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Management Case Study

Delivering Success: How Tesco is Managing, Measuring and Maximising its Performance



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Delivering Success: How Tesco is Managing, Measuring and Maximising its Performance

By
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***Abstract:** Tesco is one of the world's most successful companies. This case study outlines how this world-leading retailer is managing, measuring and maximising its performance. It describes the performance framework used to manage the business globally, outlines how the performance framework is being cascaded and communicated, and illustrates how Tesco is engaging its employees in performance management. In addition, it highlights Tesco's approach to collecting the right data and its ability to turn this data into customer and business relevant decisions.*

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Introduction

Tesco has delivered impressive performance. Good performance and business success is underpinned by the right strategic objectives, which have to be communicated to all staff. However, even more critical are:

1. Making sure everyone in the company is actively engaged in trying to improve company performance – all the time.
2. Having the data and analytical skills to test ideas and turn insight into customer and business relevant actions.

This case study outlines Tesco's performance management journey, which so far has been an extremely successful one.

About Tesco

Tesco is an impressive company. The British-based international grocery and general merchandising retail group operates 4331 stores across 14 countries, employs 470,000 people, and in 2009 generated £59.4bn in sales. Tesco is the largest private sector employer in the United Kingdom, and is currently the third largest global retailer based on revenue and the second largest based on profit. Over the years the company has been transformed from a 'pile it high, sell it cheap' market trader to a world-leading retail group. While it originally specialised in food and drink, it now offers a wide range of products including clothing and consumer electronics and offers an increasing range of services such as telecoms, health, Internet,

insurance and financial services. In addition to its stores, Tesco has created a very successful online supermarket offering among other things groceries, home retailing, and music downloads. Even amidst the current global recession Tesco is performing extremely well with a 15.1% growth in annual sales and a 5.5% growth in profits.

Drivers of Success

What is leading to Tesco's global success is that it gives customers what they want. Sir Terry Leahy, Tesco's Chief Executive, puts it in simple terms when he says "Let me tell you a secret, the secret of successful retailing. It's this: never stop listening to your customers and giving them what they want."¹ Tesco makes it very clear that its philosophy, which is captured in the phrase 'Every Little Helps' is more than just words or a marketing slogan. On its website it states:

Every Little Helps is behind everything we do. It's not just something we say, we really do mean it. Really.

Based around its *Every Little Helps* philosophy, Tesco has created two key values which are seen as their central code of conduct and the way it does business. They are: 'No one tries harder for customers' and 'Treat people how I like to be treated'.

No one tries harder for customers?

The aim of this value is to instil a customer focus in everything people do. As part of this, Tesco aims to

understand customers better than anyone else and therefore deliver unbeatable value and service.

Treat people how I like to be treated³

Tesco wants its people to be well managed and to work in an environment that is based on trust and respect. The company has learnt over the years that well motivated and managed staff will give customers great service.

company. Together with this it created key performance indicators to act as the compass enabling the organisation to check whether it was on track or not. The main purpose of the performance management approach was to help steer the organisation to success. Tesco decided to appropriately name its performance framework the Corporate Steering Wheel.



Figure 1: Tesco's Corporate Steering Wheel (Source: Tesco 2009)

The Performance Management Framework

When Sir Terry Leahy joined Tesco as their chief executive he made it clear that in order to deliver on its strategy of growth the organisation needed a clear direction, a map and a compass. The management team decided to create a performance management framework that would provide the map and outline the key strategic objectives of the

The Corporate Steering Wheel

Today, the Corporate Steering Wheel provides strategic focus by communicating what matters the most in a simple and easy to understand framework. It includes 20 corporate objectives across five perspectives. The perspectives are arranged in a circle around the central philosophy of 'Every Little Helps' and the two values of 'No one

tries harder for customers' and 'Treat people how I like to be treated'. Figure 1 shows the 2009 Corporate Steering Wheel with the following Objectives:

Financial Perspective:

- Grow Sales
- Maximise Profit
- Manage our Investment

Customer Perspective:

