

Analyzing and Evaluating Critically Tesco's Current Operations Management

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Received: August 31, 2014 Accepted: September 20, 2014 Online Published: November 26, 2014

doi:10.5539/jms.v4n4p184 URL: <http://dx.doi.org/10.5539/jms.v4n4p184>

Abstract

This essay analyses and evaluates critically Tesco's current operations management. The essay discusses from 3 major perspectives namely, operations strategy, operations design and operations management. Firstly, it will show an introduction. The second section will analyze Tesco's formats and international expansion at corporate strategy level. And then, based on the customer-centric conception, it will discuss the low price policy, cost control, loyalty card strategy, supply chain management, delivery system management and inventory management at the business unit strategy level and functional strategy level. Following this, it will make a comprehensive conclusion and show the strengths and weakness of Tesco's operations management. Finally, the article will give some appropriate recommendations to Tesco's sustainable development.

Keywords: operations strategy, operations design, operations management

1. Introduction

Tesco was established by Jack Cohen in London in 1919. Today Tesco is the biggest retailer in UK. It operates in 14 countries across the world and serves tens of thousands of customers every day. The company mainly operates 4 types of store formats in terms of Express, Metro, Superstore and Extra, respectively. In recent years, it also expands its format into Tesco online grocery shopping. The core value of Tesco is to 'create value for customer to earn their lifetime loyalty'. The vision of Tesco is to be a growth company (Tesco PLC, 2013). According to a survey of IGD (vending international, 2006), the international food and grocery specialist, Tesco is regard as the best in class retailer. Apart from its long history and large scale, the success of Tesco heavily relies on its innovative operations strategy, distinctive operations design and effective operations management. Based on Tesco's case study, this essay will analyze and critically evaluate the Tesco's current operations management from 3 major perspectives, namely, operations strategy, operations design and operations management. In detail, the essay will discuss its formats, international expansion, low price policy, cost control, loyalty card strategy, supply chain management, delivery system management, managing capacity and inventory management. The aim of this essay is to objectively present Tesco's strengths and weaknesses in operations management and give some appropriate recommendations.

2. Tesco's Operations Management

With increasing global competition, retail industry should continually develop operations' capability and meet the changeable needs of customers in order to outperform their competitors. In generally, Tesco has successfully responded the risk, competition and complexity under the effective and ambitious operation strategy. In detail, the operation strategy of Tesco can be analyzed and evaluated from 3 aspects: corporate strategy, business unit strategy and functional strategy. From the perspective of corporate strategy, firstly, Tesco closed most of smaller grocery stores in 1985. At the same time, it opened lots of large supermarket in suburbs under the CEO LanMacLaurin. Through reformation of its operation, Tesco basically determined its business direction, focus and format. Nowadays, it mainly operates 4 store models namely, Tesco Express, Tesco Metro, Tesco Superstore and Tesco Extra. The multi-format stores can not only increase Tesco's customer flow, but also can ensure its total sales and thus guarantee a profit out of low price. In addition, faced with the saturation of domestic market, high competition and self-development demand, Tesco expanded oversea markets in time and translated its store format to international market such as Turkey, China and Poland. It operates in twelve countries by 2005. To some extent, the success of Tesco's international expansion also can give some insight into its excellent

corporate strategies. Admittedly, in recent decades, there are a variety of retailers stepped into overseas market but finally failed. For instance, in 1990s, Mark & Spencer replicated its format to new market without any changes. However, its model cannot maintain the overseas customer and led to a dramatic sales decline. Finally, M & S has to go back to its domestic market (Mills, 2002). Compared with M & S, Tesco can not only gain success but also can keep growing fast. The key factor is that Tesco treats overseas markets with double caution. Tesco can localize and translate its store format according to host country habit. According to David Reid (2002), the deputy chairman of Tesco, compared with other retailers such as Walmart and Carrefour, the scale of company is relatively small. But Tesco relies heavily on the capability which shows more important than store scale.

With respect to the business unit strategy and functional strategy, Tesco adheres to its consumer-centric concept all along and breaks many traditional rules of retailing. Tesco is always been “one step ahead of its competitors” (Vending International, 2006). One of the most critical operation strategies of Tesco is for the benefit of customer. Under the strong customer focus concept, the company adopts low price policy and introduces Tesco club card for a customer loyalty. From the establishment of company, Tesco has been competing on price. The ideal of Tesco is to sell a wide range of goods as cheap as possible. The company keeps low product prices through purchasing in bulk, avoiding wastes, improving employee efficiency and designing delivery system and so on. For realizing lower cost against other competitors, Tesco also set up an international sourcing team in picking non-food products from all over the world (Tesco’s Supply Chain Management Practices). Through procuring from developing countries such as China and India, Tesco successfully cuts the cost of non-food products and expands the purchasing channel. Therefore, providing lower price is a key competitive advantage which leads Tesco success from crowded retailers.

