"In this insightful book the authors detail the way in which Tesco have utilized best-in-class practices to create a highly effective and efficient supply chain. It's timely. The authors look in detail at how Tesco have been able to build a world-class supply chain. It should appeal to a wide audience – not just those interested in retail."

Martin Christopher, Emeritus Professor of Marketing and Logistics, Cranfield School of Management

"This book is a superlative in-depth case study of how Lean concepts, together with concepts from marketing, innovation and strategy, have combined to give Tesco an edge in grocery retailing."

John Bicheno, founder of the MSc Lean post-graduate degree at LERC

"Few firms make the actual leap of moving from traditional purchasing and logistics functions to developing and implementing a supply chain strategy. Barry Evans and Robert Mason provide a powerful narrative that illustrates the effort that this entails, as well as the benefits that can be reaped from taking Lean into a supply chain context."

Professor Matthias Holweg, Said Business School, University of Oxford

"This book shows that the principles of Lean do work – but only when they are matched with people who can make the difference."

Barry Knichel, former Supply Chain Development Director, Tesco

The Lean Supply Chain explores how Tesco have addressed – and are addressing – the challenge of managing their supply chains. It examines how they used Lean thinking, loyalty and simplicity and grew under a determined supply chain strategy to achieve their dominant UK and global position.

Barry Evans and Robert Mason assess how Tesco are dealing with current challenges and market changes, including their successful roll-out of online shopping and convenience stores. The authors use real-life examples drawing upon their deep knowledge of how the retailer has developed from both academic and practitioner perspectives.

BARRY EVANS has held roles in Tesco including Lean Process Manager in Tesco Supply Chain Development. He joined the Lean Enterprise Research Centre at Cardiff Business School as a Senior Research Associate.

ROBERT MASON is a senior lecturer in Logistics and Operations Management section at Cardiff Business School and has led many business research projects with Tesco as a partner.
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The appointment of an outsider, Dave Lewis from Unilever, as the new CEO of Tesco marks the end of an era. It was an era of remarkable growth from an also-ran UK retailer to one of the largest global retail giants. This book tells the story of one of the key elements behind that growth that has not yet been told.

The transformation of Tesco’s supply chain opened up many new opportunities, such as online and convenience retailing. It also continues to transform the grocery industry as retailers and suppliers across the world follow Tesco’s example. The lessons from this supply chain revolution are still very relevant as Tesco and other retailers struggle to respond to changing shopping behaviours, the rise of discount retailers and Amazon and the task of managing global operations.

It all began in 1995 when Graham Booth, then Supply Chain Director of Tesco, called to ask what they might learn from the dramatic rise of Toyota, whose success we described in *The Machine That Changed the World* (Womack, Jones and Roos, 1990). Tesco had already begun centralizing distribution and introducing electronic point-of-sale tracking and were looking for the next steps. We were able to show them the big leap Toyota had made in managing their aftermarket parts distribution across the world, achieving higher availability at the point of use with only a tenth of the time and inventory in the pipeline from the factory to the repair shop. They quickly understood the significance of the switch from forecast-driven batch production and distribution to sales-driven rapid-replenishment supply chains.

This began a partnership between the Lean Enterprise Research Centre at Cardiff Business School, which I founded to spread Toyota’s
practices to other industries, described in *Lean Thinking* (Womack and Jones, 1996, 2003). At the time we were researching lean supply chain opportunities with a club of organizations from different sectors. Tesco joined this group with several of its suppliers. Together we carried out many experiments to work out the practical details of lean thinking in grocery retailing. As we did so we discovered new opportunities for improving customer service while reducing costs and growing sales volumes with suppliers.

This book gives an insider’s perspective on this journey. Robert Mason joined our team at Cardiff with hands-on experience in managing retail stores and now researches and teaches logistics and supply chain and operations management. Barry Evans was part of Graham Booth’s supply chain team at Tesco throughout this journey. Together they are uniquely qualified to distil the lessons from the Tesco supply chain story.

Toyota’s lean practices challenged many widely held conventional wisdoms. Tesco’s eyes were opened when a group of managers walked with us through every step along the supply chain for selected products from ingredients and packaging materials to store shelf, observing all the unnecessary waste, delays, inventories and cost. We then mapped the information flows that triggered all these activities. Reporting to the board, Graham Booth summarized the challenge of ‘turning all the red traffic lights along the supply chain to green’, in other words streamlining the flow of products towards the customer in line with actual demand rather than optimizing each piece of the system in isolation.

One of the early projects showed how a daily delivery from suppliers could turn warehouses carrying days or weeks of stock into cross-docking facilities, saving Tesco £400 million. Others showed how placing products in shelf-ready packaging in the factory could reduce staff time restocking shelves in stores. Further savings were made as Tesco took responsibility for picking up products from suppliers every day and coordinating logistics into their distribution centres and on to stores. Suppliers learnt how to make high-volume products in smaller batches every day in line with demand. Real-time, 24/7 replenishment ordering by stores from distribution centres and by
distribution centres from suppliers eliminated much of the volatility created by systems based on forecasting demand several weeks out.

