

Preliminary results 2011/12

Philip Clarke interview transcript

Speaker key

IV Interviewer
PC Philip Clarke
SM Store manager, Mark Pooley

IV Tesco has announced an increase in sales of 7.4% across the group, and a £1 billion commitment to the plan for the UK. I caught up with Philip Clarke, the Group CEO of Tesco, in one of the newest UK stores.

Philip Clarke, how would you describe today's results?

PC Well, they're not as investors would normally expect from Tesco, although 7.4% sales uplift is really good given the state of the global economy. It's really dominated by our decision to re-set expectations for the UK, so all the talk will be about the plan that we have to reinvest in the UK business to get it back to being strong and to leading. It's just over a £1 billion that we're committing to make Tesco better here for customers, so decisive action has been taken and we feel stronger now about the future.

IV You've said that Tesco is changing, in what ways?

PC First and foremost there's a change in the way the consumers are behaving. Look at the way in which the Smart Phone is now being adopted. By 2020 everybody on the planet under the age of 21, will have been born in the era of the internet. It's changing the way people live; it'll change the way in which people shop. So, we have concluded that the only thing we must do is reflect that and position Tesco for the digital era. So, more investment in to creating digital assets, a little bit less investment at home into building out large stores.

IV You talked a bit about a six point plan for the UK, what are those six points?

PC First, a better service; second, better stores; third, value for money; fourth, better quality; fifth, an improvement to our brand and communications; and six, making sure that the clicks and bricks business really does come together nicely.

IV You've invested in stores, what's better about this?

PC Well, the first thing is great availability in the bakery every hour of every day, and, you know, high quality products, but then you wrap it around new graphics and new lighting. For about a year now we've been rolling out this new, warmer look and feel to the stores and it goes down very well with customers. It's not everything, it's an important foundation, because what really matters is that the products are on the shelf when customers want them, priced at the right price, and they're the right quality.

Just taking this mod, which is only peppers, and having a look at it, you've got good, better and best. Perfect ranging. Everyday Value, Tesco brand, loose, organic, and then Finest. That's putting a range together just for customers.

And the first of the big changes to the brand is the launch of Everyday Value. You can see here Everyday Value bran flakes against Tesco. Modern and contemporary, but, importantly, this now fortified with more vitamins and iron, so an improvement in the formulation not just in the pack design. And look at the price, 88p for Everyday Value, £2.09 for the brand (points at Kelloggs).

IV Although you're announcing this plan today I know that you've already started it, so tell me how this investment has gone down in your trial stores.

PC Well, it was trialled in a few stores in the summer and then piloted in 200 stores in the autumn/winter, and customers have noticed the difference, colleagues have noticed the difference because there are more of them in the store to help serve customers. Customers have noticed that because presentation, availability and quality has improved, sales have improved, and customer satisfaction's improved. So, we know it works and that's why we're rolling it out.

Do you trade well in the evening then?

SM: Well, the bakery's been exceptionally popular, so we're investing in some more people in the bakery to help us get the product on the shelf for the customer, it's only then we can realise how much money we can really take out of it, and we've got the people in place to do it.

IV And I gather there's a drive to listen, even more, to customers and to localise.

PC Yes, we have something that few other retailers have, we have Clubcard, we have the insight from Clubcard customers, not just at home but all over the world. And that means we'll be able to range stores specifically according to their customer profile.

IV So, using Dunnhumby data in a more local way?

PC Precisely, using it on the ground, using it in every store in a way that's anonymised, so this won't mean that our staff will know how their customers behave, it will just mean that they will know that they should stock more of a particular item, or more of a particular range, or give it more or give it less space. It's about personalising the experience that customers have at Tesco.

IV Talking about changes there have also been some high profile management changes, what impacts will these have on the business?

PC It's always sad when colleagues who've been around as long as some have decide to retire. I'm very confident now I've got the right team around me, and just looking at the team that run the UK, every one of them has had a least one overseas assignment; they've worked in Hungary or Czech, or Slovakia, or Korea, or Thailand, or Malaysia, and they're coming back with new ideas, and they're putting those new ideas into practice every day.

