

## Tesco: Every Little Helps <sup>(\*)</sup>

*A proper car and a thousand pounds a year! In 1959, it was the limit of my ambition, though when I told my mother that I had accepted Jack's offer she couldn't disguise her horror: 'I haven't spent all this money on your education for you to join a company like that.' The charge was loaded with contempt, but her reaction was typical of the times. As late as the 1950s there was still a deep-rooted prejudice among families like mine against anyone entering the 'trade' - the word itself carried its own stigma. There were the usual acceptable occupations for a public schoolboy like myself, but as for retailing, tradesmen were still very much at the back door of life. I've always felt that the damage that such snobbery has inflicted, not only on our social attitudes but also on our economic performance, has been incalculable - but then, my mother has never been tempted by a thousand pounds a year and a car!*

*Tiger by the Tail*, by Lord (Ian) MacLaurin, former Chairman of Tesco

### Tesco history



Tesco originated in 1919 when Sir Jack Cohen used his gratuity from his Army service in the First World War to sell groceries from a market stall in the East End of London. By the late 1920s, Tesco (or *TES* from TE Stockell, a tea supplier that he used, and *CO* from Cohen) was selling from open-fronted shops in London high streets, the first store being at Burnt Oak, Edgware. Cohen's motto was, "Pile it high, sell it cheap," referring to the idea that customers wanted inexpensive products at convenient locations and that volume would drive profitability. Sir Jack concentrated on growing the business; vigorously pursuing expansion. By the start of the Second World War, there were 100 Tesco stores in open competition with the earlier established Sainsbury's and in 1947, Tesco Stores (Holdings) Ltd was floated on the London Stock Exchange with a share price of 25 pence.<sup>1 2</sup>

During the Great Depression of the 1930s, Michael J. Cullen opened the first self-service supermarket (King Kullen) in Queens, New York. Sir Jack, realizing that the

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<sup>(\*)</sup> Written by Peter Louis from public sources, under the supervision of Professor Enrique Dans from Instituto de Empresa.

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<sup>1</sup> *Business History*, [www.tesco.com](http://www.tesco.com)

<sup>2</sup> Sainsbury's was established in 1869 by John James and Mary Ann Sainsbury, [www.jsainsbury.com](http://www.jsainsbury.com)

self-service model offered the possibility to lower prices by offering a wider variety and larger volume of stock with fewer employees, introduced his first self-service grocery store in St. Albans in 1948. In 1956, Sir Jack opened his first self-service supermarket in Maldon. By 1960s, the self-service model helped to establish Tesco's reputation as a value-for-money retailer of groceries. Nevertheless, up until 1964, Resale Price Maintenance (RPM)<sup>3</sup> restricted by how much retailers could discount their goods. Specifically, it allowed suppliers to suggest the minimum price at which retailers could sell their products. This prevented Tesco from transmitting the full effect of their lower cost bulk-purchases to their customers in the form of further price reductions.<sup>4</sup>

While Sir Jack lobbied Parliament to abolish RPM, Tesco introduced Green-Shield trading stamps as a means to effectively lower its prices. Customers collected stamps on their purchases of groceries and other items. These stamps were then used to fill a book, which could be exchanged for cash or gifts. The trading stamps proved to be a great hit with Tesco customers and helped Tesco to capture trade from its fierce competitors, but at a price: the Green-Shield scheme cost Tesco £12 million annually. Sainsbury's led the protests against the trading stamps as price-cutting by the back door. The then Lord Sainsbury, petitioned Parliament to pass the Trading Stamps Bill aimed at prohibiting the use of trading stamps. Parliament duly agreed and passed the Trading Stamp Act 1964. However, this did not signal the end of Green Shield or Jack Cohen. In fact, other retailers felt compelled to follow Tesco with their own trading stamps scheme.<sup>5,6</sup>

## The move upmarket

By the 1970s, the Tesco brand began to look a bit jaded. Customers had more disposable income and their tastes now included more expensive luxury items as well as the usual Tesco favorites. Moreover, Tesco stores seemed old and a bit dilapidated, and they were progressively losing market share to both national chains, such as Sainsbury's, and the newer regional merchandisers, such as Safeway, ASDA and Iceland. In the late 1970s, Tesco decided to concentrate on the larger out-of-town superstore format whilst simultaneously closing as many as 500 of the older high street stores.<sup>7</sup> The superstores offered a wider range of goods in a more spacious and lighted environment (with filing stations and car parking at major stores) where Tesco could emphasize customer service in a customer friendly environment.<sup>8</sup>

Lord MacLaurin, then managing director, commissioned a market research study to determine exactly what the customer wanted. Among other things, the results showed that customers were not interested in promotional offers and that they were targeting the wrong customer profiles. In 1977, Tesco finally abandoned the Green Shields

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<sup>3</sup> RPM aimed to protect the smaller retailer from the harmful effects of price competition with their larger bulk-purchasing competitors. However, suppliers subsequently misused this provision to maintain unreasonably high prices.

