of items against details held about the customer. For the customer regular use of the card accrues points which can be redeemed via a voucher scheme in discounting of goods. 11 million loyalty card customers were reported in the UK in 2007. Capture of this data has become critical to company operation. Aggregation of this data in data warehouses allows the company to identify purchasing patterns and plan product and store operations accordingly.

In common with most other large retailers, Tesco draws goods from suppliers into regional distribution centres, for preparation and onward delivery to stores. RFID

technology is taking an increasing role in the distribution process.

Within the stores themselves the company’s ‘one in front’ initiative’, introduced in 1994 has been heavily reliant on ICT. The company uses thermal imaging technology to measure and predict customer’s arrivals at checkouts. This enables store managers to ensure that the right number of checkouts is open for every customer to receive a one in front service.

In 2008 Tesco announced its intention to overhaul its ICT infrastructure, planning to replace a number of separate voice and data networks with a single communication network, which was eventually outsourced to Cable and Wireless. This network was used to standardise its key ICT systems in areas such as finance, human resources, payroll, in-store management, distribution and sales.

The intention was to manage these ICT systems centrally across the entire network from its ICT services centre in Bangalore, India (see case study). Informatics professionals based in particular countries of operation supply only front-line support. This standardisation is built upon an earlier effort by the company initiated in 2005, known as ‘Tesco in a box’. This was a programme of standardisation based upon an Oracle ERP system which was implemented in all countries of operation.

The rollout of these standard ICT systems is seen as a key enabler for standard business processes and standard management information across the Tesco group. This allows new stores opened countries such as Malaysia or Japan to operate and be managed in exactly the same way as a store in the UK.

### **B2C eCommerce**

Tesco made its major push into B2C eCommerce with a strategic move into on-line grocery retail. The tesco.com domain name and associated Web-site was formally launched in 2000. Soon afterwards, in July 2001, the company attempted to become involved in internet grocery retailing in the USA, when it obtained a 35% stake in GroceryWorks, a joint venture with the American Safeway Inc., operating in the United States and Canada. However, GroceryWorks did not expand as fast as initially expected and Tesco sold its stake to Safeway Inc. in 2006.

Having said this Tesco now claims to be the world's largest online grocery retailer. Tesco is reported as having 45.1 per cent of the sales of online grocery sales followed by Sainsbury's (14.1%) and Asda (13.7%). Estimates of the percentage of on-line groceries within the British Grocery market has placed this as much as 5%, with a doubling of growth over the next five years. In 2010 as much as 13% of grocery shoppers are reported as shopping online for their groceries regularly.

In 2006 Tesco was reported as having picked up two thirds of all online grocery orders in the UK and had over 750,000 regular users of its on-line grocery service, generating over 22,000 orders per week. This rose to 1 million active users in 2008 and a growth of 50% in on-line sales over the previous year. Internet sales were reported as contributing 4.2% of profits and 3.1% of overall sales. Tesco claimed in its 2005 annual report to be able to serve 98% of the UK population from its 300 participating stores. In the financial year ended 24 February 2007 it recorded online sales up 29.2% to £1.2 billion and profit up 48.5% to £83 million, with over 250,000 orders per week.

Not surprisingly other on-line retailers have begun to look seriously at on-line grocery

retail as a profitable market to explore. Amazon, for instance, announced in July of 2010 that it intended to compete with the major British supermarkets in offering online groceries. Of the available 22,000 products available to customers, 2,000 will be stocked in its normal warehouses such as in Swansea. The additional products will be delivered direct from other suppliers. However, established on-line grocery retailers such as Tesco have a two hour delivery window for their groceries. This might prove difficult for Amazon to compete with given its current business model.

Grocery sales made online through the web-site are available to customers for delivery within a defined range of selected stores. Goods for each customer are hand-picked from goods held within each store. This is in contrast to other business models which pick items from the warehouse. The pick from store model allows rapid expansion with limited investment, but has led to a high level of substitutions when stock becomes unavailable.

