



# EMCC case studies

## European commerce sector: Tesco PLC

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## Company introduction

Tesco is one of the world's leading international retailers. Since the company first used the trading name of Tesco, in the mid 1920s, the Tesco group has expanded into different formats, different markets and different sectors. With over 2,500 stores worldwide, Tesco employs more than 450,000 people in its businesses around the world, covering retailing, distribution, logistics, telecommunication and financial services. The principal activity of the group is food retailing.

Tesco has a long-term strategy for growth, based on four key elements:

- to grow its core UK business;
- to expand by growing internationally;
- to become equally strong in its non-food retailing as in its food retailing;
- to provide new retailing services in response to changing customer demand.

Tesco describes its core purpose as being 'to create value for customers to earn their lifetime loyalty'. Tesco's marketing slogan is 'Every Little Helps'; however, the group stresses that – for the organization – this is more than just a slogan. To an increasing extent, Tesco has relied on this motto, which acts as a common philosophy to bind the company together. Every operational decision made in Tesco is judged against what are called the 'shopping lists'. These lists set out what Tesco tries to achieve every day:

- to try harder on behalf of customers than its competitors;
- to treat people how as they would like to be treated;
- to be better for customers, simpler for staff and cheaper for the organisation.

This slogan and the shopping list are also at the core of what Tesco calls the 'Steering Wheel'. Throughout its businesses and in all its different activities, Tesco measures its corporate performance and its employees' contribution on the basis of the Steering Wheel. This helps Tesco focus on and balance the essential elements in running each of the businesses successfully – whether wage costs or customers' ability to access all the goods and services they want.



Source: [www.tesco.com](http://www.tesco.com)

Jack Cohen founded what would later become Tesco in 1919, selling surplus groceries from a stall in the East End of London. The first own-brand product he sold was Tesco Tea – before the company was called Tesco. (The name ‘Tesco’ comes from the initials of T.E. Stockwell, who was a partner in the firm of tea suppliers, and ‘CO’ from Jack Cohen’s surname.) In 1929, Jack Cohen opened his first Tesco store in London, and in 1932 Tesco Stores Limited was established as a private limited company.

In 1947, Tesco Stores (Holdings) Ltd floated on the Stock Exchange with a share price of 25 pence. In 1960, Tesco took over a chain of 212 stores in the north of England, and added another 144 stores in 1964 and 1965. In 1979, annual sales reached GBP 1 billion. In 1983, Tesco Stores (Holdings) Ltd became Tesco PLC.

In 1985, Tesco launched its ‘Healthy Eating’ initiative, and thus became the first major retailer to emphasise the nutritional value of its own-brand products. In 1995, Tesco became the market leader in food retailing, and at the same time entered the Hungarian market. In 1996, the first Tesco store in Northern Ireland – Belfast Metro – opened. In the same year, Tesco entered markets in Poland, the Czech Republic and Slovakia. In 1998, Tesco started activities in Taiwan and Thailand, and in 1999, Tesco Personal Finance clocked up its one millionth customer. Between 1999 and 2004, Tesco launched business activities in South Korea, Malaysia, Japan, Turkey, and China.

In 2001, Tesco became the leading organic retailer in the UK; in 2002, it offered ‘Free-From’ products designed for customers with special dietary needs. In 2005, the company announced an annual profit of GBP 2 billion, and at the same time announced a trial of a non-food store. In 2006, it announced plans to enter the US. Currently, Tesco is looking at the possibility of entering India.

## Products, customers and market dynamics

### Growth in the core UK business

Nearly 80% of the group’s sales and profit come from the core UK business, the first key part of Tesco’s long-term strategy for growth. The core UK business consists of over 1,800 stores and employs more than 260,000 people. Growth in the business comes from the acquisition of new space, extensions to existing stores, and a multi-format approach. Sales of non-food items, which are growing at around twice the rate of food sales, also contribute to the overall growth picture. In the fiscal year 2006–2007, UK sales reached GBP 35.6 billion (up by 9% on the previous year’s figure of GBP 32.7 billion).

Tesco is very serious about listening to customers, and describes this as an important element behind the company’s success. Listening to customers enables Tesco to respond to changing lifestyles and so be better able to respond to changing demand. This has been one of the company’s key drivers over the past five to 10 years.

A few years ago, Tesco initiated a broader ‘customer listening process’ that would enable the company to determine what was most important to its customer base. This helped Tesco develop the five ‘Every Little Helps’ promises, which reflect the simple things people care about when they go shopping:

- prices are good;
- I can get what I want;
- the aisles are clear;
- I don’t queue;
- the staff are great.

Tesco consider these promises as being fundamental to its success. The listening process is carried out through several methods.

**Customer question time** 12,000 customers attend a session, carried out as a forum in which Tesco listens to customers' views on everything from products, price, quality and service, to Tesco's role in the community.

**Customer comment cards** These are available in all Tesco stores. Alternatively, customers can phone Tesco's customer service helpline free of charge.

**Tesco Clubcard** Tesco has over 13 million active cardholders. Information provided by the Clubcard enables Tesco to better understand its customers' shopping habits. The company can reward customers for shopping with Tesco by giving them vouchers, the value of which are based on the amount they spend. There are over 6 million unique coupon variations with each Clubcard mailing, which ensures that every customer receives an appropriate and personal offer. Last year nearly one million new customers signed up for the Tesco Clubcard and Tesco gave away over GBP 340 million in Clubcard vouchers. Customers can make the most of their vouchers by exchanging them for Clubcard deals, which are worth four times the voucher's face value. The most popular deals are days out at such attractions as the Alton Towers amusement park and Legoland. In addition, Tesco is now partnering with theme parks in France and Germany to offer even more adventurous days out. In February 2007, Tesco also launched a partnership with the Open University, so that customers can now use their Clubcard vouchers to fund education; the courses available range from a beginner's course in writing family history to a humanities degree.