As the pieces came together and products began to flow through the supply chain Tesco realized they could quickly create a nationwide home shopping network by picking orders in slack times in key stores rather than building expensive distribution centres. Tesco.com orders revealed gaps in their ability to fulfil orders, reinforcing the importance of achieving near-perfect availability. Because the system was based on small pack quantities rather than full pallets it became possible to replenish convenience stores at almost the same cost as for larger supermarkets. This allowed Tesco to lead the convenience revolution.

After working with other organizations I came to realize how effective Tesco’s management system was in focusing activities and leveraging the gains. As Sir Terry Leahy (2012) describes in his book *Management in 10 Words*, Tesco was absolutely customer and employee focused. Managers had operational experience running warehouses and stores and spent a day a week on the front line. They were obsessed with working out the operational details of any new activity before they rolled it out across the network. And Tesco was open to challenging new ideas and willing to experiment.

Toyota’s aftermarket supply chain remains the global benchmark to this day. It is no surprise that others that have followed Toyota’s example, like Tesco, Zara and Amazon, have become leading players. Many other industries from medical supplies and pharmaceuticals to disaster relief still have much to learn from them. Hopefully they will get the inspiration to do so by reading this book.
It was clear that 2014 was a very challenging year for Tesco. The publication of this book follows a key change in the leadership of Tesco, with Dave Lewis from Unilever replacing Philip Clarke as Chief Executive in September 2014.

The most serious and dominant issue that emerged in the opening weeks of Lewis’s regime as CEO was the news of the so-called ‘Tesco accounting scandal’ at the end of September 2014. It propelled Tesco to the front pages of the press and resulted in headlines such as ‘Shaming of Tesco’ and ‘Britain’s top grocer left reeling’. It all revolved around the counting of supplier rebates and incentives before they arrived, resulting in an estimated overstating of profits for the previous six months by around £250 million (this was later revised to £263 million, possibly spread over three years).

Although really outside the scope of this book, which focuses on how Tesco has managed its supply chain logistics and does not really venture into the world of relationships between Tesco’s buyers and its supplies, the fact was that another supply chain scandal, like the horsemeat issue, had rocked Tesco to its core. The supply chain, which we claim was a core element of Tesco’s competitive advantage, had again been found to be the source of a very serious problem.

An internal inquiry was launched immediately by Lewis, carried out by Deloitte and a blue-chip legal firm, Freshfields. A number of senior executives were suspended from the business to allow a full investigation to be pursued. At the end of October 2014, the Deloitte/Freshfields report was passed to the City regulator, the Financial Conduct Authority, which launched a further inquiry. The matter is also now subject to investigation from the Serious Fraud Office. Tesco conducted retraining of all 900 employees who participated in direct negotiation with suppliers. In December, the accounting watchdog, the Financial Reporting Council, formally launched its own investigation.
Some of the personnel who had been suspended subsequently left the business, although notably Matt Simister, Head of Group Food Sourcing, was reinstated in early December 2014. Jason Tarry, chief executive of Tesco’s clothing line Florence and Fred, stepped in as interim Commercial Director.

Tesco’s half-year results, released at the end of October, were £112 million, 92 per cent down on the year. The company also stated that it could not give an estimate for the full 2014/15 financial year, as there were too many uncertainties surrounding its future direction. Coinciding with the results was the news that Tesco’s Chairman, Sir Richard Broadbent, was stepping down. In December, a trading update revealed that it did not expect full-year (to February 2015) profits to be above £1.4 billion.

Early in December too, Lewis made his first clear presentation of longer-term strategic decisions taken as CEO, with the announcement of new senior appointments. Jason Tarry was confirmed as the permanent Head of Commercial, Robin Terrell (Overseas Director) became Marketing Director, in a role intriguingly called ‘Head of Customer’, and Benny Higgins (Head of Tesco Bank) became Head of Strategy. Jill Easterbrook was put in charge of transforming the business, overseeing the wide-ranging review that was under way.

The initial areas of focus were confirmed too: to invest in service, with an extra 6,000 new store personnel, to improve product availability and to target better prices. In short, Tesco was clear that it wanted to begin to enhance the customer offer substantively. The Black Friday trading weekend at the end of November brought news of customers chasing bargains, and this was followed throughout December with a slightly improved trading performance.

Indeed, it is worth pausing and reflecting on the sales figures for Christmas 2014, using the Kantar WorldPanel UK data (http://www.kantarworldpanel.com/en/Press-Releases/Christmas-sales-a-welcome-boost-for-retailers). Tesco sales for the 12 weeks to 4 January 2015 were −1.2 per cent, better than both Asda (−1.6 per cent) and Morrisons (−1.6 per cent) and only slightly behind Sainsbury’s (−0.7 per cent). Given that the quarter 2 figure for UK Tesco sales had been much worse at −5.4 per cent, this represented a marked, if small, improvement. Indeed, the difference of only 0.9 per cent in
sales movement against 2013 for all of the top four grocery retailers indicated how competitive the grocery marketplace was in the UK at the end of 2014, with Tesco still dominating in market share terms of 29.1 per cent for the period. The six weeks to 3 January 2015 showed even more improvement for Tesco at only −0.3 per cent, with growing sales at convenience Express stores (+4.9 per cent) and in online sales (grocery home shopping +12.9 per cent, general merchandise online +22.9 per cent and clothing online +52.4 per cent).