IV How has the business performed internationally?

PC Very, very strongly given the global economic circumstances we find ourselves in. Consumers are squeezed, not just in the UK but in most parts of the world. Asia did very, very well indeed. Europe, in light of the Eurozone crisis, has

performed strongly. And Fresh and Easy has moved from increasing losses to reducing losses, a real turning point for the business.

Internationally our profits rose 18%. Our business outside the UK is as big as any of our domestic peer's is inside the UK. The 1.1 billion of trading profit that we've just announced - 15 years ago, a decade and a half ago, it was zero. So, an extraordinary business has been built in just a very short period of time, and not just by me but my predecessors who made those brave decisions.

IV Just on Fresh and Easy, losses have come down as you said they would, how do you see the future of that business?

PC Fresh and Easy is a business for us all to be proud of now. It does a great job for customers, it's really only four or five years old, so a real challenger on the West Coast of the USA, that's where it's going to focus its efforts and I confidently expect it to get through to break-even and then to be able to demonstrate it can make sustainable, positive returns for shareholders.

IV Now, in Thailand I know you're particularly proud of staff, and how they dealt with very challenging circumstances there this year with this severe flooding, just tell me a little bit about that.

PC Well, it didn't get much coverage in the media here, but Bangkok was under water for more than a month and our staff were sleeping in stores, were getting boats into work to try and make sure that the community could get access to good, safe food, and they did that, and I'm indebted to them, humbled, really, by it. It was an extraordinary performance.

IV Let's talk about multi-channel retailing, now, you speak a lot about clicks and bricks, how is the business adapting to this?

PC Very well. Internet sells over £2.5 billion for Tesco last year, £2.5 billion pounds; the leading grocery home shopping retailer in the UK, if not in the world, and able to take all of the technology, all of the assets that are created and put them around the Group. So, just went live in Prague, going live in Warsaw.

And what we're preparing ourselves for is the impact of the Smart Phone, this is the Tesco App. You can buy anything here, you can click, order it today, and collect it in this metro store tomorrow afternoon. It's changing the way that shoppers think and act, and Tesco's ideally placed for it, a combination of the best store network in the UK, and in most of our markets, and this great capability that we've built, you know, in-house by Tesco.

We're also rolling out click and collect. In the UK most of the population is within a 10 minute drive time of a Tesco store, so that ubiquity really does help us. I can order today and I can collect it in any store tomorrow, is the vision that we have.

In the year that we're now in we're going to double our investment in creating digital assets, at home and overseas.

IV Tesco Bank - where are you now with the migration and completing on that?

PC The migration is practically complete, there's one major product to move, credit cards, and then once that's done the Tesco Bank is built, and our new

products will start to appear very soon. So, it's very exciting, exciting for Tesco customers but very exciting for the bank staff. So, they're going to celebrate and then they're going to do what Tesco people do, they're going to serve customers really, really well.

IV You made a big adjustment to the financial expectations back in January, how do you see things on that front now that the investment is going in in the UK?

PC We remain firmly committed to achieving 14.6% return on capital employed at the end of the 2014/15 year. Clearly, the work in the UK makes that a bit more difficult, a bit more challenging because we have reduced our profit projections. But, through a combination of good management of working capital, good management of capital allocation, we feel that we can do that.

IV Philip, you talk a lot about doing the right thing, it's a phrase you use a lot, what does that mean to you?

PC There are many stakeholders who have got an interest in what Tesco does; there are our customers, there are our colleagues, there are our shareholders, our suppliers. They need to see that Tesco is behaving responsibly and Tesco's giving something back, and that's what I mean by doing the right thing. It's not just about running a store, for customers it's about making sure that the customers see that we care.

IV Lastly, what's your message to staff today?

PC There are many factors that define Tesco, for me the most important are my colleagues, the half a million staff around the world. I've been at this for over three decades now, and I feel at my best when I'm in a store amongst the staff, they remind me constantly of the need that we've got to do better for them, and that's just what we intend to do. I just want to thank them for all they've done in the year that's gone, and for all they're about to do in the year that we've just begun.