Institute of Management

University of St.Gallen

Tesco versus Sainsbury's

Growth Strategies and Corporate Competitiveness 1990-2007

Case study
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This case was written by Markus Kreutzer and Professor Dr Christoph Lechner, University of St Gallen. It is intended to be used as the basis for class discussion rather than to illustrate either effective or ineffective handling of a management situation. The case was compiled from published sources.

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INTRODUCTION

In 2008, the UK-based international food and general merchandising retailer Tesco reached a market share of about 30% in the UK, roughly the same as its rivals Sainsbury's and ASDA combined. Tesco has greatly diversified, extending its business lines from food into non-food, clothing, financial services, and telecommunications. It ranks sixth in the international retail market behind Wal-Mart (US), Carrefour (France), Home Depot (US), Metro (Germany), and Royal Ahold (Netherlands).[1]

Tesco was not always the dominant player it is today. In 1990, it was a mid-sized food chain far behind its rival, Sainsbury's. Starting in the 1990s, it pursued a broad set of growth initiatives, steadily increasing its market share and gaining importance. In 1995, Tesco surpassed Sainsbury's to become the UK's market leader. Today, Tesco is the clear market leader. How did that happen? Why was Tesco so successful in growing sales and profits, while Sainsbury's could not keep pace? Where did the competitive actions of these firms differ? Let us start with a close look at their origins.

SAINSBURY'S, TESCO, AND THE UK RETAIL MARKET IN 1990

Sainsbury's was established in 1869 by John James and Mary Ann Sainsbury, making it the oldest food retailing chain in Britain. In 1922, J Sainsbury became a private company, with J Sainsbury plc acting as parent company of Sainsbury's Supermarkets Ltd, commonly known as Sainsbury's, a chain of supermarkets in the UK. In 1973, the company was floated as J Sainsbury plc in what was at the time the largest flotation on the London Stock Exchange. The family currently retains about 14%% of its shares. The group is also engaged in property and banking, owning real estate worth about £8.6 billion. For much of the 20th century, Sainsbury's was the market leader in the UK supermarket sector, but in 1995 it lost its place to Tesco; in 2003, it was pushed to third place by ASDA.

Tesco was founded by Jack Cohen in London's East End. From a modest background, Cohen, the son of a Polish shopkeeper, began selling groceries in Well Street market, Hackney, in 1919, after World War I. At that time, food supplies were low, so he bought damaged goods from other stores and re-sold them at reasonable prices. The Tesco brand first appeared in 1924. The name originated after Cohen bought a shipment of tea from TE Stockwell. He made new labels using the first three letters of the supplier's name and the first two letters of his surname. The first Tesco store opened in 1929 in Burnt Oak, Edgware, Middlesex. Tesco was floated on the London Stock Exchange in 1947 as Tesco Stores (Holdings) Ltd. During the 1950s and 1960s, Tesco grew slowly, until it owned more than 800 stores. The company purchased 70 Williamsons stores (1957), 200 Harrow Stores outlets (1959), 212 Irwins stores (1960), 97 Charles Phillips stores (1964), and the Victor Value chain (1968) (sold to Bejam in 1986). In 1973, Jack Cohen resigned and was replaced as chairman by his son-in-law, Leslie Porter. Porter and managing director Ian MacLaurin abandoned the "pile it high and sell it cheap" philosophy of Cohen, which had left the company stagnating with a bad image. In 1977, Tesco launched "Operation Checkout," which included price reductions and centralized purchasing for all its stores. As a result, its market share rose by 4% within two months.

At the beginning of the 1990s, the UK retail market slowly increased its competitiveness. Three players dominated the food market: ASDA[2] (which became Wal-Mart's largest overseas subsidiary in 1999), Sainsbury's, and Tesco. ASDA positioned itself as the price leader and held this position for some time, closely followed by Tesco. Sainsbury's targeted the upper price segment, positioning itself in the middle between mass market and high-end.

In the mid-1990s, competition intensified as a price war among these players emerged, resulting in squeezed margins and cost cutting. It is not surprising that this also had an adverse impact on the service level these corporations could provide.

In general, prices of standard brands and private labels at both Sainsbury's and Tesco came closer, while the two firms differed slightly in their discounting policies. Tesco emphasized its low-price private label ("Value") and continued to cut prices, while Sainsbury's emphasized price reductions on the standard private labels. The price cuts were prompted by the increased price pressure from the market entry of discounters. For example, Aldi entered the market in 1990, followed by Lidl in 1994. In 2005, these two hard discounters had acquired a market share of 2.2% and 1.9%, respectively.

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[1] The largest retailers in the world ranked by sales in 2005, www.chainstoreage.com.
[2] For more information on ASDA and how the purchase of Asda by Wal-Mart in 1999 changed the competitive scenario of the UK retail industry, see, for example, Dhar & Sushma (2005): Tesco vs Asda: UK's Retailing Battle, ECCH Case: 305-623-1.

STORE FORMATS

In 1975, Sainsbury's launched the "Sainsbury's SavaCentre" hypermarket format as a joint venture with British Home Stores. This was the first attempt in the UK to launch supermarkets with a large non-food range. SavaCentre became a wholly owned Sainsbury's subsidiary in 1989. As the hypermarket format became mainstream, with rivals such as ASDA and Tesco launching ever-larger stores, Sainsbury’s decided that a separate brand was no longer needed. Over the following years, these stores were converted to the regular Sainsbury's superstore format and, subsequently, Sainsbury’s retreated from hypermarkets and changed its store formats. Now, Sainsbury’s operates three formats: regular Sainsbury’s stores, Sainsbury’s local stores (convenience stores), and Sainsbury’s central stores (smaller supermarkets in urban locations). For an overview of Sainsbury’s UK store portfolio at the end of fiscal year 2005-06, see Table 1 in the appendix.

While Sainsbury’s retreated from hypermarkets, Tesco expanded Tesco Extra and strengthened its hypermarket formats[3]. Its overarching store strategy is reflected in its core marketing slogan adopted when Terry Leahy became CEO in 1997. “The Tesco Way” implies a shift from a focus on the corporation to a focus on people, both employees and customers. Tesco stores are divided into five formats, differentiated by size and range of products, and are customized to specific segments: Tesco Extra, Tesco Superstores, Tesco Metro, Tesco Express, and One Stop (see Table 2). The approximately 500 One Stop stores are the smallest units. They stay open in the late evening and feature a differentiated pricing and offer system. Tesco Extra, launched in 1997, is the largest format, consisting mainly of out-of-town hypermarkets that stock Tesco’s entire product range and offer free parking. Their number has increased about 20% annually, mainly by conversions of other formats. Tesco Superstores are the standard large grocery supermarkets, with a much smaller range of non-food goods than Extra. They are referred to as "superstores" for convenience, but not as part of the name. It is the standard Tesco format. Most are located in suburbs of cities or on the edges of large- and medium-sized towns. Tesco Metro stores are sized between normal Tesco stores and Tesco Express stores. They are mostly located in city centers and on the high streets of small towns. The first Tesco Metro was opened in Covent Garden, London, in

1992. Tesco Express stores are neighborhood convenience stores, stocking mainly food, with an emphasis on high-margin products alongside everyday essentials. They are found in busy city centre districts, in small shopping precincts in residential areas, and in petrol station forecourts. As the CEO remarks:

This obsession with our customers, their needs, and how these must be changing, means that you should not expect us to go on opening large edge-of-town superstores long after the need for new ones has passed. Expect … continual evolution: expect us to provide a mix of formats in different locations … to meet special needs of customers in each location.

