

## **CASE PRESENTATION**

**TESCO.COM**

## A SHORT SYNOPSIS OF TESCO PLC.

Tesco plc is the most innovative food retailer in the UK retail market. The Company was founded by Sir Jack Cohen. He opened a grocery stall in the poor section of London's East End and became well known for his cut-price approach to retailing. In 1924, a partnership with T.E Stockwell, a tea company, gave birth to Tesco. Cohen opened his first store in 1929 and Tesco flourished over the years through opening new stores and buying floundering supermarket chains, thus increasing its market share in the region. The success of Tesco is due to its practice of buying in bulk and keeping costs really low. This in turn they share with their customers by providing basic groceries at very low prices. From then on, Tesco has grown from strength to strength, making it one of the most successful food retailers in the UK.

Tesco's history is rich in innovative activities. It was one of the first food retailers to develop a "superstore" in the UK, it was the first to launch a cut-price policy, it was also the first to introduce the card loyalty scheme and the first as well to add financial services to it and finally it was the first to launch electronic shopping in the mid-1990's.

Tesco was known for its customer focus. When Tesco says, "Every little helps", it really means it and the consumers love it. Analysis and sales data of the company has shown that in years of recession, customers will be very price sensitive. Thus, Tesco launched its own lower-priced private label goods. The executives at Tesco headed by Terry Leahy are not afraid to act even if it goes against the norms. In 1994, Tesco started "One in Front" policy by opening a new checkout counter whenever the line size exceeded two customers. Tesco knew that customers get very agitated if they wait in line for too long and this may cause some people to abandon their shopping carts. "One in Front" increased labor cost that runs by the millions but customers love this. The result was a dramatic growth in market share.

Tesco has been primarily a food retailer where in a mature market that has grown little for the past 20 years; Tesco has grown slowly but surely. That in itself is already a testament to consumer attraction. The only route to growth in a mature market such as retailing is by taking market shares from the competitors. By listening, observing and serving their customers better than the competitors made Tesco one of the best and most successful food retailers in the UK. And today, the growing business has made the company more confident about global expansion. This international drive has taken Tesco into Thailand, Korea, Taiwan and recently Malaysia as well as Hungary, Poland, the Czech Republic and Slovakia. Most of these businesses are presently profitable.

In Malaysia, Tesco "superstores" are offering more discounts on selected items for the last half hour before closure. This move attracts a lot of aisle traffic just before closing time and sales are remarkably boosted. Tesco has also offered a "Purchase – with – Purchase" scheme for its consumers in Malaysia because this is a standard practice in most superstores doing business here. This is one example of how Tesco's management team learns the different cultures, ethnographics and

demographics of its different markets. Currently, Tesco has 4 “superstores” in Malaysia and the parent company in the UK said that they are planning to open 20 stores over a period of 5 years from 2002.<sup>1</sup>

The non-food business also grew strongly. By 1991, Tesco was the largest gasoline retailer in the UK, with gas stations located at all its “superstores”. In 1999, Tesco expanded its non-food space to its stores. By early 2001 the company had captured 4 percent of the non-food market in the UK. Non-food products included gasoline, videos, books, CDs, DVDs, electronic appliances, clothing and computer games.<sup>2</sup>

It's inevitable for food retailers to have customers request for home delivery. Tesco's quantitative research and focus groups told the management that customers wanted home delivery. Therefore, in the 1990's Tesco experimented with retailing direct to customers using different methods including catalogue shopping and Internet selling. Unlike many of the e-retailers, Tesco did not originally set out to conquer the Internet. A big difference from Amazon.com which is a “pure play” e-retailer. Amazon.com has no physical store, it relies 100% on retailing online. In 1995, the management team at Tesco decided that people wanted home shopping. Back then, e-commerce was still a distant prospect as it still in its infancy. Tesco started a home shopping service at ten trial stores. Customers could fax, email or drop in a list of items they needed at these stores and Tesco will deliver. Although what Tesco had offered back then was not efficient, their customers appreciated what Tesco was trying to do.