<sup>4</sup> *Business History*, [www.tesco.com](http://www.tesco.com)

<sup>5</sup> *Ibid*

<sup>6</sup> *Customer Loyalty – Pile it High and Prosper*, Pharmaceutical Times, September 2001, [www.inpharm.com](http://www.inpharm.com)

<sup>7</sup> D. C. Ranatunga, *Lose touch with the customer and you will perish – former Tesco Chief*, The Sunday Times (Sri Lanka), 1 April 2001, [www.is.lk/times](http://www.is.lk/times)

<sup>8</sup> *Business History*, [www.tesco.com](http://www.tesco.com)

stamps trading scheme and rolled out *Operation Checkout*, an aggressive price-cutting strategy. The price cuts reduced profit margins but market share increased significantly from 7% to 12 per cent. Under the direction of Terry Leahy, Tesco increased the number of lines in its own *Value* range brand to appeal to the price-sensitive shopper.<sup>9</sup> Additionally, Tesco started a benchmarking strategy, looking at what other retailers were doing well. Marks & Spencer was, at that time, the leading UK retailer and had many schemes that were popular among their customers. “We just copied what they did unashamedly,” Lord MacLaurin said. “Don’t feel shy to copy if you see something good even it is from your competitors.” Tesco computerized its checkout systems, invested heavily in staff training and initiated focused advertising campaigns to highlight the changes within the stores. Moreover, Tesco directors visited stores to hear the views of both customers and staff and Customer Panels were set up to help keep Tesco in “lock step” with their customers.<sup>10</sup>



In 1985, Lord MacLaurin became Chairman of Tesco. In the same year, Tesco opened its 100<sup>th</sup> superstore. Two years later, Tesco announced a plan to build a further 29. By 1992, Tesco was already the UK’s largest independent petrol retailer, with Tesco returning to the British high street with its Tesco Metro store concept for city workers, high street shoppers and the local community, and then the Tesco Express model, which combined

the convenience store format with petrol retailing, specifically for the local urban community. Tesco even opened a large format hypermarket in Kensington, central London, which included low-cost housing as part of the development.<sup>11 12</sup> Furthermore, expansion occurred north of the border, in Scotland, with Tesco beating Sainsbury’s to acquire the William Low chain.<sup>13</sup> Within stores, some of Tesco’s innovations included: the *One in Front* queuing standard to reduce waiting times, a National Lottery counter, baby-changing and bottle-warming facilities in all new stores, ATMs, in-store pharmacy and escorted item searches. Nevertheless, Tesco was still the UK’s second favorite grocer after Sainsbury’s, and the market share divide between the two remained as constant as ever.

<sup>9</sup> *Tesco: East End to East Asia*, 10 April 2001, [news.bbc.co.uk](http://news.bbc.co.uk)

<sup>10</sup> D C Ranatunga, *Lose touch with the customer and you will perish – former Tesco Chief*, The Sunday Times (Sri Lanka), 1 April 2001, [www.is.lk/times](http://www.is.lk/times)

<sup>11</sup> *Tesco: East End to East Asia*, 10 April 2001, [news.bbc.co.uk](http://news.bbc.co.uk)

<sup>12</sup> *Business History*, [www.tesco.com](http://www.tesco.com)

<sup>13</sup> *A tale of two supermarkets*, Business: The Company File, 12 April 1999, [news.bbc.co.uk](http://news.bbc.co.uk)

## The Clubcard

*“Customer loyalty is not about how customers demonstrate their loyalty to us, it is about how we demonstrate our loyalty to them.”<sup>14</sup>*

*Lord MacLaurin, Chairman of Tesco*

The Tesco Clubcard was the UK's first supermarket loyalty program. Tesco first piloted the scheme in twelve stores before rolling it out nationally in February 1995 (see Exhibit 1: The Tesco Clubcard). Tesco introduced the Clubcard as a means of giving something back to the customer – especially the customer who shopped frequently and purchased more as points accumulated for every £5 that he or she spent after a minimum spend of £10. The points were converted quarterly into Clubcard vouchers, which then could be redeemed in any Tesco store.<sup>15</sup> To support the launch, Tesco sent out one hundred and forty thousand educational videos to staff on the checkouts to explain just how the loyalty scheme worked and how it benefited the customer, Tesco and the employee.<sup>16</sup>

The consensus in the British media was that Tesco was taking a nostalgic step backwards. David Sainsbury, Chairman of Sainsbury's, derided the loyalty scheme, as no more than an “electronic version of Green Shield stamps,”<sup>17</sup> since the cost of running the loyalty program was notoriously high. It cost Tesco £300 million over the first three years and about 4.5% of Tesco profits. These costs included an update to the point-of-sale (POS) technology and the supporting computer systems to handle the Clubcard information, and a call center in Dundee to handle the anticipated 45,000 calls per week. Within eighteen months, calls to Tesco's call center were averaging 130,000 per week. Even so, Tesco broke-even on their initial expenditure whilst it took six to seven months to cover incremental costs against sales.<sup>18, 19</sup>