Terry Leahy, CEO Tesco (Tesco Annual Report, 2000)

Much of Tesco's sales increases occurred through increases in total square footage with the opening of new stores, including new formats such as Metro and Express. From 1994 to 1996, selling areas increased by 22% for Tesco and 10% for Sainsbury's. At the same time, Tesco managed to increase sales per square foot by 14%, while Sainsbury's gained only 3%. In addition, acquisitions and alliances complemented the organic growth strategy. Tesco, for example, purchased Adminstore in 2004, owner of 45 Cullens, Europa, and Harts convenience stores, in and around London. In late 2005, it purchased the 21 remaining Safeway/BP stores after Morrison's dissolved the Safeway/BP partnership. In 1997, Tesco formed an alliance with Esso Petroleum Company Ltd (now part of ExxonMobil Corp.). The agreement included several petrol filling stations on lease from Esso, where Tesco would operate the store under the Express format. In turn, Esso would operate the forecourts and sell their fuel via the Tesco store. Ten years later, over 600 Tesco/Esso stores can be found across the UK.

Sainsbury's also expanded by acquisition. As part of the acquisition of Safeway Group by Morrison's, Morrison's was to dispose of 53 of the combined group's stores. In May 2004, Sainsbury's announced that it would acquire 14 of these stores, 13 Safeway stores, and one Morrison's outlet, all located primarily in the Midlands and the north of England. The first of these new stores opened in August 2004. In 2004, Sainsbury's also expanded its share of the convenience store market through other acquisitions. Bell's Stores, a 54-store chain based in northeast England, was acquired in February 2004.

[3] For more detailed information on Tesco's store formats in 2003, see, for example, Padmini & Himansu

Jackson's Stores, a chain of 114 stores based in Yorkshire and the North Midlands, was purchased in August 2004. JB Beaumont, a chain of six stores in the East Midlands, was acquired in November 2004. SL Shaw Ltd, which owned six stores, was acquired in April 2005 for £6 million. On 29 September 2004, Sainsbury's established Sainsbury's Convenience Stores Ltd to manage its Sainsbury's local stores and the Bell's and Jackson's chains. The latter two are to be re-branded as Sainsbury's local stores by 2009.

SERVICE OFFERINGS AND DISTRIBUTION SYSTEMS

"An inclusive offer" is how Tesco describes its aspiration to appeal to upper-, medium-, and low-income customers in the same stores. According to Citigroup retail analyst David McCarthy, "They've pulled off a trick that I'm not aware of any other retailer achieving. That is to appeal to all segments of the market." One plank of this program has been Tesco's use of its private label products, including the upmarket "Finest" and low price "Value". Other examples include organic, kids, British specialty food, and "free from" brands. As one expert remarks:

Tesco's winning formula is largely due to its ability to be all things to all people. According to TNS, over 60% of British households shop in Tesco every four weeks. That's 20% more than its nearest rival. The store appeals to wide reaching demographics across the country and has built up a heritage of reliability and trustworthiness, which keeps shoppers returning to its stores. These factors have enabled Tesco to gain close to a third of the British grocery market.

Edward Garner, Communications Director of TNS Superpanel

Sainsbury's has also invested in private labels. A large Sainsbury's store typically stocks around 50,000 lines of which about 50% are private labels. These lines include, for example, "Basics" (an economy range similar to Tesco's "Values"), "Taste the Difference" (a premium range similar to Tesco's "Finest"), "Different by Design" (a smaller range of premium non-food lines), "Kids", "Be Good to Yourself" (products with reduced calorific and/or fat content), "Free from," "Sainsbury Organic,", "Fair Trade," and "Super Naturals TM" (a range of ready-made meals with healthy ingredients).

While service offerings today are quite similar, the rivals' distribution strategies differ significantly. In common with most other large retailers, Tesco decided to draw

(2003): Tesco in 2003, ECCH Case: 304-173-1.

goods from suppliers into regional distribution centers for preparation and delivery to stores. Tesco is extending this logistic practice to cover collection from suppliers (factory gate pricing) and input to suppliers in a drive to reduce costs and improve reliability.

In contrast, Sainsbury's heavily invested in fully automated depots. On 14 January 2000, Sir Peter Davis was appointed Sainsbury's CEO. This decision was well received by investors and analysts, as in his first two years he raised profits above targets. By 2004, however, the group had suffered a decline in performance relative to its competitors and fell to third in the UK food market. Davis oversaw an almost £3 billion upgrade of stores, distribution, and IT equipment. Part of this investment included the construction of four fully automated depots, which, at £100 million each, cost four times more than standard depots.

LOYALTY PROGRAMS

Retailers try to gain the loyalty of their customers in various ways. Tesco was the first to launch a clubcard system. It was introduced in 1995 and has become the most popular card in the UK, with around 13 million active Clubcard holders. Customers collect one Clubcard point for every £1 (€1 in Ireland) they spend in a Tesco store, Tesco Petrol, or Tesco.com. Customers also collect points by paying with a Tesco Credit Card or by using Tesco Mobile, Tesco Homephone, Tesco Broadband, selected Tesco Personal Finance products, or by using its Clubcard partners, Powergen or Avis. Each point is worth 1p in-store when redeemed or 4p when used with Clubcard deals (offers for holidays, day trips, etc). Every three months, holders receive a Clubcard statement offering discount coupons that can be spent in-store, online (if opted into eVouchers), or on various Clubcard deals. The program has numerous partners (e.g., hundreds of British pubs), but the Clubcard belongs to Tesco alone. Tesco implemented the Clubcard rewards program to gather customer information, which is then used to cater to specific potential customer needs and wants. When shoppers sign up for the card, they automatically submit their ages, genders, and incomes. Tesco segments their shoppers on the basis of these factors. As soon as the shopper uses the card online or in-store, product information is automatically uploaded into the Tesco database. Product information is used to cross-sell additional products and services, such as food delivery.