- Earn lifetime loyalty
- The aisles are clear
- I can get what I want
- The prices are good
- I don't queue
- The staff are great

Community Perspective:

- Be responsible, fair and honest
- Be a good neighbour

Operations Perspective:

- We try to get it right first time
- We deliver consistently every day
- We make our jobs easier to do
- We know how vital our jobs are
- We always save time and money

People Perspective:

- An opportunity to get on
- An interesting job
- A manager who helps me
- To be treated with respect

Tesco's CEO says that '*Having objectives across these five perspectives allows Tesco to be balanced in its approach to performance.*' '*Today, the Steering Wheel creates a shared language, a*

shared way of thinking and a common blue print for action' he continues.

Tesco maintains that "*Throughout all our businesses across the world we measure our performance through the Steering Wheel, whether we work in distribution, head office or in stores. This helps maintain focus and balance in what counts to run each of our businesses successfully, be it wage costs or whether customers can get everything they want.*"⁴

Cascading and Communicating the Strategy

Because the Steering Wheel captures the key strategic objectives of the company in one easy to understand picture, it is a powerful way of communicating strategy to all staff.



Figure 2: Shopping Lists
(Source: Tesco 2009)

When the Steering Wheel was first introduced the company conducted a number of 'town hall' meetings to explain the strategy. The chief executive insisted on conducting these meetings himself which were seen as a way to personally engage staff in the stores. It allowed Sir Terry Leahy to explain the strategy face-to-face and gave staff the chance to ask questions in an interactive way.

Tesco also produced little notes called 'shopping lists' to highlight the key strategic objectives for each perspective (Figure 2). These were handed out and printed as posters for the stores. Similar to real shopping lists, they act as reminders about what it important.

Today, every store and every company within the Tesco group has their own Steering Wheel to manage performance. This puts the people on the ground in control. The Steering Wheel has been translated into different languages to ensure it is used to engage frontline staff in all countries Tesco is operating in. Figure 3 shows the Polish version of the Steering Wheel.

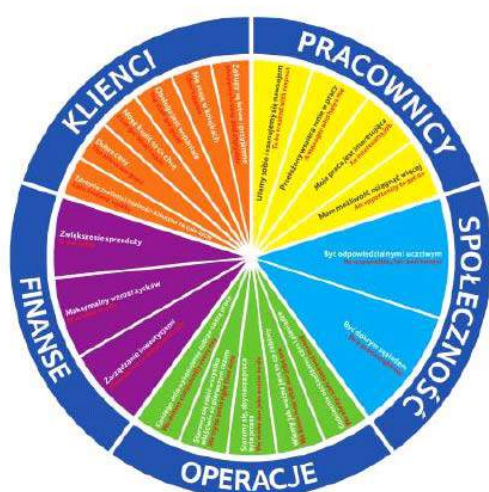


Figure 3: Steering Wheel in Polish
(Source: Tesco 2009)

Evolving the Performance Framework

In order to stay relevant any performance framework needs to evolve with the organisation and reflect the shifting priorities. Tesco has been able to change its Steering Wheel in line with a shift in strategic objectives. One of the more recent major evolutions has been to add the community perspective to the Steering Wheel. Tesco realised that issues such as climate change and the impact its presence has on the local community are important challenges. As part of its strategy it now draws up an annual community plan for each area it operates in. Figure 4 illustrates an earlier version of Tesco's Corporate Steering Wheel without the community perspective. The new community perspective has led to initiatives such as reducing the use of carrier bags by 50 percent, more locally sourced products and a reduction in the carbon footprint.

Making Strategy Everyone's Job

Sir Terry Leahy not only pushed the implementation of the performance management framework he also made another change which many would see as controversial: He closed the strategy department. His reason for this was that he didn't want only one department or one leader who is seen as responsible for strategy and performance; he wanted thousands of leaders who live and understand strategy.

