Challenges in Retail Innovation

Aspects of Innovation in Tesco plc's Market Entry into the USA

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This case was written around the time when Tesco made its entry into the US market. It offers a detailed description of the approach taken by a large company in moving into a new market – position innovation. Although the subsequent history of the venture was that it failed and Tesco withdrew the case is still useful to illustrate the range of factors and the careful planning which goes into such a major strategic innovation.

Abstract

This case examines the market entry of the UK's largest retailer (Tesco) into the USA. Tesco's launch of a new brand – Fresh & Easy Neighborhood Markets – in virgin territory is a bold move, notwithstanding the firm's considerable success with its overseas investment strategy (which within ten years has resulted in more than 50% of the firm's operating space being outside its 'home' market). It contextualises the study by taking a historical view of innovation in the retail industry, which reveals that generally - and certainly for the most part of the 20th Century – innovations have dominantly flowed from the US to the UK. The paper suggests that Tesco's US experiment is unusual both in terms of the innovatory aspects of its market entry and the reversal in that conventional direction of knowledge transfer. The Fresh & Easy story is then examined in terms of ten 'dimensions of innovation' involved in the market entry. The paper concludes by drawing out from these 'dimensions of innovation' a number of important issues for management scholarship raised by the study, stressing the need to incorporate insights from a wider social science literature.

1. Introduction

"When I was the chairman of Tesco we looked very carefully at the North American market, and found that there was a significant difference in cultural attitudes to shopping over there. In the UK the development of own labels has been very strong indeed, whereas in the States, customers are very brand oriented and tend to regard 'own labels' as inferior products. It's a nonsense of course but as Sainsbury's and M&S have learned, it's a difficult job to change established mindsets, which is the reason why, after examining the situation in detail, we turned our face absolutely against going into the US."

Extracted from Ian MacLaurin (1999) *Tiger by the Tail: A Life in Business from Tesco to Test Cricket* Basingstoke: Macmillan p.107

"This is a tremendously exciting move for Tesco which will add a new leg to our international expansion. The United States is the largest economy in the world with strong forecast growth and a sophisticated retail market. It is a market we have researched extensively for many years and over the last year we have committed serious resources to developing a format that we believe will be really popular with American consumers…we've put a strong team together, led by Tim Mason and drawing on the wealth of skills and experience within the group. The first stores will open on the West Coast in 2007."

Tesco Chief Executive, Sir Terry Leahy quoted in Tesco PLC press release *Tesco to enter United States* 09/02/2006

On February 9th 2006, Tesco plc announced plans to enter the United States via the development of an extensive network of 'convenience format' stores to be launched in West Coast US markets in 2007. Following hard on the heels of a raft of investments in overseas markets in Central/Eastern Europe and East Asia (beginning with Hungary in 1995, and subsequently including the Czech Republic, Slovakia, Poland, the Republic of Ireland, Thailand, Taiwan, South Korea, Malaysia, Turkey, Japan and China), which had resulted in more than 50% of Tesco's operating space being outside its 'home' market, Tesco's latest venture was viewed as a step-change in both scale and risk profile of market entry.

Tesco's plan for the USA was to launch a network of what were subsequently named 'Fresh & Easy Neighborhood Markets'. These were billed as being modelled on its highly successful and innovative Express concept (Tesco plc press release 9/2/2006), but it soon became clear they would involve a new format somewhat larger than the Express stores. In the context of Sir Ian MacLaurin's view (above), that the United States is an extremely problematic market for retailers to enter - due in large part to differing cultural norms with regard to supermarket shopping (in particular the dominance of branded as opposed to own label products) - Leahy and his team appeared to many commentators to be over-confident about an investment that would essentially mean taking on global rival, Wal-Mart, on its home territory, together with two of the largest US supermarket chains Kroger and Safeway operating through well established brands in the US West Coast markets. Moreover, unlike earlier international projects that had involved majority partnerships (e.g. with CP Group in Thailand and Samsung in South Korea), joint ventures (e.g. with Sime Darby in Malaysia and Ting Hsin in China), or acquisition of established businesses (e.g. Kipa in Turkey and C-Two-Network in Japan), Tesco were considered to be bold in their approach to the US in the sense that "their expansion strategy…centre[d] on an unprecedented bid to establish both a store network and a proprietary distribution system at the same time" (Financial Times, 23 November 2006), without a partner to provide essential knowledge of local business conditions and consumer cultures.

This case examines the innovatory aspects of Tesco's US market entry using preliminary analysis from corporate dialogue with the firm as well as a preparatory study of newspapers and documentary sources. To provide a context for this material, the paper begins in Section 2 with a historical view of innovation in the retail industry which reveals that this has generally – and certainly for the most part of the 20th Century – dominantly flowed from the US to the UK. Notwithstanding late 20th Century ventures by J.Sainsbury (Shaws) and Marks and Spencer (Brooks Brothers and Kings) – both of which were for various reasons abandoned by their parent companies – the paper argues that Tesco's US experiment is unusual both in terms of the innovatory aspects of its market entry, and the reversal in the conventional direction of knowledge transfer which has previously characterised the industry.

