

## Tesco Studies Hard for U.S. Debut

CEO Leahy Sends Teams To Observe How Americans Shop, See What's in Their Fridges

By CECILIE ROHWEDDER

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LONDON -- The chief executive of Tesco PLC, Terry Leahy, runs a retail chain that's twice the size of **Wal-Mart Stores Inc.** in the United Kingdom. And this fall, even though the U.S. is considered over-crowded with stores, Mr. Leahy plans to expand into Wal-Mart's home turf.

Mr. Leahy has studied how Americans shop, and he is hoping his new design for smaller stores with fresher food will differentiate his stores from competitors'. To develop his model, he sent Tesco teams to live with American families. One finding: Americans visit many stores; they're not one-stop shoppers after all.

Knowing customers is a big part of the way Mr. Leahy runs Tesco, the world's third-largest grocery retailer by sales after Wal-Mart and Carrefour SA of France. An unassuming, 51-year-old with an accent colored by his hometown of Liverpool, Mr. Leahy still likes sitting on customer panels and making unannounced store visits.



**5 Tips from Terry Leahy on Expanding Abroad:**

- **1:** Do your research, even if it means moving in with the locals for a while
- **2:** Be flexible; don't export a cookie-cutter formula
- **3:** Hire locals
- **4:** Don't move to too many countries at once; skill matters more than scale
- **5:** Make sure consumers in emerging markets have the necessary income

Mr. Leahy made his mark at Tesco by inventing Clubcard, a much copied loyalty program that gives shoppers points for buying at Tesco -- and gives Tesco valuable information on shoppers' habits and tastes. In his 10 years as CEO, Tesco has grown into Britain's biggest food retailer, with a market share that now dwarfs that of its nearest competitor, Wal-Mart's Asda chain. Its \$84.9 billion in annual sales comes from five different types of stores, from small convenience shops to large superstores selling everything from baked beans to bicycles.

Mr. Leahy says the different store sizes were necessary to meet Britain's tough zoning laws. That flexibility, he says, now helps the retailer in foreign countries. In the U.S., Tesco will open only 10,000-square-foot stores, which are smaller than typical U.S. supermarkets but bigger than U.S. convenience stores.

Over tea on the shop floor, Mr. Leahy sat down with The Wall Street Journal to discuss how Tesco will woo U.S. shoppers, how retailers can expand globally, and how to make shoppers buy low-energy light bulbs.

**The Wall Street Journal:** *Why is Tesco setting up shop in the U.S.? Aren't there enough grocery stores already?*

**Mr. Leahy:** There is no shortage of stores. But it is a place that rewards innovative retailers, so if you do something different, you get rewarded for it. Retailing returns in America are quite good by international standards.

**WSJ:** *Why didn't you just buy an American supermarket chain?*

**Mr. Leahy:** We didn't want to buy an existing business because what's the point of going to America and just doing the same as everybody else? There is already so much retail there. So what we tried to do is turn a weakness we had -- that we had no presence in America -- into an advantage: We can research and design the perfect store for the American consumer in the 21st century.

Our team went over to live in the U.S. We stayed in people's homes. We went through their fridges. We did all our research, and we're good at research.

**WSJ:** *What did you find out?*

**Mr. Leahy:** Americans shop in more stores than, for example, the British shopper. No one store gives them everything they want. You would think it is the home of the one-stop shop but it's not. I think they feel the one-stop shop -- the big-box retailer -- doesn't quite do it on the food quality, the fresh food. Whereas here, more people are content to do their whole food shopping in one place.

**WSJ:** *You have been very secretive about the prototype for your American stores.*

**Mr. Leahy:** We built the store inside a warehouse. We claimed it was a movie set so that people would deliver all these goods and not think it was us. We had to borrow products from other retailers because we hadn't at that stage developed any products. We took ordinary people in, and they really, really liked it.

**WSJ:** *Isn't it daring to challenge Wal-Mart on its home turf?*

**Mr. Leahy:** Wal-Mart is a great retailer, but America is a big place. The part of the market that we are addressing, which is convenience, is an underinvested part of the market. And I think there is plenty of room in the market now.