Engaging People in Performance

Sir Terry Leahy has no doubt that implementation matters, not just strategy. He maintains that training and education is essential to ensure people understand how they can contribute. To that end Tesco created a local Steering Wheel template for stores to engage staff, facilitate a local discussion and capture local challenges. The template (see

Figure 5) asked what is good and not so good for each of the five perspectives and most importantly how individuals can help to improve it. This simple template engages people in performance and makes them think about how they can improve performance. In addition to capturing the ideas of front line staff it allows the store manager to write a message in the bottom field.



Figure 4: Earlier Version Steering Wheel
(Source: Tesco)

Creating a Performance Culture

Tesco wanted to establish a culture in which everybody feels responsible for performance. Where staff come up with new ideas and where they are allowed to challenge and improve performance. Sir Terry Leahy says that '*people mustn't hold in knowledge and need to share thoughts and information*'; he adds '*...we have to take risks to be successful. This means we have to allow people to be wrong. We are not about box-ticking and being wrong with everyone else.*'

Measuring Performance – The Pragmatic Way

Tesco has many performance indicators but as Sir Terry Leahy says "*The danger is to look at them in isolation and out of context. We try to put them into*

context and pay a lot of attention, regular attention, to the indicators that matter the most to our business". Tesco's philosophy is not to answer every conceivable question with their performance data but only those that help to answer the critical and most important questions.

Tesco always stressed it needed practical insights. Instead of building the largest data base it could, pragmatism ruled and the goal was to build the smallest data storage that would give useful information.⁵ When it comes to performance data, managers talk about professionalism and not perfectionism. A good example is the fact that the company is happy to look at just a 10% sample of the data to identify key issues and then investigate it further using larger data sets for the questions that actually matter to customers and the business.

Having the right performance data and the ability to analyse that data are the keys to good management insights and evidence-based decision making. They help to answer the 'big' questions and put performance data into context.

The Power of Analytics

The ability to collect and analyse data has transformed Tesco from a company that thinks it knows what customers want to one that has the knowledge and insights into what customers prefer and how these preferences keep shifting over time. Sir Terry Leahy states "*We don't spend a pound or dollar on a store without talking to our customers – They are the best management consultants.*"

From Customer Data to Insights

An essential component of Tesco's performance data is its customer knowledge. Back in 1994, Tesco introduced its loyalty programme called Clubcard. However, while it was introduced as a

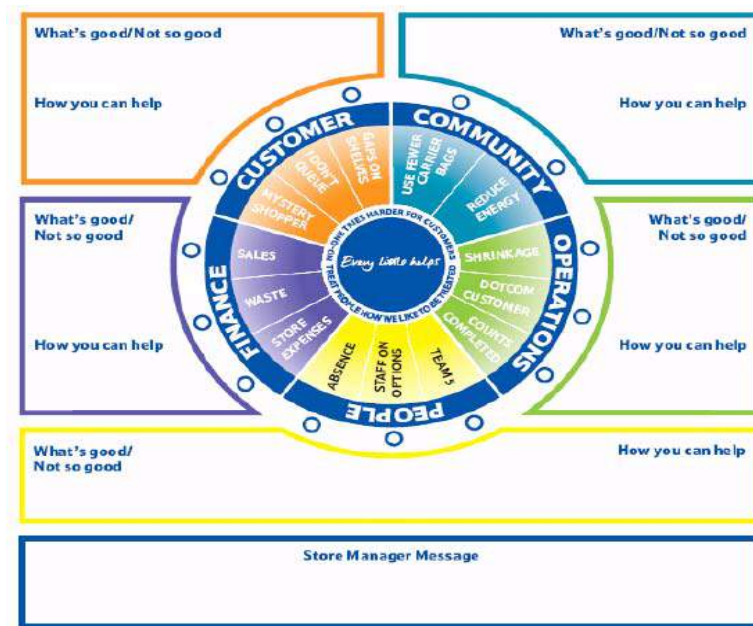


Figure 5: Tesco's Corporate Steering Wheel Template (Source: Tesco 2009)

loyalty scheme, the main premise underpinning the Clubcard was to gain insights to help Tesco improve the way it runs its business. Experts agree that loyalty schemes that are only used to target customers with discounts and offers are ultimately self-defeating. However, it was the potential to generate competitive advantage from the data that made senior leaders in the company back the idea.

