

# [Evaluation and examination of tescos supply chain management](https://assignbuster.com/evaluation-and-examination-of-tescos-supply-chain-management/)

## Introduction

In recent times, to possess excellence for sustainability in the cut throat multifaced competitive age, every organisation has to be very strong in managing their operations and quality. Quality and Operations Management is a collective term comprising of Operations Management, Supply Chain Operation, Quality, Lean, E-business, Design and Managing Services. In this academic essay, we are going to discuss about Supply chain and quality according to TESCO perspective. TESCO is the leading retail chain in UK. For every retail industry, supply chain and quality are vital for the success, so as for TESCO also. For TESCO, the customer is everything so in order to win customer loyalty and customer life time value, TESCO has formulated its own effective definition of supply chain and quality based on customer’s buying behaviour, culture and economy.

For Every business whether it’s a product oriented or service oriented, the Supply chain acts as backbone of the organisation. For the success of every company, if the supply chain comprises of 3A’s namely agile, adaptable and align then it has competitive advantage over rivals. Quality is a broad term which can be defined in many ways and the definition of quality varies from industry to industry. The fulfilment of customer needs, durability, reliability, on time delivery, excellence above benchmark, producing according to the requirements or design specification of the product or services needed, pre and post sales customer service, providing error free product, providing value in terms of cost and price etc, are some of the typical definitions used to define quality.

## TESCO Perspective: Supply Chain and Quality

## Supply Chain

As per Tesco’s process, Supply Chain can be defined as the movement of products from the source to the end customer, which involves a series of processes namely buying, manufacturing, transporting, customer care services, forecasting of orders, and supply planning forecasting of demand.

According to Stuart Ross, Director, supply chain and distribution (2005), Tesco’s leadership over their competitors comprises of process efficiency, volume and continuous improvement in supply chain like point of sales data, continuous replenishment system according to flexibility in customer’s needs, cross dock distribution centres, and efficient routing of vehicles serving multiple stores. Tesco has relied on the concept of ‘ Process Improvement’, to create value for customers and thereby earning lifetime loyalty.

## TESCO-Business drivers of supply chain:

## Process efficiency/Innovation:

According to innovative leaders (an electronic source), Process efficiency /modernization & transformation is the key for dealing with day to day customers and TESCO is incorporating this in their process. The prime focus of the world class retailer should be equally on new products development and continuous process improvement. Tesco is also focussed on making customer purchase experience as smooth as possible. In addition to this as Wal-mart and Carrefour, Tesco focuses on service improvement to provide better value for its customers. Tesco also pays attention on shaping the concept of creativity of staffs and motivates them to come up with innovative ideas. Example Tesco staff across different stores in the UK come up with classy approach of arranging thousands of products with more capacity and efficient vehicle routing to serve the nearby stores. Tesco normally change the price of products using the system named ‘ Intake management’, which is the part of supply chain providing offers for non food products and printing electronically which is a unique & efficient process. The ‘ Clubcard’ plays a key role in understanding the buying pattern of customer and currently has more than 15 million users in UK.

## Supplier Relationship:

For efficient supply chain, every business should maintain very good relationship with suppliers; TESCO uses the concept of Electronic Data Interchange (EDI) to communicate with its supplier’s. This data can only be read by suppliers. TESCO has a very good reputation with all suppliers. e. g., Robert Wiseman has delivered milk to TESCO stores for many years.

## TESCO – Supplier Partnering Hierarchy:

According to Harvard Business review on Supply chain management (2006 pp 31) and with my working experience in supply chain systems at Tesco, the well structured supplier partnering hierarchy is the secret behind the success of Tesco in maintaining a healthy relationship with customers. This is achieved by exchanging best practices with suppliers with constant improvement process, Setting-up supplier study groups regularly with constant aid from experts, Enhancing core suppliers with innovation capabilities, Preparing and providing immediate and constant feedback to improve performance, Getting senior managers involved in solving problems and providing quick fix for priority issues, Sourcing each component from two or three vendors; Learning and understanding suppliers, rewarding the suppliers capabilities and appreciating the work done.

