

## Talking Tesco: How we compete

The focus of our business is customers and we work hard to meet their needs and that's the only reason Tesco is successful. We understand the merits of competition, and the benefits it brings to the consumer. From small beginnings, Tesco has grown to be the UK's most popular supermarket and one of British business' great success stories by fulfilling people's expectations to have safe, nutritious, quality food at affordable prices. We have maintained our popularity by listening to customers and responding to their needs.

As a retailer, our stores serve a large number of communities, in which our customers and staff live and work. So we have always known that we have a wider responsibility in society. With the launch of our community plan we are doing more than ever to be a good neighbour, be active in communities, seize the environmental challenges, and behave responsibly, fairly and honestly in all our actions.

In May 2006 the Office of Fair Trading (OFT) referred the supply of groceries by retailers in the UK to the Competition Commission for investigation.

The focus of the inquiry is to find out whether the market is functioning effectively. Any Competition Commission Inquiry is required to examine whether there are any features of the market that prevent, restrict or distort competition. The Competition Commission also has to identify whether any adverse effect on competition has a detrimental effect on customers in the form of higher prices, lower quality or less choice of goods or services; or less innovation in relation to such goods or services.

Because we try to do the right things for customers, in many ways we share the Competition Commission's remit – to ensure that the industry functions in a way that is good for consumers. We welcome the opportunity to share our views with the Competition Commission to help them gain a complete understanding of the marketplace and the perspectives of consumers, suppliers and stakeholders as well, of course, of supermarkets themselves.

### How the consumer is benefiting

Britain is changing: shopping habits change as lives change. As life has become busier and more complex, and living costs more expensive, Tesco has helped make shopping simpler, more convenient and affordable. Customers have rewarded us with their loyalty. As customers' lives change so does Tesco and its competitors, benefiting customers wherever they shop. Today's grocery shopper spends less, can get more of what they want, receives better customer service and has a wider choice than ever before:

**Prices are falling.** The OFT estimates that grocery prices have fallen by over 7 per cent in real terms between 2000 and 2005 and falling prices have saved consumers more than £3 billion over the last three years; overall Tesco prices fell by 15 per cent over this time.

**Product quality is increasing.** Many innovations in the supply chain have led to more (and better) choices of locally-sourced meats and produce, organics, high quality ready-meals, specialist bakery products, products such as organic Halal meats and environmentally friendly household products. All these have been delivered with improved product safety.

**Product choice is increasing (range).** The OFT estimates that larger stores have seen a 40 per cent increase in product range over the last five years; we have added around 8,000 new product lines in the last year alone. We have also recently announced that we will invest £2m in supporting locally sourced products and opening five regional buying offices to help us put more local products on the shelves.

**Service levels are high and improving.** There are more in-store facilities, longer opening hours, shorter queues, better trained staff and increased home delivery.

**Supermarkets are doing more to address people's environmental concerns** with all the major supermarkets making more commitments to extensive long-term environmental improvement. As well as our plans to halve energy consumption in our stores by 2010 (compared with 2000) we are also spending £100 million developing renewable energy and other green solutions.

These are facts, recognised by the OFT, Verdict, the Institute of Grocery Distribution (IGD), Mintel, financial analysts and, most importantly by customers themselves – our evidence shows that 85 per cent of shoppers regard their shopping experience as either excellent or good.

## Customers choose where they shop

Research shows that 94 per cent of consumers in Britain have a choice of three or more different supermarket retailers within a 15 minute drive. In the grocery market consumers can and do switch easily between the stores they use. Each time consumers go shopping they choose where to spend their money. If they choose to shop in a different store from one month to the next we call this switching. The value of this switching has nearly doubled since 2002 and in total amounts to more than £10 billion. Consumers have a wide range of retailers to choose from including Wal Mart/Asda, Sainsbury, Morrison, Waitrose, M&S, Somerfield, Aldi, Lidl and Netto, other smaller supermarkets, Costco and Makro, the Co-Ops, Symbol groups (e.g. Premier, Costcutter and Spar) and thousands of independent retailers.

The grocery market has undergone many changes in recent years, including the rapid growth of discounters such as Aldi and Lidl, and the introduction of M&S Simply Food outlets. Consolidation and new entry of Tesco, Sainsbury and Musgraves into the convenience market also demonstrates the dynamism and competitive rivalry in the UK grocery retailing market.

The fortunes of different retailers have, like Tesco's, changed over the years as customers have exercised their choice. M&S, Sainsbury and Morrisons have each fallen from strong positions and then recovered. In the early 1990s Tesco too was in trouble, written off by many analysts. We set out a new strategy that put customers at its core – *listening to customers* and responding, as best we can, to their needs. This is still something that helps differentiate Tesco from its competitors and is one of the most important explanations of our recent success. It has helped us to prioritise our actions and to improve and accelerate our innovations. It has led us to expand into new product areas and to operate from smaller stores.

We do not take our recent success for granted. Consumers make choices about where to shop everyday. We know that if we fail to listen to customer needs and to respond, then they can and will choose to shop elsewhere. Doing what is best for customers is what motivates us and knowing they can choose to shop with a competitor stops us from being complacent.

The Competition Commission will look at several aspects of the grocery retail market, including supermarkets' pricing policies, their relationships with suppliers and their strategy for opening new stores.

# Listening

## Our success is based on listening to customers

We are the UK's number one retailer because we listen and respond to customers and their changing lifestyles. Rather than developing products and services that we think customers want, we spend lots of time and effort asking them. It's simple – we listen and respond, providing customers with what they tell us they want.

This strategy of listening and responding has been successful, but we can not be complacent. We are well aware that if we stop listening and don't respond to our customers' needs they will choose to shop elsewhere.

A few years ago we listened to customers when they told us the things that are most important to them. It helped us develop the Every Little Helps promises, and they are just as important today. These five promises to our customers reflect the simple things people care about when they go shopping:

- prices are good;
- I can get what I want;
- the aisles are clear;
- I don't queue; and
- the staff are great

These five promises may sound simple, but we know that if we don't get these things right customers will go and shop with one of our competitors. It's important to us to do the little things that really matter for customers and staff, in every store, every day. These promises are fundamental to our success.

Listening to customers has enabled us to respond to many changing customer attitudes such as increasing concern for health, local sourcing of food and a renewed sense of community. Our research has also helped us identify new general trends such as an ageing population, more single person households and more working mothers.

Our belief is that these emerging trends are likely to continue and produce more changes in what customers expect from us. This means we will have to be pro-active in refining our offer to satisfy these customers' needs and aspirations. We are confident that we can listen and learn about our customers' evolving needs and guide our actions to continually improve and tailor our strong and inclusive retail offer.

## How we listen

12,000 customers attend our **Customer Question Time** sessions each year – a forum where we listen to customers' views on everything, from products, price, quality and service to our role in the community and the Tesco brand.

**Customer Comment Cards** are available in all our stores. Alternatively customers can free phone our [customer service helpline](#).

Last year **Clubcard** celebrated its tenth anniversary and with over 13 million active card holders it is a world-leading loyalty programme. Not only does it enable us to thank our customers for shopping with us, but it also helps us to better understand what customers want.

We also employ a range of qualitative research techniques, such as focus groups, accompanied shops, home visits and others, to explore issues as they arise. And we use quantitative techniques, such as on-street, telephone or on-line questionnaires, to talk to a wider number of customers, or to quantify views and opinions garnered in qualitative studies.

We have on-going research trackers asking the same key questions regularly, to allow us to track performance over time.

However, these tools on their own are not enough to get a true understanding of customer behaviour and motivation. We use multiple sources of information which allows us to look at many aspects of consumer lifestyles, to understand a problem, or discover opportunities to do more for customers.