**Green Clubcard** In 2007, Tesco started to reward its customers for shopping in an environmentally friendly way with Green Clubcard points. Customers receive points when they reuse carrier bags, and recycle old mobile phones and inkjet printer cartridges.

In addition to the listening process, which provides the group with information on trends such as increasing concern for health, interest in local sourcing of food and a renewed sense of community, research has also helped Tesco identify new general trends such as an ageing population, more single-person households and more working mothers.

Tesco uses a range of qualitative research techniques such as focus groups, home visits and accompanied shopping to explore issues as they arise. Tesco also uses quantitative techniques such as on-street, telephone or on-line questionnaires. The company also uses ongoing research trackers who ask the same key questions regularly; this allows them to track performance over time. In addition, Tesco uses external research organisations for specialised research activities such as broader consumer research studies.

'Broad appeal' is one of Tesco's key tools in its strategy of being a market-leader. Tesco always works on having a broad appeal by continually innovating and investing in new product lines to increase choice for its customers. These include:

- 'Healthy Living' products (products low in fat and sodium);
- 'Free From' products – products designed to make life easier for people with food allergies and food intolerances;
- special healthy children's snacks – products that are a good source of fibre, wholegrain, and five-a-day fruit and vegetables;
- organic product lines (more diverse and more affordable organic food);

- the widest range of Fairtrade goods in the UK (Fairtrade guarantees that producers in the developing are paid a fair price that covers the cost of production plus a premium to be spent on community projects such as better healthcare, sanitation, education, or housing);
- 'Finest' own-brand products (a range of high-end Tesco products).

### Expansion through international growth

Expansion through international growth is the second key part of Tesco's long-term strategy for growth. Since the mid-1990s, Tesco has been investing in new markets overseas and seeking out new opportunities for growth and ways of generating long-term returns for shareholders. Today, the group operates in 11 markets outside the UK. Over 100,000 employees work in international operations, serving over 15 million customers and generating over GBP 9.2 billion in sales and over GBP 474 million in profit. The experience of working overseas has led Tesco to develop a strategy based on six elements.

- Be flexible: each market is unique and requires a different approach.
- Act local: local customers, local cultures, local supply chains and local regulations require a tailored offer delivered by local staff. Fewer than 100 of Tesco's international team are expatriates.
- Keep focus: to become the leading local brand is a long-term effort taking decades.
- Be multi-format: no single format can reach the whole of the market. It is essential that an entire spectrum from convenience stores to hypermarkets be addressed; furthermore, a 'discounter' approach needs to be taken at all times.
- Develop capability: developing skills in people, processes and systems – and being able to share this skill between markets – will improve the chances of success in challenging markets.
- Build brands: brands enable important, lasting relationships to be built with customers.

As said earlier, Tesco is at present represented in 11 different countries and is planning to enter the US this year and India in the near future. The current situation in the 11 countries can be briefly summarised.

**Czech Republic** Tesco has grown by almost two-thirds in the past year and is now one of the leaders in the market. In January 2006, Carrefour and Tesco agreed a store exchange which saw Tesco acquiring Carrefour's stores in the Czech Republic and Slovakia, and Carrefour acquiring Tesco stores in Taiwan. In February 2006, Tesco struck a deal with Edeka to acquire most of Edeka's 38 stores in the Czech Republic. Tesco has integrated the Carrefour and Edeka acquisitions and is planning to remodel their department stores.

**Hungary** Tesco's profits have been below expectations because of the effects of the Hungarian government's severe austerity measures on an already difficult economic and retail environment. Furthermore, consumer spending levels are significantly down, with non-food categories particularly affected. Despite these challenges, Tesco has a strong market position, which has been continuously strengthened by lowering prices, expanding the store network, and developing its infrastructure. Tesco has opened 14 new stores during the year, and plans to add 15% to its total space in the current year.

**Poland** Tesco's sales, profits, and returns are growing in the Polish economy, which is improving and is characterised by consolidation in the retail sector. Sales growth has continued to be strong, driven by sustained improvements in existing store performance and a growing contribution from new space. Leader Price stores are rapidly being converted to Tesco, with an average of a 25% boost in sales.

**Ireland** The company shows improved profits and another year of strong sales growth in existing stores – about 10% more than the planned growth.

**Slovakia** Tesco has experienced great success with its compact hypermarket format, and the country's strong economy has underpinned good growth in sales, profits, and returns.

**Turkey** Tesco continues to grow strongly and profitably, and now has the capability and resources to become a national business. The company has invested in creating an infrastructure for a business of scale – initially in management and systems – and also in the supply chain, with its first major distribution centre at Yasibasi planned to open this year.

**China** Tesco has over 1,000 own-brand lines, which have been well received by customers. As a result of higher overheads (the result of investment undertaken to enable the business to grow faster), the Hymall joint venture with Ting Hsin Holding Co. incurred a small loss after taxes and interest payments, of which Tesco's share was GBP 6 million.

**Japan** Tesco describes the retail market as being subdued, but the group has still made progress, with modest overall sales growth but a stronger like-for-like performance. Tesco now plans to push on with a much larger opening programme of up to 35 new stores this year.