Tesco is the most customer-focused business that I have ever worked for. They are absolutely obsessed with the customer.
John Hoerner, Non-Food Director Tesco

Sainsbury's was "wrong-footed" in its original reaction to the Tesco Clubcard, showing "no immediate response apart from disdain."[4] It suffered from market share loss in subsequent years. In 2004, the *Times* quoted a former executive and others who viewed this event as the start of the company's downturn due to management failures by David Sainsbury and his successors, Dino Adriano and Peter Davis. David Sainsbury, who, in 1992, replaced his cousin, the long-time CEO John Sainsbury, first dismissed Tesco's Clubcard. After long internal debates, Sainsbury introduced the Sainsbury's reward card in 1996. A multiparty card program, "Nectar," was launched in the autumn of 2002. Nectar gives the customer a versatile and powerful point-gathering system to be used and redeemed at a variety of stores. In Nectar, Sainsbury's has strong partners such as Barclaycard, British Petroleum, and the department store chain Debenhams. The Nectar card was re-launched in summer 2007 to celebrate its fifth anniversary. The scheme was changed from a reward- to a treats-based program. In its early days, the Nectar scheme was criticized as being among the worst card schemes offered. At the time, it was said that some consumers who spent £5,000 on Barclaycard received as little as £12.50 in points to redeem, while Sainsbury's customers had to spend as much as £1,000 just to get two tickets to the cinema. Today, points on spending in-store are earned at a rate of two points per £1 spent (except 1 point per liter of fuel); 500 points can subsequently be exchanged for a voucher worth £2.50 to spend in Sainsbury's. The card scheme is run by a third-party company, Loyalty Management UK (LMUK), which collects information on behalf of the partner sponsors.

ONLINE SALES CHANNELS

Toward the end of the 1990s, both firms targeted online distribution channels that promised large growth potential. Non-store retailing growth rates were expected to be higher than store-based rates, as online usage gained popularity among British consumers (see Table 11). Following these predictions, the UK has evolved today into a leader of Internet retailing in Europe, and growth is continuing.

Tesco[5] has operated on the Internet since 1994 and was the first retailer in the world to offer a robust home-shopping service in 1996. Tesco.com was formally launched in 2000. It also has online operations in the Republic of Ireland and in South Korea. Food sales are available within delivery range of selected stores, goods being hand-picked within each store, in contrast to the warehouse model followed by most competitors (e.g., Ocado[6]), which allows rapid expansion with limited investment. In 2003, Tesco.com's then CEO, John Browett, received the Wharton Infosys Business Transformation Award for the innovative processes he used to support this online food service. Today, Tesco operates the world's largest food home-shopping service, as well as provides consumer goods, telecommunications, and financial services online. As of November 2006, Tesco was the only food retailer to make online shopping profitable.

Sainsbury's has been involved in e-business and home-shopping development since 2000, when it launched Sainsbury's to You in April of that year. Although some employees transferred from the traditional side of the business, Sainsbury's also hired new staff with Web and marketing skills. Specific training was provided on e-business, as well as cross-functional training. Sainsbury's to You did not completely spin off but occupied a separate building, thereby combining entrepreneurial flexibility with the strength and security of a strong brand. Sainsbury's Online currently operates from 144 stores and uses two dedicated picking centers that are not open to the public. In addition to food, also available are flowers, wine, gifts, and electronics. In October 2007, Sainsbury was receiving around 80,000 online orders per week. This represents quite strong growth, but is far less than Tesco, which processes weekly orders of 250,000. Sainsbury's did not release any e-commerce sales figures, but said it was still on track to expand its Web service to 200 stores by March 2010. Tesco.com captured two-thirds of all online food orders in the first seven months of 2007, generating sales of approximately £2.5 million per day. Sainsburystoyou.com took third place with 14%, behind ASDA with 16%. Customers of Sainsbury's, however, spent the most per order, averaging almost £90 compared to £80 for both Tesco and ASDA. ASDA and

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[4] "Surpassing Sainsbury" describes Tesco's market-share dominance since the introduction of the Clubcard.

[5] For Tesco's online sales strategy see also Pole (2007): Tesco's Online Sales Strategy, ECCH Case: 507-024-1 as well as Mukund (2003): Tesco.com: A rare profitable dotcom, ECCH Case: 903-034-1.

[6] Ocado was launched in January 2002, in partnership with Waitrose and is today available to over 13.5 million households in the UK.

Sainsbury's online shoppers also bought more items per order, with both averaging 69 units per order compared to 58 for Tesco. Sainsbury's online customers incurred the lowest average delivery charge during the period, at just over £3. Tesco online customers paid over £4 per delivery, and ASDA online customers paid nearly £5.50.

DIVERSIFICATION INTO NON-FOOD

A number of retailers have created such sense of nearness with customers in terms of perception, safety and security that you can refer to them as brands.
Karel Vuursteen, Chairman & CEO, Heineken

Originally specializing in food, Tesco began early to diversify into areas such as discount clothes, consumer electronics, consumer financial services, DVD sales and rentals, compact discs and music downloads, Internet service, consumer telecoms, consumer health insurance, consumer dental plans, and budget software. In these new product segments, Tesco heavily built on its skills in private labels. For example, it introduced brands such as “Cherokke” and “F+F” in clothing, “Technika” and “Digilogic” in consumer electronics, and other labels ranging from DVD players to televisions and computers. Tesco used its food brands “Finest” and “Value” to expand into non-food items. In its Extra stores, Finest health and beauty, home, and clothing lines resulted.

In 1997, Tesco Personal Finance was launched as a fifty-fifty banking joint venture with the Royal Bank of Scotland. Products offered included credit cards, loans, mortgages, savings accounts, and several types of insurance, including car, home, life, pet, and travel. They are promoted by leaflets in Tesco stores and through its Web site. All of its offers are simple, providing customers few but clear options and choices. Profits were £130 million for the 52 weeks prior to 24 February 2007, of which Tesco's share was £66 million. This move toward the financial sector has diversified the Tesco brand and provides opportunities for growth outside the retailing sector. For example, Tesco offers Clubcard points or free petrol when consumers purchase Tesco car insurance. The company is currently conducting trials at a finance centre in the Glasgow Silverburn Extra store, providing free financial advice and quotes for insurance and loans; this service is staffed by trained Royal Bank of Scotland employees. The centre also has a Euro cash machine providing commission-free Euros and a Bureau de Change run by Travelex. If successful, this service will be rolled out to more key and flagship stores.

Tesco also entered the telecommunications sector. Though it launched its Internet service provider in 1998, the company was not seriously active in telecommunications until 2003. Rather than purchasing or building its own telecom network, Tesco paired its marketing strength with the expertise of existing telecom operators. In autumn 2003, Tesco Mobile was launched as a joint venture with O2, and Tesco Home Phone was created in partnership with Cable & Wireless. In August 2004, Tesco Broadband, an ADSL-based service delivered via BT phone lines, was launched in partnership with NTL. In January 2006, Tesco Internet Phone, a Voice over Internet Protocol service, was launched in conjunction with Freshtel of Australia. Simple and clear offering logic is also evident in the strategic move into telecommunications. Tesco Mobile offers only four different pay-as-you-go tariffs: Value, Standard, Extra, and Staff (for employees). Tesco announced in December 2004 that it had signed up 500,000 customers to its mobile service in the 12 months since launch. By December 2005, one million customers were using its mobile service, and by April 2006, Tesco claimed over one and one-half million telecom accounts in total, including mobile, fixed line, and broadband. On 19 December 2006, Tesco Ireland announced that it would enter into a joint venture with O2 Ireland to offer mobile telecommunications services, also under the Tesco Mobile brand.