The market polarization still remained an issue, with discounters Aldi (+22.6 per cent) and Lidl (+15.1 per cent) and high-end Waitrose (+6.6 per cent) all continuing to do well. But, with the overall grocery market, at +0.6 per cent, showing the best growth performance since May 2014, there were some very early encouraging signs for the market as a whole as well as Tesco in particular.

The release of the Christmas trading results in early January 2015 also coincided with Lewis restating that his focus was on channelling the proceeds from a new level of financial discipline and cost control to reinvest in the core customer proposition. In more detail, three identified immediate priorities for Tesco were set out:

- regaining competitiveness in the core UK business;
- protecting and strengthening the balance sheet; and
- rebuilding trust and transparency.

Measures included new price initiatives and a clear stated aim to begin to re-establish trust in the pricing policy. This was coupled with numerous cost saving announcements, such as the closure of 43 unprofitable UK stores, a major revision of store building, the disposal of Tesco Broadband and Blinkbox to TalkTalk, the appointment of advisers to explore options for the Dunnhumby business, the initiation of consultation to close the company defined benefit pension scheme, the decision not to pay a final dividend for 2014/15 and the decision to consolidate the Tesco head office in Welwyn Garden City, with Cheshunt planned to close in 2016.

Matt Davies (ex-Chief Executive at Halfords Group plc) was confirmed as the new CEO of the UK and Ireland business from 1 June 2015.
In a further response to the concerns over relations with suppliers, to support the objective of rebuilding trust and transparency, a stated aim to regenerate relations with suppliers with new commercial income guidelines and associated year-end cash management was proposed. This was backed up with news of the launch of the Tesco Supplier Network in the middle of January (see launch video: http://www.myretailmedia.com/tube/2644).

Finally, a small development at the beginning of 2015 summed up Tesco’s keenness to be seen to be more responsible and, by encouraging healthier lifestyles, to be on the side of the customer. This was the announcement of sweet-free checkouts. For more details on this announcement please see: http://www.tescoplc.com/index.asp?pageid=17&newsid=1120.

On reflection, it is early days after Lewis’s appointment but some small green shoots of a turnaround in fortunes for Tesco seem to be appearing following the Christmas trading statement. These results showed that focusing on really enhancing the customer offer meant there was a continued role for the Tesco recipe of business. A return to the core values of price, service and availability certainly was instrumental in this, and these values will continue to be a strong theme throughout the Lewis tenure as CEO as he fights to lead Tesco in sustaining this improved commercial momentum.

The effective and efficient management and operation of the supply chain are key to achieving progress in all three of the objective areas of price, service and availability. This book presents a thorough appraisal of how Tesco normally attempts to do this. No doubt these methods will be relied on again and again and will be built on further in the months and years to come as Tesco strives to continue to develop its world-class reputation for supply chain logistics prowess.

Around this though are the issues of trust and transparency with regard to the way the company operates and the manner in which the supply chain is run, and these are now well recognized by Tesco as key ingredients in the mix. The supply chain may be the best organized in the world, but if trust and transparency are not there the commercial results will not materialize. With Lewis providing a new face for Tesco, allowing the company to distance itself from the
horsemeat scandal, and being seen as the person who is trying to rectify the accounting scandal, perhaps there is some increased hope that Tesco may manage the challenge and use loyalty, simplicity and lean to drive growth once again.

This book is focused on how Tesco organizes and manages its supply chain – essentially the management of logistics processes (physical and information flows) that enables Tesco to serve its customers with the vast range of products and services that they value. Supply chains are at the heart of any business. They are what connect supplied products and services to end users. Despite their multifaceted structure (and sometimes inherent complexity), if they are well designed and managed they can be a major source of differentiation and competitive advantage. However, today, as supply chains are intensively competing with supply chains, they must remain up to date and relevant to ever-changing customer needs. Customers also expect the supply chains that serve them to be managed with integrity if they are to trust the supply chains’ output, ie the products and services that they consume.

Grocery supermarkets essentially make nothing and thus can’t be distracted through trying to compete through alternative means – by adopting a production orientation, for example. For the most part they retail essentially undifferentiated commoditized products, and thus a key focus of their competitive strategy is their ability to really sense what their customers value and to provide this value in a superior way in the eyes of their customers, predominantly through their supply chain prowess.

Despite its recent challenges, Tesco, particularly over the last 20 years or so, has led the industry, rewriting how grocery supply chains can be conceived and run to provide for all aspects of value from the customer perspective. From being an ‘also-ran’, as the number two player in the United Kingdom in the early 1990s, Tesco stood in 2014 at number two in terms of the global batting order of retailers. The cornerstone of this growth, we argue, has been Tesco’s understanding of what customers value and providing this for them through the pursuit of mastering its supply chains. This book uncovers how this has been achieved and cites many examples of how customers’ lives have been improved by the Tesco supply chain approach.
What customers really want from any product or service is what they consider to be best value – those organizations that can consistently provide superior value and gain a reputation for doing so will gain a competitive advantage and win out over their competitors. This is the traditional idea that underpins the basic marketing concept. As Theodore Levitt (1960) stated, ‘Management must think of itself not as producing products, but as providing customer-creating value satisfactions. It must push this idea (and everything it means and requires) into every nook and cranny of the organization. It has to do this continuously and with the kind of flair that excites and stimulates the people in it.’ Although Levitt meant his observation to be generically applicable to all organizations, leading grocery supermarkets provide a fantastic lens through which this idea can be translated into action – and consequently observed and reported upon.

