

Tesco and sainsbury logistics operations



To survive in the global market you need to adopt proper strategies and theories properly and effectively to ensure success. Global market is a competitive market where you cannot strive forward if you don't have proper planning and strategies. Logistics is an important factor in business which is all about flow of goods information and resources. Logistics can be defined as “ The process of planning, implementing and controlling the efficient, effective flow and storage of goods, services, and related information from point of origin to point of consumption for the purpose of conforming to customer requirements.”(Brook, 1993) Logistics is about Storage, warehousing & materials handling, Packaging & unitisation, Inventory, Transport, Information & control Facility location. In the case of retail Industry Logistics not only has a basic role it is very much integrated in the overall business functions. Logistics in retail industry has changed a lot after the introduction of IT in business. Management of Logistics has been diversified after the increased usage of Information Technology. As the technologies are changing every now and then the company should ensure that logistics and planning should be changed accordingly and the technologies should be used effectively.

Elements of Logistics

“ Logistics management is the planning, implementation and control of the efficient, effective forward and reverse flow and storage of goods, services and related information between the point of origin and the point of consumption in order to meet customer requirements.”

(CSCMP, 2006)

log. jpg

Source: The Hand Book Of Logistics And Distribution Management (2000)

This figure shows the different elements and the flow of these elements and how they relate to Logistics.

These are the basic elements of Logistics:

Storage, warehousing & materials handling: This includes the location of the warehouse, different distribution centres, different types of storage, and the materials used in handling the equipments.

Packaging & unitisation: This includes the different mode of packing, the type and style of packing. It also includes the equipments used for packing the items.

Inventory: This is all about what to stock, where to stock and how much to stock.

Transport: This can be the different modes of transport, the route, the type of delivery and load planning.

Information & control: This includes the system designs, the mode of transferring information's and effective forecasting to meet future needs.

Management of Logistics Operations – Tesco vs Sainsbury

Tesco

Tesco PLC is a multinational grocery store situated all over the United Kingdom. Its headquarters is in Cheshunt, UK. By measuring the revenues

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Tesco is the third largest retailer in the world after Walmart and Carrefour. By measuring profits it is the second largest retailer after Walmart. Tesco has stores in Europe, Asia and North America in 14 countries and is the market leader in United Kingdom with almost 30% of market share. UK is the main market for Tesco where it has got different stores named Extra, Superstore, Metro and Express. Tesco sells almost 40000 products of food. It not only is specialised in food but also clothing and other non food products. Almost 50% of the products sold in Tesco are own-label products. These products are divided into three levels, value, normal and finest. Apart from all these, most of the stores has got gas stations making it one of largest petrol retailers in Britain. The other retail service of Tesco includes Tesco Personal Finance.

Evaluation of Logistics practices in Tesco

Since Tesco is the leading retail manufacturing company in UK its logistics practices should be efficient and effective. Tesco constantly upgraded its supply chain which contributed in better their success compared to its competitors.

Centralization

Tesco had a direct to store delivery (DSD) in the 1970s. Both suppliers and manufacturers delivered the goods directly to the store when they chose, so it made centralization and standardization almost difficult to achieve.

Product quality, product prices and availability were inconsistent. So the DSD system failed. So the decision was to implement centralization from the direct store delivery. This created a great change in the overall working. Now

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the store managers could not decide the prices and ranges of the products. If the customers should be served with better quality products, Tesco understood that the head office should take control over pricing, ranging and stock management. The direct to store delivery was replaced by a centralised system and distribution network (Kirkwood, 1984a, 1984b).

The implementation of this system helped the company in delivering the goods within the lead time with the help of common handling systems (Sparks, 1986). This helped company in implementing new distribution centres which related to more store location profile. Tesco invested more in technology which resulted in faster stock turn and better lead time. This strategy helped in creating more centralized distribution centres which are linked by computer systems which are linked to stores and head office.

Continuous Replenishment

Continuous Replenishment policy was introduced by Tesco in the year 1999. It has got two features; first, a flow system was introduced replacing the old batch data processing, and secondly, multiple deliveries took place as a result of this flow system, which in turn resulted in reduction in stock holding through cross-docking were the goods are not actually stored in a warehouse.