Recently, Tesco entered the housing market with a self-advertising Web site, Tesco Property Market. Other strategic initiatives into non-food items include, for example, following a successful trial in 2006, "Apple" zones in twelve outlets, where the iPod range is sold alongside Mac computers and other Apple products.

Sainsbury’s was much more reluctant to move into non-food retailing. Inspired by the success of its main rivals (ASDA had also moved strongly into the non-food area) and the sheer size of the UK non-food retail market (in 2003, s estimated at over £100 million), it launched 2,500 home and cookware products in September 2003. Copying Tesco, Sainsbury’s also used its own food brands and transferred them to non-food items. For example, it extended its clothing range with an organic line. In addition to food and non-food items, Sainsbury’s expanded into retail banking and property development. In 1997, Sainsbury's bank was established as a joint venture between J Sainsbury plc and the Bank of Scotland (now HBOS). Sainsbury’s bank offers services similar to Tesco’s, including travel (insurance and money), savings, and lending; it also offers a Sainsbury's credit card. By 2010, Sainsbury expects to achieve sales of £3.5 billion, with 33% of its total sales coming from non-food businesses.

INTERNATIONAL DIVERSIFICATION

These results show that our new growth businesses - in international, in non-food and in services - have contributed as much profit as the entire business was making in 1997.
CEO, Terry Leahy, 2005

Tesco's international expansion[7] began in the late 1970s with the purchase of a small company in the Republic of Ireland. The small-scale nature of this first foray was seen as a weakness, and the company was eventually sold in the mid-1980s. In 1994, Tesco acquired the Scottish supermarket chain William Low. Tesco successfully fought off Sainsbury's for control of the Dundee-based firm, which then operated 57 stores. This paved the way for Tesco to expand its presence in Scotland, where it was weaker than in England. Inverness was recently branded "Tescotown," because well over 50p in every £1 spent on food is believed to be spent in its three Tesco stores. On 21 March 1997, Tesco announced the purchase of the retail arm of Associated British Foods, which consisted of the Quinnsworth, Stewarts, and Crazy Prices chains in the Republic of Ireland and Northern Ireland, as well as associated businesses, for £640 million. This acquisition gave Tesco both a major presence in the Republic of Ireland and a larger presence in Northern Ireland than Sainsbury's, which had begun its move into the province in 1995.

In the 1990s, Tesco strongly expanded overseas by increasing investments into emerging markets such as Hungary, the Czech Republic, Thailand, and South Korea. Tesco was buying into successful companies, a strategy that resulted in strong positions in these markets. In 1997, the new CEO, Terry Leahy, enforced Tesco's international growth strategies beyond Great Britain. However, outside the UK the supermarket firm's position was far from dominant and remained in the shadow of larger, more high-profile international operators such as Wal-Mart and Carrefour. Tesco then analyzed countries for expansion, putting high emphasis on two dimensions: the market potential for growth and the competitive situation in the market. Only if a market was characterized by relatively high growth potential and relatively low rivalry was it considered a real target market and approached in an orderly fashion.

In 2002, Tesco purchased 13 HIT hypermarkets in Poland. In June 2003, Tesco purchased the C Two-Network in Japan. It also acquired a majority stake in the Turkish supermarket chain Kipa. Another acquisition was the Lotus chain in Thailand. In mid-2006, Tesco purchased an 80% stake in Casino's Leader Price supermarkets in Poland, which were subsequently reconfigured as small Tesco stores.

Many British retailers attempting to build international businesses have failed. Tesco has responded to the need to be sensitive to local expectations in foreign countries by entering into joint ventures with local partners, such as Samsung Group in South Korea (Samsung-Tesco Homeplus), and Charoen Pokphand in Thailand (Tesco Lotus), and by appointing a high proportion of local personnel to management positions.

In late 2004, the amount of floor space Tesco operated outside the UK surpassed its home market space for the first time, although the UK still accounted for more than 75% of group revenue due to lower sales per unit area outside the UK (for an overview of Tesco's international store portfolio, see Table 3). Tesco regularly continues to make small acquisitions to expand its international businesses. For example, in its 2005-06 fiscal year, acquisitions were made in South Korea, in Poland, and in Japan.

In September 2005, Tesco announced that it was selling its operations in Taiwan to Carrefour and purchasing Carrefour stores in the Czech Republic and Slovakia. Both companies stated that they were concentrating their efforts in countries where they had strong market positions. Tesco entered China by acquiring a 50% stake in the Hymall chain from Ting Hsin of Taiwan in September 2004. In December 2006, it raised its stake to 90% in a £180 million deal, which was just after Tesco lost out to Wal-Mart to partner with the Indian group, Bharti, to develop a national retail chain in India.

In February 2006, Tesco announced its intention to move into the US, opening a chain of convenience stores on the West Coast (Arizona and California), Fresh & Easy Neighborhood Market. The first store was opened in November 2007, with 100 more openings scheduled in the first year. By planning to open a new store every two-and-one-half days in the US, Tesco intends to mimic the successful expansion of US pharmacy

[7] For Tesco's global expansion strategies see also Bhavika & Phani Madhav (2005): Tesco: The British Supermarket Chain's Global Expansion Strategies and Challenges, ECCH Case: 305-350-1.

chains, such as Walgreens. Tesco's strategy and unorthodox tactics have not been without controversy. In 2005 and 2006, the company covertly sent an advance team consisting of executives in disguise to conduct intelligence on potential competitors. Like a James Bond movie, the company's agents sought to keep their plans secret by posing as Hollywood film producers making a movie about supermarkets, according to *Business Week*. The bold operation collected intelligence on the US market and on competitors such as Wal-Mart, Kroger, Safeway, Albertson's, Whole Foods, and Trader Joe's. The covert operation was so unusual and unsettling that some potential rivals hired security teams to infiltrate Tesco and obtain information about executives involved in the operation. Yet, Tesco prevailed in obtaining the necessary information to proceed with its store openings.

For me, it is remarkable that in five years Tesco has moved from being a UK-based supermarket chain to become an international mixed retail and services business. This rapid transformation is based on clarity at the top and a tremendous creativity and energy in making it happen quickly.

