

Comparison of business model and development



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The growth and development in the field of information communication technology has more or less changed the buying preferences of consumers. Currently Tesco not only sells products through its physical stores but also through online store. Tesco was the first “explorer” of the new market which began online sales in 1994 (Ocado, 2011). Tesco is the UK’s largest retailer and one of the world’s re-known leading international retailers operating in fourteen countries” (Tesco, 2013). During the next 10 years a number of internet retailers emerged in the United Kingdom not only to saturate the online market but also to fight the traditional brick-and-mortar stores. Among them were the Amazon established business in the UK in 1998 (Brown, 2008) and the British start-up Ocado an online grocery shop launched in 2001(Ocado, 2011). Like wises Sainsbury also a third largest retailers in the UK initiated online selling in the year 1995. Although these four businesses are not in direct competition at a first glance, they definitely explore and shape the future of e-retailing and retail industry in general for the coming decades. The aim of this work is to compare the four companies, their business models, logistics set ups and challenges they face. It is important to highlight that unfortunately almost no information is available in open sources about Tesco Direct and Amazon’s performance and development indicators as they are incorporated in the annual reports of the American mother company. In order to achieve the aim required I assumed that more or less of these four companies have similar business model but dealing with the daily logistics in the supply chain network is different from each other and in terms of KPIs. There was also some limitation in finding out resourceful data.

Amazon's business model and development over the last 5 years

Amazon appeared on the internet in October 1998 as a rebranded website bookpages. co. uk purchased by amazon. com (Brown, 2008). From the very beginning it was a bookstore offering a range of books wider than any traditional book retailer. Nowadays in addition to books Amazon sells a wide range of product lines: books, music, films, games, electronics, computers, home & garden, toys, children's accessories, apparel, sports goods, DIY and (so far) limited grocery range.

Tesco Direct- business model and development over the last 5 years

Tesco started selling non grocery products online since 2006 by expanding its products range and integrate home / office electronic, furniture, DIY products and other entertainment related products such as DVD, CD's, Blue ray, Games etc. Tesco non-food business in the UK is also growing rapidly and in-fact it is over 13% a year (Tesco, 2013a). Tesco manages its own supply chain through its distribution centre located in Hertfordshire, which is responsible to supply goods to south eastern part of England. Moreover, Tesco is generating sales by promoting everyday low price concept not only through stores but also through online. The Tesco non-food online business was also expanded by the acquisition of blinkbox in 2011 (online movie service), We7 (free music) and Mobcast in the year 2012. The transitional period of success in selling general merchandise is sighted over past four years and also expected to grow more in this particular area because the demand is increasing.

Ocado's business model and development over the last 5 years

Ocado was born out of strategy. Three ex-bankers spotted a market opportunity in the rapidly developing e-commerce and set up in 2001 the first fully dedicated online grocery retailer in the UK (Ocado, 2011). The market spotted was online sales and home deliveries of upmarket food and grocery initially were sourced from Waitrose (Ocado, 2011). As of 2012 Ocado sells 100% of goods via its web store, company's only sales channel (Ocado, 2011). The company is responsible for order processing, picking and shipping to the customer. It also bears full responsibility for the customer service, technology and inventory availability. Ocado uses a fleet of own dedicated vehicles to ensure deliveries to the customers. Ocado sells own-brand goods from Waitrose and Carrefour, wide range of branded goods from a number of producers, and small but expanding range of private label goods (Ocado, 2011). The total number of SKUs is over 22, 000; approximately 4, 300 SKUs out of that are Waitrose-branded products (Ocado, 2011).

Sainsbury- business model and development over the last 5 years

Sainsbury one of the UK's top five top grocery retailers founded in 1986. Offering thirty thousand diversified daily use food products and currently operating over 1000 supermarkets and convenience store employs around 150000 colleagues. Sainsbury starts selling products such as electronic & entertainment as well as sports equipment through online in the year 2010. According to the financial performance till 2012 the underlying profit before tax is £712m with the market share of 16. 6% (Kantar). It can be seen that <https://assignbuster.com/comparison-of-business-model-and-development/>

since the year 2008 the sales (including VAT & fuel) grew from £19, 287m to £24, 511m (Sainsbury, 2013 a). Working mainly through four (CFC) strategic fulfilment centres and four Primary consolidation centres (PCC). Many of the stores are also offering non food products. The non- food products sales started back in 2010. In the year 2008, total sales for fourth quarter up 6. 7% excluding (5. 1% fuel), like for like (LFL) was 6. 0% excluding (4. 0% fuel). Comparing it with the financial performance of up to the 3rd quarter of the year 2013 the total sales remains 3. 9% excluding (3. 3% fuel). It shows that in the third quarter of the year 2013 the sales remain lower than it used to be in same quarter in 2011.