## What we have learned

Here are a couple of examples from many thousands.

Sometimes the information we gather leads us to uncover simple explanations for customer behaviour. For example our sales data showed us that there was a sharp increase in the sales of flowers and wine for one week at the start of the summer. Since it didn't coincide with a celebration such as Mother's Day, we had to look for another explanation. Analysis of our Clubcard data showed that the majority of customers buying these items were families with school age children. Parents were buying these products for their children to take to school and give to their teacher at the end of term (obviously an apple for teacher isn't enough any more!). Having come to this conclusion we were able to ensure that there was a plentiful supply of flowers and wine in our stores at the end of the school term.

Using external research we recently identified an opportunity to improve our range. The research told us of a rapidly growing need for Polish & Eastern European products and our growing number of excellent Polish staff helped confirm our beliefs.

As a result of this, we appointed one of our Polish executives who began by listening to customers and held our first ever Polish 'Customer Question Time' (in the Polish language) to find out which kinds of products our customers would like to buy. After talking to Polish customers, we finalised our product selection then sourced the products from a new supplier.

We launched our range in-store in September 2006 with very positive feedback from customers and stores. We are now asking customers for more feedback to find out how we can further improve the range. Initial feedback has been so positive that we are already planning to launch in up to 100 stores and extend our range into Chilled and Bakery product areas.

As well as listening to customers we also know how important it is to listen to our other stakeholders.

**Listening to our people** - we are the largest private sector employer in the UK with over 260,000 staff. Our people make Tesco a success and we know how valuable their feedback is.

**Listening to suppliers** - we take a partnership approach and believe that open and constructive relationships with suppliers are key to a strong and sustainable supply chain.

**Listening to communities** - we are also aiming to improve the way we consult local communities before building new stores so that we can be sure that we have understood local issues and concerns.

## Listening to communities

It is important that a new store opening is welcomed by local people. Tesco want to talk to local people when we plan our stores. We work closely with local communities so we understand local issues and concerns. We distribute leaflets locally, detailing our plans and inviting feedback. We also hold public exhibitions so that people can come and talk to us about our plans for a new store. We also talk to local traders about how our stores can attract new customers to the area and improve business for us all.

We are aiming to further improve the way we **consult local communities** before building new stores. So, from 2007, we will hold a public exhibition or consult local communities proactively in other ways on every new Tesco superstore. This is one of the promises of our new community plan.

### What residents are saying\*:

*"As an occupier of local business premises just off the site I am completely in favour of this proposal."*  
Wolverhampton

*"I think for older people without cars it's ideal for them."* Dymchurch

*"Investment will be good for the centre."* Guisborough

*"Yes please, we need a bigger supermarket for more choice."* Driffield

*"Just what the city needs."* Sunderland

*"This would be a good step forward in supermarket shopping."* Kettering

*"Am very impressed with the plans. Blends in with the town perfectly."* Cleckheaton

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\* Comments taken from public exhibitions for new Tesco stores and extensions to existing Tesco stores

## Listening to suppliers

At Tesco we work with many suppliers large and small. We take a partnership approach and believe that open and constructive relationships with suppliers are key to a strong sustainable supply chain. Our commercial teams regularly talk to our suppliers, often on a weekly, and sometimes on a daily basis. We visit our suppliers and they visit us. The opening of our new regional buying offices will help us be even more in touch, especially with small, regional suppliers. We work together.

We do more to listen to suppliers regularly through our own annual survey (Viewpoint). This allows suppliers to tell us anonymously how they feel about working with Tesco, and tells us areas that we need to work on to improve. For example, our latest survey told us that the vast majority of respondents thought that we maintain high quality standards, and that we are reliable at paying on time. They also said that “the people they work with at Tesco are good at listening”.

Tesco and three other leading supermarkets have adopted a Supermarkets Code of Conduct to ensure that relationships with suppliers are reasonable and transparent. We fully support the objectives of the code and have taken it further and have appointed a **Code Compliance Officer** to look into any individual concerns, on a confidential basis if requested.

## An example of what we have learned

Suppliers have told us that they would like us to share more information with them to help them run their businesses. We have listened and in response have developed a new system to help us share information. TescoLink will allow suppliers direct access to store level sales data on their products as well as information on wastage, margin and stock availability. We began testing the system with 20 suppliers last October and hope to have all suppliers using the system by the end of this year. We have used electronic data interchange (EDI) for many years, but this will be the first Tesco platform designed for use by all suppliers, no matter how small.

The system will include information about Tesco people – store managers for example, with their contact details and store opening hours so that suppliers can explore any issues relating to their lines in a particular store directly.

We believe this new system will help both Tesco and our suppliers to be more efficient and more responsive. We expect TescoLink to allow much better collaborative planning for new lines and promotions, and also improve in store availability which will greatly benefit customers.

## Listening to our people

We are the largest private sector employer in the UK with over 260,000 staff. Our people make Tesco a success and we know how valuable their feedback is. There are many ways in which our people can share their views. For example, we hold **Staff Question Time sessions** so they too can share their views. It helps us to understand their opinions and experiences to help them serve our customers better.

Our good relationship with our union partner the Union of Shop, Distributive and Allied Workers (Usdaw) provides a valuable way to capture the considered opinions of our people across the company. The Tesco/Usdaw Partnership is the biggest single trade union agreement in the private sector and staff forums are part of our agreement with Usdaw. They are held in all stores three times a year and enable our staff to give direct feedback on the things that matter to them.

Over 7,000 members of staff are on a development programme designed to give them the skills and experience to move to a bigger job. We invested in over 2,000 new management and 4,500 Team Leader roles at the checkouts last year to continue to deliver Every Little Helps for customers.

## Sharing in our success

At Tesco share ownership is not just limited to directors and senior managers. Through our incentive schemes, 65% of our people own shares in the company. In May 2006, £78 million worth of shares were given to 180,000 staff as part of our Shares in Success scheme – all staff with more than one year's service received shares worth 3.6% of their salary. In addition, we offer a 'Save As You Earn' scheme to enable staff to buy shares at a discounted price as a medium or long-term investment. Around 40% of staff take part, and in February 2006, shares worth £111 million were paid out when the scheme matured. Our third all-employee scheme is called 'Buy As You Earn'. We have over 35,000 staff currently using this scheme to buy Tesco shares from their pre-tax salary, allowing them to become Tesco shareholders in a tax efficient way.

All our employees are able to join our award-winning and well-funded defined benefit pension scheme which allows members to build up a pension based on their earnings and service. This makes it an attractive scheme for part-time as well as full-time employees. Tesco pays in around double the amount that staff contribute, making our scheme excellent value for money.

## Our people survey

Every year all our people are also invited to take part in our staff **Viewpoint survey** giving our people the opportunity to express their views on almost every aspect of their job. Last year 221,507 of our people completed the survey. We use Viewpoint to make sure we are working on the right things for our people, just as we use feedback from customers and suppliers to improve our offer for them.

## What we have learned

Analysing Viewpoint data makes it far easier for us to identify and address issues that are important to specific groups of staff. We can also gauge the attitudes of various groups of staff towards a particular issue, such as pay, or the level of support they're receiving from their managers. For example, we can see from the data those things that matter most to night-workers, or particular problems faced by staff that are working part-time. So we can tailor our employment environment at Tesco to suit the needs of different staff segments e.g. we are able to analyse staff feedback on a store-by-store basis and provide line managers with reports on how their staff are feeling. Whether you are a general assistant in a store, or someone at management level, whether you work at a distribution centre or in our office you can provide helpful feedback. We can then make sure that our plans are aligned with what our people are telling us.