In Section 3 the paper then moves to a more detailed interrogation of the Fresh & Easy story, specifically providing an assessment of the various 'dimensions of innovation' involved in the new venture. Finally, in Section 4, the paper concludes by discussing a number of important issues that arise from these dimensions – including managing the contested relationship with financial markets, transformation of organisational structures and competencies of the firm as a consequence of transnational operation, and the culture of innovation powering Tesco's performance in the global economy. This discussion incorporates insights not only from management scholarship but also from a wider social science literature which it is suggested might provide fruitful research directions in terms of illuminating this important case study of retail innovation.

2. The US, the UK and Flows of Retail Innovation

"Like so many British entrepreneurs after him [Simon Marks]…looked west for inspiration. And so, one chill February morning in 1924, he set sail from Southampton on the White Star liner Olympic, destined for America…[this] visit to the United States revolutionised his thinking…He met many retailers, although his notes reveal the name of only one – Sewell Avery of Montgomery Ward. Simon returned home bursting with new ideas and motivation."

Extracted from Judy Bevan (2001) The Rise and Fall of Marks and Spencer London: Profile Books p.25

"[On] 23 February 1950…Sainsbury's opened its first new shop since 1939…In an article in the JS Journal of March that year, Fred Salisbury, assistant general manager and a driving force behind the design and fitting-out of the new premises, talked up Selsdon as a 'turning point' in the company's history. Although small, this shop did indeed contain a number of innovations…Not least, Sainsbury's abandoned the wooden till for the thoroughly modern cash register – an American import, this was a major innovation in retailing in 1950."

Extracted from Giles Emerson (2006) Sainsbury's: The Record Years 1950-1992 London: Haggerston Press p.37

"The improvements since my last visit were beyond belief. There were the great names of American food retailing – Safeway, Atlantic and Pacific, Food Fare – all up to their neck in supermarket trading…There were gleaming palaces, well lit, roomy and clean. One of the most impressive developments concerned the packaging of goods. New materials, radical new designs, bright labels, clear price markings, and the women not only carried baskets, they pushed trolleys. It was utopia for a retailer…The noise from the cash registers was music to any trader's ears."

Jack Cohen quoted in David Powell (1991) Counter Revolution: The Tesco Story London: Grafton Books p.65

There is now a considerable literature which examines the transfer of retail innovations from North America to the UK (Alexander et al, 2005). In particular, a number of studies have focused on the import of self-service shopping technologies (du Gay, 2004), and the parallel development of the supermarket in 1950s Britain, and have examined the profound impacts of these imports on consumer cultures and the economics of mass consumption and selling in post-war Britain. (See Bowlby, 1997, 2000; Wrigley and Lowe, 2002, p71-76 for discussion of the original impacts of these innovations in 1920s/1930s America.) The transfer of the self-service/supermarket innovations into the UK occurred either indirectly via the emulation of US retail practices by UK retailers, or directly via the internationalisation of North American firms, given that "as supermarket retailing became more fully established in North America, leading players began to assess opportunities in Europe" (Alexander at al, 2005). Achieved by either route the innovations produced the same substantial productivity benefits of increased sales and reduced labour costs as had been observed in pre-war America (Adelman, 1959).

Significantly, of course, these twin North American imports were not the first time that important retail innovations had crossed the Atlantic to the UK. Indeed, well documented studies include that of Selfridge's department store which was opened on Oxford Street in 1909 by Gordon Selfridge, a self-made American entrepreneur (see Nava 1997, 1998)[1], and Woolworths 'Five and Dime' stores, established in Utica, New York in 1878, which sold discounted general merchandise at fixed prices, crossed the Atlantic in 1909, and survived as a chain in the UK even after the US parent company ceased trading in the late 1990s (Pitrone, 2003; Plunkett-Powell, 1999; Zukin, 2004).[2] Other notable American retail innovations – often overlooked – which made the same journey include trading stamps (often viewed as the precursor to the loyalty card – see Corina, 1971; Humby and Hunt, 2004), the shopping 'cart' or trolley, the cash register, automated check-out conveyor belts, refrigeration, air-conditioning, and plate glass windows (a vital component in what Bowlby, 1997 describes as the "dreamlike face of self-service"). It is also important to flag here the vital role played by 'executive travel' from the UK to the US throughout the 20th Century as highlighted in extracts from the company histories above, which allowed for the substantial gathering of information on innovation possibilities. Indeed the role of retail executives as what subsequently have been referred to as 'knowledge activists' (Brown and Duguid, 1998; Gertler, 2003) in the transfer and exploitation of new ideas in retailing, is a consistently important theme – one which will be returned to in the next section which documents the Fresh & Easy venture and highlights ten innovatory dimensions of Tesco's market entry into the USA.

3. The Fresh & Easy Story and Dimensions of Innovation

The first 'Fresh & Easy Neighborhood Market' opened in Hemet, 75 miles east of Los Angeles on 1st November 2007. As the *Financial Times* commented:

> *'Tesco…has staked its fortunes on an innovative new store that is about a quarter of the size of a traditional US supermarket, building on the success in the UK and Europe of its Tesco Express local stores. Some elements of the Hemet store will be familiar to UK shoppers. But the store also includes a "kitchen table" where a staff member heats up samples of prepared foods such as pizza and chicken curry. In a further innovation, all the check-out registers require customers to scan their own goods with staff on hand to assist'*
> (Financial Times, 4 November 2007).

Following the Hemet launch a wave of other Fresh & Easy openings occurred in late 2007 in Southern California, Las Vegas and Phoenix in both low-income and more up-market neighbourhoods with more following in 2008. Indeed, as Figure 1 shows, almost 150 planned development sites for Fresh & Easy stores could be identified from public documents.