In the United Kingdom, the grocery supermarket sector is highly competitive, and these competitive forces have provided a melting pot for a potentially world-beating retailer to be cast. Tesco has helped to pioneer what it takes to compete through its supply chain to continuously provide customers with superior value. And it has taken the lessons learnt in striving continuously to improve its supply chain right across its business, as processes in any organization are pervasive. Tesco thus strives to apply best-practice processes for all areas of its business, and can claim that its success, in this respect, has become a real source of competitive advantage.

However, commerce is a fast-changing beast, and it is clear that the grocery sector is as dynamic as any segment of industry in needing to adapt and change. For Tesco, this has significant implications for its supply chains and the way they are managed – the recipe that gave the best results in the past may not necessarily be the one that succeeds in the future. While this book centres on how Tesco has gained a world-class reputation for supply chain excellence, it also reflects on the challenges that Tesco now faces in ensuring that its supply chains are fit for purpose for the future as well. These challenges include the integrity issues raised by the horsemeat and accounting scandals and the consequent impact on consumer trust, the polarization in the marketplace caused by the rise of the discounters and top-end grocery retailers, the growth of convenience and online shopping,
and other supply chain-connected issues. It is reasonable to assume that customers’ expectations from the chains that supply them will continue to evolve for all grocery retailers. This book provides a fascinating insight into how Tesco is managing the supply chain challenge past and present.

Inevitably, there are many parts to the Tesco jigsaw that have contributed to Tesco’s performance over the last 20 years or so. Here we argue that the engine room that powers Tesco – the management of its business processes, most notably its supply chain processes – is worthy of focus. The book provides insight into how Tesco has developed its approach to the ‘supply chain challenge’ from the strategic perspective to countless operational innovations that have been adopted.

There are lessons here for leaders of organizations large and small. Tesco strives to prove itself master of the processes involved in the supply chain operation. If you want to know more about how it strives to do this, please read on.
Tesco has become a world-famous retailer and in 2014 was recognized as the globe’s second-biggest retailer (Deloitte, 2014). Much has been written in newspapers, journals and books about the ‘what’ and the ‘why’ of Tesco. However, very few understand or even appreciate how all that Tesco does happens. This book concentrates on this hidden world of how Tesco does it, and in so doing sheds light on many salutary lessons for business today.

So what is this book about? Inevitably, there are many parts to the Tesco jigsaw that have contributed to its success. Here we address a core ingredient, for the first time pulling together a book that focuses on the engine room that has powered Tesco’s growth performance for much of the last 20 or so years – its supply chain, essentially the management of logistics processes (physical and information flows) that enables Tesco to serve its customers with the vast range of products and services that they value. The supply chain for any retailer of Tesco’s size – it is the UK’s biggest retailer – is a huge operation, and Tesco has striven to use its prowess in this area to differentiate itself from the competition it faces. How has it done this? What are the challenges it has faced down? What ongoing supply chain issues is it trying to deal with today? What are the lessons for others? Clearly, Tesco does not get everything right in its supply chain, and many of the supply chain-based issues it is currently facing are reflected upon in this book. But Tesco has used its supply chain prowess to underpin its business model and constantly tries to prove itself master of the supply chain operation.

The book is divided into eight chapters, each of which explains a segment of the Tesco DNA in terms of how it developed a world-class supply chain operation and explores how Tesco continues to manage...
the supply chain challenges today. From an appreciation of the need to create a strong underlying foundation for supply chain excellence in an organization’s strategy and corporate framework to detailed examples of initiatives across the supply chain, this book comprehensively paints a picture of the Tesco way. Beyond this, it explores how Tesco’s approach to its supply chains has led it to becoming a smarter organization, striving to sense, think and act faster than its competitors in the cut-throat world of retail.

Anyone connected to running a business and striving to supply customers successfully with what they want day after day, month after month, year after year needs to read this story. Even the leaders of Tesco today continue to reflect on what has been achieved and what the essence of Tesco’s formidable performance has been, as they are increasingly challenged to stay on top of their game.

Competing through the supply chain may seem simple to explain, but it is very hard to achieve. Moreover, it is a highly dynamic activity, as customers’ expectations evolve and new supply innovations are developed, both driven in part by rapid and significant advances in technology. In addition, in recent years it appears that there is an increasingly wider demand placed on organizations that look to compete through their supply chains. They need to take fuller responsibility for what goes on in their supply chains so they are more transparent and run to the highest ethical standards. In short, the masters of chains of supply need to be trusted by their consumers and by society as a whole in this respect. For retailers that are managing wider and wider catalogues of products and are dealing with more and more complex chains of supply, while at the same time trying to optimize the value that can be gleaned from them, this is posing a new and significant set of challenges.

This chapter introduces the book and is structured around three key notions that Tesco relentlessly wrestles with to keep the business on track:

- a **clarity** of business core purpose;
- the **alignment** of the business around this core purpose; and
- the **discipline** needed to keep the business relentlessly on course.
Why the supply chain?

