



## **Supply chains: the supermarket**

*Monk-buckets and mango-pickers in a Thai Tesco*

### **Commentary:**

Thailand's another of the South East Asian countries that hosts Tesco's expansion overseas. Thailand has been through rapid industrialisation and economic growth, and like other South East Asian economies it also went through a period of economic crisis in the late 1990s.

### **Jeff Adams, Chief Operating Officer, Tesco Lotus:**

Well, you find out the development of the business. We had a vision, this is at the very beginning before the first store opened, that within five years we would open 25 stores because basically there was no-one here at that time and we believed that the concept would be well accepted, so from the beginning we made our plans that way. And in doing that we set down an infrastructure that would support that development so very early on, even at the first store, we started to develop things like the supply chain. We had a distribution centre for our first store. We knew that in order to develop as quickly as we wanted to that we were going to have to bring the supply chain along with us. If we didn't do that then we would never be able to get the goods that we needed to supply the stores, because it just didn't exist.

### **Commentary:**

We'll look at the supply chain in a moment, but first let's take a look at Tesco itself. In Thailand, as in Korea, Tesco's entry into the market has been through a partnership, in this case with the Lotus retail group, part of the CP conglomerate. As in Korea, this building is multi-storey, although here the Tesco Lotus operation itself is on just one floor. The rest of the space is devoted to concessions. Tesco has been trading in Thailand for eight years but this particular store at Rama Four Street in Bangkok is just two years old.

### **Veerachai Sirivatanapa, Store Directing Manager, Tesco Lotus:**

We're going to be celebrating our two year anniversary on the 28<sup>th</sup> and we have a lot of customers to participate on that day, so on that day a person who was born on the 28<sup>th</sup> can get a free cake for free, and then also we have a very big cake so in the evening by 6pm we will cut and celebrate, and drink, eat cake, and champagne and wine, everything for the customer who enjoy that party in the evening.

### **Commentary:**

It's a long way from the beginning.

### **Jeff Adams, Chief Operating Officer, Tesco Lotus:**

Our first delivery that came to our first store was delivered and the container that it was in was in trash bags. The guy who delivered it didn't even know what a purchase order was when we asked him what the delivery purchase order was, so we had nothing to receive it against. It took us about two hours to finally figure out what it was, and when we did it wasn't even the item that we had ordered.

### **Commentary:**

That anecdote arises because Tesco Lotus emphasises domestic sourcing from indigenous Thai suppliers, and from Thai subsidiaries of transnational companies who manufacture locally.

### **Jeff Adams, Chief Operating Officer, Tesco Lotus:**

The multinational guys are great, I mean the multinational guys have been involved in consumer products, things like shampoos and detergents, but they also carry over into a third, of course Coca Cola and Pepsi and those coffee, Nescafe, and those type of things, but they're not involved in fresh food. Fresh food has traditionally been distributed here through a

network of small vendors to local markets, and that's still predominantly how it's done. 80% of the customers that shop with us also still shop at some of these traditional markets, so it's a changing environment at the moment, but fresh food would not be dominated by big multinational players, it's still done through local markets.

**Commentary:**

Now the operation has become much more efficient, but before we look at just how that was achieved, let's look at the Rama Four store. Fresh food and vegetables are central to the Thai diet, reflecting local agricultural conditions and local preferences. The rancid smelling, but sweet tasting durian is an acquired taste that hasn't made it yet to the west. Thai men generally spend some time as a Buddhist monk so every family is acquainted with one or more. The obligation to support the monks is made easier by the provision of pre-packed baskets, or 'monk buckets' which are especially popular at festival times. Rice is extremely important here too. There's much more space than you'll find in temperate countries, and many more varieties. Fresh fish is also prized, and in this store they'll prepare and cook it for you while you wait. Mangoes are currently in season so there's the expected display of those. But over in the hard lines section you'll also find the special tool used to retrieve mangoes straight from the tree. As in Korea this is much more of a hypermarket than a supermarket. There's a wide range of electrical goods, for example, including a particularly popular range of fans as Thailand is currently enjoying a heatwave.

