

TESCO: MANAGING FOR THE FUTURE

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Part 1: Analysis of TESCO 2003 to 2012

1.1 TESCO and Corporate Social Responsibility

Tesco controls more than a quarter of the grocery market (31% in 2007) in the UK, and this has a significant impact on the local communities and economies where Tesco is present (Guardian, 2007). According to reports, the presence of Tesco stores in smaller communities drives out local businessmen - suppliers, smaller retailers, and adversely affects local communities and consumers (Friends of the Earth, 2004). However, Tesco has always supported activities designed to aid and develop local community projects, and makes Corporate social Responsibility (CSR) an important part of its corporate philosophy.

Several Tesco initiatives in the 90s and the first decade of this century have been designed to support and develop various aspects of community life. Tesco's focus on CSR spans the following key categories:

- economy
- environment
- society
- charities and fundraising

This drives Tesco's focus on three key areas of community participation – education, charitable contribution and the environment (CSR Globe, 2006). Tesco has been an award-winning member and participant in the Business In The Community (BITC) corporate responsibility index, and has consistently ranked in the top 30 for its initiatives (ICMR, 2006a). Business in the Community's Awards for Excellence are one of the most prestigious UK awards that recognize companies for adopting business practices that support the community as a part of their regular business operations, rather than as one-off initiatives into their mainstream operations. This impact is tracked over the long term in measuring impact in the workplace, the marketplace, the environment and the community (BITC, 2006). Tesco is also part of FTSE4Good's index measuring adherence to globally recognised CSR standards (Rana, 2007).

Tesco has a central corporate Responsibility Committee established in 2001, which meets four times a year to review and plan corporate initiatives to be undertaken. Some of Tesco's award winning CSR programs include wildlife protection and computers for schools. A brief overview of Tesco's initiatives in CSR have been outlined here.

Education: Tesco has been actively involved in education initiatives at the school level across the UK since the 1990s. The company launched the "Computers for Schools" program in 1992, where every customer who spent £10 or more was given a coupon that they could hand over to the school of their choice. The schools could then exchange the coupons for computers for their respective schools. The program won a number of awards for community service and drove recognition for the company, with over £92 million in computer merchandise being given away in the period 1992 to 2004 (Winder, 2006).

Natural Resources and Environment: Environmental concerns have taken up an increasing share of Tesco's focus on CSR. Since factors such as use of natural resources and environmental concerns are not aligned with economic benefit for the company, these require more attention. Tesco launched its conservation focus in 1996. The efforts under this initiative reduced the energy consumption per square foot by 35% between 1997 and 2005 (Waterman, 2007).

Charitable Causes: Tesco supports a number of charitable causes in the countries where it is present, through donations of time, effort and money. Tesco gave away approximately 1% of its pre-tax profit to charity through various means. In 2004-05, Tesco's total charity contributions were nearly £22 million (Tesco Website, 2011). In addition, Tesco supports employability initiatives for single parents, older people and first-time workers. The company trains and recruits people from these categories as part of the community contribution, by giving them an opportunity to support themselves and be useful members of society.

1.2 TESCO and Globalisation

Tesco is one of the largest retail chains in the world, with a presence across 13 countries and total employee strength of over 500,000 employees (Tesco Corporate website, 2012). In the UK,

it is the largest retailer with a market share of over 30 per cent, larger than the combined strength of its nearest competitors Sainsbury's and Asda. Tesco has been expanding globally since 1992, when it first set up shop in France. Tesco's first efforts at global expansion did not meet with much success, and a ban on large format stores in France in 1995 forced it to close down operations there in the face of competition from Carrefour and Promodes. However, today the global operations account for over 40 per cent of the chain's floor space (Mckinsey Quarterly, 2002).

Tesco delivered one of the fastest organic growth rates in the world, growing by 18 per cent in 2001. Today, Tesco is the world's largest retailer in online grocery shopping, and this drives Tesco's focus on globalisation and expansion. In many of the countries where it is present, it has launched online grocery services, as well as in the US, where it has a strategic tie-up with Safeway. Tesco has a dedicated back-end centre in Bangalore, India, called Tesco Hindustan Centre, which is the nerve centre for the online business, managing transactions from around the globe (Tesco website, 2012).

Tesco's global expansion has brought it into competition with the two largest retail players, Walmart of the US, and Carrefour of France. While Tesco is not as large as the other two companies are, it has a significant presence, supported by its online business.

Global expansion has meant a number of challenges for Tesco. These include:

- Global sourcing of products
- Maintaining uniformity in the online business across countries
- building a strong corporate reputation in countries where it has traditionally not been doing business.