Tesco senior manager

Sainsbury's international strategy can be described as that of fast follower, albeit with varying results and to a lesser extent. It expanded its operations into Scotland, opening a store in Darnley in January 1992. In June 1995, Sainsbury's announced its intention to move into the Northern Ireland market, which had until that point been dominated by local companies. Between December 1996 and December 1998, the company opened seven stores. Two others at Sprucefield, Lisburn, and Holywood Exchange, Belfast, would not open until 2003 due to protracted legal challenges. Sainsbury's move into Northern Ireland was undertaken in a very different way than that of Tesco. While Sainsbury's outlets were all new developments, Tesco (apart from one Tesco Metro) instead purchased existing chains from Associated British Foods (see Tesco Ireland). In 1999, Sainsbury's acquired an 80.1% share of the Egyptian Distribution Group SAE, a retailer in Egypt with 100 stores and 2,000 employees. However, poor profitability led to the sale of this share in 2001.

MANAGEMENT TEAMS

At the end of March 2004, Davis was promoted to chairman and was replaced as CEO of Sainsbury's by Justin King. Justin King joined Sainsbury's from Marks and Spencer plc, where he was a director with responsibility for its food division and Kings Super Markets, Inc, a subsidiary in the US. King was also previously a managing director at ASDA, with responsibility for hypermarkets. In June 2004, Davis was forced to resign as chairman in the face of an impending shareholder revolt over his salary and bonuses. Investors were angered by a bonus share award of over £2 million, despite poor company performance. In July 2004, Philip Hampton was appointed chairman. Hampton had previously worked for British Steel, British Gas, BT, and Lloyds TSB.

King perceived Sainsbury's to be not sufficiently focused on its customers or its main competitors. King ordered a direct mail campaign to one million Sainsbury's customers, asking what they wanted from the company and where the company could improve. Results re-affirmed the commentary of retail analysts; that is, the group was not ensuring that shelves were fully stocked, partly due to the failure of the IT systems introduced by Peter Davis. In October 2004, King unveiled the results of the business review and his plans to revive the company's fortunes. This was generally well received by both the stock market and the media. Immediate plans included terminating 750 headquarters staff and recruiting around 3,000 shop floor staff to improve the quality of service and the firm's main problem of stock availability. Another significant announcement was the decision to halve the dividend in order to increase funds available to offer price cuts and to improve quality. The company's fortunes have improved since the launch of this recovery program.

In 2004, King hired Lawrence Christensen, previously an expert in logistics at Safeway, as supply chain director. Immediate supply chain improvements included the reactivation of two distribution centers. In 2006, Christensen commented on the four automated depots introduced by Davis, saying, *"[N]ot a single day went by without one, if not all of them, breaking down ...; the systems were flawed. They have to stop for four hours every day for maintenance. But because they were constantly breaking down you would be playing catch up. It was a vicious circle."* Christensen felt that a fundamental mistake was to build four such depots at once, rather than building one and testing it thoroughly before building the others. In 2007, Sainsbury's announced an additional £12 million investment in its depots to keep pace with sales growth and to remove the failed automated systems from its depots.

THE COMPETITIVE LANDSCAPE TODAY

The situation today is clear. Tesco has outpaced its closest rival in its local and international markets.

The results confirmed the undeniable success Tesco has had within the food market over the past years. TNS supermarket share information shows that the retailer's market share has grown consistently and strongly over the last decade and shows no sign of abating.

Edward Garner, Communications Director of TNS Superpanel

These events led to shifts in the competitive landscape. The UK retail industry has become highly concentrated. The top four store-based retailers – Tesco, Sainsbury, ASDA, and Morrison's Supermarkets – dominate the market; all are original food retailers. This illustrates the status of food retailers in the market (see Table 12). All are British, except ASDA, which was acquired in 1999 by the US retail giant Wal-Mart.

Discounters adapted to this less favorable environment by slightly improving their meager UK presence through expanding their number of outlets and moving upscale. This was helped by the trend of consumers to increasingly combine bargain shopping with purchases of luxury products or services. This "schizophrenic" shopping behavior blurs previously separate boundaries. The traditional structure of upper, middle, and mass market has been more or less abolished.

Since the launch of King's recovery program, Sainsbury's has reported nine consecutive quarters of sales growth, most recently in March 2007, even outpacing Tesco, making the company's performance the best since its glory days of the 1980s and early 1990s. Sales increases were credited to solving problems with the company's distribution system. More recent sales improvements have been attributed to significant price cuts and the company's focus on fresh and healthy food. On October 4 2007, Sainsbury's announced plans to relocate their Store Support Centre from Holborn to Kings Cross in 2011. This office, part of a new building complex, will allow both cost savings and energy efficiency.

Yet, according to the latest Taylor Nelson Sofres rankings published in March 2007, Sainsbury's market share in food retailing remains third in the UK at 16.37%

compared to Tesco's 31.35%, ASDA's 16.83%, and Morrison's 11.08% (see Table 13). Tesco remains the clear market leader. In the past, Tesco showed itself to be the quickest at seizing expansion opportunities. Furthermore, it has succeeded in building an image of providing good value at low prices.

The recovery in the Sainsbury market share builds on the positive picture already established. This strong performance has been achieved in the face of relentless pressure from Tesco, which continues its recent run of double-digit turnover growth. ... Whilst Tesco remains dominant, there are signs that it is experiencing increased competition. It is still growing, but the year-on-year share increase is below the average we are seeing last year. Looking towards the future, Tesco will continue to face challenging competition from its nearest competitor Asda as well as the likes of Sainsbury's, which is showing positive growth trends and Morrisons once the Safeway store conversions are complete. Tesco will need to prove its ability to meet increasingly challenging consumer's demands and stay a step ahead of the competition. ... Future Internationalization: It has a long way to go before it overhauls Wal-Mart as the world's biggest grocer - but analysts said the same about overhauling Sainsbury's in the UK market 15 years ago and now Tesco is almost double its size.

Edward Garner, communications director of TNS Superpanel, 2007

NEW CHALLENGES AHEAD

After a relatively long period of economic growth during the review period, conditions may well stagnate in the coming years, thus dampening the forecast performance of store-based retailing. Consumer debt levels have reached record highs and, with the UK's negative saving rate, there is less room for continued growth in consumption. As a result, discounters (both food and non-food) are well placed to gain importance. Euromonitor predicts food retailers to outperform non-food retailers with a value compound annual growth rate of 1%. Recent trends, such as health and wellness and ethical concerns, have opened opportunities, even in the saturated food category; however, most food retailers' growth is expected to stem from non-food items.

Consolidation is expected to continue (see the Safeway takeover), with independent shops either closing, being taken over, or joining larger chains. This is evident in the decline of the number of total outlets, particularly independent ones.