Then in December 1996, Tesco struck out working relationship with suppliers such as Microsoft to work out how to do it and learn from pilot trials. Currently, Tesco have strong working relationship with various IT suppliers like Microsoft, MSN, UniPower Systems, Designercity and the likes. Tesco.com has also successfully introduced their online shopping to Ireland and recently, to South Korea!

**Question 1 : Were there enough prospective customers using home or office PCs to make this venture worthwhile? How could this information be accessed? What was known about users demographics that could help Tesco's executives decide whether the Internet's user profile matched their shoppers profile?**

Tesco's successful online shopping started off falteringly as an e-mail ordering system with a crude web site. That was long before the dotcom boom. Tesco just wanted to serve its customers better and by learning from its mistakes through various innovations, trials and errors, in the end resulted in an e-retailing template that became an International Standard.<sup>3</sup> The company is one of the most successful “Clicks-and-Bricks” models present today. Tesco have physical stores and at the same time it is harnessing the power of online shopping for boosting sales and increasing profits. Tesco is a niche above the “pure play” company which sells only

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<sup>1</sup> Morningstar: Dow Jones Newswire.

<sup>2</sup> Market shares are as of July 2001, as reported by Merrill Lynch Industry Report.

<sup>3</sup> Businessweek e-biz – Web Smart Companies

on the Net. And there have been many casualties in this virtual war. Many “pure play” companies closed down due to mounting costs.

Physical stores will not disappear and e-retailing will still continue to grow. The possibility of conjuring what was impossible yesterday is magnanimous. Consumers today rely on malls and supermarkets for their social and entertainment purposes, much the same way as restaurants supplement dining at home. The bottom line is that consumers want to shop when it is convenient for them. It is now the buyers market and not the sellers market like before. Retailers who are complacent and not refine their customer relationship pattern would pay the price of losing their market share in a flash. Consumers are becoming more sophisticated. They want to get product information, learn more about the company, ask questions, research warranties, understand return policies and buy the products whether it's six o'clock in the morning or midnight.

Yes, there were enough prospective customers who are using home or/and office PCs to make Tesco's online shopping venture a success. Computers and the Internet are becoming indispensable. Most houses are already “wired” to the Net. People are accepting technology as the most convenient way to save time, the fastest way of communicating with other people as well as extracting valuable information. Previously, the fastest route of communicating any information is via telegram but today, sending an e-mail is so easy. At a click of the mouse your letter is sent immediately to the recipient. The Technohome described by Bill Gates in his book “The Road Ahead” is heading towards becoming a reality.

Tesco introduced a Clubcard loyalty program for its customers in 1995, offering points and rebates to its loyal customers. Tesco's competitors were scoffing this move not realizing that Tesco was capturing valuable information and building a strong and powerful database of its customers with every swipe of the card. The card provided Tesco with information such as what product they were buying, which aisles they were spending their time at the stores as measured to their spending.

Later, Tesco created a student card and another only for mothers, with offers suited to their needs. This is one method on how Tesco accessed information about their consumers and their preferences. Important demographics information is stored in this loyalty card scheme. Half of UK's population goes through Tesco's stores every 12 weeks<sup>4</sup>, thus it has basically no cost of acquisition compared to the other web retailers. Tesco.com can advertise its services in its physical stores throughout UK. Ironically, one of the most obvious reasons why a web based only company failed is due to its heavy advertising expenditure to establish its brand.

Tesco is already well-known by the population in UK. They have already build a strong presence and goodwill with its customers, thus consumers trust the bricks-and-mortar Tesco than an unproven Internet “pure play” company. The Tesco's Clubcard loyalty program gives a win-win situation to both the company as well as

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<sup>4</sup> Interview with John Browett, CEO-Tesco.com

the consumers. There are roughly about 14 million customers in Tesco's Clubcard loyalty program.<sup>5</sup> Customers will receive various discounts, offers, points-based cash vouchers, a quarterly mailing with personalized letters and a Clubcard magazine designed and produced to fit their different stage in life. This information give Tesco a leading edge as it's able to provide a more personalized service by examining each customers buying habits and drawing their attention to goods or offers catered to their needs. Every customer that registers online at Tesco.com is automatically a Tesco Clubcard member. Tesco.com's online shopping has delivery and online-order-taking capabilities at all its existing retail outlets as well as on the Net. And, its Web site is programmed to remember the customers' previous shopping lists. Making repeat purchases a breeze for their customers.