## Happier staff means better customer service

The data from Viewpoint has enabled us to react quickly to issues and implement changes that have subsequently delivered benefits for staff - and ultimately customers. Recently we recognised that workload was becoming an issue for staff in some of our stores, particularly around the busy Christmas time, and this led us to introduce a programme called 'reducing vacancies'. By tracking the data from a subsequent Viewpoint survey it was clear that we had been successful in addressing this issue. It also led to the creation of an additional 12,000 temporary jobs the following Christmas.

One of the things that comes through very strongly in Viewpoint is that customer service is very important to our staff. We know that many of the improvements we make to the working

environment translate into a better experience for our customers, with all the benefits that follow. Listening to our people and supporting their needs helps us to provide a better service for our customers so we all benefit.

## Retailing in the 21<sup>st</sup> century

From small beginnings, we have become Britain's most popular retailer by recognising and responding to social change. This ability to understand change, and rise to its challenges, is more important for Tesco today than ever before. The battle to win customers in the 21st century will increasingly be fought not just on value, choice and convenience but on being good neighbours, being active in communities, seizing the environmental challenges, and behaving responsibly, fairly and honestly in all our actions. Customers may care about price, but when they shop with us they do not leave their social values at the door.

### The Community Plan and our Steering Wheel

To meet this challenge, we have put community at the heart of how we run our business.

At Tesco we use a 'balanced scorecard'<sup>†</sup> approach that we call the Steering Wheel. This management tool focuses our business on the delivery of our core purpose. It is the framework for all activity linking top-line strategy to personal objectives and it ensures that we balance our priorities effectively.

Community has now been introduced into that framework, sitting alongside the four other segments of the Steering Wheel; Customer, People, Finance and Operations. That is a significant step in putting both responsibility to the communities in which we operate and a commitment to environmental sustainability at the centre of our business plan. It will guarantee that the consideration of our impact on communities and on the environment becomes an integral part of our decision-making process.

### Our key objectives: to be a good neighbour and to look after the environment

The Community Plan is a continuous process that will drive change across the business in the years to come. Building upon our current corporate responsibility activities, it will provide a platform for constant innovation to deliver two broad objectives:

- *Be a good neighbour*  
Customers want us to respect the local communities in which we operate and make a positive contribution to them as a good corporate citizen and a friendly neighbour. We can do that by supporting local sports teams as well as by providing more jobs. Projects for 2006 include stocking more local produce and making sure that our busy local Tesco Express stores do not disturb their neighbours.
- *Be environmentally responsible*  
Each of us has a duty to take care of the environment and we understand that Tesco is well placed to make a significant difference. By examining our processes and reviewing our energy consumption, we hope to take a lead in promoting environmentally responsible practices. Projects for 2006 include reducing carrier bag usage, energy saving and improvements to recycling facilities for customers.

### Our ten-step action plan

Everything we do at Tesco is judged as far as possible against measurable objectives. Our concern for the community is no different. When we launched the community plan we announced a ten-step action-plan to improve our impact on the environment and support the local communities that our stores serve. We are:

- 1) Cutting energy use in our buildings so that by 2010 we will be using half as much energy per square foot than we were in 2000.
- 2) Improving our recycling facilities to help customers double the amount of recycling brought to our stores
- 3) Encouraging customers to re-use carrier bags by giving Clubcard Points to customers who bring their own.
- 4) Making healthy eating easier by putting nutritional labels on all our own-brand products by January 2007.

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<sup>†</sup> The balanced scorecard is a management tool that enables organisations to clarify their vision and strategy and translate them into measurable actions.

- 5) Working with the Pre-School Learning Alliance to help parents and children in some of the UK's most deprived areas make healthier choices.
- 6) Getting two million people active in events we will organise or sponsor in the run up to the 2012 Olympics.
- 7) Ensuring our Express stores are good neighbours by reviewing noise levels, delivery schedules and shop-front design.
- 8) Engaging with the community to better understand local issues and concerns.
- 9) Encouraging more small suppliers by developing our network of regional offices and making it easier for them to access our distribution network.
- 10) Celebrating regional food. For example, by working with British farmers to extend growing seasons so that we sell more British produce and import less.

To find out more about our approach to Corporate Responsibility, take a look at our [Tesco Corporate responsibility review 2006](#).

## Low prices everywhere

### Between 2000 and 2005 Tesco prices fell by 15%

Customers deserve the best value for money. That is why we work hard to find ways of keeping our prices down. This has helped us cut our prices by 15% between 2000 and 2005, in real terms, and in our aim to be *'the best value retailer'*.

This price deflation comes at a time when many other aspects of consumers' lives – gas and electricity bills, motoring etc. have become more expensive. We, like others, currently face a tough challenge due to rising energy prices, but last year we still managed to reduce our prices by 1.8 per cent. We strive constantly to improve efficiency, and work with our supply base to achieve the best prices. Innovations such as our reusable plastic trays, which we use in our fresh food areas have helped us to make savings – these savings we pass on to customers. We also regularly check our competitors' prices across a basket of 23,000 grocery and non-food products. Everyone can see the grocery prices for matching items on [our price check website](#). That is how we continue, year in year out, to deliver low prices everywhere.

Our 15% fall in prices has gone a long way to contribute towards an overall fall in food prices. According to the OFT these fell in real terms by 7.3% between January 2000 and December 2005. Consumers have benefited from this strong downward trend in real food prices and intense competitive rivalry among food retailers has played a significant part in this.

**Figure 4.6: Trend in real food prices since 2000**



Source: OFT calculations based on ONS RPI data

Whilst lower prices benefit all consumers they are especially important to families on a budget and have made a significant contribution to making healthy food accessible to all. We do more by running promotions on fresh fruit and vegetables. We now sell 95 fresh fruit and vegetable Value lines and we are also working with the Pre-School Learning Alliance to help parents and children in some of the UK's most deprived areas make healthier choices.

### Fair prices

We understand that customers want low prices, but they also want fair prices. That is why we charge the same prices up and down the country. We sell our products on the basis of a national price list available for all to see on our website. Even in the few locations that are unable to support more than one supermarket, where we are *'the only supermarket in a town'*, we continue to operate on the basis of our national price list.

### **Prices in smaller stores**

Our prices are a little higher in some of our town centre and neighbourhood stores because costs are higher there. Stores in town centres are typically smaller and have higher overhead costs (mainly rents and rates) per square foot of selling space than those outside the centre. Higher overhead costs are spread over a smaller volume of sales, and can only be recouped by charging prices that are, on average, higher (prices are, on average, 2-3% higher in our Express stores and in a few of our Metro stores than in our larger stores on the edge or outside town centres). We believe it would be unfair to use our big stores to subsidise the prices in our smaller stores, so we don't do it. This way everyone gets a fair deal.

### **What our customers say about our low prices everywhere<sup>‡</sup>**

*"I'm aware that Tesco often compares prices of competitors so this gives me confidence to buy"* Eastleigh

*"I get value for money at Tesco which is more important than cheap"* Portobello Metro

*"The store feels a bit more upmarket somehow [following the Refresh] – there's a good balance of products and prices to suit everyone."* Guildford

*"I am very pleased with Tesco. It sells high quality food at good prices."* Carmarthen

*"I think Tesco have moved more upmarket, but they still give good value for money"* Eastbourne Metro

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<sup>‡</sup> Comments taken from Tesco Customer Question Time research in stores

## Working with suppliers

At Tesco we believe in working closely with our suppliers.

That is one of the reasons why we are opening five new regional buying offices around Britain. These offices will increase the number of our local suppliers and make it easier for smaller companies to sell their products through Tesco. The result of this will be hundreds of new lines being stocked in Tesco stores and more business for small suppliers

We are also introducing regional counters in some of our stores to promote British food in season. And we will make our locally produced products easier to find with clearer labelling.

