

Georgi Genchev 2317090

|                                                                        |    |
|------------------------------------------------------------------------|----|
| 1 INTRODUCTION .....                                                   | 1  |
| 2 Key Consumer and Industry Trends in the UK Retail Sector .....       | 4  |
| 3 Analysis of Innovation and Current Customer Journey at Tesco UK..... | 5  |
| Current Customer Journey at Tesco.....                                 | 6  |
| Key Issues Identified .....                                            | 7  |
| 2: Proposed Digital Transformation Initiative at Tesco UK .....        | 8  |
| Overview of the Digital Transformation Initiative .....                | 8  |
| Rationale for the Initiative .....                                     | 9  |
| Description of the Proposed Digital Solution .....                     | 9  |
| Impact on the Customer Journey.....                                    | 10 |
| Business Benefits for Tesco .....                                      | 10 |
| Measuring Success and Impact .....                                     | 11 |
| Conclusion.....                                                        | 11 |
| Implementation Considerations.....                                     | 12 |
| Risks and Limitations of the Proposed Initiative .....                 | 13 |
| Expanded Conclusion .....                                              | 14 |

|                 |    |
|-----------------|----|
| References..... | 15 |
|-----------------|----|

## 1 INTRODUCTION

Tesco PLC is the largest grocery retailer in the United Kingdom and one of the most recognisable brands in everyday consumer life. The company operates a wide network of large supermarkets, convenience stores and an established online grocery platform. Because of its scale and reach, Tesco interacts with millions of customers on a daily basis, both in physical stores and through digital channels such as its website and mobile application. This makes Tesco a suitable organisation for analysing innovation and digital transformation within a real UK business environment.

The UK grocery sector is highly competitive and operates with relatively low margins. Tesco competes not only with other major supermarkets such as Sainsbury's and Asda, but also with discount retailers like Aldi and Lidl. In this environment, price alone is no longer enough to secure customer loyalty. Retailers are expected to offer convenience, reliability and a consistent experience across different shopping channels. As a result, innovation at Tesco is closely linked to improving the customer experience rather than introducing technology for its own sake.

In recent years, Tesco has placed increasing emphasis on digital capability and data-driven decision-making. One of the most visible examples of this is the Tesco Clubcard loyalty scheme, which has evolved from a traditional points-based system into a key digital tool. Clubcard is now integrated with personalised pricing, the Tesco app and online shopping, allowing the company to tailor offers to individual customers. According to Tesco's Annual Report, customer data and digital platforms play an important role in

understanding shopping behaviour and responding to changing customer needs (Tesco PLC, 2024).

At the same time, consumer expectations in the UK have changed significantly. Many customers now expect to be able to move easily between online and in-store shopping, checking product availability, managing orders digitally and accessing discounts through mobile apps. Online grocery shopping, while not replacing physical stores, has become a normal option for many households. Official UK statistics show that internet sales remain an important part of overall retail activity, reinforcing the need for retailers to invest in reliable digital services (Office for National Statistics, 2025).

Economic pressure has also shaped customer behaviour. Rising living costs and inflation have made consumers more sensitive to price and value. This has increased the importance of loyalty schemes, promotions and clear pricing. For Tesco, this means that innovation must focus on practical outcomes, such as helping customers save money, reduce frustration and shop more efficiently. Digital tools therefore need to support these goals in a simple and accessible way.

This assignment uses Tesco UK as a case study to examine how innovation is currently applied within the organisation and how digital transformation could further improve the customer journey. By analysing Tesco's existing innovation approach and identifying gaps in the current customer experience, the assignment aims to propose a realistic digital initiative that addresses real customer problems rather than theoretical opportunities. This approach

allows for a clear link between innovation theory and everyday business practice in the UK retail sector.

## **2 Key Consumer and Industry Trends in the UK Retail Sector**

The UK retail sector has changed significantly over the last decade, mainly due to the growing role of digital technology and changing consumer behavior. Grocery retail, in particular, has been influenced by the rise of online shopping, increased price sensitivity, and higher expectations for convenience. These trends directly affect how large retailers such as Tesco operate and how they approach innovation.

One of the most important trends is the continued normalization of online shopping. While physical stores remain central to grocery retail, online grocery services are now a regular option for many households. Data from the Office for National Statistics shows that internet sales represent a consistent share of total retail sales in Great Britain, confirming that digital channels are no longer temporary or experimental (Office for National Statistics, 2025). For retailers like Tesco, this creates pressure to ensure that online services are reliable, easy to use, and well-integrated with in-store operations.