In addition, Tesco first launched club card in retail industry in 1995. The Tesco club card is also called loyalty card. It brings vital advantages to collect customer data and track customer buying behavior for Tesco. According to the data collection, Tesco is able to provide targeted promotions and even change the layout for customer convenience. Club card also can make a good relationship with customer through accumulating credit and sharing profit with customer. From the benefits above, it can be seen that Tesco successfully links the marketing strategy and operating function through introducing loyalty card (Tesco plc Case Study, 2011).

Besides price and loyalty card, the company also improves delivery system and innovates supply chain for a good customer service. Firstly, Tesco improves its delivery system through moving to home delivery service and developing prime distribution process. With the fast development of retail industry, Tesco stepped into the stage of online grocery shopping in 1999, even though many other retailers think that internet shopping increases the service cost at that time (Tesco’s Virtual Supermarket, 1999). However, the result shows that Tesco’s online food sales reached £500 million in 2005 and increased year by year. Tesco’s home shopping service not only brings large amounts of revenue to company but also consolidates the customer loyalty through providing better customer service. The success of Tesco’s online shopping is attributed to Tesco’s constant exploitation and the format company chose. Towards the home delivery service, many companies such as Ocado, GreenGrocer and Carrefour apply the warehouse based approach which picks goods from depot. Instead, Tesco adopts the store based approach which delivers products from the near store after receiving orders (A. Hill & T. Hill, 2011). Compared two different approaches, the Tesco’s online shopping model can save huge amounts of capital to build warehouses, reduce the staff overhead and also increase the delivery speed. As an innovative company, Tesco never satisfies the achieved result. To further perfect its home shopping service, the company introduces new engineering process, equipment and software which called Vanderlande system (Peart, 2010). In the growth of online shopping, the company wants to continue making progress in delivering service effectively. However, although Tesco moved online grocery shopping early and achieved great success, the company should pay attention to the online model when it introduces to international market. In some new international market, there are few Tesco stores which cannot realize effective delivery based on store-based approach. Towards home delivery service, the company uses relative single model which may increase the transport cost and have a negative impact on international expansion.

In order to increase the delivery speed and save cost, Tesco developed primary distribution that Tesco uses its own fleet to transport domestic goods from suppliers. The prime distribution improves the utilization of Tesco’s trucks and increases the delivery efficiency. However, primary distribution process is not well developed and still needs to improve. It has some demerits. Sometimes, the company may have not enough trucks to pick up goods while suppliers have prepared well. What’s more, in some international market, Tesco has few trucks and depends intensely on suppliers.

Secondly, Tesco improves its supply chain system through applying new technology and introducing lean management. In recent years, Tesco invests in technology reform when most retailers focus on reducing cost and

improving supply chain. In 2003, Tesco took the lead in introducing RFID technology. RFID technology uses radio bar codes to scan and track product information throughout its supply chain. The introduction of new technology brings unique competitive advantages for Tesco from 3 different aspects, better customer service, higher working efficiency and more reliable supply chain system, respectively. Firstly, the development of Tesco's IT system provided better service to customer through improving check-out speed and reducing waiting time, and thus kept its customer retention. New technology also caters to Tesco's concept which concentrates on customers' benefit. In addition, RFID technology improved employee efficiency through simplifying goods processing. The staff can easily find product for customer and also can spend much time into serving customer. What's more, RFID technology improved data accuracy through automatically tracking the product from input to output. It also benefits to control the whole supply chain.

Broadly speaking, Tesco skillfully translates product availability and customer focus into its own order-winners against competitors through applying new technology. However, there are some drawbacks associated with applying RFID technology which Tesco should not be ignored. From the technology of Tesco, RFID technology is not fully mature. It may cause data error when tags close to the liquid or metals; from the cost perspective, RFID tag is relatively more expensive than barcode. Tesco have been pursuing low price and trying every effort to reduce the cost of product. However, RFID directly contradict its low price conception. Therefore, in the future, Tesco should not only constantly improve RFID technology but also should pay more attention when company spread RFID to suppliers.

