

# Tescos layout and flow of operations essay example

[Business](#), [Company](#)



Tesco Plc was started in 1919 by John Cohen as a group of market stalls; the name Tesco never appeared on a store until a decade later. Ten years after this first Tesco store was opened, the company had about 100 stores across the United Kingdom. The retailer is ranked third worldwide after Wal Mart and Carrefour in terms of sales. However, in terms of profit generation the company comes in second after Wal Mart among retailers around the world. Tesco has opened stores in approximately 15 countries in Europe, Asia and North America. In the United Kingdom, the company remains the market leader having an estimated 30% market share which is almost double that of its closest rival ASDA. A number of factors have been attributed to Tesco's success; its flow and layout of operations, its supply chain, service culture, and diversity. Many people do not understand how all factors except the flow and layout of operations affect the company's success. In deed to a person not concerned with marketing and operations management, it would be easy to miss out on the strategic layout that Tesco adapts in several of its stores both in the United Kingdom and globally. Before starting the analysis on Tesco's layout, it is important first understand the general flow of operations in the company. Below is a flow chart showing how the companies operations relate to each other:

## **Theory**

Tesco's model of operations is set with an aim of achieving efficiency in retail, and reduces disruption for the customers. The content discussed and illustrated in this paper explains and confirms Tesco's motive and goal of setting up their operational layouts. Whether or not these systems have

been working can be observed in the performance of the business. Tesco is performing well financially and continues to expand exponentially.

## **Process Type of the Operation**

Tesco Plc operates in the retail industry with its main products being consumer goods, telecoms, groceries and financial services. At present, the company has about 923 stores globally, a human resource of about 240,000 employees, and serves about 15 million clients across the world. It is hence interesting to find out how the company is able to effectively manage such a considerably large number of employees and stores while maintaining effective operations and customer satisfaction.

This magnitude of operations across multiple locations around the world meant that Tesco was serving different clientele. Different here means that the needs of most of the customers Tesco was targeting were different; as opposed to the retailer's initial market segment when it was selling grocery. Before this, Tesco dealt with customers whose needs were pretty much similar. Perhaps not in every way but they all needed grocery. Now, the company was faced with a clientele that was spread over demographics, cultures and economic classes. The company therefore drafted an operating layout that could serve all of its clients' needs in the way closest to their needs depending on culture, demographics and economic classes (Liptrot, 2005).

A key aspect of Tesco's operation process is that the company recognizes its staff as a value adding instrument. The company emphasizes on team work

and career growth to ensure that it not only keeps its employees equipped on carrying out its operations but also motivates them to perform their operations with dedication. This is attributed as one of the strengths the company has used to penetrate the resistant Chinese markets. The company also uses local and multi-formatting efforts to increase its access to the whole market. This combined with its discounter approach forms the basis for the company's customer relationship management.

Tesco's stores are divided into various types across the UK. Even outside the UK, the retailer formulates the most appropriate stores for that particular market. Inside the UK market, operations are divided to six types or formats. Each of this type of store is designed to meet the unique requirements of the population it serves or aims to serve and their needs. These stores range from large mall size hypermarkets to small stores that serve small communities across Britain (Corporate Watch, 2007). Initially, Tesco had focused on only large stores and departed from the conventional small stores within the United Kingdom; however, analysts believe that the success of its small store format in competing against Wal-Mart in the United States market influenced the UK retailer to implement the format back home.

The biggest operations store type for Tesco is Tesco Extra. This range comprises of 230 hypermarkets in the UK. They are usually located outside the cities with a few exceptions. These tend to stock all of the products offered to by Tesco from food products to telecommunication services and products (Robert Heap, 2004). Their target clientele is the city population especially the suburban demographic, most of who have families and require

to shop more frequently in mass.

Tesco superstores are large supermarkets, smaller than the Extra stores, and they provide mostly food products by Tesco as well as a smaller range of non-food products (Finch, 2010). These are sometimes located in the cities and near neighborhoods characterized by dense populations.

Tesco Metro stores are located in the city centers and inner cities. These stores are the most predominant Tesco brands in the cities. They target the working demographic.

