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Design Thinking and Innovation Report for Tesco PLC

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Introduction

The rapid digitalisation of UK commerce has changed how consumers discover, purchase and receive products, while also creating pressure on retailers to provide convenient, connected and sustainable services. This report applies the Design Thinking framework to Tesco PLC and evaluates where innovation and new venture creation are most viable within the changing UK market. Design Thinking is particularly appropriate because it begins with human needs rather than technology and encourages organisations to move repeatedly between understanding users, defining problems, generating ideas, developing prototypes and testing solutions (Brown, 2008). The approach is also consistent with contemporary innovation thinking, which views innovation as a systematic process of identifying opportunities and converting them into customer and organisational value rather than simply generating new products (Drucker, 1985). Tesco is a suitable case because it already combines a large physical store network with grocery home shopping, rapid delivery and digital customer engagement. Its 2026 Annual Report emphasises reach, customer insight, supply chain capability and the ability to serve customers whenever, wherever and however they choose to shop (Tesco PLC, 2026). The UK market also provides a strong foundation for further digital innovation because online sales represented 27.4 per cent of total retail sales in 2025, while online retail continued to represent a significant part of consumer purchasing behaviour (ONS, 2026). Therefore, the central argument of this report is that Tesco should not treat digital transformation simply as an extension of online grocery shopping, but should use its stores, data, logistics, Clubcard ecosystem and supplier relationships to create an integrated local digital commerce model that connects consumers, smaller producers and delivery capacity. This approach can strengthen Tesco's competitive position while addressing the accessibility, convenience and sustainability challenges identified in the scenario.

Opportunity Areas and Strategic Innovation Analysis

The first major opportunity area for Tesco is an integrated digital marketplace for local and small businesses, supported by a second opportunity in rural and suburban fulfilment, a third in data driven personalised commerce, and a fourth in sustainable last mile delivery. The opportunity is significant because the UK has approximately 5.7 million private sector businesses, with small and medium sized enterprises accounting for 99.85 per cent of the business population (Department for Business and Trade, 2025). Although digital adoption is increasingly widespread, the UK Business Data Survey found that smaller organisations remain less likely than larger organisations to gain efficiency and innovation benefits from their data use, demonstrating that possessing digital technology does not automatically mean that businesses have the capability to use it effectively (DSIT, 2026). This creates a market gap for Tesco to provide smaller producers, independent retailers and local service businesses with a simple route into digital commerce rather than expecting each business to develop its own website, payment system, marketing capability and delivery infrastructure. From an Empathise perspective, the pain point is therefore not simply the absence of technology, but the complexity, cost and time associated with adopting several disconnected technologies. A local farm shop, bakery or independent producer may have social media accounts but lack integrated stock management, secure online payment, customer data, digital marketing and affordable delivery. Tesco could address this gap through a Tesco LocalLink proposition, allowing selected local businesses to create digital storefronts through Tesco's existing digital ecosystem while using Tesco stores or local collection points as fulfilment hubs. This would reflect service dominant logic because value would be co-created among Tesco, local suppliers and customers

