



## **Tesco in Asia November 2008**



## **Tesco in China Ken Towle, CEO**



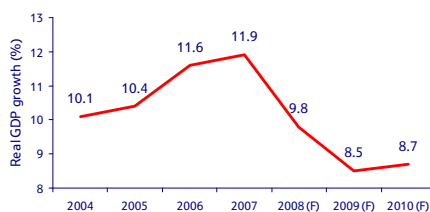
## Agenda

- China – a recap
- How are we doing?
- Tesco China Strategy
  - A quality, fast-growth business
  - Tesco Operating Model provides the platform
  - Regional approach that leverages scale
  - Freehold Shopping Centres
  - Integrated supply chain and sourcing
- Shenyang



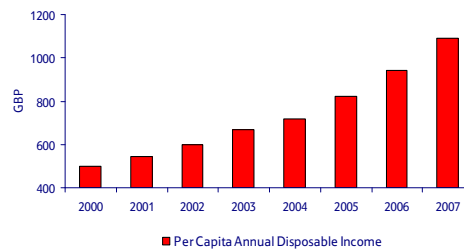
## China Economy

One of the world's largest and most dynamic economies



- China GDP was 24.7 trillion yuan (GBP 2.02 trillion) in 2007
- GDP growth has been in excess of 10%
- This will slow, but is still expected to be healthy
- China is projected to overtake Japan to become the world's second largest economy by 2015

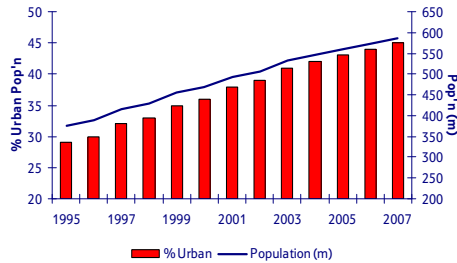
Urban disposable earnings (and wage costs) seeing ongoing rapid growth



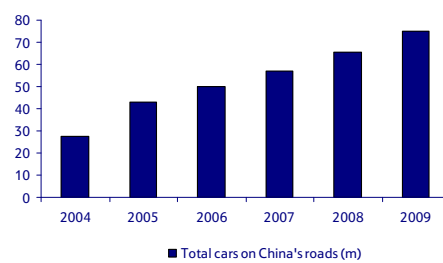
- Disposable incomes have increased by 115% in last 8 years
- Projected to double again in the next 5 years

## China People

**A rural society seeing rapid urbanisation**



**The reliance on bicycles is giving way to cars**

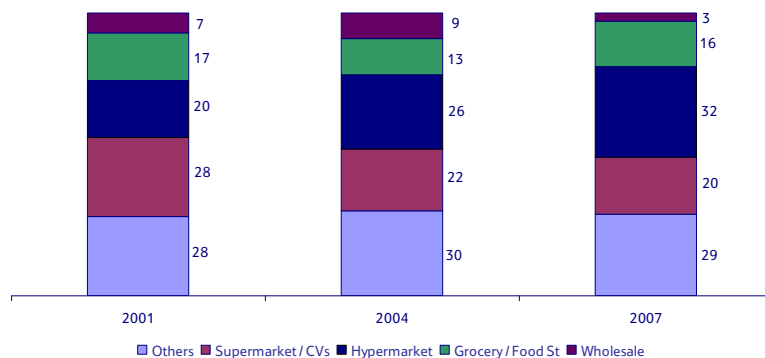


- Currently 600 million of China's 1.3 billion population lives in cities
- Recent urban growth equates to 13 million people moving into cities each year
- By 2020 a further 90 million people will have migrated to cities such as Shenyang

- Car ownership is low in China with 2 cars per 100 population (cf. 25 in Central Europe)
- But car ownership levels have doubled in the last 4 years
- And they continue to grow in excess of 15% per annum