Tesco realized from its earlier lessons in France and from competitors like Marks & Spencers, that to succeed in foreign markets, it had to do business differently from the way it was done in the UK. The presence of a significant portion of local merchandise testifies to the success of this strategy. Tesco today stocks between 30 to 70 per cent local merchandise based on the needs of the local population (ICMR, 2006b).

A large degree of Tesco's success is attributed to its ability to operate and manage complex operations easily. Since the retail business is fairly transparent, no company can hold a significant advantage that cannot be copied by competition in a short time. In spite of this fact, Tesco has managed to be successful through its focus on meeting customer expectations in terms of service delivery. Since food retail forms a large portion of sales, the stores have to be able to source and deliver local produce, which is the key demand in most stores. The ability to do this efficiently determines the operational success of the retailer.

Financial strength of the parent business has been one more reason for the success of Tesco. Due to their strong presence in UK, the retailer has been able to use cash flow effectively to fund its overseas expansion. Using technology as a key strategy, the company set up its back-end in India and today uses this resource as the backbone to drive its international buying, sourcing and selling business.

1.3 TESCO and Technology

Tesco has always led the retail segment in the adoption of technology for mass retail. It was one of the first to get into online grocery retailing, and this has seen the company reap rich rewards, with the retail business contributing £48 million in turnover in the year 2007-08, a 21 per cent jump over the previous year (CIO, 2008). In this process, Tesco has managed to keep significantly ahead of its competitors in the retail space in UK, garnering a market share of over 31 per cent on a continuous basis. The branded retail segment controls about 65 per cent of the retail business in the UK, and Tesco is by large the biggest of the various retailers, with a market share that is larger than the combined shares of its nearest rivals, Asda and Sainsbury's.

The company owes its success to a significant degree to the investment in technology that it made while setting up its back end Tesco Hindustan Service Center (Tesco HSC) in Bangalore in 2004. Since 2004, the Tesco HSC which comprises of over 6000 people, drives the technology and services backbone of the \$100 billion business across 13 countries (Economic Times, 2012).

The centre has developed technology for paperless picking of products, using wrist devices, hand-held communicators and mobile internet connectivity. The company is now in the process of launching iPhone, iPad, Nokia, Windows 7 and Android based mobile ordering services to meet the changing needs of customers. According to Tesco, 8 per cent of orders are now received from mobile devices, and fifty per cent of the orders are completed over the phone itself.

This requires strong technology management capability to keep in touch with the changing requirements and technology adoption of customers. Towards this end, the mobile applications development team in Tesco HSC is now 20 members strong, from zero 2 years back. The Tesco HSC services 500,000 orders a week, supporting business in the UK, US (through Safeway), Europe, Turkey, South Korea, Thailand and China.

1.4 Conclusion

Tesco is a company very much aligned with the present needs of the market, and is aware of the concerns that drive customer sentiment as well as business profitability over the long term. By investing early in CSR, global expansion as well as technology creation to support business, the retailer has ensured that its long-term viability is maintained and profitability continues to grow, even while investing in newer markets and areas.

Part 2: Scenario Development for TESCO 2013 to 2020

Since Tesco is one of the largest retailers with a global presence and operations in 13 countries, with plans for further expansion under way, it is necessary that the company keep a strong track of the future developments and environmental changes in the global market. This will help the company retain a clear understanding of shifting requirements from a business and consumer point of view.

2.1 Scenario Planning: A theoretical perspective

Scenario planning is a key element of defining any company's long-term plans. Scenario planning uses trend analysis as the base for determining where events currently taking place will lead. By keeping a focus on specific elements and maintaining a definition period of around 10 years, certain plausible projections can be made with regards to the business scenario (JISC infonet, 2008).

Herman Kahn is credited with the first work on scenario planning (Fahey and Randall, 1998). Companies use scenario planning to a great extent to deal with future uncertainties, and therefore it has become a key tool in the building up of corporate strategy. Trends developing in the social, economic and political context can all affect the way businesses run, and this calls for a great deal of scenario planning to understand and mitigate the underlying risk (Willmore, 2001). In contrast to a conceptual future, which is a hypothetical image of how the future will be, a scenario is used to build up the developments, the dynamics and moving forces which create that conceptual future result (Kosow and Gabner, 2008).

Scenario thinking can be used for the following:

- Risk Analysis
- Idea Generation
- Testing
- Creating Joint Context

Each of the above is used for planning future steps for the organisation. Keeping in mind the developments in various scenarios, the planning for the organisation can take place in a multitude of directions, and the possibility of various scenarios affecting the execution of those plans can be accounted for through risk mitigation.