It is through our commitment to our suppliers that we are now able to offer our customers over 7,000 local products in our stores and have plans for even more. And it helps to explain why last year we sold more **home grown apples** and strawberries than any other supermarket in the UK. 95% of the chickens we sell are **British**, and the same is true for 95% of the fresh beef, 92% of the fresh pork and 88% of the fresh lamb that we sell.

So that we continue to build new contacts with potential suppliers in the regions we are also hosting a series of regional road shows. These road shows are providing smaller producers the opportunity of getting together with our senior buying teams and will help us to achieve our objective of getting hundreds more locally produced lines into our stores.

### Our supplier partnering approach

Our success depends on the success of our suppliers. By forging long-term partnerships with our suppliers and identifying new innovative suppliers we are able to constantly broaden and improve our product range.

One of our principle company values to *'treat people the way we want to be treated'* drives our behaviour. As a result, our supply base is distinguished by its long term constructive relationships. We have over 1,500 suppliers who have been working with us for five years or more, and many who have been with us for decades.

It is our aim to offer our customers the best value and to give our suppliers a fair price for their produce. This way our suppliers make the profits they need to invest in the innovation and new products that we want to offer our customers. At its best, this forms a virtuous circle in which customer, supplier and Tesco all benefit. In our effort to achieve this we work with our suppliers to help them improve their processes and efficiency, throughout the supply chain.

For example, a [recent study by The Food Chain Centre](#) showed when we share our customer insight with our suppliers it has helped them become more efficient and their business grew. Another example is our involvement in an initiative to [improve the efficiencies in the sausage supply chain](#), all the way from the farm to supermarket shelf. Using a team drawn from every stage of the pork sausage supply chain we aim to identify and help implement improvements that companies could not achieve working alone. This will result in a better deal for suppliers and customers.

Our relations with suppliers are not just governed by our principles and policies, but also the Supermarkets' Code of Practice. In 2004/2005 the Office of Fair Trading audited the Code and found no evidence of any breaches by Tesco. Beyond the price that we pay for their goods, suppliers can also count on the fact that we pay promptly, we repeat business if quality is maintained and we provide the kind of partnerships which help our suppliers to improve their businesses through greater efficiencies and more effective processes.

## Helping small suppliers to sell their products

We know our customers want to be able to buy more regional products and many small suppliers are keen to work with us. In the past small suppliers may have found it difficult to approach us, so we have made it easier for them to sell goods through our stores. We will be opening five new **regional buying offices** to support our commitment to locally produced products.. Our regional teams will be based in the East, Midlands, North, South and South West of England and a separate office in Wales. These offices will be in addition to our regional buying and marketing operations already established in Northern Ireland and Scotland.

In order to build new contacts with potential suppliers in the regions we are also hosting a series of **regional road shows**, which will see local producers and our senior buying teams getting together with the objective of getting hundreds of new locally produced lines in stores for our customers. At the road show event in Cornwall in September, we met 80 local companies whose products ranged from **Cornish Ale** to jewellery.

One of the suppliers who attended the event was a small fruit cake company. They started making fruit cakes for family and friends and before long they were supplying a much wider demand. They now use a local bakery to bake the cakes.

The company's founders pride themselves on picking only the very best ingredients for their cakes. They thought the regional sourcing event was a fantastic idea not only for them, but that it also presented numerous advantages for local people. During the day, their small company secured an order to supply our stores in the region with cakes for Christmas.

We will also be doing more to promote locally produced products to customers including regional counters, improved promotional material in stores and a website that will allow them to recommend their favourite regional products to us.

If you want to find out more about this initiative visit our new regional sourcing website [www.tesco.com/regionalsourcing](http://www.tesco.com/regionalsourcing)

## Supplier case studies – growth

When working with suppliers we believe in a partnership approach – as Tesco has grown so have our suppliers, some of whom have been working with us for decades.

### Premier Vegetables Ltd

In 1962, Mick Baker quit his job as a lorry driver to grow vegetables. Today he and wife Edith are supplying us with 2.6 million trays of cauliflowers, cabbages and spring greens a year.

Mick, of Boston, Lincolnshire, says: “Living in a caravan, wondering how to improve our lives, we decided to grow vegetables.”

**“In 1983, we approached Tesco and at the same time, brought several local farmers together for a co-operative, Premier Vegetables Ltd. Our first order was to supply 60 trays of cauliflowers a day to the Tesco Corby depot. Since then, we have expanded with Tesco every year.”**

At peak times, more than 200 people are now employed by the company, which has eight grower members farming some 2,500 acres around Lincolnshire. But it is still a family business, with son Ian doing most of the day-to-day management and three of the Bakers’ four daughters involved.

### Barfoots

Barfoots of Botley is a major local employer - with 400 staff - Barfoots say: "We feel it's important to support the neighbouring community, with events such as our charity Corn Festival to celebrate the harvest of our sweetcorn. We open our gates to 5,000 local people to show what we do and the crops we grow."

**"You could say we're one of Tesco's children. From a small family-run business, supplying only courgettes, we have grown with Tesco over the past two decades"** says Peter Barfoots, who now also supplies us with butternut squash, runner beans, broad beans and pumpkins - to name but a few.

The company has worked in harmony with the Hampshire and Sussex countryside for generations, helping to reduce the decline of native birds and wildlife. It uses sophisticated satellite navigation technology to pinpoint soils requiring additional nutrients. This precision-targeted fertilizer application is more beneficial to the environment, particularly wild flora and fauna.

The company recently built a 10-million gallon reservoir to take water from the river during winter when the river is in full flow - indeed sometimes in flood. It is then stored for use in summer when water is scarce, again with precision targeting to reduce waste.

### Huntapac

All carrots sold in our stores in the North West come from Huntapac, a third generation family firm based near Preston in Lancashire.

Established in 1942 initially to supply local markets with carrots and lettuces, the company has been working with us for 30 years.

The strength of the relationship has enabled Huntapac to be innovative – so that, last year, it supplied UK pre-packed carrots to us for every week of the year, with no need to import at all.

Sales manager Ian Gregory said: **“The last few years in particular have seen tremendous growth for us. The popularity of Tesco’s Express stores has opened up a new market for us for pre-packed carrots.”**

Supplying some 18,000 tonnes of carrots and 4,000 tonnes of parsnips a year to us, the company now employs 330 full time staff on its Lancashire site. Ian says: **“Tesco has played a significant part in our expansion. As they have grown, we have grown with them, enabling us to create jobs locally and become the biggest local employer.”**

For more supplier stories see our [regional sourcing website](#)

## Supplier case studies – innovation

Not only do we want our suppliers to grow with us, but we also want them to be sustainable profitable businesses. Supporting our suppliers to achieve this allows them to be innovative, improve their efficiency and deliver new products for our customers.

### Dale Farm

Owned by 2,500 dairy farmers across Northern Ireland, Dale Farm processes their milk to provide all the own-label milk sold in our stores in the region.

The company also supplies us with a range of yogurts, cheeses and spreads, all made with milk or dairy ingredients from local cows.

Over the past year, the company has launched The One milk, which offers the taste of semi-skimmed milk but just 1 per cent fat. Its latest innovation is probiotic cheddar, which delivers the digestive benefits of probiotics in a tasty cheese.

Dale Farm employs more than 650 people at its four sites across the region and supplies us with over 200 tonnes of cheese and almost five million pots of yogurt a year.