Role of logistics and supply chain of Amazon UK

Amazon can be called a pioneer of innovative SCM solutions of the online retail industry. Although a significant progress has been made so far there are a lot of challenges still facing the business including supply chain infrastructure development, inventory optimisation, sourcing optimisation, order fulfilment, last mile solutions etc.

Amazon runs a number of fulfilment centres in the UK - four in England (forth opened in Hemel Hempstead in Hertfordshire 2012), two in Scotland and one in Wales (Amazon, 2011).

These centres are responsible for keeping the minimal stock of goods and fulfilling customer orders.

Amazon operates system of hubs (also called injection points) to reduce transport cost. The idea is to transport goods ready for delivery in full truck

loads to the area of their delivery and after that hand them over to Royal Mail, DHL and others for the last mile delivery.

Inventory optimisation has been a key issue for Amazon from its creation. As a response to it Amazon created a multi tier inventory network to optimise own costs and improve performance.

The web store manages and owns relationship with the customer with the immediate access to the Tier I level of the supply chain – Amazon’s fulfilment centre. If for some reason the product is out of stock within own facilities the IT system checks availability with the Tier II level – partner DCs and wholesale DCs. If the product is missing there as well, the IT system turns to the Tier III – suppliers, publishers and third party providers. As a result of this architecture Amazon keeps information flows under control and manages inventory through all three levels to its own benefit (Amazon, 2011).

Distribution process is the customer facing supply chain part. Although Amazon outsourced the last mile solution its IT keeps the process under control to ensure transparency for the customer and feedback collection.

Role of logistics and supply chain of Tesco Direct

Tesco Direct established in 2006 providing a large range of home, furniture, appliances, computers and much more. The overall financial performance of Tesco Direct sales were impressive, up by more than 16%, with Click & Collect once again proving a particularly attractive option for customers ahead of Christmas. Many customers chose to collect their orders from one of over 600 Express stores now offering Click & Collect, providing an even greater level of convenience. Due to the growth in the online business Tesco

is reopening its Fenny Lock distribution centre (DC) to handle its online growing business. It is also planned to open two (DCs) in Reading and Deganham which will improve its customer services and less impact on environment (Tesco, 2013). Some of the major business also transferred to rail transport in Daventry (DC) which will remove 40000 lorries from the road and save 10000 CO2 emissions (IGD, 2013). Tesco using automated ordering system that keeps updating operations at CFC and warehouses. The operating profit margin relatively remain same 5.9% in 2008 -09, where as little growth was seen around 6.4% in 2011 which came back to 6.1% in 2012 (Tesco, 2013). Related to the Amazon UK the business is different comparing to Tesco Direct. Amazon has expertise in this area more than Tesco Direct which has start selling non-food products just few years ago. But since 2010 non-food products business show positive financial returns which has led Tesco to grow in this particular area of business within the UK and international. Tesco is focusing more to operate internationally because they believe UK market is mature now.

Role of logistics and supply chain of Ocado

Supply chain model implemented by Ocado is far more straightforward comparing to Sainsbury due to only one sales channel and the nature of products delivered to the customer (grocery, substantial part of which can be perishable).

Ocado runs a system of hub and spoke network with so far the only warehouse (the customer fulfilment centre or “CFC”) in Hatfield and seven hubs across England. As a result Ocado covers up to 70% of British households (Ocado, 2013a). The 2nd “CFC” expected to be opened in the <https://assignbuster.com/comparison-of-business-model-and-development/>

1st quarter of 2013 at Dordon in central England, which would also increase the order fulfilment capacity from 120, 000 units per week to 180, 000 units per week (Ocado, 2013b). Sales growth also is seen after improving the operation at Hatfield fulfilment centre which is also expected to be rise more than 13 % in the following months of 2013. The gross sales increases jumped over from £ 551m to £ 716m since 2008 to 2012 (Ocado, 2013c).

All online orders, which consumers place, are fulfilled in Hatfield CFC. Now all picking process of product goes through highly automated machineries: plastic totes containing up to three bags move around the warehouse through the conveyer belt. Along the journey the totes are stopped opposite the aisles where members of staff pick ordered good from the shelves and put it into the relevant bags. Then packed orders are allocated depending on the delivery area and loaded onto delivery truck to bring goods to a hub or a delivery van for home deliveries. Ocado owns a fleet of branded lorries for hub deliveries and a fleet of refrigerated Mercedes-Benz brightly coloured vans for the last mile solution.