The successful management of the supply chain process can be the core of how to compete in business today. Invariably, however, it is not the idea that is most talked about or discussed. It is an unsung aspect of business that needs to be more openly promoted and assessed. What does competing through the supply chain mean, and why is it becoming such an important element of modern business practice?

Put very simply, any supply chain provides consumers with products and services. The activities that take place along the supply chain transform raw materials into end products through manufacturing and logistics processes so that the consumer can receive and utilize them. Thus supply chain management is a set of techniques that allows for improvements in these transformation processes so that extra value can be derived for the benefit of stakeholders. But, if the aim is to optimize the value that is supplied to end consumers, perhaps a wider understanding of the supply chain than this needs to be adopted.

Another term sometimes used to describe the supply chain is the ‘value chain’, first coined by Michael Porter (1985), the management strategist. ‘Primary activities’ included in his understanding of the ‘value chain’ were inbound logistics, operations, outbound logistics, marketing and sales, and services, all supported by a number of ‘support activities’. Thus, a wider understanding of what could be included in the chain of supply at the downstream end, to include all aspects of marketing and service for example, as part of what customers may value, was considered by Porter as part of the mix in managing the chain of supply.

This is the view taken in this book, and it is wider than the conventional definitions of the supply chain.

Traditionally, supply chains were driven by manufacturers in many sectors and were about managing the transformation and movement of suppliers’ products to sell to the marketplace. In the last 20 years or so all this has changed. Now supply chains are driven more by demand than supply in many sectors of commerce.

The grocery sector is a classic manifestation of this. Consequently, the grocery retailers have seized the opportunities to organize demand and be the customer’s representative for their chains of supply. Today,
the maxim is less about manufacturer competing with manufacturer. It is about supply chain competing with supply chain, with retailers orchestrating the tunes from the chains of supply that serve them.

Tesco has always been built around the basic business model of supply–buy–distribute–sell. As a result, although it is pre-eminently known as a retailer, it is also a major logistics and supply chain operator. In a spectrum of retailing it is arguably at the least creative or theatrical end, with its core business being the retailing of life’s essentials – what are known as fast-moving consumer goods. In this business Tesco is a high-volume player. Thus, how it manages and organizes its logistics and its full supply chain operations has considerable significance. A small improvement in the way one supply chain process is managed, if multiplied up across its full business, can have a colossal magnified significance. So Tesco really focuses on the supply chain as a key plank of its business, perhaps more so than many businesses have historically done.

Cardiff Business School began working with Tesco on its supply chain operation back in the mid-1990s. Following on from the publication of their ground-breaking benchmarking study *The Machine That Changed the World* (Womack, Jones and Roos, 1990), two of its authors, Jim Womack and Dan Jones, had begun looking for other sectors, beyond automotive, where their ideas of what became termed ‘Lean thinking’ could be experimented with. The British author Dan Jones had joined Cardiff Business School, founding the Lean Enterprise Research Centre. He was eager to find out more about how organizations keen to pursue the ‘Lean thinking’ strategy should actually go about this objective. After all, this was the question that was continually being asked of him after over 400,000 copies of *The Machine That Changed the World* were sold in 11 languages in the first six years after its publication in 1990. What was needed was a guide of how to do Lean. To achieve this objective, many organizations from around the world that were taking the ‘Lean leap’ in a range of sectors were selected, with food production and distribution being a key target.

Tesco, through its Supply Chain Director at the time, Graham Booth, with the support of Barry Knichel and Peter Worsey, had linked with up with Dan Jones at Cardiff Business School and was
keen to experiment with bringing in Lean thinking to Tesco. Tesco was already well known as an efficient retailer: according to Womack and Jones (1996) in their follow-up book, *Lean Thinking*, ‘it appears its current inventories are only half the UK average, a quarter of the European average and an eighth the North American average’. A value stream – ‘the specific activities required to design, order and provide a specific product, from concept to launch, order to delivery and raw material to the hands of the customer’ (Womack and Jones, 1996) – was chosen for a can of cola and mapped. What it showed was that it took 319 days to bring the cola from bauxite mine to Tesco store. It exposed that there was a large amount of waste, in Japanese known as *muda*, specifically in terms of excessive inventories all along the supply chain. What was needed was a system-wide approach to tackling this to improve the value of the product still further for the retailer, which it could, in turn, pass on to the end consumer. ‘Tesco has recently realised that to move even further in reducing inventories, stock outs, and costs on a total system basis (where more than 85 percent of the costs of a typical product like cola are outside Tesco’s corporate control), it will need to improve responsiveness and ordering accuracy all the way up its value stream’ (Womack and Jones, 1996).

Thus, there was an alignment between Tesco’s quest to learn more about how to develop further efficiencies and wider improvements from its supply chains and Cardiff Business School researchers’ ambitions to observe how the Lean paradigm could be successfully adopted by organizations outside the automotive sector and to study what impact it could have when applied beyond the factory setting to the whole supply chain system.

A basic model (Figure 1.1) is proposed to convey this approach to the way the supply chain could be managed. It conceives that the whole supply chain system has a declared purpose, with inputs and outputs. A feedback loop is integrated into the system so that it becomes intelligent and is capable of learning. The model will be referred to as the book progresses.

Finally, the supply chain is just one process that exists within the company, or between the company and others. There are thousands of other processes too, from recruitment of new staff, to welcoming
visitors, to putting a new page or video on the corporate website: processes are pervasive; they are everywhere!