Sainsbury's might be the target of additional takeover bids, since family investment in the company is only 18%. A first private equity bid was considered by CVC Capital Partners, Kohlberg Kravis Roberts (which later left the consortium in order to focus on its bid for Alliance Boots), and Blackstone Group; in February 2007, this also included Goldman Sachs and Texas Pacific Group. The initial offer submitted in April

2007 of 562p a share was rejected after discussions between Sainsbury's top management and the two largest Sainsbury's family shareholders. The subsequent offer of 582p a share was also rejected. As a consequence, the CVC-led consortium abandoned its quest, stating "[I]t became clear the consortium would be unable to make a proposal that would result in a successful offer." In April 2007, Delta Two, a Qatari investment company, bought a 14% stake in Sainsbury's (causing its share price to rise 7.17%); this stake was increased to 25% in June 2007. On 18 July 2007, BBC News reported that Delta Two had tabled a conditional bid proposal. On 5 November 2007, it was announced that Delta Two had abandoned its takeover bid due to the "deterioration of credit markets" and concerns about funding the company's pension scheme. Following the withdrawal of the interest of Qatari investment, shares in Sainsbury's dropped about 20% (115p) to 440p on the day of this announcement.

APPENDIX

Table 1: Sainsbury' store portfolio UK (at the end of 2006)

Format	Number	Area (ft²)	Area (m²)	Percentage of space
Supermarkets	455	15,916,000	1,467,000	95.1%
Convenience stores	297	821,000	76,000	4.9%
Total	**752**	**16,737,000**	**1,543,000**	**100.0%**

Table 2: Tesco's store portfolio UK (at the end of 2007)

Format	Number	Total area (m²)	Total area (sq ft)	Mean area (m²)	Mean area (sq ft)	Percentage of space
Tesco Extra	147	952,441	10,252,000	6,479	69,741	36.89%
Tesco	433	1,227,434	13,212,000	2,834	30,512	47.55%
Tesco Metro	162	177,073	1,906,000	1,093	11,765	6.85%
Tesco Express	735	145,114	1,562,000	197	2,125	5.62%
One Stop	506	62,988	678,000	124	1,339	2.44%
Tesco Homeplus	5	16,258	175,000	3,251	35,000	0.62%
Total	1,988	2,581,310	27,785,000	1,298	13,976	100%

Table 3: Tesco's store portfolio "International"

Country	Entered	Stores	Area (m²)	Area (sq ft)	Turnover (£ million)
China	2004	47	392,422	4,224,000	552
Czech Republic	1996	84	381,459	4,106,000	807
France	1992	1	1,400	16,000	Note 2
Hungary	1994	101	448,164	4,824,000	1,180
Republic of Ireland	1997	95	205,780	2,215,000	1,683
Japan	2003	109	29,078	313,000	287
Malaysia	2002	19	174,750	1,881,000	247
Poland	1995	280	606,935	6,533,000	1,135
Slovakia	1996	48	225,475	2,427,000	498
South Korea	1999	81	473,340	5,095,000	2,557
Thailand	1998	370	698,166	7,515,000	1,326
Turkey	2003	30	102,936	1,108,000	256
United States of America	2007	6	Unknown	60,000 (est.)	Unknown

Note 1: the store numbers and floor area figures are as at 24 February 2007 but the turnover figures are for the year ended 31 December 2005, except for the Republic of Ireland data, which are at 24 February 2007, like the UK figures. This information is taken from the 2007 final broker pack.

Note 2: China: joint venture at February 2006; now a 90% owned subsidiary.

Note 3: France: Tesco owned a French chain called Catteau between 1992 and 1997. Its existing single store in France is a wine warehouse in Calais (opened in 1995 and targeted at British day trippers).

Note 4: Malaysia: Tesco Stores (Malaysia) Sdn Bhd was incepted on 29 November 2001, as a strategic alliance with local conglomerate, Sime Darby Bhd of which the latter holds 30% of total shares.

Table 4: Retail: Number of employees: 2001-2006 (in '000)

	2001	2002	2003	2004	2005	2006
Retail employees	3,048	3,077	3,136	3,308	3,329	3,316
%growth	-	1.0	1.9	5.5	0.6	-0.4

Source: Official statistics, Trade associations, Trade press, Company research, Trade interviews, Euromonitor International estimates; Euromonitor, UK Retail Market: Market Overview (2007)

Table 5: Number of employees of food retailers (full-time equivalents)

Employees	2006	2007
Tesco	380'000	318'283
Asda	150'000 90'000 part-time 60'000 full-time	143'125
Sainsbury	96'200 104'100 part-time 49'200 full-time	95'500 98'100 part-time 48'800 full-time

Table 6: Tesco's financial figures

52/3 weeks ended	Turnover (£m)	Profit before tax (£m)	Profit for year (£m)	Basic earnings per share (p)
2007	46,600	2,653	1,899	22.36
2006	38,300	2,210	1,576	19.70
2005	33,974	1,962	1,366	17.44
2004	30,814	1,600	1,100	15.05
2003	26,337	1,361	946	13.54
2002	23,653	1,201	830	12.05
2001	20,988	1,054	767	11.29
2000	18,796	933	674	10.07
1999	17,158	842	606	9.14
1998	16,452	760	532	8.12

Note: The numbers include non-UK and Ireland results

Table 7: Growth Rates (Tesco vs. Sainsbury) 1990-2007:

GROWTH RATES (%)	Sales	Operating Income	Net Income	Div Per Share	Equity	Total Assets
Sainsbury Y2007				21,88		
Tesco Y2007	8,08	5,88	20,51	11,70	12,00	9,86
Sainsbury Y2006	5,65	7,55	-64,67	2,56	-0,21	9,24
Tesco Y2006	16,50	13,40	16,82	14,15	9,03	11,97
Sainsbury Y2005	-10,10	-53,04	-84,60	-56,50	-15,48	-7,11
Tesco Y2005	10,26	12,47	24,18	10,53	13,76	10,12
Sainsbury Y2004	-1,66	-2,03	-12,78	0,70	2,05	4,70
Tesco Y2004	17,00	19,78	16,28	10,32	22,50	12,68
Sainsbury Y2003	1,56	11,46	24,73	4,99	3,30	8,76
Tesco Y2003	11,35	12,49	13,98	10,71	18,24	21,91
Sainsbury Y2002	7,57	9,95	38,93	3,63	-1,31	6,85
Tesco Y2002	12,70	13,29	8,21	12,45	4,02	16,00
Sainsbury Y2001	-1,95	-5,78	-24,93	-	3,23	-1,94
Tesco Y2001	11,66	12,55	13,80	11,16	12,05	18,80
Sainsbury Y2000	-0,99	-25,32	-41,64	-	0,65	4,32
Tesco Y2000	9,55	7,92	11,22	8,74	9,58	13,88
Sainsbury Y1999	13,33	8,48	22,79	3,02	12,89	10,13
Tesco Y1999	7,81	5,03	20,00	6,54	10,42	15,58
Sainsbury Y1998	8,25	11,58	20,84	13,01	12,01	25,23
Tesco Y1998	14,60	18,09	-2,88	12,09	-0,36	12,32
Sainsbury Y1997	6,08	-11,94	-17,42	1,65	3,88	7,88
Tesco Y1997	14,83	6,91	11,59	7,81	8,78	6,74
Sainsbury Y1996	11,18	-4,09	-8,87	3,43	7,45	15,81
Tesco Y1996	19,73	17,34	22,63	11,61	15,21	5,01
Sainsbury Y1995	7,31	13,36	278,18	10,38	8,21	6,22

