



Supply chains: the supermarket

Managing Thai Tesco

Commentary:

Superficially this looks very like one of Tesco's UK distribution centres. It handles all items, ambient and non-ambient, food, non-food, chilled and frozen. In fact, because of the heat of Thailand, even the definition of what produce can be classified as ambient has to be narrowed. The difference is from distribution in industrialised countries very apparent at the arrival docks.

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

The deliveries do arrive here on a huge range of vehicles ranging from the most modern vehicles, typical of the things you would find in Europe and North America, so articulated vehicles with products on pallets, neatly built, standard Thai highs, nice barcodes, fully international standards, but they represent a relatively small amount of our vendor base. The majority of stock arriving at the DC is on small vehicles, on pick-up trucks, open-sided, or covered with tarpaulin, it's not palletised so we have to palletise the stock as it arrives here on the DC. Frequently it doesn't have barcodes so we apply our own barcode labels onto the boxes as they arrive at the DC.

Commentary:

Inside this DC there's also an automated area. Without doubt the biggest shock is the microclimate. On the day we filmed temperatures outside were 42 degrees Celsius. Inside the frozen goods section of the DC the temperature is a constant minus 25 degrees Celsius. As the food hasn't been as fully prepared by the vendors as in more developed supply systems, people move things around much more than you would expect.

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

It is a challenge for the vendors to move their coldchains forward. Typically in Thailand awareness of coldchains and the importance of food safety has not been high. It's been driven by the international retailers with Tesco amongst the leaders working with them, educating them, teaching them what they need to do, and also through the volume of business we're beginning to do with some of these vendors, giving them the ability to make the investments they need to bring the coldchain up to international standards. In many ways it's very similar to the UK. The overall drive of the site is to achieve product availability in the stores, on the shelves, for customers to buy. The major differences between the UK and Thailand are in the cost drivers that drive the sort of operation that we run here as opposed to the UK. The trade-offs between capital and labour are very different here which means that we tend to employ more people and our processes are slightly more labour intensive than they would be in the UK. We look after the staff well here, they're well paid by Thai standards, and we look after their welfare, and consequently we've got a very motivated, very loyal staff, and we suffer very, very low level of turnover, which does help us in terms of training and developing our staff.

Commentary:

The cost structure is very different. Operations are labour intensive. When a delivery arrives at the store it's all hands to the task. There's no great benefit to be gained yet from reducing the number of touches. Behind the scenes storage is at a premium in this store so if it can't be behind the scenes it's kept in full view.

Veerachai Sirivatanapa, Store Directing Manager, Tesco Lotus:

As you can see we have a very high shelf that's sometimes ten foot high so actually the high ones, one to seven, is for the customer and beyond that is for the stock, it's for the staff to get down to get the merchandise so that's the reason why we can keep the shelf full all the time when the customer is shopping in our building.

Commentary:

And while the goods arrive in boxes it's a surprise to see the same boxes on the shelves. The store also provides a supply and a wholesale function for small retailers.

Jeff Adams, Chief Operating Officer, Tesco Lotus:

In about 5% of our business a bit more goes to the small retail shops and they do view us as their supply chain, and it's positive actually the comments that you get from them. They enjoy coming and shopping, similar to entertainment and then buying the goods for their shop. They see it as we're their vendor, we're their supplier.

Commentary:

One area of the Rama Four store is devoted to these plug packs, as they're called. They acknowledge the role of the small local retailer and make for peaceful co-existence. In fact, really small retailers focus so much on single product ranges that there's probably no serious conflict. But the latest Tesco Lotus pilot scheme, Express stores linked to petrol stations, brings them into competition with convenience stores and kiosks in other petrol stations.

Jeff Adams, Chief Operating Officer, Tesco Lotus:

We've started a pilot project this year with Express stores, smaller formats, some challenges for us there. We've been accustomed here in Thailand operating big stores and what we've learned very quickly is that to supply these smaller stores in an efficient manner is much more difficult than it was for the big stores. You can make some mistakes in big stores and it doesn't show up because there's a lot of square footage there to cover things up, but if you make those same mistakes in your supply chain in a small store you're either out or you've got nowhere to put it because there's just no back room space.

Commentary:

There's a very neat low tech solution to the delivery problem. If the store runs low they send someone round to the nearest Tesco Lotus hypermarket which acts as a mother store. With Tesco Lotus anticipating saturation with their larger stores, this attempt to provide an alternative to the local convenience store is especially interesting. The pilot project is a joint venture with Esso. Tesco are developing the same joint venture approach with Esso in the UK. This acknowledges the different role of the petrol station convenience store as a major competitor to the UK supermarket. Such stores are well known in the UK. What do they provide in Thailand? There's a restaurant, for instance, serving drinks and hot food. There's also a pharmacy and a wide range of items from fresh fruit to clothing. There's also a complete range that we haven't spoken about yet. It's the Thai equivalent of Tesco UK's value range and their Korean house brand.

Jeff Adams, Chief Operating Officer, Tesco Lotus:

Well we started about two years ago now, two-and-a-half years ago now with our own brand product which we called Super Save. We tested some of the Tesco brands from the UK and from a consumer standpoint they didn't really latch on to it, so we developed a new name which is called Super Save for those products, and it's done quite well. I'm quite surprised now when I go to customer panels at not only the number of people who are using the product, but the positive comments that are coming back from them. They see the benefits in the house brand products, lower prices, good quality, and they consider themselves to be efficient shoppers so their view on those products is that it makes them more efficient in shopping and spending their money, they're better off. We've extended that range now just recently where we brought similar to the Value lines from the UK. It's got a local name called Khoon-khaa which in Thai means value, and those early days, you know we've only introduced it about sixty days ago, but again great consumer response, I think building on the Super Save awareness, they see Khoonn-khaa as an extension of that.

Commentary:

Designed to be a range of basic essentials - rice, tissues, and coat hangers, are to be expected - quite why table tennis balls are part of the range is anyone's guess. These are Tesco's specified products made by local vendors. That involves quality control.

Jeff Adams, Chief Operating Officer, Tesco Lotus:

Particularly for house brand products, Tesco own label, we order them quite closely. For the house brand products they're open to that as part of our agreement with them. They understand the concerns that are there, and there's been very little resistance to that. They do understand there's cost involved, probably on their side, but to get to that sort of vocation allows them then to not only ship to us, but would also qualify them to be able to ship for export, which is something that we're studying not only for us within South East Asia, say Malaysia, or even Taiwan and Korea, but also back to the UK.