The company's Jason Hempton says: **"Our business has grown dramatically in the 10 years we have been working with Tesco. One of the main advantages of the partnership is that Tesco supports us in developing new products, challenging us to be innovative."**

### A Pearson & Sons

Revolutionary technology is enabling one of the UK's leading tomato suppliers to provide electricity for its neighbours in Alderley Edge – while also helping the company to grow a tastier tomato for UK shoppers.

A Pearson & Sons' Combined Heat and Power unit heats the glasshouses while any surplus electricity is sold to the National Grid, to provide electricity for the local town.

In an innovative twist, the carbon dioxide emissions from the plant are recycled into the greenhouses and absorbed by the crop to produce more tomatoes with improved flavour.

What's more, by recycling the carbon dioxide during the day when conditions are best for growth, the plant reduces emissions of carbon by around 3,000 tonnes a year.

**"With the support and encouragement of Tesco, our business has grown over the years, not only in size but in environmental stature"** says Alan Pearson, son of Albert Pearson, who founded the company in 1949 as a traditional market garden.

The business is now run by Albert's three children and four of his grandchildren. Suppliers to Tesco since 1992, A Pearson & Sons holds 'Gold' status in our 'Nature's Choice' production protocol, which encourages suppliers to maximise resources and care for wildlife and the environment.

### Wilson's Country Ltd

Almost all of the potatoes sold in our Northern Ireland stores come from Wilson's Country Ltd. Angus Wilson's 24 growers supply us with 220 tonnes of potatoes each week – compared with the one or two tonnes he provided to our one Metro store a decade ago.

Now a significant employer, with 120 staff in Craigavon, County Armagh, the company is convinced much of its success has been driven by taste. Wilson's Country Garden potatoes were voted by customers as one of Tesco's favourite products in our awards schemes.

The company has recently diversified, to also offer us fresh prepared fruit. Angus said: **"The fruit is freshly prepared, making it an ideal choice for today's health and time conscious consumer. It's in part the strength of our relationship with Tesco that gives us the confidence to be bold and innovative."**

For more supplier stories see our [regional sourcing website](#)

## Supplier case studies – small suppliers

Although many of our suppliers have grown with us over the years, we are always interested in new suppliers with great products to offer. We work with many small suppliers helping them to grow their business. We understand that sometimes times are tough, especially for small suppliers, so we make every effort to support them and help them grow into strong sustainable businesses.

### The Welsh Whisky Company

The Welsh Whisky Company is distilling the first Welsh malt whisky for more than 100 years. We were one of the first to stock the now award-winning Penderyn Single Malt Whisky, distilled in the village of Penderyn, in the Brecon National Park. There the equivalent of just two barrels a day of single malt are produced by a small team, including apprentice distiller Gillian Howell – a 25-year-old chemistry graduate and Wales' only distiller.

The company has been supplying us with Brecon Special Reserve Gin, Brecon Vodka and Merlin cream liquor since it launched in 2001.

Managing Director Stephen Davies said: **“Tesco has been instrumental in helping us to establish the Penderyn brand. They showed faith in us from the start. Last year, we supplied 11,000 bottles of whisky to Tesco, including a Grand Slam edition to mark the rugby success.”**

Already the fledgling company has doubled its staff, to 20, and is currently exporting to a new country each month.

### Trevor Giles

Trevor Giles grows organic English Victoria plums for us in the Vale of Evesham.

In his first year of working with us, Trevor admits he expected us to dismiss him out of hand when frost struck and wiped out two thirds of his crop.

But he says: **“Tesco said they wanted a partnership whereby we look after each other in good times and bad, so they still took my fruit, even though I could only offer three tonnes. This year the crop looks much healthier and I’m hoping to supply between 10 and 20 tonnes of plums.”**

The security of the Tesco deal is enabling Trevor to re-invest in his orchard, which he started from scratch four years ago.

### Tilly Confectionary

Eight years ago Peter and Elisabeth Patterson were making tablet (crumbly butter fudge) on their kitchen table. Now they supply our Scottish stores with up to 4,000 bars of tablet, fudge and macaroon each week.

Their Clackmannanshire-based firm, Tilly Confectionery, has taken on extra staff since last year earning the contract to work with us, and now employs 14 people.

Peter said: **“People love the home-made taste and appreciate the quality of our ingredients and the care with which the tablet is made. We’re delighted that more people now get the chance to buy it.”**

For more supplier stories see our [regional sourcing website](#)

## Opening new stores

### Serving more customers and communities

At Tesco we are committed to serving new and existing customers. We are also committed to being good neighbours in the communities that we serve. We do this by opening stores that bring fresh, affordable, quality food and greater choice to more people, especially for families and pensioners on low incomes.

We have worked hard at developing a business model where ‘everyone is welcome’ – we are able to serve all types of communities with our different ranges from Value to Finest foods, and with our different formats from large to small. This means that we have been able to open stores in areas where other operators would not choose to go.

Through our Tesco Regeneration Partnerships we also open new stores that help to revitalise communities where the lack of economic opportunity has led to a range of social problems and a lack of investment from outside. Over the last seven years our Tesco Regeneration Partnerships have created almost 4,000 jobs, including 2,200 among the long-term unemployed and disabled as well as affordable housing and improved local transport links.

In one of our most recent regeneration partnerships in Liverpool, we opened a new superstore on a disused army barracks. This has provided 167 new jobs, including 85 jobs among the long-term unemployed and disabled. Projects like this do not only boost local economies but help to transform lives.

### Listening and responding to local communities

Based on listening to what our customers and communities have been telling us, we are better able to serve more communities and understand what it takes to be a better neighbour. As a result of this listening, we are rolling out our plan to fit our local Express convenience stores with new shop fronts to blend in better with local neighbourhoods. To cut down local congestion and noise we are reducing the frequency of deliveries to our stores. We are also improving the way we consult with local communities before building new stores so that we can be sure that we understand fully local issues and concerns.

### The planning system is complex, but new stores are opening

The planning system that supermarket operators have to navigate is complex and slow. It is currently under review for the Government by Kate Barker. However this complexity and delay in the system has not deterred new entry or materially limited competitive rivalry between supermarket operators.

- **Great choice.** 94% of the population has access to three or more supermarket fascias over 3,000 sq ft within a 15 minute drive of their home – that’s great choice for the vast majority of people
- **Many new openings.** Hundreds of new stores have been opened by many operators over recent years. We note how Aldi, Lidl and Netto for instance have opened 307 new stores since 2000. Indeed in 70% of the areas where Tesco was said to have a share of more than 25% in 2000 have had three or more new competitors open since.

Our growth has been helped by the fact we have been proactive, more flexible and innovative, and risk embracing, as described below.

### Developing a future pipeline of stores

At Tesco we understand that people do not like to see commercial property sitting empty or derelict. That is why we strive to keep our empty sites to an absolute minimum. It is better for our customers, better for local communities and better for business. This is also why we are calling on the Government to reform the planning process so that fewer sites stand empty.

To serve more customers and communities we need to acquire sites to build our stores. This is the only reason we buy land: to develop a new store or improve an existing store.

Over the years the process of acquiring the land, getting planning permission and building the store has become much more complex, risky and time consuming.

1) To acquire a single new site, especially in 'brownfield' or inner city regeneration areas, the process can stretch to years. This is because often we have to negotiate with dozens of separate landowners in order to assemble a complete site where we can build a single store.

2) The greater complexity in the planning regulations since the 1990s, involving extensive discussions with the planning authorities and other local stakeholders, means that, once we have the complete site, it now takes much longer to get planning permission.

3) The lead time to prepare a site for construction has increased as we move increasingly to brownfield and town centre sites.

The result of these changes means we need to buy more sites now than in the past simply to maintain the same rate of new store openings.