Within six months of the Clubcard introduction, Tesco had increased its share of the retail grocery trade from 15% to 18 per cent.<sup>20</sup> This increase included not only trade that originally went to competitors (Sainsbury's, ASDA, et al) but also a large increase in secondary trade on items that customers had not normally bought from Tesco, such as alcohol. By 1996, Tesco had raced past Sainsbury's to become the number one retailer in the UK.<sup>21</sup> Tesco had over eight million Clubcard customers who were purchasing 200 million in-store purchases per day.<sup>22</sup> (See Exhibit 2: Supermarket Market Share)

The success of the Clubcard forced competitors to review their commercial strategies. Safeway was first to respond and launched the ABC card in April 1995. Sainsbury's, faced with declining market share and profitability, launched the Reward card in June

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<sup>14</sup> Thai Direct Marketer Association, [www.directmarketingthailand.com](http://www.directmarketingthailand.com)

<sup>15</sup> *Clubcard*, [www.tesco.com](http://www.tesco.com)

<sup>16</sup> *Customer Loyalty – Pile it High and Prosper*, Pharmaceutical Times, September 2001, [www.inpharm.com](http://www.inpharm.com)

<sup>17</sup> *A tale of two supermarkets*, Business: The Company File, 12 April 1999, [news.bbc.co.uk](http://news.bbc.co.uk)

<sup>18</sup> *Tesco Stores Limited: The Tesco Call Centre Story*, [www.commslogic.com](http://www.commslogic.com)

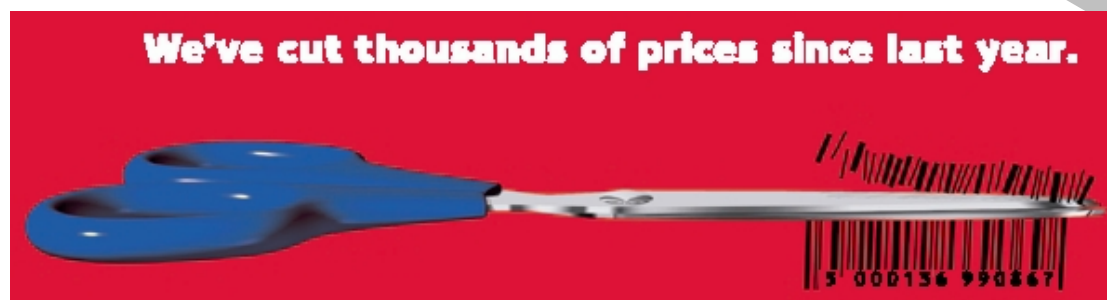
<sup>19</sup> *Customer Loyalty – Pile it High and Prosper*, Pharmaceutical Times, September 2001, [www.is.lk/times](http://www.is.lk/times)

<sup>20</sup> Ibid

<sup>21</sup> Allan Breese, *Sainsbury's Case History*, Taylor Nelson Sofres Superpanel, [www.tnssofres.com](http://www.tnssofres.com)

<sup>22</sup> Don Peppers and Martha Rogers, Ph.D., *Why Tesco Clicks (and Bricks) With U.K. Customers*, 12 March 2001, [www.crmguru.com](http://www.crmguru.com)

1996. Although ASDA test marketed its own loyalty scheme, it resisted the trend and instead focused on its competitiveness, reducing prices. Nonetheless, by 2001, Tesco's Clubcard loyalty scheme had attracted about 20 million members, of which over ten million are active users.<sup>23, 24</sup>



### Changes to the Clubcard

The Clubcard gave Tesco a unique insight into the shopping habits of its customers. Within the first year, Tesco realized that both pensioners and students, who often made frequent purchases, were not benefiting from the scheme, as their purchases did not always exceed the £10 threshold required to qualify for points. The scheme was thus adapted to cater for this situation. Additionally, Tesco implemented some customer suggestions, such as introducing Associate cards, where two separate account holders could merge their accounts to accumulate points into a single account. Tesco also updated the loyalty program to allow customers to collect points on holiday promotions with Lunn Poly and Thomson Holidays, two of the most popular travel agents in the UK. Today, Clubcard members can also collect points towards vouchers when they spend money on, for example, sports goods, sporting events, gas and electricity with any of Tesco's several partners.<sup>25, 26</sup>

With the Clubcard, Tesco discovered that about "38% of their customers cared about price, based on 700 products where price was important." Tesco experimented and invested heavily on price strategies to determine who were benefiting from the price reductions. The analysis suggested that most of the benefits of the reduced prices were going to customers who only shopped at Tesco during the promotions. Knowing what customers were regularly buying allowed Tesco to refine the loyalty program further. The number of items on which promotions were offered was reduced from 700 to 350 to correspond to the basket of goods that regular customers bought and through the loyalty program, customers were given incentives to buy from this list.<sup>27</sup> (Incidentally, for the first time in recent years, Tesco concentrated marketing spend during the busy Christmas period on its regular customers rather than advertising spots on television.)<sup>28</sup> Furthermore, with the additional information submitted to the Clubcard help line (e.g. diabetic dietary requirements and lifestyle choices), Tesco was able to create 5,000 customer "needs" segments, with each segment receiving personalized