Through its Web-site, Tesco now offers a wide range of other products, including electronic goods, books, broadband and financial services. The company uses a content management system to maintain the content on its Web-site, restricting content production itself to a limited range of users. More recently, Tesco have introduced the option within a limited range of stores of customers picking up their crate of groceries from the store and thus deferring the delivery charge. Tesco launched its first home shopping catalogue in autumn 2006, as another channel for sales of its non-food ranges. This is integrated with the internet operation, with both channels being branded as Tesco Direct. Tesco has also launched an advertising campaign for its VOIP product, marketing the

service to customers by offering free calls to all other Tesco internet phone customers.

In 2012 Tesco began trialling a mobile commerce application in the UK. For two weeks they trialled what they called an interactive virtual grocery store in the departure lounge at Gatwick Airport, UK. The fridge-sized machine displayed four interactive screens that the customer can slide by hand to reveal shelves with an assortment of 80 products. If the customer wants to buy a product, they scan the barcode with their smartphone. The idea is that the customer will be able to use devices such as this to order a basket of essentials and have them delivered the day they get home from holiday.

### **Organisation**

From an institutional perspective Tesco would be considered in terms of a large multi-national company, producing goods and services and competing within a number of markets. We would also be interested in the strategy of the organisation and ways of designing its activities in areas such as its supermarket operations to improve its performance. This would lead us to examine the place of information in support of activities such as decision-making about what products to stock where.

Considered from an action perspective we would be interested in how employees of Tesco PLC perform their work. Hence, for instance we would be interested in the experience of working as a checkout person for the company. We would be interested in the established procedures for doing things such as operating checkouts, stocking shelves and receiving goods into the supermarket store. Some of the knowledge about how to do things will be formalised in the sense of being written down. Many other aspects of

the everyday work of employees of the company will rely on tacit knowledge. We would also be interested in how such knowledge is communicated and how it is acquired.

### **System and environment**

Tesco PLC can be considered in systems terms. As a food retailer the inputs to the organisation are the foodstuffs it receives from its suppliers. Outputs consist of foodstuffs sold on to customers. Its key transformation consists of those activity systems involved in supporting the sale of foodstuffs. These activity systems can be considered in a hierarchical fashion. Hence, the company will have systems of supply, supermarket operation and financial management that all contribute to the overall purpose of the organisation, which is making a profit for its shareholders.

The environment of the organisation consists of the retail industry generally and specifically supermarket retail. Within food retail in the UK the dominance of big supermarkets means that they have enormous power in determining pricing levels for key foodstuffs from their suppliers. However, the food retail industry is subject to quite heavy degrees of regulation in such areas as environmental health legislation. The food retail sector is still growing in the UK. In recent years the major supermarkets have increased their levels of technological deployment quite dramatically and have utilised their information systems in new areas such as financial services. The basis of competition has traditionally been on matters of pricing although other bases such as the quality of foodstuffs (particularly in relation to organic foodstuffs) have recently come into play.

## **Value-chain and value-network**

The value produced by Tesco is primarily the sale of foodstuffs to customers. Its declared mission is to 'create value for customers to earn their lifetime loyalty'. Tesco introduced its loyalty card for customers a number of years ago. Value might therefore include the additional value services available to loyalty card customers such as discounting of goods.

It is possible to consider the performance of Tesco in terms of the three Es of performance. Tesco efficacy measures are likely to include sales for product groups across different supermarkets. Efficiency measures are likely to include profit margins against product lines or measures of stock fulfilment against orders in warehouses. In terms of effectiveness measures might include the degree to which new customers are attracted to stores; old customers continue to come to their stores and the levels of satisfaction expressed by customers with the level of service they receive.

Consider a supermarket chain in terms of the concept of the value-chain. It is possible to map some of the key processes from the internal value-chain onto this type of business. Inbound logistics involves the management of the purchasing of foodstuffs and the distribution of foodstuffs to warehouses. The process of operations involves the unpacking of bulk deliveries and the presentation of foodstuffs on supermarket shelves. Outbound Logistics involves the distribution of bulk foodstuffs from warehouses to supermarket stores. Marketing and sales involves the advertisement of product lines and the purchasing of foodstuffs from stores. After-Sales service involves the handling of customer enquiries and complaints.