Tesco's most dominant store is the Tesco Express (Plunkett, 2008). With more than 1400 stores, it constitutes the biggest number of Tesco stores in the UK (Tesco, 2012). The Express store is characterized by a small floor area. Tesco stocks these stores with high end food products, as the company seeks to maximize the profits per unit area. These stores are located in residential areas, small towns and villages. As per a deal struck with ExxonMobil through Esso, the Tesco Express is found in 200 Esso locations. Tesco's store then get smaller from the Express store to the One Shop stores. Tesco's other venture products include petroleum products retail, telecommunications and other consumer focused products that the retailer offers customers at different branches.

Tesco's international operations are also designed to match local consumers' needs. To respond to customers sensitive needs in other countries around the world, Tesco has entered into joint ventures with local companies such as Samsung in South Korea (Gillespie, 2007). This strategy is believed to reduce the resistance from the local community. The retailer has a heavy

presence in Thailand and in 2008 entered the China market perhaps in an attempt to cash in the booming consumer market in this country (The Times (UK), 2008).

Tesco's design of these stores has enabled the retailer to focus its operations on the specific population it serves. This is considered a good layout of operations. Tesco continues to grow its operations into other markets such as the telecommunications market. It can therefore offer a range of high quality products across the board while at the same time catering to the special needs of the various groups it serves.

As stated earlier, Tesco used a small store format to penetrate the United States market. The reasons given for this are mainly the real estate challenges that larger store formats have to deal with. Also, Wal-Mart competes for every supercenter while the local supermarkets have entered into deals with local developers to be offered key rooms in new shopping centers. What this means for Tesco is that it is left to look for available spaces in either places in remote areas or smaller rooms. The lack of availability of land in suburban areas of the United States also forced Tesco to use small store formats as there was little land available that it meant without purchasing or leasing the land, it would take a long time for new entrants such as Tesco to gain the much needed market share. Hence, if Tesco wanted to penetrate the United States market, it had the option of either establishing large stores in rural areas to directly compete with Wal-Mart or to start smaller stores whose space was easily available; Tesco chose the second option to penetrate the United States market.

Most retailers take the approach of one size fits all in designing the layout of their operations. They treat their clients in different locations in the same way. As observed earlier, in today's economic situation, service is the main activity. When customers are unsatisfied with a business, the business suffers grave losses. This is true for most businesses regardless of the industry. For retailers, service is everything in getting ahead of the competition. This is probably because retailers deal with consumers directly. Any aspect that affects the consumer affects the business of retailers. When the economic growth rates lower, retailers feel the blunt effect of slowed sales and revenues. The one size fits all approach to retail business has worked for many businesses for long. But to gain a competitive edge, there is need for innovation in service provision. Service innovation means looking into the basic needs of the customers and then coming up with viable solutions to meet those needs. Tesco has done exactly that in designing the layout of its domestic and international operations (Creighton & Rozen, 2007).

Varied stores give the impression of difference. Even though under the same brand name and selling the same products, Tesco stores attract loyalty from their customers due to their products and services (Humby, Hunt & Phillips, 2008). Tesco's varied store corporate strategy is appropriate for retail companies that serve people from different backgrounds and levels in society. A retail store that caters for every person's need in the society, whether rich or poor, is bound to succeed in raising its revenues.

## **Volume, Variety Variation and Visibility**

This is a concept used in management of operations commonly known as the 4V's. Volume refers to the quantity of products handled by the organization. Tesco has a high volume of products. Variety refers to the number of different products that a company handles, manufactures or sells. From the food products to the electronics and the communication products, Tesco is a high variety business. Variation is the extent to which demand for products changes over time. Tesco's variation is mixed up. This is due to the wide variety of products they sell. For some products, variation is very high while for others, demand is pretty much constant. Visibility in operations management allows customers to observe and track their products until they receive their purchases. For a retailer, visibility is high because the customer picks up individual products from the counters and heads for the cashier. Visibility affects business operations for the retailer when it comes to the cashier's queue. High visibility businesses have short waiting tolerance. Visibility also applies to online sales made to remote customers. Customers are able to track their products from when they buy them to delivery. The waiting tolerance here is high since the customer has low visibility over the operation.