Tesco Y1995	17,45	18,38	27,43	10,99	12,92	18,84
Sainsbury Y1994	9,27	1,80	-71,84	5,99	0,36	3,95
Tesco Y1994	13,43	-5,53	-28,59	9,13	-0,15	9,82
Sainsbury Y1993	11,39	17,43	14,74	14,29	14,68	12,26
Tesco Y1993	6,82	15,06	5,56	12,71	12,50	9,03
Sainsbury Y1992	11,29	14,29	23,37	20,41	57,92	22,22
Tesco Y1992	11,84	20,48	30,69	20,00	13,29	13,01
Sainsbury Y1991	12,74	23,83	13,23	20,50	18,98	14,75
Tesco Y1991	17,48	25,63	19,27	25,72	72,23	50,90
Sainsbury Y1990	22,47	17,16	24,88	20,79	20,38	16,97
Tesco Y1990	14,50	20,50	36,23	22,86	21,60	19,75

Source: Thompson Database 2007

Table 8: Financial Leverage and Return on Equity/Assets 1990-2007:

PROFITABILITY (%)	Financial Leverage TESCO	Financial Leverage SAINSBURY	Return on Equity TESCO	Return on Equity SAINSBURY	Return on Assets TESCO	Return on Assets SAINSBURY
Y2007	42,41	45,42	18,81		8,62	
Y2006	41,59	30,62	17,50	1,67	8,11	1,02
Y2005	44,13	36,50	16,20	-1,10	7,86	1,56
Y2004	42,72	40,12	15,65	8,09	7,31	3,70
Y2003	39,29	41,16	16,17	9,49	7,37	4,59
Y2002	40,51	43,34	15,65	7,71	7,72	4,21
Y2001	45,18	46,92	15,62	5,60	8,30	3,34
Y2000	47,91	44,57	15,26	7,55	8,54	4,12
Y1999	49,78	46,20	14,99	13,71	8,56	6,94
Y1998	52,11	45,07	13,01	12,56	8,08	6,79
Y1997	58,74	50,38	13,98	11,21	8,74	6,63
Y1996	57,64	52,32	14,02	14,29	8,90	8,48
Y1995	52,54	56,39	13,00	16,88	8,08	10,04
Y1994	55,29	55,36	10,84	4,70	6,96	2,77
Y1993	60,81	57,34	16,07	17,74	10,58	10,39
Y1992	58,93	56,13	17,17	19,88	11,18	11,96
Y1991	58,79	43,44	19,36	23,11	11,12	12,05
Y1990	51,51	41,90	21,05	24,40	12,82	12,20

Source: Thompson Database 2007

Table 9: Margins 1990-2007:

PROFITABILITY (%)	Gross Margin TESCO	Gross Margin SAINSBURY	Op Profit Margin TESCO	Op Profit Margin SAINSBURY	Pretax Prof Margin TESCO	Pretax Prof Margin SAINSBURY
Y2007	7,60	6,83	5,02	3,00	5,91	2,78
Y2006	7,67	6,95	5,13	2,22	5,46	0,65
Y2005	7,77	7,20	5,89	2,21	5,49	0,10
Y2004	7,65	8,89	5,78	4,22	4,92	3,56
Y2003	7,50	8,20	5,64	4,24	4,96	3,83
Y2002	7,51	7,41	5,58	3,86	4,97	3,33
Y2001	7,53	6,69	5,56	3,78	5,01	2,72
Y2000	7,39	6,96	5,51	3,93	4,91	3,12
Y1999	7,77	7,87	5,60	5,22	4,87	5,33
Y1998	7,68	8,05	5,74	5,45	4,67	4,85

Y1997	7,27	7,43	5,57	5,29	5,40	4,40
Y1996	7,65	8,36	5,99	6,37	5,58	5,49
Y1995	7,70	9,29	6,11	7,38	5,45	7,07
Y1994	8,13	9,00	6,06	6,99	5,06	3,48
Y1993	9,33	9,68	7,28	7,50	7,66	7,57
Y1992	8,98	9,44	6,76	7,11	7,69	7,21
Y1991	8,46	9,21	6,27	6,92	6,87	6,63
Y1990	8,39	9,06	5,86	6,30	6,69	6,49

Source: Thompson Database 2007

Table 10: Sales per share, EPS and dividends 1990-2007:

PROFITABILITY (%)	Sales per share data TESCO	Sales per share data SAINSBURY	EPS TESCO	EPS SAINSBURY	Dividend TESCO	Dividend SAINSBURY
Y2007	5,37	10,14	0,24	0,19	0,10	0,10
Y2006	5,04	9,57	0,20	0,04	0,09	0,08
Y2005	4,41	8,81	0,18	-0,03	0,08	0,08
Y2004	4,22	10,24	0,15	0,24	0,07	0,18
Y2003	3,77	10,42	0,14	0,27	0,06	0,18
Y2002	3,43	10,28	0,12	0,22	0,06	0,17
Y2001	3,09	9,59	0,11	0,16	0,05	0,16
Y2000	2,81	9,72	0,10	0,21	0,04	0,16
Y1999	2,59	9,84	0,09	0,36	0,04	0,16
Y1998	2,43	8,87	0,08	0,30	0,04	0,16
Y1997	2,14	8,34	0,08	0,25	0,03	0,14
Y1996	1,92	7,94	0,07	0,31	0,03	0,14
Y1995	1,68	7,22	0,06	0,34	0,03	0,13
Y1994	1,46	6,79	0,05	0,09	0,03	0,12
Y1993	1,30	6,27	0,07	0,33	0,02	0,11
Y1992	1,22	5,83	0,07	0,29	0,02	0,10
Y1991	1,28	5,81	0,06	0,26	0,02	0,08
Y1990	1,13	5,19	0,05	0,24	0,01	0,07

Source: Thompson Database 2007

Table 11: Retailing: Growth in Value Sales by Broad Sector/Sector 2001-2006

% current value growth	**2005/2006**	**2001-2006 CAGR**	**2001/2006 TOTAL**
Non store retailing	13.3	13.8	91.2
- Internet retailing	24.8	32.9	313.9
- Vending	2.5	5.0	27.7
- Homeshopping	2.8	3.8	20.6
- Direct Selling	-1.0	-1.5	-7.4
Store-based retailing	2.4	3.7	19.8
- Food retailers	3.0	4.0	21.7
- Non-food retailers	1.9	3.4	18.3
Retailing	3.1	4.2	23.1

Source: Official statistics, Trade associations, Trade press, Company research, Trade interviews, Euromonitor International estimates; Euromonitor, UK Retail Market: Market Overview (2007)