rather than being created solely by Tesco and delivered to passive consumers (Vargo and Lusch, 2004). The second opportunity is rural and suburban fulfilment. The scenario identifies the growing expectation of home delivery, but rural delivery can be expensive because of greater distances, lower order density and inefficient final mile journeys. Nevertheless, digital infrastructure is improving. Ofcom reported that 42 per cent of UK premises with access to full fibre had taken a full fibre service by July 2025, with rural full fibre take up reaching 56 per cent compared with 40 per cent in urban areas (Ofcom, 2025). This suggests that rural communities should not be treated as permanently unsuitable for digital commerce. Instead, the challenge is to develop a commercially viable fulfilment model around local demand. Tesco has an important advantage because its extensive physical store network can function as a distributed logistics infrastructure. Its existing Whoosh service demonstrates this principle, with orders picked from local stores and delivered rapidly to customers, meaning that stores can operate as fulfilment points as well as traditional retail locations (Tesco, 2026a). The third opportunity is data driven personalised commerce. Tesco already possesses a major customer data asset through Clubcard, online shopping behaviour and store transactions, allowing it to understand purchasing patterns and potentially match customers with relevant products from local producers. Personalisation could be used to recommend local produce, seasonal products and community offers, thereby improving customer experience while helping smaller suppliers access demand. This is consistent with Marketing 5.0, which argues that technology should be used to improve customer relevance while maintaining a human centred approach (Kotler, Kartajaya and Setiawan, 2021). The fourth opportunity is sustainable last mile delivery, where route optimisation, electric vehicles, collection points and demand aggregation could reduce the environmental and financial cost of individual deliveries. Tesco has already demonstrated technological capability in this area, reporting the use of AI tools to identify efficient journeys for lorries and delivery vans and remove approximately 100,000 miles per week from its logistics activity (Tesco PLC, 2026). The opportunity therefore exists to extend these capabilities beyond Tesco's own products towards a wider local commerce network. The opportunities are also strategically attractive because online shopping is no longer a temporary pandemic behaviour. ONS data show that internet sales accounted for 27.4 per cent of total retail sales in 2025, substantially above the 19.2 per cent recorded in 2019 (ONS, 2026). Furthermore, Kantar reported that Tesco held approximately 28.3 per cent of the UK grocery market in February 2025, demonstrating the scale of its customer reach and giving it a strong platform from which to test new services (Kantar, 2025). From a competitive advantage perspective, Tesco's combination of stores, customer data, supplier relationships and logistics represents an interconnected value chain that would be difficult for a small digital competitor to replicate (Porter, 1985). The key market gap is therefore not another generic online shop, because customers already have many such options, but an integrated platform that combines local products, trusted fulfilment, digital payments, personalised discovery and convenient collection or delivery. This could also support open innovation because Tesco could work with independent producers, technology companies, local authorities and delivery partners rather than attempting to develop every capability internally (Chesbrough, 2003). Consequently, the strongest opportunity areas are those that use Tesco's existing assets to solve problems for both sides of the market, particularly the digital capability gap experienced by smaller suppliers and the cost and convenience problems associated with local and rural delivery.

Evaluation of Viability, Scalability and Sustainability

The most viable opportunity for Tesco is therefore an integrated local digital commerce and fulfilment platform because it combines identifiable customer pain points with technological feasibility, existing organisational capabilities and opportunities for scalable revenue

generation. The opportunity should be evaluated through a combination of Design Thinking, the Business Model Canvas, the value chain and a Lean Startup approach rather than relying on Design Thinking alone. Design Thinking is valuable because it encourages Tesco to understand the experiences of local producers, rural consumers, store colleagues and delivery partners before committing substantial investment. Stanford's design methodology identifies Empathise, Define, Ideate, Prototype and Test as core modes, while also stressing that design should not be treated as a rigid linear process (Stanford d.school, 2025). This is important for Tesco because the proposed platform will operate within a complex system rather than a single customer transaction. For example, a customer may want locally produced food delivered at a convenient time, but the producer may require predictable demand, the store may need manageable picking processes and the delivery partner may require efficient routes. A solution that satisfies only the consumer could therefore fail operationally. The Business Model Canvas provides a useful complementary framework because the venture needs to identify customer segments, value propositions, channels, customer relationships, key resources, activities, partners, costs and revenue streams (Osterwalder and Pigneur, 2010). The principal customer segments would be consumers seeking convenient local products, small and independent suppliers seeking digital access to customers, and potentially local businesses seeking shared delivery services. The value proposition would be a trusted Tesco powered local marketplace that enables customers to discover, purchase and receive products from nearby businesses through familiar digital channels. For suppliers, the value proposition would be access to digital commerce without the need to build a complete technological and logistics infrastructure independently. Revenue could come from a modest transaction commission, delivery fees, supplier subscriptions for enhanced digital services and potentially promotional services, although Tesco should avoid excessive fees because this would reduce supplier participation. Teece (2010) argues that an effective business model must explain how an organisation creates, delivers and captures value, making this consideration essential before scaling the concept. The venture also has a potentially strong competitive position because Tesco already operates a large network of stores and has significant online grocery activity. In its 2025 to 2026 results, Tesco reported UK online sales of more than £7 billion, representing 11 per cent growth, while Whoosh sales increased by 51 per cent to more than £400 million (Tesco PLC, 2026b). These figures indicate that Tesco has both customer demand and operational experience in digital fulfilment. The service could initially be launched in selected rural and suburban locations where Tesco has suitable stores and where local suppliers demonstrate sufficient customer interest. This would reduce risk because Tesco could experiment without immediately changing its entire national operating model. A Lean Startup approach is appropriate because the business case contains assumptions about supplier willingness, customer demand, delivery economics and repeat purchasing that cannot be reliably answered through desk research alone. The Minimum Viable Product should therefore be deliberately simple and focus on proving whether customers and suppliers repeatedly use the service rather than attempting to build a fully developed marketplace from the beginning (Ries, 2011). Customer adoption can also be considered through the Diffusion of Innovations perspective, because consumers and suppliers will adopt the service at different rates depending on perceived relative advantage, compatibility, complexity and observability (Rogers, 2003). Early adopters may be digitally confident consumers and producers who already use social media for selling, while less digitally confident businesses may require onboarding support. This reinforces the findings of the UK government's SME Digital Adoption Taskforce, which states that SMEs value reliable and personalised support when adopting digital technologies (Department for Business and Trade, 2026). Tesco could therefore differentiate the venture not only through software but through human support, including onboarding, photography, catalogue creation and simple training. Sustainability should also be considered in economic, environmental and social terms.