Hand in hand with the laying down of this network of new accessible food stores – "designed to draw customers back to their local neighbourhoods" (Tim Mason quoted in Financial Times, 13 February 2007), Tesco also constructed a new 675,000 sq. ft distribution centre in Riverside County east of Los Angeles, and was accompanied in its move to the US by two of its leading British suppliers, Nature's Way Foods and 2 Sisters Food Group which established US operations to supply Fresh & Easy with fresh salads and pasta dishes and prepared poultry (Financial Times, 3 January 2007). Despite 'starting from scratch' however, with 'no brand recognition [and] no customers' (Business Week, 27 February 2007), the firm was bullish regarding its US invasion projecting it as a definitive 'launch' as opposed to a trial, and as one which had the potential of providing the retailer (which faces both a saturated UK market and repeated concerns regarding its home market dominance) with the prospect of a new and dramatic phase of its rapid international growth (Financial Times, 4 November 2007). Indeed, Tim Mason, CEO of Fresh & Easy described the venture as a '*transformational moment*' in the firm's history stating that:

"The brand is designed to be as fresh as Whole Foods with a value like Wal-Mart, the convenience of a Walgreens and a product range of Trader Joe's…that leaves us with a specific edge in the market"
(Financial Times, 1 December 2007).

But on what basis could Mason and his compatriots be so confident in the likely outcome for Fresh & Easy? The answer to this question, this paper suggests, lies in the various innovative aspects of Tesco's market entry and it is to these that this paper now turns.

Ten innovatory dimensions of Tesco's market entry into the USA

"If Fresh & Easy is successful it will be the most exciting thing in retail bar none."
(Tim Mason quoted in The Times, 3 December 2007)

(a) Physical market entry preceded by on-line entry

A little documented fact regarding the Fresh & Easy venture concerns Tesco's acquisition of a 35% stake in the e-commerce operations of the leading US supermarket chain, Safeway, in the summer of 2001 for £16 million. Reported at the time to be 'almost identical' to Tesco's UK website (Zdnet.co.uk), the logistics of the Safeway online operation were based, as in the case of Tesco.com, on an incremental capital model which used in-store picking and the existing store-based infrastructure to serve internet customers (as opposed to the dedicated warehouses used by the ill-fated Webvan operation which filed for bankruptcy in July 2001 – see Murphy, 2003). Described by Tesco Chief Executive Terry Leahy, at the time of acquisition in 2001, as the 'perfect combination' to bring on-line grocery shopping to the world's largest market (E-Commerce Times, 25 June 2001), the mix of Tesco's know-how and the Safeway Inc brand was launched in Portland and Vancouver and subsequently expanded to the San Francisco Bay Area.

Tesco are understandably coy about the relationship between the joint venture with Safeway and their subsequent decision to develop their own US store network. However, Tim Mason in his previous role was involved in the Safeway link-up and that undoubtedly informed his – and other Tesco executives' – understanding of the US market. Additionally, the US market entry more generally clearly benefitted from experience gained via the Safeway on-line operation concerning 'merchandising range, price and innovation' (personal communication, interviewee A). Further, it is difficult to believe that Tesco's world class strengths in customer insight and customer loyalty-card data interrogation (Humby and Hunt, 2004) were not brought to bear on the Safeway venture and did not therefore play a role in the subsequent physical market entry as Fresh & Easy.

(b) Anthropologies of innovation

In his 2008 volume, *'The Innovation Acid Test'*, Andrew Jones discusses how ethnographic research "has become part of the landscape of innovation for many firms and associated consultancies". Referencing a *Business Week* commentary entitled 'Ethnography is the new core competence', Jones (2008, 63) draws attention to the "growing use" of ethnography within large firms as a way to develop a deep understanding of how people live and work in order to "peer into consumers' unarticulated and unmet needs and desires". At Tesco, Corporate Affairs Director Lucy Neville Rolfe is on record as stating:

"Spending time with people in their houses, looking in their cupboards and fridges and actually shopping with them is a great way to understand the market"

(The Times, 3 September 2006)

and preliminary evidence from research interviews with executives (who were part of Terry Leahy's hand picked team who lived and worked in the West Coast for six months), substantiates this statement. Working closely alongside market research agencies, and with camera crews on hand to record events, the executive team visited a range of US consumers, shopped and cooked with them, discussed their food choices and queried their thoughts on diet and health, etc. The end result of these detailed investigations, in the Fresh & Easy stores which were eventually opened – as Tim Mason attests – is "an American store designed for American consumers" (Sunday Times, 10 June 2007), as opposed to the import of a British model. More generally, the team that conducted this research and developed/tested the new store concept (see (e) below), clearly had a wider role to play within the process of intra-firm knowledge transfer and 'organisational translation' involved in the US market entry. The innovatory aspects of the team's role as 'knowledge activists' is a topic which demands, and will be given, further attention as the research develops.