Convenience has become a key driver of customer choice. Modern consumers expect flexible shopping options such as home delivery, click-and-collect and fast access to product information. Digital tools play an important role in meeting these expectations. For example, customers often rely on mobile apps to check prices, manage shopping lists or access loyalty discounts. When digital systems fail to deliver accurate information, such as incorrect stock availability or poor substitution choices, customer frustration increases. This means that innovation must focus on improving basic functionality rather than introducing complex or unnecessary features.

Another significant trend is increased price sensitivity among UK consumers. Rising living costs and inflation have made customers more focused on value and savings. Research from Kantar indicates that shoppers are increasingly responsive to promotions, loyalty schemes and personalised discounts when deciding where to shop (Kantar, 2025). As a result, loyalty programmes have become more important as tools for retaining customers rather than simply rewarding them. For Tesco, this places

additional importance on using customer data responsibly and effectively to provide relevant offers without overwhelming or confusing users.

Trust and reliability are also key factors shaping consumer behaviour. Customers expect consistent pricing, clear communication and dependable service. In the grocery sector, issues such as unavailable items, late deliveries or poor-quality substitutions can quickly damage customer trust. Digital platforms are often the first point of contact when problems arise, which means that the quality of digital communication directly affects customer perception of the brand. This highlights the need for digital innovation to support transparency and problem resolution, not just sales.

From an industry perspective, retailers are also using digital technology to improve internal efficiency. Data analytics and forecasting tools are increasingly used to manage stock levels, reduce waste and respond to changes in demand. However, while these systems may improve operational performance, their impact on customers is not always visible. This creates a gap between internal innovation and customer experience. Bridging this gap requires a focus on how internal digital capabilities translate into tangible benefits for shoppers.

Overall, the current UK retail environment places strong pressure on large retailers to innovate in practical and customer-focused ways. Consumers are not necessarily seeking advanced or complex digital solutions. Instead, they value simplicity, reliability and clear benefits such as saving time or money. These trends suggest that successful digital transformation should focus on improving the existing customer journey rather than radically changing how customers shop. This context provides the foundation for analysing Tesco's current innovation approach and identifying opportunities for meaningful digital improvement.

### 3 Analysis of Innovation and Current Customer Journey at Tesco UK

Innovation in large retail organisations such as Tesco is usually focused on improving existing services rather than creating entirely new business models. This can be clearly explained using the Innovation Ambition Matrix, which divides innovation into three broad areas: core innovation, adjacent innovation and transformational innovation. Applying this

framework helps to understand where Tesco currently concentrates its efforts and where there may be gaps.

Core innovation refers to improvements made to existing products, services or processes. Tesco performs strongly in this area. The company has continuously improved its in-store experience through self-checkout systems, contactless payments and clearer pricing linked to Clubcard. Online grocery services have also been refined over time, with better delivery slot availability and improved website and app usability. These innovations are practical and focused on reducing friction for customers rather than changing how people shop. Tesco's Annual Report highlights ongoing investment in store standards, digital tools and customer value as part of its core strategy (Tesco PLC, 2024).

Adjacent innovation involves expanding existing capabilities into related areas. Tesco has also been active here, particularly through the development of its digital ecosystem. The integration of Clubcard with personalised pricing, the Tesco app and online shopping is a strong example. Customers can access discounts digitally, track spending and receive targeted offers based on past behaviour. Tesco has also extended its services beyond groceries through Tesco Bank and partnerships with third-party brands. These initiatives build on Tesco's existing customer base and data rather than introducing completely new concepts.

Transformational innovation, however, is more limited. This type of innovation involves creating new ways of delivering value or fundamentally changing the customer experience. While Tesco uses large amounts of customer data, this data is not always used in a fully visible or proactive way from the customer's perspective. For example, customers may still experience poor substitutions, unavailable items or generic recommendations that do not reflect their personal shopping habits. This suggests that Tesco's innovation strategy is currently weighted towards incremental improvements rather than more ambitious digital transformation that could significantly change the customer journey.

Overall, Tesco's position in the Innovation Ambition Matrix can be described as strong in core innovation, solid in adjacent innovation, but relatively cautious in transformational innovation. This creates an opportunity to explore how digital transformation could move beyond efficiency improvements and focus more directly on customer experience.