Tesco operate a number of information systems which contribute both to operational control through single-loop feedback and to strategic control through double-loop feedback. For instance, sales of products within their stores are recorded at checkouts and update information about stock levels in the service area of the store. This information triggers replenishment of products from stock held in the inventory area of the store. This is an example of operational control. Sales to loyalty card holders provide valuable information to the company which is used for determining which products to sell at which stores at which times of the year. This is an example of strategic control.

## **eBusiness and eCommerce**

Tesco is what we would refer to as a clicks and mortar company. It is primarily a physical operation but it has an on-line service as well. Tesco have made eCommerce work successfully and integrated it with its core business.

Tesco as a food retailer has relationships with its customers and suppliers. Revenue flows into its value-chain from its customers and on to its suppliers. Customers are mainly attracted to supermarkets by a combination of low prices and a large variety of goods on offer. Supermarket chains typically sell large volumes of their products and hence their business strategy is typically one of low-cost/high-volume operations with typically low margins on each product. Costs are minimised in a number of ways such as buying in bulk from suppliers and letting customers bear the costs of selecting products from shelves, packing products and transporting such goods to their homes. The critical success factor for a supermarket chain is therefore attracting sufficient customers to its store. This means that location of stores is critical. Stores need to be placed within easy

reach of a sufficient catchment area of willing customers.

The provision of an eCommerce site such as Tesco.com changes the business model of a supermarket chain. Relationships with customers and suppliers change, as do costs and revenue. For example, if a supermarket fulfils on-line orders by having a member of staff walk around the store and picking and packing goods followed by transportation to customer's homes using delivery vans then the costs of the operation can substantially increase. Hence, many supermarkets pass on this cost directly to the customer through a charge for delivery as does Tesco.


An alternative business model is to do away with stores entirely. Goods may then be stored in and delivered from low-cost warehouses. Hence, additional order

fulfilment costs (picking, packing and transporting) can be balanced by lower operational costs (larger range, reduced inventory, larger volume, lower margins).

Technology clearly has had and continues to have impact on organisational practices. The introduction of bar-code scanners and electronic point of sale terminals at checkouts has rapidly improved throughput of customers. Tesco like many other large retail companies have also introduced automated self-service checkouts with the longer-term aim of reducing staffing cost. It is experimenting with the use of RFID tagging in its supply chain to automatically track its inventory and intelligent trolleys in its stores which will automatically read the products purchased as they are dropped into the trolley.

#### **Points for reflection**

- Supermarket chains such as Tesco have been criticised for the control they exercise over both their customer chain and their supply chain. Within food retail in the UK the dominance of big supermarkets means that they have enormous power in determining pricing levels for key foodstuffs from their suppliers. Criticism has also been voiced over the way in which companies such as Tesco have led to the decline in traditional smaller retail outlets on the high street. Examine this issue in greater detail.
- The food retail industry is subject to quite heavy degrees of regulation in such areas as environmental health legislation. This raises significant barriers of entry to the industry. How does Tesco's adoption of eBusiness act as a barrier to entry in such terms?
- The food retail sector is still growing in the UK. In recent years the major supermarkets have increased their levels of technological deployment quite dramatically and have utilised their information systems in new areas such as financial services. How successful has this strategy been and how reliant is it upon technology?
- The basis of competition has traditionally been on matters of pricing although other bases such as the quality of foodstuffs (particularly in relation to organic foodstuffs) have recently come into play. The value network in food retail shows signs of changing subtly. For instance, within the UK there has been significant growth in organic suppliers selling direct to customers through the Web – a form of dis-intermediation. Is this a challenge to a major online grocery retailer such as Tesco?
- Tesco have used information systems in a number of ways to help build customer loyalty and retention. Through use of its loyalty card scheme the company captures a lot of information about the consumer behaviour of its customers. Concerns have been raised over the potential dangers of using such transactional data and the questions it raises in



areas of personal privacy. Examine the data stored on such cards and the uses to which it is put.