<sup>23</sup> Dr H Short and L Constanzo, *Supermarket Banking*, IIBFS, December 1999, University of Leeds

<sup>24</sup> *Customer Loyalty – Pile it High and Prosper*, Pharmaceutical Times, September 2001, [www.inpharm.com](http://www.inpharm.com)

<sup>25</sup> Tesco PLC Annual Report and Accounts 1996, [www.tesco.com](http://www.tesco.com)

<sup>26</sup> *Clubcard*, [www.tesco.com](http://www.tesco.com)

<sup>27</sup> *Customer Loyalty – Pile it High and Prosper*, Pharmaceutical Times, September 2001, [www.inpharm.com](http://www.inpharm.com)

<sup>28</sup> Tesco PLC Annual Report and Accounts 1996, [www.tesco.com](http://www.tesco.com)

vouchers and twenty-four different varieties of the Tesco magazine providing specific offerings for Clubcard customers.<sup>29</sup>

To better handle the volume of Clubcard information, Tesco invested in the NCR [Teradata](#) data warehouse to provide a 360-view of its customers. In February 1998, “eight million Clubcard customers received a quarterly mailing comprised of a personalized letter with points-based vouchers as well as a host of special discounts and offers. All customers also received a Clubcard magazine designed and produced to fit their *stage in life* with 80,000 variations.” In addition, Tesco plans to learn from its customers’ online shopping habits with the rollout of [Net Perceptions](#)’ to provide a more personalized online experience.<sup>30</sup>

## Tesco and its stakeholders

### *Community*

On 1 June 1987, Tesco set up the Tesco Charity Trust with the remit to offer support to national and local charity appeals and to community related projects. Last year, Tesco supported The Alzheimer’s Society & Alzheimer Scotland – Action on Dementia, as part of their annual Charity of the Year campaign. For each campaign, employees are encouraged to raise money with the incentive that Tesco, as with other charitable amounts raised by them, will add 20% to the monies raised from the Tesco Charity Trust. Employees who also feel the need to donate directly are encouraged to do so through the “Give As You Earn” (GAYE) scheme, which allows employees to easily donate money from their salaries, tax-free. GAYE was launched in 1987 and approximately 10,000 Tesco employees donate over £550,000 each year.<sup>31</sup>

In the local community, Tesco initiatives include: high visibility tabards<sup>32</sup> for children to help road safety and driver visibility during the winter; and an urban renewal partnership that helps to redevelop derelict brown-field sites as locations for new stores. The later brings jobs to the community both during the project development phase and after, as Tesco tries to choose long-term unemployed people to train them and help them to find permanent work with Tesco.<sup>33</sup>

In 2000, Tesco received the Queen’s Award for the Environment for the design and promotion of a reusable plastic tray, which reduced the amount of packaging used for fresh produce by 75,000 tons each year or about 2 million trees. Tesco encourages the recycling of Christmas cards in association with The Woodland Trust, by placing special bins at stores where customers could dispose of their cards (a similar arrangement now exists for the UK’s 6 million or so mobile phones). Tesco also operates its own recycling units and recycles 85% of its packaging waste, such as paper, cardboard and similar items, and continuously researches on methods of how to be more efficient in the use of energy and material.<sup>34</sup>

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<sup>29</sup> Don Peppers and Martha Rogers, Ph.D., [Why Tesco Clicks \(and Bricks\) With U.K. Customers](#), 12 March 2001, [www.crmguru.com](http://www.crmguru.com)

<sup>30</sup> Ibid

<sup>31</sup> [We’re doing our bit... for employees](#), [www.tesco.com](http://www.tesco.com)

<sup>32</sup> A fluorescent coloured garment worn over the clothes

<sup>33</sup> [We’re doing our bit... for the local communities](#), [www.tesco.com](http://www.tesco.com)

<sup>34</sup> [We’re doing our bit... for the environment](#), [www.tesco.com](http://www.tesco.com)

Since 1992, Tesco has given over £90 million in support of its Computers for Schools initiative. This scheme allows local schools to collect vouchers (Tesco awards a voucher for each £10 spent in a Tesco store or filling station during a ten week period every spring) towards the cost of the latest computer equipment (computers, printers, keyboards, speakers, etc.) thus ensuring that their students have the computer literacy skills to be successful later in life. By 2001, over 60% of UK schools (nursery, infant, primary, junior, middle, secondary and special needs) registered to be a member of the scheme and, in 1999, Tesco's Computers for Schools was awarded the Program Impact Endorsement as part of [The 1999 Business Impact Awards](#).<sup>35</sup>