So, once a generic approach to managing processes is developed for Tesco, the opportunities to repeat good practice can be applied time and time again across the whole business and in every new arena it expands into as well. This way of thinking and operating is the practice that Tesco has developed for many years. Thus, the book will attempt to lift the lid in terms of some of the content of the ‘Tesco Box’ (Tesco, 2007: 9), which Tesco has developed since 2001, to identify best-practice processes for all areas of the business, and apply this time and time again, after adaptation to local markets and situations.

The supply chain should, therefore, be seen as a core process, yes, but it is hoped that many of the learning points gained from looking at the Tesco supply chain in this book can be applied in any organization and in any process, in the same way that Tesco is doing.

**Tesco’s core purpose**

For many commercial organizations their primary goal is to maximize shareholder value or, alternatively, another financially driven
objective such as to make superior returns on investments. Tesco’s stated goal during much of the last 20 years, what it calls its ‘core purpose’, is ‘to create value for customers to earn their lifetime loyalty’ – quite different! It is this core purpose that has acted as a strong motivating force, driving Tesco to strive to become better and better at managing the chains of supply that provide the products it retails for customers. At the outset, it is well worth spending some time briefly assessing and analysing this statement of purpose, as many of the emerging ideas from this reflection will emerge as themes throughout the book.

First, this objective is rooted in identifying a primary focus on one and only one stakeholder – the customer. All organizations clearly have many stakeholders: owners and investors, such as partners or shareholders and financial institutions, employees and their families, suppliers and strategic alliance partners, the society at large (the general public), professional associations, government and voluntary non-governmental organizations to name but a few, as well as, of course, the customer. Keeping all stakeholders happy would be an ideal. However, there are invariably trade-offs involved, which can lead to fuzziness developing around any organization’s core purpose if it is not careful.

For Tesco, particularly during the whole of what we can term ‘the Leahy years’, from 1997 to 2011, when Terry Leahy was the CEO, the core purpose remained unchanged. It was simple and was clearly understood. It saw the key stakeholder as the end customer – the argument ensuing that, if the customer was happy, then the value thereby provided in supporting Tesco with its business would be able to be passed on to all other stakeholders.

This mentality had the advantage of simplicity at its heart. It meant that a clear aim was established that all employees and business partners could rally around. Its appropriateness as a core purpose will be debated later in the book, as in Leahy’s successor Philip Clarke’s reign as CEO it was changed, but it allowed Tesco’s supply chain strategy, which was and is all about creating extra value for customers, to be fully integrated with the overall business core purpose, a key plank in the Tesco jigsaw. And in the early months of Tesco’s new CEO Dave Lewis’s regime in late 2014 perhaps we saw a return to
this way of thinking, with the customer returning to the heart of the business once again.

It is also worth noting here that Tesco’s stated core purpose did not contain any specific definition of what ‘value’ actually means. Often, it is assumed that value is synonymous with low price. Indeed, this is invariably an important aspect of what can be termed the ‘value equation’, but is not by any means the whole picture. What Tesco means by ‘value’ is a much richer interpretation of the term than this, and it envisages that supply chain improvements will not be solely about driving through efficiencies but also about providing other sources of value, as will be developed and explored through this book as a whole.

Finally, the Tesco core purpose deliberately stated that the aim was to ‘earn customers’ lifetime loyalty’. For customers to be committed on an enduring basis to any supplier is a challenge. To earn their loyalty in grocery retailing, where on the surface you have very little ability to differentiate your business from another in retailing commodity products, requires an altogether different level of capability. The ability to extract value from its supply chain to be passed on to customers was, and is, seen by Tesco as a key to generating the faithfulness of its customers to keep them returning to Tesco time after time, year after year.

**Alignment behind purpose**

As noted above, the adoption of creating value for the customer as the core purpose for Tesco allowed for the integration of the business around a single, clear and unifying goal.

Many businesses are organized around functions such as buying, merchandising, finance, production, marketing, distribution and so on. For each discipline, managers are appointed and functional goals set and incentivized by the organization, usually supported by a suite of key performance indicators. The thinking behind this strategy is that if each function performs well then the sum of the parts will mean that the performance of the organization will be optimized. This is a fallacy.
In reality customers do not care whether the production department has met its targets; they are oblivious to whether marketing can justify its brand advertising budget, and do not really take any notice of how much inventory is used to supply the goods they buy. What they mind about is the output of the supply process that cuts through all these functional departments. They will have their own value demands, which may vary over time too, but invariably these demands will revolve around price, convenience and quality.

So, by arranging all departments around a single unifying goal of serving the customer with better and better value to achieve the customer’s lifetime loyalty, a business such as Tesco can align all its disparate functions around process excellence and focus on a simple, clear objective – to be consistently effective in the eyes of the customer, another important theme that will be returned to again and again throughout this book.

Corporate discipline

Supply chain effectiveness does not come about overnight. As will be explained throughout the book, every aspect of a business contributes to a successful supply chain. However, just aligning disparate functions around a core purpose is insufficient. An aspect that separates Tesco’s approach to developing supply chain improvement after supply chain improvement from the approach of some of its competitors has been its capability to sustain this strategy over many years. In Lean Thinking, the fifth of the five principles identified by Womack and Jones (1996) when describing what ‘Lean’ meant was the pursuit of perfection. The idea was that once one layer was dealt with a new layer would always be presented to be overcome. What Tesco became good at was holding the last-won gain before moving rapidly as an organization to the next challenge.