**WSJ:** *But Wal-Mart also has smaller stores called Neighborhood Market. Isn't it competing for the same turf?*

**Mr. Leahy:** No doubt it is. But it's a big segment. A Wal-Mart Neighborhood Market would be more their version of an American supermarket. We would be approaching it from a slightly different angle.

**WSJ:** *What are you most proud of in your U.S. stores?*

**Mr. Leahy:** The tortilla is going to be pretty good. And some of the wine will be pretty good. We're very proud of the wine.

**WSJ:** *Are you planning to become a national chain in the U.S.?*

**Mr. Leahy:** The West Coast of the U.S. is a big place. California is virtually the same size as the U.K., and we're starting in California, Arizona and Nevada, so there is a lot to get our teeth into. But hopefully, the format will have a wider appeal than that.

**WSJ:** *Of all the markets you have entered, which one has been the toughest?*

**Mr. Leahy:** Japan is very challenging because it's a very well-defined society in terms of its value systems, and they're very confident consumers.

**WSJ:** *Carrefour has withdrawn from Japan, and Wal-Mart is struggling there. What mistakes are you trying to avoid?*

**Mr. Leahy:** We didn't go in in a big way. We could see it was complex. Again there, we lived in Japanese homes and spent three years researching Japan.

We didn't bring our format in. Carrefour brought in the French hypermarket. We bought a small business in the convenience sector, which we thought suited shopping in Japan. People shop every day. Small is beautiful in Japan. Western concepts of large, big, extra value don't work.

**WSJ:** *Even at home in Britain, Tesco is famous for doing a lot of customer research with its loyalty program, the Clubcard.*

**Mr. Leahy:** It's an important technical part of an even more important philosophy, which is to listen to customers -- but really listen. Many organizations say they listen, but they're very selective in what they allow themselves to hear. The great thing about customers is that they're very honest people.

**WSJ:** *American retailers including Kroger Co. now use Dunnhumby, the Tesco-owned company that runs Clubcard, to help with their loyalty programs. Has data mining become a side business for Tesco?*

**Mr. Leahy:** We had some techniques there that we felt other people were not using. So we allowed Dunnhumby to go and sell these services -- not just in retailing but in lots of consumer-facing organizations. Clearly retailers are most interested because they know more about Tesco. But other organizations, too. That Dunnhumby business is and will be very successful in the future.

**WSJ:** *Like Wal-Mart, you get attacked for being too dominant in the market. How do you respond?*

**Mr. Leahy:** It's normal that people discuss how you do your business. You've got to be prepared to engage in that discussion.

Also, you shouldn't concentrate on debating the negatives but come forward with some positive ideas. There was a lot of debate about Tesco as a good neighbor. So we set out our community plan, which was a set of initiatives about open sourcing, nutritional labeling, energy conservation and recycling, which has been very well received. Actually, people are very interested. They will criticize you, but they will be very open to your coming forward with positive suggestions.

**WSJ:** *Do you think consumers are really green or do they just think they are, especially if they have to help pay for it?*

**Mr. Leahy:** When we talk to consumers, one of the big subjects is climate change. Consumers want to do something about it, but the vast majority doesn't know what to do. What does it mean for them? Do they change the car they drive? Do they recycle more? Do they change their light bulbs? Do they insulate their homes? Do they not fly?

There is no use knowing that you should use low-energy light bulbs if there aren't any, or if the range doesn't fit your light fittings at home.

They say, "OK, we know about low-energy light bulbs but they're too expensive."

So we halved the price of low-energy light bulbs. And once we do that, of course, what do our competitors do? They reduce the price for low-energy light bulbs, so now low-energy light bulbs are a no-brainer for people. Not only do they last longer, but they're much cheaper.

**WSJ:** *If American visitors wander into a Tesco store in Britain, what product should they try?*

**Mr. Leahy:** They should try our Finest yogurt. I know Americans are so-so about yogurt, but they should try the Finest yogurt. They should try the Finest rib-eye beef. And they should try a nice bottle of California Viognier.

**WSJ:** *You bought your wife Mother's Day flowers from Tesco. What else have you bought her?*

**Mr. Leahy:** They're great flowers. I also bought her a birthday card from Tesco.

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