**Malaysia** Tesco in Malaysia has made progress and achieved profitability in the year 2006–2007, delivering another year of strong sales growth, and achieving a near-doubling of space helped by the acquisition of eight Makro stores in January 2006.

**South Korea** Tesco continued to do well in 2007, with solid sales and very strong profit growth in more challenging market conditions than in recent years. During the year, 29 new stores were opened, providing almost 100,000 square metres of space, including enlargements.

**Thailand** Political uncertainty in Thailand during the second half of the year produced an uncertain business climate. Nevertheless, Tesco describes itself as having a strong market position.

In China, South Korea, Thailand and Malaysia Tesco has joint venture businesses.

### **Equal emphasis on food and non-food retailing**

The third key part of Tesco's long-term strategy for growth is to be equally strong in food and non-food retailing. Tesco emphasises the need to offer the same high quality, range, price, and service for customers in both areas.

The company has a wide range of non-food products including electrical goods, home entertainment, clothing, health and beauty products, stationery, kitchen items, soft furnishings, and seasonal goods such as barbecues and garden furniture. Some stores also have opticians and pharmacies.

Tesco's turnover in non-food items is 7% of the total turnover for non-food items in the UK, and represents sales in excess of GBP 6 billion each year in the UK alone.

All Tesco stores sell some non-food items, but the Superstore and Extra formats offer the biggest choice. By introducing non-food products to more stores, Tesco can lower its prices and offer customers the convenience of shopping for non-food items along with food and household goods.

One in seven Tesco customers has bought something from its clothing range. The brands Florence and Fred are regularly featured in the fashion press and have recently won a number of national awards. Tesco also offers a 'Sixteen to Twenty-Six' size range. Its brands are among the fastest growing in the UK and are gaining recognition from both customers and the fashion industry.

### New retailing services in response to customer demand

The third key part of Tesco's long-term strategy for growth is to provide new retailing services in response to customer demand. Tesco's strategy is to target customers who have busy, stressful lives and who do not want to have to make complex decisions about what they buy. In order to realise this strategy Tesco has developed three tools:

- Tesco Personal Finance;
- Tesco.com;
- Tesco Telecom.

**Tesco Personal Finance** Tesco Personal Finance (TPF) was launched in July 1997 through a joint venture with the Royal Bank of Scotland. The relationship combines Tesco's knowledge of customers with the Royal Bank of Scotland's expertise in financial services. Customers have a choice of 21 products and services from banking to instant car and travel insurance. Around-two thirds of all TPF business comes from Tesco stores, which play a vital role in building trust and providing the convenience that customers want. Money can be deposited at any Tesco store, and many TPF transactions are made when banks are closed. In the fiscal year 2006–2007, over 200,000 new customers chose a Tesco Personal Finance product. Tesco also offers customers the opportunity to purchase foreign currency from kiosks in seven stores. To date, over 70,000 customers have used this service.

**Tesco.com** Tesco's online shopping service was launched in 1999. Online customers can have their shopping delivered to their doorstep at a time convenient to them. Tesco.com-only stores have been developed in those parts of the UK where Tesco has few stores or where those it has are exceptionally busy. The service in Ireland now covers over 65% of the population and has over 170,000 registered customers. Tesco Extra is a virtual department in Tesco.com, containing non-food ranges such as electrical goods, books, wine, music and DVDs. Tesco.com also offers a digital download store and DVD rental. Over 60,000 customers have signed up for the service, and they have access to 300,000 DVD titles.

**Tesco Telecom** Tesco Mobile and Home Phone offers a simplified and low-cost tariff structure. Tesco Telecom signed up its millionth member in 2005. Tesco launched Tesco Mobile in July 2003 through a 50–50 joint venture with O2 (a Telefonica subsidiary), and it now has over half a million customers. Tesco Telecom offers simple flat-rate tariffs, and half-price calls and texts to three favourite numbers. Customers can buy handsets or SIM cards in store or via the internet. In April 2005, Tesco launched a Tesco internet phone service, giving its customers free calls to all other voice over IP (VOIP) users anywhere in the world.

In addition to the three tools discussed above, Tesco also introduced in 2007 its private **Tesco Health Insurance**. There are 250 private hospitals participating in the scheme, and customers have 24 hour telephone access, 365 days per year, to healthcare professionals.

Tesco has also introduced self-service checkouts. These have helped to improve service by speeding up transaction times and shortening queues for customers. These checkouts are now being used in over 450 UK stores, and many more are planned. Nearly three million customers used self-service checkouts in 2006–2007; customer feedback indicates that they do so because the checkouts are quick and easy to use. In almost two thirds of the stores where they have been



introduced, there have been significant increases in customers receiving their 'one in front' checkout promise. This means that at any given time it should be possible for a customer to go through a checkout with only one person in front of them in the checkout queue.

Another recent development is shelf-ready packaging. This was first introduced to make it easier for employees to fill the shelves. It helped ensure that Tesco kept products in stock and freed up staff to spend more time on the checkouts. Tesco also changed the design of much of the packaging, so that it looks more attractive on the shelves. More importantly perhaps, the new packaging uses far less cardboard than traditional packaging. The company has implemented processes to make sure that empty packaging is removed from the shelves so that customers can quickly see what they are looking for. It recycles the cardboard that is removed. Over the past year, Tesco has rolled out shelf-ready packaging to a further 7,000 products. Over 600 of these were grocery and household products; these have been moved from a box to a tray, giving a 50% reduction in cardboard use.