## Current Customer Journey at Tesco

To understand where digital transformation could add value, it is important to examine the current customer journey. Tesco customers interact with the brand through both physical and digital channels, and their experience often moves between these touchpoints. The journey below focuses on a typical grocery customer using a combination of online and in-store services.

### Stage 1: Awareness and Planning

Customers become aware of Tesco offers through advertising, emails, the Tesco app or previous shopping experience. Many customers use the app or website to check Clubcard prices, create shopping lists or compare prices. At this stage, digital tools generally work well, although some customers may find the volume of promotions confusing or repetitive.

### Stage 2: Shopping (Online or In-store)

Customers either shop in-store or place an order online. In-store, customers benefit from self-checkout and contactless payment, which reduces waiting time. Online, customers can select products and choose delivery or collection slots. However, issues can arise when items appear available online but are later substituted or unavailable. This creates frustration and reduces trust in the digital system.

### Stage 3: Fulfilment

For online customers, fulfilment involves delivery or collection. While Tesco offers a wide range of slots, substitutions remain a common pain point. Customers often feel that substitutions do not reflect their preferences, even when they are regular shoppers. In-store customers complete their purchase quickly, but may still face stock availability issues, particularly during busy periods.

### Stage 4: Post-purchase and Loyalty

After the purchase, customers receive digital receipts and Clubcard points. Loyalty rewards and discounts encourage repeat shopping. However, feedback mechanisms are limited, and customers may not feel that their past behavior or complaints meaningfully improve future experiences.

## Key Issues Identified

The current customer journey shows that Tesco delivers a generally reliable and familiar experience, which explains its strong market position. However, the journey also highlights several gaps where digital innovation could be improved. Many of the problems

experienced by customers are not caused by a lack of technology, but by how existing technology is used. For example, customer data is collected extensively, but it is not always applied in a way that visibly improves individual experiences, particularly in areas such as substitutions and personalized recommendations.

From an innovation perspective, this suggests that Tesco's current approach focuses more on operational efficiency than on deep customer-centric transformation. Addressing these gaps does not require radical change, but it does require a more thoughtful use of digital tools to reduce frustration and build trust. These findings provide a clear foundation for proposing a digital transformation initiative in Part 2 that focuses on improving the customer journey in practical and realistic ways.

## *2: Proposed Digital Transformation Initiative at Tesco UK*

### **Overview of the Digital Transformation Initiative**

Based on the analysis in Part 1, it is clear that Tesco already performs well in terms of core and adjacent innovation, but there are gaps in how digital tools are used to improve the customer experience in a meaningful way. Many customer frustrations are not caused by a lack of technology, but by how existing data and systems are applied during the shopping journey. For this reason, the proposed digital transformation initiative focuses on improving the use of customer data to create a more personalised and reliable shopping experience.

The proposed initiative is the introduction of a **simple, customer-focused digital personalisation system** within Tesco's existing app and online grocery platform. The aim of this initiative is not to introduce complex or disruptive technology, but to improve how Tesco uses existing customer data to reduce common pain points such as poor substitutions, unclear availability and generic offers.

This initiative builds on Tesco's current digital infrastructure, particularly Clubcard and the Tesco app, rather than replacing it. By doing so, it remains realistic, cost-effective and aligned with Tesco's current strategy.

## Rationale for the Initiative

The current customer journey shows that Tesco collects significant amounts of customer data, especially through Clubcard and online shopping behaviour. However, customers do not always feel the benefit of this data during key moments of the shopping experience. For example, regular customers may still receive unsuitable substitutions or generic promotions that do not reflect their past preferences. This can reduce trust and satisfaction, even when the overall service is acceptable.

The proposed initiative aims to address this gap by using customer data in a more visible and practical way. Instead of focusing on advanced technology, the emphasis is on using existing information more intelligently. For example, if a customer regularly rejects certain substitutions or consistently buys specific brands, this information should directly influence future substitution decisions and recommendations.

This approach supports Tesco's stated focus on customer value and convenience, while also responding to wider industry trends such as increased price sensitivity and demand for reliable digital services (Tesco PLC, 2024; Kantar, 2025).

## Description of the Proposed Digital Solution

The digital transformation initiative involves three simple but connected improvements within Tesco's digital ecosystem.