Ocado benefits from a number of advantages as a result of running such a centralised set up including ease of inbound deliveries, demand forecasting, operations and control over the supply chain in general. Accurate demand forecasting allows Ocado not only to optimise inventory but also to minimise waste of unsold goods which is crucial for a grocery retailer. Ocado's supply chain is using its own IT customise software in its business. Current service delivery is improved 151 DPV and CFC efficiency improved by 120 UPH.

Role of logistics and supply chain of Sainsbury online grocery deliveries

Currently Sainsbury is working mainly through four (CFC) strategic fulfilment centres and four Primary consolidation centres (PCC) offering. Many of the stores are also offering non food products. The non-food products sales started back in 2010. Over the past five years development has been seen the growth in the overall sales. The Sainsbury is using Manhattan's Extended Enterprise Management (EEM) solutions in the newly built with fulfilment centres. Sainsbury is an experience retailer of supermarkets serving customers with both food and non food products. Reducing delays in logistics operations & supply management by covering an area on 600000 sq. ft, runs over 2.5 km of conveyer belt with 10 automatic ambient storage and retrieval cranes. Sainsbury operations are spread all over the UK with a larger capacity to store and higher in efficiency output than Ocado so that is why not the right to compare logistics / supply management to each other.

Changes effecting logistic performance of the companies

I selected three major changes that could influence performance of the four companies Tesco Direct, Amazon-UK, Ocado & Sainsbury.

Increasing fuel costs would have mixed effect on all four companies. On one side it would increase their costs and undercut profits. On the other side consumers would be more reluctant to drive for shopping and would be more eager to shop online. In the profit margins would be squeezed but the sales volumes would most probably increase making the market space far more competitive.

Environmental regulations: Environmental problems to be considered seriously by using alternate bio fuels in the road transport network to lower carbon emission. Increase the use 3R's (Reduce, Reuse & Recycle) in logistics and supply chain management both at national and international levels would generally have positive effect on all companies. At the moment all four companies are working closely to reduce waste and more recycling.

Source locally: Almost all of the four retailers are not fully sourcing their products locally but also dependent on international sourcing. But Amazon UK could be effected in future if the Government announces any new taxes on business, whereas Tesco, Ocado and Sainsbury are as a local retailer would suffer less.

Suggested actions to improve financial performance

Ocado as it is still in its developing phase of business with a lot of opportunities to explore within the UK. Ocado's still needs to focus more toward to south- east part of the England specially by covering London area, once the market demand of Ocado products increases then to move towards geographic expansion in the UK. The newly built 2nd CFC in north of England would definitely increase the coverage area allowing the company to serve the north of England and Wales. Location play important role in business success hence, Ocado needs to concentrate on those strategic areas which are nearer to the suppliers and market. Once the market is covered a next step the company should consider starting operations in Scotland. The current financial performance is not very good to suggest Ocado to operate outside the UK. Another option would be to increase product range well beyond recent 21, 000 SKUs and enter the non-grocery market if they want

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to compete Sainsbury. Sainsbury has an upper hand by offering products around 30, 000. Having appropriate coverage and customer service in place this would be a very sound option for development.

In-house structured trainings should be given to all working in the area of logistics & supply chain management. Weekly trainings should be given to the drivers who face the customers mostly and plays key part in the future development. Company reputation should be kept on priority by meeting the KPI's. Customer services level needs to be maintained all the time. The last mile problem should be dealt seriously. Lower the customers services are, higher the possibilities in financial growth.

Providing high quality products range in competitive prices would certainly attract the customers through proper marketing. Making sure the product availability all the time in store based or online based, growing the product range would benefit the business. Given the size and expertise of the company it should not be a big issue.

Price always was a key matter for the Amazon's success. I believe tracking and adopting prices in line with the market fluctuations may be not enough in the future. It would be interesting for Amazon to explore promotion campaigns widely used by traditional retailers.

Summary

This studies is based on four top retailers of the UK companies studied are advanced players in the market of online retail. There business operations are facing more or less similar challenges are similar in-spite of the fact that they are technically serving different markets. Amazon is a well know global

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market leader still hungry for growth and success in the UK industry and expanding more. Sainsbury is also expanding but inside the UK, Ocado just passed a set up stage and actively growing in the UK and building plans for global expansion. Tesco is performing well in it food grocery and non-food grocery which is performing well and giving hard time rivals also planning to expand in India. I do believe that they work in the exiting online market during the exiting times when everything is still possible and the most innovative and brave will win the marketplace.

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