In order to follow customer demand, Tesco has also developed initiatives in its overseas markets.

- In 2006 Tesco introduced car insurance in Ireland. There are now 2,600 policies in force, and Tesco Personal Finance is perhaps the most active online provider of car insurance.
- In Thailand, the Tesco Lotus store card was introduced in May 2000. Initially, this card could only be used in Tesco Lotus stores. In August 2004, the card was upgraded in a joint venture with Tesco Card Services to become the Tesco Visa card, which 480,000 Thai customers now have.

### Positioning in the market

Tesco has five different store formats.

- **Express** stores offer customers fresh food close to where they live and work. Tesco opened its first Express store in 1994, and now has over 650 stores selling a range of up to 7,000 products including fresh produce, wines and spirits, as well as providing in-store bakeries. The typical size for a store is 190 square metres.
- **Metro** stores are located in town centres and offer a tailored range of food lines, including ready meals and sandwiches. The first Metro opened in 1992. Typically they are 1,100 square metres in size.
- **Superstores** were first opened in the 1970s. During the 1980s and 1990s, they were built into a still-expanding national network. In recent years, a number of new non-food ranges such as DVDs and books have been introduced into superstores. Their typical size is 2,900 square metres.
- **Extra** stores – also called hypermarkets – offer the widest range of food and non-food lines. The first Tesco Extra opened in 1997. Tesco opened 18 new Extra stores in 2005, mostly through expanding existing stores. Their typical size is 6,300 square metres.
- **Tesco Homeplus** stores offer all of Tesco's ranges, except food, in warehouse-style units in retail parks. Tesco is trying this format because only 20% of its customers have access to a Tesco Extra; in addition, the company is restricted in terms of how many of its superstores it can convert into Extras and how quickly it can do so. Large units for non-food retailing are much more readily available. In 2007, Tesco had five such stores in the UK.

In addition, Tesco announced in June 2007 its intention to purchase Dobbies Garden Centres for GBP 155.6 million. Dobbies operates 21 garden centres, mainly in Scotland. If successful, Tesco intends to increase this to 100 stores throughout the UK. Tesco also has 30 distribution centres, six of which are dedicated to non-food items and clothing.



Tesco has a team of over 100 people sourcing non-food products globally. This team includes staff working in buying offices from Milan to Bangladesh, as well as their Asian sourcing hub in Hong Kong. Some of the team handles the cultural and political differences that exist between countries, and others are commercial experts in each product category. Tesco also employs teams who check that their suppliers are operating in a safe and ethical way. In 2001, the UK Department of Trade and Industry (DTI) introduced a code of practice for supermarkets to regulate trading relationships between the four largest UK supermarkets and their suppliers. (The Tesco code of ethics will be further explained later in the report.) The Board of Tesco comprises six executive directors and seven independent non-executive directors, plus a non-executive chair.

Tesco has doubled in size in five of the last 10 years. By offering a large range of own-brand products along with many private brands, and by running different types of stores, Tesco tries to appeal to a broad group of potential customers with varying lifestyles. In targeting such a broad customer base, Tesco competes with retailers such as Metro, Marks & Spencer, WalMart, general national supermarkets, and other international retailers such as Carrefour and Ahold in Malaysia and French retail group Auchan in Poland.

Tesco states that its biggest challenges are people's expectations, and how to create trust in customers. These are rooted in a belief that the nature of trust has changed. The company thinks that people expect it to be responsible environmentally, socially and financially. Expectations may extend even further – people don't just expect Tesco to do the right things, they expect the company to use its size to influence suppliers and partners to do the right things. Tesco finds that there has been a significant change in the ways it conducts business, and it has sharpened its focus on listening to changes in demand and on creating an atmosphere of trust in which to do so. Responsibility is a new keyword in retailing, and is hard to live up to; but should Tesco succeed, then both customers and the best employees will be attracted. Tesco is planning for the market dynamics of changing lifestyles, and is working on creating trust both by working with customers and by working closely with employees. The research team focused not only on the customer base, but equally on employees – for example, asking their opinion on issues of fair trade or where to best reinvest profits.

During the past five years there have been some changes in the organisation, but those changes have been linked to Tesco's strategy. Five years ago, Tesco was still primarily a UK retailer; today it has grown considerably in the non-food range and in international operations. This has influenced organisational changes: Tesco now has commercial teams handling different kinds of non-food products, something that didn't exist five or 10 years ago. Likewise, about 15 % of the company's total floor space is now outside the UK. Both of these changes represent significant challenges, and Tesco emphasises that it needs to attract and retain the right people to manage the large, growing parts of the business in a way that fits with the wishes of potential employees and customers. Tesco knows that it has to offer attractive jobs and attractive training schemes if it is to recruit the best staff.

The company finds that all four elements of its long-term growth strategy are important to the changes in organisation and workflow planned for the next three to five years. From a longer-term, 10-year perspective, Tesco feels that the most significant challenge will be the planned attempt at establishing the world's largest internet-based home shopping portal.

### Supplier relations

Tesco works with many suppliers throughout the UK and internationally. Its supplier policy is to try and create long-term sustainable relationships with suppliers who have similar values and who attempt to build a similar atmosphere of trust with customers and employees.