The Change to replenishment:

All Suppliers

Receive orders according to their profile and

more than once per day

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Store Order Calculation

Batched – once per day Delivery to stores

In-depot stock awaiting delivery

Delivery

Multiple deliveries giving more efficient

fleet utilization. Faster replenishment

Primary Distribution

Smoothed goods-in profile eliminated

traffic logjam

Central Order Processing

Current replenishment requires the arrival at depot of the final supplier's vehicle before delivery to store can take place

Production and Transport to Depot

Production Scheduling a) As was b) Continuous Replenishment

Tesco Depots

Smoothed goods-in profile. Store orders

assembled as stock arrived and not held

pending batched orders

Source: Clarke, 2002

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FGP

Tesco was the first retailer to implement Factory Gate Pricing. With FGP, retailers collect the goods directly from the suppliers gate, with their own transport or a transport agency whcould meet their demands. So this helps in removing the excess transportation costs charged by the supplier. For tesco they were able cut their cost significantly with the introduction of FGP. Tesco saved millions on the transportation costs(Leonard Klie, 2005).

Transportation Policy

There are different modes of transportation available for Tesco like road, rail and sea ways. Tesco is following the intermodal transportation policy through these different modes. The local operations and distribution of Tesco is done through road and rail routes. But the global operations are done through sea ways as it is much cheaper compared to other modes. Inventory reports are created in real time from the local stores when the inventory is low or when it nears the safety margins, and these reports are sent to the warehouse and the product is delivered on time. The use of Information Technology in the supply chain has helped them to receive products in real time. IT helps in the information flow across the different stores and departments across the working areas.

In the case of global operations usually sea ways are used. The storage place is situated usually near the sea ports for the easy transport of goods to the sea ways. It significantly reduces the overall transportation cost which in fact is beneficial to both the manufacturer and the customer. Sea ways are most

economical and easily available but it is very slow compared to other modes and there can be delays caused due to bad weather conditions, tides etc.

Sainsbury

Sainsbury is one of the major retailing stores in the United Kingdom. In fact it is the third largest supermarket chain in UK with a market share of 16.5%. Sainsbury currently operates over 1000 stores divided as hypermarkets, supermarkets and convenience stores. This is further divided as 572 supermarkets and 440 convenience stores. Sainsbury offers a higher quality grocery compared to its competitors. The company is mainly known for selling high quality food items across the UK. They have certain values which help them in doing the day-to-day business activities which includes key decision making. They aim to be the best greenest store in the UK which is good for their business and even better for the environment. For Sainsbury, retailing is more than just business its about providing quality products and great service for their customers.

Evaluation of Logistics practices in Sainsbury

Sainsbury followed a traditional supply chain strategy, only by the year 2001 they changed their supply chain strategy. Until 2000 they were following the old strategy since 40 years and they understood that outdated system, warehouse infrastructure and the supply chain strategy should be changed. So a new “ all-or-nothing” strategy was introduced which had four key areas:

1. Network renewal
2. Systems and technology
3. Processes and Partnerships

4. People and culture(Sainsbury's Supermarkets 2001, p. 1)

Replenishment Policy

Sainsbury had been one of the first retailers to centralise its distribution in the early 1960s. Until 2000 they were following the same policy without making any changes this created decline and made them change their overall strategy. Sainsbury used to store inventory in the Regional Distribution Centre, their change from holding stock from RDC to flow through Fulfilment Factories has “ involved moving from an infrastructure chiefly comprising conventional wide aisle racking to one combining automated storage and retrieval systems(AS/RS), pick conveyors and sophisticated sortation systems” (Baker 2004, p. 119).

Automation

The automated distribution facilities were called the “ fulfilment factory” which is part of the new distribution strategy. Each of the factory cost almost 70 million GBP to build and establish. The idea behind the automated facility is that it helps in sorting process with reduced costs and greater accuracy. Because of automation goods handled are less “ This means we can get them to stores more quickly and fulfil orders accurately. The system is less prone to human error” (cf. Campbell 2003, p. 22).