(c) Follower-supplier relations and integrated production/distribution networks

As part and parcel of its integrated US operations, Tesco established a large distribution centre in Riverside county east of Los Angeles which, according to Tony Eggs, Fresh & Easy's Property Director, provided "an excellent location for [Fresh & Easy] to commence [its] business platform in Southern California and the US" (The Business Press, 2 October 2007). But whilst the new centre is clearly vital to meet the demands of the rapidly established and dense store network that Tesco has developed, the more important aspect of this operation concerns the fact that "Tesco has [arguably] become a food manufacturer for the first time as part of its efforts to win over US shoppers" (Financial Times, 2 December 2007). At Riverside, the firm has built an 80,000 sq. ft 'food preparation facility' which has enabled it to manufacture a higher standard of prepared meals than is currently available in the US market. Forty percent of the ingredients for the facility are provided by Wild Rocket Foods and 2 Sisters Food Group, established UK suppliers of Tesco, which have followed the retailer to the United States, and this type of follower-supplier relationship widely discussed in the manufacturing sector (see Humphrey, 2003), represents an innovatory dimension of UK-US knowledge transfer in the retail sector. The integration of the store/distribution centre/supply chain allows for rapid and daily deliveries of fresh produce and ready meals, the hallmark of the Fresh & Easy brand, whilst the shorter supply chain within the new network facilitates substantial savings on marginal costs (Financial Times, 2 December 2007).

(d) Product innovation

The product innovations facilitated by the integrated food preparation/distribution facility in Riverside County are reflected at store level in markedly higher levels of own-label products at Fresh & Easy than conventionally found in US food retailing (Hughes, 1996; Cotterill, 1997)[3]. Indeed, over fifty per cent of the products stocked are own label, and the range extends from staples such as butter, sugar and tomato ketchup to 'wild blueberry muffin mix' and 'udon noodle salad' (Financial Times, 5 November 2007). Further, each Fresh & Easy store incorporates a kitchen table "with a crew member offering food samples and menu suggestions" (Financial Times 4 November 2007) – in an explicit attempt to build the image of the Fresh & Easy brand.

UK food retailing has long been acknowledged as having 'world class' skills in the chilled/prepared meals segment (Doel, 1996) and in the associated cool-chain distribution/logistics operations. However, this is the first time that this skill-set has been exported wholesale to the US from the UK. In the Sainsbury/Shaws operation during the

1990s, a major effort was mounted to reposition the perception of own-label products among Shaw's customers away from the cheap/generic image traditional in the US and towards the high-quality innovative positioning of own-label 'retailer brands' in the UK. Own label levels achieved at Shaw's were significantly higher than in most US chains, however they did not involve the prepared meals focus, the integrated systems, or the follower-supplier involvement noted above (Wrigley, 1997).

(e) Trialling of formats

In the run-up to the opening of the first Fresh & Easy stores, the press reported that Tesco executives had concealed the firm's market entry plans by posing as film industry moguls and had built a film set in a West Coast warehouse (Business Week, 27 February 2006, The Sunday Times, 3 September 2006). In fact, the real Tesco operation carried out by Terry Leahy's hand picked group posted to Santa Monica between March and October 2005 was even more covert than the press's version. Posing as *International Research Resource Ltd*, complete with a fake website and - in some cases - false/slightly amended names, the group went to incredible lengths to ensure that they did not alert their competitors to their real intentions. Buying everything in cash and, if necessary, claiming to be holding a very large party, the group carefully built and then stocked a complete mock-up of a potential Fresh & Easy store inside a warehouse, in order to test out a range of possible formats and layouts on American consumers. The team even prepared chopped fresh fruit and ready meals to 'sell' in their dummy store. Not surprisingly, the press's misinterpretation owed much to the fact that the Tesco group took over an ex-import/export office which still had its old name over the door, rented apartments in Santa Monica "with Pacific views and film star neighbours" (personal communication, interviewee A), and paid in cash for the leasing of executive cars. Indeed local rumours depicted the Tesco group as porn movie producers! The leasing of the warehouse space for its more prosaic, but nevertheless vital, uses has continued after market entry, allowing Tesco to continually test and trial new selling possibilities.

As Dawson (1994) originally noted, protecting knowledge is a particularly difficult problem in the retail internationalisation process. Due to the inherently 'open' nature of stores and their retail offer, what Currah and Wrigley (2004) and Wrigley et al (2005) describe as *front region* emulation by competitors is the norm. As a result, transnational retailers usually focus on deriving competitive advantage from their *back region* spaces (i.e. from process-based know-how regarding logistics, supplier negotiations, own-label development, financial management, real estate strategy, and so on). Tesco entered the USA with what appears to have been an unusually determined attempt to additionally protect front-region knowledge, and market testing of consumer reactions to format, product and service innovations clearly has been, and remains, an important component of the Fresh & Easy story.

(f) Service innovation and employment issues

As highlighted earlier in this paper, service innovations taking place hand-in-hand with technological innovations – as was the case with the launch of self service and the supermarket in the first half of the 20th Century – have long been considered fundamental drivers of retail productivity. In the case of Fresh & Easy this association focuses around the issue of there being essentially no checkout staff, facilitating a "simple and efficient business model [that allows Fresh & Easy] to offer Wal-Mart prices in convenience store locations" (Telegraph, 5 December 2007). Indeed, *Time* magazine in a recent (2008) article entitled 'The end of customer service', drew the explicit comparison between the 'self-checkout' lanes at Fresh & Easy, and Clarence Saunders' first 'self-service' store, Piggly Wiggly, which opened in 1916 and ‘revolutionized retail’ – increasing efficiency and allowing substantial cost savings. What is fascinating about the Tesco/Fresh & Easy innovation is the fact that the firm has once again been extremely bold. Introducing what it terms ‘assisted service’ into all the recently opened Fresh & Easy stores is a high-risk strategy in a country renowned for its customer service offer. Simon Uwins, Fresh & Easy’s Marketing Director, in his regular blog on the firm’s website clarifies what is meant by ‘assisted service’:

