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Winning customers in a world of change

Thank you, it's great to be here. In just a few years The World Retail Congress has become a date in every retailer's calendar, it's a place where we can share thoughts and insights, and talk about the challenges we all face, before getting back to the relentless competition that makes for our daily lives.

And today those challenges are immense. Change is always with us, but the changes we face are broad and complex: I'll pick just four: climate change, increasing commodity prices, rapid urbanisation, a growing middle class wanting to lead healthier lives.

Today, I want to focus on one aspect of change and the challenge it poses: how do we win in a digital world, at a time of great economic upheaval?

My argument, put simply, is this: right now the tectonic plates are shifting. Customers are navigating a highly volatile landscape. On the one hand, new technology means that they have more choice, more power, and more control than ever before. But at the same time, particularly in the developed economies, they are under enormous financial pressure,.

The result is that people are asking tough questions of retailers. They want to know: do we understand what matters? How will we help them? Are we part of the problem, or part of the solution? In other words: are we on their side?

In this new landscape, it is not enough to win new customers. We need to work harder than ever to earn their trust and loyalty. Critically, people don't want us simply to respond to what's happening. They want us to make a positive difference to the big challenges they face.

That's where harnessing the power of digital technology comes in. Digital does not just offer smart new ways to shop. It gives us the opportunity for a warmer, more meaningful conversation with our customers, local communities, our colleagues and the suppliers who we work with.

So we need to change the old ways of retail thinking and personalise the retail experience. We need retail which isn't just built around customers' lives today –but also how they will live tomorrow.

This is exactly what we have been doing at Tesco. In the last twelve months we've made radical changes to the way we operate, and we've called time on the old retail "space race". We've recently opened our 1,000th click and collect collection point and in the last year we've seen the number of online orders placed on mobile devices double.

In this new world, retail will not be about buying large swathes of new real estate, but about how we, as businesses, relate to our customers, their communities and the countries in which we operate. The choice we face is a stark one: do we lead the revolution, or become victims of evolution? To answer that, we need to start by understanding the big changes we face.

The impact of the downturn on retailing

Across the developed world, in an age of austerity, everyone expects to be working harder, for less. And there is a growing sense that this is the new reality.

This is the first downturn of the digital age. Digital technology – in particular smartphones – has become a lifeline, offering not just untold choice, information, and access to bargains, but acting as a new and more affordable channel for entertainment and socialising.

Social media has given rise to the agnostic consumer, whose actions and tastes are heavily influenced by word of mouth, who moves quickly and seamlessly between channels, and who expects retailers to keep pace.

In Asia and China, this digital revolution has gone hand in hand with not recession, but growth. Yes, the Chinese economy is slowing – but it's still going at a rapid rate. The Thai and Korean economies have been strong. However, as they are vulnerable to the crisis in the Eurozone, as well as inflation caused by high commodity prices, consumption is weakening.

These headwinds, important though they are, need to be put in perspective. India and China are experiencing an economic acceleration that is over 1,000 times as big as the first Industrial Revolution in Britain. In Thailand, the urban population has increased by 15% in 10 years. And with urbanisation has come the emergence of new Asian middle classes.

These consumers are quickly adopting digital technology. In India, the number of Facebook users rose from zero to 50 million in 2 years. In China, more than half the urban population is online. And in Korea, the number of households with a smartphone has shot from 5% to 50% in just two years.

Three customer trends

So what are customers thinking as they grapple with all these changes? A thought that many customers have is “I want control over my life.” In the developed world, as customers’ spending power has fallen, they are experiencing a very real loss of control. This has been compounded by a strong feeling of isolation – that no one is helping them. They have lost faith in government, banks and other traditional institutions to make things better. Instead, they realise that they need to take control, and put in the leg work to find the best deals.

Digital technology has empowered consumers to be smart shoppers, who can make informed choices. Over half of visits to our Tesco.com website are to check prices - and this is our food site, not our general merchandise site.

In Asia and China, the wish for more control is fuelled by urbanisation. Many people eat out, but when they do eat at home they want the shopping trip to be quick, and the food to be ready to eat. On top of that, as these economies grow more slowly, these consumers are also becoming more price sensitive. In Korea, for example, more than 70 per cent of customers have used a price comparison web site in the last 6 months.

Customers’ wishes for more control are closely related to the second thought they are having: “My life feels busier than ever”. Once again, digital technology is a saviour, helping them lead simpler, easier lives. I’ve seen this trend gather momentum over the last fifteen years, during which time Tesco has developed its online operations. What was a radical innovation in 1998 is now mainstream. One global consumer survey found 25% of consumers are shopping across four or five channels. And the smartphone has become a widely used means of researching deals – accounting for about a third of online consumer research in the States. Interestingly, almost half of this research is conducted in the store itself.

More control, more ease, more simplicity: the third thought customers are having is “I want more for my money.” “More” means not just offering quality products and services. Customers are looking for a better brand experience, and rewards for their loyalty that come on top of that. Rewarding people for their loyalty is not a new thought. After all, Tesco pioneered the Clubcard in the 1990s; But now we, and all retailers, need to think more intelligently about how both we win and retain loyalty in the new, converged world.