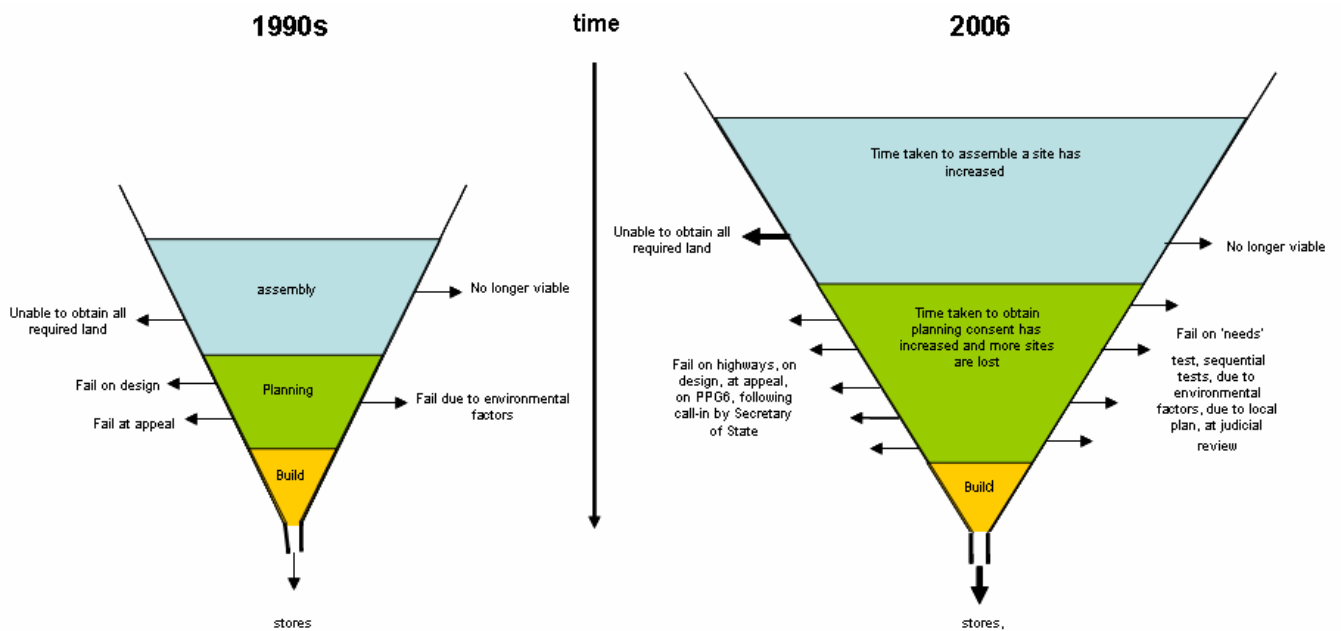


Figure 1. The process of opening new stores in the 1990s and at present.

## Tesco Regeneration Partnerships

### Overview

Sustainable neighbourhood renewal depends on reinvigorating community life through more economic activity, more businesses, and more jobs. The Tesco Regeneration Partnerships match up the needs of deprived communities with our development programme to provide value and quality for customers and create jobs and services for the community. The lessons we have learned mean that no area is a no-go area for investment or for serving customers. We often open stores in areas that initially do not appear to be an attractive investment opportunity, where many others would not choose to invest, but our partnerships can significantly improve the overall economic wealth of these areas. In providing people with jobs they have more money to spend elsewhere, making the whole area more attractive for investment.

### The Jobs Guarantee

At the core of the programme is the unique Tesco Job Guarantee, targeted at the local long-term unemployed (over 6 months). Potential recruits are given a job guarantee before they attend a six week training course preparing them for working in store. As long as they complete this course a job with Tesco is guaranteed. The following elements are central to our recruitment process:

- Working in partnership with JobCentre Plus, other employment services, residents' associations, local authorities, schools and colleges.
- Engaging the long-term unemployed properly to enable them to meet the challenge of work.
- Offering a basic skills assessment to identify the training needed to bring candidates up to nationally accredited standards in reading, writing, numeracy and fluency in English.
- Before interviewing candidates we provide a seminar of interview techniques, so that people know we are assessing aptitude, not existing qualifications.

Over the past seven years we have completed a total of 15 regeneration partnerships, creating almost 4,000 jobs and helping back into work 2,200 long-term unemployed and disadvantaged people through our job guarantee scheme.

One of our most recent regeneration partnerships is Liverpool Deysbrook. We have opened a new superstore on the site of the former Deysbrook Barracks providing 167 new jobs, 85 of which were through the Regeneration Partnership. The Partnership involved numerous community agencies, including JET (Jobs, Education and Training) Eastern Link. JET business manager Lynne Debazzi said:

*“This is not just about putting people back into work, this is life changing. This is the first really major recruitment initiative in the Dovecot area where some families have up to three generations unemployed.”*

## **Cradley Heath Development**

Cradley Heath is a town in the West Midlands typical of many towns in the UK. The town centre has in recent years suffered from decline and is in need of regeneration – a fact recognised by the local planning authorities.

Sandwell Metropolitan Borough Council issued a development brief in response to this need and in July 2000 we started to buy properties with the view to assembling a site for development. Having acquired several properties and thus secured an interest in the site we entered into negotiations with the planning authority. They were seeking private sector funding from potential development partners for construction of a new relief road intended to direct traffic away from the High Street.

Later the same year we began negotiations with the local authority which led to a decision in October 2002 for the parties to enter into a development agreement which:

- provided for co-operation on land assembly
- made provision for developer contributions towards the relief road works; and
- made available in principle the use of statutory powers sufficient to complete any outstanding land assembly

We worked closely with Sandwell MBC in producing the full planning application to reflect the local aspirations and both parties were committed to progressing the scheme as quickly as possible.

Since the development involved the creation of a new road, there were two public inquiries, one dealing with highways and the other land assembly. The second was held in January 2005. In July of the same year the Secretary of State confirmed the compulsory purchase order (CPO) enabling completion of the land assembly. By this stage virtually all the outstanding land assembly had been resolved through negotiations, but the local authority ensured that little delay was encountered in completing this.

Full planning permission was granted in 2006 and the store is scheduled to open in April 2007.

This project will see a regeneration of Cradley Heath and bring hundreds of new jobs to the area. The redevelopment is set to attract new investment to the town and provide local people with a thriving and vibrant modern commercial centre.

Our store will anchor the shopping centre. The scheme will also incorporate 500 free parking spaces enabling customers to make linked trips to the rest of the High Street.

Although Cradley Heath is an example of a complicated town centre land assembly it also represents a case where a developer and planning authority have worked in partnership from the outset, making good use of recent changes to statutory powers afforded to them by the Government. Despite this the project will still have taken seven years to come to fruition, with around six years being dedicated to the planning and land assembly process.

## Long Eaton Extra

Some of our sites are relatively straightforward and by working with the planning system and using our skills as developers we can minimise the timescale for opening a store.

An example of this is our Long Eaton Extra store. In 2001 we identified a site on the edge of the town centre that already had outline planning consent for a smaller store. The site is located very close to the town centre, but was in need of regeneration. We were confident that this development would enhance the vitality of the town.

Often brownfield developments such as this are complicated and usually require the purchase of multiple parcels of land, but in this case we only had to acquire two parcels. The first was owned by British Gas and although more recently it had been used for offices, it had previously been used as a manufacturing site. We were able to acquire the land when it went to tender. We also acquired an option on adjoining land.

The process of applying for planning consent in this case was reasonably straight forward, mainly because there was already consent for the smaller store. We submitted a full application in April 2002 for a 108,000 sq ft store.