A key underpinning aspect of this capability was the mantra developed under Sir Terry Leahy, when he was Chief Executive (1997–2011), to keep things simple. His view was that, although retailers were handling vast ranges of products, dealing with millions and millions of customers, each one different with unique demands, and
having to be dynamic, which an organization needs to be in coping with a constantly changing operating environment, the systems that Tesco deploys to deal with all this do not have to be over-complicated. If it was becoming hard to turn decisions into action then the volume and scale of projects needed to be scaled back to ensure it all became manageable once more, he would argue.

Later in the book, a fuller discussion on the notion of ‘keeping things simple’ will be developed, starting with its place in the Tesco mission statement of ‘Better, simpler, cheaper’ introduced in the next section of this chapter. Here, however, the idea of simplicity as a discipline tool to help Tesco’s leaders keep the business on track with a consistent focus on its core purpose is argued. It provided the backbone to keep the business and supply chain strategies aligned. Leahy did not let this very clear idea of core purpose, which Tesco followed year after year, ever get muddied or confused.

Better, simpler, cheaper

The question that follows the statement of core purpose, ‘to create value for customers to achieve their lifetime loyalty’, is how should this be achieved? To provide direction and guidance internally to decision making, the marketing slogan ‘Better, simpler, cheaper’, which became synonymous with the way Tesco operates, was frequently utilized:

- better for the customer;
- simpler for the staff;
- cheaper for Tesco.

The whole slogan is underpinned by three leading academic pieces of work, each one contributing to all the parameters of the slogan:

- *The Loyalty Effect* by Frederick F Reichheld (1996);
- *Simplicity* by Edward de Bono (1998);
These pieces of academic thinking and research were synergistically intertwined with each other; for instance, keeping things simple is an important idea in Lean as well, while Lean thinking starts with the idea of identifying what is valued by the customer, and orientating the organization around achieving this would presumably be aimed at keeping the customer loyal. They also had another factor in common: each in essence was a whole business philosophy, not a bolt-on set of tools and techniques. For instance:

- Lean required standards in operations and total quality management (TQM) to be established, so that basic processes could be relied upon, before inventories could be challenged.
- Loyalty can be viewed as a business strategy that needs to be built into the entire organization and the way it thinks and behaves.
- Simplicity is a way of thinking that permeates to the heart of the culture of an organization and influences every aspect of what an organization does and what it is about (easy to state, but it takes hard, dedicated effort to achieve!).

The ‘Better, simpler, cheaper’ sentiment contained in this mission statement, supported by the ideas of developing customer loyalty and challenging complexity in all its forms to make things simpler and to build a Lean enterprise, became the litmus test in the Leahy era, against which all new initiatives and ideas were tested. Only if an idea hit all three requirements – better for the customer, simpler for staff and cheaper for Tesco – was it even put forward for consideration to be taken forward.

Much more will be developed around the content and implications of this mission and these principles, and the three underpinning academic works, throughout the book. However, in the fast-moving world of grocery retailing, the strength of these three principles has continued resonance for Tesco in the way it organizes itself and its supply chain operations and, we believe, is highly relevant to many other organizations as well. In recent years, Tesco may have evolved this mission and these principles slightly in an attempt to keep them fresh and up to date, as we will explore in Chapter 3. Yet, at Tesco’s
heart, there remains a strong ethos to serve the customer as employees would wish to be served themselves.

This sentiment is embodied through Tesco’s key advertising slogan, ‘Every little helps’. It was originally an internal marketing campaign and suggested that every extra little thing each employee was able to contribute would aid progress on the ‘Better, simpler, cheaper’ mission. It soon became the key strapline for external marketing too and is still used to help highlight, from the customer’s perspective, that Tesco is trying all it can to be on the side of its customers.

Debunking conventional business thinking myths

Finally in this opening chapter, which has aimed to whet the reader’s appetite for the kind of ideas and issues that will be covered in the book, one key theme of the text is introduced. It is envisaged that the text, in its applicability and relevance, will go well beyond being a biographical study of Tesco and how it manages its supply chain. As authors, we feel there are some incredibly important generic lessons that can be drawn from this analysis as well. Often counter-intuitive, although logical and inherently simple, as one would expect from an organization that prizes simplicity, the core purpose and mission statement give rise to a number of ideas, each of which will be picked up and discussed throughout the book, with a whole chapter devoted to them in Chapter 6.

Here they are merely listed, but they will be returned to in due course:

1 Get better and better at what you do.
   No. Get better and better at providing for customers.

2 Efficiency wins.
   No. Effectiveness wins.

3 Prove the business case before backing an initiative.
   No. If it feels right for the customer it can make business sense too.
How to be good at business is difficult to understand but easy to do.

No. It is easy to explain but hard to do.

To stand out from the crowd in business you should be the cheapest or the most innovative.

No. You can compete through both innovation and price.

Think from production forwards.

No. Act from the customer backwards.

Business leadership is the art of coping with complexity.

No. Business leadership is the art of simplifying the complex.

