



**Philip Clarke, Group CEO, Tesco: Half Year Results 2011/12  
Interview by Treeva Fenwick - October 2011**

**It's six months since Philip Clarke became Group CEO of Tesco. Today he's announcing the half year results. I caught up with him in store to hear what he's got to say.**

Well, it's been busy. It's been exciting, great to feel the support from my senior team, the executive committee working together, with a new boss, some with slightly different roles. I feel we end the half stronger than we started, with a much clearer sense of what needs to be done and there's a much greater level of teamwork.

**Tesco's results are out today, tell me what are you pleased with and what are you not so pleased with in terms of the first half?**

I'm pleased that the strategy that we set out is working. We aimed to grow our business outside of our home market and we've seen very strong growth in Central Europe and in Asia, particularly strong growth in Asia in the first half. Fresh and Easy has reduced its losses fairly significantly. We said that would happen. I'm delighted to say that it has.

The UK still grew strongly in the first half - a lot of new stores, a big push on the online businesses. It's been great to get the UK back on the front foot. The new team are certainly that.

It was difficult to decide to exit Japan because I've got a lot of friends there but we were never going to get a business of scale that would deliver an adequate return so better to let that go to somebody else.

It would have been good though to have been able to say that we were going to launch more products out of the Bank. We've had to slow down. I think it's the right thing to do given some challenges we had in the summer. So, you'll see more from the Bank in the next few years, it's just right now it's a slowdown.

**You mentioned the Bank there, profits have fallen sharply which is worrying; what's happening there?**

Yes the headline numbers, profits are down but on an underlying basis the Bank profits are up over 20%. In a period of migration, you're trying to create a new Bank, there's always ebbs and flows, underlying strong growth and we expect that to continue, in the years to come.

Our long-term rationale for the Bank was to provide value for money financial services to Tesco customers in the UK and that case still stands. We're growing all of our product sales but we had a bit of a problem in the summer in migrating from the Royal Bank of Scotland's systems to our own. Our savings products weren't available for a few hours; not good. We're slowing down in order to make sure that the next and last migration, which is credit cards, goes without a hitch for our staff who are under a lot of pressure in those few hours and for our customers who want to be able to access their accounts, you know, all the time.

Once we're through that, and we'll be through that by the end of our financial year, then we can start to add new products and new services.

**So for you opportunities are still very much there and your appetite is there?**

What the Bank allows us to do is to add our portfolio of services to customers. We sell great food, we've got great non-food, our general merchandise, our clothing, the F+F brand, all strong, but customers have always said to us they'd like us to be a bank because they think we'd be a trusted, valued bank. That's what we're setting out to do, that's what we will do and I'm confident that it'll grow nicely in the years ahead.

**Tell me about the global economy, there's a lot of news about it at the moment. Tesco is obviously an international business – what do you see the outlook being from the global economic point of view?**

It's the way we always thought it would be, you know, periods of undulating growth. There's a lot of uncertainty in the markets right now, particularly in the Eurozone. We've got a great business that's serving people with food; people have to eat. If we're on our best game, I think Tesco can continue to grow in the second half and for years to come.

**Now, Europe and Asia have seen growth, how do you expect to maintain that because obviously that growth is very important for the growth of the rest of the business?**

Tesco's got a broad-based strategy; it's in Asia, in Europe, in the UK, it's online, it's in America, it's got a services business. That's why we're so confident that we can continue our growth because many of the new services, the online business, financial services, telecoms, the growth of non-food and convenience, haven't yet reached Asia or Europe.

And that's one of the reasons we changed the way we're organised, so that we can leverage those Group skills into other parts of our Group. We've got a diversified strategy that gives us a lot of confidence for the future.

It's my job to make sure that good ideas in China, can appear in a store in the UK, in Hertfordshire. And that's what we've reorganised the business to do, so the ideas connect very quickly, and are moved around the Group.

**And of course in the States, losses have come down, as you said they would. Where does that leave us for Fresh & Easy, and are you going to be breaking even?**

It's a big next six months for Fresh & Easy, because we begin the store re-modelling that has put all the ideas that the team have come up with, into each store, and then we add to that the Friends loyalty card programme.