Economically, aggregated local deliveries could improve route density and reduce delivery costs per order, while transaction commissions and increased Tesco customer engagement could create additional revenue. Environmentally, collection points and consolidated delivery routes could reduce unnecessary journeys, particularly if electric vehicles are used. Tesco reported 1,249 electric home delivery vans in the UK in its 2026 sustainability reporting, representing 21 per cent of its fleet, which provides evidence that the company is already developing the infrastructure required for lower carbon delivery (Tesco PLC, 2026c). Socially, the platform could increase the visibility of local producers and provide consumers in smaller communities with greater choice without requiring every supplier to invest independently in complex digital infrastructure. The proposal also fits the omni channel retailing concept, where consumers increasingly move between physical stores, websites, mobile applications and other digital touchpoints rather than treating channels as separate experiences (Verhoef, Kannan and Inman, 2015). Tesco could therefore position LocalLink as an extension of its existing ecosystem rather than a completely separate business. The principal risks would include data protection, supplier quality, inconsistent product availability, delivery failures, cannibalisation of existing Tesco sales and operational complexity. These risks could be controlled through supplier standards, limited geographic pilots, clear service level agreements, customer feedback mechanisms and staged investment. The platform could also use Tesco's existing payment and customer service infrastructure, reducing development costs compared with an independent start up. Porter's information revolution perspective remains relevant because better collection, processing and transmission of information can transform competitive advantage when it is integrated into business processes rather than treated simply as an IT investment (Porter and Millar, 1985). Overall, the opportunity is viable because it builds on assets Tesco already possesses, addresses a recognised digital capability gap and responds to continuing consumer demand for online purchasing. Its scalability would come from replicating a tested operating model across towns and regions, while sustainability would come from stronger delivery density, digital enablement of local suppliers and increased utilisation of Tesco's existing physical network.

Applying the Five Stages of Design Thinking to the Tesco LocalLink Venture

The proposed Tesco LocalLink venture can be developed through the five stages of Design Thinking, beginning with Empathise, where Tesco should investigate the experiences of the people affected by the problem rather than assuming that technology is the answer. The research should involve interviews and observation with at least three user groups: small local producers and independent retailers, consumers in rural and suburban communities, and Tesco colleagues or delivery partners involved in picking, fulfilment and last mile delivery. The research should investigate what users currently do, what frustrates them, what workarounds they use and what outcomes they consider valuable. Brown and Wyatt (2010) argue that Design Thinking can generate stronger solutions by working closely with users and allowing needs to emerge from the people experiencing the problem rather than imposing solutions from the top down. Interviews with local producers may reveal that the main problem is not simply a lack of an online shop but the combined burden of taking product photographs, updating stock, processing payments, promoting products, answering customer messages and arranging delivery. Consumers may reveal that they value local products but find it difficult to discover what is available locally or are discouraged by high delivery charges and uncertain delivery times. Delivery partners may identify inefficient routes and low order density as barriers to profitable service. Tesco colleagues may highlight operational constraints around picking