Outsourcing to Logistics Providers

In order to attain the success and efficiently managing the supply chain, Sainsbury doesn't operate every distribution facility by itself. Only half of the distributions are handled by Sainsbury itself, the major part of the

distribution is done by Exel Logistics which is a third party Logistics provider which is specialised in distribution management. Since Exel is managing the distribution facilities Sainsbury can concentrate more on the Supply chain efficiency of the stores and other departments, but still the outsourcing of managing certain distribution centres caused certain problems among the workers and the trade union (Sheppard 2005, p. 15).

IT Systems

The restructuring of the IT system was a key issue apart from the distribution. High investment was made on the IT sector to replace the traditional approach of sharing information. The traditional paper based information exchange was replaced by web based sharing. This helped in minute by minute control over the nature of the goods and their location could be found out easily using IT systems. The real time data is the “backbone” of the new information system (Campbell 2003, p. 23). The idea behind restructuring the IT system was to efficiently manage the supply chain system with the superior flow of information and optimum resource utilisation.

FGP

Factory Gate Pricing is one of the major developments in the retailing sector of United Kingdom. FGP “ involves a retailer separating the transport costs that the supplier has imposed on products and looking for a cheaper way to transport the goods. This may mean the retailer using its own vehicles, or using a third party logistics provider to pick the goods up directly from the supplier – at the factory gate” (Davies 2004, p. 15).

Transportation

Sainsbury used the help of IT to efficiently manage their transport logistics. Sainsbury has reduced its transport cost and increased the driver efficiency with the help of Paragon software systems. The Paragon system integrated with Isotrak telematics could capture the real time data like, vehicle position and driver tachograph outputs. Using Paragon's Fleet Controller system to integrate Paragon Routing and Scheduling Optimiser with Isotrak's Active Transport Management System (ATMS), Sainsbury could reduce uncertainties and improve precision in the transportation(Jane Geary, 2009).

Comparative analysis of Logistics practices of Tesco vs Sainsbury

From the evaluation of Tesco and Sainsbury it is clear that Tesco is the market leader in the retailing sector of United Kingdom.

Considering Tesco, it is clear that the strategies they adopted from time to time made them the top retailer UK as well as in the whole world. Tesco had innovative ideas and changed their strategies from time to time to meet according to their customer demand. The continuous replenishment policy system of Tesco was very effective. The continuous innovation in the logistics practices helped them to maintain quality products and services by reduced costs. The effective supply chain strategy contributed well in their success. These innovative ideas and practices helped Tesco to compete with global standards.

On the other hand, Sainsbury was relatively slow in upgrading their logistics practices. Earlier, Sainsbury was the market leader but the decline in

adopting new innovative ideas and logistics practices made them slow compared to their market competitors. Only by the year 2001 Sainsbury changed their strategies and practices until that time they were following the traditional approach which resulted in their decline. But after the implementation of their new strategy the change was fast. Within 3 years they could compete with global standards. Changing their tradition system with IT system helped them compete globally. Right now Sainsbury is the third best retailer in UK.

Recommendations

Since Tesco is the market leader in retail industry, it should make sure that it retains the leadership. Tesco always changed or moved according to the market changes and customer demands by constantly upgrading their logistics practices. But Sainsbury was too slow in upgrading the logistics practices but later they found out that adopting new technologies and ideas is a key factor in the success of a firm. The recommendations are:

- Investment in new technologies
- Outsourcing to other logistics companies
- IT systems should used effectively
- IT should be linked with every aspects of business
- Proper route planning in Transportation

Conclusion

From the report it is clear that the innovative policies and strategies adopted by Tesco helped them to become the market leader. Sainsbury's slow adaption towards the modern technologies made responsible for their

decline in the retailing sector. So it is clear that if you don't move with technology and start implementing it, you can't compete with the competitors. New strategies should be implemented from time to time if they are outdated then you are going to lose business as in the case of Sainsbury. However, Sainsbury understood this and changed their strategy, now facing a strong competition to Tesco.