## **Layout Objectives of the Operation**

Four basic layouts of operations exist. These are fixed position, cell, product and process layouts. Each of these has a specific purpose for which it is appropriate. The fixed position layout involves moving resources to the product or consumer. A good example is movie production. Actors move to



the set. Actors are the resource. Functional or product layout is characterized by equipment and resources being grouped together according to the similarity in function. Product layouts are set such that equipment and other machinery are arranged along a flow of products. A cell layout is similar to the functional layout. The only difference is that one can vary the processes.

Tesco has adopted the functional layout. The products are arranged according to relevance or similarity in function. The purpose for this layout is for the customer's convenience. The retailer has sections in the stores. This means that products such as food, clothing, and electronics among others each have their own sections that are easy for the customers to find.

Before venturing into the layout objectives it is important to first understand the customers who are targeted by the operations. Tesco has two groups of customers: external and internal customers. The internal customers are those that are within the company. The concept of internal customers comes from the company's philosophy as treating different parts of their operations as separate entities. Hence the company's layout should be formatted in a way that it allows smooth interrelationship between the various departments within Tesco. The external customers are those people who shop at Tesco stores.

Tesco formulates its operation's objectives putting into consideration the following groups of people: customers, employees and suppliers. The customers are the ones who the company makes revenue from, the employees perform the operations, and the suppliers provide the materials required to perform the operations.

Tesco has seven listed objectives and all of them are targeted at improving the business of the company (Tesco PLC, 2011). The objectives listed are:

- i. To grow the UK core business
- ii. To become a significant and outstanding international retailer online and in stores
- iii. To match the strength we have in selling food to other products
- iv. To grow all our markets' retail services
- v. To improve corporate social responsibilities in the communities we serve
- vi. To consistently create high quality brands
- vii. To create more value by building our team

Tesco's market has always been predominantly British. For over three quarters of a century, the retailer sold grocery only in the UK (Tesco plc, 2010). Up to now, the UK is the backbone of the company's revenues. It may not survive if it lost the UK market. The first objective of Tesco is to grow its domestic market further. The company is in a unique position in the UK market. It has to protect its market share and at the same time attempt to acquire more consumers. The operations layout of the retailer is well modeled for this purpose. By developing different range of products for different people in the market, Tesco ensures that all customers' needs are catered for. This creates customer loyalty as well as attracting customers from other retailers. Another factor of the layout that was designed to solve the problem of market share is the widespread network of the company. As more and more Tesco stores are established in the UK, the market share for the retailer increases considerably.

Tesco's operational strategy of forming joint ventures in countries abroad is meant to achieve the second objective of the company (Ireland, Hoskisson, & Hitt, 2011). Operations in countries abroad have been picking up for Tesco. The retailer's focus on the global market is closely related to that in the UK. Tesco finds appropriate methods of penetrating the new market. For instance in Poland, the company bought off several hypermarkets and rebranded. In the US Tesco bought online grocery retailer Grocery Works to initiate its online Grocery sale (Helft, 2001). In Thailand, where Tesco has a heavy presence, the company has implemented a strategy of hiring local citizens to manage the stores (Barnes, 2008). This structure creates familiarity in the stores.

Tesco's food division is perhaps the best performing in the world (Harvard Business Review, 2008). This can be attributed to the experience the retailer has had in the field. The company is however new to the non-food product market, compared to other retailers in the UK. In the operation design, the company is able to offer non-food products at the same stores it offers its food products. Convenience plays well for the retailer as customers feel more comfortable buying all their products in the same place. Consumers, who come in to buy food products, also buy the non-food products. Another common practice is in the branding. Tesco brands a majority of its products with the Tesco brand. Customers therefore, associate non-food items branded Tesco with the high quality food products they are familiar with.

The other three objectives listed by Tesco are not directly related to the layout of operations. The design however facilitates the accomplishment of

these objectives. Tesco employs over 500, 000 employees around the world (Tesco PLC, 2012). These employees come from the communities that the stores are located in (Hay Group, 2001). This is part of corporate social responsibility and also helps build the workforce. With that big number of employees coupled with innovative service provision, Tesco is able to create value for customers by offering sufficient and quality assistance whenever needed.