space, stock accuracy and peak time capacity. The second stage, Define, should transform these observations into a focused problem statement. A suitable problem statement is: "Small local producers and consumers in rural and suburban communities need a simple and trusted way to discover, purchase and fulfil local products online because fragmented digital tools, limited marketing capability and inefficient last mile delivery make local digital commerce costly and inconvenient." This statement is deliberately broader than "Tesco needs a new app" because the problem is about the user experience and the wider service system. The Define stage should also identify the underlying opportunity through a customer journey map covering discovery, product selection, payment, fulfilment, delivery, collection and post purchase support. Stanford's design approach stresses that defining involves synthesising information and identifying meaningful patterns rather than simply restating the initial problem (Stanford d.school, 2018). The third stage, Ideate, should generate several possible responses before selecting one. Ideas could include a local supplier marketplace within the Tesco app, digital kiosks in selected stores, shared collection lockers, scheduled local delivery days, AI supported local product recommendations, supplier digital training, community food boxes and a pooled delivery service for local businesses. The strongest concept would combine several of these features into LocalLink rather than treating them as independent products. Customers could open a LocalLink section in the Tesco app, enter their postcode and see participating local producers and retailers. They could order selected products alongside Tesco goods, choose a Tesco store collection point or a consolidated local delivery slot, and receive updates through the existing app. Suppliers would have a simple dashboard for stock, pricing and orders, supported by Tesco onboarding staff. LocalLink could also use customer purchase data to recommend relevant local products, although data governance and customer consent would be essential. This concept reflects the idea of customer co creation because the service creates value through interactions between Tesco, customers, suppliers and delivery partners (Vargo and Lusch, 2004). The fourth stage, Prototype, should avoid creating an expensive national platform immediately. Instead, Tesco should develop a low cost MVP in one or two carefully selected regions. The MVP could involve approximately 20 to 30 local suppliers, one or two Tesco stores, a limited catalogue and a restricted number of delivery and collection windows. The first version could use a simple mobile web interface connected to an existing Tesco digital environment rather than requiring a completely new application. Suppliers could receive a basic portal for uploading products and stock, while Tesco staff could manually support fulfilment where necessary. The purpose of the prototype would not be operational perfection but learning. This approach is consistent with Blank and Dorf's (2012) customer development model, which emphasises testing assumptions with customers and developing a repeatable and scalable business model. The prototype should establish a number of clear hypotheses. First, customers will be willing to purchase local products through a Tesco platform. Second, local suppliers will consider the commission and onboarding requirements worthwhile. Third, consolidated delivery and collection will provide acceptable economics. Fourth, the additional service will increase customer engagement rather than simply shift existing Tesco purchases. Fifth, operational complexity will remain manageable within selected stores. The fifth stage, Test, should use controlled experiments and qualitative feedback to assess these assumptions. Tesco should measure customer registration, conversion from browsing to purchase, repeat purchase rates, average basket value, delivery cost per order, supplier retention, order accuracy, customer satisfaction, cancellation rates and the proportion of orders collected rather than delivered. Testing should also compare different delivery propositions, such as standard local delivery, consolidated delivery days and free or discounted collection. Qualitative testing should involve interviews with customers and suppliers immediately after transactions because numerical performance data alone may not reveal why users behave in a particular way. Liedtka (2018) argues that Design Thinking can help innovation teams overcome behavioural and