Tesco is built focused for long term growth with two strong values which drive the way it do business. Treat the customers the way they like to be treated and creating value for customers to earn their lifetime loyalty.

Tesco's executives, headed by its CEO, Terry Leahy are always setting themselves tough new targets.<sup>6</sup> Tesco's management team is continuously going over customer surveys and sales data. They are known for giving emphasis to serving their customers better. They listen and act accordingly to messages given by the customers and the market as a whole. This is the vital ingredient to Tesco's meteoric rise in the retail industry online and offline.

Tesco had spent between £40m and £45m developing its online business. This is equivalent to building one and half superstores said its CFO, Andrew Higginson. A superstore would generate approximately £100m annually. But through its online business, Tesco is able to reach out to a larger audience as their online sales are now over £400m a year!

**Q2. Exactly how would PC owners use a Tesco Web site to their advantage? What should be on the Web site? What information would be most helpful to Tesco customers?**

To start shopping online at Tesco.com, consumers click the "Register and Sign In" tab on the Tesco web page, and they are taken through a simple process of registration. On future visits to the web site, users simply enter a username and password to begin shopping. Another feature of Tesco.com is that every customer who shops online will automatically be given a Clubcard. The more they shop, the higher rebates, discounts and offers they will get.

In today's fast paced society, consumers would like to buy goods and services conveniently without going through the hassle of driving to the stores, picking up the goods from the aisles, standing in line to pay the purchases, going to another counter to have the items gift wrapped (if they want to buy a gift for somebody) and

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<sup>5</sup> DataMonitor reports, 2001

<sup>6</sup> Interview with Andrew Higginson, CFO, Tesco plc, 2001

then going home to unload their purchases. However, customers do enjoy the opportunity of “impulse buying” in such scenario and customers value the time savings that they get from online shopping. This is where the Tesco’s team worked hard to merge the customers shopping scenario while maintaining the attributes that the customers value, like getting good quality, assortment and at the price that they want.

Online customers varied, according to the Lifestyle Internet Survey, the current breed of online shoppers is younger and wealthier people mostly being between the 18 - 25 years old age bracket. But there are a significant number of online shoppers who are between the ages of 26 - 45 years old. The numbers of silver surfers is also on the rise, with over 55’s making up a fifth of all online purchases. Housewives are also jumping into the online shopping band wagon so that they can plan the household’s meals more efficiently and saving those times to do other chores around the house.

Let’s look at how a customer would shop online using Tesco.com (experience of a person living in UK)<sup>7</sup> :

PC owners could browse on Tesco.com’s Web site easily and at their leisure. The first impression of the Tesco.com’s website is excellent graphics and handy information. Not only do they offer grocery shopping, they also sell and deliver various other products such as baby and toddler products, books, computer games, DVD’s, CD’s and videos, electrical goods, flowers, music and wine. You can also find information about booking your holiday, buying insurance for your home, and getting a credit card from Tesco online.

Clicking on the 'departments' link will list products by department for you - you could say it's similar to walking down the aisles of a real supermarket. Express shopper is probably the easiest method of all, and the one that frequent shoppers online would use the most - you simply type in the product you're looking for and it will bring up the closest matches. If you're a bit of a bargain hunter clicking on the 'special offers' link will bring up a list of what Tesco.com consider their best customer deals at that time, and in addition there are links to other special offers by department.

Another interesting feature is the 'recipe ideas' link, which claims to have hundreds of different recipes for you to choose from. When you find a recipe you would like to try out a single click will automatically add all the ingredients you need to your virtual basket. The ‘ideas and inspirations’ link gives detailed information on what's new in store, as well as recipe and wines of the week sections.

Any items you order on Tesco.com will also be added to your favorites list, where they will stay unless you choose to remove it. It's particularly useful if you buy a lot of the same products on a regular basis. You can view all your favorites together, or

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<sup>7</sup> Testimonial of a regular Tesco.com’s customer

have them listed by department. You can even have a list of just the last order you placed. Any items on the list that you would like to add to your basket can be added quickly and easily, hopefully saving you a lot of time online.