First, the Tesco app and online platform would allow customers to set **basic substitution preferences** more clearly. Customers could indicate preferred brands, acceptable alternatives or items they do not wish to receive as substitutes. While some substitution options already exist, they are limited and not always consistently applied. Improving this feature would directly address one of the most common customer complaints in online grocery shopping.

Second, the system would use **past shopping behaviour** to inform future recommendations and substitutions. For example, if a customer consistently chooses own-brand products or avoids certain ingredients, this information should automatically guide substitution decisions. This does not require advanced artificial intelligence, but rather a more structured use of existing data.

Third, the app would provide **clearer communication** when issues arise. If an item is unavailable, customers would receive clearer explanations and more relevant alternatives before delivery, rather than discovering problems at a later stage. This improves transparency and reduces frustration, which are important factors in maintaining customer trust.

Together, these improvements aim to make the shopping experience feel more personal, predictable and reliable, without changing how customers fundamentally shop.

## Impact on the Customer Journey

The proposed initiative directly improves the customer journey stages identified in Part 1.

During the planning and shopping stage, customers benefit from clearer product availability information and more relevant recommendations. This reduces uncertainty and helps customers feel more confident when placing orders.

During the fulfilment stage, improved substitution logic leads to fewer rejected items and a better match between customer expectations and delivered products. This is particularly important for regular customers who rely on online shopping for convenience.

In the post-purchase stage, customers are more likely to feel that their preferences are recognised and respected. Over time, this strengthens loyalty and increases the likelihood of repeat purchases. Even small improvements in perceived reliability can have a positive impact on customer satisfaction in a low-margin, high-frequency sector such as grocery retail.

Importantly, this initiative does not attempt to change customer behaviour. Instead, it supports existing behaviour by removing friction and reducing negative experiences. This makes it more likely to be accepted by customers and successfully implemented by Tesco.

## **Business Benefits for Tesco**

From a business perspective, the proposed digital transformation offers several clear benefits. Improved substitution accuracy can reduce product returns and complaints, lowering operational costs. Better use of customer data can also increase the effectiveness of personalised promotions, improving conversion rates and customer retention.

In addition, by making better use of existing systems, Tesco avoids the risks and costs associated with large-scale technological change. This aligns with a cautious but practical innovation strategy, which is appropriate given Tesco's size and complexity.

The initiative also strengthens Tesco's competitive position by addressing areas where customer expectations are increasing across the industry. As competitors continue to invest in digital services, reliability and personalisation become key differentiators rather than optional features.

## **Measuring Success and Impact**

The success of the proposed digital transformation initiative can be measured using simple and practical performance indicators. These metrics focus on both customer experience and business outcomes.

Key customer-focused measures include reduced substitution rejection rates, improved customer satisfaction scores and fewer complaints related to online orders. These indicators directly reflect whether the initiative is improving the customer journey.

Business-focused measures include repeat purchase rates, increased use of the Tesco app and improved loyalty engagement through Clubcard. Over time, these metrics can indicate whether the initiative is contributing to stronger customer relationships and long-term value.

By using clear and measurable outcomes, Tesco can assess the effectiveness of the initiative and make gradual improvements without committing to unnecessary complexity.

## Conclusion

This digital transformation initiative focuses on improving how Tesco uses existing customer data to support a more reliable and personalised shopping experience. Rather than introducing complex technology, the initiative addresses real customer frustrations identified in the current customer journey. By improving substitution preferences, recommendation relevance and communication, Tesco can enhance customer trust and satisfaction in a practical and realistic way.

The proposed approach aligns with Tesco's current innovation strategy and responds to key trends in the UK retail sector, including increased price sensitivity and demand for convenience. As such, it represents a low-risk, customer-focused form of digital transformation that supports both business performance and customer value.

## Implementation Considerations

The proposed digital transformation initiative has been designed to be practical and realistic in terms of implementation. One of its main strengths is that it builds on Tesco's existing digital infrastructure rather than requiring a complete redesign of current systems. This significantly reduces both cost and operational risk. The initiative could be implemented gradually, starting with Tesco's online grocery customers, where substitution issues and personalisation gaps are most visible.

A phased rollout would allow Tesco to test the system on a smaller scale before expanding it across the wider customer base. For example, the improved substitution preferences feature could initially be offered to frequent online shoppers who already use the Tesco app regularly. Feedback from this group could then be used to refine the system before wider implementation. This approach reduces the likelihood of large-scale disruption and allows for continuous improvement.

