

Tesco Fresh & Easy makes in-roads in the US

BY LINDA WILKINS

While there is no doubt that the USA is the land of opportunity for retailers, it is also a highly competitive market that is notoriously difficult to break into. Retail is the second-largest industry in the US, both in number of establishments and number of employees, while retail trade accounts for about 12.4% of all business establishments in that country.

All retail formats are well represented in this highly developed market, especially large supermarkets that offer shoppers a massive and ever-growing array of goods. In addition, the USA is home to the world's largest retailer, Walmart, which also happens to be the largest company in the world. Walmart employs 1.3 million people in the United States, as well as



One year ago, Tesco launched a new store format in the United States. Fresh & Easy Neighborhood Market is positioned to offer a convenient shopping solution to US consumers.

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over 400 000 internationally.

It is into this market – where no UK retailer has yet had success – that Britain's largest retailer, Tesco, recently launched a new convenience format called Fresh & Easy Neighborhood Market, which is positioned as 'creating value' for US consumers. Tesco will invest \$2b (±R19,58b) in the Fresh & Easy format over the next five years.

The first Fresh & Easy store, which operated as a pilot before the rollout, opened on 1 November 2007 in California and there are currently over 60 Fresh & Easy outlets on the West Coast of the United States. Tesco is planning to open 250 sites in total by the end of 2009.

The concept

According to its website, Fresh & Easy outlets are "neighborhood sized stores that are easily accessible, offering everything from everyday staples to gourmet items, while lots of fresh and wholesome food choices, including prepared meals and organic foods, make healthy eating easy and affordable." The sites – developed on a low-cost format, high quality product model – are located close to

Each Fresh & Easy store stocks around 3 000 SKUs, with a trading area of 1 000m².



home or work for maximum convenience, while the trading area of each store is around 1 000m², to provide a "faster, easier shopping experience."

Tim Mason, president and chief executive officer of Fresh & Easy, joined Tesco in 1982 and relocated to the US with his family in order to build the Fresh & Easy brand. Mason says, "Probably the most surprising thing to me is the number of different stores that an American family uses to shop. They shop in up to 20 different stores – many more than in the UK. They will use different shops for their food, their cleaning products and for their personal care products. What I discovered is that you can't get everything you want in one place. The main retail brands in Britain have much higher levels of loyalty and genuinely do fulfil the notion of a one-stop shop. That's less of the case here. People, especially those with time but not money, will take their shopping list and walk to two or three big players and then decide what to buy."

Store design

Dan Munford, managing director and partner of UK research company Insight Research, was one of the speakers at the RMF (Retail Management Forum) Winter Seminars held in Johannesburg in July this year. He spoke about Fresh & Easy in one of his presentations and says the stores are fairly clinical, with open industrial-style ceilings and inexpensive shelving. The aisles are spacious and the floors are polished with a sealant finish. There is no counter service and also no kiosk – none of the stores sell tobacco or related products.

One of the innovative features of these stores is that they are all 100% self-scanning, which seems to have a high degree of acceptance from shoppers. The system has security checks and balances, such as an



The stores are 100% self-scanning, with staff ready to help if need be.

alarm that is activated if an item is not scanned. A customer also cannot double scan or not scan an item.

"The employees are trained to help with the self-checkout and do not abdicate the checkout responsibility to the customer, so if someone needs help, they'll get it," says Munford.

Own brands

Own brands account for around 70% of sales at Fresh & Easy and Tesco is in the process of launching more than 200 new products, which should be in-store by the end of this year. In a press statement, Mason says, "People increasingly want food that is more like what they would make in their own kitchens."

The new products include items such as Vegetable Curry with Brown Rice; Mushroom Stroganoff; Chicken Parmesan with Linguine; Broccoli and Cheese Soup; Shrimp Alfredo; Orange Chicken and Organic Honey. There are also new coffee and tea flavours, different

Fresh & Easy's logo is becoming more familiar to US consumers, but there has been mixed reactions to the launch. Tesco says the stores are performing well, but some US sentiment feels that the format will not last.

varieties of cereals, new flavours of kettle and vegetable chips and new juice blends.