As you continue adding items to your basket, a click on the 'view basket' link will show you what's been added to your basket, and how much you have spent so far. You can easily add or remove things from your shopping basket at any time. Once you're happy with your order, it's time to click on the "checkout" link. The first part of the checkout process is choosing a delivery date and time. These are available in 2 hour slots throughout the day and Tesco delivers 7 days a week. You can even arrange for delivery up to 3 weeks in advance. Delivery is charged at £5, no matter how much you order.

Once you've chosen your delivery date and time, the next page covers delivery details, substitutions and your order summary. Firstly, check that your delivery details are correct and if not change them accordingly. Next, give some thought to how you would like Tesco to substitute any item's you have ordered that are not in stock on the day of delivery. If you don't provide instructions yourself regarding substitutions they will automatically select a "suitable alternative" for you if something is out of stock. You can give more specific instructions for substitution - for example "If brand A is not available, look for brand C, but under no circumstances brand B!" The other option available to you is to click the "don't substitute any items" button. This is if you are not in favor of any substitute product.

The order summary lists all the items in your virtual basket, and this is your final chance to make any amendments to your order. Next, it's time to pay for your order, by entering your credit or debit card details. The page is secure and all your details are encrypted so it is safe, and you have the option of letting Tesco.com store your card details for the next time you decide to shop online. Once your payment is authorized, an e-mail is sent to you confirming your order and delivery times. Then you wait for the delivery driver to come and send you your goods.

The delivery drivers are always cheerful and friendly. The routine's always the same. They knock on the door, hand the delivery list for you to look at, then go to their van and start bringing carrier bags full of shopping to the door in trays. You remove the bags from the trays and take them somewhere else - as quickly as possible, so that you are ready for the next tray! Once all the shopping has been removed from the van, the driver will start telling you what items weren't available and what substitutions have been made. If you don't like the substitute product, return the items to the driver so that the driver can take it back and Tesco can refund your credit card accordingly. Once that's done the driver then hops back into his van, and you can now sort your purchases accordingly.

Tesco.com's team has been working very hard to make the shopping experience of its customers online to be as favorable as possible. Vital information is given concisely and clearly. They know that customers would like to know about delivery time, shipping and handling charges, taxes and return policies. Consumers online learned that some e-retailers offered lower product prices but resort on burdening them with expensive shipping and handling in the end. Most consumers hate such tactic employed by these e-retailers. Tesco.com never gives their customers any reason to load up on their virtual shopping basket only to leave without finalizing their purchase. Tesco.com also sends a status up-date confirming customers purchases via e-mail. Excellent customer service is a strong feature of Tesco.com. This is why Tesco.com is such a success compared to other e-retailers. They respond to customers' enquiry within 12 hours. Consumers online are conditioned that "Internet time" means operating at an incredible speed. But to be successful in this venture, Suzanne Osborn, the President of Consumer Trends Institute said, "Technology will never replace smart people who care about the customers. You cannot automate every task and experience. The future is about integrating technology into products and services in a seamless manner."

Consumer behavior online is totally the opposite of how they would react shopping in stores. For example, when we go to a supermarket and found that what we are looking for is out of stock, our reaction would be mild irritation, inconvenience and we'll look for the item somewhere else. But, if we order online and something is missing, we would be furious because expectation of the consumers shopping online is perfection. Failure to identify consumers' behavior in this area would mean lost customers in the future for most Web based companies.

Q3. If Tesco wished to start a food purchase service on the Web, what aspects of the service might lead to consumer's resistant to use it? These needed to be identified so that Tesco's executives could plan on how to overcome such resistance.

Online grocery shopping or food purchase service on the Web, has offered an attractive service for many customers. The ability to order necessary products from home, and have them delivered to the door, appealed to many people who had little time or desire to shop. In fact, Tesco started its online businesses through offering food purchase service on the Web; then expanding to other non-food category.

Customers might be hesitant to use this service because they are skeptical about getting their food purchases in good consumable condition. Especially fresh groceries like, vegetable, dairy products as well as meat and poultry. Customers do not want to receive mouldy fruit and vegetables or stale bread.