Together with its suppliers, Tesco develops new products for its brand ranges. Tesco needs to have innovative suppliers who focus on satisfying customer needs and desires. The company spends a lot of time working with its suppliers at a technical level to help them understand customer and market trends. Tesco is very focused on actively collaborating with suppliers so that they can produce innovative product ranges that reflect customers' changing demands and thus enhance the group's competitive position. Tesco's policy is to treat suppliers 'in a fair, honest and responsible way, as they are vital to our success'. Over the past three years, Tesco has conducted an anonymous, confidential survey on supplier relations; over 94% of suppliers have reported that Tesco is trustworthy, reliable, helpful and fair.

In the UK, Tesco has developed a local-sourcing programme as part of its Community Plan. The Community Plan was launched in 2006 and is an ongoing process that will drive change across the business in the years to come. Building upon its corporate responsibility activities, the plan is about Tesco being a good neighbour and being environmentally responsible. Through local sourcing, Tesco wants to provide customers with the best local goods possible. As part of the Plan, Tesco organises local roadshows at which small local suppliers get the opportunity to meet Tesco buyers and directors. Tesco uses the roadshows to share its knowledge about customer needs and to discuss potential sourcing contracts with local suppliers.

Tesco is also introducing regional counters to promote British food in season, and will make locally produced products easier to find with clearer labelling. Tesco is now able to offer over 7,000 local products and has plans for even more. In 2006, Tesco sold more domestic-grown apples and strawberries than any other supermarket in the UK. Domestic production accounts for 95% of the chickens that Tesco sells, 95% of the fresh beef, 92% of the fresh pork, and 88% of the fresh lamb.

Tesco describes its approach working with suppliers as a partnership. Tesco has commercial teams, which regularly consult with suppliers and arrange meetings. Tesco has opened new regional buying offices in order to keep in better contact with suppliers, especially small and regional suppliers. Furthermore, Tesco and three other leading supermarkets have adopted a code of conduct to ensure that relationships with suppliers are reasonable and transparent. Tesco fully supports the objectives of the code, and has taken it further and appointed a code compliance officer to look into any individual concerns, on a confidential basis if so requested.

In order to share information with suppliers, Tesco has developed a new system called TescoLink, which will allow suppliers direct access to store-level sales data on their products as well as information on wastage, margin and stock availability. The system also includes contact details for Tesco staff (along with store opening hours) so that suppliers can explore any issues relating to their lines in a particular store directly. The system was introduced in 2006, and it is hoped that all Tesco's suppliers will be able to use the system by the end of 2007. Tesco has used electronic data interchange (EDI) for many years, but this will be the first Tesco platform designed for use by suppliers of all sizes.

Overall, Tesco has recognised that effective collaboration with its suppliers can improve mutual understanding of each other's businesses and so bring mutual benefits.

## **The Tesco workforce**

Tesco is the biggest private sector employer in the UK, with over 260,000 employees. Worldwide, the company employs more than 450,000 employees. In 2006, 29.1% of the company's UK employees worked fewer than 16 hours per week, 39.6% worked between 16 and 35 hours and 31.3% worked 36 hours or more.

Tesco has supported the UK government's Age Positive campaign by encouraging the recruitment of workers aged 50 years and over. The company has implemented a 'Working beyond retirement' policy that encourages employees to work as long as they feel fit; it is estimated that 17% of Tesco's employees in the UK are over the age of 50.

The company also works with Remploy, the UK government agency, and the Shaw Trust, which act as 'job brokers' for disabled jobseekers. Tesco employs more than 700 disabled people in supported placements. Tesco is also a member of the Employers' Forum on Disability.

The Tesco employee profiles vary a lot, since Tesco has a wide range of different business areas and functions. All stores have an employee selection toolkit that provides store managers with information about recruiting people from different cultural backgrounds. This allows a manager to approach different local groups and attract the right people for different positions. Tesco also participates in 'regeneration partnerships' with government and local community groups, trade unions and job agencies. These partnerships attempt to target people who are long-term unemployed. People sign up for basic skills training programmes with Tesco, and those who complete the programme are promised a job.

Tesco offers a basic skills assessment to identify the training needed to bring candidates up to nationally accredited standards in reading, writing, numeracy and fluency in English. Before interviewing candidates, the company provides a seminar on interview techniques, so that candidates know that Tesco is assessing aptitude and not existing qualifications. Since 2000, Tesco has completed a total of 15 regeneration partnerships, creating almost 4,000 jobs and helping 2,200 long-term unemployed and disadvantaged people return to work through its job guarantee scheme.

Tesco also has a Step Change Programme, which brings together many initiatives from employees to make the business better for customers, simpler for employees, and cheaper for Tesco. This has resulted in efficiency savings of over GBP 350 million in 2007. These savings have helped Tesco cope with increased energy, interest and rent costs, while at the same time improving value for customers. (One example is shelf-ready packaging, described earlier in this report.)

In order to improve employee working conditions, Tesco has retrained managers so that they can work on the shop floor shoulder-to-shoulder with their subordinates. This gives them first-hand experience of the working practices and challenges of their staff, and has a positive impact on morale.

### **Salary structure and benefits**

The salary structure at Tesco is linked to a combination of job function and acquired competencies. Salaries are set by what Tesco calls the work level, where individual salaries can vary according to parameters such as performance and experience.

Tesco offers its employees a benefits package that includes flexible hours and leave, profit-sharing, a defined-benefit pension, subsidised meals, childcare vouchers and health insurance. All employees are given a 'Benefits book' each year, which explains the benefits they can avail of and a personal benefits report that summarises their total package.