### ***Suppliers***

Tesco has cultivated a long-standing working relationship with its suppliers. For example, as part of the Tesco Farming Initiative with suppliers, farmer organizations and industry bodies, Tesco supports the British Farm Assurance Mark; British produce, local sourcing and clear country of origin labeling; and, through leading agricultural colleges, a retail and supply chain "master class" program for farmers and growers to give them a better understanding of the retailing industry. Furthermore, during the depths of the foot and mouth crisis in 2001, Tesco donated £600,000 to a fund to support the British farmers affected by this viral disease. Nonetheless, Tesco aims at a high level of animal welfare through its Tesco Codes of Practice that specify the quality of husbandry that Tesco expects from its farmers and suppliers. Tesco continuously revises these codes as new research results appear, with Tesco also supporting independent research to solve husbandry problems or to understand issues.<sup>36</sup>

### ***Employees***

Today, Tesco employs 190,000 people in the UK and 50,000 in Ireland, South-East Asia and Europe. Both full-time and part-time employees enjoy the same benefits, such as salaries, pensions, staff discounts on shopping and membership of Tesco's Save As You Earn (SAYE), Buy As You Earn, and profit share schemes. Last year, Tesco launched a career site, in cooperation with [PeopleBank](#), to help fill the 20,000 vacancies throughout the organization<sup>37</sup> and The Times newspaper ranked Tesco at number 45 in its UK Top 100 Graduate Employers 2001 / 2002 list.

The last SAYE matured on 1 February 2001. Employees who invested the maximum amount of £250 per month over the five year period received £53,000 worth of shares that represented a 200% ROI. Even employees who saved just £10 per month saw a return of £2,000. Last year, Tesco issued £28 million shares to 75,000 employees on a share price that had grown by 31 per cent. In total, 125,000 employees are Tesco's shareholders in one form or another.<sup>38</sup>

### ***Customers***

In 1999, Wal-Mart acquired ASDA, and ASDA embarked on a price reduction scheme in line with Wal-Mart's *every-day-low-prices* (EDLP) strategy. Tesco similarly announced a scheme to keep prices low and competitive, reducing promotions to focus on competitive pricing. In line with this competitive pricing

<sup>35</sup> [We're doing our bit... for education](#), www.tesco.com

<sup>36</sup> [We're doing our bit... for UK farmers](#), www.tesco.com

<sup>37</sup> [We're doing our bit... for employees](#), www.tesco.com

<sup>38</sup> Ibid

initiative, Tesco sought to sell designer brands at continental and American price levels. In 1998, Tesco, unable to source direct from designer labels, sourced an infrequent supply of *gray goods* from the EU, South America and the US. For example, D&G bags sold for £45 in Tesco and for £80 on the high street and Levi Strauss 501 jeans sold for £27.99 rather than the recommended retail price of £50 at approved outlets.<sup>39</sup> In February, Tesco announced that it was cutting the price of top selling albums to just £8.50 – almost £4 cheaper than on the high street. This weeklong experiment was to show music executives that lower European prices would work equally in Britain and that the expanded demand would help consumers, new artists and record companies. Tesco music category director Steven Garton said: “Someone has to break the present impasse, and since Tesco has a reputation for acting on behalf of the consumer, we feel that it should be us.”<sup>40</sup> Other items sold include Adidas footwear, CK underwear, Sony TVs and Sony PlayStations.

To provide its customer with greater choice, Tesco launched its *Finest* premium brand of foods in a number of selected stores in February 1998. *Finest* includes both “fresh and prepared foods, including a core range of over 100 products and new lines, which change with the seasons.”<sup>41</sup> With the British unease with genetically modified (GM) foods, Tesco removed GM ingredients from all of its own brand products and required suppliers to clearly label all products that contained GM ingredients. Even so, Tesco has also increased the range of non-GM organic foods offering customers a wide selection from fresh produce to ready-cooked meals. Tesco’s commitment to organic farming, conservation and bio-diversity is enshrined in its Nature’s Choice code of conduct that promotes the use of beneficial insects to control pests, encourages water and energy efficiency, and recycling. Nature’s Choice also includes a provision to monitor how its implementation affects farmland birds and Tesco supports fisheries accredited with the World Wildlife Fund Marine Stewardship Council as a means to preserve fish stocks in the oceans of the world.<sup>42</sup>

### **Investors**

While Lord MacLaurin’s aim was to modernize Tesco to successively compete with Sainsbury’s and others, Terry Leahy’s aim, as Chief Executive since 1997, has been to grow and expand the business. In 1997, Tesco introduced its Core Purpose as, “To create value for customers to earn their lifetime loyalty,” (see Exhibit 3: Tesco Core Purpose and Values). To achieve this, Tesco has a four-part strategy that seeks: to maintain and develop the UK core business, increasing market share; to develop non-food business on the same par as food; to offer retailing services to meet the changing needs of consumers; and to expand internationally to take advantage of growing markets.<sup>43</sup>

In the financial years 1995 to 2001, earnings per share increased by over 68% from 6.7 pence to 11.31 pence whilst dividends per share increased by over 73% from 2.87 pence to 4.98 pence. (See: Exhibit 4: Tesco Summary Seven-Year Record, 1995 -

<sup>39</sup> Levi Strauss brought an action against Tesco with European Court of Justice. In 2001, the Court ruled against Tesco selling Levi’s bought through unauthorised channels outside the European Union. However, European Union rules allow Tesco to source goods from anywhere within the Union without the manufacturer’s agreement.