Table 12: Retailing: Company Shares by Value 2004-2006

% retail value	2004	2005	2006
Tesco Plc	10.2	11.0	11.4
Sainsbury Plc	5.4	5.8	5.9
Asda Stores Ltd	4.7	4.9	5.1
Wm Morrison Supermarkets Plc	3.7	3.7	3.5
Marks and Spencer Plc	2.7	2.7	2.7
Alliance Boots Plc	-	-	2.1
Dixons Group Plc	1.3	1.4	1.4
Argos Plc	1.3	1.4	1.4
B&Q Plc	1.5	1.5	1.4
Somerfield Ltd	1.7	1.7	1.3
Waitrose Ltd	1.0	1.0	1.2
Co-operative Group (CWS) Ltd	1.3	1.3	1.2
Next Plc	1.0	1.0	1.1
Spar Ltd (UK)	0.8	0.9	0.9
Debenhams Retail Plc	0.7	0.8	0.8
…			

Source: Official statistics, Trade associations, Trade press, Company research, Trade interviews, Euromonitor International estimates; Euromonitor, UK Retail Market: Market Overview (2007)

Table 13: Food Retailing: Company Shares by sales 1990-2007:

% retail value	1990	…	1994	1995	..	2002	…	2004	2005	2006	2007
Tesco Plc	9.7		11.4	13.4		16.7		27.5	29.8	31.1	31.35
Sainsbury Plc	11.0		12.3	12.2		11.7		15.5	15.9	16.0	16.37
Asda Stores Ltd	6.8		6.7	7.2		10.6		16.6	16.5	16.4	16.83
Wm Morrison Supermarkets Plc (Safeway included)						7.5 (only Safeway)		14.4	12.2	11.3	11.08

Source: TNS (Taylor Nelson Sofres) World Panel market-share data released 06/2007

Table 14: Food Retailing: Company Shares by Value 2004-2006:

% retail value	2004	2005	2006
Tesco Plc	23.0	24.4	25.2
J Sainsbury Plc	12.5	13.1	13.3
Asda Stores Ltd	10.9	11.0	11.2
Wm Morrison Supermarkets Plc	8.7	8.5	8.1
Sommerfield Ltd	4.0	3.8	3.1
Waitrose Ltd	2.3	2.3	2.8
Co-operative Group (CWS) Ltd	2.7	2.6	2.5
Spar Ltd (UK)	2.0	2.0	2.0
Musgrave Group Plc	1.6	1.8	1.8
Lidl Ltd	1.0	1.1	1.1
Aldi Stores Ltd	0.9	1.0	1.1

Iceland Frozen Foods Ltd.	1.2	1.1	1.0
…			
Others	26.6	24.8	23.6

Source: Official statistics, Trade associations, Trade press, Company research, Trade interviews, Euromonitor International estimates; Euromonitor, UK Retail Market: Market Overview (2007)

Table 15: Food Retailers: Value Sales by Sector 2001-2006

Million pounds, current rsp	2001	2002	2003	2004	2005	2006
Supermarkets	40,502.8	42,591.0	43,106.1	44,356.0	45,198.8	46,284.0
Hypermarkets	22,766.5	24,677.2	27,569.9	31,698.9	35,521.1	38,175.9
Convenience Stores	10,514.3	11.895.7	13,729.7	14,306.0	14,577.8	14,875.2
Food/Drink/Tobacco						
Specialists	12,074.0	11,460.6	11,100.0	10,700.0	10,144.0	9,667.0
Independent grocers	8,563.0	8,135.0	7,647.0	7,119.4	6,592.5	6,203.6
Discounters	2,395.0	2,582.6	2,672.2	2,725.4	2,980.2	3,375.5
Other food retailers	2,365.7	2,395.0	2,218.9	2,159.0	2,129.0	2,088.0
FOOD RETAILERS	99,181.2	102,737.0	108,043.9	113,064.6	117,143.4	120,669.1

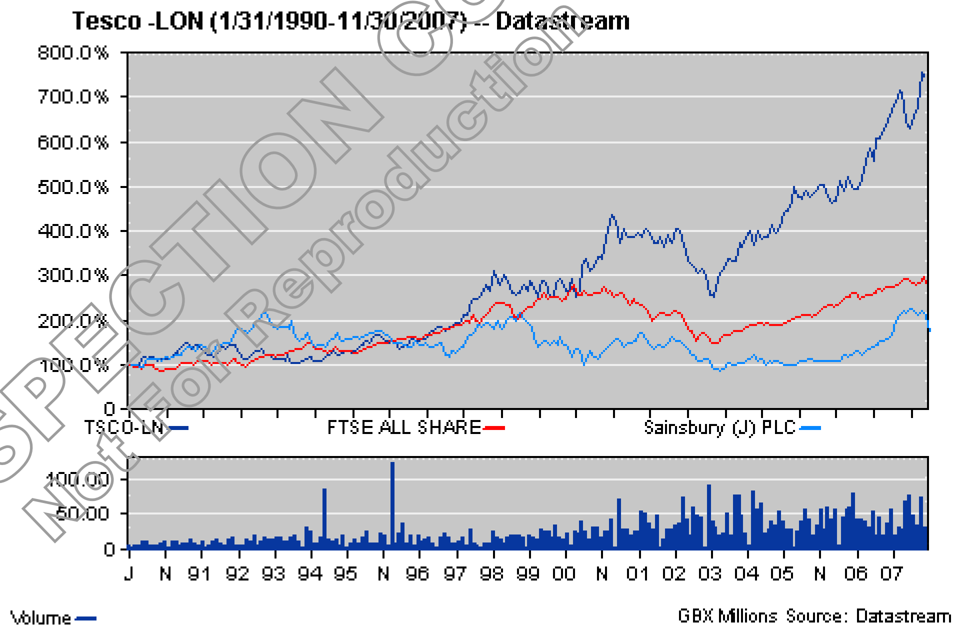
Source: Official statistics, Trade associations, Trade press, Company research, Trade interviews, Euromonitor International estimates; Euromonitor, UK Retail Market: Market Overview (2007)

Table 16: Food Retailers: Growth in Value Sales by Sector 2001-2006

% current value growth	2005/2006	2001-2006 CAGR	2001/2006 TOTAL
Hypermarkets	7.5	10.9	67.7
Convenience stores	2.0	7.2	41.5
Discounters	13.3	7.1	40.9
Supermarkets	2.4	2.7	14.3
Other food retailers	-1.9	-2.5	-11.7
Food/Drink/Tobacco specialists	-4.7	-4.3	-19.9
Independent grocers	-5.9	-6.2	-27.6
FOOD RETAILERS	3.0	4.0	21.7

Source: Official statistics, Trade associations, Trade press, Company research, Trade interviews, Euromonitor International estimates; Euromonitor, UK Retail Market: Market Overview (2007)

Figure 1: Share Price Tesco vs. Sainsbury (1990-2007)



Source: Thompson Database 2007