As indicated in the previous section, flexible working hours are offered through a broad range of contractual arrangements, which can accommodate employees' private lives. In the UK, Tesco finds that it is easier to fill part-time positions than full-time positions. The company believes that this is related to changing lifestyles, patterns of family life and the fact that employees have become more affluent. Employees now have the option of working fewer hours and spending more time at home, developing their skills, taking leave to go travelling, etc. than in the past.

In the UK, over 165,000 employees have a personal stake in Tesco's future through shares and share incentive schemes. There are three different schemes available:

- 'Save as You Earn', a savings scheme with an option to buy shares at a discounted rate for employees with at least one year's service;
- 'Buy as You Earn', a tax-efficient share-buying scheme open to staff with more than three months' service;
- 'Shares in Success', which rewards eligible employees for their hard work and commitment with free Tesco shares.

In 2006, Tesco awarded a record GBP 77 million through the Shares in Success scheme, and 50,000 employees were able to benefit from Save As You Earn, which gave them access to shares worth GBP 148 million.

The Tesco defined-benefit pension scheme, 'Pension Builder', was first introduced in 2001. The scheme, with around 150,000 members, allows members to build up a pension based on their earnings and length of service. Pension Builder offers a flexible defined-benefit pension suitable for the many different career patterns and varied working hours found in Tesco.

In addition, all employees with over 12 months of service become members of a Privilege Card scheme which entitles them to a 10% discount on their shopping at Tesco. They can also take advantage of discounts at Tesco.com on financial products, holidays, gym membership, childcare vouchers and health insurance.

### Industrial relations

Tesco supports the United Nations Universal Declaration of Human Rights, and the International Labour Organisation's core conventions. These are transposed in Tesco's human rights policy, which the chief executive of each national subsidiary of Tesco agrees to.

The Tesco human rights policy, for instance, states that all employees will be treated fairly and honestly regardless of where they work; employees will be paid a fair wage reflecting local market rates, minimum wage and conditions; employees will not work excessive hours vis-à-vis local standards, will have the right to freedom of association and will receive health and safety training etc.

Tesco supports the right of all employees to join a trade union. Around half of the UK employees are members of a union. Since 1998, Tesco has had a pioneering partnership agreement with the Union of Shop, Distributive and Allied Workers (USDAW), which has become a model for employer-union relationships in the UK. Employee forums are held in all stores three times a year in conjunction with USDAW. USDAW has more than 100,000 members at Tesco – the single biggest block of union membership at any company.

Tesco has distributed the Tesco code of ethics to all managers in the UK, as well as its overseas CEOs. This code governs relationships between the company and employees, suppliers and contractors, and makes reference to Tesco's human rights policy. The company also has a confidential 'Protector Line' that employees can call and alert management to such problems as theft, dishonesty, and any practices that endanger employees, customers, or the environment, and hence facilitate timely action.

The company has an equal opportunities policy. In 2004, the Board asked the company's Diversity Advisory Group to analyse the diversity of Tesco's UK workforce compared with the UK population. The Group found that Tesco needed to increase the proportion of:

- female store managers and female senior team members;
- store managers and senior team members from ethnic minorities;
- store managers and senior team members from the 45–54 years age group.

Tesco consequently set targets to increase the proportion of employees from these groups. It plans to achieve this by providing improved coaching and mentoring, foreign language tapes for employee training, improved communication about best-practice success stories, and by conducting research to identify further short- and long-term solutions.

Tesco has employed a number of ways to make jobs more attractive to people from ethnic minorities. In 2007, for example, store activity schedules were changed during Ramadan to allow employees time to pray, and the employee training room was promoted as a quiet space for this purpose. Branches were encouraged to consider flexible leave so that employees could take time off for the Indian festival of Diwali. During Diwali, employees organized celebrations in the stores, wore traditional dress, and brought in home-cooked food to share in the canteen. Tesco is increasingly looking at language needs in its stores: for example, in the Beckton branch, employee briefings are held in four languages – Bangladeshi, English, Hindi and Urdu.

Tesco offers family-friendly shift patterns, maternity leave for all female employees, paid paternity leave, equal training and development opportunities for part-time workers, and a career break scheme. Employees are able to job-share, work flexitime or compressed hours, swap shifts, work from home, or work part time. All employees, whether full time or part time, are offered childcare vouchers that can be used for most types of childcare. In 2005, Tesco took part in the DTI's Work–Life Balance Challenge Fund (a programme that provides funding to employers to develop policies and initiatives around work–life balance); ideas arising from this have been implemented in its flexible working request policy.

### Changing skills needs

Organisational changes over the past five years have led to new job functions at all levels, including management. This has in turn created demands for new job profiles. Since non-food retailing is very different from food retailing, expansion of the non-food product lines has led Tesco to invest in specific training so as to be able to fill new employee and management roles.

Tesco spends a lot of time on building employee confidence. One example of this is worth describing. Around six years ago in one of its stores the electronic bar code readers did not work. Tesco felt that it would be best for the customer and the employee if the checkout worker could simply give the customer a price, rather than create a delay by calling a supervisor to identify the price. However, in practice, employees generally felt uncomfortable with this tactic and lacked the confidence to talk to customers and give them a price. Tesco found that it was difficult to instil this confidence and so spent considerable time and resources on what was called the 'living service' concept, imparting skills and values to employees that they could use at Tesco and at home. Employees slowly began to feel more responsible and confident and gained greater satisfaction.

The living service concept has seven elements.