## China Retail

**In the top 15 cities, hypermarkets now account for 1 out of every 3 RMB spent on grocery**



- Hypermarkets are the most successful modern trade format – market share of grocery has increased from 20% to 30% over the last 6 years
- But traditional wet markets are still part of people's everyday shopping routine – about 60% of Tesco customers also use wet markets regularly for fresh products

## How are we doing?

	2004	2008
Customers per week	2m	3.7m
Sales per week (GBP)	7m	15m
Hypermarkets	25	58
Express	0	5
Regions	2	3
DCs	1	3
Team	11,000	21,000

- Increased share to 90% (from 50%) in December 2006
- Entered South 2006
- Re-branded the business to Tesco 乐购 in 2007
- Member Card 2007
- Tesco Own Brand 2007
- Fresh DC 2007
- Entered Beijing 2007
- Express Trial 2008

## Tesco China Strategy

- A quality, fast-growth business
- Tesco Operating Model provides the platform
- Regional approach that leverages scale
- Freehold shopping centres
- Integrated supply chain and sourcing



## A quality, fast-growth business

- Tesco 乐购 “Your local store that’s part of the Tesco family”
- Delivering on the customer promises
- Locations that succeed – downtown and in new growing areas



## Locations that succeed



## A quality, fast-growth business

- Tesco 乐购 “Your local store that’s part of the Tesco family”
- Delivering on the customer promises
- Locations that succeed – downtown and in new growing areas
- Hypermarket designed to be easy to shop and give customers what they want
- Malls that complement the hypermarket
- Strengthening new store programme focused on organic growth
- Delivery on the people promises – to ensure we have the people ready for faster growth

## The customer promises

- The prices are good for me
- I can get what I want
- I can trust what I buy
- Shopping is pleasant and easy
- I don’t queue
- The staff are great



## The customer promises



## Tesco Operating Model the platform

- Standard suite of operating systems; integrated with standard operating processes
- Supported by Organisation Design Blueprints
- Developed and implemented by Group experts but with country accountability
- China implemented Phase 1 in 2007
  - same systems and ways of working across all stores and regions
  - centralised Finance and IT
  - developed change model for Phase II
- Enables significant productivity in people and capital
- Customers are the real winners



## Customers are the real winners



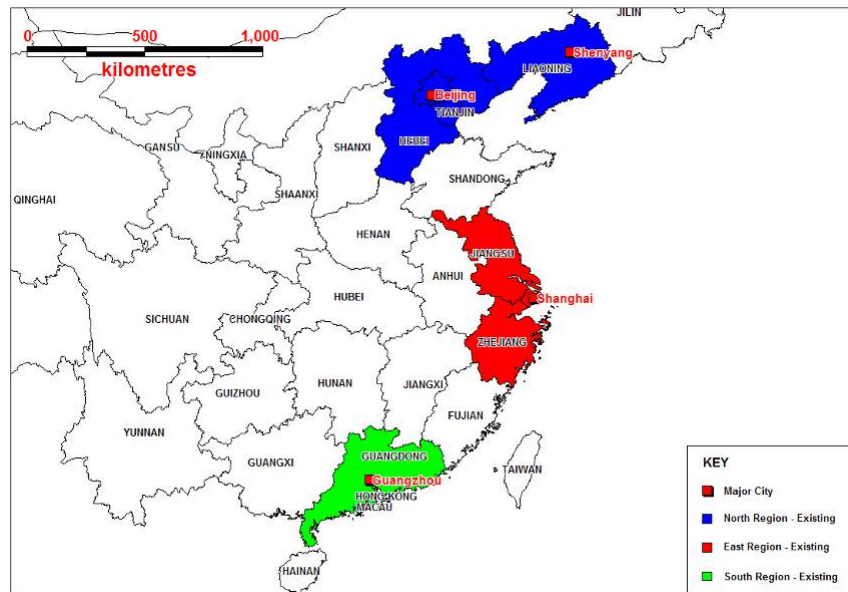
## Regional approach that leverages scale

- Benefits of a country with the challenges of a continent
- Regional Vice President with 'country' team accountable for growth and results





