RETAIL

Case Study: Fresh & Not So Easy

Robert Plant, Associate Professor, School of Business Administration, University of Miami
7/31/2013

Tesco PLC is undoubtedly a world leader in big data collection and analysis. However, this success has to be viewed in light of its failure in the United States, where Tesco has decided to pull out and sell its Fresh & Easy markets, writing off $1.8 billion.

Overall, the execution of its data-driven model has led Tesco to become the third largest supermarket in the world. In 2013 it generated a profit of £1.39 billion (US$2.13 billion) on turnover of £64.826 billion ($99.5 billion).

The Fresh & Easy fiasco
Fresh & Easy was at its best a bold experiment -- in reality it was a disaster. The strategy was to offer consumers a grocery that was based on a value proposition of product freshness; offering healthy options, and doing so through the benefits of sustainability in its stores and packaging. The strategy is an admirable one and similar to that of Whole Foods Market (an Austin, Texas-based company founded in 1980, which now comprises approximately 300 stores generating $11.7 billion in revenues in 2012).

However, as any entrepreneur would point out, strategy is only half the story; the second half of a business plan details the execution strategy. Execution is linked to the business plan through data. For entrepreneurs, the closer this data is to the actual market conditions, the more investors and venture capitalists have faith in their plans. Typically, early-stage companies will have passed through the "plan-build-revenues-refine" cycle many times during a very short period of time in order to adapt to the market realities. From a data perspective, more is clearly better.

Data on the way the market consumes
So what went wrong? Surely, Tesco knows retailing. It has more than 6,300 stores; it can execute, as it has a net income of £124 billion; it understands real estate and capex as it has more than £50 billion in assets; and it can manage employees -- it has around 538,000 (compared to Whole Foods' 58,000).

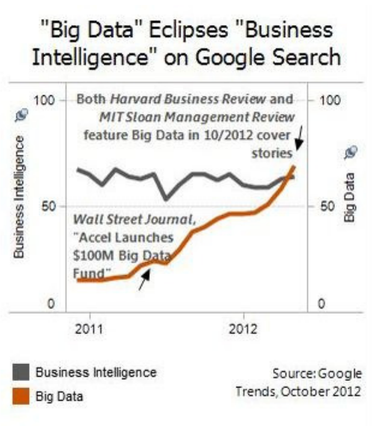
Perhaps the key is to look at the fundamental aspects of the business plan. First, this is a new market for Tesco, it may have Tesco Express and Tesco Metro formats in the UK, but they are reduced-SKU-based formats of the larger Tesco system. Second, "fresh food" retailing relies on a perception of being a legacy brand, well known by the consumer, something that started small and has roots in a community the customer can visualize.

Whole Foods built that base in Austin, and when a flood destroyed the premises of the first stores the community rebuilt it, and a legend was born. Similarly, Coors Beer, founded in 1873 in Golden, Colorado, became legendary for the natural products in its beers, and the fact that it would not ship outside the American West drove demand from Easterners who "smuggled" the beer back from holiday or begged friends to bring some when they came to visit.

It is very challenging to create a mythical brand around a startup fresh food chain, and while Tesco attempted to do this by being a caring member of each store's local community, it takes a long time to become that neighborhood market that everyone uses and trusts, especially for premium, non-commodity products such as groceries.

Finally, Tesco lost track of the very thing that had made it so successful in the UK and around the world, the data:

- Data would tell you that Americans like mega stores for the large shop; they go in large vehicles and don't mind driving a long way to get a discount. Local, smaller, specialist stores will have a hard time displacing established brands.
- Data would tell you the percentage of union versus non-union stores in the western states and the resistance levels to Wal-Mart non-union stores.



- Data would tell you not to build a 850,000 square foot distribution center. Webvan tried this and lost more than $800 million in the 1990s. It leads to a pressure to grow quickly. If the strategy was to grow slowly and accept a negative ROI then this should have been considered in the long -term plan and would have been revealed to shareholders. Clearly this was not the case.
- Data would tell you self-service checkouts work in the UK and urban centers, but the data around conservative, smaller communities, whose shoppers are used to baggers who carry the groceries to the car, would also need to be evaluated, as would laws on the need for fully staffed checkouts if alcohol is sold.
- Data would tell you that well known package goods are a key to any US supermarket's profitability, not just fresh produce. It would also tell you revenues from "no frills" type store brands are growing but also that it takes time for quality to be understood and acknowledged by a traditional American consumer.
- Data would tell you that UK-type foods such as watercress-based salads (reportedly, 25 percent of Tesco salads were based on this in the early days) are not popular in the US and will not sell.

The importance of the Tesco Clubcard

These and many other data-centric examples are indicators to why Fresh & Easy failed. For a data-driven company this is hard to understand. Yet, perhaps its very success as a data-driven company is the key to understanding the deeper issue. The Tesco Clubcard is at the center of the Tesco world; it tracks every aspect of the grocer's relationship with the consumer. The card is connected to a big data set going back to 1992, allowing for trends, pricing, and analysis across all aspects of the value chain.