- A dedicated Tesco coach, trained to be an internal change agent, is attached to the programme at the store level.
- In-store diagnosis of staff and customer needs is undertaken.
- Leadership development workshops are run to build a service culture for staff and customers.
- The programme builds a local service vision based on three unique service expressions – for example, ‘Know your stuff’, ‘Show you care’ and ‘Share a smile’.
- Shop floor ‘firelighters’ are trained to embody great personal service.
- Whole-store ‘Energiser’ events involve all employees.
- Learning teams are created to sustain the momentum after the 26 week roll-out programme.

Tesco points out that managers’ communication and leadership skills are crucial in employee relations. It takes operational or technical skills to do the job, but communication and motivational skills are more difficult to develop. Tesco is aware that top-to-bottom management training and development can bring real business benefits. Not everyone is good at management, or even wants to become a manager; however, the realities of career progression opportunities are such that employees often have no option but to become a ‘suit’. However, at Tesco, people have the opportunity to develop in the role they already play.

Within 30 months of joining Tesco as a graduate trainee, it is possible for an employee find him or herself in charge of 146 people. Customer service managers in a store follow a highly structured management training programme to get to this level. The trainee will work their way through various departments and sections, guided by a personal development plan and information pack of core skills. At all times they are closely assessed and mentored by more senior staff. In a number of positions, the trainee will spend time shadowing a manager before taking over their responsibilities, even if the manager remains accountable for any mistakes. Right the way through, the emphasis is on learning and development. Appraisals include self-analysis and input from managers, colleagues and subordinates. While moving up the management ladder, individuals are often appraised on a weekly basis. Eventually a customer service manager will have quarterly assessments with the store manager.

Tesco follows a ‘blended’ approach to skills, combining both technical skills and personal competencies. Tesco’s recruitment practice has changed considerably in recent years. The company thinks that the link between skills, productivity and employment is likely to get stronger: it follows, then, that Tesco cannot merely give people an interesting job, but must also motivate and develop them. An employment contract contains a written set of objectives, called the formal development plan, describing those skills the employee needs to acquire, the job tasks they have to perform, and the job they will be doing. The personal objectives are based on the same categories as are found in the Steering Wheel; as a consequence, it is possible to assess the contribution that each employee makes towards achieving the overall business objectives and progress on the key performance indicators (KPIs). At least twice a year, employees have a one-to-one personal development meeting with their manager to review personal objectives and development needs in relation to the needs and objectives of the company.

### **Education and training**

Tesco is aware of the challenge that employee skills and knowledge transfer presents to the group. To meet this challenge, Tesco has created an international development programme to identify talent throughout its worldwide organization, to provide support and to enable those identified to become future leaders within the business.



In order to find innovative ways to attract young people who have great potential, Tesco launched 'A-Level Options' in September 2006, giving 100 young people the opportunity to participate in a scheme that fast-tracks them into management. Tesco recognised that there was room in management for those who did not want to go on to higher education, but still wanted more responsibility in the business.

Tesco thinks that improving employee qualifications has a double benefit: employees have their qualifications base developed, and their motivation is maintained. In 2007, Tesco will become the first retailer in the UK to offer 40 managers the opportunity to gain a foundation degree alongside their usual job. The degree is a joint effort between Foundation Degree Forward (funded by the Higher Education Funding Council for England), the Retail Academy, Manchester Metropolitan University, the University of the Arts, and e-learning provider MyKnowledgeMap. They will create a combination of learning materials and means of delivery, ranging from residential courses to workplace-based e-learning materials. Core modules will include business improvement, customer and staff loyalty and the application of technology. The content will draw on workplace experience to make it relevant to Tesco and other retail employees. The 40 Tesco employees will begin the pilot programme in September 2007.

All Tesco employees have access to training programmes and a personal development plan, with half-yearly reviews to ensure that they have the right skills for their job. Tesco delivers an extensive programme of learning opportunities for all staff through the Tesco Academy. Everyone in Tesco is able to access learning at the Academy that is tailored to their own personal development needs, from induction and core skills to operating and leadership skills. Tesco has opened adult learning centres in cooperation with the trade union USDAW at the Welham Green and Fenny Lock distribution centres. The centres offer courses in reading, writing, maths and languages to distribution centre and store staff, and to their families and friends.

Tesco works with many different educational institutions to provide employee education and training. At one end of the scale, Tesco collaborates with several universities, and over 800 store managers are enrolled in business schools; at the other end, Tesco arranges for basic skills training at vocational training colleges and through internal training activities. The company supports its employees in supplementing skills and knowledge acquired from formal education with the development of competencies at work. Generally, the company tries to ensure that qualifications acquired through upskilling are useable not only at Tesco, but also elsewhere in the labour market.

Following a successful trial apprenticeship scheme in three stores, Tesco created a further 480 apprenticeships across the UK in late 2004. As well as providing formal training at local colleges, this partnership with the government apprenticeship scheme gives 16–24 year-old employees experience in working in different parts of the stores and warehouses. Tesco managers check on progress and coach and assess candidates. The apprentices are then externally certified by the UK City and Guilds of London Institute. In 2005, Tesco was the first British retailer to have in-house training accredited by the Qualification and Curriculum Authority, which means that it can now award nationally recognised national vocational qualifications (NVQs) to employees as part of its retail apprenticeship scheme.

Tesco has also developed a website, [www.tesco.com/debut](http://www.tesco.com/debut), which offers on-line training and development, financial guidance, discounts, and career advice in order to help 16–24 year-olds through the transition from full-time education to full-time careers. So far, 21,071 students have become members of Debut, and Tesco has launched its Debut Clearing House scheme, which organises transfers for students between their home stores and stores local to their university.