At the Planning Committee meeting held in January 2003 the Council resolved to grant permission subject to the completion of a Section 106 Agreement<sup>5</sup> and, due to the size of the store, the application being referred to the Government Office for the East Midlands. The Government Office saw no reason to call in the application and once the Section 106 agreement was completed, planning permission was issued on 22 May 2003.

We have improved the way in which we construct our stores and in this case we built the store on stilts so that we were able to maximise the car parking space allowing shoppers to make linked trips to the town centre.

Our Long Eaton Extra store opened in November 2004 having taken just over three years to develop and build.

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<sup>5</sup> Section 106 agreements are entered into by a developer to enable a proposal to be acceptable to a local planning authority. For example: a) we recently developed a site in Torquay, working with the council to provide housing (including affordable housing) off-site; b) at Borden, we contributed towards an improved bus service; and c) at Holywell, in Wales, we are improving the highway adjoining our store. Section 106 agreements are strictly controlled by law, and must meet certain rules linking the type and degree of funding or provision to the scale and nature of the development. Planning permissions cannot be bought.

## Changes in the planning regime

In the 1980s the planning regime was relatively relaxed to encourage retail development and stimulate economic growth.

The early 1990s saw the start of a change in the planning regime which would lead to a stricter, more regulated system. Previously local planning authorities (LPAs) had only to bear in mind the development plan. However, 1991 saw the beginning of the plan-led system that requires planning applications to be determined in accordance with a statutory development plan.

Another significant change in the planning regime came about in 1996. The Government introduced Planning Policy Guidance (PPG) 6, to direct investment back into town centres, which introduced the idea of sequential tests. In other words, town centre sites should be exhausted for retailing prior to edge of town and out of town developments. This has been accompanied by a shift towards sustainable development which has also brought in the presumption that 'brownfield' sites should be developed in preference to undeveloped land ('greenfield') sites.

In addition, in 1999, a Ministerial Statement introduced the requirement to show 'need' for more grocery retailing space.

Another significant change in the regime was brought about by the Planning and Compulsory Purchase Act 2004, which requires all LPAs to bring forward new-style local development frameworks and development plan documents. This process places greater pressure on under-resourced councils.

LPAs are struggling to deal with their workloads. This delays the planning process further and can reduce the quantity of sites progressing through the system.

The appeal system has also become slower in recent years, in part due to rising case loads: according to the Government's Barker Review\*\*, "*six per cent of planning inquiries took over a year to determine in 2001-02; by 2005-06 this had risen to 34 per cent, with increases in processing time for other types of appeal*".

In summary, the regime has become increasingly complicated and working one's way through the regime takes skill, forward planning, persistence and patience. As recognised by the Barker Report there is undue delay in the process. It is precisely this delay that explains why we find it necessary to have a pipeline of land.

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\*\* The Barker Review Interim Report was published in July 2006. The report's focus is on evaluating the outcomes of the planning system with regard to economic growth and productivity, in the context of increasing pressures from globalisation.

## High Streets and convenience

### The changing face of the High Street

Over the last few decades, there are many factors that have contributed to changes in the High Street. More women now work. More people own cars and so the car-borne one-stop shop has for many replaced the daily trip down the High Street. In addition, because parking is often difficult in town centres, out of town retail centres have grown more popular. Our large out of town stores continue to serve customers who appreciate the convenience of shopping for groceries, household items, electrical goods and clothing all under one roof.

However, in the dynamic world of retailing things rarely stay the same for long. We, like others have identified changes in lifestyles that open up new opportunities – there are many people working long hours, with little time to cook or shop, who are looking to buy ready-made meals, preferably on the way home from work. Food shops located on the High Street or at the edge of town meet those needs, especially if they stay open late. In response to these changes we have seen the multiple retailers move back into the High Street or to the edge of town. In fact, many of our newer stores are built on previously developed land (brown-field sites) close to town centres, regenerating run down areas. They provide jobs for local people and, above all, signal a turning point in the fortunes of the town centre, attracting other retailers back to them.

Studies have shown that an investment by Tesco in a town or High Street means that the town and High Street benefits. The reason it benefits is because people stay in the area, they do linked trips and those linked trips cause other retailers to open. The mix of retailing may alter, that has never been in doubt. There may perhaps be a change in market share, say in groceries but other retailers do well. Coffee bars, kitchen shops and specialist retailers all do well.

In addition to this move back into town centres, we have also seen several retailers develop new smaller format stores, often situated close to consumers' homes that better suit the needs of their changing lifestyles. In past inquiries the Competition Commission has treated shopping in these stores as a separate product market. However, we believe this distinction is inconsistent with the diffuse and mobile consumer demand for groceries that exists. In our view there is a single product market that operates nationally.

### The return of the multiples and the benefits they bring

The benefits to consumers are clear:

- lower prices – overall our prices have fallen by 15% between 2000 and 2005 in real terms and the average premium in convenience stores compared to supermarkets of between 10% (IGD) and 30% (Goldman Sachs) is steadily coming down;
- a wider range of produce, including fresh food and healthy options – we have added around 8,000 new product lines in the last year alone and the range in our Express stores has increased by over 35% since 2000;
- better quality products – 99% of our suppliers say we maintain high quality standards;
- longer opening hours – around 370 of our stores are open 24 hours and our Express stores are conveniently open early in the morning until late at night;
- improved service – 85% of customers say their supermarket is "good/excellent".

### Working with the grain of a changed planning regime

The return to the High Street of the multiple retailers has been demonstrably good for shoppers, but it has also been very much in line with planning policy. Town centres are part of our heritage and they are greatly valued. That is why in 1996 the Government introduced new planning guidance (the so-called sequential tests). These tests are intended to make the development of out-of-town stores more difficult and encourage supermarkets back into neighbourhoods and onto the High Street.

We have worked with the regime, as policy has changed, to open more stores in town centres and neighbourhoods. We have brought right back into the heart of many towns and district centres the benefits that shoppers expect from a supermarket, and that were previously available only in the large out of town stores. Supermarkets have increased choice, and hence the attractiveness of local centres as shopping destinations. Tesco stores have been demonstrably good for the High Street and neighbourhoods, not a threat to them, just as the planners envisaged.

## Town centres that have thrived since Tesco arrived

This is not just theory or wishful thinking. It is confirmed by research in diverse locations: Beverley in East Yorkshire, Ludlow in Shropshire, and Gaywood and Downham Market in Norfolk.

**Beverley** has thrived since Tesco opened a superstore there in 2002. This was confirmed by a study commissioned by the East Riding of Yorkshire Council. The new store has improved food shopping, improved car parking provision, and kept shoppers in Beverley. Tesco was followed into Beverley by a new Marks & Spencer Simply Food, further increasing the attraction of the town as a place to shop for food. Two-thirds of Tesco shoppers make linked trips to the town centre, where (helped by improving retail trends) the overall vacancy rate has decreased in the last 2-3 years. The report states that:

- “Tesco has...made a positive contribution to the health of the town centre”;
- “Tesco reduced leakage of food shopping to Hull”; and
- “Shoppers in Beverley are now extremely well served for grocery shopping”

So in its first year of trading the new store has made a positive contribution to the health of the town centre.

**Downham Market** has been much stronger in retail and economic terms since the Tesco store opened in March 2001 according to the Economic Development Manager at the Borough of King's Lynn and West Norfolk. And since the Tesco store opened in **Gaywood**, about one mile east of King's Lynn town centre in April 2001, the vacancy rate of shops in the adjoining district centre has fallen significantly and there is now a clearly better range of shops. The results of a new telephone survey confirm significant linked activity with an increased use of shops in the two town centres.

Similar independent research in [Ludlow](#) shows how Tesco stores have improved the food shopping offer, reduced the leakage of trade away from the town centres, and improved the reputation of the market towns as shopping destinations.