<sup>40</sup> [Tesco increases pressure on music industry](http://www.tesco.com), 25 February 2002, www.tesco.com

<sup>41</sup> Tesco PLC Annual Review and Summary Financial Statement 1999, www.tesco.com

<sup>42</sup> [We’re doing our bit... for the environment](http://www.tesco.com), www.tesco.com

<sup>43</sup> [Tesco PLC Annual Review and Summary Financial Statement 2001](http://www.tesco.com), www.tesco.com



2001) However, Tesco's share price has suffered in recent months. At the start of 1995, a Tesco share was valued at 233.5 pence. At close on March 8, 2002, a Tesco share sold for 240 pence. (Tesco did record a 52-week high of 272 pence on April 9, 2001.)

## Diversification and expansion

### *Tesco as a bank*

Before 1996, the sole foray supermarkets such as Tesco and Sainsbury conducted into the world of financial services was limited to the "cash back" withdrawals that customers were allowed to make from their debit cards at the POS desks whilst paying for their shopping. In June of that same year, however, Tesco launched the Clubcard Plus telephone account. The Clubcard Plus account allowed Clubcard members to make monthly direct debit payments to Tesco for groceries. It also offered an overdraft facility and was interest bearing on credit balances at a very competitive rate. Moreover, Clubcard Plus offered double points on purchases, and funds were freely available through the 24-hour network of NatWest ATMs and sister machines. However, 6 months after the launch, the alliance with NatWest was dissolved, due to diverging interests, and replaced by a joint venture company, Tesco Personal Finance (TPF), with the Royal Bank of Scotland (of Direct Line and Scottish Widows fame). Steadily, the financial products offered by TPF have increased to fifteen and include: savings accounts, motor insurance, life assurance, loans, pay-at-the-till travel insurance, credit card services, and tax free savings and investments. TPF has 2 million customers (400,000 savings accounts and 900,000 credit cards) who make 80% of their transactions through the stores, and in the 2000/2001 financial year, TPF broke-even, recording a small profit, one year earlier than projected.<sup>44, 45</sup>

### *Tesco.com*

During 1996, Tesco made a modest investment in a few Dell servers and Microsoft BackOffice and brought retail shopping to the Web with its Tesco Direct service.<sup>46</sup> Tesco considered creating a dedicated order-fulfillment system with its own warehouses, but studies showed that the existing retail infrastructure could effectively service the anticipated volume. Tesco also decided that it would target its service at customers who would be willing to pay a £5 delivery charge. The research suggested that these were mainly working wives who worked 70% of the day, or women who did not work at all. (These customers shopped in excess of 25 times a year with an average basket of £71.)<sup>47</sup> Moreover, Tesco did not limit itself to just selling groceries. Tesco created virtual storefronts or *superstores* that allowed it to sell books from its book warehouse, electrical appliances from its electrical warehouse, as well as videos and many other products. Tesco also added many online services: *Price Check*, for instance, designed to allow customers compare Tesco's prices against those of leading supermarkets and retail chains. Also financial services, where customers can trade shares and interact with their Clubcard Plus account; a shopping service that

<sup>44</sup> Dr H Short and L Constanzo, *Supermarket Banking*, IIBFS, December 1999, University of Leeds

<sup>45</sup> *Tesco PLC Annual Review and Summary Financial Statement 2001*, www.tesco.com

<sup>46</sup> Clubcard members could get free access to Tesco Direct through Tesco's Tesco.net ISP.

<sup>47</sup> Nirmalya Kumar, *Online grocers take stock*, 29 March 2001, [www.business2.com](http://www.business2.com)

remembers a customer's last shopping list; and many online features all supported by an extensive help facility that thoroughly answered all customers' questions.

