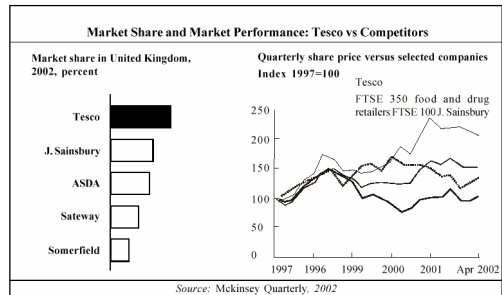


Tesco is a massive multi-million pound company. It has been in existence since 1924, and are also the leading supermarket in the supermarket retailing world. From what started as a normal traditional shop, has now grown into a retail monster. As seen below:

Diagram One



Tesco have many different types of stores. The oldest is traditional and offers free parking with a big choice in food. Tesco Metro is another type of store used in high streets for high street needs. Tesco express is combined with a petrol station. Finally there is Tesco extra. Tesco extra has items other than food. It also includes products such as dvd players and kettles etc.

Diagram Two

Tesco retail formats, UK, 2002		
Store format	Number	Average Sq. ft.
Superstores	442	35,000
Metro	167	10,000
Express	109	2,000
Extra	62	90,000

Source: Tesco Annual report 2002-03.

A basic background to Tesco is Sir Jack Cohen founded it in 1924. The first store was opened in 1929, and the company was declared private limited company 1932. 1959 saw the first ever self service supermarket. The 1960's saw Tesco thrive but by mainly taking over other stores such as "Williamsons", by the end of the 1960's Tesco had a chain of 600 stores.

Tesco's once main strategy was 'pile it high and sell it cheap'. In the 1970's-1980's the need for such produce decreased and outsiders of the company were made to believe that the company would not be able to recover, as now the customers wanted quality. Tesco solved this problem by letting private owned brands enter shelves, and also smaller inadequate stores were closed down and bigger higher quality ones were opened.

¹ Peter N Child, "Taking Tesco global," Mckinsey Quarterly, 2002, Number 3.

² www.ikc.icfai.org/main/padmini/tesco.PDF

Tesco follow an “aggressive expansion strategy” Tesco adopts 4 key elements:

1. Strong core business- to out perform the UK industry by offering value and quality.
2. Non-food Products- To secure 6% of the non food market.
3. Retailing services- Internet services

From strategies such as this in 1995 Tesco overtook Sainsbury

They are the largest Internet grocery business in the world. It is clearly seen Tesco are on top form and are expanding rapidly.

“We have got a two-year lead over our competitors on the Internet and we intend to exploit that.

We are the largest grocery internet retailer in the world.”

Mr. Terry Leahy, CEO, Tesco, PLC. April 2000.¹

They have now expanded there market from your ordinary fruit and vegetable store, to selling products and services such as, electronic equipment, mortgages and music downloads, and that they are pushing the company forward. Tesco in 2000 made 2.9 billion pound with international sales and £1070 million in the UK with there brick and mortar part of the business alone. In 2001 they were able to add a further three hundred million pounds from Tesco.com. It has come quite far quite quickly, considering it was only started in 1996/1997. The Tesco strategy of following the channel of the world wide web originated in September 1996, it happened when a cd-rom catalogue was made available for customers to so they could construct there shopping lists and upload them on to computer, and shoppers could shop. A year later the internet shopping element of Tesco.com was created , including there own ISP. They were the first in the market to do this, and so penetrated a new up and coming market, which has made them huge on the Internet.

Due to the progress of the company in the new market sector, new ways of communicating between business to business had to be adopted. This was when Tesco adopted Electronic Data Interchange. EDI is when electronic documents are exchange between businesses without human intervention. Organisations such as this are trading partners. Documents that would be exchanged between the businesses would be purchase orders, shipping lists etc with would usual be communicated by phone, fax or other means. A document that is to be sent between the agreeing businesses must be agreed in terms of format. The information must be able to encoded properly. Tesco use Tradacoms, it is currently the most widely used EDI in retail in the UK. Tesco adopted this because it was quicker and human error free and very private, only secure lines are used. Paperless trading has cut costs for Tesco as mistakes are rarely made and orders are received quicker.

Asda is innovating at the moment, as they are planning to use AS2. Tesco already use a web based EDI, but only as a log on and password basis. The challenge here is for Tesco to keep an eye on the competitor, and see how they get on with the new form of paper less trading. Tesco will have to keep an eye to see if Asda are benefiting from the change.²

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www.thunderbird.edu/pdf/about_us/case_series/a07010011.pdf

² <http://www.computerweekly.com/Article123072.htm>

Tesco have many e-business activities. They are covering a huge ground of the market. They have entered into services such as:

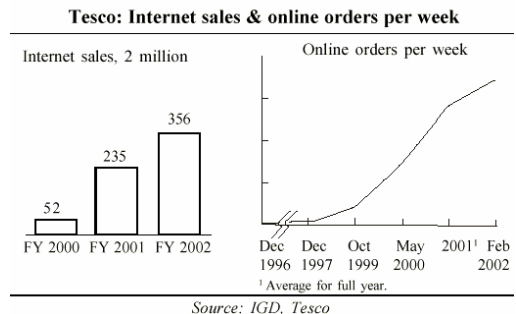
- Life Insurance
- FTSE Tracker Bonds
- Over 60's Life Insurance
- Loans
- Credit Cards
- Saving Accounts
- Car insurance
- Car Breakdown Cover
- Travel Insurance
- Pet Insurance
- Home Insurance
- Mobile phone service and even an Internet provider service.