These benefits were confirmed by [Southampton University](#) when they completed a major study of consumer reaction to the transformations currently sweeping through the UK convenience store sector.

Further confirmation comes from a study in 2004 of Alnwick in Northumberland by the Newcastle University Centre for Research in Environmental Appraisal. They found a third of residents from just outside the town travelled *away* from **Alnwick** to do their main food shop. And of these, over 60% said they would be more likely to shop *in* Alnwick if there were a better supermarket. The results were summarised by lead researcher, Dr Neil Powe, who said:

“The results of the survey suggest that providing improved food shopping services will encourage more people to use Alnwick, and that this may increase the patronage of other services.”

## Raising the bar

Undoubtedly multiple retailers have set a new standard. Their skill in selecting the right range of products, and their ability to offer low prices, meets a consumer need and makes both the High Street and the neighbourhood a more attractive shopping destination. Those retailers that, like the multiples, listen to what their customers want, and respond, will compete successfully with them. Inevitably those who fail to innovate and raise their standards will fall behind. Ultimately it is the consumer who decides which retailers succeed.

## **Beverley Retail Study**

Beverley is a market town situated in the East Riding of Yorkshire. The East Riding of Yorkshire Council made the decision to approve a new Tesco store in September 1999 in light of a number of studies about the impact of the proposed development. These initial studies highlighted the following:

- There was a clear quantitative and qualitative need for one additional food superstore in Beverley
- The new store should be located on the edge of the town centre and facilitate linked trips between the store and the town centre.
- The proposed store would sustain and enhance the vitality and viability of the town centre.

The new Tesco store opened in 2002. An independent retail study looked at the effects of the store on the town centre a year after it opened.

The study concluded that:

There was a significant increase in the vitality and viability of the town centre between 2000 and 2003 and this reflects to a large extent the influence of the new Tesco store on the health of the town centre.

The Tesco store has improved availability of food shopping in Beverley, it has improved car parking provision in the town for shoppers and it has reduced the leakage of trade out of Beverley for food shopping.

The presence of Tesco has not deterred new investment in the town centre, for example a new Marks & Spencer Simply Foods store opened during this time.

The evidence is that the attraction of Beverley as a place to shop has increased, especially for food shopping, and Tesco appears to have provided the opportunity for linked trips to the town centre. Two-thirds of Tesco shoppers make linked trips.

The overall vacancy rate in the town centre has decreased in the last 2-3 years. Whilst this is mostly due to general retail trends, it can be partly attributed to the effect of opening the Tesco store on the vitality of those parts of the town centre nearest to the store and the benefits of linked trips.

There is no evidence 'on the ground' that Tesco has had a negative effect in its first year of trading. On the contrary, it appears to have made a positive contribution to the health of the town centre.

The full report is available from the East Riding of Yorkshire Council.

## Market Definition

### There is a single product market that operates nationally

We believe that the current Competition Commission inquiry is an opportunity to re-examine the relevant market in its entirety. In past inquiries the Competition Commission has treated primary, secondary and convenience shopping as separate product markets, largely as it was constrained by its terms of reference in different inquiries to do so. We have always believed that these distinctions are inconsistent with the diffuse and mobile consumer demand for groceries that exists. In our view:

- the product market is for grocery retailing as a *whole*; and
- the geographic market is national.

In today's grocery market there is a **high degree of overlap** between the different types of shopping trips that consumers make, and the different types of shop they use. Customers today use a wide range of stores. They do larger shops at smaller stores and smaller shops at larger stores, and individual stores cannot discriminate between different types of customer and/or shopping trip. Retailers who attempt to serve a wide range of customers therefore face competitive pressure from a wide range of rivals, all of whom compete in a single grocery retailing market.

The grocery retail market is a national geographic market, rather than a huge number of individual local markets. This is because:

- a) brand competition works essentially at a national level and is a key part of the competitive process. For example, Tesco publishes its national prices on the internet alongside those of its key rivals. These apply to Tesco supermarkets across the country. Additionally other parts of the offer, such as range and services, are consistent across the country. What this effectively means is that Tesco stores have the same customer appeal all over the country. A Tesco store in Stevenage is more similar to a Tesco store in Swansea than an Asda store in either location;
- b) a wide choice is available to most consumers and because many are mobile and choose where they shop, retailers in one geographic area can not get out of line with retailers in another as virtually all the catchments overlap, connecting shops in Penzance with those in Penrith. For example if a retailer in Penzance has a great offer customers will travel to his store, and so other retailers might try to match this offer in order to keep customers. Subsequently more retailers may also follow suit and the impact of this original great offer will soon be felt in Penrith.

What other people are saying about market definition:

*"SGF contends that whether superstore or convenience store, we are all part of the same market on the basis that we are selling the same or similar products and services and that the same consumers frequent, or could frequent, our stores"* – The Scottish Grocers Federation

*"The RSA believes that there is but one 'grocery' market..."* – The Rural Shops Alliance

*"However the market is defined at the retail level, it is patently one market on the buying front"* – The Federation of Wholesale Distributors

*"The superstore and the grocery store market are still considered by the OFT to be two separate markets. This is highly controversial with trade associations and others who represent both independent and symbol convenience stores."* – Federation of Small Businesses

*"The scale of your inquiry remit we suggest should cover the aspect of one unified market place, encompassing multiple grocery stores and convenience stores rather than its present consideration of separate markets."* – National Federation of Retail Newsagents

## Product choice

### Product Choice is increasing

Choice is not just about deciding where to shop, but also about having a choice of different products when you get there, and the right information to help choose between them. Many of our stores stock over 40,000 product lines. Even our little neighbourhood 'Express' stores stock a choice of well over 2,000 lines.

Individual customers tell us they value being able to buy from a wide range; their favourite brands, regional produce, international cuisine, organic and healthy options to name but a few. And customers' demands are changing as lifestyles change. Innovation is therefore essential if we are to keep pace with our customers' needs. We introduced around 8,000 new product lines last year to help do this. Here are just a few examples of the diversity of choice available through Tesco's food ranges:

- **400 'Healthy Living' products.** Many customers look to Tesco to help them live more healthily. We try to do this through dedicated ranges, through better information on products, and advice in store and online. The 'Healthy Living' range originally launched in 1985 now contains over 400 products which are low in fat and sodium.
- **150 'Free From' products.** The feedback from one customer whose son had severe food intolerances led to the development of the 'Free From' range which was launched in 2002. The range now includes 150 products designed to make life easier for people with food allergies and intolerances.
- **40 Special healthy Kids snacks.** We have also introduced the 'Kids' range designed for 5 to 10 year olds to ensure that they enjoy healthy mealtimes. Children's diets actually need more nutrients, not just a reduced number of unhealthy ingredients, so the Kids range was developed as a good source of fibre, wholegrain and five-a-day fruit and vegetables.
- **1,200 Organic product lines.** Customers from all walks of life told us they wanted to buy more organic food. They also told us the barriers to buying more were availability and affordability. Over the last year we have broadened and integrated our organic ranges, and are working with our suppliers to ensure even more diverse and more affordable organic food.
- **Widest Fairtrade range in the UK.** We strongly support Fairtrade. We offer our customers the widest fair-trade range available in the UK with almost 100 product lines. Fairtrade guarantees that developing world farmers are paid a fair price that covers the cost of production plus a premium to be spent on community projects such as better healthcare, sanitation, education or housing. We recognise it

Product innovation is not limited to our food ranges, but our growing non-food ranges too have introduced choices of many new product lines: from sporting goods including equestrian equipment to new ranges of 'homeware' and recently PC software. Whatever we develop is done in partnership with suppliers through listening to what customers want.