In the United States, the company did actually do extensive testing and data gathering, and was even rumored to have had executives living with families to understand their shopping habits. So, perhaps the answer is in the culture. The UK-driven signature data culture and its associated methods, practices, and processes were just too ingrained in the company's psyche. And rather than looking at the US data in isolation, establishing best-practices as if that were its only market, the UK processes either consciously or subconsciously were adopted. At the very least, they leaked across the intra-corporate operating environment, leading to the misaligned strategy that Fresh & Easy then executed.

The primary takeaway from the Fresh & Easy case is clear: that the data should drive the business model, not sentiment; and that while the human element clearly plays its role, the cultural dimension within which the human operates can distort the analysis if not kept in check. Maintaining objectivity while developing a new business is not easy, and too often consultants are only too willing to interpret the data in accommodating ways.

While the entrepreneur running a new business such as Fresh & Easy should perhaps have the passion of Captain Kirk, the leader's abilities would be enhanced by a COO such as Mr. Spock to make sure the strategy is, in fact, based upon the sound analysis of objective data.

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Saul Sherry, User Rank: Blogger
8/2/2013 | 9:44:12 AM

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Re: Up and Down
@eclipse, I guess those smaller shops in the areas Fresh & Easy had launched must be breathing a sigh of relief now. I wonder if they could share data and insight to help fend off any future attempts to enter their 'turf'?

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eclipse, User Rank: Megabyte Messenger
8/2/2013 | 7:17:37 AM

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Re: Up and Down
Definitely. Tesco is supposed to do it good, they used to have a habit of kicking off small shops and work with local suppliers; like Lidl or Aldi.

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James M. Connolly, User Rank: Blogger
8/1/2013 | 11:28:59 AM

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Re: Up and Down
@Robert. One thing I'm curious about: It sounds like they had plenty of data to work with, but did they bring in independent expertise familiar with the US market to provide a reality check? Or, to at least ask questions about how they will overcome some of the US obstacles.

You cite the example of what entrepreneurs need to do to achieve success. One of the steps is to bring in venture capital (in most cases), and that VC money comes with strings. The VCs provide guidance, at minimum with a seat or two on a board, and often mentoring from an "in residence" expert who provides guidance based on their business experience.

I don't think Fresh & Easy had a presence in my area, but I know that one thing Whole Foods is encountering is that established US supermarket chains have heard the message about more natural foods, and have stepped up their offerings and their promotion of such products in recent years.

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Saul Sherry, User Rank: Blogger
8/1/2013 | 10:47:02 AM

Re: Up and Down

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I'm sure there's no shortage of grocery/retail specialists with experience in the German market they could have reached out to. @netcrawl. Maybe the disconnect is in displaying the data they have to the minds who know the market and finding results somewhere in the middle.

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netcrawl, User Rank: Petabyte Pathfinder
8/1/2013 | 10:12:37 AM

Re: Up and Down
Its always a tough business, Walmart has suffered a terrible blow in Germany but I think its good lesson for them, its provide Walmart with some imporatnt information on how to deal with this market. They need to know the people first, everything from buying pattern to behaviors.

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Saul Sherry, User Rank: Blogger
8/1/2013 | 8:59:47 AM

Re: Up and Down
I wonder how big the Tesco US data pot is after this failure @robert - could it be analysed for a second invasion attempt?

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Saul Sherry, User Rank: Blogger
8/1/2013 | 8:58:07 AM

Re: Up and Down
@legalcio, interesting point on Walmart's German adventure... I guess the only real solutions there are to start small and learn your lessons as cheaply as possible, or to partner with a local, established brand (which would be unprofitable for all involved).

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a.saji, User Rank: Megabyte Messenger
7/31/2013 | 10:57:59 PM

Re: Up and Down
@Robert: Yes it depends on the size too. Anyway I think things will improve a bit with the time.

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Robert Plant, User Rank: Blogger
7/31/2013 | 5:37:54 PM

Re: Up and Down
I think they may have had the data but went somehow completely off course, CA and AZ are large and difficult states to conquer. Start small as you suggest, we would have welcomed 3 here in Miami, where Fresh Market and Whole Foods are doing very well, as they say in real eastate its Location, Location, Location; sub optimal property in sub optimal locations is not a catalyst for brand building, these loactions can ease the scale problem later, but poor starting point.

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legalcio, User Rank: Exabyte Executive
7/31/2013 | 4:13:10 PM

Re: Up and Down
Grocery is a tough business, and even tougher to crack when you're the new boy in the market. WalMart suffered a similar fate in Germany; completely mis-read the culture. It is odd that Tesco so completely missed what the data would clearly show in the US. It's not like they didn't have enough to benchmark against. Starting big probably was a mistake too. A smaller test market may have lost money but provided some valuable information.

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