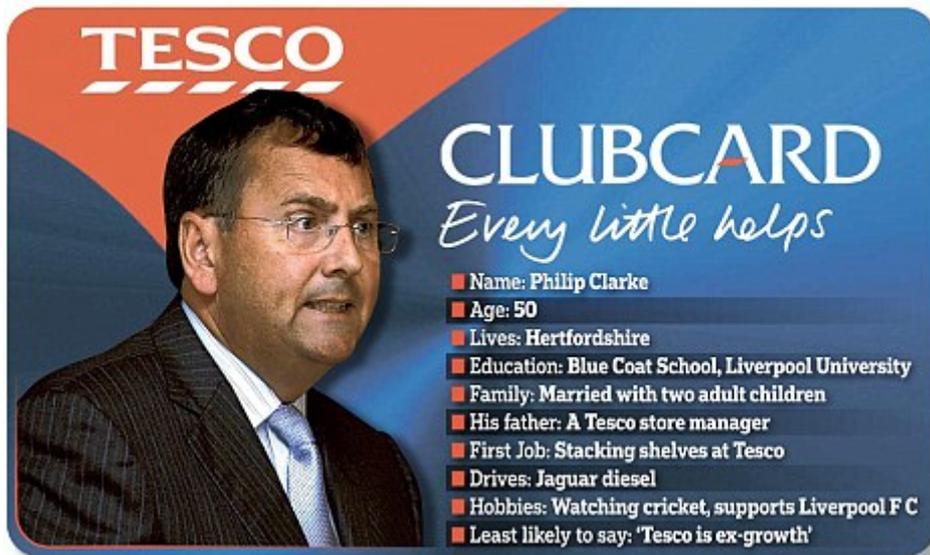


## This is Money – The City Interview: Tesco boss banks on online growth

By Alex Brummer - 24th November 2011

He hails from Liverpool, began his working life at Tesco, and lives on the same street, in the very same Hertfordshire village, as his predecessor Sir Terry Leahy.

But the supermarket group's new chief executive Philip Clarke could not be more different. Leahy is taciturn and deliberative. Clarke is ebullient and enthusiastic.



After a life working with the founder's family members, Leahy believed in property and bricks and mortar. Clarke is an ambassador for the digital age.

When I casually ask Clarke where my online grocery delivery in a South-West London suburb might come from, he reaches for his iPad and eagerly presses the screen as he searches for the answer.

On the journey through the easy-to-use website, he cannot resist the temptation to demonstrate how speedily it responds and the services the site provides, from Tesco fresh (providing foods) to banking and video streaming, which will be fully operational this Christmas for the first time.

Clarke, a burly, bespectacled 50-year-old, in conservative blue shirt and flowery tie, does not look or dress much like a Silicon Valley tycoon, but he talks the same language.

At his sleek, redecorated office at Tesco's unfashionable HQ in Cheshunt, the Tesco boss set out his vision.

Clarke says: 'I don't see that bricks and mortar is going to be the source of much growth over the next decade and beyond. But I do see this extraordinary opportunity afforded by the internet. 'I hope that Britain can become renowned for the quality of its retailing online.'

He is adamant it is not Tesco and the other grocers that are responsible for the difficulties of the High Street, and the decision of companies such as Comet and Best Buy to get out of the electrical retailing space.

'We can't be Luddites, sitting here saying: "Oh woe is me, we can't allow the internet." And: "Oh, look, look, supermarkets have identified non-food as an opportunity of growth".' 'We're in a game of loyalty

here and I can see if we don't provide a broader array of products online, then we'll be left behind,' Clarke asserts.

Among other things, Tesco is planning a major push in banking, an assault which could, if it comes off, easily place other challenger banks, such as Virgin Money and some of the existing High Street banks, in the shade.

Among the first things Clarke did when he took control of Tesco in March was actually to slow the growth of the bank. 'If you are going to be a good, trustworthy bank, you need to have the colleagues, and you need the technology, to be able to deliver reliability, honesty and trust to customers,' he says. Clarke expects to press the 'Go' button shortly, and to move far beyond Tesco's current strengths in insurance and credit cards to current accounts and lending to small and medium sized enterprises.

Tesco starts with a robust base of £5.25bn of retail deposits and 6.5m banking and insurance customers. He says: 'We are not going to get into too complicated a set of products. It will be nice and very simple: current accounts, mortgages, savings and loan products, credit and debit cards. It will again be about technology. It will have to be on smartphones, it will be easy and intuitive.'

There is no plan for freestanding branches, and the bank will be largely based in the group's 2,500 stores and online.

Clarke aims to have everything up and running on Tesco Bank's own platforms in the spring when the company migrates credit cards to a call centre in Glasgow, and the IT platform. New products, starting with mortgages, will then follow.

'We've employed 3,500 people to do this, a new management team and created the technology,' Clarke says.

His fervour for digital retailing extends to the group's extensive overseas operations.

But there have been some setbacks, notably in Japan, where Tesco found the different culture was too hard to overcome.

But despite heavy losses and slow progress in North America, Clarke is showing no signs of retreat from California and the West Coast. 'We opened in the teeth of the sub-prime crisis, and Fresh & Easy was a little too easy, a little too discount,' he says.

But three years later, having altered the model, Tesco's boss is convinced it is turning round. 'The losses were 23 per cent down at half year, and we are planning to get some months of break-even in 2013 and then accelerate growth on the West Coast,' he says.

At the heart of the overseas business model has been the development of what Clarke calls our 'own kitchen which manufactures chilled food for stores'. He believes Thailand and Korea are the company's 'real jewels' in the Far East and with GDP expanding in these countries, there are more opportunities. 'Our website traffic is growing, they are shopping from home and broadband, and they are doing it on their mobile phones,' he says.

This does not mean Tesco has given up on China where it is building a business in the Beijing area, around Shanghai, and in the south. Clarke had an eye-opening experience with a store in Bengbu in Anhui Province, west of Shanghai.

Clarke explains: 'Shanghai is an extraordinary place because the delicacy there is pig. Not lean pig, they actually love ears and trotters.'

'I thought the team had gone crazy now there is a 48-foot row of pig parts – it's the busiest section of the shop.'

The other big overseas expansion is in Turkey with its young, fast growing population. Tesco has been putting in hypermarkets through the west of the country, including Istanbul and Ankara, and next 'comes convenience stores, supermarkets and an online business'.

In pursuit of being among the best internet operators on the planet, the company employs some 4,000 software engineers in Bangalore, continuously upgrading the website, which can now be accessed in dozens of languages across the globe.

With more than two million customers Tesco already boasts it is the largest online food retailer in the world, way ahead of global rivals.

Clarke, with a home just 20 minutes from HQ in Cheshunt, is keen to make clear Tesco is a corporation which will always be firmly rooted in the UK and is adding 7,000 jobs, some of them apprenticeships, this year.

If there is anything he would like to see the Cameron government do, it is to invest more in infrastructure. But before he can enlarge on this theme, the interview ends with a mad dash for the door of his suite where Muhtar Kent, the suave president and chief executive of global supplier Coca-Cola, awaits his audience.

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