## **Operations Challenges**

The Tesco operational layout is efficient for the purpose of the company. There are however, problems associated with such a layout. Perhaps the most significant challenge is cost. Tesco being a public company has an obligation to its shareholders to reduce operational costs as much as possible and to increase the profit margin. Implementing the layout designed by the retailer requires significant financial resources. The challenge for Tesco is not necessarily the finances as the company can afford to make considerable investment into its operations. The main challenge is deciding which stores to invest in and which to drop due to performance. One of the stores in the operational layout of Tesco is Tesco Homeplus. This was a trial store type initiated by Tesco in 2006. This store was meant to cater for customers who did not require food items; it sold non-food items exclusively (Tesco Corporate, 2006). The store has however not picked up as expected. The funds that were invested here seem to be ending up in loss.

Another challenge associated with the layout adopted by Tesco is acceptance in foreign countries as well as some communities in the UK. This

is evident in Thailand where Tesco is suing two individuals for criminal defamation (MacKinnon & Leigh, 2008). These two were opposed to Tesco's expansion in Thailand. In Jersey, authorities closed down operations of Tesco's online division to prevent the company from ruining the island's reputation. Tesco's tax avoidance tactics were the main issue given for the closure (Foxwell & Mills, 2007).

Tesco's online operations are also faced with challenges from many quarters especially in the UK. After being closed down in Jersey the retailer moved its operations to Switzerland. The main reason for this move was the fact that it could sell music online without adding VAT to its price. This gave the retailer a competitive advantage over competitors. It however didn't auger well with critics in Britain. This was seen as yet another tax avoidance scheme by the company (Leigh, 2008). The UK government soon after closed the loophole Tesco was exploiting (James, 2009). This kind of reputation could hurt the company's image in their strongest market segment. The challenge presented here is to balance between increasing revenues from online sales and maintaining a positive image that will attract more customers instead of repelling them away.

## **Operation Improvement Project**

Even though Tesco layout looks efficient, it has its limitations as well. The challenges observed above are indicators that the process designed by the retailer is not perfect. Limitations include the low ability to compete aggressively in new markets, maintaining customers in the UK and keeping a positive image that will sustain growth in the markets it operates (BBC News,

2007). The layout should be improved consistently to match new challenges and opportunities that the market presents. Retail markets are sensitive to customers' perceptions.

Tesco was among the first retailers to introduce self service tills in the UK market (Doyle, 2000). A study however showed that the retailer still has the highest queue line time in the UK (The Mirror, 2006). This is a limitation in the layout of operations at Tesco. The company should replace such systems with more innovative ones. When Tesco implemented the self service till system, it worked. The market has changed and the system is seemingly beginning to fail. An improved system would be to install faster equipment in the tills or hire more personnel to work the counters. Tesco has a hectic daily operation. Change in layout should be carried out in the time that it is usually least busy. Operational layout change takes time and labor. A layout change should be subdivided into various tasks (Pradhan, 2006). Dividing various tasks among several groups will enable them to work simultaneously thus saving time. If this were done at " odd" hours such as at night, there would be minimal disruption of operations at the retailer and avoids inconveniencing the customers.

### **Gantt chart for Tesco Past performance**

- Activity/ Years
- First Store
- First self-service store
- First supermarket
- 800 Acquisitions

## **Expansion into Scotland**

- Loyalty Card Program
- Internet Shopping Service
- Expansion into Ireland
- Tesco Express-Esso Deal
- Launch of US online Grocery sale
- Expansion into Poland
- Expansion into Japan
- Expansion into Turkey
- Launch of Broadband service
- Expansion into Thailand
- Further Acquisitions in Poland
- Launch of Tesco Venture Brands

Historical information about Tesco as well as recent information shows an incredible trend of growth. From the early years of its incorporations until now, the company has worked tirelessly to expand their base within the UK and around the world. These have seen the company's worth grow exponentially over the years therefore satisfying share holder interest in the company. There is a significant use of acquisitions as well as collaborations with other companies to expand into new markets. The company has from the 1950's been involved in vigorous acquisition of retailers. It purchased over 800 stores in 30 years (1957 to 1987). Collaboration with Esso has seen the company launch over 200 new stores in the UK and expand into selling petroleum products.

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