Tesco – Business Transformation Case Study

Who would have thought that the food retailer famous for the slogan “Pile It High, Sell It Cheap” launched by Jack Cohen on an East End market stall in 1919, would have grown into one of the largest non-food retailers in Europe by 2007?

What was it about Tesco that enabled it to move from being the poor relation to J. Sainsbury in the 1970s and 1980s to become the largest UK food retailer in the first decade of the 21st century?

What was it that happened inside this company that turned it around and has had such a lasting effect on its fortunes?

The answer to all three of these questions is simple:

For two decades from the mid 1980s, until the new Millennium turned, the company underwent one of the largest and most comprehensive Business Transformation exercises of any UK retailer.
Let's remember how it used to be

It is very easy to look at the mighty Tesco now and believe that the company has always been a successful, premium brand retailer with a seamless supply chain, minimal out of stocks, trading 24-7, with an exemplary customer service. But in the early 1980s things were very different:

- Tesco’s stores portfolio was made up of predominantly older, high street locations, many in need of repair or upgrade.
- Stock control was a highly manual and inefficient process, resulting in large numbers of out of stocks and poor buying regimes.
- Stock buying was highly localised, with little corporate control.
- Staff attitude and service to customers could be best described as ‘patchy’.
- Management structures in head office central functions were inwardly facing and detached from the end customers and the stores.
- Checkouts were manual, with price lists being manually updated.
- Customer product pricing was manual, time-consuming and inherently inefficient.
- The supply chain from supplier to customer in the store was far from integrated and expensive to maintain.

So what changed?

In the 1980s Tesco embarked upon a transformation of its entire organisation that would change the company’s future for decades to come. The Business Transformation work would last for almost two decades, involving many transformation programmes and projects.

The Business Transformation was wide ranging, impacting every area of operation within and outside of the company.
What transformational work was involved?

Organisational transformation

Tesco reviewed the organisational structure of the entire company, from the checkout staff and store management, to and including its head office functions.

- **Head office functions** were re-aligned with the retail store’s operational requirements and a new retail focused department was set up to control the impact and interface of the head office functions on the stores day to day operations. To further this, senior head office managers were seconded into retail stores and retail experience became a pre-requisite for any senior head office positions.

- **Supply chain management** was re-aligned to ensure that the distribution centres around the country more closely matched the requirements of the retail stores.

- **Retail store management** underwent a major re-organisation, with tiers of middle-management removed and staff empowered to serve their own customers. To emphasise the depth of organisational transformation personnel development managers were introduced into stores at a regional management level to ensure that the best people were in the right positions.

Process transformation

Tesco underwent a major review of all of the business processes within their organisation, lasting a number of years.

- Business processes were changed to become more customer focused.

- Inefficient processes were stripped out.

- Meeting management was introduced to minimise staff time wasted in unnecessary meetings.

- Programme and project management was aligned to Prince2® and all programme and project managers received Prince2® training.

- Performance measures were introduced across every level of the company’s operations.

- The supply chain was completely reviewed, with costs being stripped out to support the transformation measures and the company played a key role in introducing ‘lean-thinking’ to their supply chain and to the
UK with ‘roll-in’ retail fittings.

- Distribution centres were re-laid to reflect retail store layouts to speed up in-store shelf replenishment. Funding was also transferred from the retail division to distribution to facilitate this massive change.

- Supplier management was completely overhauled with score-carding introduced and joint initiative teams set up.

Information Transformation

In 1995 Tesco introduced the ClubCard in the UK. This was initially laughed at by Tesco’s competitors as a marketing ploy and yet, by 1996 Tesco had the largest customer database of any retailer in the UK. This database has played a key part in the ongoing transformation of the company:

- The introduction of the ClubCard allowed Tesco to really understand its customers: to understand every individual’s shopping habits and patterns, demographics, geographical spread, services utilised and products bought.

- Data collection was one part of the information transformation; the second was using the data. Following the introduction of ClubCard, Tesco was able to utilise the data in every part of their organisation; Head office buyers could now target product ranges by geography or demographics, retail stores could target their best customers and the supply chain could be matched to anticipated shopping patterns.

- For the first time a retailer could target it’s customers as individuals, rather than purely through the media advertising, proactively contacting them to provide information on products and services most suited to their needs. The introduction of ClubCard vouchers created a whole new way for retailer to encourage customer loyalty.

Technology Transformation

In the 1980s and 1990s Tesco led the way with technological innovations, providing technology solutions to match the needs of the transforming Business and, in many cases, to drive and fuel the Business Transformation.

- In 1982 the first computerised checkouts were introduced to the retail stores and over the remainder of that decade would be rolled out to the entire store portfolio.

- From the mid 1980s Tesco introduced new computerised stock control systems to utilise the data being collected by the new
checkout systems and to more efficiently predict and order product to match shopping patterns across the company.

- From the late 1980s computerised pricing was introduced to retail stores, removing the need for manual pricing of stock and allowing overnight company wide price changes to be introduced

- Distribution systems were updated to reflect the new requirements from the retail stores and the new buying processes being introduced at head office.

- Personnel management systems were introduced to ensure that pay, rewards and development matched staff potential.

**And the rest is history...**

The hard work and in many cases painful work completed in the 1980s and early 1990s has allowed Tesco to reap the dividends during the late 1990s and early 21st Century, allowing the organisation to:

- expand it’s retail operations globally to:
  - China
  - Czech Republic
  - Hungary
  - Ireland
  - Japan
  - Malaysia
  - Poland
  - Slovakia
  - South Korea
  - Taiwan
  - Thailand
  - Turkey
  - USA

- become the largest online food retailer in the UK

- expand it’s portfolio into local convenience and petrol forecourt stores, (Tesco Express), high street stores, (Tesco Metro) and out-of-town mega stores (Tesco Extra)

- become one of the largest clothing and non-food retailers in the UK

- introduce Tesco Personal Finance

- introduce Tesco Home Phone

- introduce Tesco Mobile.
In summary

Tesco’s Business Transformation journey has taken over two decades, but was driven by a determination and compelling vision from the main board, captained firstly by Lord Ian Maclaurin during the 1980s and then in 1997 by Sir Terry Leahy, until the present day. Both had one thing in common a compelling drive and vision which they have both transferred to their entire company.