Tesco adopts the concept of lean management which is pointed out by Toyota. The concept of lean management is to simplify the process, remove all unnecessary elements and avoid waste. Under the guidance of Booth, the supply chain director of Tesco, Tesco and its cola supplier launched a comprehensive research to analyze its cola supply chain. According to the observed result, there are many chances to reduce the cost and improve efficiency such as reducing touch points, increasing machine utilizing rate and reducing lead time. Therefore, in 1999, the company introduced continuous replenishment system. Compared with traditional replenishment system, continuous replenishment system depends on point of sale data which provide real time sale information. Under this system, Tesco can replenish goods several times within one day based on orders. Continuous replenishment system is an innovation and growth of Tesco's supply chain system. It benefits to reduce inventory holding, cut the cost, improve the availability of product and guarantee the food quality. This can be considered that Tesco is reforming its supply chain system to a "pull system". Unlike "push system" which is influenced by retailers, the "pull system" can replenish products continuously and timely according to the demand of customer (Mitchell, 2005). In the highly competitive retail industry, the availability is of great importance. It can even decide whether customer will come back and where customer will go. Tesco combines availability with low price and let them become two unified competitive advantages through creating an effective supply chain system.

Last but not least, Tesco introduces cross docking operation and applies collaborative plan, forecasting and replenishment (CPFR) to support its inventory management (Tesco's Supply Chain Management Practices). Tesco applies cross docking approach which directly loads same store's products into the trailer instead of distribution center approach. Cross docking approach skillfully avoid the need to store and reduce the inventory holding. In addition, Tesco also analyzes the need pattern through CPFR system and shares the data on the Internet. This system also cut the inventory cost, guarantee the availability of product and benefits to forecast the stocking holding. In generally, Tesco can well control the stock holding at a lower inventory level and satisfy the demand of customer at the same time. As a retail industry, inventory management is a major operations challenge. Too much stock will increase the inventory cost and generate waste, while too little inventory will impact on the product availability and finally lose customer. However, a perfect just in time inventory model has been an ideal (Witt C. E., 2008). In the inventory management area, Tesco follows the independent demand principles. To the uncertain demand of products, the company can make a scientifically reasonable forecast with network in order to make sure an appropriate amount of stocks.

3. Conclusion

To conclude, Tesco group is an excellent strategist and has a remarkable success in operation management. It is accepted that the success of Tesco is heavily rely on its operational efficiency and operational skill. The company has built a wide range of operations strategies to satisfy customer need, reduce cost, improve delivery system, control inventory holding and innovate supply chain system and so on. At the same time, the company can skillfully integrate the corporate strategy, the business unit strategy and the functional strategy through creative operations design and effective operations management. The core concept of Tesco is strong customer focus. In order to keep customer loyalty, it introduces online grocery shopping and club card. In order to analyze its customers, it applies a variety of technologies so as to know customer habit, customer attitude and their

demand. However, there are still many vital challenges in front of Tesco which the company should not be overlooked. Firstly, the prime distribution has many drawbacks. In some situation, the supplier well prepared products while the company has not trucks to load. It will decrease the delivery efficiency compared to delivery by suppliers. In addition, the price of RFID tag is expensive. So it is hard to use on each items unless done it by suppliers. The modern technology will also be error in some situation. The RFID technology may appear error data when it closes to liquid or metals. Also, in recent years, Tesco is constantly expanding its international markets, but its operating strategy may not suitable for every new markets and its supply chain system is not well developed in some overseas market. Nevertheless, the most of Tesco's strategies are generated based on domestic context (Hogbin & McSherry, 2007). Looking ahead, how to translate its operations strategies, innovate its supply chain system and localize its format in host country is a key challenge for Tesco.

4. Recommendations

Even though Tesco's operations management is excellent, there are still several opportunities for keeping sustainable development and making further improvement. In generally, Tesco should always maintain innovation to provide itself competitive advantages through adding more value in its goods. In detail, Tesco can continue to invest in technology like the company introduces RFID system as well and let technology become a new order-winner over other competitors. Nevertheless, Tesco should realize that there are weaknesses of high-technology. Therefore, the company cannot be totally controlled by technology and ignores the human capabilities. As the Colin Cobain who is Tesco's IT director presents, the employee is the leader to keep efficient supply chain system rather than technology (Hadfield, 2006). In addition, According to Tesco's non-food Development Case Study (2007), non-food products hold the dominant position in Tesco's future growth plan. Thus, it is necessary for Tesco sourcing a wide range of non-food product, innovating non-food inventory system and improving non-food delivery service. Also, Tesco's Internet shopping keeps growing sale but it still accounts for a small percentage of total revenue especially in international market (Moving Online, 2012). At the same time, it shows a strong potentiality and growth in online shopping across the world. Therefore, in the future, Tesco can focus on improving the operations capability of online grocery shopping and well preparing for online retailing's international expansion.

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