By 2001, [Tesco.com](http://Tesco.com) had successfully proved its model and added the number one e-grocer on the Web title to its UK title. (Across the Atlantic, Webvan had filed for bankruptcy in July whilst Peapod, which was rescued by Royal Ahold, the Dutch grocer, just over a year earlier, received a further injection of cash as Ahold bought the remaining 42% of shares that it did not own.)<sup>48</sup> Half way through Tesco's 2000/2001 financial year, 750,000 registered customers used the Tesco Direct service and [Tesco.com](http://Tesco.com) generated 70,000 orders per week on an average basket size of £85 that produced a turnover of £176 million (a 77% increase).<sup>49</sup> In May 2001, after consulting with the Royal National Institute for the Blind (RNIB), [Tesco.com](http://Tesco.com) was made accessible to people with sight problems. As a result, Tesco received the first RNIB Accessible Website Award. Following the same philosophy for the hearing impaired, Tesco has facilities that help them carry out their shopping more easily within the store.<sup>50</sup>

### *International expansion*

Tesco first ventured outside of the UK when it crossed the Irish Sea for the familiar shores of the Irish Republic in the 1970s and later the English Channel for France in 1993. Without exception, both adventures floundered. In Ireland, the Tesco brand of stores did not get precisely a warm welcome, whilst in France, despite acquiring a local retailer, had difficulty adapting to local tastes. The successful UK model of intense competition coupled with aggressive expansion was thought not to be in the interests of French business. (Tesco divested itself of its French operations in 1998.)<sup>51</sup>

With the lessons learned from these early European adventures and the experiences of UK retailers in the US, Tesco expanded into Central Europe: first in Hungary, in 1994; and subsequently in Poland, in 1995; Czech Republic and Slovakia, in 1996; and back into Ireland (both Northern and the Republic), in 1997. Tesco offered its own-label products, a promise of guaranteed low prices on basic products, quality across a wide range of products, Western levels of customer service, a more efficient supply chain, and a willingness to listen to and adapt to what the consumer wanted. With these expansions, Tesco has sought to employ as many local individuals as possible in order to take advantage of local knowledge, reserving only a few senior positions for appointments from the UK. Moreover, with all of these expansions, Tesco acquired controlling interests in local retailers, such as Kmart in the Czech Republic and Slovakia, which were subsequently re-branded to include Tesco in the brand name. Tesco's expansion into Asia followed a similar pattern. In May 1998, Tesco acquired a controlling stake in Thailand's Lotus hypermarket. In April 1999, Tesco established a joint venture with Samsung to run two of its Homeplus hypermarkets in Korea. Tesco opened its first store in Taiwan when in December 2000 it took over a site operated by a local wholesaler Makro and will operate 15

<sup>48</sup> Ari Weinberg, [Ahold Places Order for Rest of Peapod](http://www.thestandard.com), 16 July 2001, [www.thestandard.com](http://www.thestandard.com)

<sup>49</sup> Owen Gibson, [Tesco to profit online](http://www.guardian.co.uk), Guardian Unlimited, 18 September 2001, [www.guardian.co.uk](http://www.guardian.co.uk)

<sup>50</sup> [We're doing our bit... for the local communities](http://www.tesco.com), [www.tesco.com](http://www.tesco.com)

<sup>51</sup> Deniz Eylem Yoruk and Slavo Radosevic, [International Expansion and Buyer-Driven Commodity Chain: The Case of Tesco](http://www.ucl.ac.uk), UCL, School of Slavonic and East European Studies, 20 November 2000

stores in Malaysia as part of a joint venture with Sime Darby Berhad – once regulator approval is obtained.<sup>52, 53</sup>

## Challenges

As Tesco's management team considered their achievements, they also noted that a number of challenges lay ahead. How was Tesco going to maintain market share and increase profitability in the mature UK retail industry whilst fending off competing supermarkets and irate luxury brand owners alike? The Tesco Direct model is a notable Internet success (it has more than a 50% share of the UK *e*-grocery market and was profitable in 2001 – one year earlier than expected!) Yet, sales represent only 1.5% of Tesco's UK turnover. How was Tesco going to convert this success into a greater proportion of UK sales without excessively cannibalizing the retail channel? Last summer, Tesco paid £16 million for a 35% stake in Groceryworks.com, Safeway's US *e*-grocer. Given the spectacular flameout of Webvan and other North American *e*-grocers, Safeway hopes to learn from the experiences of [Tesco.com](http://Tesco.com) to better use its existing infrastructure to deliver groceries online. However, given the differences between the US and UK markets, can Tesco (and the rebranded [Safeway.com](http://Safeway.com)) really convince the American consumer to pay \$9.95 for home-delivered groceries? By British standards, Tesco has been an early-mover into Asia; however, by world standards it moved too late to acquire a license to sell to the more than 1.26 billion people in China. Given that access to the Chinese market is currently closed, how could Tesco reopen it?