> *“If you want to checkout yourself, you can, if you want help we’ll provide it, and if you want us to do it for you, we will. In doing this, we’ve managed to create a whole new level of customer and staff interaction. The checkout operator is no longer part of the machine. Rather, our customer assistants are there to help, with the added benefit that our checkouts are open all the time...Our customers are overwhelmingly positive. We’ve managed to combine technology and people to enhance their experience.”*
> (Simon Uwins, Talking Fresh & Easy blog - 'Where are the robots at Fresh & Easy?' Wednesday April 16 2008, 9.12 pm)

Only time will tell, of course, whether this major service innovation – simultaneously introduced with a new format and other allied innovations – will prove successful. However, it is salient here to point out that prior to the opening of the Fresh & Easy stores in 2007, Tesco made a similar investment in self-checkout facilities at its Bishopsgate Metro store in London. The Bishopsgate store now hosts ‘the largest single-store self checkout system in Britain’, and would seem to indicate considerable innovatory cross fertilisation between the UK and the US operations.

(g) Digital marketing

An important, but little discussed, feature of Tesco’s market entry strategy has been its adoption of digital/’viral’ marketing techniques to spread the message of its new brand. It is well documented that the concept of electronic marketing in the US is much further advanced than in the UK with ‘weblogs’ or ‘blog marketing’ being embedded in the culture of a number of Fortune 100 companies (Wright, 2006). Significantly, even the recent election of Barack Obama, is considered to owe a great deal to his use of Web 2.0 technology in order to build an online community of millions of people involved in his campaign. (The Times, 8 November 2008). Simon Uwins, Chief Marketing Officer at Fresh & Easy is extremely clear about the contribution of such digital marketing techniques to the firm’s strategy, particularly in the context of the challenge of launching a new brand in virgin territory:

> *‘Early on one of the things we said about establishing as a business was effectively to start having a conversation. You know, we are an unknown, so lets be clear about… what we stand for and then lets continually demonstrate that… we’re living up to what we say we are doing… So that was a starting point in our, for want of a better word, strategy’.*
> (Uwins, personal communication, 2008)

As a result of Uwins’ commitment to the importance of online conversations with Fresh & Easy customers and potential customers, he has posted a total of 60 blogs in the first eighteen months of Fresh & Easy’s operations, (beginning in May 2007) covering issues such as Fresh & Easy own-label products, store openings, the firm’s environmental/sustainable credentials, its understanding of and responsiveness to customers, and so on. The Uwins blog has solicited over 300 responses from consumers – also posted on the firm’s website. For Fresh

& Easy, the blog is designed to add clarity to the firm's mission and to demonstrate that the firm is living up to that mission. As Uwins has observed, digital marketing techniques allow for a much more fluid and fast moving exchange between the firm and its stakeholders:

> *'Obviously websites themselves, they're big things and changes on websites aren't that easy to make, and we felt there was a lot of stuff we just wanted to get out there quite quickly because one of the things we did notice quite early on here is that stuff written on blogs does get picked up quite a lot in newspapers ... in fact newspapers here, much more so than in the UK, are very internet based ... So for all these reasons we went 'Ok, lets first have a go at starting up a blog', because a blog is much faster moving, it would allow us to talk a bit, and it also felt very appropriate in this market.'*
> (Uwins, personal communication, 2008)

Uwins substantiates his decision to continue with the blogging 'experiment' with reference to the number of journalists who have picked up information on the firm from his comments. Moreover, he notes its importance in terms of recruitment - with the blog clearly being used by many people in the food retail industry to form an opinion of the firm's suitability. What is fascinating however, is the significance Uwins attaches to his blog (and, as part and parcel of that, his commitment to maintaining its authenticity), and also to the role played by a large number of other Fresh & Easy bloggers – essentially viewing blogging in the same manner as 'any other type of PR'. Indeed, Uwins notes that:

> *'We've started to talk to bloggers and that's working really quite well. We invite them to (store) launches and stuff… they're getting to know us… we've got lots of positive blogs written about us now"*
> (Uwins, personal communication, 2008).

As Tapscott and Williams (2006) more generally have argued, 'the blogging phenomenon points the way to the profound changes the new web will wreak on the economy'. In recognising the potential of blogging – and the need both to commit to and respond to its fluid and conversational nature – Tesco is arguably demonstrating its sophisticated grasp of the US consumer zeitgeist, and is once again demonstrating its considerable innovative credentials.