Mason notes that all Fresh & Easy products contain no artificial flavours or colours, no added trans fats and only use preservatives when absolutely necessary.

According to a 2008 Food Institute US Grocery Shopper Trends study, consumers are increasingly interested in what is in their food, checking particularly for trans fat content. The report also found that consumers prefer ready-to-eat meals, with more than half of the shoppers surveyed interested in more convenient food options.

In-store sampling

In-store sampling is carried out extensively at Fresh & Easy stores, so that shoppers can taste the meals before they make a purchasing decision. Sampling kitchens produce the goods and shoppers can taste new products and Fresh & Easy's private label range of ready-to-heat pre-packaged foods.

Distribution and pricing

The company has distribution centres in Riverside and Stockton, California and Phoenix, Arizona, that service all its stores, while its headquarters are in El Segundo, California. Munford says efficient distribution,

local sourcing and EDLP (everyday low pricing) keep the shelves full and prices competitive. "Interestingly, Fresh & Easy does not do coupons, unlike other US retailers," he says.

The employees

Each Fresh & Easy store employs between 20 to 30 people and Tesco is going all out to provide as pleasant a working environment as possible. All employees have an option to work at least 20 hours a week, which renders them eligible for comprehensive health insurance, the cost of which is paid mostly by the company. Entry-level positions start at \$10 an hour in California and offer a quarterly bonus of up to 10%.

The company offers its employees a comprehensive training programme that focuses on practical skills, life skills and teamwork, while all its management is trained in leadership. In a survey of its employees, 90,6% say they recommend Fresh & Easy as a place to work.

The competition

Munford says Japanese c-store chain Femima in the US is one of the main competitors to Fresh & Easy, while Ralphs and Trader Joe's also compete with them. In addition, Walmart has entered the fray, having launching four experimental convenience-sized grocery stores in the Phoenix area in October 2008.



Fresh & Easy uses local suppliers as far as possible, particularly for its fresh produce.

Called Marketside, the format is offering consumers low prices and an attractive and quick alternative to preparing meals at home. The stores are around 1 500m² and will sell prepared meals, fresh produce, poultry and personal care items. Safeway and Supervalu are also testing small store formats.

Environmental issues

Fresh & Easy has made a commitment to building environmentally friendly buildings, as well as recycle or reuse shipping and display products. Its food transportation trailers are hybrid electric-diesel, while the Riverside distribution centre has California's largest solar roof installation at 500 000 square feet (152 400m²). All the Fresh & Easy stores have LED lights in the freezers and coolers and these are also used for outdoor signage. Some stores have reserved parking for hybrid cars.

The group is also a member of the California Climate Action Registry, which is an official and voluntary registry for greenhouse gas emissions.

As part of its green strategy, Fresh & Easy has introduced a reusable canvas shopping bag that retails for 99 cents. The bag is made from 100% unbleached cotton and can hold up to 100 pounds (±46 kilograms). Simon Uwins, chief marketing officer at Fresh & Easy, says, "By offering attractive, affordable reusable bags, we hope to make it easier for our customers to make more environmentally friendly decisions."

In addition, Fresh & Easy has a 20 cent 'bag for life' that will be replaced free of charge if it is ever torn or damaged. The company also plans to introduce two new

carrier bags by the end of 2008, including a wine carrier canvas bag that holds up to 7 bottles and an organic canvas shopping bag.

The big question: will it last?

Dan Munford says US sentiment is that the concept won't last. These sentiments are echoed in various websites and blogs – have a look at <http://maxbrandequity.com> to see one example. However, according to various reports in the US and UK media, Tesco says the stores are performing well.

Munford was positive about the format during his presentation. He says the positioning of Fresh & Easy is about product, services and people – it being a nice place to work. "This is convenience with a supermarket layout," he says, adding that the logo "has a quality feel, while the product quality is also excellent."

Fresh & Easy has a number of features that add up to its unique concept: sampling tables/sampling kitchens, self-scanning, limited product selection (each store carries around 3 000 SKUs), massive volumes, limited lines and big buying efficiencies. These USPs should stand it in good stead, but with such fierce competition and with the current state of the US economy, the group has a challenging time ahead.

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