### Charity work

The Tesco Charity Trust made cash grants of more than GBP 1.5 million to local and national charities in the UK. The Charity Trust Community Award Scheme awarded grants totalling GBP 400,000 to local projects. These provide practical benefits in the local community for three vulnerable groups: children, the elderly and those with disabilities.

Each year, Tesco selects a national charity with a strong community network to become its Charity of the Year. This becomes the main focus for employee fundraising and receives a 20% 'top up' from the Tesco Charity Trust. In 2006, the Charity of the Year was Whizz-Kidz, with a fundraising target of GBP 1.5 million targeting customised children's mobility equipment. In 2007, it is the British Red Cross, with the fundraising aiming to raise GBP 2 million to help fund three vital UK services: care in the home, essential emergency equipment, and life-saving skills. Tesco staff have coordinated fundraising events across the country, such as the Red Cross Appeal Week. Shoppers can get involved by putting loose change in collection boxes at in-store checkouts, and recycling mobile phones and inkjet recycling cartridges in special bags located in stores.

Tesco is involved in many national community schemes in the UK, such as the Computers for Schools and Sport for Schools and Clubs programmes. Computers for Schools is a Tesco initiative to provide free computer equipment to UK schools, in return for free vouchers collected in Tesco stores. One voucher is given for every GBP 10 spent. The scheme works on the 'Every Little Helps' principle, bringing together Tesco employees, customers and schools in a joint effort that delivers benefits for the whole community. Around 3,000 schools joined the initiative in 2005, taking the total number of schools involved to over 30,000 – 86% of all UK schools.

Examples of Tesco community activities abroad include introducing Charity of the Year in Hungary, helping communities live more active, healthy lives in South Korea or supporting the police in their attempts to find missing children in Slovakia. Tesco currently operates 46 Culture Centres in South Korea with 450,000 members.

### Research and development

#### Technology in the workplace

Tesco handles a vast amount of data, with transactions taking place all around the world, and is thus aware of the central role played by information technology.

In 2001, the company started a project called 'Tesco in a Box' to identify the best practice processes for all areas of the business, and to design a standard suite of systems that can roll out to every market. This project has now been extended to all aspects of Tesco's operating model. Store systems can thus communicate with distribution centre systems, the head offices, and even some suppliers. Tesco calls the system the DNA of its business. Stores are run by local managers with local employees and focus on local customers (cultural backgrounds also play an important role in assessing demand). The operational model represents a set of processes and technologies that the company wants to use in its business around the world. This involves four main areas: planning and architecture, development of systems, deploying systems, and operation and support of information technology.

#### Environmental policies

Tesco's customers have indicated that they would like Tesco to join the fight against climate change and help make this easier and more affordable. In response to this customer demand, Tesco is trying to develop a simple and understandable 'carbon footprint' label that can be put on every product, making this a selection criterion just like price or nutritional profile. Tesco has set itself the target of reducing the carbon footprint of its existing stores and distribution centres worldwide by 50% by 2020. New stores built between now and 2020 will on, an average, meet this goal.

In December 2006, Tesco opened what it considered Britain's greenest supermarket in Wick in Scotland, setting a new benchmark for green technology and construction in retailing. The store, 4,600 square metres in size, has a 50% smaller carbon footprint than a conventional supermarket of the same size, and with its timber frame and environmentally friendly construction methods, the construction process also had a carbon footprint 20% smaller than for a conventional store. When it opened, the Wick store was the only Tesco store to have a wooden exterior (made from sustainably produced timber). Five micro wind turbines and solar cells help to power the store, and over one million litres of rainwater will be harvested each year and used where possible in the store's operations. Tesco reduced the height of the roof by over a metre to minimise the volume of air that requires heating. In May this year, Tesco opened a 'green' store in Shrewsbury with a carbon footprint 60% smaller than that of a conventional store, and over the next year the group will also build new green stores throughout Europe and Asia.

By introducing **Green Clubcard points** for customers who re-use their own plastic carrier bags, Tesco has reduced the number of new bags given out by an average of 13 million per week, a total of 400 million fewer plastic bags over the period from August 2006 to April 2007.

By the end of May 2007, Tesco's UK transport fleet will be running on a 50% biodiesel blend. This is the highest percentage biodiesel blend used by any distribution fleet in the world.

In order to help customers make informed decisions, products that have been transported by air will be labeled with an aeroplane symbol, and Tesco has set a target of restricting air transport to less than 1% of its products. Tesco is aware, however, that this must be done in a way that is sensitive to the needs of some of the poorest people on earth, whose lives are improved by the ability to sell in the UK market: hence, Tesco will source the majority of this 1% from developing countries.

Over the next five years Tesco will spend more than £500 million on technology to reduce its energy use.

In 2006, Tesco invested in a new system which monitors customer waiting time at store checkouts. Using Smartlane 'queue-busting' camera technology, developed by IRISYS, in-store queue waiting time is now kept to a minimum. This has resulted in a reduction of more than 350,000 customers who have had to queue. As already mentioned, Tesco has also invested in self-service checkouts and TescoLink systems.

Tesco finds that technology can bring with it a huge competitive advantage, if the goals of building trust are kept in mind, and if account is taken of changing lifestyles and changing expectations from customers and employees. It is of growing importance that customers and potential customers trust Tesco and feel that it is running its business in a fair manner.

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