This is without the normal groceries and electrical products. By offering all these services and products Tesco are removing intermediaries, this is called disintermediation. This is when an organisation which has direct access to end customer data, and they have advantage over competitors who use intermediaries. They deal directly with the customer. **ADD FULL SERVICE PROVIDER ATOMIC E-BUSINESS SCHEMATIC MODEL-** Tesco have made their own services. Tesco are dealing straight to the customer. They are saving money and time, and all round improves the customer satisfaction. No other Grocery retail business are following Tesco to the extent they have gone and the ground they have already in such a short period of time covered. Tesco are saving money, they are selling most of their services cheaper than other companies and there gaining the majorities of markets without the middleman.

With all this activity going on in the business challenges and opportunities are arriving regularly. The main opportunity Tesco had was the gap in Internet market. They penetrated the market and as seen below have prospered.

“ Despite the gloom that has descended over some of online shopping’s best and brightest, there is one big “e-tailer” whose star shines more fiercely than ever. The surprise is that this is no Silicon Valley digital hotshot, but a dull old British grocer.”
The Economist, February 2000.¹

Diagram Three



¹

Diagram three shows the internet sales and the online orders per week at Tesco.com. It is clearly seen that there is a progression and what was once an unsure start is proving to be a gold mine.

“Many retailers have tried and failed to establish themselves outside their home markets. Likewise, some retailers have gone astray trying to exploit Internet shopping. As a result, Tesco, the United Kingdom’s biggest grocer, has attracted considerable attention because of its ambitious overseas strategy and its successful on-line home delivery service.”
Mckinsey Quarterly, 2002²

There were problems and challenges that did occur within the company, one of these were with its ordering policies. Tesco.com had a multi device order line. It was possible to place orders online, via fax etc, (skunks works project), but the channels turned out to be slow due to manual picking this also made delivery costs high and caused customer frustration. Tesco re-assessed their delivery service, and used only the Internet. The challenge was whether to use a warehouse or use a British store distribution centre.

*“Appropriate organisational structures are essential if the new business concepts built upon the technology are to flourish”*³

Paul Jackson- E-business and the workplace redesign

Tesco had risks, for example warehouses cost money, and distribution centre’s could cause disruption and clogging of Tesco stores. A decision was made that in America Tesco.com would have warehouses for there distribution, there was a wider area to deal with , and in Europe it was seen to be easier to take the products right out of the stores. Tesco excelled over their competitors in this aspect, as they were not wasting time and money in building warehouses. Tesco were officially using their stores as warehouses in 1999.

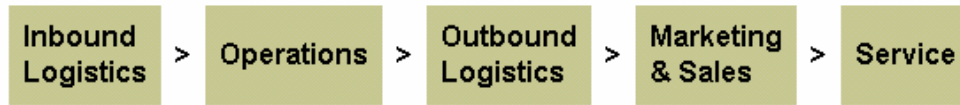
Linked within the problem of ordering and the high delivery prices were the transportation of the goods. It was noticed that the public were complaining that Tesco vans were clogging up the streets of Britain during there home deliveries. Tesco quickly argued back stating the simple fact that if one van was clogging up the road surely it was better than fifteen cars all trying to make there way to Tesco stores. In a way pollution is an issue here, Tesco are slightly reducing it. This did help for example when in peak times of online shoppers. Most Tesco customers were demanding deliveries on evening and weekend slots. A van taking 15 orders was a considerable help. Tesco have even had the innovation to start using wap for ordering (a form of internet). The mobile phone industry is a huge market. Mobiles are progressing and becoming more and more like hand held computers. Tesco have got in first and opened a channel of ordering for there market. Whether or not this method of ordering will take off is unlikely to tell. Delivery is a big issue to Tesco and there customer satisfaction. In there strategic thinking they have used Porters Value Chain to gain competitive advantage.

¹ www.ikc.icfai.org/main/padmini/tesco.PDF

² Peter N Child, “Taking Tesco global,” Mckinsey Quarterly, 2002, Number 3.

³ Paul Jackson- E-business and the workplace redesign, Tesco Case study

Primary Value Chain Activities



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Tesco goal of these activities was to create value that exceeded the cost of providing the product or service, a generated Tesco a profit margin. Porters value chain is simple and it is the events that every product must go through. Inbound logistics is about warehousing and input materials. Operations are the creative activities and making the items gather from raw materials in to the desired item. Outbound logistics are what has to be done to get the completed product to the customer, including the warehouses . Marketing & Sales are when the company has persuade the shoppers to buy the product, advertising etc Service is what Tesco provide after the product has been bought, if it is broke a refund system or if it is a dvd player and you cant get it to work, Tesco offer a help line.

At the present time even though Tesco have 750,000 customers² using their site for buying. They currently do not have a high percentage of regular users. Tesco have been putting a lot of money into putting computers in schools, and into Internet café's in food areas of their stores. The reason behind Tesco doing this is for the future. If people are being taught at a young age (hence computer for schools vouchers) to use the internet. In terms of the older generation it lets them try the internet out, and there is more chance of them going home and purchasing the internet. People are attracted to internet by leaflets that are found by the tills in Tesco stores. It says "extra online.. More products, more choice" and has deals on the top of the leaflet advertising cheaper prices.³

The market is being opened up to people. In directness of this Tesco have to make there website user friendly. **ADD WEBSITE USER FRIENDLY STUFF Club card holders etc. Evaluation of personal use on site**

¹ <http://www.quickmba.com/strategy/value-chain/>

² The Tesco.com experience: is success at hand?, Tesco case study, Albrecht Enders,2002

³ www.tesco.com, more products more choice leaflet, Tesco (find in appendix)