This isn’t easy. Loyalty to one brand, or one store, is being challenged like never before. Consumers may visit a retailer or buy a brand they never considered before only to like the experience. They may see that retailer or brand fulfilling a specific need in their lives. And so consumers start to assign specific roles to specific retailers – their apps have become the new high street – personalised, digital and accessible from wherever you are, whenever you like.

Trusted brands are those which embrace mass personalisation

Loss of control, leading busier lives, looking for more for their money: retailers clearly need to respond to these customers' trends. But today, more than ever, the age old principle of simply "following the customer" is not enough to win or retain loyalty.

The need to build a strong, trusted brand is greater than ever. One global survey found that more than half of consumers shopped with just five retailers or fewer, showing the power those brands have. These are brands which appeal to both the head and the heart, exerting on customers an emotional and rational pull.

To build that brand, retailers need to understand what smartphones and tablets, combined with customers' quest for ease and simplicity, mean for the consumer. These technologies herald a new era – one of mass personalisation. The online and offline retail experience must be, like a bespoke suit, seamless and personalised to meet an individual customer's needs. And our strategy, which we refreshed last year, sets out how we will build that offer.

Core to our approach remains our belief in rewarding customers' loyalty. We now need to do so in a way that is satisfying, exciting and – that word again - personal. We're going to personalise Clubcard, making customers feel they are truly part of a club. Some want vouchers they can spend in store as a reward; others want car insurance, meals out, or trips to leisure parks. This tailored approach is proving popular: on some days over 50% of covers in popular restaurants and around 10% of trips to popular UK theme parks, such as Legoland and Alton Towers, are made with Tesco rewards.

A personalised offer anticipates customers' needs

A personalised offer, however, is more than just about offering value and price, or rewarding loyalty in a bespoke way. A personalised offer means retailers need to think and act in a multichannel way, not just delivering what consumers want today, but anticipating how we can meet their needs tomorrow.

By Christmas time 1 in 5 online orders in the UK are expected to be made on a mobile device. To make that experience easier and better for our customers, we're bringing together our existing apps into one. Then there's Click and Collect for grocery: in the UK we now have over 70 stores where customers can collect pre-ordered groceries. Meanwhile, we're rolling out our online offer in Ireland, the Czech Republic and Poland, into Bangkok, Shanghai and Budapest.

On top of all of that, we're changing our approach to stores. Yes, we will build more supermarkets – but they will be smaller supermarkets, built for how shoppers are shopping today and how they will want to shop tomorrow. In Thailand, where the average number of visits per month to convenience stores has doubled in a decade,

we are building more Express stores, offering more fresh meals (like green curry) and selling more donuts and muffins, as fewer Thais have traditional breakfast.

And in stores, we are transforming our offer. Many customers want ready to eat meals – but ones that are fresh. So here in the UK we have a new offer: “food to go” – an offer that changes during the day. Breakfast time lines include bread and croissants, granola and yoghurts. These are replaced by Tesco Finest salads, sandwiches, sushi and pizza slices at lunch time; giving way to ready meals and pies, whole pizzas and chickens in the evening.

Personalisation and accountability

Personal offers, however, are not just about addressing and anticipating consumers’ material needs. They appeal to the heart, reflecting the new, high aspirations that people now expect of companies of all kinds, be they retailers or anything else.

Integrity, honesty, openness, responsibility: quite simply, people expect big companies to be doing their bit for the communities in which they operate, for their teams, for the wider world.

This is not some optional extra that management can ignore. Digital technology has heralded a new age of accountability. Millions of people can be mobilised, in minutes, across the world, to vent their anger at any organisation that is seen to be failing its social obligations. The bigger the company, the greater people’s expectations, the fiercer the anger should that company fail.

In this world, retailers that have a physical presence, a face not simply a website, are in a strong position. Of course all retailers have to compete on value, price and service: but those who are not just pure play internet retailers are able to demonstrate their determination to do their bit, to prove their wish to improve the communities in which they operate and to create new opportunities, new jobs. And all of that enriches the relationship with the customer and deepens the moat around the brand, strengthening its defences should it be attacked.

At Tesco, helping communities is not just locked into our strategy, but into our mindset. A long term perspective, a sense of partnership, a wish to build personal, lasting relationships with all those who supply us, who work with us, and who shop with us: this ambition embraces all we do, across all channels. On high streets, in stores, via our delivery network – we’re turning our physical presence, and the personal contact we have with our customers, to our advantage, so we can meet challenges of the new age of accountability.

So, to win and retain customers in this world of change, yes, we need to respond to changes – give customers more control, and do more to reward their loyalty. But we

need to anticipate those changes as well, helping customers by being one step ahead. And we need to deepen and enrich our relationships with customers, so that we are able to meet the exacting standards of behaviour that they now expect of us.

That thinking is reflected in my ambition for Tesco. I don't want us simply to be a part of the future: I want us to help to shape the future. Fast, exciting, noisy, open to all, welcome to the new era of retailing: an era in which a seamless, personalised offer is critical to winning customers in a world of change.

Thank you.

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