(h) Innovative locational strategies

A rather more well documented aspect of Tesco's operations in the US is the firm's stated objective to 'operate in all kinds of neighbourhoods' and to serve 'all kinds of people'. To that end, Fresh & Easy has opened in a range of different locations across the income/class/ethnicity range – for example, Compton in ethnically segregated South (Central) Los Angeles; Hollywood, a stone's throw from Mann's Chinese Theatre; and up-market Manhattan Beach. In particular, the firm has explicitly stated its willingness to locate in 'food deserts' – low income deprived communities that lack access to full-range food retail (see Wrigley, 2002 for background and definitions). That is to say, in neighbourhoods that have traditionally been underserved by the main US food retailers. In the Los Angeles metro area, that has involved opening stores in low income, primarily Hispanic/African-American, Compton, in poorly served Hemet in Riverside County and Glassell Park, in underserved but gentrifying East Rock, and involvement in a high profile mixed use scheme at Central and Adams Streets in deprived South Central. Finally, as the firm expands into northern California, it has plans to open in the low income inner city of Oakland and also in the

Bayview-Hunter's Point neighbourhood of San Francisco. All of these developments demonstrate the firm's willingness to enter into urban regeneration partnership arrangements similar to those it is involved with in the UK (see Wrigley, Guy and Lowe, 2002) and to develop stores in areas which have long been neglected by rival food retailers. Although Tesco's contribution to these 'underserved markets' is clearly not altruistic, Fresh & Easy's stated commitment to serve 'all kinds of neighbourhoods', built on its parent's considerable urban regeneration partnership store experience in the UK since the late 1990s, is an important dimension of its market entry strategy and one which distinguishes it in important ways from both previous and contemporary practices of several of its US competitors.

(i) Consumer intelligence

Following the announcement of Tesco's impending US market entry, Britton Manasco, a journalist who has written for the *Harvard Business Review* and *The New York Times*, posted a blog on *Corante* which argued that Tesco would drive "an acceleration of intelligence-driven retailing in America" (http://customer.corante.com/archives/2006/02/09/british_invasion_the_tesco_test.php). Comparing the Fresh & Easy experiment to the earlier foray of Sainsbury into the USA, Manasco points to Tesco as "innovators in customer intelligence" and views this as "a serious competitive advantage". Much of Tesco's reputation in this regard relates, of course, to its superior data mining and marketing-focused usage of the customer data obtained from its sophisticated Clubcard operations. Indeed, Clubcard – the world's most successful retail loyalty scheme (Humby & Hunt, 2004) - has been viewed by some as being "as significant sociologically as it is commercially" (Gould, 2004). In the case of Fresh & Easy, however, which as yet does not operate a loyalty card scheme, the firm's consumer intelligence is built on Tesco's deep commitment to extensive and innovative forms of consumer insight research. In particular, Tim Mason and his team have gone to considerable lengths to understand the multicultural nature of the American consumer markets. This is evidenced not only by the anthropological work carried out pre market entry (see (b) above), but also in the firm's attempts to understand the complex nature of Asian and Hispanic household consumption in order to develop and position, in product-ranging terms, what Simon Uwins, describes as a "post melting-pot" offer (rather than a range oriented specifically for a single ethnic group). Uwins elaborates on the motivation for this:

> *Uwins: "We said we'd start with "post-melting pot" [ranging]… but we concluded that we probably ought to understand a bit more about what [Asian and Hispanic] regular products are, because the whole purpose is to provide regular products. And so we went into people's households … and went shopping with them and everything. The conclusion out of that was that actually "post melting -pot" is good because actually [those groups] hate the fact that in certain stores you get, like a separate Hispanic range. They think it's like you know…"*
>
> *Interviewer: 'A bit demeaning?'*
> *Uwins: 'Yes, exactly'*
> (Uwins, personal communication, 2008).

It is, of course, far too early to draw conclusions as to the appeal of the Fresh & Easy brand across the ethnicity spectrum. However, early indications appear to be that sales in ethnically diverse neighbourhoods - such as Compton - compare favourably with those in predominantly white neighbourhoods. Further research is currently underway to examine this issue in more detail.

(j) Publicly betting the firm

The Fresh & Easy venture has been repeatedly styled as Sir Terry Leahy's "biggest ever gamble" (Sunday Times, 2006), with the CEO having a £10 million-plus bonus riding on the firm's US success. In a very public arena, then, Leahy has laid not only his bonus but also his reputation on the line, together with his very considerable achievement of repositioning Tesco as a transnational operation largely 'under the radar' of hostile financial market and public scrutiny. Additionally, market failure in the USA would risk considerable adverse impacts on the wider standing of the firm in international financial markets; despite investment in the USA being only a small fraction of either Tesco's planned annual capital expenditure programme, or its typical substantial annual spend on acquisitions in international markets.

This "public betting of the firm" in an experiment which has seen Tim Mason – often described as Leahy's right-hand man and a potential successor to the CEO role – "sent to the new world" (Observer, 9 December 2007) is a rather unusual dimension of the innovatory aspects of this market entry. Indeed, most previous retail internationalisation has been characterised by firms stressing the limited nature of the risk and the potential reputational loss being assumed. Mason the ex-Marketing Director, who is credited with pioneering the development of Clubcard and the 'Every Little Helps' tagline (see Humby and Hunt, 2004) has, for a long time, been identified with major strategic investments in the firm. His role as CEO of Fresh & Easy is arguably signal therefore not only to the critical position that the United States operation is playing in Tesco's long term strategic development but also in its leadership succession planning.