Hesitancy will also arise due to the length of time that a customer needs to spend on line. Internet access and call charges are high, grocery shopping is time consuming due to the large number of products normally purchased. Internet connections and downloads were slow which made shopping on line a frustrating process. An e-business research carried out in 2001, found that on average an order



of 35 items took over an hour and a half to two hours to complete. But, this could be resolved by being a regular shopper on line. Thus, a customer doesn't have to go to every department to choose items for her shopping basket. A survey carried out by Tesco found that a regular customer would take only half an hour to complete her weekly shopping on line.

Another problem faced by shoppers on line is, the difficulty in ordering some items. Also the sites were slow and crashed regularly. Items ordered were often missing or substituted for something similar as well. Most shoppers rarely get their full order. And, the most annoying thing a shopper could face is that none of the substituted items sent were acceptable.

Finally, Tesco has to make its on line shopping prices for the groceries or non-food products to be as competitive as it offers in its physical stores. Because consumers are price sensitive, they would use this service if they are satisfied with Tesco's offer on line and off line.

#### **Q4. Would consumers be willing to pay for such a service? How could Tesco find out?**

Tesco charges customers £5 per delivery regardless of their shopping amount. Charging for delivery proved to be an intelligent move. First, it largely covers the cost of the vans and drivers. Imposing a fee also helps to ensure the likelihood that customers will be at home during the delivery time, since they have to pay again for re-delivery. Even more important, the delivery fee has helped raise the typical order size. This is because customers psychologically want to get their money's worth. Therefore, the average purchase of Tesco.com is higher than a normal supermarket transaction. And customers' survey stated that customers do not mind paying this small delivery fee compared to the inconvenience of carrying loads of groceries themselves.

Tesco's brilliance and success to its online's shopping is because the company doesn't need to set up separate warehouse distribution centers to support its online shoppers. Companies that have tried to do this have had difficulties especially with the perishable goods in the warehouses. There isn't enough volume sales and turnover to keep the freshest produce fresh. Tesco's online business is taking advantage of using the current stores infrastructures for the inventory and rapid turnover of the existing stores. By using this system, Tesco.com is optimizing the traffic patterns through the stores without inconveniencing its regular shoppers. Best of all, the customer gets the same products at the same prices whether shopping on line or shopping at the stores. Thus, every purchase the household makes, online and offline is captured. This information is used to improve the shopper's convenience and shopping experience with Tesco. By saving customers' time, Tesco has leapt ahead of the competition.

Tesco has re-engineered the infrastructure behind its Internet shopping service to overcome the explosive growth in the number of customers shopping online.

Intelligent partnership with the right IT suppliers like Microsoft, Unipower Solutions, IVIS, Net Perception and others has doubled its order processing capacity and speeded up customer access time. Another design change, transfers customers seamlessly to another Web server, if the server they are using becomes busy. Microsoft's Message Queue software processes less important parts of each order offline so that customers spend less time online, freeing up server capacity. Different customer demographics are also an important issue to look into. Net Perception's software is used to analyze each customer's buying habits and draw their attention to goods and offers they maybe interested in. Thus each customer is given a tailored Web site which will reflect their specific interests. Some older customer might want a very simple, user friendly interface, while younger customers might be interested in having various options and functions.

To overcome the chances of severed connection while customers were placing orders, Tesco.com began working on an offline version of the shopping system. Customers can download this offline shopping interface via its Web site, and then they can choose any time to start making a list of items they want to order offline. Finally, connecting on the Internet and by a click of the button...Voila! Your order is immediately sent to Tesco. Making shopping easy and lowering call charges associated to shopping online.

Continuous replenishment software is used to poll sales data on over 40,000 different product line every hour. An advantage which enabled the company to adjust delivery quantities as little as five or six hours before the goods arrive at the stores. This improves stock availability and increased labour productivity. Tesco.com is trying its best to fulfill all its customers' demands. And it is doing a good job of ensuring customer's loyalty and luring new customers to use its service.

Tesco.com has won various awards for its success. The latest was conferred by The Global Retail Achievement Awards on April 11<sup>th</sup>, 2003 for Best in eCommerce Innovation for the convenience store giant's mobile shopping application, optimized to provide all features available to online users and allowing customers to shop at any time, regardless of location or Internet connection.