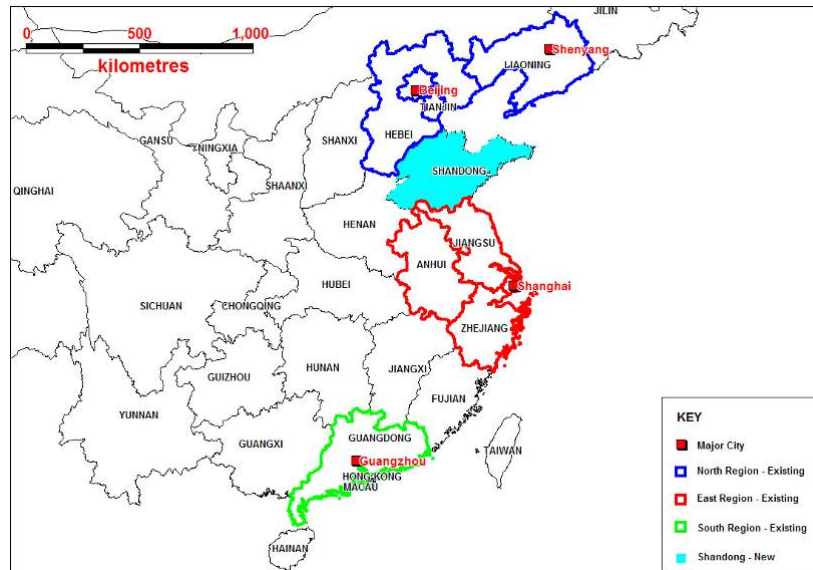
## Regional approach that leverages scale



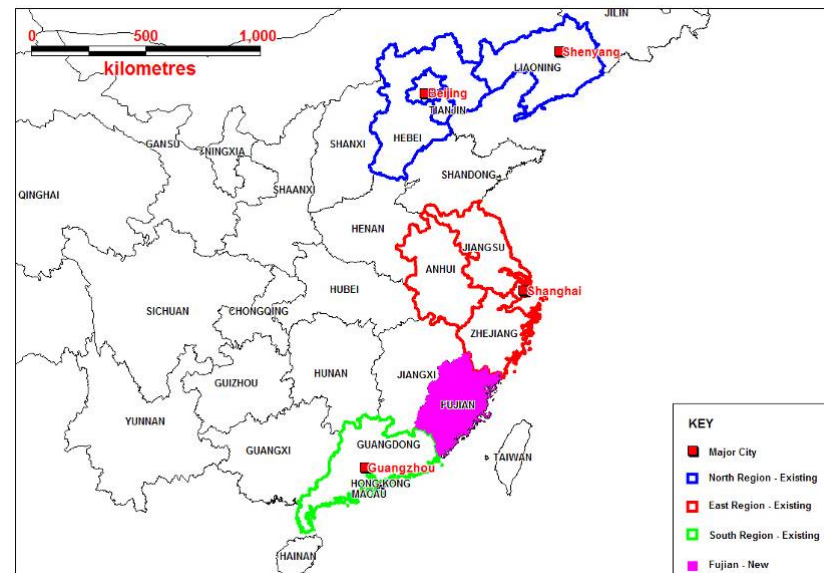
## Regional approach that leverages scale

- Benefits of a country with the challenges of a continent
- Regional Vice President with 'country' team accountable for growth and results
- Shared services across China
- Leveraging scale on a 'first among equals' principle
- Everyone is connected to the customer
- In 2009 we will also be present in Shandong and Fujian
- Shandong 94m people, GDP of RMB 2,589bn, GBP 212bn
  - First store in 2009, will emerge as 4<sup>th</sup> region
- Fujian 34m people, GDP of RMB 755bn, GBP 62bn
  - First store in 2009