In the context of this 'betting of his reputation' by the CEO, Tesco executives are publicly confident that Sir Terry has a fundamental knack of "coming up with an idea that other people have perhaps had but have said is impossible" (personal communication, interviewee A) and "of making difficult situations work when other people can't see it". Leahy himself is clearly aware of the high risk strategy both he and the firm are adopting but argues:

> *"We've carefully balanced the risk. If it fails it's embarrassing. It might show up in my career [and] it'll cost an amount of money that's easily affordable by Tesco – call it £1 billion if you like. If it succeeds, then it's transformational."*
> (Leahy quoted in The Economist, 21 June 2007)

4. Discussion

Despite becoming more widely known and discussed since the mid 2000s, the rapid transformation of Tesco into a globally significant transnational corporation which, following entry into the USA, has more than 60% of its operating space outside its home market, remains a surprisingly poorly appreciated story of both corporate transformation and successful performance by a UK company in the global economy. By 2007/8 not only were Tesco's rapidly expanding international sales (over £10 billion per annum producing $600 million of operating profit), consolidating the firm's position as the world's fourth largest retailer, but also its skills as an international operator were allowing it to succeed in markets where the two leading transnational retailers (Wal-Mart and Carrefour) were conspicuously failing. South Korea, now Tesco's second largest market after the UK, provides an example, with both Wal-Mart and Carrefour being forced to exit the country in 2006. Above all, the story of Tesco's corporate transformation over the decade from the mid 1990s is fundamentally one which illustrates aspects of what NESTA (2008) recently described as ‘hidden innovation’ in the UK services industries. Three dimensions of that story and its consequences demand attention.

a) Managing the contested relationship with financial markets

As Wrigley and Currah (2003 p.237) note:

> *“achieving global reach by a retail transnational corporation is a highly contested process – not only in terms of the competition which must be faced in the markets entered, but in addition, and often more decisively, in terms of the struggle between the firm (or more precisely its management) and the suppliers of its finance”.*

The greatest achievement of Leahy’s strategic realignment of Tesco into a transnational corporation, has been to retain support of the financial markets whilst rolling out the very considerable year-on-year capital investment programme in the emerging markets of East Asia and Central/Eastern Europe required to engineer that transformation. Very few retailers (and in practice, no other UK retailer) have been able to achieve that feat. Essentially, financial markets have tended to become increasingly concerned about the negative impacts of international investment on home market performance, particularly if that performance is perceived to threaten the strategic credibility of the firm, and have demanded a core (home) market refocus. Sainsbury’s forced exit from the USA after more than a decade of sustained investment building up a well-positioned and profitable business in New England (Wrigley, 2000; Emerson 2006) provides a classic example, and is regularly misinterpreted as deriving from an inability to operate successfully in the US market.

Tesco’s ability to produce sustained market-leading growth in its core UK market, whilst simultaneously funding its international expansion, has been the key element. However, Tesco has also employed considerable skills in ‘managing’ financial market expectations and retaining market support - for example via a willingness to engage with, and attempting to shape, financial market agendas and ‘narratives’ (O’Neill, 2001) about the firm, in the same manner as it deals more widely with Government and regulation (see Pal and Medway, 2008). The US market entry provides an enormous test of those skills and, as noted above, there are significantly enhanced reputational issues associated with the US venture, demanding innovatory responses from the firm in managing those relations with the financial markets.

b) Transformation of organisational structures and competencies of the firm as a consequence of transnational operation.

As Coe and Wrigley (2007) stress, there are important reciprocal impacts on the organisational structures and competencies of transnational retailers themselves which derive from operating in, and transferring knowledge obtained from, the host economies/societies of the markets entered - markets which often have very different institutions, cultural and regulatory characteristics. Since the mid 1990s, Tesco has clearly become a very different kind of organisation as a result of operating across such institutional/cultural/regulatory divides, but surprisingly little is known about that transformation or of the processes and spaces of learning (Amin and Cohendet, 2004) involved.

What evidence is available suggests that the mechanisms of organisational learning involved in the transformation of the firm have involved genuine ‘two-way’ flows of knowledge and expertise through Tesco’s intra-firm networks. ‘Top down’ mechanisms of knowledge transfer of expertise (both operating skills and employees) from the UK to its international subsidiaries in the key areas of retail skills, commercial and sourcing capabilities, marketing and consumer focus, and human resources are clearly evident.

However, there is also important evidence of 'bottom up' mechanisms of knowledge and expertise flowing to the UK and also around Tesco's international operations via these intra-firm networks (for an extended discussion see Coe and Wrigley, 2007).

The transfer of emerging senior management talent across international operating environments is also clearly of profound importance. Careers built within the context of expanding transnational companies have the capacity to deeply inflect the organizational structures of those companies. This is illustrated, for example, in the organisational consequences of the recent (2008) move of Jeff Adams, the American-born CEO of Tesco's business in Thailand to Fresh & Easy in the US to become second in command to Tim Mason (Financial Times, 15 March 2008).

c) The culture of innovation powering Tesco's performance in the global economy – potential research directions?

As Tellis, Pradhu and Chandy (forthcoming) and others (e.g. Schoenberger, 1997) have argued, 'the internal culture of the firm [comprising a number of quite specific attitudes and practices] may be the most important driver of innovation'. The rapid expansion of Tesco plc over the past decade reflects this - arguably having been built on a deeply embedded culture of innovation and adaptability which permeates into the structure of the firm. More specifically, Tesco's adaptability in the international markets it has entered is widely acknowledged as one of its key competitive advantages (Observer, 11 November 2007). As a result, there may be considerable mileage in examining the evolving Tesco/Fresh & Easy venture under the lens of Tellis et al's conceptualisation of 'radical innovation'. It is important to point out, however, that many of the attitudes and practices discussed by Tellis et al appear to be more easily applicable to the manufacturing or business services sectors and it may be necessary therefore to modify these in line with the very specific practices of innovation in retailing which, as Hristov and Reynolds (2008) suggest, are 'poorly understood and inadequately measured'.