organisational biases by creating structured ways of learning from users and experimenting with alternatives. If customers value the service but delivery costs are too high, Tesco could modify the proposition towards collection points. If suppliers struggle with digital onboarding, Tesco could simplify the portal or provide greater support. If customers demonstrate strong demand for specific product categories, the marketplace could prioritise those categories before expanding. If repeat purchasing is weak, Tesco could use Clubcard based recommendations, seasonal promotions or local product bundles. The process should therefore be iterative rather than linear, with findings from testing returning the team to Empathise, Define or Ideate when necessary. This is particularly important because the Stanford d.school now emphasises design abilities and flexible modes of working rather than treating Design Thinking as one rigid sequence (Stanford d.school, 2025). The venture should also use open innovation by inviting participating suppliers and technology partners to suggest improvements, which can reduce Tesco's internal development burden and improve the quality of the service (Chesbrough, 2003). Over time, a successful pilot could be expanded to additional regions using common technical standards, supplier onboarding processes and fulfilment rules. The concept could eventually develop into a broader Tesco local commerce ecosystem covering food, household products, local services and community based delivery. This would create a new source of value while strengthening Tesco's existing physical and digital channels. The key principle is that Tesco should scale evidence rather than assumptions. A successful test would therefore be defined not simply by high initial registrations, but by evidence that customers repeatedly purchase, suppliers remain active, deliveries or collections are economically viable and the service creates measurable customer and community value. This approach reduces innovation risk because Tesco would invest progressively as evidence improves, consistent with discovery driven approaches to business model development in uncertain markets (Teece, 2010).

Stage	Application to Tesco	Main purpose
1. Empathise	Understand the experiences of rural and suburban Tesco customers, small suppliers, store colleagues and delivery drivers through interviews, observation, surveys and customer journey mapping.	Identify genuine user needs, frustrations and unmet needs.
2. Define	Analyse the research to identify the central problem, such as high delivery costs, limited delivery flexibility and difficulties accessing convenient online grocery services in lower-density communities.	Create a clear, human-centred problem statement.
3. Ideate	Generate several possible solutions, including consolidated delivery slots, community collection points, smart lockers, local-producer marketplaces, recurring grocery baskets and personalised delivery options.	Produce a wide range of innovative solutions before selecting the strongest idea.
4. Prototype	Develop a small-scale Tesco LocalLink MVP using existing Tesco.com, the Tesco app, selected stores and a limited number of rural/suburban delivery areas.	Create a low-cost version of the solution that can be experienced and evaluated by users.
5. Test	Pilot LocalLink with selected customers and measure adoption, satisfaction, delivery costs, delivery efficiency, repeat usage and environmental impact. Gather feedback and modify the service before wider implementation.	Validate assumptions, identify weaknesses and refine the solution before scaling.

Conclusion

The analysis demonstrates that the digital transformation described in the scenario creates significant innovation opportunities for Tesco, but the strongest opportunity is not simply to increase online grocery sales. Tesco already has substantial digital scale, with online sales exceeding £7 billion in 2025 to 2026 and Whoosh sales increasing strongly, meaning that a new venture should exploit the company's existing assets while addressing an unmet market need (Tesco PLC, 2026b). The recommended Tesco LocalLink concept would connect local producers, consumers, Tesco stores and delivery capacity through an integrated digital marketplace and fulfilment model. Its strategic value comes from combining customer insight, physical infrastructure, digital commerce, supplier relationships and logistics into a system that smaller competitors would find difficult to reproduce. Design Thinking provides the appropriate foundation because it keeps users at the centre of the innovation process and allows Tesco to learn before making significant investment. The Empathise stage identifies the practical difficulties faced by producers, consumers and delivery partners; Define converts these observations into a clear problem; Ideate generates alternative solutions; Prototype develops a controlled MVP; and Test provides evidence for refinement and scaling. The concept also has potential environmental and social benefits because consolidated deliveries, collection points and electric vehicles could reduce unnecessary journeys while digital access could help local suppliers reach wider markets. However, Tesco should manage risks relating to supplier quality, operational complexity, data protection and delivery economics through a phased pilot. Overall, LocalLink would allow Tesco to respond to the structural shift towards digital commerce while strengthening its position as an integrated physical and digital retailer. The most important recommendation is therefore that Tesco should begin with a small, evidence based pilot in selected rural or suburban communities and scale the model only after customer demand, supplier participation, operational feasibility and financial sustainability have been demonstrated.

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