## Technology leadership:

According to TESCO Annual Report (2009 & 2010) and previous experience with TESCO, day to day operation is purely dependent on its efficient information technology (IT) systems. In my personal experience, Tesco faced a big loss during Dec 2006 when there was a flaw in the process in one of its key IT system called ‘ Commercial systems’, which deals with product setup. Hence the technology acts as the ‘ Backbone’ of Tesco’s daily trade. Continuous improvement in IT is carried out by the process of service improvements and innovations across systems. The efficient IT system of Tesco helps the customers to have an easy shopping experience without any issues and Tesco believes that customers are their key assets. Lately, TESCO have selected the core technology platforms for banking. Migration programmes of Tesco’s business are advancing currently and TESCO expects to be writing business on the new built system by end of year 2010/11.

## Customer Satisfaction:

The common goal of Tesco is to enhance the experience of shopping trip for its valuable customers. From last year’s result, it is clear that Tesco has well understood the needs of their customers and delivered the same in challenging times. Club card is the exclusive way of thanking customers for shopping at Tesco. The card provides rewards, monitors customer data in order to know when and where to satisfy customer needs. TESCO is dedicated to being carbon-neutral by the end of 2050 and serving customers half of their own carbon footprint by the end of 2020. TESCO produces and provides different range of formats to suit the taste of local people across different stores. Even during economic crisis Tesco was one among the few who earned considerable profit due to the consistent improvement in the delivery of products and services to its customers.

## Key issues and recommendations in the supply wheel:

## Performance measures:

According to Brown et al (2001, pp 140-143) and in analysis with TESCO’s reports for the past 3 years, one of the key issues found within TESCO is the concept of ‘ Performance Measures’. ‘ Vendor Assessment’ schemes are mechanisms that firms use to assess and measure the performance of suppliers; e. g. Tesco measures the range of capabilities of suppliers by checking the performance of delivery, proficiency of price and the rate of defects. The solution here is to make sure that the internal and external measures align. It is vitally important that these measures are aligned with the strategy that TESCO wants to pursue. If TESCO is looking to build long-term relationships, then it will need to develop more effectiveness-focussed relationships. If it is into short-term cost savings, then it will need to focus more on efficiency measures.

## Relationship Portfolio:

The concept refers to the relationships that Tesco can maintain with their suppliers. These can be very adversarial and traditional in nature. The relationship can be much more collaboratively focused rather than focusing on pricing in the first hand. Tesco currently works with few companies to come up with new and innovative way of doing their business. Rather, Tesco should focus on the process of ‘ partnership sourcing’ to work with more leading firms to reduce costs by sharing technologies and innovative ideas. This will result in developing new products, which is a major hindrance for Tesco to overcome market leaders like Wal-mart and Carrefour.

## Cost/Benefit:

This refers to the cost reduction by adapting the given strategy and following laid down techniques. If the cost involved is high than the given benefit, then the firm should not follow that strategy. Therefore, whatever strategy is considered Tesco should be clear about the possible outcomes. Tesco should correctly assess the potential benefits of following the chosen strategy. This must include the package of reduced overall costs for the firm; improve time-to-time market, develop new advanced technologies and so on.

## Organizational structure:

This refers to the kind of function the firm is working on, which falls into three groups; hybrid, centralized, and decentralized system. Tesco is involved in centralized purchasing which has the disadvantage of local customer dissatisfaction. Hence it should follow the reverse trend by satisfying the customers. The latest trend appears to be hybrid structure which includes both centralized and decentralized approaches. Tesco will benefit if the approach is operated properly.