Today, Tesco operates one of the most successful loyalty programmes ever created. With over 14 million users the Clubcard scheme allows Tesco to collect detailed transaction information on two thirds of all shopping baskets processed at their tills.

For the scheme to remain useful, it was critical that Tesco was able to turn its data into customer knowledge it could act on.

Mastering the Data through Partnership

Many of Tesco's competitors abandoned their loyalty card schemes and argued that analysing all the data would be madness. When Tesco started

with the clubcard scheme it decided to outsource the data analysis to Dunnhumby – a company that specialises in data analysis. Tesco realised it didn't have the skills to systematically analyse mass data and therefore left it to Dunnhumby to develop the strategy for the data analysis. Later on Tesco decided to buy a 53% stake in this company.

Developing In-House Analytical Competencies

With the increasing realisation that analytics are an important driver of success, Tesco realised that it needed to have in-house competencies to analyse customer and performance data. It created an internal team that was responsible for analysing data and extracting insights. Tim Mason, Tesco's marketing director and chairman of Tesco.com explains: *These people are geographers, statisticians who had spent a lot of time applying those skills to understanding how customers would behave. They could crunch through the stuff that came from the Clubcard, see the patterns in it and they could start to help the management of the*

*business understand what was going on, but also point towards what should be done about it. They had to find the data, and present it in a way that makes the decisions stark, and clear.*⁶

Tesco ensures it maintains the ability to develop common sense responses. It aims to create processes which enable relevant insights to be used to improve the reality for customers.

Experiments as a Way of Life

In the same way Tesco is never making any changes unless talking to its customers, it also ensures it runs experiments to test ideas before implementing them on a wider scale. The performance data plays a vital role in this process and has enabled Tesco to take new ideas and offers to smaller groups of customers while using the remaining customers as control groups. This takes a lot of risk out of innovative ideas. In many ways the performance and customer data has become a powerful laboratory to test whether new ideas work or not. Clive Humby, Terry Hunt, and Tim Phillip recall that Tesco's performance information, especially its Clubcard data, is not just about passively observing trends, it is a massive laboratory of customer behaviour:⁷ *"When it was doing something wrong, it knew about it in days. When it was doing something right, it could implement it nationwide in weeks."*

Tesco's marketing director Simon Uwins says: *"As a company we have moved from being intuitive to being analytical. This is a much more complicated business than it used to be. We don't forget our*

intuition, but better data lead to better thinking, and our data give us the confidence to ask the right questions. You can have all the data you want, but the key is to use them to ask the right questions."

For example, Tesco is now able to conduct experiments to understand whether new product lines, innovative offers and price reductions have the desired effects. Using its customer data allows Tesco to track the response immediately, which takes a lot of guess work out of business decisions.

Conclusion

Tesco has demonstrated that keeping it simple can be a powerful approach to managing corporate performance. It has demonstrated three important aspects:

1. By keeping the performance framework simple and easy to understand it is able communicate what matters the most to everyone in the company.
2. By creating simple tools such as the Local Steering Wheel Template and the Shopping Lists it is able to engage people in performance and delegate responsibility for performance improvements to front line staff.
3. By not measuring everything it could and instead focusing only on the data that will provide relevant insights Tesco is able to deliver improvements that benefit customers and its business.



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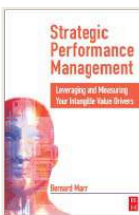
Endnotes, References & Further Reading



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- What is the **Balanced Scorecard**?
- What is a **Key Performance Indicator**?

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¹ Clive Humby, Terry Hunt, and Tim Phillip, 2008, *Scoring Points: How Tesco continues to win customer loyalty*, Kogan Page, London, Page 86.

² For more information see the Tesco website. Source: Tesco.com

³ The text in this section is based on and adapted from the Tesco website. Source: Tesco.com

⁴ This quote is taken from the Tesco website. Source: Tesco.com

⁵ Ibid (see endnote 1) page 105

⁶ Ibid (see endnote 1) Page 93.

⁷ Ibid (see endnote 1) page 106