The process is as follows:

Phase 1: Identification of the scenario field

Phase 2: Identification of key factors

Phase 3: Analysis of key factors

Phase 4: Scenario generation

Keeping in mind the three fields identified for Tesco, viz. Corporate Social Responsibility, Globalisation and Technology, the development of future scenarios can be defined.

2.2 Phase 1 – Identifying the scenario field

The three key areas of scenario planning have already been defined based on the previous section's analysis of Tesco. These include the impact of CSR, macro-economic developments arising out of the trend of globalisation and the effect of technology growth in the day-to-day life of customers.

Based on these three factors, the relevant elements within each sphere are drawn up along with their possible impact on the way Tesco conducts business.

2.2 Phase 2 – Identifying Key Factors

2.2.1 Key Factors in corporate social responsibility (CSR)

CSR has been driven in the beginning by issues such as the impact of big business on the local business environment, and the impact on the natural or physical environment. However, as time goes by, other key issues will come to the fore. These include:

Rising average age of citizens: With the birth rate and death rate in decline, the average age of the population will keep on increasing. This means that the percentage of population able to work and support the entire community will reduce. Possible outcomes of these include postponing the age of retirement, need for higher healthcare provisions, lower capacity to spend due to increased liabilities, and lower spending inclination as customers buy only what they absolutely need. As the recent recession has shown, customers shifted to buying groceries through stores in order to cut back on their spend on food, driving up sales in food stores. However, this can continue further.

Increased awareness of environmental impact: With increasing awareness of the effect of pollution, processing, plastics, etc. on the environment, more customers will pressure companies to put in place measures to reduce environmentally-unfriendly practices. This will result in increased investments in technology not only to reduce the environmental impact of elements such as packaging, it will also involve investment in cleaning up past excesses. An environmental cess to clear up past environmental problems caused by companies as well as accountability towards the future use of environment friendly products and processes will necessarily drive up the cost of doing business, thus reducing margins and increasing competition.

2.2.2 Key Factors arising from Globalisation

Globalisation creates opportunities for companies to expand but also increases the complexity of the customer base they have to deal with, and the risk of not meeting the needs of the customer, giving rise to competition. Other factors such as lower profitability and the global impact of local behaviour of companies too need to be considered.

Rise of glocalisation: Glocalisation is the combination of global trends with local needs to create a unique set of circumstances for each market. Companies looking to expand beyond their traditional markets cannot impose a “one size fits all” mindset on the various geographies in which they operate. Each geography and demography is unique and calls for a unique solution.

In the case of retailers such as Tesco, a need to balance international products with local merchandise is necessary to drive customers.

Rise of competition in sourcing and selling: With all companies looking to expand beyond their traditional markets, competition at the international level increases. The retail business is a case in point, with multinational enterprises like Wal-Mart (USA), Carrefour (France) and Tesco (UK) competing in a fourth country (eg. China) for marketshare. The competition will not only be in selling to customers but also buying the material to stock shelves with merchandise.

2.2.3 Key Factors Arising from Technology Developments

Technology adoption is increasing with the rapid expansion of telecommunication, internet connectivity and reduced cost of connectivity. This increased connectivity is likely to lead to an increased use of internet for buying and ordering, as well as provide a platform for even niche products to be sold profitably across the world through e-commerce.

Rise of online comparison shopping: since all competitors will have to establish their presence online, customers will tend to compare and buy more frequently. This will increase the level of competition as retailers struggle to maintain margins even as cost increases due to competition for sourcing (see previous sub-section 2.2.2).

New modes of transaction: With the number of online shoppers in countries like India doubling every year, the value of transactions conducted online will exponentially increase. This will lead to new systems of trading goods, such as e-barter systems. Cash and payment management will shift to more convenient forms from swipe cards and cash to mobile currency. Managing these multiple complex payment systems will increase the cost of doing business, thereby adding pressure on retailers to adopt cheaper ways to conduct payments.

2.3 Analysis of Key Factors

The effect of the key factors outlined in the above three areas of CSR, globalisation and technology have been defined at a macroeconomic level, for the complete globe. The next stage would be to understand how each of these factors will affect the way Tesco does business.

For purposes of clarity and in order to facilitate the building of a complete scenario, the factors under the various heads have been brought together into a single list.

1. Rising average age of citizens: This means an older population that will look at ways and means to reduce cost and effort required in daily life. This is likely to lead to an increased tendency to order over the phone and on the internet and expect delivery at the doorstep. Additionally, the increasing age of customers will mean a greater focus towards low-cost brands, such as generics or private labels. This is likely to be one area where Tesco can benefit greatly as it has a range of both premium and economy in-store brands designed to cater to the needs of a wide range of customers. Demand for healthcare will also increase, so the ability to shop for medication online would be rising in the coming years.