## Skills and competencies:

To retain the competitive advantage over other retailers, TESCO needs to possess appropriate skills and competencies through continuous training within its employee group. If Tesco decides to maintain and develop long-term relationship with its suppliers, then it will need to make sure that training is given to staff across all areas of departments. Suitably, they will need to plan and think strategically and innovatively and must operate within a chosen organizational structure which aims to achieve a range of benefits at minimal cost.

## Quality

According to TESCO’s marketing Slogan “ Every little helps” quality can be defined as providing products according to the requirements or specifications needed by the customer; with value in terms of a balance between cost and price as well as providing excellent customer service ( pre and post delivery) and reducing customer queue. Also, TESCO has created two value statements on which its marketing slogan rests which are “ No one tries harder for customers” and “ Treat people as I want to be”. Both statements mean understanding the customer needs is a priority. In addition, providing all the needed products in terms of a balance between competitive price and cost, treating every customer with delight, will lead to customer satisfaction and loyalty.

## Quality Increases leads to Profit Increases

According to (Gummensson 1993) as the quality standard of product or service goes up, production efficiency of the process increases meaning per unit cost of the product or service decreases, percentage of error decreases which ultimately reflecting in increased profits just as the brand image of the organisation improves. This can be seen from TESCO’s growth chart which started as the organisation known for its “ pile it high and sell it cheap” philosophy but over a period of time TESCO emerged as the leader in the retail Industry in UK beating Sainsbury and now the world’s fourth largest retail chain in terms of revenue and second largest in terms of profit after Wal-Mart in 2009, according to Global Powers of Retailing 2010 by Deloitte. All this transformation is the result of TESCO’s corporate steering Wheel formed in 2009.

## Quality of Design and Process Design

For the overall successful operations of the retail Industry, quality of design and process efficiency plays a very crucial role.

Quality of design means to which degree design meets the customer requirement thus, winning customer loyalty and increasing customer life time value. About 50% sales revenue of TESCO comes from its own designed products exhibiting TESCO’s logo which is relatively cheap in comparison to other products from different brands and its value for money. TESCO has four types of products range in which Basic is the most cheap and most popular.

For TESCO, In terms of quality, process can be defined as the flow of series of different stages through which a product with design specifications can be produced . The wrong process used at the wrong place with wrong technology using unskilled man-power leads to customer dissatisfaction. In the retail industry where there is a need of flexible volume according to the change in customer behaviour, Batch process is used. The old philosophy of TESCO created a negative image of the company but now as TESCO is using customer centred strategy to win customer loyalty and customer life time value, it uses batch process. Batch process means the orders raised for stores/warehouses/suppliers are done in sequences, which is normally the night time processes. The advantage of using batch process is that it works on flexibility of demand and produces units in batches.

## Customer – Supplier relation and Just in Time (JIT) Approach

According to Johnston and Slack (1995, pp 44), Quality is one of the five performance objectives of stakeholders and also applied for all operations. Setting-up clearly defined objectives is the requirement of Operations in order to satisfy customer needs or requirements. According to Oakland (1989, pp 8) Inside and outside the organisation whether its’ manufacturing unit, retail stores, banks etc, there exists a series of quality chain of customer and supplier. So, if the internal supplier is providing satisfied quality of the product according to the needs of immediate internal customer thereby increasing the overall operation efficiency means decreasing the delivery time and applying just in time (JIT) approach to eliminate all waste and producing high quality product at low operation cost.

## Principle of Total Quality Management (TQM)

According to Macbeth(2010, QOM lecturer), the principle of TQM means applying all the quality standards to prevent errors before getting detected internally or outside and must be lead by Management. Everyone in the organization right from clerk to the CEO of the company should understand the importance of TQM and apply everywhere. The cost of quality decreases as the percentage of error decreases meaning the cost of prevention, appraisal, internal failure and External failure decreases as the defect decreases. Get it right at the first time. In TESCO’s balance score card, operation perspective talks about getting it right at first time. The concept of TQM should be applied everywhere and should talk about continuous improvement of the process. TQM is purely based on customer perspective which means 100 % customer satisfaction and negligible errors and focuses on quality according to customer- supplier relationship.

