Fresh and Easy Neighborhood Stores

Tesco has worked long and hard…but for what?

Tesco is the largest retailer in the UK, with a 31.5% market share of grocery sales, and third largest in the world. It grew to its current position by innovative use of data from its loyalty card, and sensitivity to local situations in several countries. It has been working for several years to plan its entry into the US, committing $250 Million per year over the next five years to build a business. A few days ago it opened its first six stores in the US. We visited two of these stores – one in Arcadia and the other in West Covina, CA – and this is our first impression.

NET: The stores were very disappointing, and unless the company learns fast and makes appropriate changes we are pessimistic for its future.

While the large empty spaces on the refrigerated shelves made it obvious that inventory is not yet complete, here are the details behind our first impressions:

- An extreme limited selection of branded items on the dry grocery shelves make the stores look like a deep discounter.
  –Putting product in cut cases on bare steel shelves is common in the UK, but screams "deep discounter" in the US.
  – Steel racks on cracked concrete floors also suggests "deep discounter".
- The predominance of private label sets the expectation of low prices.

Max Brand Equity, Inc. 2275 Huntington Drive, #142, San Marino, CA 91108
626-284-6965
www.maxbrandequity.com

– However, unlike Trader Joe’s, the private label design is spare and unattractive, giving a low price, low quality impression, similar to the generic products of a few years ago.
– While much private label design in the UK is very basic by US standards, with no product shots, other designs, such as Waitrose’s (an upscale supermarket chain) have high appetite appeal.
– Additionally, the muddy green and earth tones are not indicative to the US consumer of high quality.

- The current lack of distinctive, interesting, prepared fresh foods does not support the company’s claims of providing lots of prepared meals.
- Trader Joe has a greater variety of fresh prepared foods currently than Fresh and Easy seems to have space for.
- The website presents ordinary items as special – pancake mix, maple syrup, hash browns, and bacon are not so special as to create a “holiday brunch at home.”
- Meats are pre-packaged in controlled atmosphere packaging
  – Unfortunately, this packaging treatment looks swollen and, as such, will likely raise questions in the consumer’s mind about the freshness of the meat.
- Produce is pre-packaged in a manner which took the UK consumer many years to become accustomed. This is far less attractive than Trader Joe’s.

While we eagerly anticipate the much heralded fresh prepared products, based on first impressions, we wonder what the Tesco folks have been doing the past few years. This is one of the problems when a company enters a new market – geographic or product. Other people’s jobs look easier than they are. Other people’s expertise is neither understood nor appreciated. Other countries do not look too different – because we do not really understand them. We do not know what we don’t know. While this seems to be an obvious statement, so many people do not approach the issue with a mindset which says that they want to understand every little detail just in case it is different. While most of what you know is transferable, much is not. Assume that everything is new and confirm even the facts which seem to be self-evidently applicable.


Fresh prepared Indian meals

Most of our knowledge base is transferable. It’s just that we do not know what parts aren’t. While Tesco may have spoken about researching the market, it has clearly gone in with a set of unshakeable assumptions, which management did not even realize they had. The UK heritage in the stores is clear, but they seem to

Private Label Pasta Sauce

have transferred that from the UK which is unattractive to US consumers, and not that which would be. They have ended up with a store which would be as unappealing to UK consumers as to US ones, albeit for different reasons.

Tesco would have done better to have copied from Trader Joe's and simply updated and improved. Sadly, the company seems to have had an attitude of arrogance and decided to show the unwashed colonials the benefits of civilization, which will backfire. We do believe that with the commitment of time and money which has been made, they still can get it right, but there are no guarantees.

It is clear that they did not listen to any US advice they received or try to understand the background in the US. Equally, it may be that any US managers they have did not understand the UK history well enough to put the plan into context.

Also, in the West Covina store, staff members were friendly and helpful, approaching us to ask if they could help and assisting us through the self-service checkout. However, in the Arcadia store, staff stood around doing little. Since in both stores there were more staff visible than customers, this was surprising. Again, if we take Trader Joe's as a gold standard for this size store with this kind of product mix (with predominantly private label products) the comparison makes Fresh and Easy look weak.

Last but not least, the company is proud to advertise that there is no loyalty card. It is the Tesco loyalty card, more than any other tool, which has allowed Tesco to be successful in the UK. It has allowed detailed knowledge of shoppers and shopping patterns to inform so many decisions from store assortment to location as well as allow precisely targeted promotions. We might speculate that in the US Kroger has an exclusive with Dunn-Humby, which operates Tesco's UK scheme, but that is a major handicap for Tesco in the US.

It is sad that Tesco is so underestimating the challenges of the US market. It is likely to be the latest in a long line of failures by British food retailers in the US market, such as Marks & Spencer, which bought King's Markets, or Sainsbury, which bought Shaws. No UK food retailer has yet succeeded in the US.

Max Brand Equity, Inc. 2275 Huntington Drive, #142, San Marino, CA 91108
626-284-6965
www.maxbrandequity.com