In addition, perspectives from the recent 'strategy as practice' literature may also bear fruit.[4] Developing what he terms 'the implications of the sociological eye for the conduct of strategy as practice research', Whittington (2008) proposes a number of 'touchstones' or 'orienting devices'. These resonate with the dimensions of innovation at Fresh & Easy highlighted in this paper. In particular, what Whittington terms 'searching for connections and relationships', 'pursuing irony', problematizing performance' and 'respecting continuities' are potentially useful dimensions with which to examine the practices of innovation evident in Tesco's US market entry, and these touchstones/devices will be borne in mind in the subsequent development of the project.

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Footnotes/Endnotes

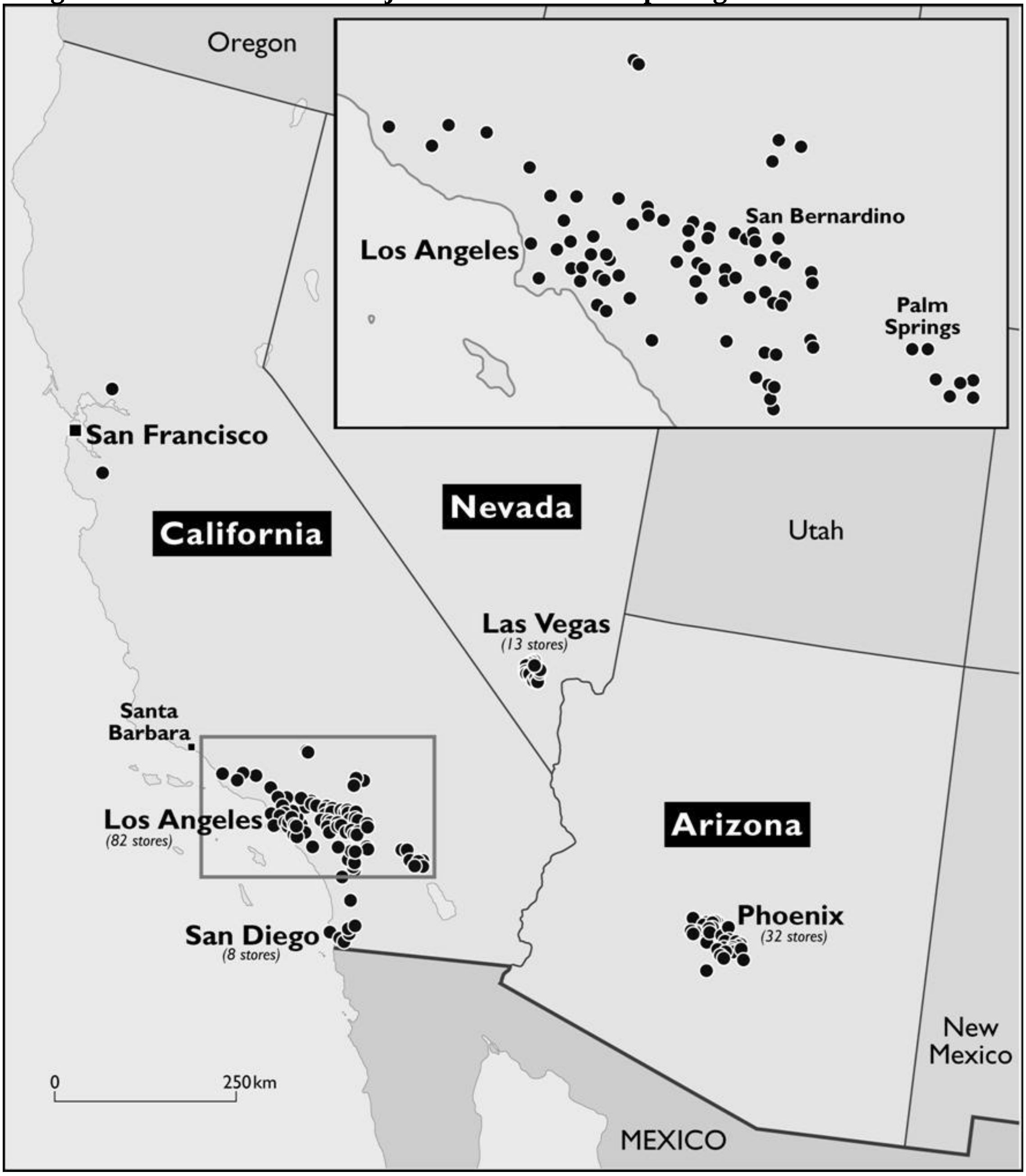
[1] Selfridge had previously been a key figure in the transformation of Marshall Field's Chicago store into 'one of America's most innovative department stores' (Lancaster 1995; Wrigley and Lowe, 2002).

[2] Woolworths in the UK entered administration at the end of November 2008, with debts of £385 million (The Times, November 27th 2008).

[3] There are some notable exceptions e.g. Trader Joe's – which has about 80% of its goods 'own' or 'private label' and Whole Foods, which has developed its own 365 brand.

[4] It is salient to point out that Tesco plc is one of Johnson Yip and Hensmen's 'successful strategic transformers' identified in their recent AIM funded project and there will doubtless be important revelations from that research that will need to be triangulated with the evolving perspective under discussion here.

Figure 1: Tesco in USA – Projected Initial Store Openings 2007/8



Source: Financial Times November 6, 2007