Hopefully, these overarching themes will provoke debate.

Book structure

This introductory chapter has sown some of the seeds of what this book is all about: how Tesco has used customer loyalty, simplicity of operations and Lean thinking to drive growth through the way it organizes itself and specifically how it has applied itself to translating these principles to the way it manages its supply chain. Following this opening, each chapter will examine an aspect of the Tesco approach in more detail, with Chapter 7 considering the current challenges that Tesco is facing. The content of each chapter is as follows:

- Chapter 2 sets out the key facts about Tesco: where it stood in 2014, in terms of where it operates, which sectors it trades in, and its volumes of business. The chapter also reflects on the company’s origins, setting out the discussion in four eras. A particular emphasis is given to the history of the transformation of Tesco over the last two decades or so, where it has emerged as such a dominant player in the UK market and become a truly leading global retailer.

- Chapter 3 focuses on how Tesco adopted its principles based on ‘loyalty’, ‘Lean thinking’ and ‘simplicity’. Its implementation of these principles through rigorous adherence to deployment of an
explicit core purpose, values, principles, strategy and management of delivery by means of its Steering Wheel (balanced scorecard) is discussed and related to how Tesco manages its supply chain.

- Chapter 4 looks at the way Tesco has refined its understanding of core purpose. This is typified by the way Tesco has given primacy to ‘effectiveness first’, where ‘efficiency follows’. Thus the company is driven by ‘sensing the customer and meeting the customer’s needs’. The huge power Tesco has gained in refining data from its Clubcard loyalty card, store-based customer panels and other sources into ‘gold dust’ information to drive strategy formulation and prioritize and guide its implementation is debated.

- Chapter 5 is arguably the core chapter of the book, and investigates how Tesco has developed highly capable supply chains to serve its needs, to the extent that its chains of supply are now seen as amongst the best in the world.

- Chapter 6 debates Tesco’s ability to think and act counter-intuitively at times to achieve continuous improvement in its systems, processes and operations. It looks at how, despite its size, Tesco has empowered all staff to take responsibility for improvement and delivery. The roles of Tesco’s most recent chiefs, Ian MacLaurin (who was knighted in 1989, and created a life peer in 1996, taking the title Baron MacLaurin of Knebworth), Terry Leahy (who was knighted in 2002) and Philip Clarke, in leading this transformation by leveraging Tesco’s basic business model (supply–buy–distribute–sell) will also be considered. (Tesco under its new CEO, Dave Lewis, will be considered in the Epilogue.)

- Chapter 7 brings the book up to date and considers the current challenges and themes for development that are being pursued by Tesco. The retail sector is a highly dynamic and very competitive element of modern economies. The issues that currently confront Tesco, especially in how it manages its supply chains better than its competitors in its efforts to continuously grow its business, are reviewed.

- Chapter 8 presents the conclusions that are reached, and the main lessons from the book are drawn out for the reader.
Key chapter summary points

1 Tesco has identified that a core ingredient of its performance over the last 20 years has been to do with the way it manages its supply chain.

2 Competing through the supply chain may be easy to explain, but it is very hard to achieve.

3 Grocery retailing provides a superb example to investigate how supply chain management practice can be developed in an organizational setting, as grocery retailers make nothing and often see their supply chain as an important area from which to develop a competitive advantage.

4 The supply chain can be envisaged as a simple system. The supply process takes inputs and provides outputs to try to meet a declared purpose. A feedback loop checks progress against purpose.

5 Tesco has a very clear view of what its core purpose is and consistently aims to align itself behind this purpose, with the corporate discipline to keep things on track.

6 This book will focus on how Tesco achieves this. Through this exploration we will present how many conventional thoughts on business can be challenged, with lessons for leaders of all types of business who aspire to compete through their supply chain.
“In this insightful book the authors detail the way in which Tesco have utilized best-in-class practices to create a highly effective and efficient supply chain. It’s timely. The authors look in detail at how Tesco have been able to build a world-class supply chain. It should appeal to a wide audience – not just those interested in retail.”

Martin Christopher, Emeritus Professor of Marketing and Logistics, Cranfield School of Management

“This book is a superlative in-depth case study of how Lean concepts, together with concepts from marketing, innovation and strategy, have combined to give Tesco an edge in grocery retailing.”

John Bicheno, founder of the MSc Lean post-graduate degree at LERC

“Few firms make the actual leap of moving from traditional purchasing and logistics functions to developing and implementing a supply chain strategy. Barry Evans and Robert Mason provide a powerful narrative that illustrates the effort that this entails, as well as the benefits that can be reaped from taking Lean into a supply chain context.”

Professor Matthias Holweg, Said Business School, University of Oxford

“This book shows that the principles of Lean do work – but only when they are matched with people who can make the difference.”

Barry Knichel, former Supply Chain Development Director, Tesco

The Lean Supply Chain explores how Tesco have addressed – and are addressing – the challenge of managing their supply chains. It examines how they used Lean thinking, loyalty and simplicity and grew under a determined supply chain strategy to achieve their dominant UK and global position.

Barry Evans and Robert Mason assess how Tesco are dealing with current challenges and market changes, including their successful roll-out of online shopping and convenience stores. The authors use real-life examples drawing upon their deep knowledge of how the retailer has developed from both academic and practitioner perspectives.

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