## TESCO Approach towards TQM

## Continuous Improvement

Continuous improvement in TESCO perspective means continuous investment regardless of tight margins, hiring result focussed staff who can build strong relationships with key customers in terms of innovation, massive growth, adding confidence to future projects, tightening measures of cost control; thereby increasing efficiency and innovation means not only the development of new products but also treating customers well. In contrast to TESCO’s philosophy of 70-80s of “ pile it high and sell it cheap” it changed to “ Customer centered strategy in order to win customer Loyalty” in 1995 then it again changed in 2009 with the use of Balance Score card whose five perspectives are customer, community, operations, people and finance together giving twenty Key Performance Indicators (KPIs) and two value statements with slogan “ Every Little Helps” stands which shows continuous improvement in the overall process to increase customer base, customer loyalty and customer satisfaction.

In addition to this, building healthy and supportive relationship between people means employees, suppliers and customers, using more advanced and sophisticated technology and equipment to improve overall process efficiency to lift quality standard according to customers requirements meaning giving products at relatively cheap price thereby increasing profits.

## Six Sigma Concept

About 75 % of energy consumption is from its IT department. The reason is the non- stop running of mainframe servers, 24/7 process . In order to reduce its energy bill and its carbon footprint TESCO applied six sigma concept to cut its energy consumption and to move towards green IT thus increasing efficiency of the process.

## Employee Empowerment

Involving all employees and keeping check on overall quality efficiency. Sharing knowledge, paying respect to all staff and the latest process called ‘ whistle blowing policy’ and ‘ Protector Line’ for employees for raising any issues.

## Just in Time (JIT)

JIT means improving overall efficiency of the process in terms of operations, design, quality, production output by reducing waste in all spheres. It’s the cost effective production of goods, delivering the right quality of product at the right place to right people with negligible defects. And also maintaining, a balance between supplier’s flexibility and user’s flexibility. Over the years TESCO has incorporated and is still incorporating JIT in its working process.

## Issues and Recommendation for TESCO

## Weakness of TESCO

Standard products is the weakness of TESCO of which substitutes are available in the market and TESCO is facing serious competition from Wal-mart, Sainsbury, Safeway, Waitrose etc. In order to win in this retail Industry, TESCO has to continuously come-up with different range of quality products using aggressive marketing strategy and giving no chance to its rivals for substitutes.

## Threat to TESCO

TESCO is mainly a UK based retail chain constituting about 70% of its revenue. As TESCO is increasing its customer base by expanding its business overseas, in order to perform well and win customer satisfaction, TESCO has to build the culture of different nations in its working traditions. Tesco has branches in more than 16 countries; the main threat to TESCO is they are investing more money in business expansion rather than in product development, which is critical for future success.

## Areas of Improvement

Though over the period of 40 – 50 years TESCO has improved on its negative image of “ pile it high and sell it cheap” some people still believe that TESCO product are cheap and below quality.

## Conclusion

TESCO’s nature of Business requires particular attention to its supply chain and Quality Management which consist of Business Drivers such as Process Efficiency/Innovation, Supplier relationship, Technology Leadership and Customer satisfaction. Also, Key issues in the supply wheel are Performance measures, Relationship Portfolio, Cost/Benefit analysis, Organizational structure, Skills and competencies. It must be noted that Quality improvement leads to profit increase as Quality of Design and Process Design also leads to customer loyalty, Customer – supplier relation and Just in Time (JIT) Approach coupled with Principle of Total Quality Management (TQM) helps to eliminate waste and reduce cost of production.

In this turbulent Business environment, it is recommended that for TESCO to remain competitive, it must focus on issues of Continuous Improvement, the Six Sigma concept which aims at improving energy consumption, Employee Empowerment, Just in Time (JIT) delivery as well as use its weaknesses and threats to take advantage of opportunities as they build on their strengths.