**Jeff Adams, Chief Operating Officer, Tesco Lotus:**

I think the appeal comes in the fact that we've combined both shopping and entertainment, which is the way that the customers here wanted it. They were used to shopping, and still do, in some of the traditional markets, but they view shopping a bit differently than the western world in that it is a family day out and that's what you see if you go to our stores. You'll find where there are four or five members of the family and they've come to do a little shopping, to have a meal while they're there, maybe run a video, play some games, it becomes a family day out.

**Commentary:**

You'll also find clothing as you do in many UK Tesco stores, as well as musical instruments and financial services. This is a big step forward for Thailand. Credit is notoriously difficult to obtain, especially at rates that individual consumers can afford.

**Veerachai Sirivatanapa, Store Directing Manager, Tesco Lotus:**

For the financial service we have two companies attached to Tesco Lotus to provide a financial service, and let's say a customer wanted to buy high ticket value items, they can apply for a financial service that's good for them to make it easier to purchase the merchandise, and also at Tesco Lotus we have launched a Tesco Lotus card for the customer to use as a credit card to shop in any Tesco Lotus store.

**Commentary:**

But it's what's behind the stores, the developing supply system, that's of most interest to us in Thailand.

**Jeff Adams, Chief Operating Officer, Tesco Lotus:**

Initially it was quite difficult to get people to understand that our supply chain was built around on-time deliveries and we actually built it into our systems that it considers how a vendor is performing, and takes that into consideration when it's going to do an order, and if the vendor's not very reliable it'll order a bit more so that we have coverage. If he's performing up the standard we expect then it will back off a little bit and say okay, this guy's reliable so we'll not order quite as much from him because we can expect to get it.

**Commentary:**

Tesco Lotus have had to build up the supply system from scratch.

**Jeff Adams, Chief Operating Officer, Tesco Lotus:**

What we did is that because we've had a clean slate, which is a pretty unique situation for you to come into as a retailer, it's nice to have that, we could put in what we wanted, and so at the time we were able to bring in the latest technology, and you find that throughout our stores. It was not an issue as far as getting our staff to using it, in fact it's one of the key things that set about liking to work for us is that we do bring some of the latest technology. Where we found an issue was when there was a big step down between us and most of our suppliers. If you get beyond the top hundred, then the technology that you're looking at from some of these guys is probably a fax machine, maybe a PC, but in most of the cases not even a PC.

**Neil McCann, VP, Supply Chain & Distribution, Tesco Lotus:**

We opened our first distribution centre in October last year. Before that date all fresh merchandise went direct to store, so direct to 33 stores, so it was very difficult for the business to ensure consistent quality and a consistent food safety like all across the entire business. Now the opening of the DC enables us to centralise distribution of those products. We now buy against specific specifications, we check the product temperatures on arrival and condition on arrival, and we work very closely with the vendors to try and help them improve standards, improve efficiency and improve the traceability and accuracy of temperature across the culture. We service 32 hypermarkets from here and six Express convenience stores which we've recently opened. The stores are throughout the length and breadth of Thailand from Chiang Mai in the distant north down to Hat Yai and Phuket in the south of Thailand. We deliver to all stores every day. The furthest stores away are the ones in the south which are over a thousand kilometres, so journey times are in excess of twenty hours each way, and so they're very long distances for us to travel, although the road infrastructure in Thailand is now quite strong. The biggest stores receive up to ten 40-foot vehicle loads a day, the smaller hypermarkets only two or three and the Express stores are receiving one delivery a day of about half a small vehicle load. Our staple products really are rice, sugar, cooking oil, where we distribute in very large quantities, they come in in pallets and we distribute in pallets, they're very inexpensive items in Thailand. Typically a bag of rice will be selling for less than 50p, but at the top end of the site we also have hi-fi equipment, large screen TVs which will be selling for up to a thousand pounds, so a big difference in terms of the value of the products, and the characteristics of the products within the site. Medium-size suppliers tend to supply across the range, they're particularly prevalent in fresh food and in fish, where we work with a lot of very small vendors who are small farmers and small producers, but even within the grocery range once you get away from the leading items there's a wide range of small and medium-size vendors who've been servicing the business for many, many years. The development of this facility has enabled the small vendors to service the business as it's got larger and larger without the need for them to develop substantial nationwide distribution capabilities.