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<sup>52</sup> Ibid

<sup>53</sup> [Tesco PLC Annual Review and Summary Financial Statement 2001](http://Tesco PLC Annual Review and Summary Financial Statement 2001), [www.tesco.com](http://www.tesco.com)

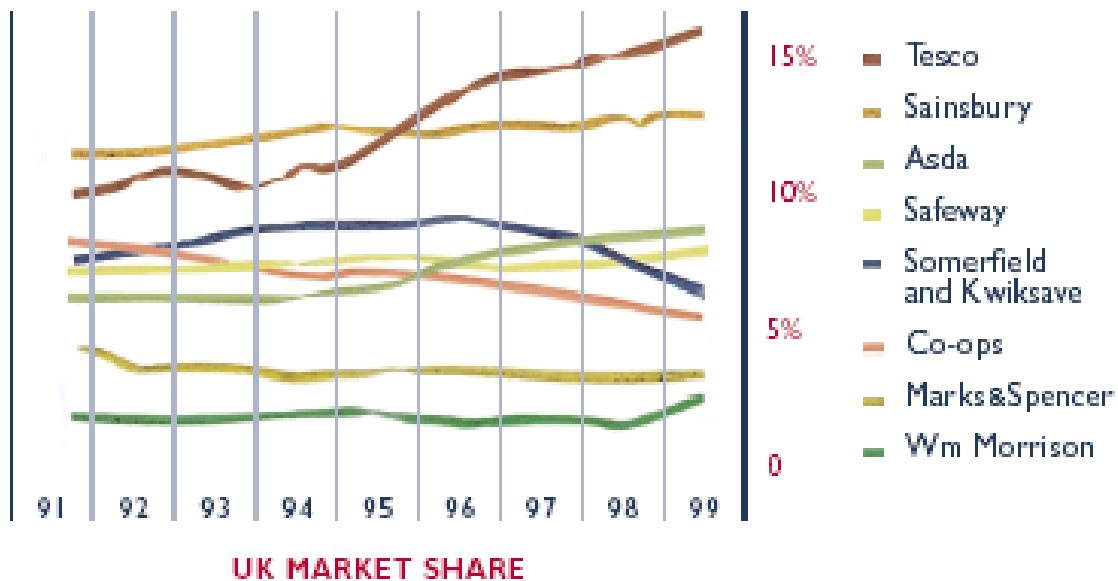
Exhibit 1: The Tesco Clubcard

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Exhibit 1 cont'd

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## Exhibit 2: Supermarket Market Share



Source: Tesco PLC Annual Review and Summary Financial Statement 2000

## Exhibit 3: Tesco Core Purpose and Values

### **Core Purpose**

To create value for customers to earn their lifetime loyalty

### **Values**

No one tries harder for customers

- Understand customers better than anyone
- Be energetic, innovative and be first for customers
- Use our strengths to deliver unbeatable value to our customers
- Look after our people so they can look after our customers.

Treat people how we like to be treated

- All retailers, there's one team... The Tesco Team
- Trust and respect each other
- Strive to do our very best
- Give support to each other and praise more than criticize
- Ask more than tell and share knowledge so that it can be used
- Enjoy work, celebrate success and learn from experience.

Source: We're doing our bit... for investors, [www.tesco.com](http://www.tesco.com)

## Exhibit 4: Tesco Summary Seven-Year Record, 1995 - 2001

### SUMMARY SEVEN YEAR RECORD

	1995	1996	1997	1998 53 weeks	1999	2000	2001
Year ended February	£m	£m	£m	£m	£m	£m	£m
<b>Turnover including VAT</b>			14,984	17,779	18,546	20,358	22,773
<b>Turnover excluding VAT</b>							
UK	9,655	11,560	13,118	14,971	15,835	16,958	18,372
Rest of Europe	446	534	769	1,481	1,167	1,374	1,756
Asia	–	–	–	–	156	464	860
	10,101	12,094	13,887	16,452	17,158	18,796	20,988
<b>Underlying operating profit †</b>							
UK	600	713	760	875	919	993	1,100
Rest of Europe	17	11	14	37	48	51	70
Asia	–	–	–	–	(2)	(1)	4
	617	724	774	912	965	1,043	1,174
<b>Underlying pre-tax profit †</b>	595	681	750	832	881	955	1,070
<b>Profit before tax</b>	551	675	750	760	842	933	1,054
<b>Adjusted diluted earnings per share</b>	6.70p	7.30p	7.83p	8.84p	9.37p	10.18p	11.31p
<b>Dividends per share</b>	2.87p	3.20p	3.45p	3.87p	4.12p	4.48p	4.98p
<b>Retail statistics</b>							
UK – Number of stores	519	545	568	618	639	659	692
– Total sales area (000 sq ft)	12,641	13,397	14,036	15,215	15,975	16,895	17,965
– Turnover per full-time employee (£)	140,842	143,335	146,326	149,799	151,138	156,427	161,161
– Weekly sales per sq ft (£)	17.00	18.31	19.74	20.48	21.05	21.43	22.01
International – Number of stores	44 ‡	189	190	163	182	186	215
– Number of hypermarkets	*	5	7	2	22	38	68
– Total sales area (000 sq ft)	132 ‡	1,717	2,711	3,039	5,378	7,144	10,397

† Excluding goodwill amortization, integration costs and net loss on disposal of fixed assets

‡ Includes only stores in Hungary

\* Not reported in accounts

Source: Tesco PLC Annual Review and Summary Financial Statement, 2001, 2000, 1995