

Modern retailing need not abandon cultural traditions: Sir Terry Leahy, Former CEO, Tesco

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Sir [Terry Leahy](#) is the former CEO of Tesco, Britain's largest retailer and the third-largest in the world with annual sales of £72.4 billion. During his 13 years at the helm, annual pre-tax profits cleared the 1 billion, 2 billion and 3 billion marks in succession, financial and customer marketing services were added to retailing and its market share in the UK grew from 20% to 30%.

In addition Leahy established [Tesco](#) successfully in [South Korea](#) and [Thailand](#). He introduced the Club Card and Tesco Direct and built a profitable and the biggest online food business in the UK.

Leahy spoke to independent marketing consultant [Kamini Banga](#) in London about his time at Tesco, his views on Indian retail, and the importance of customer and employee focus.

On the case for modern retail in India

While it will mean change for corner shops and middlemen, for hundreds of millions of Indian consumers it will bring better products at cheaper prices. This pattern has been

repeated time after time across the globe; in America in the 1930s, in Europe in the 1950s, in [Brazil](#) and in the emerging markets from 1970s through to the 1990s. Modern retailing need not abandon cultural traditions, for example in India there might be much more family involvement in franchises and so on. For Indian farmers there would be a higher return with products reaching consumers with much less waste. A well-developed modern retail means a well-developed agricultural sector, good examples are the UK and Holland. Currently, foreign retailers have the capital and the know-how. However, given that the nature of retailing is local and so mass driven, it is one of the industries that local players can do well in. You want to encourage local businesses to grow using best practices.

On [FDI in retail](#) in India

I think one of the effects of all the discussion on the subject has been that foreign retailers are not certain about whether they are welcome in India or not. You may obviously want to say that this is our country and this is how we need foreign companies to contribute and operate but you definitely want to give the message that this is a good place to invest and to do business in. So, I think, reassurances on that front would help. Interestingly, in the early years in China, people were uncertain because the Chinese had not decided themselves how they were going to control foreign retail investments, and it caused uncertainty. Now it's much clearer and that has helped. The Chinese were also quicker to open up to foreign retail. They learnt and emulated and now have the best arrangement because they've got local knowledge and international best practice.

On the Tesco-Tata partnership

During my time we had a very good relationship because the Tata family had a sense of timing for developing a retail business in India. We both knew that it would take time; regulations are definitely a factor, but you have to learn about the market, make investments in infrastructure, develop formats that work in local markets and develop a brand and a customer base. All this takes time and more so in a market the size of India. However, it's just the beginning and it is too early to say whether the partnership has been successful or not.

On Thailand's retail model

I think [Thailand](#) is an interesting example for India. Modern retailing is well-established, both in terms of convenience stores like [7-Eleven](#) or big stores like Big C or [Tesco Lotus](#). There are many formats that are being developed that are appropriate not just for the big cities and rich people, but for everybody in the country. And I think Thailand is not so different from India.

On future trends in retailing

Big retailers will come from the big emerging markets to become global players because of the size and strength of these domestic markets. Discount retailing is going to become

much more significant. E-retailing will grow because of low entry barriers and the speed with which it can access customers internationally. Brand retailing will grow with brands such as Inditex that are manufacturing and retailing their own brand. These are already having big disruptive effects and will continue for some time.

On opportunities and challenges for global retail

There are many more local competitors around the world who are learning retail best practices and there are many new competitors on the internet with fewer barriers to entry. Despite that, I think it is a mistake for a retailer to concentrate on any one competitor, because that implies that you are missing the fact that there are 7 billion consumers out there. Every retailer only has a small fraction of that. Retailing is a highly fragmented business and is not like global brewing or airlines or cars, which are all more concentrated.

On beating competition with a loyalty programme...

TESCO had the most successful loyalty programme — Club Card. Everyone was welcome at the store and got the same discount. We were always a mass-market business and we wanted to move slightly upmarket to be 'mass-aspirational', which in marketing is the hardest thing to do. Interestingly, at that time we did not know who our consumers were — we had to wait for computers to be powered enough to track shopper transactions and shopper behaviour. Club Card was a belief that business should be built around your customer, and investing a quarter of our profits in it was a statement of that.

On the way forward - multi-channel retail

Retailers are much too inclined to copy each other rather than develop a distinctive identity. The environment is changing fast but they have been slow to change because they have been capital intensive, bricks-and-mortar businesses. Now, online retail threatens your customer base, they can be taken away much more easily. It looks as if multi-channel retailers will be the ones who will succeed and these will have a physical and an online presence attractive to consumers.