2. Increased awareness of environmental impact: Customers will insist on being supplied with products that are seen to be environment-friendly. Packaging and transportation costs will go up as retailers try to use this plank for garnering more customers through various initiatives such as the increased use of electric vehicles for delivery, environment friendly packaging, sustainable agriculture and goods sourced through fair trade practices.

3. Rise of glocalisation: the product complexity and therefore the merchandising complexity for retailers like Tesco will increase as products stocked locally will have to cater to local demand. At the same time, customers anywhere across the world will be able to buy these products if willing to pay the required shipping cost, and this will increase complexity of the logistics management involved.

4. Rising competition in selling and sourcing: With globalisation, local retailers will compete with multinational competition at various levels. While multinationals are likely to build a presence through online sales, local chains will profit by catering to niche clients within their retail footprint with custom goods not found online.

5. Rise of comparison shopping: this will lead to customers checking out the best offer available online and then using it as a benchmark to bargain at local stores. Therefore, local stores will have to streamline buying and merchandising to retain margins efficiently. In the online space, Tesco will have to compete on wafer-thin margins and depend on volume to retain profitability as competition will fuel comparison shopping.

6. New modes of Transaction: Tesco will have to encourage customers to move to newer less expensive ways of transacting to ensure that costs are kept low. This requires adoption of new payment systems such as mobile currency at its stores and through online payment to ensure margins are not lost in transaction costs. Tesco will also look at ways to involve customers in new modes of interaction to create a loyal following.

2.4 Conclusion

Based on the above key factors, a range of scenarios have been drawn up for Tesco to plan for the future. The next stage will cover what steps can be taken in light of these scenarios to ensure continued business for Tesco.

3 Assessment of Future competence for TESCO

Based on the various key factors and their impact on the business landscape in the coming 8-10 years, Tesco will have to focus on a number of areas in terms of developing its management and operations to cater to the evolving market. The following recommendations are made on the basis of functions within the company that will have to evolve, so that a clear course of action is outlined.

3.1 Sourcing

In order to maintain a leadership position, Tesco will have to develop sourcing competencies at both local and global levels. The development of private labels will also have to be in terms of the local customer preferences. At the global level, Tesco should endeavour to tie up with suppliers for long term contracts to cater to growing demand and to control costs. Options such as reverse e-auctions should be explored for developing sourcing solutions cheaply.

3.2 Technology

This is one of the key areas that Tesco will have to focus on. Due to its management foresight, Tesco is ahead of competition in this area, due to which it has a distinct advantage over rivals. However, in order to maintain this lead, Tesco will have to explore opportunities to further its presence in technology. Areas such as newer electronic payment systems, for example mobile currency, and other alternative methods of online payment should be explored.

The company should also develop ways and means of using customer tracking to determine what products are greatest in demand, and what offers would work best based on their shopping behaviour. Sourcing is another area where technology can be using effectively to reduce cost of procurement.

Since the scope of online buying will increase and more deliveries will be needed, Tesco should build systems for tracking and optimising delivery schedules for logistics to minimise the cost of delivering goods to the consumers' homes.

3.3 Packaging

Tesco should pro-actively work on coming up with new packaging ideas that reduce the impact on the environment. Alternatively, since home deliveries will increase, Tesco should look at a palette based delivery model where the customer's goods are stacked in a palette or tray and delivered, and the tray returned. This will eliminate the use of plastic bags altogether.

3.4 Corporate Social Responsibility

Tesco should develop services to make regular weekly deliveries to the elderly, so that they do not have to step out of the house. Also, these deliveries could be scheduled at specific times for convenience of customers, and orders placed at the same time every week. This initiative could be supported by Tesco employees delivering to these homes on a regular basis and making sure the inmates are well. The time would be donated by employees while the delivery vans would be provided and fuelled by Tesco.

3.5 Merchandising

To overcome increasing comparison shopping, Tesco should explore new ways of bundling offers and products based on the way customers shop. For example, if a customer is known to buy significant quantities of two different items, bundle them as a combined offer for the customer to ensure he does not shop for them elsewhere, and perceives a cost advantage in buying from Tesco. This will involve significant upgrades in customer analytics from the company. Packaging sizes should also be worked out and special discount packs offered for channel-specific customers.

3.6 Conclusion

Tesco has built capabilities to tackle future scenarios in a very positive manner and is already aligned with future scenario projections, a fact demonstrated by their investment in online shopping which is now beginning to yield dividends. The same perspective applied in going forward will give the company a steady growth path and continued profitability in the future, if they keep track of the new trends emerging in the market and act on them rapidly.

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