So I think in six months' time it's going to be very interesting to see how much we've been able to drive up the top line and bring down the losses further. So we're feeling confident about Fresh & Easy, but it's a very key six months for them.

**Turning to the UK now, a lot of news around about poor consumer confidence, poor retail sales. How do you see the market in the UK?**

Well, I can read it in the newspapers, but I walk around stores and I talk to managers and listen to customers, and that's why we made the 'Big Price Drop' because customers are saying they were finding it difficult to make ends meet. We set the business up mindful of the likely downturn in consumer confidence, and the investments that we're making, such as those we made in the last week,

and will make in the second half are intended to, you know, seize the advantage from our competitors. We're very confident that in the medium term and the long term Tesco can continue to grow in the UK. There's much more to come; much more opportunity than I ever imagined at home. And that will be great for our customers, it will be great for our staff, I think it will be great for the shareholders too.

**Now tell me about non-food. Last time I spoke to you, you weren't very happy with that performance. It's obviously tough when people are trying to save money, that's what's hit first. Have things improved?**

They have. I was in stores only last week looking at the improvements. Our clothing range is stronger than it was a year ago, and we're carrying a little bit less stock, so that helps. The general merchandise is starting, now, to benefit from the range changes. We're beginning to re-allocate space. The second half's going to see more of that. We're going to re-lay over 100 of our biggest stores, the out of town extras, and I think all of that combined will mean a better second half for us. So we're doing something right, but I think there's more to come in the second half, and then into next year, when all of those things come together across the UK estate.

**'Price drop'. You can't fail to notice it as you come into store. It's a huge initiative, really high profile. What was the background behind it, and what do you expect to gain from it?**

Well, we know it's tough times for customers in the UK, and we felt that we had to respond. What we've done is we've reduced the prices on the nation's shopping list - 3,000 items that people buy every week. And we think that's the right thing to do. It's giving customers an opportunity to just go to Tesco and buy their food and non-food items, and I think we'll be able to demonstrate that volumes are increasing, that customers are increasingly turning to us. Which is what we needed. And then we're going to layer on top of that investments in quality and in service, because we can see opportunities to improve our performance for customers, do the right thing for them and they reward you with their loyalty.

**Last time we spoke you were making some changes to the management of Tesco with the new UK Board and the Executive Committee, how's that settling in?**

Fine. The UK Board was probably the most important change of all - to have somebody dedicated, a team dedicated full time to the UK; not having to get up in the morning and worrying about what's going on in China or in Hungary or at the Bank. So Richard and his team have been together for six months and already they're making the big calls about 'Price Drop', about the way in which the stores are going to be trading for customers. It's great, I'm delighted. The rest of the Exec can then focus on their geographic responsibilities, America, Asia and Europe or on leveraging the skill and scale of the Group. Because Tesco's unique I think of all retailers in the UK, we've got a whole business behind us that can leverage the scale and the skill together.

**In terms of people changes though, David Reid's last set of results, how do you feel about that?**

Well, it will be a sad day for him after 25 years, working for Tesco, serving on the Board. He's been a fantastic Chairman for me and, in my first six months, great counsel, huge experience. So Intertek's gain is Tesco's loss. He'll be a great friend of the business forever but we've hired ourselves a good Chairman to replace him. Richard Broadbent starts at Tesco on 1st December. I'm very pleased with the combination of his experience outside the UK and in the UK, his banking experience; he was Deputy Chairman of Barclays. He's been the

Chairman of a business that's a bit like Tesco, it's got outlets all across the UK; Arriva the bus company, so I'm delighted he's going to join and I think together we'll make a very powerful combination.

**And, finally, you've set a target, a very clear target, on return on capital employed. How realistic do you think that is given what you've said about the Bank, given possible global economic slowdown?**

Our return on capital employed is good for a business like Tesco. We can definitely see it going up to 14.6. We said we'd do that by 2015; we're still confident that we can do it and deliver some growth for the shareholders, growth in the top line, growth in the bottom line. It's there to be had. Very confident that we can improve our returns, very confident that we can be on the customer's agenda as well.

**Philip Clarke, thank you very much.**