From an operational perspective, the initiative would require limited staff training. Most of the changes are customer-facing and automated, meaning that store and delivery staff would not need extensive retraining. Any necessary guidance could be provided through simple internal communication and digital support materials. This is particularly important

in a large organisation such as Tesco, where complex training programmes can be costly and time-consuming.

Another important consideration is customer adoption. The proposed features do not require customers to change their shopping habits. Instead, they offer optional improvements that enhance the existing experience. Customers who wish to set substitution preferences or benefit from more relevant recommendations can do so, while others can continue shopping as usual. This reduces resistance to change and increases the likelihood of successful adoption.

Overall, the implementation of this initiative is feasible within Tesco's current operational and digital structure. By focusing on gradual rollout, minimal disruption and customer choice, Tesco can introduce meaningful digital improvements without compromising service reliability.

## **Risks and Limitations of the Proposed Initiative**

While the proposed digital transformation initiative offers clear benefits, it is also important to recognise its potential risks and limitations. One key risk relates to data accuracy. The effectiveness of personalised recommendations and substitution preferences depends on the quality of customer data. If customer data is incomplete or outdated, the system may still produce unsatisfactory results, which could lead to frustration rather than improvement.

Another limitation is customer engagement. Not all customers actively use digital features or adjust personal settings within apps. Some customers may choose not to engage with substitution preferences or personalised recommendations, limiting the overall impact of the initiative. This means that the benefits may be greater for digitally engaged customers than for those who prefer a more traditional shopping experience.

There are also technical risks associated with integrating new features into existing systems. Although the initiative avoids major system changes, even small digital updates can lead to temporary issues such as app performance problems or delays in communication. Tesco would need to monitor system performance closely during rollout to minimise disruption.

Data privacy and security represent an additional concern. Using customer data more actively requires strict compliance with data protection regulations and clear communication with customers about how their data is used. Failure to manage this effectively could damage trust, particularly in a sector where customers are increasingly aware of privacy issues.

## **Expanded Conclusion**

This assignment has examined innovation and digital transformation at Tesco UK by analysing the company's current innovation approach and customer journey. The analysis showed that Tesco performs strongly in core and adjacent innovation, particularly through its use of digital platforms such as the Tesco app and Clubcard. However, it also identified gaps in how customer data is applied during key stages of the shopping experience.

The proposed digital transformation initiative addresses these gaps by focusing on practical improvements rather than complex technological change. By improving substitution preferences, recommendation relevance and communication, the initiative directly responds to common customer frustrations identified in the current customer journey. This approach supports existing shopping behaviour rather than attempting to change it, which increases the likelihood of customer acceptance and long-term success.

From a business perspective, the initiative aligns with Tesco's cautious and efficiency-focused innovation strategy. It offers a low-risk way to enhance customer experience while making better use of existing systems and data. In a highly competitive and price-sensitive retail environment, small improvements in reliability and personalisation can have a meaningful impact on customer loyalty and retention.

## References

Office for National Statistics (2025) *Internet sales as a percentage of total retail sales (Great Britain)*. Available at:

<https://www.ons.gov.uk/businessindustryandtrade/retailindustry/timeseries/j4mc/drsi>

(Accessed: 13 December 2025).

Tesco PLC (2024) *Annual Report and Financial Statements 2024*. Available at:

<https://www.tescopl.com/investors/reports-results-and-presentations/> (Accessed: 13

December 2025).

Kantar (2025) *UK grocery market and consumer behaviour insights*. Available at:

<https://www.kantar.com/uk/inspiration/fmcg> (Accessed: 13 December 2025).

McKinsey & Company (2020) *Customer experience: New capabilities, new audiences, new opportunities*. Available at: [https://www.mckinsey.com/business-](https://www.mckinsey.com/business-functions/operations/our-insights/customer-experience)

[functions/operations/our-insights/customer-experience](https://www.mckinsey.com/business-functions/operations/our-insights/customer-experience) (Accessed: 13 December 2025).

Verhoef, P.C., Broekhuizen, T., Bart, Y., Bhattacharya, A., Dong, J.Q., Fabian, N. and Haenlein, M. (2021) 'Digital transformation: A multidisciplinary reflection and research agenda', *Journal of Business Research*, 122, pp. 889–901.

Porter, M.E. and Heppelmann, J.E. (2015) 'How smart, connected products are transforming companies', *Harvard Business Review*, 93(10), pp. 96–114.