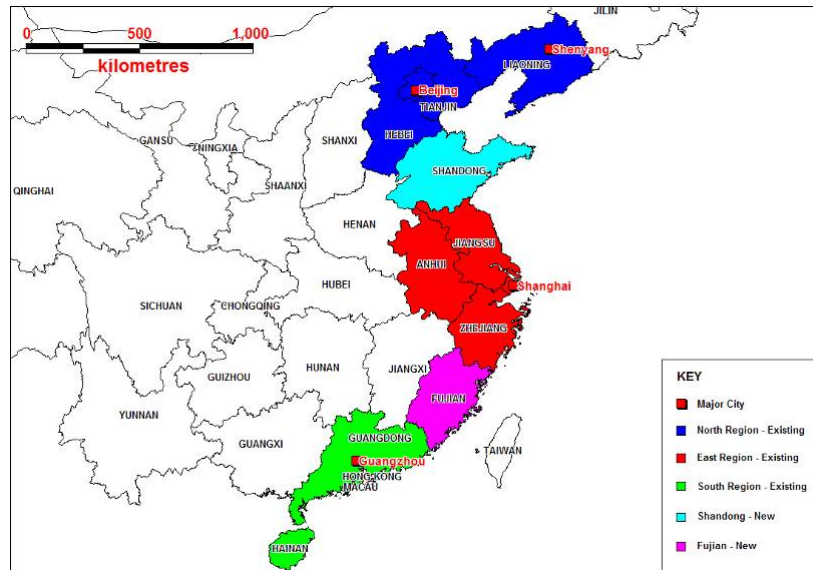
## Regional approach that leverages scale



## Regional approach that leverages scale



## Regional approach that leverages scale



## Freehold Shopping Centres

- A step-change from the leasehold business:
  - Conforming store
  - Destination mall anchored by the hypermarket with retail and leisure facilities
  - Car parks that will cope with rapid growth in car ownership
  - Mixed-use schemes to secure sites as necessary
- A sister-company run and resourced by property professionals
- Pro-active approach with local authorities and city planners
- Compliments leasehold development and underpins step-change
- Customers are the real winners
- Take a tour

## Integrated supply chain

- A core requirement of the Operating Model
- Enables much better control of range, quality, inventory and costs
- Provides transparency and facilitates proper segregation of duties
- Enables direct sourcing at country, Asia and global levels
- Existing grocery DC serves East region – replaced with freehold DC in 2009/10
- Third party non-food DC serves all regions
- Fresh DC serves East region, with North East fresh DC opening later this year

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- Fresh DC serves East region, with North East fresh DC opening later this year
- Network of DCs planned and grows with the business
- Asia joint buying for hardlines and softlines
- International sourcing for fruit – includes Chinese suppliers
- Developing partners for local growing and sourcing of vegetables

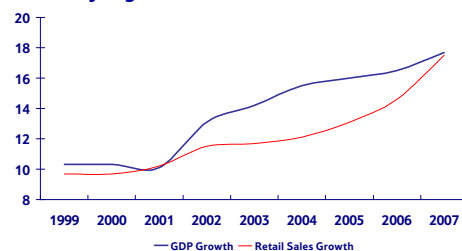
## Integrated supply chain



## Shenyang City in Liaoning Province

- Liaoning province in north-east China has a population of 42 million people
- The provincial capital is Shenyang with urban population of 4.5 million
- 10th largest city in China and one of 35 cities in China with population greater than 2 million people
- Growth in GDP, disposable income & retail sales has outstripped China's urban average in recent years
- The city's key industries are aircraft & car manufacturing

Shenyang – GDP Growth & Retail Sales Growth



## Tesco in Shenyang & Liaoning Province

- Hymall entered Shenyang in December 2000
- Now Tesco trades from 5 hypermarkets in the city
- Tesco has a total of 11 trading stores in Liaoning province – market leader among international operators
- A strong opening program is planned for 2009
- We are targeting expansion in all 14 cities in the Province and have strong support from the Province level government

Number of trading stores

	Shenyang	Liaoning
Tesco	5	11
Carrefour	6	9
Wal Mart	2	5
RT Mart	2	5





## **Tesco in Asia**

### **November 2008**

